Can insight help decode the black box of brand valuation:

Brand valuation is a commonly accepted measurement and has a big influence on company value and marketing budgets

Brand values are big business and have a significant impact on financial statements as 'intangible assets', sometimes being the most valuable thing the company owns.

> In its latest annual report, Coca-Cola lists its 'trademarks' as having a value of US$ 6.5bn

The valuation industry is equally big business for the consultancies who offer brand value measurement for a fee. Given the high profile of brand values and the big decisions that are based on them you would expect the methodology behind the calculation of brand values to be scientific, consistent and transparent, however the opposite appears to be true.

A brief history of brand valuation:

Brand valuations originated in the 1980's when the companies that were taking over consumer brands were facing large write offs because the cost to acquire a company was more than the cost of the assets – as the brand had no value. To remedy this brands became listed and valued as intangible assets on the balance sheet.

In the years following this became an accountancy standard and today there are IFRS rules about how brand values may be calculated in financial terms. However this calculation is based on the market value of a brand if it were to be sold or franchised, rather than being a statement of its worth to consumers.

Given that brand valuations have an impact on marketing strategy and budget, using this financial valuations seems flawed in terms of understanding consumer propensity to purchase. Marketers were not slow to recognise this and neither were consultants who developed new methods of calculating brand values to include the consumer perspective. Problem solved then?

Brand valuations now include consumer data but are created within consultancy black boxes, leading to a lack of transparency, clarity and understanding

Although there are numerous consultancies and brand agencies who create and measure brand values, each company has its own methodology which is proprietary. While maintaining Intellectual Property is understandable, this hasn't helped the field of brand valuation which is misunderstood and inconsistent because of the lack of transparency.

For example if three different brand valuation consultancies were given the same task it's very likely they would deliver three different answers. Given the decisions that could be made as a result of this valuation it's concerning that outcomes can be so varied and potentially somewhat subjective.

Variations appear wide when comparing the top 4 public brand valuation tables

The potential variation in brand values become very apparent when you compare the top 10 brands of the four leading 'global brand value lists'. For example the brand value for Apple has a variance of $43bn, which according to the World Bank is equal to the GDP for Lithuania:

Rank	Interbrand		BrandZ		Brand Finance		Forbes	
1	Apple	$118.8bn	Google	$158.8bn	Apple	$104.7bn	Apple	$145.3bn
2	Google	$107.4bn	Apple	$147.8bn	Samsung	$78.8bn	Microsoft	$69.3bn
3	Coca-cola	$81.6bn	IBM	$107.5bn	Google	$68.6bn	Google	$65.6bn
4	IBM	$72.2bn	Microsoft	$90.2bn	Microsoft	$62.8bn	Coca-Cola	$56.0bn
5	Microsoft	$61.2bn	McDonalds	$85.7bn	Verizon	$53.5bn	IBM	$49.8bn
6	GE	$45.5bn	Coca-Cola	$80.7bn	GE	$52.5bn	McDonalds	$39.5bn
7	Samsung	$45.5bn	VISA	$79.2bn	AT&T	$45.4bn	Samsung	$37.9bn
8	Toyota	$43.4bn	AT&T	$77.9bn	Amazon	$45.1bn	Toyota	$37.8bn
9	McDonalds	$42.3bn	Marlboro	$67.3bn	Walmart	$44.8bn	GE	$37.5bn
10	Mercedes-Benz	$34.3bn	Amazon	$64.3bn	IBM	$41.5bn	Facebook	$36.5bn

All of these companies give an explanation of how they calculate these brand values and each use different methodologies.

Interbrand:
1. The overall financial return to an investor or 'economic profit'
2. The role of the brand – the portion of the purchase decision attributable to the brand,
3. Brand strength – the ability of a brand to create loyalty
(Click here to view the Interbrand methodology)

BrandZ (Millward Brown)
A. Uses corporate earnings to calculate an 'attribution rate' for each brand to arrive at a 'Branded Earnings' rate
B. Future earnings are predicted to create a 'Brand Multiple' which is used with the 'Branded Earnings' figure to arrive at a 'Brand Contribution
(Click here to view the BrandZ methodology)

Brand Finance:
- This company calculates the brand value using the Royalty Relief methodology, which is the standard accountancy method. Brand Finance provides a pretty good diagram of how it calculates brand value
(Click here to view the Brand Finance methodology)

Brand Finance methodology diagram
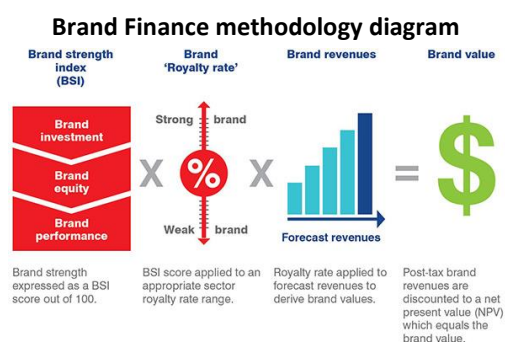
Forbes:

- Uses earnings before tax and interest for each brand, then subtracts a charge of 8% of the brand's capital employed and finally subtract the local tax figure to create brand earnings.
- A percentage of those earnings are allocated to the brand based on the role of the brand in the relevant industry to get a final figure
N.B. brands must have a presence in the US to be on the Forbes list
(Click here to view Forbes methodology)

The complexity and the variety of methods used to calculate brand values within the public brand value lists demonstrates some of the potential issues with brand values and how they can vary depending on the company employed to do the calculation and which methodology they apply.

How can insight teams help to bring a deeper understanding to brand value?

The original job of brands was to assure consumers about the quality of a product or service. This developed as time went on and the purpose of brands today is their ability to transfer loyalty across products, services and categories.

However while a few brands manage to inspire loyalty beyond reason (e.g. Apple and Coca-Cola), the majority fight to single themselves out from the crowd to get picked and re-picked by consumers, provided they deliver the quality they promise and can compete on price

Given the diversity of brands and how consumers compare, discuss and choose them today, the existing methods of brand valuation seem out of touch with how brands are experienced in the marketplace. Or certainly a one-off brand valuation per year does not reflect how markets fluctuate and change over time.

This is where insight teams can help by providing clarity for the role that brands play in the customer decision journey

Developing transparent methods of understanding consumer awareness, loyalty and the persuasiveness of brand in their sector could go a long way to delivering a better answer

Insight teams are often responsible for measuring brands across a variety of measures including awareness, engagement, satisfaction – all of which could provide steps towards understanding the brand value. Could insight teams be the perfect place to develop a more transparent and deeper view of brand value? One not based on financial values but on real market understanding and consumer evaluation on an ongoing basis.

The Customer Decision Journey Model gives a view of how consumers purchase goods and services today, could brand insight tracking match up to these to give a view of brand values through this journey?

Customer decision journey

Journey point	Potential brand analysis
Consider	Awareness
Evaluate	Consideration
Buy	Purchasing behaviour
Experience	Satisfaction
Advocate	Recommendation
Bond	Preference
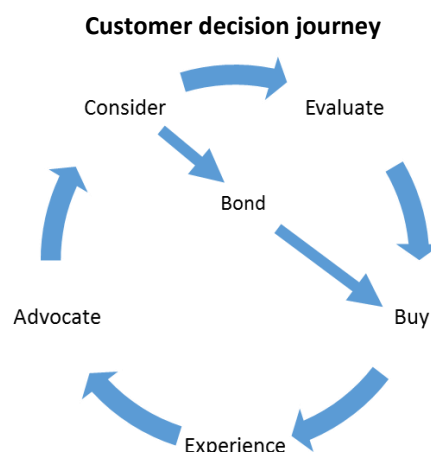
While Insight driven brand valuations may not replace the figures used in financial statements they would certainly provide a service to the CMO to help them understand the brand's contribution to the decision journey and to help the debate around marketing budgets and it could certainly deliver some much needed clarity