FACT SHEET

Brand valuation…

…is putting a useful financial amount to an intangible asset, be this a brand, copyright, patent or intellectual property. Essentially, it is the amount a company would be prepared to pay for its brand if it didn't already own it.

…started in 1988 when Ranks Hovis McDougall valued its portfolio of brands at £678m in defence against a takeover bid from Goodman Fielder Wattie, and included this value in its accounts.

…is needed because increasing amounts of a company's value is comprised of intangible assets which need to be recognised: 70% of Disney, 85% of Heinz, 98% of Microsoft.

…is done by two main types of companies: accountancy firms, which approach brand valuation from a financial perspective, largely ignoring consumers and market analysis, and specialist consultancies. These use the duel approach of marketing knowledge and financial rigour to value brands – this is generally considered the most robust approach.

…methodologies have pretty much consolidated in the 'Relief from royalty' approach:

1. Customer insight: what do customers think of your brand in relation to your competitors?
Ingredients: number of customers; brand awareness, favourability, familiarity and relevancy analysis; brand strength and brand loyalty.

2. Market analysis: how does your brand fit into the market?
Ingredients: market size and opportunity; distribution capability; market share; competitive threats; brand positioning analysis; channel evaluation; and brand premium determination.

3. Royalty rate analysis: how much would you be willing to pay for the use of your brand if you didn't already own it?
Ingredients: comparable royalty rates; value chain analysis; license suitability

4. Financial performance: how profitable is the company?
Ingredients: regional and sector analysis; profitability of business units

…is useful for three main reasons:

1. In legal situations such as identifing the value of an intangible asset in an ownership dispute, licensing claim or partnership dissolution.

2. For financial reasons such as compliance with mandatory regulations such as IFRS, US GAAP and IAS; strengthening balance sheets and company accounts; lowering borrowing costs; assisting in M&A situations; increasing stakeholder confidence which consequently raises the share price.

3. For marketing reasons such as monitoring ROI and brand value, determining brand strategy, establishing royalty rates and licensing arrangements, and managing brand portfolios.

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