Gabriela Salinas

The International Brand Valuation Manual

A complete overview and analysis of brand valuation techniques, methodologies and applications

Table of Contents

The International Brand Valuation Manual

A Complete Overview and Analysis of Brand Valuation Techniques, Methodologies and Applications

Gabriela Salinas

WILEY
A John Wiley & Sons, Ltd., Publication

Registered office

John Wiley & Sons Ltd, The Atrium, Southern Gate, Chichester, West Sussex, PO19 8SQ, United Kingdom

For details of our global editorial offices, for customer services and for information about how to apply for permission to reuse the copyright material in this book please see our website at www.wiley.com.

Revised and updated from the original Spanish edition *Valoracion de Marcas: Revision de enfoques, metodologias y proveedores* published in 2007 by Ediciones Duesto, Barcelona.

Library of Congress Cataloging-in-Publication Data

Salinas, Gabriela.

The international brand valuation manual : a complete overview and analysis of brand valuation techniques and methodologies and their application / by Gabriela Salinas.

p. cm.

Includes bibliographical references and index.

ISBN 978-0-470-74031-6 (cloth)

ISBN 978-0-470-74581-6 (epdf)

ISBN 978-0-470-68550-1 (epub)

ISBN 978-0-470-68549-5 (emobi)

1. Branding (Marketing) 2. Brand name products. 3. Valuation. I. Title.

HF5415.1255.S35 2009

657’.7–dc22

2009004184

A catalogue record for this book is available from the British Library.

To the memory of Ethan and all my loved ones . . .

List of Figures and Tables

Figures

Tables

Foreword by David Haigh, Chief Executive Officer, Brand Finance PLC

I first met Gabi Salinas in late 2003 when she was working at Futurebrand in New York. I was struck by her passion for the subject of brand valuation and her already extensive knowledge of brand valuation techniques, which were proliferating rapidly at the time.

Gabi has an enquiring and analytical mind with an amazing capacity for hard work. Her approach is logical and academically rigorous. She always wants to open the bonnet of any brand valuation approach and see how the engine works. She is then remarkably good at explaining in words of one syllable what she has found. Some approaches turn out to be Ladas while others are Rolls Royces.

I naturally took the first opportunity to recruit Gabi into Brand Finance. She joined us in early 2004, as Managing Director of Brand Finance Iberia. We have worked on many technical and brand strategy projects together and I miss the enjoyable debates we used to have about brand contribution, brand drivers analysis, brand values and what it all means. She left Brand Finance in early 2008 to join Deloitte as global brand manager to apply her wide ranging knowledge of brands and branding to the Deloitte corporate brand. Brand Finance’s loss is Deloitte’s gain.

During Gabi’s time with Brand Finance I encouraged and supported her desire to understand more about the increasingly complex world of brand valuation. Brand Finance joined the Institute of Intangibles in Spain, which is one of the leading institutions to explore all aspects of intangible assets, including their valuation. Gabi was invited to research the many available brand valuation techniques, which provided a good opportunity to further her academic work.

She later teamed up with Tim Ambler, associate Professor of Marketing at the London Business School, to compile a taxonomy of brand valuation methodologies.

Gabi used her time well, compiling an incredibly thorough inventory of the major, and many of the minor, approaches to brand valuation. This book is the product of her labors and is an invaluable summary of the many and varied brand valuation approaches which have been developed in the last 20 years.

Since brand valuation first hit the headlines in 1988, when Interbrand valued Hovis as part of RHM's takeover defence against GFW, an industry has been created. I jointly ran Interbrand's brand valuation practice until leaving in 1996. At that time there were very few commercial providers of brand valuation services. The Big 4 accounting firms regarded the subject as a black art and generally avoided it. Management consultancies and market research firms were not interested. Internal valuation teams did not aspire to value brands. How things have changed. Now everyone seems to be at it. This is exciting because it means our work has been recognized as something worthwhile. But it is also frightening given the confusion and contradiction which prevail.

Gabi's excellent work is therefore extremely timely. It indicates just how many providers have sprung up and how many alternative methods are out there, both academic and commercial. It meets the highest standards of academic rigor in cataloging, sourcing and critiquing all approaches featured in the book.

Caveat emptor is the underlying subtext of Gabi's magnum opus. She has objectively and clearly elaborated how each of the different approaches works, with an explanation of the steps in conducting each one and the pros and cons. Her work can be used as a 'What Car?' guide to what is available in the global market for brand valuation.

She has also discussed in helpful terms how the next 20 years might see brand valuation techniques move away from fragmented proprietary techniques towards a consensus over the approaches and methods used by all brand valuation practitioners. In fact her work highlights the need for a global standard-setting body to help this process along.

This may become more pressing in the next few years as demands grow for companies to value all their intangible assets, including brands, on an annual basis, rather than just on acquisition. The Australian accounting standards body recently released a discussion paper calling for just such a move. This approach challenges the "prudence concept" and the "historical cost convention" most accountants so admire. It may never get anywhere. But then that is what accountants were saying about brand valuation 20 years ago and look where we are today!

If this trend becomes irresistible it is crucial that intangible asset and brand valuation techniques are consistent, robust and widely accepted. What is at stake is the credibility of the newly created brand valuation industry with its growing audience of users and consumers, from tax authorities, courts, auditors, bankers and investors to management and their Boards of Directors.

As Gabi rightly points out there is a pressing need for harmonization of terms, assumptions, approaches and methods of brand valuation. In fact, the International Standards Organization has commissioned a global committee to develop an ISO Global Standard for brand valuation which will hopefully be released in 2010. Gabi and I both sit on that committee and it is gratifying to see that brand valuation practitioners are now working together to limit the differences which Gabi has illustrated so well in this book.

I am sure that for academics, students and practitioners in the field of brand valuation this will be a “must read” book and a “must have” technical reference manual. For those managers interested in acquiring a detailed technical knowledge of the subject before embarking on a brand valuation study, this will be an invaluable source of reference. It makes the task of briefing a brand valuation professional infinitely simpler. I commend it to anyone with a serious interest in the subject. It is extremely easy to read, reflect on and absorb. 20 years experience is now summarized in one easy reference book.

Acknowledgements

I would firstly like to thank my translator, Emily Toder, for the infinite patience, professionalism and enthusiasm she showed throughout the preparation and editing of this work.

I would also like to thank Marta Lorenzo, Global IFRS Offering Services at Deloitte, for her assistance with several concepts included in Chapter 1.

Special thanks to Carlos Martínez Onaindia, from the Global Brand Development Team at Deloitte, who has contributed a great deal to the design of the cover for this book.

David Haigh, CEO of Brand Finance plc, has provided invaluable comments that have vastly improved the presentation of different ideas throughout the book. I will be forever indebted to the wonderful professionals at Brand Finance who fostered the perfect environment for learning, challenging, and discovery.

At Deloitte, I found the perfect environment for continuous growth and development. Heartfelt thanks to all my colleagues and superiors for encouraging me to always be “one step ahead.”

Several colleagues have been kind enough to comment on previous works that have served as the framework for this manuscript. I would like to thank Tim Ambler from London Business School, Roger Sinclair from BrandMetrics, Luis Miguel Bernardos, Eva Toledo, Elise Fournier, Karla Anguiano and Carla Jaquez for this attention.

Claire Plimmer and her associates at Wiley have been very supportive and patient during the editing process. It has been a pleasure to work with such a professional team.

Last but not least, special thanks to Paul, Elena and José for being there, and for offering never-ending patience and support at every step along the way. And finally to Issy, a little miracle who has changed my life marvelously …

Introduction

When I first began working in the field of brand valuation, with a division at one of the world's biggest ad agencies, I longed for some sort of manual that could guide me through various methods and intelligently explore their respective advantages and disadvantages. That sentiment is what prompted a long intellectual journey through which I have come to know the work of many authors, mostly North American and British, in search of clear, "black and white" references to valuation methodologies and the possible errors contained therein. In 2001, I came upon *Company Valuation* by Professor Pablo Fernández, a wide-ranging work on company valuation, with an extraordinary profound, sincere, clear and detailed treatment of brand valuation. Later on I had the great fortune to meet Pablo Fernández, and it was he who, in 2004, encouraged me to begin working on this book, on which I have now spent four and a half years.

In 2005, on the cusp of the new accounting standards that would impose the estimation of the Fair Value of Intangible Assets (the brand among them), greatly exposing the vast lack of consensus surrounding the various methods of determining this value, the Institute for the Analysis of Intangibles decided to fund research on brand valuation methods as part of a broader investigation into intangible resource and other asset valuation. I had the great honor of collaborating with the Institute on a module of this project, which entailed reviewing and evaluating different methodologies as a preliminary step towards proposing a reasonable and agreed-upon valuation methodology. With the support of the Institute, I was able to complete and augment the research I’d begun in 2004, upon which this book is based.

This work thoroughly and extensively reviews and critiques the principal brand valuation methods, and accurately depicts the current state of the brand valuation industry, with the objective of establishing criteria for the classification and assessment of the various existing models.

Many scholars and experienced professionals in the field may already be very familiar with the methodologies discussed. The novelty of this book does not lie in the presentation of innovative or different methodologies, but rather in the description, analysis and exhaustive critique of all the methodologies that have been developed to date, as well as the review of major trends in the theory and practice of brand valuation today. The goal – and I hope I have met it – was to produce a reliable reference book for “one-stop” consultations, that could efficiently and meaningfully introduce all valuation professionals to the various methods developed and practised all over the world. It is crucial that specialists be familiar with their options before advising clients on which methodology to employ, or adopting one themselves.

The nine chapters of this book address the different issues surrounding current and historic brand valuation methodologies and models. Chapter 1 reviews the concept of “brand” and its relevance in today’s world from economic, accounting and business perspectives. Reviewing the variable interpretations of this term is fundamental for understanding later chapters, and being comfortable with the premises on which valuation methods are based. Chapter 2 discusses the origin and evolution of brand valuation techniques. Chapter 3 outlines the principal elements and components of brand valuation models. Chapter 4 carefully explores general approaches to brand valuation and lays the groundwork for the index of proprietary models reviewed in Chapter 5. Chapter 6 presents various proposals for classifying those models, discusses the relevant criteria for their classification and proposes new criteria; these are then referenced in the analysis of trends, convergence and divergence of brand valuation methods examined in Chapter 7. Chapter 8 introduces corporate brand valuation, a new issue in the field that has awoken great interest in the wake of the “corporate reputation” craze. Chapter 8 also examines the differences between the concepts of corporate reputation and corporate brand, and reviews several models developed for their valuation, analyzing their respective advantages and disadvantages. Finally, Chapter 9 presents various questions and predictions for the future of brand valuation.

1
The Concept and Relevance of Brand

IN THIS CHAPTER, WE WILL EXAMINE VARIOUS CONCEPTS OF the term *brand* and discuss its economic value. Before analyzing different methodologies, we will need to clearly define brand and *the economic value of brands*, as well as explore how these relate to the associated concepts of corporate reputation, intellectual capital and intangible assets.

We shall also look at the economic significance that these notions have acquired in recent decades, both on a national and a global level, and discuss the various accounting, legal, institutional and business developments that have resulted from this growing importance.

1.1 The Concept of Brand

Before valuing any asset, we must first define it. This is particularly essential when dealing with brands. The word *brand* is used quite frequently and has consequentially assumed multiple and at times very different meanings. Defining an asset before valuing it helps limit the scope of the valuation model to be applied. Therefore, familiarity with the various concepts of brand, as well as a good understanding of the circumstances in which each concept is relevant, is absolutely essential for any valuation expert.

In this section, we will review three concepts of *brand* based on accounting, economic and managementoriented perspectives, respectively. Each one is relevant and applicable to particular circumstances.

1.1.1 The Accounting Perspective

1.1.1.1 The Brand As an Intangible Asset

IFRS Framework defines an asset as “a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.” International Accounting Standard 38 *Intangible assets* (issued 2004, amended 2008, para. 8) defines *intangible asset* as an “identifiable non-monetary asset without physical substance” and establishes that an asset is identifiable if it either arises from contractual or other legal rights or is separable (able to be sold individually or among other related assets).

IAS 38 (para. 21) indicates that “an intangible asset shall be recognized if and only if, (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and (b) the cost of the asset can be measured reliably.”

Later we will evaluate some specific questions relating internally generated intangible assets, but we will now outline some examples of recognizable intangible assets acquired separately by the entity:

- *Marketing-related assets:* Trademarks, trade names, internet domain names, trade dress, etc.
- *Contractual assets:* Licensing agreements, contracts for advertising, construction, management, service or supply, lease agreements, franchise agreements.
- *Technology-based assets:* Patented technology, software, databases, trade secrets.