Brand valuation models

Oriented towards business finance

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There are several finance-oriented brand valuation approaches such as capital market-oriented valuation, market value-oriented valuation, cost-oriented valuation, brand valuation based on the concept of enterprise value, earning capacity-oriented brand valuation, license-based brand valuation and customer-oriented brand valuation.

The "market value-oriented brand valuation" approach is the method in which the value of a brand is established by referring to fair market prices of comparable brands. “Capital market-oriented valuation model" was pioneered by Simon and Sullivan, who defined brand equity as the present value of all future earnings attributable solely to branding. Thus, from a financial markets perspective, brand value can be calculated from a company’s stock market capitalization or market value. But, this valuation method can be useful only for stock exchange-listed companies as the model is based on the idea that the stock price of a company will perform to reflect the future potential, its brands provide.

In the case of a single-brand company, brand value will therefore consist of the company’s capitalized or realized market value. Brand value of a company can be calculated by using simple formula:

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\text{Brand Value} = (\text{stock price} \times \text{number of shares}) - (\text{tangible assets} + \text{all remaining intangible assets})
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If a company has more than one brand, the calculation is done pro rata for each brand’s share of total revenues or profits.

Brand valuation can also be based on the idea of the net asset value approach which is frequently drawn upon in the field of corporate valuation, which is called "cost-oriented brand valuation". In net asset value approach, depending on the time perspective chosen, the assets may be valued either at their historic cost or at replacement cost. Brand valuation with the replacement cost method is done on the principle – what it would cost today to build up an equivalent brand from scratch. Whereas historic cost assumes that brand is an asset based on resources that have been invested in it. Not only net asset value but enterprise value is also seen as a base to value brand equity. It also involves the aggregation of marketing and R&D expenditure relating to a brand. This method is used by Cadbury Schweppers for brand valuation. Historic cost method, involves the aggregation of marketing and R&D expenditure relating to a brand. The problem is the isolation of costs specific to the brand alone, which may require the capitalization of costs incurred decades ago. Sander, Crimmins and Herp have proposed models based on price premium. In price premium-oriented approaches, the brand is seen as generating an additional benefit for the customer, for which they are willing to pay a little more. Sander proposed “Hedonic brand valuation method”, which is based on hedonic price theory. It explains product prices in terms of various product characteristics, or rather the extent to which they are present. Crimmins points out three dimensions of brand value: actual amount, brand breadth, and content of brand value. Herp builds upon the brand valuation model on conjoint measurement. In this model, brand value is defined as the sum of all incremental revenues earned as a result of branding a company.

Advertising support varies hugely from industry to industry. BBDO’s brand valuation model also considers the advertising in brand valuation, which most of the other models do not consider and present a distorted picture. The brand equity evaluation system is a multi-phase factor model of brand valuation, which takes into account the differences between industries and solves the basic problem of the advertising support. This model also takes forward-looking variables to establish brand’s development potential. The model identifies eight determinants of brand equity.

The constituents of brand environment – sales performance, net operating margin and development prospects – are aggregated into a joint factor of brand quality. The new brand quality factor is channelled together with the remaining four weighting factors (international orientation, advertising support, brand’s strength within its industry, image) to form an overall factor value. It is subsequently used as a multiplier of earnings before taxes. The monetary value of brand equity is the product of the average pre-tax earnings in the last three years and this combined the weighting factor.

There are few other methods to calculate brand value like “customer-oriented brand valuation model”, which is based on customer contribution margins. “Kern’s x-times-model”, which is based on earning capacity, establishes the monetary value of a brand by capitalizing the value of potential earnings. License-based brand valuation proposed by Consor is yet another model, which values a brand on the basis of the licence rates typical of the industry and earned by comparable brands. The model focuses on brand licensing, and the value calculated is the sum of money, another company would be willing to pay either to purchase the brand outright or to obtain a license for it.
Hitachi brand strategy

Standing out in the crowd

http://www.hitachi.co.in

Hitachi confronts a crisis

In March 1999, Hitachi Limited, was confronting a grave crisis with severe financial deficits. To confront these difficult business conditions, management sought to move forward by uniting the Hitachi Group into a single-minded company, and strived to create a competitive edge by seeking how to differentiate Hitachi from other companies. One important policy related to these efforts was the formation of a brand creation project, resulting in the establishment of a message, the “Hitachi Brand Platform”, which could be consistently communicated by all Hitachi Group employees.

The “Hitachi Brand Platform” was created not just for the customers of Hitachi; it was set up also to listen to the voice of the customers of Hitachi’s competitors, making them think, “So, that is what Hitachi is striving for”. At the same time, management and rank-and-file employees were surveyed so that an image of “What would you like to see Hitachi become?” could be thoroughly refined and, as a result, the core identity of the Hitachi Group emerged. It is an identity based on Hitachi’s DNA of “Trust” and “Technical Capability” built up over many years, and one that expresses the company’s commitment to being a catalyst for a changing society and continually challenging itself to discover new value and possibilities.

Hitachi Brand Platform

The clearly stated “Hitachi Brand Platform”, as based on the Hitachi Group’s core identity, consists of three main pillars of “brand vision”, “brand mission” and “brand value”, and is thoroughly imbued with Hitachi’s way of thinking so that everyone involved in the Hitachi brand can use the platform as a set of guidelines for how to think and act in regards to the company.

The “Hitachi Brand Platform” embodies the common spirit of all Hitachi Group employees and functions as a message to its shareholders. The keywords “harmony”, “sincerity”, and “pioneering spirit” that express the founding objectives of the company, together with all Hitachi employees understanding and sharing the “Hitachi Brand Platform” inevitably results in the expression of a single, consistent message.

The development of a corporate statement started in the desire to create a message that could encapsulate this brand platform in an easy to understand expression that was straight to the point yet also powerful. Various viewpoints were given consideration, with an emphasis placed on the essence of the brand platform as being “an attitude of continual innovation”, and an appeal was made to the employees to help decide upon a statement expressing this attitude. With the numerous suggestions that had been collected to review, the Management Council and Board of Directors deliberated until a corporate statement was born that succinctly summed up the thoughts and feelings of Hitachi shareholders: “Inspire the Next”.

The phrase “Inspire the Next” refers to not only the spirit infused into all Hitachi Group efforts, products and services, but also expresses the moral and material value that the Hitachi Group provides throughout the world.

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