

## Brand Valuation in Brand Management & Performance Measurement

In 2001, the top 10 advertisers in the UK spent an average of £300 million each advertising their brands. Budweiser, although not in the Top 10, spent approximately 16% of its total revenue on advertising in 2001.

These significant levels of expenditure highlight the importance of tailoring the capture and delivery of information to support brand management decisions. And although the information age has greatly increased the scope and variety of information available to managers, organisations often struggle to find the most effective means to use the information.

This could be, in part, because of the general difference in the focus of the marketing versus finance functions. Their lack of understanding of the mutual benefits of cooperation in information collection and management, means there has traditionally been no beneficial flow of information and ideas between the marketing and finance departments in many firms. This can result in organisations operating with two separate systems (duplication) and often sees vital information not being shared.

### ***Brand Valuation – The link between marketing and finance?***

Brand valuation assigns financial value to the equity created by the name or image of a brand. It's still a relatively new accounting technique, subject to much scrutiny. But it provides a measure that can elevate the profile of the brand within an organisation.

The brand valuation process can be an effective means for bringing the marketing and finance functions closer for the purpose of strategic brand management. Working together, they can transform their collective data into a powerful information system for supporting strategic brand management decisions.

Although management of the brand has traditionally been the remit of the marketing department, an effective management system needs cooperation and input from both finance and marketing departments. This should seem obvious, as both functions respectively collect qualitative and quantitative business performance data on a regular basis. However the traditional focus of the finance department has been primarily focussed on the external financial reporting process. Although external financial statements are both useful and are in fact, a legal requirement for listed companies, they are not designed to facilitate internal decision-making. This becomes even more important in companies where key commercial assets such as brands, patents and intellectual property do not qualify as assets in the external accounts.

In light of the recent corporate scandals involving Enron, WorldCom, Tyco, and Xerox, accounting and corporate reporting are under unprecedented scrutiny. Even with financial reporting of the highest ethical standards, real doubts exist as to whether it can convey sufficient information to enable full appraisal of the present and potential value and performance of an enterprise.

### ***So, what is Brand Value Performance Measurement***

The process of valuing an intangible asset such as a brand requires a certain degree of estimation and subjectivity. Much the same as the process for developing five-year financial forecasts and strategic business plans!



Nevertheless, the process can be consistently applied over time to all brands managed by a company. Because of such consistent application, brand valuation can become an essential element of a brand management strategy. With year-on-year consistency, the technique will gain greater respect from management and can be applied more confidently over time to evaluate evolving trends in brand values.

Through this process, companies are able to create a consistent, quantifiable value that is comparable across product lines, countries, customers, channels, and company units. Current brand expenditures expected to generate future benefits, such as promotions and advertising, can be reflected in the current value of the brand. Additionally, alternative strategies can be compared, by assessing their potential impact on the creation of brand value.

Brand valuation is particularly useful in that it is not solely a historical, cost-based measure, but also allows a means to incorporate future results. Importantly, it provides a firm with a measure of performance that describes the magnitude of the asset of the brand, in relation to the entire organisation.

A management information system with an emphasis on brand valuation facilitates a regular process whereby marketing professionals can help alert corporate strategists to the critical importance of the brand. This can be done more effectively when the value of the brand can be compared to the value of the tangible assets in the organisation. In many cases, the value of the brand will far exceed the value of the tangible assets, thus reinforcing the need for strategic attention.

### ***Benefits of a Brand Value Performance Measurement System***

Sharing information across an organisation is often problematic. However, the process of brand valuation encourages different departments to share information and work together. An effective brand valuation system requires input from a broad spectrum of functional areas – market research, consumer insight, competitor and market intelligence, financial forecasts and strategic assumptions, marketing investment data.

Financial information has always been valuable as a means of communication. A financial value provides a common point of reference for all functional disciplines within the organisation. For example, market share can be viewed as an expectation of sales. Market share is an important measure, but it does not allow for the present value of future sales, the strength of the brand in the marketplace, or the profitability of the brand relative to expenditures. These deficiencies highlight how brand value is more comprehensive than conventional measures.

The brand valuation process can give a long-term focus that also helps with planning and budgeting decisions. Brand value is a more meaningful metric that provides marketers and accountants with a common focus in brand planning. The effect of a decision on brand value provides a common means for choosing alternatives and setting priorities. It also keeps the central focus of the entire organisation of paramount importance. Maximising brand value can become a fundamental operational goal of the planning process, consistent with the corporate objective of maximising shareholder value.

Managing a complex brand portfolio can be simplified with brand valuation. Grand Metropolitan, before its merger with Guinness, has a very large portfolio of brands. It included both acquired and organic brands, including Smirnoff, Baileys, Haagen-Dazs, Green Giant and Burger King. With such a valuable and diverse portfolio of brands (acquired brands valued on the balance sheet at over £608 million), management grappled with the need for a consistent and reliable mechanism for monitoring performance and comparing investment decisions between brands.

This need for a consistent framework for monitoring actual and potential changes in value, led to the creation of a brand equity reporting system. The system required the individual operating management to regularly provide a range of data for each brand in each segment or territory. The monitor was not just used to provide regular segmented brand valuations, but was more commonly used to track key performance measures to inform strategic decision-making processes.

Proctor and Gamble is another company which faces the difficulty of owning and managing a host of brands. P&G uses brand valuation to assist in determining a fair price to charge, sometimes as many as 50 subsidiaries, for using the brand and/or the technology associated with it. Brand valuation helps them determine inter-company transfer prices.

## **Conclusion**

Ultimately, the success of any brand valuation process depends on the firm's ability to use the measure to help improve financial performance. Some suggest that the measurement of intangibles such as brand value, human capital and innovation should take precedence over the measurement of profits, as it is these longer-lasting assets of an organisation that will translate to sustainable long-term profits.

Recent statements in an Exposure Draft from the UK Accounting Standards Board suggest that, marketing measures, including such things as brand equity, marketing investment and NPD programmes should be measured if possible, or at least, consistently reported, in terms of how they are expected to influence the reported strategy and financial forecasts for the business.

Brand valuation is a useful process, capable of illustrating the importance of the brand to senior managers, whilst also bridging the differences between marketers and accountants. Since the value of the brand is expressed in monetary terms, all decision-makers have a common point of reference.

The measure of brand value may include subjective elements, but the lack of such a measure means that the importance of intangible assets may be overlooked. The use of brand valuation can help foster recognition of a common goal for individuals in pursuing corporate, strategic objectives.

Both finance and marketing departments can contribute a substantial amount of expertise to the brand valuation process. This joint contribution can then assist the entire organisation with the strategic management of what is (often) the most valuable asset of the company.