Brand Finance®

Whitepaper

Value-Based Brand Management: Conducting Brand Evaluations for Brand Valuations.



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- **The new standard on brand evaluation – ISO 10668 – is helping to codify a badly needed management practice: the structured appraisal of all areas of brand value management**
- **Understanding the support behind your brand, what people currently think about it, and how that is bringing you value are all essential areas to understand**
- **Those businesses that conduct structure measurement programmes will minimise waste in spend and maximise return: what isn't measured well, won't be managed well**

It is almost a decade since the international standard on monetary brand valuation, ISO10668, was first published. Since then much has moved on, including the introduction of ISO20671 (the international standard on brand evaluation) which acts as an input to ISO10668 and has therefore spurred ISO to restart the working committee to update ISO10668.

As we approach this important anniversary and the prospect of an update to the original standard, I think it is an appropriate time to revisit the subject and illustrate why a full evaluation of how brands impact businesses – using the methods outlined in the new standard and more – is essential for understanding how and brands should be used and improved.

Why brand value matters

In the past there has been a tendency to think of brands simply as logos and marketing simply as a necessary cost. Increasingly, businesses are noticing that branding and marketing can be used as a differentiator to build volume, price and numerous other benefits to businesses.

They also note that with the emergence of big databases and much cheaper market research, it is easier to find out what works in building brand value and what doesn't. Coupled with the fact that many businesses are having to confront this for financial reporting and tax

reasons, businesses are getting on board with the idea that brands and other intangibles can and should be valued.

Despite this new trend towards better measurement, what brands are and do has never really changed. There are various elements that build brand reputation – product quality, service quality, innovation, aspiration/association, company conduct.

Brand Reputation, in turn, amplifies demand for the business' products and sustains demand when one or another of those drivers of demand is weak. For example, look to how price and volume have been sustained in Apple products even when many competitors have more or less caught up on product quality and innovation.

Technically you can see and touch brands (i.e. logos/signage) but they are 'intangible' because of their reputation or what is known as "brand equity". It has an intrinsic impact on the level of demand for a product or service.

However, the value of this intangible element is also contingent on their use. For example, if there is a company selling red caps that company is going to sell a lot more if you put a Ferrari logo on the front than if you don't. The increased demand and profitability of that company should be attributed to the value of the brand. However, if you don't use the brand on the product (or don't make it ready for sale), the demand isn't generated, and the value of the brand is lower.

In our brand valuation study of the top 500 brand values, the Ferrari brand is the strongest, but it is not the most valuable because the company restricts its volume output to maintain its strength on each product sale – it is therefore restricting its short-term generation of value in order to maintain it in the long term.

Brand management is therefore a process of inputs and outputs: replenish brand reputation through investment in product, service and marketing; exploit the value that that reputation creates in the way which generates most long term value.

In that way brand investment is no different to the way companies spend on capital expenditure to build a factory, depreciate the investment as they exploit its value and then replenish that asset through further capital expenditure.

No self-respecting financial manager would evaluate the benefit of investing in a factory without determining how that investment will impact the value of the asset and the business overall, so why have people done this with brands for so long? At least things are now changing.

Brand evaluation valuation and brand-related financial analysis are becoming increasingly important for two reasons, one is regulatory and the other is strategic.

On the regulatory side, investors and accounting rules increasingly require an understanding of the value of all assets. Also, tax authorities are becoming increasingly aggressive (particularly since the BEPS initiative), demanding that companies charge appropriate rates for the use of their brands by international subsidiaries.

On the strategic side, traditional advertising and marketing budgets are under increasing pressure and digital advertising – with its relative cheapness and depth of performance data – is putting more impetus on marketers to prove that their investments are providing a return.

Similarly, companies are increasingly understanding the (often negative) impact of major changes to brand structures through brand architecture alignment and want to understand the best way to maximise overall value – particularly after acquisitions.

For both purposes, there are four elemental questions that you need to understand in order to value a brand, which are:

+ What perceptions do people have about your brand?

+ How do those perceptions influence their likelihood to interact positively with your brand?

+ What actions you are engaged in to:

    - Improve those perceptions?

    - Activate them positively in order to drive value through demand generation or cost reduction?

Once these questions are understood, valuing brands is simple.

What is it that we are we measuring when conducting a brand evaluation?

Brands derive their value from their reputation, otherwise known as 'Brand Equity'.

The term Brand Equity is widely used in the marketing and branding world to describe the relative stature of different brands and to facilitate dialogue around how a brand asset may be measured. As with the term brand, there are a number of alternative senses in which this word is commonly used.

Feldwick (1996) presents three separate common practice usages of the term *Brand Equity*.

1. The total value of a brand as a separable asset- when it is sold, or included on a balance sheet (*Brand Value*)

2. A measure of the strength of consumers' attachment to a brand (*Brand Strength*)

3. A description of the associations and beliefs the consumer has about the brand (*Brand Description*)

Each of these can be measured, with the first two often reduced to a single numerical value – financial in the case of Brand Value and an index in the case of Brand Strength – while the third is usually described by multiple scores on a series of attributes measured via market research.

Conceptually, the first is a financial or accounting definition that references the outcome of a strong brand on the balance sheet of the owner of that brand. The second and third definitions are predicated upon the view that whilst a brand trademark is ownable, the brand equity associated with that brand lies within the mind of the consumer.

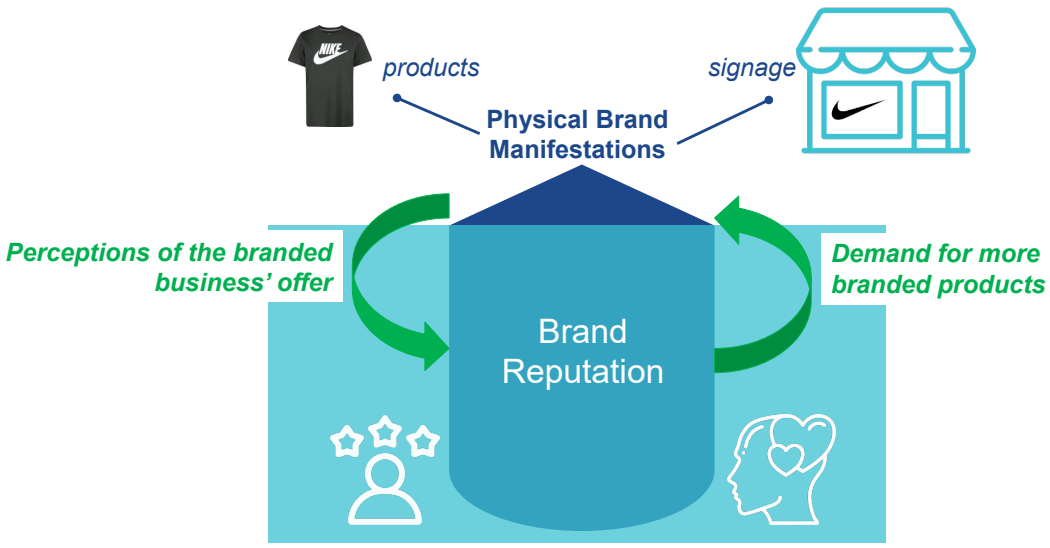
Srivastava and Shocker (1991) described brand equity as '*the aggregation of all accumulated attitudes and behaviour patterns in the extended minds of consumers, distribution channels and influence agents, which will enhance future profits and long term cash flow*'.

Keller (1993) defines customer based brand equity as '*the differential effect of brand knowledge on customer response to the marketing of the brand*'. According to this definition a brand is said to have positive brand equity '*if consumers react more favourably to the product, price, promotion or distribution of the brand than they do to the same marketing mix element when it is attributed to a fictitiously named or unnamed version of the product or service*'.

Farquhar (1989) suggests a relationship between high brand equity and market power asserting that: '*The competitive advantage of firms that have brands with high equity includes the opportunity for successful extensions,*

Tangible versus Intangible Brand identities

While a brand is intangible, it relies on tangible touchpoints



resilience against competitors' promotional pressures, and creation of barriers to competitive entry'.

In addition, brands that have strong brand equity typically command a greater price premium, achieve higher market shares, find it easier to gain distribution on favourable trade terms, attract superior quality partners and attract more capable employees at lower cost.

Brand building activity therefore usually seeks to both maintain and leverage existing Brand Equity as well as build incremental Brand Equity so as to manage business performance in both the short and long term.

Therefore, a critical and central concept in Brand Equity management is that Brand Equity is not static or fixed but can both grow and decay over time. Absent of investment in brand building levers, the Brand Equity is likely to fall over time, although external non-controlled factors could also contribute to this (such as decline in relevance of the category in which the brand operates e.g. the long term decline of toilet soap category impacting Palmolive soap brand).

What actions impact brand equity and value?

Given that the marketing definition of brand equity relates to the associations and perceptions that exist within a customer's mind, there is a clear corollary – anything that affects those perceptions, whether consciously or subconsciously, can influence the Brand Equity.

Generally, in order to build brand equity brand and marketing managers focus on the following activities (also known as "levers"):

IV. Advertising

V. Sponsorship

VI. Sales Promotion

VII. Distribution

VIII. Pricing

IX. Visual Identity & Packaging

X. Public Relations & Social Media

XI. Product (Formulation/Design/Service)

XII. Innovation

What actions impact Brand Equity and Value?



In order to build Brand Equity, managers focus on a handful of "lever" activities

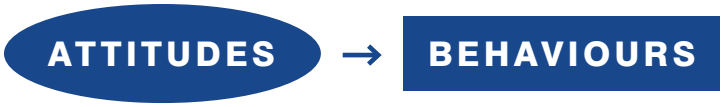
Of course, the relative importance of each changes depending on the sector but all of these levers can be considered to play a part in developing both: the revenues of the brands in question and; long term Brand Equity.

The revenues reflect the ability of a brands existing equity to attract purchasing in the current time period, given the combination of prevailing marketing conditions e.g. price, competitive price, competitor offers, distribution levels and quality, and product category relevance, together with extraneous factors such as weather.

The equity can be thought of as the ability of a brand to attract future sales in subsequent time periods. A strong Brand Equity increases the probability of high revenues in future time periods, albeit again dependent upon the application of all other marketing mix factors or conditions.

Importantly, whilst many of the factors influencing brand performance might be described as routine or regular short-term marketing activities, the factors which drive short term sales can still be seen to help develop long term equity.

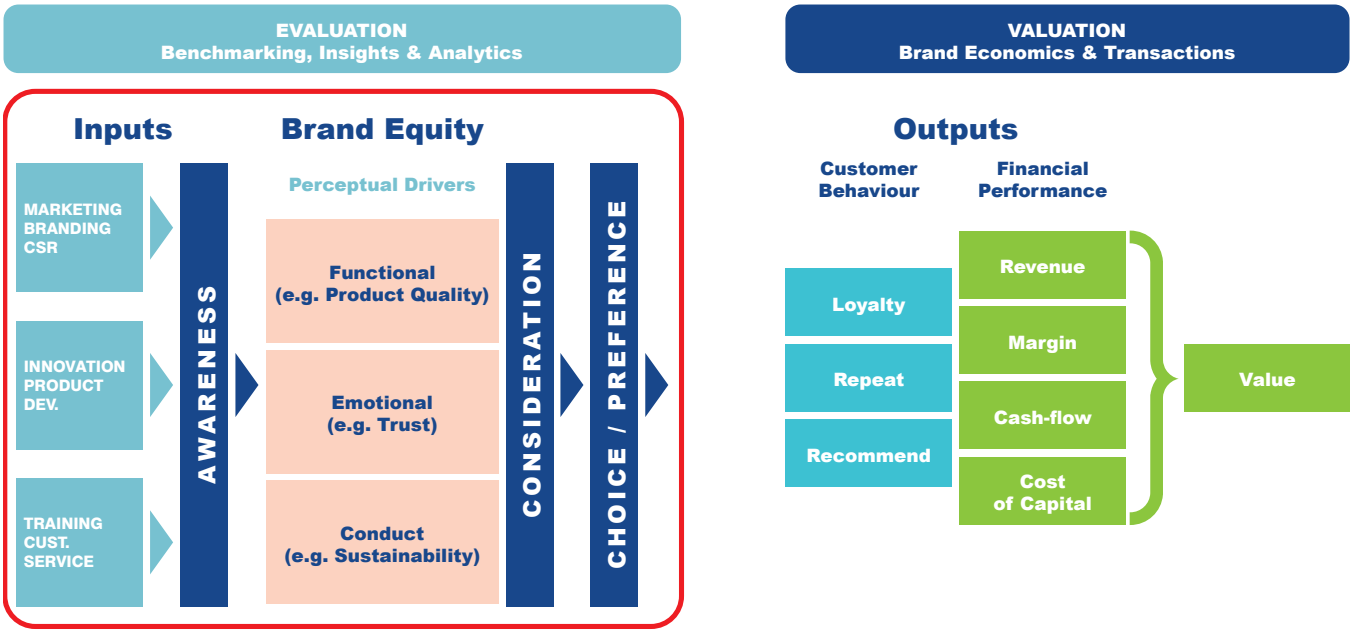
Also, the act of using a brand can change subsequent attitudes to that brand. Hence the relationship between attitudinal and behavioural responses may also be considered as a continuous circle rather than just a linear model. Econometric modelling typically seeks to establish the causality or otherwise of attitude change by use of lag modelling of the available research and sales data to see what predicts what.





Many sophisticated marketers develop more detailed conceptual models to support analysis of relationships between the experiences people receive (through the application of marketing levers), the perceptions they form, and the resultant value-creating behaviours of customers.

These are usually conceptualised first, then tested by statistical analysis to identify and validate (or otherwise) which relationships are strongest. This then allows discussion of which perceptions will be most valuable to improve and how best to do so.



How does brand equity impact business performance and value?

When a brand has strong Brand Equity, this typically translates into superior performance on a number of key behavioural metrics. The most common metrics on which brand performance can be judged that are usually seen to be a direct consequence of strong equity are listed below.

I. PENETRATION

Market penetration is a measure of the number of consumers purchasing or using a particular brand as a proportion of the total number of consumers purchasing or using that brand in a defined time period. The plotting of the penetration level over time results in a curve known as the cumulative penetration and can be assessed on a monthly, quarterly or annual basis.

II. FREQUENCY

For each given buyer or group of buyers of a brand the number of times in a defined time period that the brand is purchased. Thus in a given time period:

Penetration × average frequency × size of target universe = total volume of purchases.

III. REPEAT PURCHASE

The proportion of those purchasing a brand in a given time period who purchase it again within the same time period (or in some analyses a subsequent time period).

Repeat purchase is often used as a measure of customer loyalty to a brand and is usually seen as a key indicator of brand strength.

IV. LOYALTY

Customer loyalty can be thought of as both an attitudinal and behavioural tendency to favour one brand over all others, whether due to satisfaction with the product or service, its convenience or performance, or simply familiarity and comfort with the brand.

Customer loyalty encourages consumers to shop more consistently, spend a greater share of wallet, and feel positive about an experience with a brand, helping attract consumers to familiar brands in the face of a competitive environment.

Behavioural loyalty without attitudinal loyalty indicates a more vulnerable brand, attitudinal loyalty without behavioural loyalty indicates a brand whose equity has not been fully leveraged due to other weaknesses in the marketing mix.

V. PRICE PREMIUM

One of the strongest and most important consequences of strong brand equity is the ability of that brand to command a price premium vs other brands in its sector.

Although there are several useful benchmarks by which a brand's price can be compared, they all attempt to measure the 'average price' in the marketplace. The ability of people to identify this differs by sector with commodity markets like utilities being considerably simpler to identify than those industries where the delivered product or service is not homogenous.

Conclusions

Brand Evaluations therefore clearly need to identify: what you are doing to support improvements in your brands' reputation; what people think about your brand and how that is affected by your activities; how your brands are being used; and therefore how they are impacting your business positively and how they could do more. Knowing all these areas helps target spend and guide strategies in a way that minimises waste and maximises return.

Brand Finance is a finance and insights first company. Our brand evaluations begin with a full understanding of how brands are used, how they are perceived by stakeholders and how that impacts their interactions with your business. Our capabilities begin with market research and brand tracking together with accountancy and valuation, leading in to a structured, value-based approach to strategic decision-making. We are, therefore, an accountancy firm with the commercial focus of a consultancy. We believe every internal team should have the same mix of focus on measurement together with an understanding of how brands are and should be used.

Using those teams in a structured way is the best way to understand that. In our view the steps to follow are:

1. Trademarks, Guidelines & Protocols: Understand the costs and coverage of your trademark registration, the quality of your brand guidelines and the roles and responsibilities of your team.

2. Brand Applications: Audit your key business channels and how you and your key competitors are using your brands to improve performance.

3. Media Market and Marketing Spend: Analyse what you and your competitors are doing to promote your brands and the effectiveness of your spend by channel, market and brand.

4. Product Capabilities, Service and Distribution: Review your key products and their capabilities, the difference in your and your competitors service quality and the reach of your distribution network.

5. Stakeholder Research: Research who your key stakeholders are, what they think about you and how their perceptions impact your business.

6. Acquisition, Retention & Market Share: Model the trends in your market share, the direction of your performance and how your brands' reputations are impacting your business.

7. Reporting: Establish who will be using the evaluation and how and therefore how to present the information.

Understanding how your brands are being built, repaired and used helps you to understand how they can deliver the most value for your business. Most companies already do part of this process but approaching the evaluation of your brands in a structured way links all part of the process together helping to maximise your company's performance. After all, what you don't measure you can't manage.

Consulting and Evaluation Services.

1. Valuation: What are my intangible assets worth?

Valuations may be conducted for technical purposes and to set a baseline against which potential strategic brand scenarios can be evaluated.

+ Branded Business Valuation
+ Trademark Valuation
+ Intangible Asset Valuation
+ Brand Contribution



2. Analytics: How can I improve marketing effectiveness?

Analytical services help to uncover drivers of demand and insights. Identifying the factors which drive consumer behaviour allows an understanding of how brands create bottom-line impact.

Market Research Analytics +
Return on Marketing Investment +
Brand Audits +
Brand Scorecard Tracking +

4. Transactions: Is it a good deal? Can I leverage my intangible assets?

Transaction services help buyers, sellers, and owners of branded businesses get a better deal by leveraging the value of their intangibles.

+ M&A Due Diligence
+ Franchising & Licensing
+ Tax & Transfer Pricing
+ Expert Witness

3. Strategy: How can I increase the value of my branded business?

Strategic marketing services enable brands to be leveraged to grow businesses. Scenario modelling will identify the best opportunities, ensuring resources are allocated to those activities which have the most impact on brand and business value.

Brand Governance +
Brand Architecture & Portfolio Management +
Brand Transition +
Brand Positioning & Extension +

MARKETING

We help marketers to connect their brands to business performance by evaluating the return on investment (ROI) of brand-based decisions and strategies.

FINANCE

We provide financiers and auditors with an independent assessment on all forms of brand and intangible asset valuations.

TAX

We help brand owners and fiscal authorities to understand the implications of different tax, transfer pricing, and brand ownership arrangements.

LEGAL

We help clients to enforce and exploit their intellectual property rights by providing independent expert advice in- and outside of the courtroom.

Brand Evaluation Services.



How are brands perceived in my category?

Brand Finance tracks brand fame and perceptions across over 30 markets in 10 consumer categories. Clear, insightful signals of brand performance, with data mining options for those who want to dig deeper – all at an accessible price.



What if I need more depth or coverage of a more specialised sector?

Our bespoke brand scorecards help with market planning and can be designed to track multiple brands over time, against competitors, between market segments and against budgets. Our 30-country database of brand KPIs enables us to benchmark performance appropriately.



Do I have the right brand architecture or strategy in place?

Research is conducted in addition to strategic analysis to provide a robust understanding of the current positioning. The effectiveness of alternative architectures is tested through drivers analysis, to determine which option(s) will stimulate the most favourable customer behaviour and financial results.



How can I improve return on marketing investment?

Using sophisticated analytics, we have a proven track record of developing comprehensive brand scorecard and brand investment frameworks to improve return on marketing investment.



What about the social dimension? Does my brand get talked about?

Social interactions have a proven commercial impact on brands. We measure actual brand conversation and advocacy, both real-world word of mouth and online buzz and sentiment, by combining traditional survey measures with best-in-class social listening.

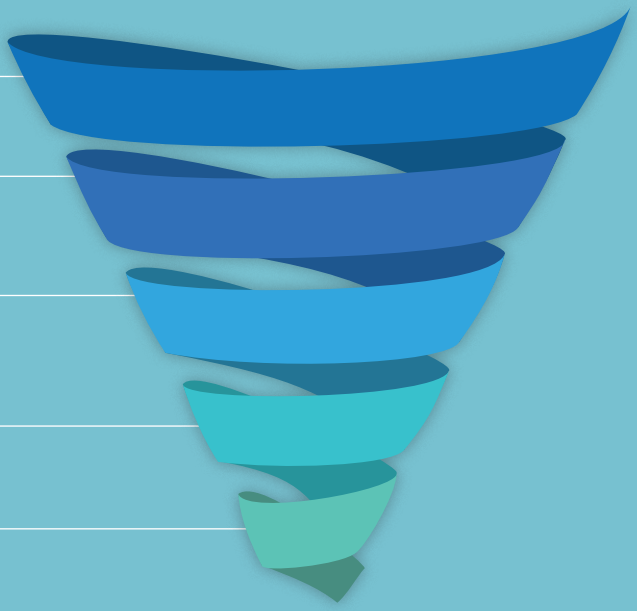
Stakeholder Equity Measures.

Key Metrics

+ Reputation
+ Innovation
+ Trust
+ Emotional Fit
+ Recommendation
+ Quality etc.

Brand converison funnel

The brand conversion funnel is a way of summarising the likely strength of a brand to convert to purchase.



Awareness Knowledge that your brand exists

Familiarity Depth of knowledge of the brand

Consideration Narrowing down market to candidate brand set

Preference Category users' brand preference

Loyalty Intention to repeat purchase

Market Research Methodology.

Brand Finance conducted original market research in 10 sectors across 31 markets with a sample size of over 50,000 adults, representative of each country's internet population aged 18+. Surveys were conducted online during Autumn 2018.



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- Hotels
- Beers
- Oil & Gas

About Brand Finance.

Brand Finance is the world's leading independent brand valuation and strategy consultancy.

Brand Finance was set up in 1996 with the aim of 'bridging the gap between marketing and finance'. For more than 20 years, we have helped companies and organisations of all types to connect their brands to the bottom line.

We pride ourselves on four key strengths:

+ **Independence**
+ **Technical Credibility**
+ **Transparency**
+ **Expertise**

We put thousands of the world's biggest brands to the test every year, evaluating which are the strongest and most valuable.

Brand Finance helped craft the internationally recognised standard on Brand Valuation – ISO 10668, and the recently approved standard on Brand Evaluation – ISO 20671.

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