

Brand valuation: An ROI measurement tool

Introduction

Advertising agencies struggle. They struggle to prove their worth for the limited resource marketing directors have at their disposal. Marketing directors too, are demanding more transparency and are being expected to prove the effectiveness of their advertising spend to the holders of the purse strings. The advertising community has dually responded by compiling an arsenal of techniques designed to justify advertising spend and the resource invested in their skills. Some of these techniques are spurious bamboozlements, some of which work. None of which, however, address one critical factor: how to quantify advertising's contribution to brand and business value.

With the trend for transparency of cost and the move from the commission based system, remuneration conversations are often focussed on some of these techniques. Forecasting and monitoring the effect advertising has on business and brand value can contribute significantly to this area. Because advertising's effect continues to add value years after the campaign has run – think Apple's 1984 and the 'Guinness is good for you' posters – the brand's future earnings, that the current or planned campaign is contributing to, deserve recognition.

Soft measures such as awareness or brand preference levels and hard measures such as sales uplifts or market share analysis are useful indicators of success. However, when looked at in isolation it is difficult to assess their significance. All these measures are used when valuing a brand and the valuation process puts an actual figure on the result and its component parts. This demonstrates in financial terms the long-term value of advertising investment and would consequently be a useful platform from which to talk intelligently about remuneration.

From the marketing director's point of view, having a robust figure of how much the advertising is likely to effect the brand's value is useful ammunition when talking to the finance director or CEO about soliciting and justifying budget – they will be talking the same language.

What is brand valuation?

Brand valuation calculates future earnings attributable to a brand over its expected life, discounted to its present day value. It assumes that the brand owner doesn't own the brand and but pays for its use, like under a licensing contract. In this way, the true commercial value of the brand is measured. This approach is called the relief from royalty method and is the most commonly used technique.

Advertising agencies need to consider a number of factors to calculate brand value. These are represented on a Brand Metrics Scorecards (see 'Brand Scorecard') and fall under two umbrella terms, Consumer Metrics and Market Metrics which then feed into the Value Metrics scorecard. Any number of factors can be added under these headings and weighted according to their importance or relevancy.



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Consumer Metrics, for example, can include customer satisfaction, brand preference, quality perceptions, value for money and good service. Market Metrics can include share of market, share of voice and growth statistics. The financial analysis in the Value Metrics scorecard includes a profitability analysis, sales and margin analysis which is linked to the consumer and market metrics to calculate the total brand value. companies largely meaningless.

Brand Scorecard

Consumer Metrics*	Target	YTD
Customer Satisfaction	63%	66%
Brand Preference	48%	54%
Quality Perception	73%	82%
Value for Money	58%	61%
Good service	54%	59%

Market Metrics	Target	YTD
Market Share	14%	15%
Sales Growth	1.2%	2.9%
Customer Number Growth	2.3%	2.4%
Sector Growth	1.0%	2.0%
Share of Voice	18%	21%

Value Metrics	Target	YTD
Sales Volume	1,200	1,300
Sales Value	10,000	12,000
Gross Margin	600	750
Brand Contribution	400	550
Operating Profit	100	150
Brand Value	200m	210m
Mkt Invest : Brand Value	1:33	1:29

Most of the information that is needed to build a useful valuation model is already in existence internally, in the public domain or held by the client. This means there is little need for additional resource for its maintenance. It can be carried out by the agency itself, the client or it can be built and managed by an independent brand valuation consultancy. As well as assisting with remuneration, brand valuation is a useful technique for advertising agencies to use in two scenarios: in pitches and in on-going brand management.

Using brand valuation to win pitches

Pitching is probably the biggest expense of any advertising agency. It ties up considerable resource and can be a total waste of time if the pitch is lost. One way to improve the chance of successes is to give the client what they want. This doesn't necessarily mean a sales uplift, or awareness increase or a larger share of voice than a competitor but it means a demonstration of how much money the sum of all these metrics has contributed to the overall value of the brand and business. And if a brand valuation model is constructed to track the value of the brand over time – and consequently the contribution of advertising to this value - then this can form the basis of an intelligent remuneration discussion based on actual return on investment.

Agency appointment decisions are not made solely by the marketing director. They are frequently made in consultation with the finance director and CEO. Proposing a brand valuation model will necessitate involvement from the finance director. This would be an effective route for getting buy-in from senior management and the pitch which identifies advertising's contribution to the brand's bottom line for the expected life of the brand is likely to stand out – it is a significant differentiator. Valuing brands necessitates projective techniques which can assist in resource allocation decision making, as the following example illustrates.

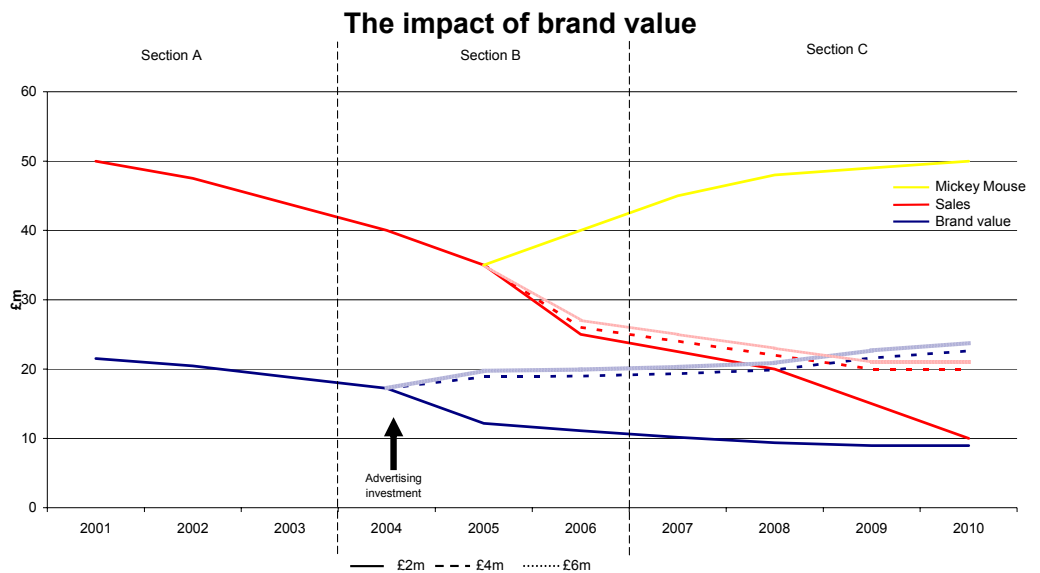


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Example use of brand valuation technique

The UK tea market has been in a gradual decline over the past five years, falling 12% between 1999 and 2004 from £707m to £623m respectively, according to Mintel research. The tea market has traditionally been dominated by standard tea bags but sales of these, the traditional staple of the British diet, have been falling faster still, at 16%.

In early 2004, a major tea brand manufacturer identified that sales of one of its brands of traditional tea was in decline, despite a yearly advertising investment of £2m. It needed to decide whether it was worth investing to reverse the trend or harvest the brand to free up capital to invest in new product lines and growth areas such as fruit and herbal infusions. It approached a number of agencies and was given two different responses. These responses can be seen on 'The impact of brand value' chart. The chart shows the pitch given by the second agency which uses a brand valuation technique and the chart also includes the sales forecast from the Mickey Mouse agency.



Most pitches included some form of ROI analysis. However, they largely ignored the sales history (Section A) and the sales forecast (Section C) which was based heavily on market trend data - which was also largely ignored. Because most agencies focused on the recent past and the near future (Section B) a reverse in fortunes was anticipated if the marketing investment increased. When looked at in isolation this seems plausible but when the whole spectrum is considered, this Mickey Mouse method looks ridiculous.



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One agency used a brand valuation model to forecast sales and brand value and presented the client with two options neither of which, however, would reverse sales. Firstly, an additional annual investment of £4m was projected to create an additional £19m of sales over five years – at a profit of £8m. Although investing an extra £6m a year was forecast to increase sales to £152m over the period, this would bring no extra profit at all as it would be consumed by the costs. (See Figure 1). When the sales forecasts are looked at there hardly seems much point in investing in the brand as there is only a potential £8m profit available, but this is when the brand valuation model was introduced.

If advertising investment remained a constant £2m each year the brand value would continue to decline from £17m in 2004 to £9m in 2010. However, with an investment of £4m a year this asset reverses its decline and increases in value to £23m. This increase is largely due to the tea brand increasing its market share and as a result the brand growing stronger. With an advertising spend of £6m a year the brand increases in value to £24m. The decision about how much to invest in advertising, if at all, is now made simple as the extra benefit from investing £4m a year is £22m. On top of this, with the increases in brand value, opportunities are created for brand extensions, entry into new markets and sectors as well as the business increasing in value which has its own benefits.

Figure 1

2005 - 2010 £m	Advertising Investment of...		
	£2m	£4m	£6m
Sales	128	147	152
Advertising investment	12	24	36
Profit	116	123	116
Extra profit	0	8	0
Brand value (2010)	9	23	24
Extra brand value (2010)	0	14	15
Total Extra Benefit	0	22	15

So, not only was the pitch different from all the others by giving a realistic position, it suggested a lower rate of investment and identified the benefits this would add to the brand and business as a whole. This is why it was the preferred pitch. Remuneration discussions could then take place based not only on the additional profit from the sales increase of £8m but also on the additional brand value the campaign would create – an accumulative difference of £61m over the five years.

Because of the contribution of the brand valuation model the tea brand is able to manage the inevitable decline in sales through advertising investment and sustain the brand. This enables the business to invest in new innovations such as fruit and herbal teas, ice tea and other tea variants that are experiencing growth. Also, the client marketing director had more ammunition to defend the increased advertising spend and was able to demonstrate the benefits of the increased brand and business value to the board. This in turn initiated remuneration discussions based on actual performance of the advertising campaign and the benefit it was forecast to bring to the business as a whole.



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Building a Brand Value Tracker

To monitor the projected effect of advertising on brand value it is necessary to update the model on an on-going basis, say every quarter. As well as serving as a technique to monitor activity that effects the brand, there are a number of additional benefits such as helping to actually get things done, facilitating brand management and it can support internal and external communication. The inputs are bespoke to each brand but fall under the headings as shown in the Brand Scorecard; consumer, market and value metrics. Remuneration can then be carried out using the most up-to-date information on how much the campaign has contributed to brand value and how much it is forecast to contribute to brand and business value in the future.

Building a brand value tracker enables agencies to identify where value is being created or lost. For example, if an agency was pitching to do the advertising, PR and the customer acquisition programme for one brand, all three components could be included in the brand value tracker so the added value could be identified individually as well as collectively. It also enables the client marketing director to identify which areas of the marketing plan need additional resource to maintain and grow brand value.

Competitor activity, market trends, sales figures, share of market and all other KPIs (Key Performance Indicators) of a brand value tracker can be constructed and managed separately. However, there are two main benefits of combining them. Firstly, it enables all these complex components to be visible on one manageable page and secondly it positions all the KPIs in relation to the overall value of the business and highlights the relationships between them. This enables resource allocation decisions to be made on a more informed basis and enables advertising agencies to react quickly to competitor or market activity – by anticipating future activity.

Brand valuation does have certain limitations. Like a lot of things, it is only as good as the data that is put in. Its strengths lie in its robust ability to withstand financial scrutiny and its usefulness in condensing brand value management to a digestible format.

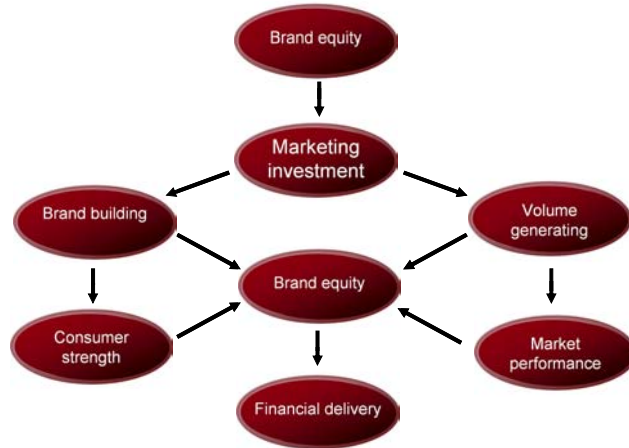
A brand value tracker will also help the agency identify if the brand has more latent equity than the organization is able to convert to value through sales. If this is the case then there is an opportunity for the agency to propose new strategies to release the brand equity. This can be illustrated through an example of a digital camera manufacturer which wanted to monitor advertising's effect and its relationship to brand equity.

Advertising investment served two roles for this brand. It generated sales volume and strengthened the brand. The sales volume improved market performance and the brand building strengthened the brand in the eyes of the consumer. All four elements contributed to the brand equity which was converted into profit by feeding back into product innovation and consequently marketing investment. (See 'Brand Equity Investment Balance')



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Brand Equity Investment Balance



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Determining the relationship between the contributors of brand equity, as well as the size of contribution, facilitates effective brand management. It also demonstrates the total value that advertising adds to the business as a whole.

Conclusion

Brand valuation is an effective way to project and identify value generated by marketing or advertising investment. Advertising adds value both in the short-term through sales uplifts – or whatever the initial objective is – and long-term by increasing the equity in the brand. As well as helping advertising agencies win pitches, recognising this value is critical if an agency's work is to be appreciated and rewarded fully. Monitoring brand value on an on-going basis will enable both agency and client to react to fluctuations in the market, assigning resource to the areas that are identified as needing attention.

Using brand valuation techniques will not produce a magic number for the agency to be paid but it will facilitate intelligent remunerations discussions based on the actual benefit the agency has added and will add to the value of the business and brand. It may just be another tool in the armoury to prove advertising's effectiveness but with the increasing demand for financial accountability, it may just be the right one.

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