The FINANCIAL VALUE of BRANDS Imperative

Why Brands Must be Valued in Financial Terms

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MASB

Marketing Accountability Standards Board

The Financial Value of Brands Imperative:

Why Brands Must be Valued in Financial Terms

Executive Summary

Marketing exists to drive profitable and sustainable growth through increased demand. Since growth is measured in financial terms, the strength of brands and the resulting customer franchise must also be expressed and analyzed in financial terms. Regular measurement and analysis of the financial value of brands demonstrates the material contribution of brands to the overall value of the enterprise and provides an excellent management decision-making tool to enhance long-term enterprise value.

For brand-centric companies, it is increasingly clear that the primary driver of market capitalization (i.e. enterprise value) is the future anticipated stream of cash flows generated by their brands, and the magnitude of this brand-value impact is closely tied to the relative success in growing those future cash flows. Expressed most simply in economic terms, effective marketing pushes the demand curve upward and to the right, providing benefit in volume, price or both.

Marketing impacts all four traditional financial drivers of volume, price, mix and cost, and then adds in a fifth, longer-term and very powerful element — optionality. These five drivers allow us to clearly see and explain the connectivity from successful marketing activities to brand preference, leading to profitable growth, increased and sustainable cash flows, and higher enterprise value.

Due to the "Brand Value Accounting Dilemma," the current state of accounting standards and financial reporting does a relatively poor and inconsistent job of accurately measuring, explaining and reporting the Financial Value of Brands for internal management purposes. Since this matter is not likely to be resolved anytime soon by accounting-standards setters, brand-centric enterprises should develop an internal methodology to annually measure, explain and report the Financial Value of Brands to the executive level, even in the absence of any external regulatory or accounting requirements.

Financial Value of Brands Pilot Program

To facilitate brand owners regularly measuring FVB (Financial Value of Brands), MASB, the Marketing Accountability Standards Board, is offering a pilot program to introduce the process of financial valuation for either individual or multiple brands. The program will assist in the identification of a suitable measurement approach and provider for each participating brand owner. The outcome will be an initial valuation – with results verified by MASB experts – and a path forward for continuing evaluations.

For more information or to participate in this pilot program, please email info@themasb.org.

Introduction

Marketing exists to drive profitable and sustainable growth through increased demand. Whatever management's specific financial goals might be, marketing can be leveraged for both short- and long-term impacts. Long-term growth is of greatest benefit in enhancing enterprise value because it extends over time, while short-term growth may be more transactional in nature and therefore not enduring.

How is long-term growth created? It comes from enhancement in brand preference and expansion of the customer franchise. In other words, it derives from more people preferring the branded products over competitive offerings. Given that growth is measured in financial terms, the strength of brands and the resulting customer franchise must also be expressed and analyzed in financial terms, thereby ensuring a complete alignment between marketing activities and management objectives.

Despite the obvious connection between marketing activities and the meeting of long-term monetary goals, the Financial Value of Brands is not systemically monitored or analyzed in most organizations. One reason relates to accounting practices which give the impression that a complete and accurate financial value is being measured over time when, in fact, it is not. In the United States, existing relevant accounting standards only account for brand value at the time of an acquisition. This value can never be raised but it can be lowered.[1] Further, it is common practice for this accounting valuation to be conservative to reduce the risk of potential impairment at some future date with resulting negative reactions from the investment community. Another potential outcome is that brands are not recorded as separate items but are included in a less descript *goodwill* line. In other cases, there may be reasons for a higher amount assigned to a brand during an acquisition. Due to these factors, this accounting 'book value' is rarely useful for managing marketing.

The FVB Imperative

To fill this gap, brand-centric enterprises should develop an internal process to annually measure, explain, and report the Financial Value of Brands to the executive level, even in the absence of any external regulatory or accounting requirements. Regular measurement and analysis of FVB advantages the practice of marketing by demonstrating the material contribution of brands to the overall value of the enterprise. Most importantly, the FVB process is not merely an accounting or academic exercise. It can and must be used as a management decision-making tool with the end goal of enhancing enterprise value.

The Surprising 'False Positive'

What percentage of organizations have implemented an appropriate FVB process? To find out, MASB worked with the Association of National Advertisers (ANA) on a survey of their membership. Of responding organizations, 26% reported currently having a process to measure brand value. Follow-up 'deep-dive' qualitative interviews with these respondents, however, showed the 26% figure to be a false positive. Only a small portion measured brand value in monetary or financial terms. Instead, their systems monitored *non-monetary* measures such as brand preference, brand loyalty, customer satisfaction or category attitudinal associations. These metrics are often couched in similar language to financial terms such as brand 'equity' and brand 'value.' The overlapping definitions of these terms can create confusion in discussions between marketing and finance teams. Appendix A: *Some Notes on the Measurement of Brand 'Equity' and Brand 'Value'* provides an historical examination of the use of these terms to foster cross-functional understanding.

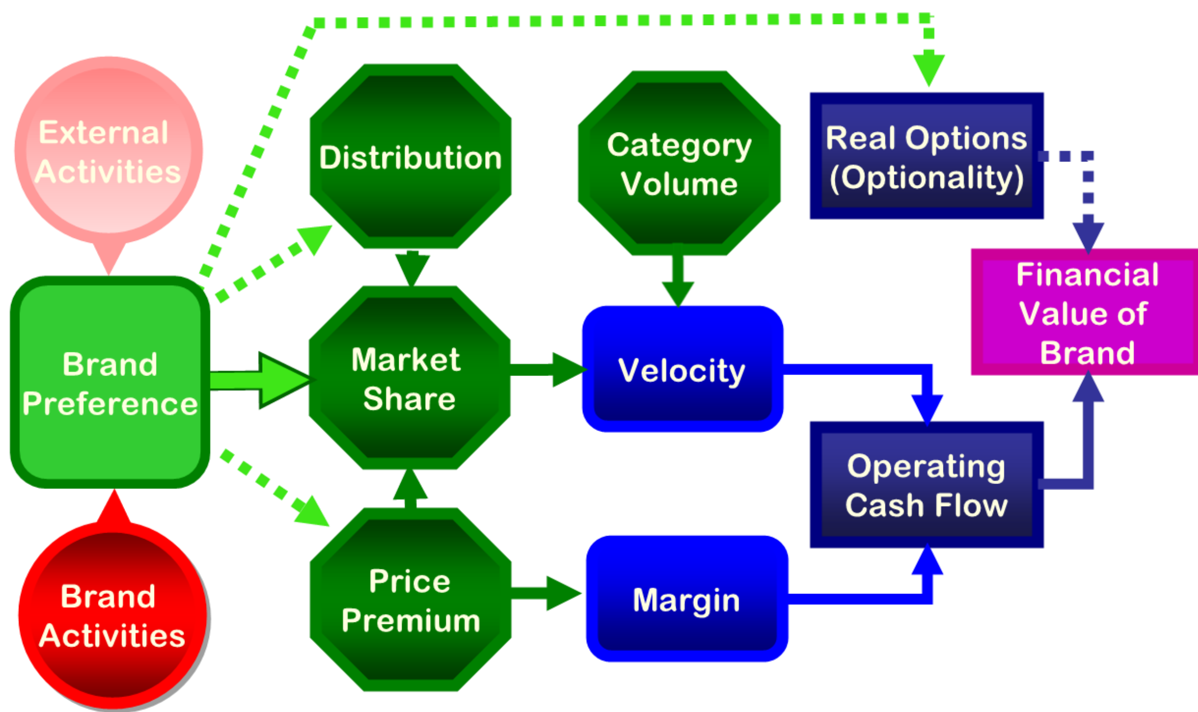
[1] Sinclair & Keller. *Brand value, accounting standards, and mergers and acquisitions: "The Moribund Effect"*; Journal of Brand Management, Jan. 28, 2017.

In this article, we will attempt to avoid ambiguity by consistent use of the term Financial Value of Brands (FVB) when referring to *the total worth of brand assets in monetary terms*. Related monetary and non-monetary measures will be referenced by their most descriptive names. References to marketing spending are generally broadly inclusive of advertising media, sponsorships and other branding and selling activities.

The MASB BIV Initiative

To clarify how various non-monetary and monetary metrics relate, MASB has created a generalized Brand Investment & Valuation (BIV) Model. Read from left to right, it describes how branding translates into the Financial Value of Brands.

Figure 1: MASB Brand Investment & Valuation Model (2021)



The brand engages in activities such as advertising, packaging, product quality initiatives, and customer relations that create mental associations and make the branded products distinct from competitive offerings. If these activities prove effective, more people will prefer products under that brand over those of competitors. External activities, such as competitive advertising and social media conversations, also influence preference for the brand.

Increases in customer brand preference can yield several advantages in the marketplace: a higher unit market share as people will choose it more often over other options, a higher price point as customers will be willing to pay more for it, and increased distribution as retailers are apt to carry the branded products people want most. This results in a greater velocity of sales given the size of the category and a higher margin for increased sales. High levels of brand preference also provide the enterprise with the real option to use the brand to enter or even create other product categories for which the associations are relevant.

Together these aspects lead to greater operating cash flows for the enterprise going into the future. The quantification of this stream of cash flows associated with the branding enables the calculation of FVB. By applying a discount rate to the future stream of cash flows, a present value can be readily calculated. This present value represents its contribution to the enterprise in terms of today's value of money.

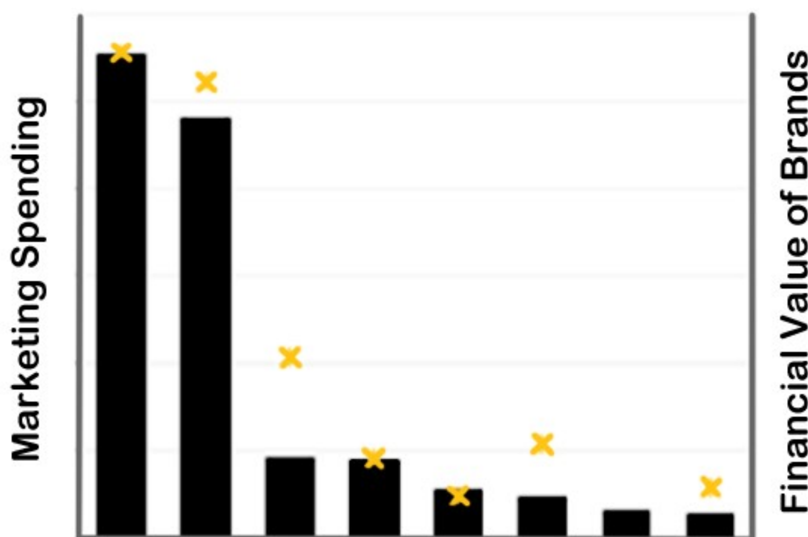
Using this approach to enhance corporate stewardship presents significant opportunities. One immediate benefit is greater C-level recognition of marketing's unique contribution to the financial success of the enterprise.

Jim Meier, one of the authors of this paper, explained the logic of the BIV Model: **"***The manufacturing side of the business can purchase and maintain an asset. Marketers can create and grow one... Brands could 'earn' a higher valuation based on improved brand preference which would remove uncertainty relating to future financial assumptions and the longevity of the brand."*[2]

By applying this model, marketing and finance teams can more easily tie changes in marketing metrics to changes in the Financial Value of Brands. As an example, this model has been used within a "portfolio of brands" company to illustrate the relationships across marketing spending for eight of their brands and the corresponding calculated FVB. (Figure 2)

In the chart, the bars represent the marketing spend invested in the brand while the gold symbols represent the calculated Financial Value of the Brand.[2] While it is not necessarily causation, a substantial correlation is clearly exhibited. What once was taken only on faith is now visibly demonstrated! Furthermore, these monetary brand valuations can be tracked over time.

Figure 2: Marketing Spending vs. Financial Value of Brands



While this conceptual and empirical alignment between marketing and finance metrics is of great benefit for managing a brand portfolio, it is the smallest managerial gain to be had from the regular measurement of FVB. The enduring benefit comes from the competitive advantage created in the marketplace.

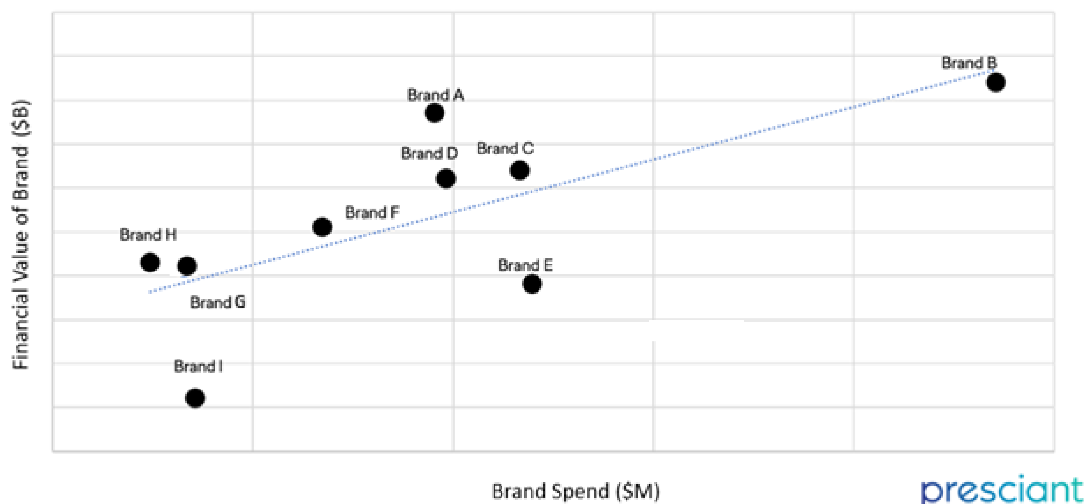
[2] Meier, Findley, Stewart. *Applying the MASB Brand Investment & Valuation Model*; MASB, May 2018.

The benefits from a longer-term value mindset that can accrue not only for a singular enterprise but also for the economy as a whole were discussed in a 2019 CNBC article entitled, *Warren Buffett and Jamie Dimon want companies to embrace a new idea of value*.[3] The article highlights how the prioritization of short-term objectives diminishes long-term value creation and that companies with a long-term value focus tend to outperform those with a short-term focus. It cites a 2017 McKinsey & Co. study estimating that, had all U.S. publicly listed firms operated like their long-term counterparts, the economy would have added more than five million jobs and generated an additional $1 trillion in GDP.

The Sustainable Financial Advantage of Strong Brands

Brand teams who are "out to win" realize that effective marketing plays a decisive role. As shown by a category study from Presciant (Figure 3), brand-related spending can contribute to a long-term advantage over the competition. Monitoring these measurements over time provides management a clear understanding of whether the actions are merely a cost of doing business or a wise investment growing enterprise value.

Figure 3: Brand Spend vs. Financial Value of Brands: Technology Category Example[4]

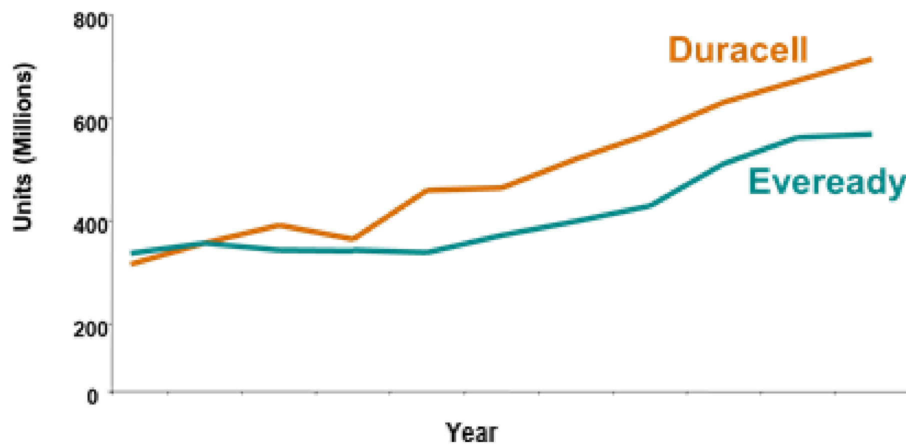


Companies that underinvest in branding potentially face an extinction event as diminishing share of market and declining price support make profitability elusive. Even in the best market conditions, brand investments play a key role in deciding outcomes among competitors.

A classic case study is that of Duracell and Energizer batteries.[5] Alkaline battery sales began to take off in the late 1980's with the increase in handheld electronic devices. The two leading brands, Duracell and Eveready's Energizer, started the race at about the same place in terms of unit sales, and they each sold millions of units more each year to meet the growing electronics demand (Figure 4). But at the end of 11 years, Duracell was selling substantially more.

[3] Williamson, Sarah K. *Warren Buffett and Jamie Dimon want companies to embrace new idea of value*; CNBC, Sep. 19, 2019.
[4] Source: Presciant client analysis for technology industry, Mar. 2021.
[5] Blair and Schroiff. *Advertising: today's sales or brand-building for tomorrow?;* Quirk's Marketing Research Review, May 2000.

Figure 4: Duracell and Eveready Unit Sales (11 Years)



This occurred because of Duracell's more effective marketing. Duracell's advertising routinely doubled its ad test benchmarks. By concentrating on its "longer-lasting" benefit and "high quality/trustworthy" brand personality, its campaigns surpassed those of Eveready in effectiveness.

After a decade of such advantage, Duracell maintained a 20-percentage-point advantage in brand preference, supporting a 19% higher price and a nine percentage point higher unit market share (Figure 5). This resulted in a profit for Duracell of $609 million versus $275 million for Eveready. Coincidentally, both were sold near the same time establishing the Financial Value of Brands. Duracell sold for approximately $8 billion while the corresponding amount for Eveready was $3 billion. Effective marketing shifted the demand curve benefiting Duracell in both volume and price, clearly leading to a higher financial value.

Figure 5: Duracell and Eveready Relative Performance

	Duracell	Eveready
Brand Preference	57%	37%
Market Share (units)	44%	35%
Sales (units)	715M	568M
Price per unit	$1.02	$0.86
Profit	$609M	$275M
MARKET VALUE	**$8B**	**$3B**

An examination of recent financial outcome research and case studies further demonstrate the fiduciary advantages of (and conversely, the risk of not) implementing the FVB approach to protect, manage and enhance these assets.

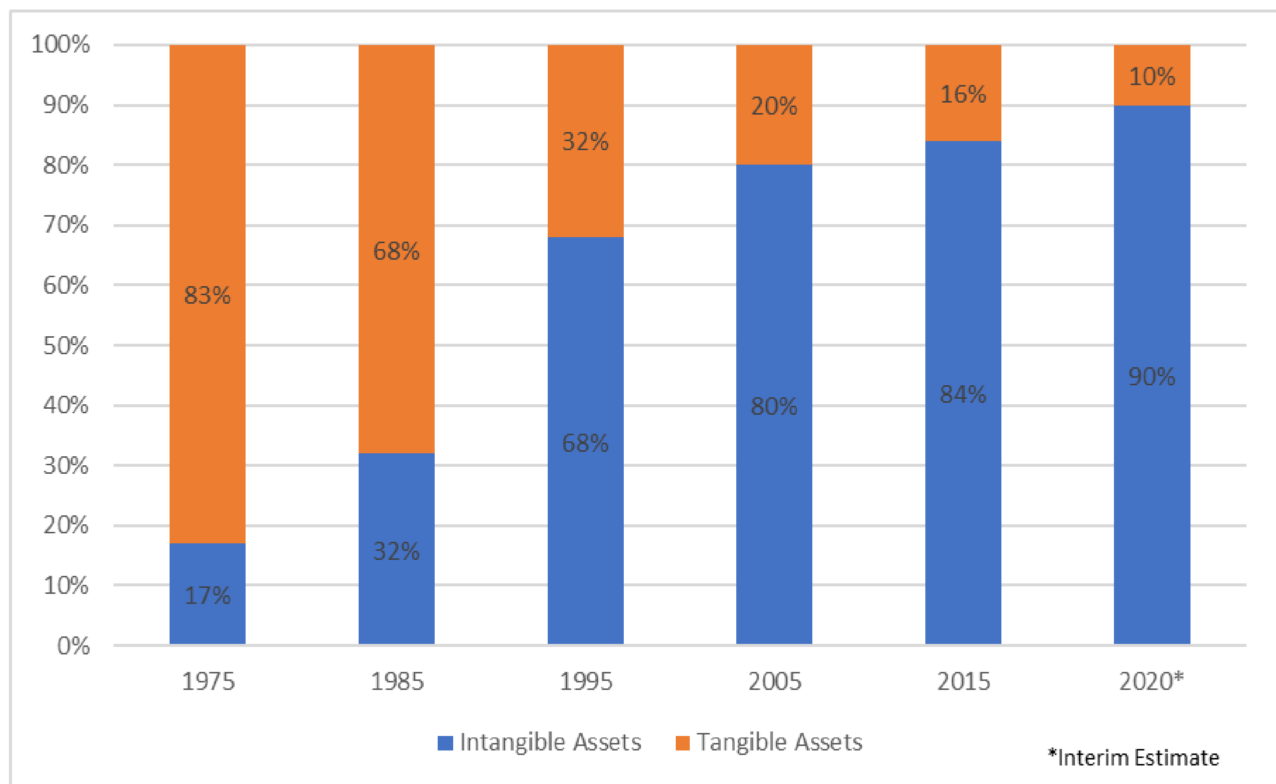
Financial Outcome Research and Case Studies

The public equity market clearly demonstrates that stock market capitalization, a valid proxy for enterprise value, is increasingly less supported and driven by hard physical assets and more by intangible assets such as brands.

Ocean Tomo has published information showing that in 2015, only 16% of the S&P 500's market capitalization could be explained by tangible assets, a 180-degree reversal from what supported market capitalization 40 years earlier in 1975.[6] Furthermore, they found that the COVID-19 pandemic has accelerated this trend with intangible assets now commanding 90%.

This trend was also found in the S&P Europe 350 index with an increase to 74% in 2020.

Figure 6: Ocean Tomo: Components of S&P 500 Market Value



As further evidence, Brand Finance's 2020 GIFT (Global Intangible Financial Tracker) reported a 56% tangibles/44% intangibles division across a broad range of companies globally. Of the intangibles, less than one fifth were disclosed on balance sheets.[7]

Selected balance-sheet information shown in Exhibit 1 for four well-known brand-centric companies — Procter & Gamble, The Coca-Cola Company, Kraft Heinz and Constellation Brands — validates the aggregate Ocean Tomo and Brand Finance information.

[6] Ocean Tomo*.* *Intangible Asset Market Value Study*; 2020 Interim Study Update, Jul. 2020.

[7] Source: Brand Finance. GIFT 2020, Oct. 2020.

Exhibit 1 — Selected Balance-Sheet Information

(Dollars in Billions)	Current Assets	Current Liabilities	Working Capital	Property, Plant & Equipment	Market Capitalization
Proctor & Gamble	$28	$22	$6	$21	$306
Coca-Cola	$19	$14	$5	$11	$215
Kraft Heinz	$11	$ 8	$3	$ 7	$ 45
Constellation Brands	$ 3	$ 2	$1	$ 5	$ 42

Amounts shown are based on the most recently issued Form 10-K's as of March 1, 2021. Current liabilities exclude current portion of long-term debt. Market capitalizations are as of March 1, 2021.

Procter & Gamble's current assets – largely cash and equivalents, accounts receivable and inventory – amount to $28 billion. Offsetting those assets are accounts payable and other liabilities to be paid in the very near future of $22 billion. This leaves net working capital of $6 billion. All property, plant and equipment total $21 billion. For Procter & Gamble, that is pretty much all the "physical stuff" it owns. Yet the company commands a market capitalization of over $300 billion, prompting an obvious question — *what are investors paying for?* It's clearly not predominantly cash, inventory or other physical assets. The answer is the Financial Value of Brands.

For Coca-Cola, the story is very much the same with a substantial market capitalization premium over the "physical stuff" it owns. Kraft Heinz shows similarities in terms of direction, but the magnitude of this "brand-value premium" is much lower, reflecting the company's recent well-publicized difficulties with brand sales performance which resulted in multiple write-downs of previously recorded brand assets. In fact, Kraft Heinz's newly appointed CEO in 2019 stated "some [brands] are a little bit dusty and we have to rejuvenate them."[8]

It is hard to escape the reasonable conclusion that for each of these three brand-centric companies, rather than hard physical assets, the primary driver of market capitalization (and enterprise value) is the future anticipated stream of cash flows generated by their brands. The magnitude of this brand-value impact is closely tied to the relative success in growing those future cash flows.

FVB also manifests itself on the income statement. Again, from their most recently issued Form 10-K's as of Mar. 1, 2021, these three brand-centric companies generated operating income margins (operating income, excluding non-recurring expenses, divided by net sales) as follows:

Procter & Gamble	22.1%
Coca-Cola	29.8%
Kraft Heinz	21.1%

[8] Haddon, Heather. *Kraft's New CEO Faces Tough Task: Revive 'Dusty' Brands*; The Wall Street Journal, Apr. 22, 2019.

Across brand-centric companies, operating income margin percentages proliferate around the 20% to 30% levels. Apple, as an example, achieves 24.1%. Commodity-type or distribution-based companies, while still very successful in their own right, will rarely exceed single-digit percentages in terms of operating income margin.

Even the best retailers such as Walmart and Kroger (which, incidentally, largely sell other companies' branded products) typically have operating income margins in the low- to mid-single digits. None of these companies are to be disparaged whatsoever, but the financial opportunity afforded a company with operating income margin percentages in the twenties and thirties cannot be dismissed.

Now let us look at the fourth brand-centric company in Exhibit 1, Constellation Brands – producer, marketer and seller of the Corona, Modelo and Pacifico beer brands in the U.S. The relationship between tangible assets and market capitalization falls right in line with the predictable pattern we have already seen. Constellation Brands' operating income margin is 27.8%, with its highly successful beer segment at a laudable 40%.

In its Fiscal Year 2020 Management's Discussion and Analysis, in reference to the Beer segment's increasing selling, general and administrative expenses, Constellation highlights: "The increase in Beer is primarily due to an increase of $76.0 million in marketing spend… The increase in marketing spend is due to planned investment to support the growth of our Mexican beer portfolio."

With recent beer volume performance in these challenging times of the pandemic increasing by mid- to high-single digits, Constellation appears to be stoking the consumer-demand fire with additional marketing pressure. Could it be that Constellation is quite deliberately investing more in marketing and selling activities to drive brand preference, generating incremental cash flow and leading to an increase in enterprise value?

A quick study of Constellation's Form 10-Ks suggests that the answer to that question is an emphatic "yes." In Management's Discussion and Analysis, Constellation discloses the following annual increases in Beer segment Marketing and Operating Income, respectively (Exhibit 2). *Generating incremental cash flow, indeed!*

Exhibit 2 — Constellation Annual Increases in Beer Segment Marketing and Operating Income

(Dollars in Millions)	**Marketing Spending Increase**	**Operating Income Increase**
Fiscal 2017 vs. 2016	$59	$270
Fiscal 2018 vs. 2017	$46	$308
Fiscal 2019 vs. 2018	$64	$203
Fiscal 2020 vs. 2019	$76	$205

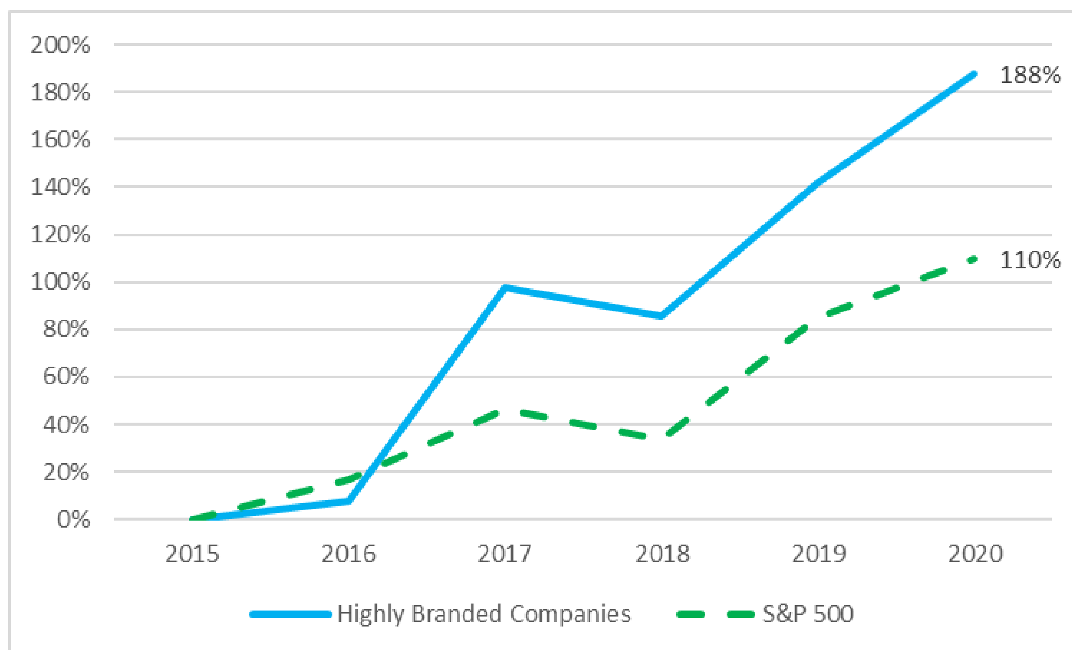
Direct Evidence of the Role of FVB on Stock Performance

If increased brand preference and the resulting incremental cash flow creates a more valuable brand asset, shouldn't that be reflected in stock prices, all other things being equal? Whether the branding is deployed using a corporate brand, house of brands or mixed brands strategy, the Financial Value of Brands contribution should be evident in changes in the enterprise's overall value. Research by Brand Finance and Kantar demonstrates this relationship.

Brand Finance has been tracking the financial value of thousands of the world's top brands for 15 years. In 2015, Brand Finance conducted a retrospective analysis[9] that revealed a link between the strongest brands and stock market performance. Between 2007 and 2015, the average return across S&P 500 companies was 49%. However, the strongest branded companies over that same time generated returns of 97%. Applying this method in a forward manner verified the pattern.

From 2015 to 2020, the most highly branded companies, those whose FVB makes up a high proportion of overall enterprise value, demonstrated a return 78 percentage points higher than that of the S&P 500 index.

Figure 7: Brand Finance Most Highly Branded Companies vs. S&P 500 Index

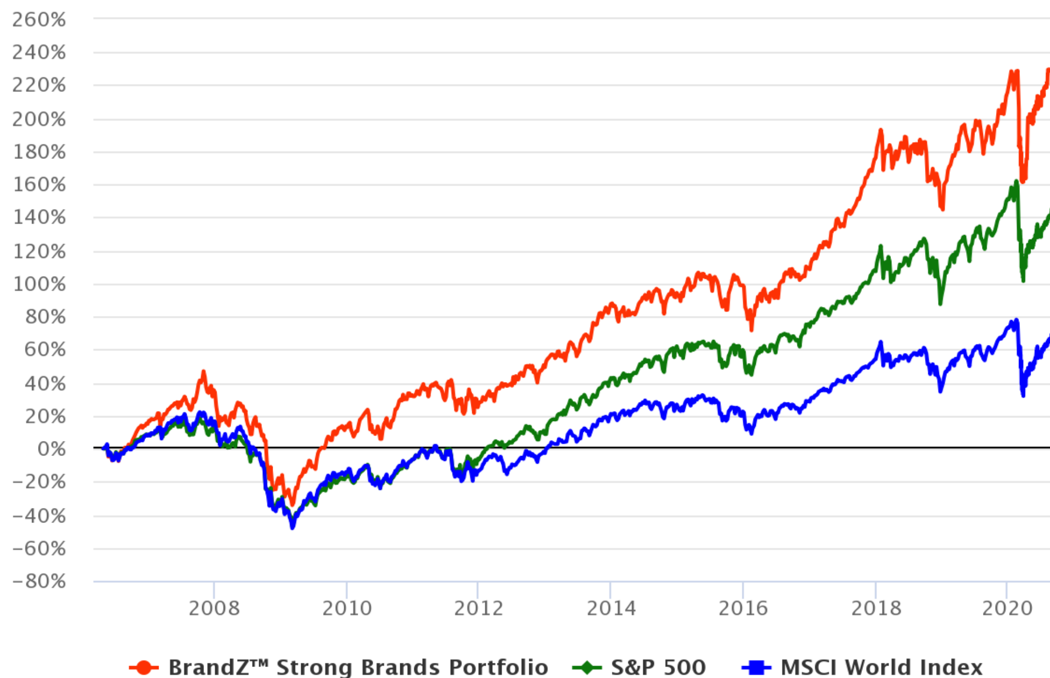


Kantar has been tracking the financial value of the top 100 Brands through their BrandZ™ methodology for the last 14 years. The value of the BrandZ™ Strong Brands Portfolio, a subset of their top 100 that "best exemplifies the building blocks of smart branding," has increased 230% between April 2006 and Mar. 2, 2020 (Figure 8), outperforming both the return of the S&P 500 and the MSCI World Indices.[10]

Note that the recovery of these 'strong brands' companies from the COVID-19 pandemic slide was quicker than the benchmarks, affirming the supportive role brands play in economic recoveries.[11]

[9] Source: Brand Finance. *Investing in Strong Brands Doubles Returns over S&P Average*, Nov. 12, 2015.
[10] Source: www.brandz.com/, Feb. 2021.
[11] Findley, Frank. *Marketing's Vital Role in Tackling the Covid-19 Pandemic*; MASB, Apr., 2020.

Figure 8: BrandZ™ Strong Brands Portfolio vs. S&P 500 vs. MSCI World Index



A specific case example of rejuvenating a brand and adding to enterprise value is that of Hostess Brands. In 2013, facing potential bankruptcy or liquidation, certain snack-cake products under the Hostess and Dolly Madison brand names were purchased by a private investment group for about $410 million.[12]

By 2016, the "new" Hostess Brands announced it was considering an initial public offering for an estimated $2.3 billion. The IPO never materialized; rather, the transaction to become a public company was executed through a special-purpose acquisition company process. Hostess Brands continues to trade publicly under the ticker symbol TWNK (a reference to the Twinkies Brand) and had a market capitalization of about $2 billion in early 2021.

More recently, Adidas' announcement to potentially sell off Reebok provides an example of how abandoning brand support can lead to deteriorating business results that contribute to a decline in FVB. Adidas announced it would purchase Reebok in August 2005 for $3.8 billion,[13] an acquisition which closed only five months later on Jan. 31, 2006.[14] With the passage of time, Reebok, among other things, began to lose its contracts to manufacture sports uniforms and apparel for professional sports leagues and college teams.

Former NBA star Shaquille O'Neal, whose history with Reebok dates back to the 1990's, said in 2019 that he wanted to buy Reebok because Adidas has "diluted [the brand] so much to where it's almost gone."[15] Reebok has faced a series of impairment charges from 2013 to 2020,[16, 17] culminating in a dramatically lowered book value of $995 million.[18]

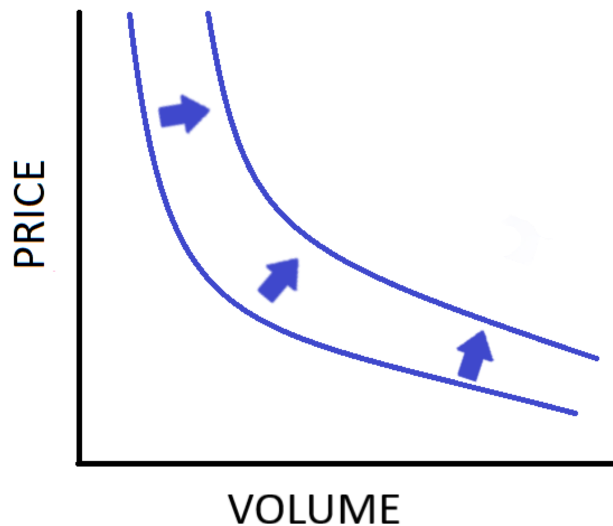
[12] de la Merced, Michael. *Hostess Brands, Maker of Twinkies, to Get a New Owner*; The New York Times, Jul. 5, 2016.
[13] NBC News. *Sportswear maker Adidas to buy Reebok,* Aug. 3, 2005.
[14] Adidas press release. *adidas-Salomon AG and Reebok Close Acquisition*, Jan. 31, 2006.
[15] Footwear News. *Shaquille O'Neal Says He 'Would Love' to Own Reebok*, Jun. 20, 2019.
[16] Ryan, Thomas. *Adidas Posts Q4 Loss on Reebok Impairment Charges*, Mar. 7, 2013.
[17] Reuters. *Adidas takes Reebok impairment, sticks to 2018 outlook*, Aug. 8, 2018.
[18] Reuters. *Adidas plans to sell ailing Reebok business within months - manager magazin*, Oct. 22, 2020.

Correspondingly, a Financial Value of Brands analysis conducted by Brand Finance shows a drop from €1.8 billion in 2008 to €0.8 billion in early 2021.[19] Initial reports indicate that an asking price for Reebok could be around $2.4 billion compared to the original $3.8 million acquisition price from over 15 years ago.[20] It will be interesting to see if the transaction price is near this level or closer to the substantially lower book value and Brand Finance valuation. Despite the challenges the Reebok brand faces in the technologically competitive performance shoe sector, its historic marketing investments are still bearing fruit with approximately 40% of all sales coming from its Classics retro line.[21] This may make it an attractive acquisition opportunity for an enterprise willing to invest in the brand as was the case with the previously mentioned Hostess Brands.

The Evolving Thinking on Marketing's Financial Value Drivers

There may be no more important function within a brand-centric company than marketing to influence future financial (cash flow) success. Financial results are routinely explained by four drivers: volume, price, mix and cost. Marketing's effect on volume and price are well understood. Expressed most simply in economic terms, *effective marketing increases brand preference*, pushing the demand curve upward and to the right. The brand owner can then choose to capture this improvement as an increase in volume, an increase in price (and thus margins), or a combination of the two at any point along the improved demand curve.

Figure 9: How effective marketing moves the Demand Curve



Mix is the degree to which various brand alternatives can be established and sustained, frequently with differentiated price points. Marketing as an expenditure in and of itself clearly has a direct effect on cost and also influences other non-marketing costs. No one would question that, all other things equal, extremely effective marketing has the impact of increasing sales volume (and possibly vice versa). Most observers of the beer industry would certainly highlight the aforementioned Constellation Brands as a winner in the industry's high-stakes marketing battle. Constellation's management clearly is acting as if they see something that is closer to causation than random correlation.

[19] Brand Finance analysis of Reebok and Adidas brand values, Mar. 2021.

[20] Hale, Kori. *Reebok's $2.4 Billion Price Tag Brings Hip-Hop & Sports Moguls to The Table*; The New York Times, Dec. 28, 2020.

[21] Segran, Elizabeth. *Your childhood nostalgia is big business–just ask Reebok*; Fast Company, Mar. 14, 2019.

Another important impact of effective marketing is its influence on consumer purchasing behavior in terms of price. This beneficial influence may manifest itself either in the purchaser's willingness to pay more or the purchaser's acceptance to pay a non-promoted price versus a discounted price. Both work in favor of the successful marketer. A robust FVB methodology arguably could foretell a loss in pricing power before it materializes in deteriorating margins on the income statement.

Mix is often misunderstood at best, or ignored at worst, in terms of how marketing can drive financial results. Within a beer company with a broad portfolio, imagine the financial leverage from shifting a consumer from low-priced Keystone Light to mainstream-priced Coors Light. How about from Fairfield Inn & Suites to JW Marriott? Or from store-brand pot pies to Banquet or Marie Callender's branded offerings? These impacts, typically flowing through the revenue line of an enterprise, cannot be overlooked or overstated.

Marketing can influence non-marketing costs in many ways. A packaging design or graphics decision that has a consumer-demand impact (i.e. volume) may increase or decrease cost of goods. Effective marketing may have an impact over time of reducing research and development costs or market research activities. Effective marketing of strong brands can build positive sentiment among lenders and investors, thereby reducing the cost of capital. Marketing can even inspire employee pride, reducing turnover, increasing recruitment efficiency and other positive human resources effects. In a broader context, aggregate marketing improvements across an economy also have a macro-economic benefit, expanding the "size of the pie."

Marketing undoubtedly impacts the four traditional financial drivers — volume, price, mix and cost — and then adds in a fifth longer-term and very powerful element: optionality.

The Fifth Driver - Optionality

What about this mysterious fifth driver, called optionality? It is defined as "opportunities to leverage investments in a marketing asset, such as a brand name, customer franchise, or distribution network… in the case of a brand, it is the use of the brand name beyond the initial covered products through a brand or line extension." (Appendix C) Broader than simple line extensions, the concept of optionality includes all brand extensions that monetize growth opportunities outside the brand's initial manifestation.

An example brings this to life. *Frozen*, a full-length animated film adaptation of the fairy tale *The Snow Queen* by Hans Christian Andersen, was released by Disney in 2013. The film itself was a spectacular success, achieving international revenues estimated in excess of $1.3 billion,[22] but it was Disney's subsequent activities that leveraged the optionality of *Frozen*. Apart from multiple video and audio releases, including the feature-length sequel *Frozen 2* in 2019, Disney monetized the franchise by selling merchandise, producing a traveling ice show, and even adapting the story as a Broadway stage musical. Legendary investor Charlie Munger described Disney as the equivalent of "an oil company that can put the oil back in the ground after it is done drilling so it can drill it again."[23]

Finally, consider the value creation from optionality generated by Constellation in expanding Corona — first with Corona Light, then Corona Premier and Corona Familiar, and most recently Corona Hard Seltzer. While this brand extension example does not branch out to entirely different platforms like *Frozen*, successful line extensions are nonetheless another manifestation of the financial power of optionality.

[22] Source: www.boxofficemojo.com/title/tt2294629.
[23] Calvey, Mark. *It's not the watch: Apple's surprising and lucrative asset*; San Francisco Business Time, Mar. 10, 2015.

Collectively, we call volume, price, mix, cost and optionality the five financial value drivers of marketing. These five drivers allow us to clearly see and explain the connectivity from successful marketing activities to brand preference, leading to profitable growth, increased cash flows and higher enterprise value.

To close this section with somewhat of a provocation:

If you asked most people who the Chief Asset Steward is at a public company, the most frequent response would likely be the Chief Financial Officer. Based on what we have now discussed, could it be that the Chief Marketing Officer is really the Chief Asset Steward at a brand-centric company? Even if only partly true, it calls into question the board compositions of many companies – which tend to have few if any marketing experts – and the pervasive lack of CMO participation in quarterly earnings calls.

The Brand Value Accounting Dilemma

Looking at financial disclosures at a very high level, tangible assets such as cash, receivables and inventory as well as property, plant and equipment are always presented on the face of the balance sheet. While most of these assets may be subject to estimation – like a bad debt reserve relative to accounts receivable, different measurement principles such as LIFO or FIFO for inventory, or fixed asset useful lives – they always can be found on the balance sheet.

It's much different with an intangible asset such as a brand, a phenomenon we call "The Brand Value Accounting Dilemma."

Present accounting standards in the U.S. dictate that brands only appear on the balance sheet as the result of a purchase transaction. Consequently, most brands, such as Tide or Crest for Procter & Gamble, don't appear anywhere on the balance sheet. When brands do appear on the balance sheet because of a purchase transaction, they are only subject to future write-down, even if future sales double or triple.[1]

As an unintended consequence to the fear of future write-downs, enterprises may opt to establish brand values as low as possible. In other cases, higher brand values may be preferred. Any brand value that does appear on the balance sheet under current accounting standards may be flawed or misleading when used for marketing management purposes. As an example, what is the brand value of *Frozen* that appears on Disney's balance sheet? It has been $0 since the brand was internally developed.

Continuing with Disney, the company purchased Marvel in 2009 for $4.2 billion. In accounting for the acquisition, $2.9 billion of intangible assets relating to "character-based intellectual property" with an estimated 40-year life were recorded on Disney's balance sheet. In a rare instance of optionality leveraged in the form of category realignment, Disney shifted Marvel's focus from comic books to the film medium. Statista estimated in November 2020 that the Marvel Cinematic Universe series was the highest grossing film franchise in the world, with total worldwide box office revenue of $22.6 billion.[24]

Since this monetary amount would not include ancillary revenues from merchandise, it doesn't take a giant leap to conclude that Disney's balance-sheet brand value for Marvel significantly understates Financial Value of Brands.

[24] Source: www.statista.com/statistics/317408/highest-grossing-film-franchises-series.

Such examples lead us to the conclusion that the current state of accounting standards and financial reporting does a relatively poor and inconsistent job of accurately measuring, explaining and reporting FVB for internal management purposes. We previously covered financial information from Procter & Gamble, Coca-Cola, Kraft Heinz and Constellation Brands. We can look at these same companies in Exhibit 3 (an expansion of Exhibit 1) to illustrate the Brand Value Accounting Dilemma.

Exhibit 3 — Illustrations of the Brand Value Accounting Dilemma

(Dollars in Billions)	Current Assets	Current Liabilities	Working Capital	Property, Plant & Equipment	Market Capitalization	Brands and Trademarks
Proctor & Gamble	$28	$22	$6	$21	$306	$24
Coca-Cola	$19	$14	$5	$11	$215	$11
Kraft Heinz	$11	$ 8	$3	$ 7	$ 45	$47
Constellation Brands	$ 3	$ 2	$1	$ 5	$ 42	$ 3

In the case of Kraft Heinz, nearly all – if not all – brands appear on the balance sheet, a consequence of how business combinations over the years resulted in the formation of the current Kraft Heinz entity. For Procter & Gamble, a brand such as Gillette appears on the balance sheet — part of the $24 billion in Exhibit 3. Gillette was acquired by Procter & Gamble in 2005; however, brands such as Tide and Crest were developed internally many years ago and therefore do not appear on the balance sheet. Coca-Cola, with a market capitalization of over $200 billion, discloses "Trademarks" of only $11 billion. Constellation Brands, with a market capitalization of around $40 billion has $3 billion of trademarks on its balance sheet, none of which relates to the Corona, Modelo or Pacifico beer brands.

All these companies are following required accounting standards, but one must question what value the related disclosures – *or lack thereof* – provide to investors or other external users of these financial statements. This treatment certainly does not promote transparency. From an internal management perspective, these inconsistent and possibly inaccurate financial measures provide little actionable information that can help a management team add to future enterprise value.

The former head of the Financial Accounting Standards Board (FASB) has publicly commented on the difficulty of adapting accounting standards to evolving business needs:

> *"One of the growing controversies in financial reporting in 2016 was over public companies' use of non-GAAP* [Generally Accepted Accounting Principles] *reporting to describe their business performance to investors. For example, 88% of S&P 500 companies disclose non-GAAP measures in earnings releases….Are these companies — deliberately or otherwise — sending us a signal about ways to improve GAAP?"* – Russell G. Golden, FASB Chairman[25]

[25] Golden, Russell. *Why the FASB Cares About Non-GAAP Performance Measures*; FASB, 2017.

Frequently Encountered Obstacles

There are four frequent objections to implementing a methodology to measure, explain, and report the Financial Value of Brands, all of which are — at worst — false, or at best — unnecessary distractions.

The first is: “Brand values can’t be measured.” This objection proves to be totally false. Those companies that are required to put brands on the balance sheet and periodically assess their values have selected their respective methodologies. For example, Kraft Heinz explicitly states in their public financial filings that they use an approach called the relief from royalty method, which is a broadly accepted approach among valuation experts. Procter & Gamble and Disney use variants of discounted cash flow methods. To claim, “we don’t know how to do this” is simply not true. Accounting and finance figure out a way, but currently it is done only when they are forced to do so.

The second objection is: “These amounts are ‘soft,’” which is a bit of a dodge. Brand values admittedly may be ‘softer’ than a hard cash account. But an item such as inventory on the balance sheet which may seem ‘hard and fast’ to most is subject to different estimation methodologies such as LIFO, FIFO, or average-cost accounting. Equipment, a very ‘hard’ item indeed, is subject to various depreciation methodologies which include estimates of useful lives. Furthermore, accounting manifestations of items such as inventory are put forward as ‘firm’ numbers when they are in fact estimated using sampling methodology, most often on the last day of the fiscal year. These inventory calculations are most certainly useful despite being derived from other information. Similarly, the Financial Values of Brands are both derived and useful.

A third frequent objection is: “Published brand value measures from sources such as Brand Finance or BrandZ are divergent.” This assertion may be true, but in part it is because these valuations are based on limited publicly-available information. And we should not forget that varying methodologies for inventory and fixed assets also result in divergent values. So, this objection is, at best, an unnecessary distraction.

A fourth objection is largely internal to the enterprise itself and potentially calls into question the diligence of corporate governance. This objection is most commonly phrased as, “We already have sufficient metrics and don’t need another.” In a worst case scenario, it manifests a “false positive” stated (perhaps innocently or disingenuously) as, “We already do that.” As much as anything, this mindset emerges from a fear of scorecard risk.

This fourth objection is a very convenient excuse for those constituencies who would prefer to keep brand value treatment as it is done today. At present, accountants and their external auditors are, to some degree, comfortable with the existing accounting principles and standards for intangibles. However, this avoids the question as to whether these published amounts provide any interpretive benefit, especially in light of the fact that some brands do not appear at all on the balance sheet. In a FASB article, one accountant member related his experience with the current state of art and offers a path forward to finding more relevant metrics:

> *“In my experience prior to joining the Board, investors did not consider the post-acquisition footnote disclosures on intangible assets relevant to their analysis and valuation of a company. Companies net out the intangible asset amortization number in their non-GAAP numbers and few (if any) analysts include this information in their company financial models.*
>
> *“One potential area for improvement could focus on finding what internally generated intangible asset disclosures companies might provide that investors would find useful. One caveat: over my investment career, companies typically did a good job of disclosing information on their competitive advantages related to internally generated intangible assets outside of their SEC-required annual and quarterly*

filings. I believe a review of the information already provided by companies through these other means of communication would be a good starting point for the FASB.”[26]

Additionally, many CMOs and other marketing executives do not mind being out of the spotlight when it comes to being stewards of quantified brand values. Analysts in the financial markets are also left off the hook on this one – certainly, a more comprehensive public disclosure of the Financial Value of Brands would potentially complicate their lives. These positions have high fiduciary responsibilities, and the commitment to providing needed information to stakeholders should take precedent.

Emerging Best Practices

This matter is not likely to be resolved anytime soon by the accounting world. Changing accounting standards to put all brands on the balance sheet may not be feasible, even though it may be the more ideal outcome. Commenting on FVB publicly in financial statement footnotes or Management’s Discussion & Analysis is desirable, but as a practical matter, it is also not likely to be seen in the near term. MD&A commentary on FVB could be voluntary among more sophisticated enterprises, but even the most forward-looking “best practice” organizations might have reservations about fighting this fight alone. For brand-centric companies, internal measurement, analysis, and reporting of FVB is the more realistic, near-term alternative.

To fill the gap, ISO, the International Organization for Standardization, established Technical Committee 289 with standards boards from 35 countries actively working together to create brand evaluation standards that organizations can implement to internally monitor their brands. The first standard reviewed was *ISO 10668: Brand valuation – Requirements for monetary brand valuation*,[27] which lays out specific guidelines for measurement providers in conducting FVB analyses. The second standard produced, *ISO 20671: Brand Evaluation – Principles and fundamentals*,[28] specifies the fundamentals and principles for brand evaluation, including an integrated framework containing necessary brand input elements, output dimensions, and sample indicators including the Financial Value of Brands.

Where we at MASB land on this subject is as follows: Brand-centric enterprises should develop an internal methodology to annually measure, explain, and report the Financial Value of Brands to the executive level, even in the absence of any external regulatory or accounting requirements.

This internal methodology need not be overly complex with a goal of reasonable accuracy over precision. In certain industries, companies that currently have brand P&Ls can implement a methodology quite expeditiously. In many cases, the methodology is some type of multi-year discounted cash flow approach, though brand value service providers have other approaches better suited for specific types of enterprises.

No matter the specific methodology, significant benefits are bestowed on enterprises that adopt the FVB methodology and apply it consistently over time. One is that when applied as part of a company’s planning and budgeting cycle, it can impact certain key decisions, among them, resource allocation for the upcoming budget year. Specifically, and especially in “portfolio of brands” enterprises, understanding the relative brand values at a point in time across the portfolio should serve to inform marketing spending priorities. It can also help an enterprise break away from the “same as last year” or “last year plus 2%” peanut-butter-spread mentality to marketing spending that is, frankly, rudimentary at best.

[26] Buesser, Gary. *Internally Generated Intangible Assets*; FASB, Aug. 2019.
[27] ISO 10668:2010 Brand valuation — Requirements for monetary brand valuation; www.iso.org/standard/46032.html.
[28] ISO 20671:2019 Brand evaluation — Principles and fundamentals; www.iso.org/standard/68786.html.

As an illustration, let's look at a hypothetical brand-centric enterprise with three brands. Sometime during the second half of Year 0, the enterprise arrives at a Year 1 spending plan for Brands A, B and C as shown in Exhibit 4. Also, the enterprise embarks for the first time on the use of a Financial Value of Brands methodology that generates brand values, also shown in Exhibit 4. A high-level overview indicates that the spending plan seems to be directionally correct, so the enterprise moves forward with its spending plans for Year 1.

Exhibit 4 — Example Year 1 Spending

	YEAR 1	
(Dollars in Millions)	**Financial Value of Brand**	**Marketing Spending**
Brand A	$800	$100
Brand B	$500	$ 50
Brand C	$ 60	$ 15

Now Year 1 is moving along and it's time to begin planning for Year 2. It is believed that total marketing spending in Year 2 will need to be at the same $165 million level as Year 1. Among the inputs to this resource allocation process is a refresh of the Financial Value of Brands A, B and C. Let's look at how a reasonable FVB methodology can influence resource allocation for Year 2.

In Exhibit 5, note how the enterprise's two largest brands seem to be continuing along largely as before – Brand A's value has increased slightly from $800 million to $820 million, while Brand B's value has decreased slightly from $500 million to $475 million.

Brands A and B could be in more mature segments of the industry, but Brand C's discernible growth in brand value, from $60 million to $105 million, would seem to merit additional marketing investment. Through much internal management debate, it is determined that Brand C should indeed receive a greater allocation of marketing spending, from $15 million to $30 million, sourcing those dollars from the more stable brands A and B. The enterprise is now investing in growth.

Exhibit 5 — Example Year 1 & 2 Spending

	YEAR 1		YEAR 2	
(Dollars in Millions)	**Financial Value of Brand**	**Marketing Spending**	**Financial Value of Brand**	**Marketing Spending**
Brand A	$800	$100	$820	$95
Brand B	$500	$ 50	$475	$40
Brand C	$ 60	$ 15	$105	$30

Part of the internal management debate would include an understanding of the year-to-year change in brand values helping to articulate the drivers of change, as shown for Brand C in Exhibit 6. So what is the compelling story for additional investment in Brand C? We can see that there is a positive contribution to Brand C value of $10 million attributed to volume growth in the category.

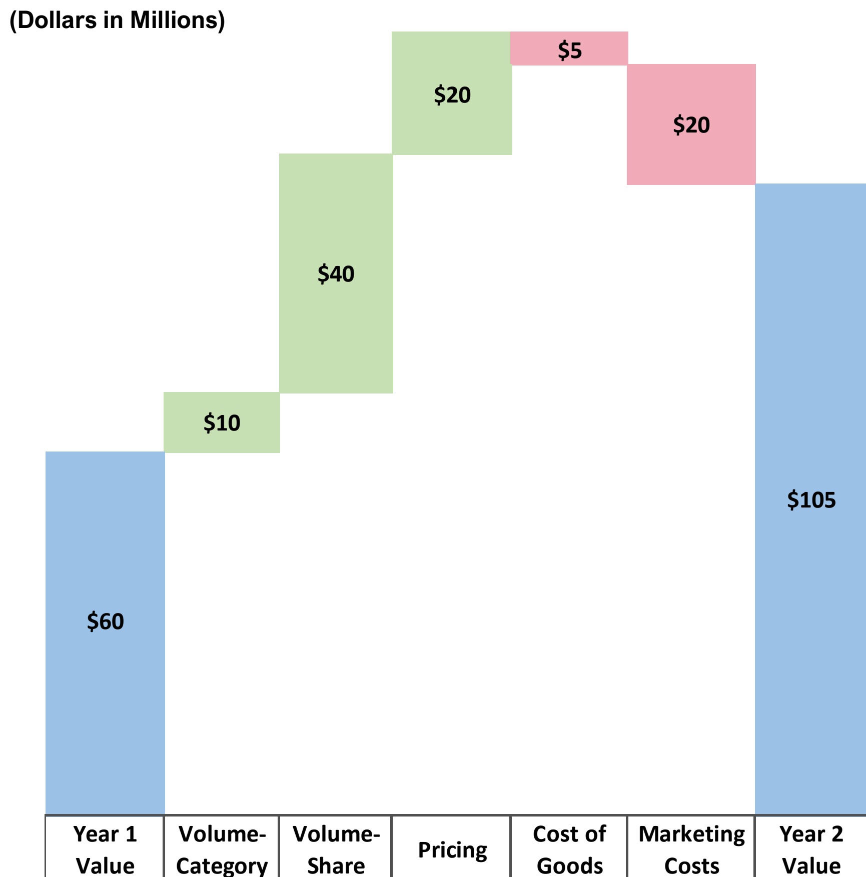
Note that the bridge chart reflects changes from one brand valuation to the next, so the change in volume growth reflects a change from the previous volume assumptions to the current volume assumptions.

To an even greater degree, Brand C is gaining share within the category beyond previous expectations, contributing $40 million of incremental brand value. Pricing seems healthy, contributing $20 million to brand value, so we do not seem to be discounting Brand C to "buy" volume in the short term. We see some additional cost of goods inflation, subtracting $5 million from brand value, but perhaps this is due to improved packaging elements that consumer research suggests are appealing and possibly enhancing demand, another reminder of the favorable shift in the demand curve.

Lastly, the additional marketing spending will, by itself, directly increase costs thereby reducing FVB by that amount. This story of Brand C, articulated by using explicit financial drivers and related amounts, is no doubt appealing to most of the "chiefs" in the room, certainly among them the CMO, CFO and CEO.

What Chief Sales Officer would not want Brand C as an offering to sell in the marketplace?

Exhibit 6 — Brand C Bridge Chart



This more informed understanding of the components of Brand C's value increase leads to additional substantive questions, among them: *Which elements of our marketing are working and which are not? Where might we be spending too much or too little? As an enterprise, have we shorted ourselves on marketing spending and logically need more? Where might further consumer research be warranted to understand Brand C's product segment? Seeing Brand C's success, where might we locate funding across the enterprise to support a potential future innovation called Brand D?*

The example of Brand C is directionally very similar to the real-life experience of Boston Beer's Truly Hard Seltzer. Truly was introduced in 2016 into the new hard seltzer category within alcoholic beverages. Boston Beer's public statements, coupled with those from beverage industry media, clearly tell the story of a growing hard seltzer category, and Truly's market share, while number two behind Mark Anthony Brands' White Claw, has been growing within the hard seltzer category. Pricing seems rational with slightly increasing cost of goods, but these elements pale in monetary impact to the volume and share story. Accordingly, Boston Beer has been very clear about its commitment to increasing marketing support behind Truly. With a market capitalization well over $10 billion that has more than quadrupled since the introduction of Truly, one might ask, what other sensible options are there?

While Boston Beer does not publicly disclose brand-level spending, Exhibit 7 illustrates five years of total Boston Beer marketing spending and its market capitalization at the end of each respective year.

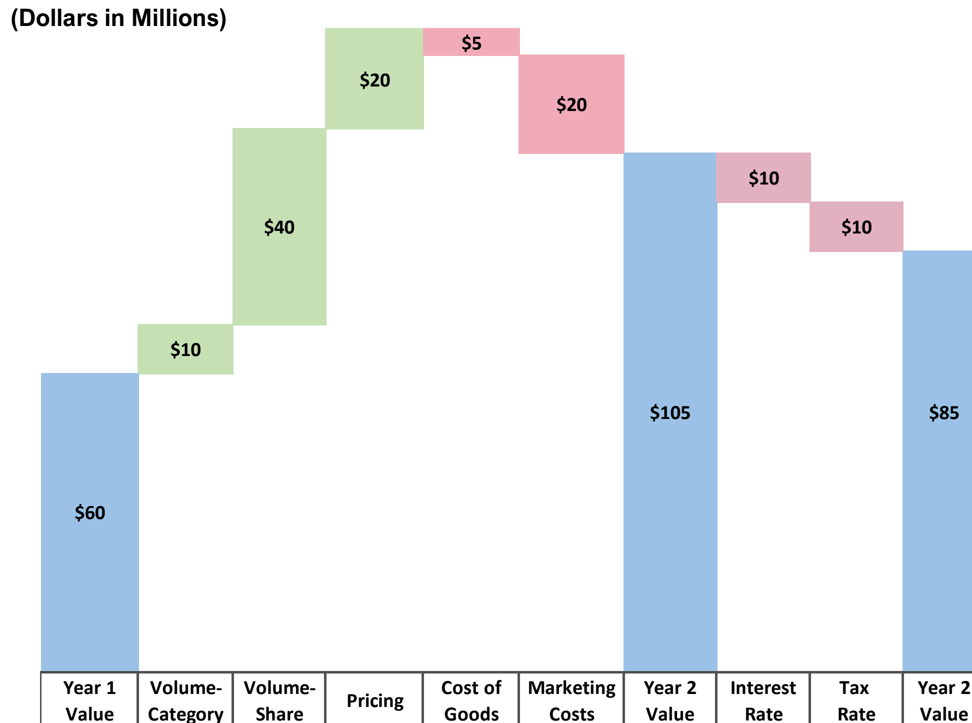
Exhibit 7 — Boston Beer Marketing Spending and Market Capitalization

	Marketing Spending	Market Capitalization
Fiscal 2016	$195.0	$2.1
Fiscal 2017	$213.3	$2.2
Fiscal 2018	$243.1	$2.9
Fiscal 2019	$286.5	$4.5
Fiscal 2020	$350.0	$12.1

"Marketing Spending" as shown equals "Advertising, promotional and selling expenses" on the income statement less "Shipping costs" in Financial Statement Footnote B.

While there are no doubt other reasons for the acceleration of Boston Beer's market capitalization (and also areas of its business in decline), Truly's success has inarguably had a significant impact. This leads to another objection to using FVB. Some would argue that macro considerations such as interest rates and tax rates muddle the stories of financial brand value. While these indeed have an impact on financial measures, including FVB and market capitalization, they can be explained in a manner similar to that shown in Exhibit 6.

Exhibit 8 — Brand C Bridge Chart with Macro Considerations



For instance, let us assume that during Year 1, prevailing interest rates increased and tax rates also increased. Both items logically have a depressing effect on financial measures, including FVB, which is likely dependent on the multi-year discounted value of future cash flows. Exhibit 8 is simply an extension of Exhibit 6, illustrating the impacts of increasing interest rates (which would raise the discount rate in a cash flow model) and increasing tax rates.

Brands that are spread across numerous and diverse geographies admittedly bring with them inherent complexity when determining an approach to measuring and reporting FVB. In such cases, it may be wise to focus on a few of the largest geographies rather than grapple with broader complexities. Above all, these emerging best practices support the broad principle that: *Accountable marketing involves optimizing marketing and selling activities to drive brand preference and strength of customer franchise which generates cash flow leading to an increase in enterprise value.*

The Path Forward

As an enterprise moves toward developing and implementing a Financial Value of Brands measurement, analysis and reporting process, we believe there are four requirements that form the road map. The first is "Gain executive buy-in." As previously suggested, C-suite interest in the Financial Value of Brands should be high, but commitment must be both high and enduring, especially from the CMO and CFO. Senior executives reporting to the CMO and CFO will also be critical players in successful implementation.

The second and third requirements are complementary: "Expert identification of methodology" and "Focus on reasonable and consistent goals for accuracy and analyzing trends." There is no point in letting perfection be the enemy of the good. It's important to identify an appropriate evaluation approach and a qualified provider. Once this is done, it is more important to understand major trend changes in Financial Value of Brands over time than to have 'to-the-dollar' accurate point-in-time estimates.

Finally – and ideally – the organization will "Incorporate FVB Calculation into Marketing Return Assessment Process (ROMI, ROI, CIR)." Such a comprehensive approach institutionalizes elements such as the consideration of the Financial Value of Brands in annual resource allocation. (Appendix D provides an infographic of this Financial Value of Brands Process)

To aid in this, Appendix B compiles summaries of valuation services provided by several of the leading Financial Value of Brands measurement providers. Collectively, these providers have broad experience spanning all types of categories, geographies and branding strategies. This compendium is a good starting point for exploring potential partners to help in establishing a regular FVB evaluation process.

Additionally, the MASB white paper *Applying the MASB Brand Investment & Valuation Model*[2] provides a primer on FVB calculations, a starting point for understanding the logic and mathematics of the discounted cash flow approach. We believe adoption of a philosophy for the Financial Value of Brands provides transparency and credibility to the marketing function across the C-suite. Also, it is how marketing proves the material contribution of brands to enterprise value, while also informing the strategies and tactics to grow enterprise value.

FVB Pilot Program Participation

To facilitate brand owners regularly measuring FVB, MASB is offering a pilot program to introduce brand owners to the process of financial valuation for either individual or multiple brands. The program will assist in the identification of a suitable measurement approach and provider for each participating brand owner. The outcome will be an initial valuation, the results of which are verified by MASB experts, and a path forward for continuing evaluations. To participate in this pilot, please email info@themasb.org.

About MASB

The Marketing Accountability Standards Board is the acknowledged expert body on the topics of brand valuation and brand evaluation. ANSI, the American National Standards Institute, has designated MASB to serve as the U.S. representative to the ISO technical committee charged with setting global standards on such matters. Serving as chair and working group leaders for ISO Technical Committee 289, MASB representatives played a lead role in the development, refinement and ultimate passage of ISO Standards 10668 and 20671.

The topic of Financial Value of Brands was a primary driver for the creation of MASB as an objective, independent, standards-setting body in 2007. By engaging marketers, measurement providers as well as analytics and financial professionals, MASB seeks to more precisely calculate and demonstrate both the short- and long-term business value created by sound and strategic marketing investment, advancing its efforts through industry projects designed to bridge gaps in marketing knowledge. The Brand Investment and Valuation (BIV) Project had the ambitious goal of documenting linkages between common marketing and financial metrics and create a standardized model. MASB conducted the largest-of-its-kind longitudinal study covering 120 brands across 12 diverse categories. The research documented relationships between brand strength and financial outcomes and set the mathematical underpinnings for evaluating and valuating brands.

MASB members belong to an accomplished, forward-thinking community of top tier marketers, measurement providers, industry associations, and business academics committed to linking marketing actions to financial return.

Authors

Jim Meier served as MASB Director (2013-2018) and was appointed Trustee and Treasurer of the Marketing Accountability Foundation in 2019. He graduated from Marquette University in 1984 with a Bachelor's degree in Accounting. After 8 years as an auditor with Ernst & Young, he spent 26 years with Philip Morris, Miller Brewing Company and MillerCoors in a variety of financial support roles across Corporate Financial Services, Sales, Integrated Supply Chain, and Marketing. In his final role, VP Commercial Finance, Jim reported directly to the CFO and on a dotted-line basis to the CMO and CSO. He was closely involved with annual marketing spending allocation, implementation, on-going assessment of marketing mix modeling, and application of ROMI principles in both the Marketing and Sales divisions. He has spoken at events held by the Association of National Advertisers, the Marketing Science Institute, and the American Marketing Association. Most recently, Jim has been engaged in assisting startup companies connected with a venture capital fund based in Milwaukee.

Tony Pace was first introduced to the topic of Financial Value of Brands as a summer intern at the accounting firm Haskins & Sells, a forerunner of Deloitte. He became fascinated by it as a graduate student at The Wharton School of Business at the University of Pennsylvania. His exploration continued with like-minded colleagues at Young & Rubicam including Dr. Joseph Plummer. Discussions about how to precisely value marketing assets including brands led to the creation of the Brand Asset Valuator. As an accomplished marketing and advertising professional, working on brands such as Capital One, The Coca-Cola Company, Exxon, General Motors, and Texas Instruments, he became even more convinced that accurately valuing brands and related marketing assets would enhance strategic marketing decision making. As CMO at Subway, he consistently used publicly available brand valuations, which dramatically and consistently rose, to inform resource allocation decisions. As President/CEO of MASB, Tony has been able to synthesize his knowledge and marketing experiences with those of his MASB colleagues to advance understanding and consideration of the FVB topic.

Vithala Rao, MASB Advisor since 2017, is Deane Malott Professor of Management Emeritus and Professor of Marketing and Quantitative Methods Emeritus in the Samuel Curtis Johnson Graduate School of Management at Cornell University. He has published over 135 papers in top journals on topics including conjoint analysis and multidimensional scaling, pricing, bundle design, brand equity, market structure, corporate acquisition and linking branding strategies to financial performance. He received Johnson's 2000-01 Faculty Research Award, the Marketing Science Institute's 2005 Robert D. Buzzell Award for Best Paper, and the AMA's 2008 Coolidge Parlin Marketing Research Award. He was named ISMS Fellow in 2012 and AMA Fellow in 2016. He holds master's degrees in Mathematical Statistics from the University of Bombay and in Sociology from the University of Michigan, and a PhD in Applied Economics/Marketing from the University of Pennsylvania Wharton School.

Frank Findley is Executive Director of MASB. He represents the U.S. in the creation of global (ISO) marketing standards. His previous work at ARS group, comScore and MSW Research resulted in improvements to copytest, tracking, media and competitive intelligence systems at many leading marketers, and he co-invented the patented Outlook media planner. While at MSW Research, Frank became a MASB advisor and co-led the Brand Investment & Valuation analytics task force. His research has been featured in the Journal of Advertising Research, Forbes, Quirk's and *Accountable Marketing* and at ARF, AMA, ANA, IIR & CASRO conferences. He holds a BS in Physics from Purdue University and an MS in Industrial Administration from Krannert Graduate School of Management.

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Appendix A

Some Notes on the Measurement of Brand 'Equity' and Brand 'Value'

Vithala R. Rao, SC Johnson College of Business, Cornell University

In the academic literature, brand equity (also referred to in the literature as brand value) is viewed as one of the most valuable assets that a firm can have, and brand equity measurement and management continue to be important in academic research and marketing practice. Most of the extant research on brand equity has taken the perspective of either the consumer or the firm.

Consumer-based brand equity research usually involves assessing the value of the brand to the consumer by studying her perceptions and attitudes towards the brand through surveys, experiments, or self-reported or actual purchase data. The primary objective of this approach is to assess the incremental value that the brand name has on the consumer's utility and resulting choice behavior.

On the other hand, brand equity research from a firm's perspective generally involves assessing the brand's contribution to the firm using market-level data. The market in question may be a geographic product-market with measurement focus on such performance indicators as market share, price premium, revenue or it may be a financial market with focus on a firm's performance measures as the firm's stock price or other financial variables.

Measurement

Since the concept of brand equity began gaining widespread attention in the 1980s, many different methods of defining and measuring it have been proposed, many of which lack a common ground. There is a general agreement, however, that brand equity can be defined and measured in terms of the marketing effects or outcomes that can be uniquely attributed to a brand relative to the effects or outcomes for the same product had it not been identified by that brand (Keller 2003, p. 42). In this regard, measures of brand equity can be classified into those that capture the sources of brand equity, and those that capture its outcomes (Keller 2003, Ch 9-10).

Sources of Brand Equity

Sources of brand equity refer to the set of attitudes, perceptions, and behavioral intentions towards a brand that resides in a consumer's mind and gives rise to the brand equity phenomenon, and much of the early research has focused on conceptualizing comprehensive models of brand equity that encapsulate these intangible constructs and developing ways to quantify and measure them.

Outcomes of Brand Equity

Outcomes of brand equity, on the other hand, refer to the realized market outcomes of a brand that are a result of the equity it has, and are generally measured from the perspective of the firm in terms of the performance or value of the brand in product and financial markets. Accordingly, Keller and Lehmann (2003) divide brand equity measures into three categories: customer mindset, product market outcome, and financial outcome measures. They also suggest that financial measures such as revenue are better indicators of the brand's performance compared to measures like share or price premium because the former considers both movements in price and volume. A brand's revenue premium is appropriate as a market outcome measure of brand equity because it measures the brand's performance relative to a competing reference brand. The measures based on outcomes (e.g., revenue premium) are therefore argued as preferred.

Role of Firms' Branding Strategy

A firm's branding strategy can be inferred by the way it names its brands; it may not be deliberate. Therefore, it is fair to say that a firm's manifest branding strategy can be divided into three types: Corporate Branding, or a House of Brands or Mixed Branding. A corporate branding strategy implies that the firm's name is used in all its products; an example is Lexus's or Toyota's branding strategy. A house of brands strategy implies that the firm's products all have unique names; a classic example is Procter & Gamble (before its acquisition of Gillette) and a current example is Bristol-Myers Squib. A mixed branding strategy implies that the firm uses corporate branding in some categories and house of brands strategy in other categories. An example of this mixed branding is the Gap with the Gap, Banana Republic, and Old Navy brands. There is some evidence to suggest that corporate branding strategy can lead to higher financial performance. The point here is that any measurement of brand equity may need to be conditioned on its specific branding strategy.

A Model for Revenue Premium

We thus model revenue premium as a market outcome measure of brand equity, within a game-theoretic framework of competition. (By this we mean that a firm is not operating by itself but in a competitive world.) For understanding how the revenue premium is obtained, we need to consider a model for the utility a consumer derives from a brand and dynamics for it.

A Utility Model for a Consumer Purchasing a Brand

This model postulates that a consumer derives utility from a brand due to the observed characteristics of the brand relative to its competing brands; these are brand's price and its physical attributes. There is a component in the utility which may be labelled as brand equity. The observed characteristics can be thought of as measures of a consumer's mindset, and some attributes can't be observed but do affect the consumer's utility. The consumer-based brand equity in any period is determined in part by the firm's marketing actions in the current period and the consumer's prior perceptions and knowledge of the brand.

Consumer's Utility to Sales

The premise is that consumers purchase brands that offer the highest utility relative to other brands. Thus, one can conceptually relate consumer's utility to brand sales in any period. This leads to revenue premium.

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Appendix B: Financial Value of Brands Measurement Provider Summaries

Brand Finance

Overview – What Makes Our Services Distinct

Brand Finance is a specialist consultancy dedicated to the better understanding of marketing finances, offering a highly professional approach to marketing accountability and brand evaluation. Brand Finance has developed transparent and accessible brand evaluation and brand valuation methodologies grounded in marketing and investment practice. We have been central to setting the standards for both the ISO 10668: Brand Valuation and ISO 20671: Brand Evaluation. We are the only brand valuation practice in the IVSC and have had our methodology certified through the MASB Marketing Measurement Audit Protocol (MMAP).

For more than 20 years, we have helped companies connect their brands to the bottom line, building robust business cases for brand decisions, strategies, and investments. In so doing, we have helped finance people to evaluate marketing programs and marketing people to present their case in the Board Room.

In 2004, we established the Brand Finance Institute, which runs seminars and lectures to promote best practice on brand valuation and evaluation. Brand Finance Forums are also organized worldwide each year as a knowledge-sharing platform and showcase best practices for clients.

Every year Brand Finance values over 5,000 brands – across all sectors and geographies. The results are tabulated and published in the media, with partners such as The Banker, to raise awareness of brands as valuable business assets that must be managed and invested in. Other Brand Finance studies include the Global Soft Power Index, Nation Brands 100, the Football 50, and the Global Intangible Finance Tracker (GIFT).

Our clients include global B2B and B2C businesses, governments, and boutique clients such as private equity firms, sports franchises, and city and national brands. Among recent clients in the United States are the largest brands in the financial, technology, and energy sectors, to name a few.

Method

Brand Finance usually calculates brand value using the Royalty Relief methodology, which determines the value a company would be willing to pay to license its brand as if it did not own it. This approach involves estimating the future revenue attributable to a brand and calculating a royalty rate that would be charged for the use of the brand.

Why the Royalty Relief Approach?

- It is favored by tax authorities and the courts because it calculates brand values by reference to documented third-party transactions.
- It can be done based on publicly available financial information.
- It is compliant with the requirement under the International Valuation Standards Authority and ISO 10668 to determine the fair market value of brands.

Key Input Measures

The inputs and processes are as follows:

1. Calculate brand strength using a balanced scorecard of metrics assessing Marketing Investment, Stakeholder Equity and Business Performance. Expressed as Brand Strength Index (BSI) score of 0-100.
2. Determine the royalty range for each industry, reflecting the importance of brand to purchasing decisions. In luxury, the maximum percentage is high, in the extractive industry, where goods are often commoditized, it is lower. This is done by reviewing comparable licensing agreements sourced from Brand Finance's extensive database.
3. Calculate the royalty rate. The BSI score is applied to the royalty range to arrive at a royalty rate
4. Determine brand-specific revenues by estimating a proportion of parent company revenues attributable to a brand.
5. Determine forecast revenues using a function of historic revenues, equity analyst forecasts, and economic growth rates.
6. Apply the royalty rate to the forecast revenues to derive brand revenues.
7. Brand revenues are discounted post-tax to a net present value, which equals the brand value.

Key Outputs

Brand Finance's brand valuation provide a complete breakdown of the assumptions, data sources, and calculations used to arrive at the client's brand's value. Each report includes:

- expert recommendations for growing brand value to drive business performance and a detailed understanding of our client's position against competitors.
- A breakdown of how the brand performed on various metrics of brand strength, benchmarked against competitor brands in a balanced scorecard framework.
- An analysis of competitor royalty rates, industry royalty rate ranges, and margin analysis used to determine brand specific royalty rate.
- A breakdown of the cost of capital calculation, including risk-free rates, brand debt risk premiums, and the cost of equity through CAPM.

Typical Timing / Cost: A customized brand value report usually takes 10 to 14 days to produce. A bespoke brand valuation may take four to six weeks to develop—pricing for both on request.

Geographic Coverage: Brand Finance is headquartered in London and present in over 20 countries, including the United States, Europe, Asia, and Latin America.

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BrandZ (Kantar)

Overview – What Makes Our Services Distinct

BrandZ is one of the largest brand equity and brand value systems in the world, recognized by the Financial Times, Bloomberg, and many others for its rigor, accuracy, and reliability. The BrandZ system has continuing coverage of many of the world's leading brands since 1998, with the Global Top 100 ranking published each year since 2006. BrandZ is an exclusive brand data input for Bloomberg, with many brand valuations available on the Bloomberg platform. The BrandZ system drives Kantar's approach to custom brand valuations. All valuations are benchmarkable to BrandZ and generally are eligible for inclusion in the BrandZ rankings.

Kantar's approach to brand valuation combines rigorous financial analysis with empirically validated brand equity analytics based on actual business performance and customer/consumer perceptions. Brand Contribution, a proven and proprietary measure of how brand equity generates value through customer decision making, is calculated uniquely for each brand. This connects brand equity to in-market volume and value and enables an in-depth understanding of the key factors that drive brand value.

The approach is well-suited for virtually all business contexts (i.e., B2B, B2C, B2B2C, etc.) and the underlying brand equity model has been validated to in-market sales in these same contexts. The results are actionable in a range of strategic and commercial applications, including brand-driven growth strategy, licensing and partnership strategy, brand value benchmarking, brand guidance, brand-building ROI, investment allocation, innovation, and market entry / expansion strategy.

Kantar has considerable experiencing conducting brand valuations for brands with "unconventional" business structures, and isolating the value contribution of multi-brand portfolios, and brands operating across numerous markets or customer groups.

Our approach to brand valuation has delivered valuable insights to many clients, driving external growth strategy, unlocking latent brand value, providing a valuable benchmark for future value growth, and inspiring internal audiences around the value and importance of a key business asset to ensure proper investment in continuing to build powerful and purposeful brands.

Method

Income approach leveraging total enterprise value and branded intangible value, with brand value calculated based on brand contribution to value generated from intangible assets (impact of long-term brand equity on customer and consumer decision-making).

Key Input Measures

- Financial statements (income statement, balance sheet, statement of cash flows) preferred
- Brand attribution (proportion of value attributable to branded operations)
- Enterprise value (calculated based on peer multiples and/or discounted future cash flows – specific inputs vary based on valuation approach)
- Brand Contribution (survey-based: role of brand equity in value generation through consumer / customer decision making, based on validated brand equity analytics)

Key Outputs

- Total brand value
- Brand value as proportion of total business value
- Disaggregation of brand value by component drivers
- Competitive posture on key value metrics and growth "headroom"
- Future brand-driven value growth simulator

Typical Timing / Cost

~3-4 weeks for diagnostic valuation, starts at ~$50K

~12-14 weeks+ for multi-market / complex valuations and brand value growth strategy engagements, starts at ~$150K

Geographical Coverage

Global. BrandZ also available in 500+ categories, 50+ markets, covering over 17,000 brand measurements.

Contact Information

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Interbrand

Overview – What Makes Our Services Distinct

Interbrand's brand valuation approach seeks to provide a rich and insightful analysis of your brand, providing a clear picture of how your brand is contributing to business growth today, together with a road map of activities to ensure that it is delivering even further growth tomorrow.

Having pioneered brand valuation in 1988, we have a deep understanding of the impact a strong brand has on key stakeholder groups that influence the growth of your business, namely (current and prospective) customers, employees, and investors. Strong brands influence customer choice and create loyalty; attract, retain, and motivate talent; and lower the cost of financing. Our brand valuation methodology has been specifically designed to take all these factors into account.

Interbrand was the first company to have its methodology certified as compliant with the requirements of ISO 10668 (requirements for monetary brand valuation) and played a key role in the development of the standard itself. There are three key components to our valuations: an analysis of the financial performance of the branded products or services, the role the brand plays in purchase decisions, and the brand's competitive strength.

Interbrand has produced the *Best Global Brands* report on an annual basis for over 20 years using the methodology described to identify the most valuable brands in the world as well as key trends and insights.

Method

Income-based valuation isolating the portion of future company financial performance attributed to ownership and use of the brand. First company certified as compliant with brand valuation standard ISO 10668.

Key Input Measures

Financial figures allowing for five-year economic profit forecasts as well as information and data relating to the strength of the brand and the role it plays in customer decisions.

Key Outputs

- Net present value of the future contribution the brand will make to financial performance as well as diagnostic analyses indicating how and why the brand creates this value.
- Roadmap for Brand Value optimization

Typical Timing/Cost

Various, depending on breadth, depth, and segmentation considerations. $100,000 - $600,000.

Typically 4 - 12 weeks

Geographical Coverage

Global

Contact Information

www.interbrand.com/contact/

Ogilvy Consulting

Overview – What Makes Our Services Distinct

At Ogilvy Consulting, we believe in the power of brand, customer experience, data, and technology to transform businesses, and drive growth. In an era of great fragmentation, brands are the connective tissue for complex organizations and global economies. Strong customer-centric brands are proven to increase shareholder value and to drive market share, revenues, and profits — futureproofing business performance. The following is what makes our approach unique:

- Financially accredited - The underlying valuation model is similar to that used by financial analysts and accountants and is based on accepted methodologies for valuing intangibles. Conforms to U.S. GAAP and IFRS accounting standards, meets SEC and IRS requirements.
- Robust - We apply quantitative market research and statistical techniques to determine the role of brand and use a data-driven brand equity model to benchmark competitive brand strength and to establish the brand risk rate. Our financial modeling approach uses business segment level profitability based on the company's numbers, rather than standard industry assumptions.

- Customized - Every valuation is customized to the company's individual needs, rather than relying on generic high-level industry data. Each is designed to answer specific brand and business questions.
- Actionable - Our approach does not just give you a number. It looks inside the business to identify the levers through which brand value is created and the opportunities to grow the value of the brand and business. Our brand valuation methodology is designed to inform a wide number of brand decisions, in addition to providing a meaningful brand measurement.
- B2B and B2C - Our experience is that brand (which equals reputation) is equally important in driving financial value in B2B as in consumer businesses. Our work in brand valuation covers both B2B and B2C (and every variant in between).
- Links to share price - While our valuation approach is business oriented, we can link it back to share price to assess potential shareholder value growth obtainable by building a successful brand.
- Scenario modeling - Ogilvy has strong dynamic modeling capabilities, to measure the impact of different brand strategies, and brand and marketing investment options on shareholder value.
- Depth of expertise - Our team has personally conducted brand valuations for virtually all industries and geographies, for purposes ranging from brand strategy and brand management, brand and marketing ROI, and budget allocation to external and internal licensing, co-branding, M&A, and litigation support.

Method

We employ an economic use approach which is based on widely accepted principles for valuing intangibles. Underlying the brand valuation is a financial valuation of the business which carries the brand. First, future cash flows or earnings are forecasted. A portion of these earnings is then attributed to brand, using statistical analysis of quantitative market research to derive the key drivers of demand, and determine how brand contributes to these drivers of demand. These brand-created cash flows are then discounted back to a present value based on a risk factor of the brand's durability.

Key Input Measures

Our brand valuation approach is based on quantitative rigor and strategic insight. It combines data from multiple sources to provide an actionable quantification of brand value.

- Financial data: P&L data such as revenues, profits, working capital, depreciation, split by brand and business segment, historical and projections, as well as valuation parameters such as company beta, terminal growth rate, cost of capital, etc.
- Customer data: Quantitative and qualitative market research data on customers or consumers, including brand equity, brand performance, decision drivers
- Competitor data: Quantitative data on competitive strength, such as market share, growth, geographical spread, product segments, satisfaction, social media presence, marketing investment, etc.

Key Outputs

Ogilvy Consulting's approach to brand valuation is designed to provide more than just a number. It is designed to become the foundation of brand and marketing decisions, enhancing the effectiveness of strategies, driving greater business growth, and pushing share prices upwards.

The approach can be applied to answer a number of strategic questions, such as:

- Determining brand value
- Getting marketing budget approval
- Allocating marketing budgets
- Assessing the brand
- Benchmarking the brand
- Positioning or repositioning the brand
- Optimizing the brand architecture and portfolio
- Growing the brand
- Optimizing brand during a M&A
- Tracking the brand's performance

Typical Timing / Cost

~3-4 weeks for model design, starts at ~$50K

~8-12 weeks+ for brand valuation across multiple segments and geographies, starts at ~$150K

Geographical Coverage

Ogilvy is a global network, with 3000+ consultants in 126 countries giving us the ability to conduct brand valuations spanning the coverage of our clients. We have conducted brand valuations for companies large and small across six continents, for many different types of companies, including publicly traded, privately owned, not-for-profits, PE and VC funded, and start-ups.

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Presciant

Overview- What Makes Our Services Distinct

A recent survey conducted by MASB in partnership with the ANA demonstrates that while most companies measure their brands in some ways (either through traditional brand health tracking studies or measurement of sentiment on social media), the use of brand valuation as a business tool is extremely limited. Many companies that have tried brand valuation have found it complicated, time-consuming, and costly to conduct and have struggled to find useful practical applications for it.

MASB believes that brand valuation can be a powerful tool for companies. It has two main potential uses:

- To drive cultural change - brand valuation can promote broader understanding of the importance of brand and marketing across the organization by demonstrating the financial value added by brand.
- To improve the effectiveness of brand & marketing strategy - Brand valuation can be used as a diagnostic tool to identify opportunities to leverage brand to generate incremental revenues, profit, and financial value for the company.

We have identified three different methodologies which companies can apply to pilot brand valuation and assess its potential advantages, within a relatively short timeframe and at a reasonable cost. These are Economic Use, Price Premium and Customer Equity. Which works best for you will depend on your methodology preferences, data availability, and business situation.

Typical Timing/Cost

In each case, the cost of a simple pilot valuation at a single market or overall global level will be around $75,000 and timing 4-6 weeks. The decision on whether or not there is a need for a more complex brand valuation at the product/service, customer segment and market by market level can be taken at a later stage. The steps involved are outlined below for each of the three approaches.

1. Economic Use

Overview

A widely used approach to brand valuation, based on standard business and intangible valuation practices.

Method

Underlying the brand valuation is a financial valuation of the business which carries the brand. This can use whatever valuation method the company prefers, whether it is DCF, economic profit, SVA or other. First, future cash flows or earnings are forecasted. A portion of these cash flows or earnings is then attributed to brand, based on an assessment of the role that brand plays in driving the customer purchase decision. These brand-created cash flows or earnings are then discounted back to a present value, through the application of the company's weighted average cost of capital (WACC), and in some instances, an additional risk factor of based on benchmarking the brand's competitive position.

Key Input Measures

<u>Financial data</u>

- Income statement, balance sheet, statement of cash flows
- Preferably 3-year historical and 3–5-year forecasts/growth rates
- Company beta, terminal growth rate, cost of capital

<u>Brand data</u>

- Any available brand and customer related market research (e.g., brand health tracking and customer satisfaction studies)

- Can be augmented using data from 3rd party databases or a quick customized survey if needed

Competitive data

- Relative data on market position (e.g., market share, revenues, growth rates, marketing spend)
- Relative data on brand equity (e.g., awareness, preference, brand perceptions, sentiment)

Key Outputs

- Financial value of the brand - a dollar number
- Brand contribution - role of brand in driving the customer's purchase decision (% score)
- Brand competitive position - performance on key metrics
- Diagnostic of brand strengths, weaknesses, and opportunities

Pros

- Uses readily available financial statements
- Fits with the way finance looks at the business
- Similar to generally accepted principles for valuing intangibles such as IP/technology
- Diagnostic capabilities can be used to identify how to leverage brand better to grow the financial value of the business

Cons

- Market research data for calculating the brand contribution to purchase data may not be readily available, and the percentage may have to be estimated (unreliable) or new research conducted (incremental time and budget required)
- Measures the impact of brand on sales only (volume premium) does not examine the power of a brand to drive a price premium (margin premium)
- Does not differentiate between different types of customer (e.g., brand advocates and loyalists vs. infrequent or price driven customers)

2. Price Premium

Overview

The original brand valuation concept, based on measuring the incremental value generated by customers' willingness to pay a higher price for products due to their preference for their brand.

Method

The brand valuation is based on a comparison of the price the company is able to charge for branded products with other competitor products or an industry average. Initially, the comparison was made with

unbranded or generic products, but defining this proved problematic and a move was made to a benchmark methodology.

Brand value is determined by multiplying the incremental profits derived from the premium the brand is able to obtain, by the sales volume (either historic and/or forecasted). The resulting brand-related earnings can then be discounted back using standard approaches.

Key Input Measures

Financial data

- Historic/forecasted margins and sales volumes
- Company beta, terminal growth rate, cost of capital

End-customer price data

- The average price paid by end-customers for the company's products

Benchmark data

- Industry average or competitor benchmark prices for similar products
- If available, competitor sales volumes at the end-customer level (e.g., Nielsen data)

Key Outputs

- Financial value of the brand : a dollar number
- Brand margin premium: incremental profits driven by the brand vs. competitors
- Brand volume premium: If competitor sales data is included, a comparison of the brand's success in driving a volume premium vs. competitors
- Diagnostic of the effectiveness of the price/volume equation used by the company and opportunities for increasing total value generated

Pros

- Captures a key aspect of a brand – the fact that people are prepared to pay more for products simply because they carry a particular brand
- A universally understood methodology
- Can provide guidance into price/volume strategies

Cons

- Quantifies the brand value created at the end-user level, which is only the same as the value generated for the brand owner if the products are sold direct. If the company sells through third party distribution channels which also take a margin and set pricing (e.g., retailers, car dealers), the value to the brand owner can be difficult to calculate
- Does not focus on the brand's ability to drive purchase (the volume premium). This is a particular issue when brands deliberately select a strategy of sacrificing margin premium in favor of volume premium and economies of scale (e.g., Walmart)
- Competitive pricing and sales data many not be easily available.

3. Customer Franchise

Overview

A newer approach to brand valuation, based on measuring the lifetime value of the brand's customers

Method

This method is based on established Customer Lifetime Value approaches, taken a step further, borrowing from corporate valuation and brand valuation methodologies. The value of the business is arrived at by calculating the future value of existing customers (customer retention) and new customers (customer acquisition) and combining the two. The value of the brand is determined by fusing behavioral and attitudinal data. The behavioral data is used to identify the proportion of value driven by high value customers, those who are retained longest and who spend the most. Attitudinal data is applied to quantify the role that brand affinity plays in impacting the behavior of high value customers versus other factors which influence retention and spend levels.

Key Input Measures

Customer retention data

- Number of existing customers (customers who have been with the business for over 12 months
- Revenue per existing customer
- Cost of retaining existing customers
- Retention rates

Customer acquisition data

- Number of new customers (customers acquired within the last 12 months)
- Revenue per new customer
- Cost of acquiring new customers
- Expected customer retention rates

Customer transaction data

- How frequently customers buy from the company
- Customer spend per purchase (basket size)

Brand affinity data

- Willingness to recommend (NPS scores)
- Brand health tracking surveys
- Norms, e.g. from the BrandZ, BAV and other brand databases

Key Outputs

- Total financial value of the brand's customer franchise
- Proportion of business value derived from high value customers
- Financial value of the brand
- Diagnostic of opportunities to increase the number of high value customers
- Diagnostic of opportunities to increase the role of brand in creating high value customers
- Directional recommendations on where to focus marketing investment

Pros

- Customer-centric - valuation starts bottom-up from the customer
- Provides understanding of customer behaviors
- Measures both volume premium and margin premium for the company
- Has the potential to identify concrete actions to grow value - both brand related and broader
- Some companies have done CLV exercises which can be leveraged

Cons

- The Finance function may have difficulties accepting it
- May be difficult to obtain the right customer data
- May be difficult to obtain attitudinal data split by customer segment
- Doesn't measure full impact of brand. Equates brand with high value (retained) customers, but doesn't consider value brand generates by creating awareness/attracting new customers

Contact Information

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Appendix C

Select Terms from the Common Language Marketing Dictionary marketing-dictionary.org

Brand Evaluation

Brand evaluation refers to the measurement of the value of a brand using relevant indicators that assess the impact of the brand on customers/users. Brand evaluation includes both monetary considerations (i.e., the Financial Value of the Brand) and non-monetary considerations (i.e., brand strength and brand equity). Brand evaluation and brand valuation are related concepts and synergistic with each other. Brand valuation is narrower and includes only monetary considerations. While brand valuation is defined from the brand-owning entity's point of view, brand evaluation is defined from the perspective of all stakeholders.

Brand Preference

One of the indicators of the strength of a brand in the hearts and minds of customers, brand preference or brand choice (BP/C) represents which branded product is preferred under specified conditions of price and availability. Measures of brand preference attempt to quantify the impact of marketing activities in the hearts and minds of customers and potential customers. Higher brand preference usually indicates more revenues (sales) and profit, also making it an indicator of company financial performance. Brand preference is used in many marketing applications including copy testing, brand lift and brand valuation. There are at least three classes of methodologies to measure brand preference:

- Brand choice measures – veiled choice of preferred brand from a competitive set of brands
- Survey questions – unveiled self-report of preferred brand
- Constant sum measures – planned purchases among a competitive set of brands

Discount Rate

The discount rate is the interest rate used in discounted cash flow (DCF) analysis to determine the present value of future cash flows. The discount rate takes into account not just the time value of money, but also the risk or uncertainty of future cash flows; the greater the uncertainty of future cash flows, the higher the discount rate. Spreadsheets make it easy to calculate the appropriate discount factors.

Typically the discount rate is decided at the corporate level and has the dual purpose of compensating for both the time value of money and the risk inherent in the activity. A general principle to employ is that the riskier the project, the greater the discount rate to use.

Financial Value of Brand (FVB)

The financial value of a brand (FVB) refers to an assessment of a brand's total monetary worth at a given moment in time. Unlike brand equity, it is only expressed in monetary terms. The method chosen for the financial value calculation or estimate depends on whether the purpose of the valuation is to:

- acquire the brand
- sell the brand

- lease the use of the brand, or
- attribute its contribution to monetary returns

The most popular monetary brand valuation methods are the cost approach, market approach and income approach.

ISO 10688 Brand Valuation

ISO 10688 is an international standard which specifies a framework for monetary brand valuation, including objectives, bases of valuation, approaches to valuation, methods of valuation and sourcing of quality data and assumptions. It also specifies methods for reporting the results of such valuation.

ISO 20671 Brand Evaluation

Published by the International Organization for Standardization (ISO), ISO 20671 is an international standard which puts forth a rigorous framework and set of principles for conducting systematic brand evaluations. Because brands are too often treated as incidental business expenses, the new standard calls for brands to be proactively managed and measured at least annually "to increase entity value as established by improvements in brand strength and brand performance and ultimately indicators of financial results." The standard applies to both internal and external brand evaluations, including those done by analysts, investors, and lenders.

ISO 20671 is sometimes referred to as marketing's 'Golden Ticket' as it is used by marketing professionals to explain the contribution of branding to enterprise value, thereby opening dialog with corporate leadership.

Net present value (NPV)

Measures the value of a stream of future cash flows after accounting for the time value of money. Along with *payback* and *internal rate of return*, it is one of three metrics commonly used to evaluate return on investment over multiple periods. Its purpose is to summarize the value of cash flows over multiple periods. NPV accounts for the fact that on a per-dollar basis, cash flows received in the future are less valuable than cash in hand.

Net present value ($) = The present (discounted) value of future cash inflows minus the present value of the investment and any associated future cash outflows.

Optionality (Real Options)

Optionality is the availability of further opportunities only after an initial investment has been made. In marketing, optionality refers to opportunities to leverage investments in a marketing asset, such as brand name, customer franchise, or distribution network.

Optionality is also known as "real options" and is one form of marketing leverage. In the case of a brand, it is the use of the brand name beyond the initial covered products through a line or brand extension. The goal is to use the existing brand's awareness, associations, and preference to enable the newly branded product to penetrate the market more quickly and for less cost than through development of its own stand-alone brand.

Appendix D

FINANCIAL VALUE OF BRANDS PROCESS

1

Gain executive buy-in

C-suite interest in FVB should be high, but commitment must be both high *and* enduring, especially from the CMO and CFO.

Senior executives reporting to the CMO and CFO will also be critical to successful implementation.

2

Expert identification of methodology

Identify the valuation approach and provider that is right for your company and brands. As a starting point, MASB has compiled summaries from the leading FVB measurement providers. Collectively, these providers have broad experience spanning all types of categories, geographies, and branding strategies.

MASB also offers a pilot program to assist in obtaining an initial valuation, the results of which are verified by MASB experts, and plotting a path forward for continuing evaluations. To participate in this pilot, please email **info@themasb.org**.

3

Focus on reasonable and consistent goals for accuracy and analyzing trends

It is more important to understand major trend changes in FVB over time than it is to have 'to-the-dollar' accurate point-in-time estimates.

Use bridge charts to uncover the drivers of change. The five financial value drivers of marketing – **volume, price, mix, cost** and **optionality** – reveal the connectivity from successful marketing activities to brand preference, leading to profitable growth, increased cash flows and higher enterprise value.

4

Incorporate FVB Calculation into Marketing Return Assessment Process (ROMI, ROI, CIR)

Use the trends and relationships to uncover opportunities and guide marketing investments. Ideally, such a comprehensive approach will be institutionalized in the annual marketing resource allocation process to support investment decisions.