A conceptual analysis of brand evaluation

Ovidiu Ioan Moisescu

2007

A CONCEPTUAL ANALYSIS OF BRAND EVALUATION

Ovidiu I. MOISESCU
Babeş-Bolyai University, Faculty of Economics and Business Administration
Teodor Mihali Street, No.58-60, Cluj-Napoca
Romania
ovidiu.moisescu@gmail.com

ABSTRACT
Considering the fact that brands are fundamental assets of any business, this paper analyses, in a conceptual and critical manner, the existent methodologies used to measure the brand as company asset. Several worldwide acknowledged methods are taken into consideration and are comparatively and critically analyzed, emphasizing their specific roles and contextual situations in which are suited, trying to outline the need for a global standardization of the principles regarding brand evaluation.

JEL CLASSIFICATION: M31

KEY WORDS
Brand equity, brand evaluation, financial methods, behavioral methods, composite methods, brand monetary value, Interbrand

Introduction

In recent years, the issue of how brands can be described and measured has become more and more important in both academic and practical debates.
The first intentions of identifying brand value dimensions were not driven by marketing issues, but appeared due to corporate finance experts who needed a way of monetarily expressing brands when either the brands themselves or the whole company that owned them was up for purchase or sale.
Especially in recent years, consumer-based perspectives on brand value have featured more strongly, as it was hoped that an enhanced understanding of the determinants of brand value from the customer's viewpoint would yield key indicators for efficient brand strategic marketing planning.
The need for both quantitative and qualitative measures generated the rise of several composite brand valuation methods, which, by aggregating financial and consumer based factors, overcame several drawbacks.

Objectives of the study

The first objective of this study is to emphasize the importance and necessity of evaluating brands and to point out the main situation and contexts in which brand valuation is needed.
The second objective of the paper is to critically analyze several popular existing methods of brand evaluation, in order to identify best brand evaluation practices.
The final objective of the paper is to outline the need of global standardization of the principles regarding brand evaluation and to emphasize some key requests related to any method used for this purpose.

Research methodology

The data and findings presented in this paper come from secondary sources of information. The information was gathered from magazines, literature books and also journals. The Internet was also taken into consideration as an important source in order to update the information for the findings.
Firstly, brand evaluation methods were classified into three categories, considering their quantitative and qualitative approach. Afterwards, each of the brand evaluation methods identified to be most popular in their category was subject to a critical analysis in a comparative manner inside its category.

The concept of brand equity

Marketers are talking about the idea of added value generated by a brand in terms of something they call "brand equity". But what is meant by "brand equity" is anything but clear. Unfortunately, there are almost as many definitions of brand equity as there were people using the term.
The concept of brand equity can be described, at the simplest level, as the value of a brand, as a financial dimension. From this point of view thou, the concept is rather ambiguous as important authors refer to expressions like "the value of brand equity" [1]. The

concept of brand equity goes beyond its financial significance.
Brand equity has been described by the Marketing Science Institute of Great Britain as “the set of associations and behavior on the part of a brand’s customers, channel members and parent corporation that permits the brand to earn greater volume or greater margins than it could without the brand name” [2].
A popular approach of brand equity is that of David A. Aaker who sees the concept as “a set of brand assets and liabilities linked to a brand, its name and symbol that add to or subtract from the value provided by a product or service to a firm/or to that firm’s customers” [3]. These assets and liabilities on which brand equity is based differ from context to context, but in Aaker’s view, they can be usefully grouped into five categories: brand loyalty, brand name awareness, perceived brand quality, brand associations, and other proprietary brand assets.
Another well-known approach is that of Kevin L. Keller from whose customer-based point of view brand equity is “the differential effect of brand knowledge on consumer response to the marketing of the brand” which involves customers’ reactions to an element of the marketing mix for the brand in comparison with their reactions to the same marketing mix element attributed to a fictitiously named or unnamed version of the product or service [4]. According to Keller, brand knowledge is defined in terms of two components, brand awareness and brand image. Brand awareness is the consumers’ ability to identify the brand under different conditions and consists of brand recognition and brand recall, while brand image is defined as perceptions about a brand as reflected by the brand associations held in consumer’s memory, associations related to attributes, benefits, and attitudes.
Beyond these complex views on brand equity, other authors regard the concept simpler. Farquhar for example, regards brand equity as the added value with which a given brand endows a product, a product being something that offers a functional benefit, while a brand is a name, symbol, design, or mark that enhances the value of a product beyond its functional purpose [5].
Feldwick simplifies the variety of approaches, by providing a classification of the different meanings of brand equity as: the total value of a brand as a separable asset, a measure of the strength of consumers' attachment to a brand, and, a description of the associations and beliefs the consumer has about the brand [6].
The first of these is often called brand valuation or brand value, and is the meaning generally adopted by financial accountants, the concept of measuring the consumers' level of attachment to a brand can be called brand strength (synonymous with brand loyalty), while the third meaning could be called brand image and identity. When marketers use the term of “brand equity” they tend to mean brand description or brand strength, while brand strength and brand description are sometimes referred to as “consumer brand equity” to distinguish them from the asset valuation meaning. Brand description is distinct because it would not be expected to be quantified, whereas brand strength and brand value are considered quantifiable. Feldwick considers that using the term brand equity creates the illusion that an operational relationship exists between brand description, brand strength and brand value that does not operate in practice, due to the fact that that brand description and brand strength are within the field of marketers and brand value has been considered largely an accounting issue.
However, for brands to be managed strategically as long-term assets, the efforts of brand managers could be reviewed and assessed by the measurement of all descriptive dimensions of brand equity.

The importance and necessity of evaluating brands

The necessity of evaluating brands resides both in the company’s and in the marketing environment’s interests, especially those organizations or persons who are interested in the company’s and its brands’ financial performance. It is about the company’s stakeholders (suppliers, investors, financial institutions, distributors, employees, customers etc.) and the competition.
The situations in which brand evaluation is essential could be categorized as it follows:

- *Mergers and acquisitions*. Nowadays, the main determinants of mergers and acquisitions are not only facilities or technologies, but even more important, the value of brands. A few examples could comprise: Rowntree Macintosh acquisition by Nestle in 1988 for a price of 2.75 billion GBP, three times the company’s capital market value and 26 times its profits; Kraft Foods acquisition by Philip Morris in 1988 for a price of 12.9 billion USD, of which 90% represented Kraft Foods’ brands value; Beck’s acquisition by Interbrew in 2001 for 1,8 billion EUR, 500 million EUR more than the company’s capital market value [7]. Marketers have always understood the idea that brand names add value to a product, but it was only until the late 1980s that this notion began to figure in the actual asset value of a company. Academics suggested that this change came about during the massive wave of mergers and acquisitions among large companies with well known brands that occurred in the 1980s. Those involved in these transactions were searching beyond the traditional sense of asset value and net income to include “goodwill”. They were looking for a company’s brand portfolio as the comprising brands had strong power in the market. Even if accepted accounting procedure did not permit considering the added value of a brand name on the balance sheet, it was nonetheless being factored into the net value of the firm. In the case of mergers and acquisitions brand evaluation generates a reference in the negotiation process. Negotiation partners' opposite interests of over/under-valuing could be harmonized through using a formal method of evaluation agreed by both parties.

- *Informing financial partners (investors, share-holders, banks, insurance companies etc).* Financial partners perceive brand value as a reference when establishing the extent to which they are willing to take risks and finance the company that possesses the brand. The interest of the brand's proprietor is to over-estimate the value of its brand. This situation could be avoided through using a formal method of evaluation implemented by an acknowledged third party.
- *Brand licensing.* Brand value is a reference in negotiating the price of a brand licensing contract or the fee paid in order to use the brand name. It is important to consider in this case the potential future market and financial outcomes generated by the power of the brand. Negotiation partners' opposite interests of over/under-valuing could be harmonized through using a formal method of evaluation agreed by both parties.
- *Compensation establishment in cases of unauthorized usage of brand names.* Strong brands' proprietors are exposed to brand piracy which basically leads to weakening the brands' value. Compensation establishments can be done considering: the difference between the brand's value before and after the piracy act, a retroactive brand name usage fee, or the share of the pirate's profit earned due to using the brand name. All of the considerations above imply a brand evaluation process.
- *Elaborating marketing strategies and plans and evaluating the efficiency of implementation.* Brand portfolio evaluation can lead to identifying: weaknesses and strengths among brand's determinants, ways of restructuring the brands mix, key-brands management, strategies and plans implementation efficiency through after-before evaluations.

Critical analysis of existing methods of brand evaluation

In recent years, the issue of how brand value or brand equity can be measured has grown more prominent in both academic and practical debates. This is due to the sheer number of different approaches applied both in theory and in practice for valuing brands. However, it is interesting to note that the first moves toward quantifying the value of brands were not driven by marketing issues., but set in motion by corporate finance experts who needed a way of expressing brands in dollars and cents when either the brands themselves or the whole company that owned them was up for purchase or sale. This gave birth to the first, financially-oriented valuation methodologies. In more recent years, consumer-based perspectives on brand valuation have also featured more strongly, as it was hoped that an enhanced understanding of the determinants (or "drivers") of brand value from the customer's viewpoint would yield key indicators for efficient brand management.

Considering the type of measures taken into consideration, the type of indicators involved, and the nature of the value returned, the methodologies developed to date for establishing brand value can be classified into three groups as it follows:

- **Financial based methods** characterized by quantitative measures, usage of mostly financial indicators, and providing monetary value of the brand. Some of the most representative methods in this category, which will be analyzed further on, are: capital market-oriented, cost-oriented, license-based, and price premium-oriented method.
- **Behavioral based methods** using qualitative measures, consumer behavior indicators, and providing qualitative value of the brand. Some of the essential methods of this type to be further analyzed are: David A. Aaker's, Kevin Lane Keller's, Jean Noel Kapferer's, Emnid's brand barometer, Young & Rubicam's Brand Asset Valuator, and McKinsey's method.
- **Composite methods** using both quantitative and qualitative measures, aggregating financial and behavioral indicators, and providing a monetary value of the brand. The most world wide spread and accepted method in this category is Interbrand's method, which will also be critically analyzed in this paper.

In the case of the *capital market based method* [8], brand value consist in the company's capitalized or realized market value (stock price x number of shares) minus its tangible and its remaining intangible assets.

The problem with this method resides in the fact that the events generating market identity need to be readily identifiable marketing measures, and the market needs to be transparent. If the information influencing brand equity did not filter into the capital markets, or did so only slowly, it would be impossible to attribute stock market movements to changes in brand value, thus undermining the fundamental logic of the model. Also, another weakness is that it can only be used for stock exchange-listed companies, the method being best suited to single-brand corporations, because the pro rata method of dividing brand equity among a number of brands can only, at best, be an approximation.

The *cost oriented method* [9] takes two forms: the historic cost-based method, case in which brand value is an asset based on the resources that have been invested in it, and, respectively, the replacement cost-based method, when

brand value is an asset based on what it would cost today to build up an equivalent brand from scratch.
The problem with these methods is that a brand won't always be more valuable if more resources are invested in it. In reality, this link does not apply unreservedly. Some brands are strong despite relatively low investment in them, and these would be significantly undervalued. Also, the focus on cost creates an incentive to invest a disproportionate amount in a brand to supposedly enhance its value. Another weakness is that this method implies difficulties in attributing costs to a brand fact which can lead to computational errors and distorted results. On the other hand, it is almost impossible to find any other brand truly comparable with it for purposes of establishing its replacement value. Substantial doubt regarding the validity of the results also arises due to the lack of market transparency and a dependence on expert opinions when establishing replacement cost. Finally, it fails to take account of the future, including the potential further success of the brand, and bases its verdict solely on historical data.
The *license based method* [10] values a brand on the basis of the license rates typical of the industry and earned by comparable brands. That is to say, it translates the license fees attracted by a reference brand into a monetary value of the brand being assessed. The license fees recorded are assumed to be an objectively correct quantity.
Even though a database of past licensing agreements is used, and even though several other key factors are taken into account, it must still be considered extremely difficult to identify a suitable reference brand to provide objective comparability. There have to be fundamental doubts as to whether the license fee negotiated in practice, reflecting varying tactics and strategies used by the parties involved, can allow conclusions to be drawn about the intrinsic value of a brand.
In the case of the *price premium oriented method* [11], brand value as expressed in price premiums can be measured by comparing the price of a branded product with that of an unbranded one that is identical in all other respects. To obtain total brand value, the unit price differential is multiplied by the quantity sold.
A drawback of this method is that it only takes price and cost data into account and fail to consider the many facets of brand value. The price premium approach can only be applied if there is a real unbranded equivalent to the branded product actually available. If not, researchers face the difficulty of defining a zero or index point as a benchmark. The assumption that there is a direct link between the price premium commanded by a product and the influence of its brand is not unreservedly true, as the price may also carry other aspects such as strategic intentions – generally manifested in market-share dynamics.
According to *David A. Aaker's* behavioral based method [12], a brand is "a set of brand assets and liabilities linked to a brand, its name and symbol that add to or subtract from the value provided by a product or service to a firm/or to that firm's customers". The determinants of brand value are grouped into: brand loyalty, brand name awareness, perceived brand quality, brand associations, and other proprietary brand assets.
One of the main criticism of this approach is that the determinants are not mutually independent. Quality, for example, is partly also a function of awareness, associations and loyalty. Moreover, the factors Aaker has identified are not only determinants but also outcomes of brand equity, so in this respect they intermix the input and output stages of a brand equity production function. It takes no account of the requirements posed by sound measurement techniques, and the information is lacking to place any numerical value on particular dimensions of the model. Although quantities from business economics, such as high profit margins, are implicitly postulated as outcomes of positive brand equity, the psychographic phenomenon is not transformed into any monetary equivalent.
In another behavioral approach, that of *Kevin Lane Keller* [13], brand value is "the differential effect of brand knowledge on consumer response to the marketing of the brand. That is, customer-based brand equity involves consumers' response to an element of the marketing mix for the brand in comparison with their reactions to the same marketing mix element attributed to a fictitiously named or unnamed version of the product or service".
Keller's model approach has drawbacks similar to those directed at Aaker's. Though Keller does offer an analytical and conceptual description of brand equity development, the approach lacks a firm theoretical foundation. It remains unclear how qualitatively based brand evaluation can be converted into monetary units. Keller's system is a conceptual strategy for brand appraisal that remains as yet unconfirmed by empirical evidence.
Another behavioral approach comes from *Jean Noel Kapferer* [14]. In this case, brand value lies in a tacit contract between the brand and its customers, "trading" a seal of quality for automatic repeat purchasing. The brand name generates utility by reducing transaction risk for the producer and consumer alike. The brand's market share, which according to Kapferer correlates positively with brand earnings, is primarily determined by the number of consumers loyal to the brand.
Still, Kapferer does not put his hypotheses to any empirical test. The model does not consider changing consumer values, competitors' strategies or other factors that can have a retarding effect on brand equity growth.
Emnid's brand barometer assesses brands using a preference barometer on a scale ranging from below average to above average. Criteria used to determine brand preference are unaided brand recall (doubly unaided survey), aided brand recognition (by name only), aided advertising recognition (advertising recently seen), relevant set (aided question about brands in question), trial purchase (trial purchase already made), principal brand (brand currently purchased) and appeal (unaided appeal set).

Though, it is not known how these criteria are weighted in brand valuation. Drawbacks come from the fact that the brand barometer does not yield monetary brand values and the preference barometer allows the value of a brand to be determined only relative to the other brands studied.
In the case of *Young & Rubicam's Brand Asset Valuator*, brand value rests on four pillars: differentiation - measures how distinctive the brand is in the marketplace, relevance - measures whether a brand has personal relevance for the respondent, esteem - measures whether the brand is held in high regard and considered the best in its class, and knowledge - a measure of understanding as to what a brand stands for. Fifty-two criteria are analyzed to determine what the individual components are and what they add up to.
A strong criticism in this area resides in the fact that nothing is known about the configuration guidelines, i.e. which individual criteria within the components are ascertained and how these values are combined. This model also fails to convert the resulting brand values into concrete monetary terms.
McKinsey's method defines the three P's of the brand as the key determinants of such a power brand: performance, personality and presence. McKinsey supposes that the quantitative brand strength values are a function of the three P's.
Still, McKinsey's method does not offer any information on the functional context or global brand value and it is not clear whether the three P's truly encompass all relevant drivers of brand strength or whether there are others.
Much of the drawbacks and disadvantages of the methods presented above are eliminated through a highly world wide cited and accepted composite method, which is that of the consultancy company – Interbrand. In this case, the value of a brand consists of a price that could be obtained by selling the intangible asset evaluated, considering the actual market conditions. The model uses a scoring system founded on seven groups of factors that bounds a number of 80 specific criteria considered important to the value of the brand: brand leadership (market share, market position, relative market share, market segment, structure, future aspects, etc.), brand stability (history, current position, future development), market (structure of competition, value, volume, trend – market dynamism, prospects), international reach of brand (history of international evolution, presence on foreign markets, perspectives), brand trend (development sales volume and market share, competitive trend, development plans), marketing support (advertising activities, sales promotion, future strategy), and legal protection of brand (Rights to name, registration, etc.). The weights of the criteria have been established by Interbrand in an objective way statistically considering a sample of brands that have been sold along the time. Interbrand relies on longstanding market experience and empirical ex post studies showing correlations between the prices found to have been realized during company mergers or acquisitions and reconstructions of brand strength. The brand value is actually the potential price that could be obtained in the case of selling the brand. Currently, Interbrand assesses periodically multinational brands with strong international presence, that obtain at least 20% of their sales figure abroad
It is unrealistic to pretend that the brand value criteria chosen by Interbrand cover all the aspects related to the value of a brand. Actually, Interbrand did not make the residual factors and their influence on the results public, but still, they sustain that the criteria system chosen explains fairly enough the brand value. Another criticism regarding these method outlines the difficulty of assigning the right point scores in the case of many of the criteria taken into consideration. For example, a brand's market share might differ a lot from a geographical market to another so the global score of a brand relative to this aspect should be an average but still possibly not representative from a statistical point of view. The use of some input factors such as marketing support must also be viewed critically as a direct correlation between purely quantitative values such as advertising spending and brand value appears questionable to assume. It is also unclear whether the customer-related factors relevant to brand valuation are sufficiently integrated. Overall, it can be said that the data used are mainly estimated values, so that the resulting monetary brand value must also be viewed as an estimated or trend value.

Conclusion

As an unfortunate conclusion, it might be said that none of the models presented above have yet led to the development of a comprehensive brand valuation approach. No complete model to establish brand equity by combining financially oriented and customer-oriented approaches has yet emerged.
Analyzing usage contexts, advantages and disadvantages of each method, it may be concluded that a valid method of brand valuation should create a balance between financial and behavioral indicators included in the analysis. It would also have to be adaptable to different situations and contexts, no matter if it is about establishing, implementing and evaluating marketing strategies (through providing information about elements that can diminish or increase brand value) or mergers, acquisitions, licensing etc. A valid brand valuation method should also clearly differentiate among tangible elements related to physical and functional features of the product and intangible aspects strictly related to the brand itself and to be adaptable to evaluating any type of brand (national brand vs. private label, product or corporate brand etc.) from any industry or product category.

References

[1] Aaker, David A., *The Value of Brand Equity, Journal of Business Strategy,* Vol.13, Issue 4, Jul/Aug 1992

[2] Leuthesser, L., *Defining, Measuring and Managing Brand Equity: A Conference Summary*, Marketing Science Institute, Cambridge, MA, 1988

[3] Aaker, David A., *Managing Brand Equity*, The Free Press, New York, 1991

[4] Keller, Kevin L., *Strategic Brand Management: Building, Measuring and Managing Brand Equity*, Prentice Hall, New Jersey, 1998

[5] Farquhar, Peter H., *Managing Brand Equity*, Journal of Advertising Research, Vol.30, Issue 4, Aug/Sep 1990

[6] Feldwick, P., *Do we really need brand equity?*, The Journal of Brand Management, Vol.4, No.1, 1996

[7] Zimmermann, Rainer, Klein-Bölting, Udo , Sander, Björn, Murad-Aga, Tharek , *Brand Equity Excellence - Vol. 1: Brand Equity Review,* BBDO Group, Düsseldorf, Germany,2001

[8] Simon, C. J., Sullivan, M. W., *The Measurement and Determinants of Brand Equity: A Financial Approach*, Marketing Science, vol. 12, no. 1, 1993

[9] Haigh, D., Perrier, R., *Valuation of Trade Marks and Brand Names* in Murphy, John (red.), *Brand Valuation*, Premier Books, London, 1997

[10] Anson, Weston, Lefton, Terry, *How Much Is Your Brand Worth*, Brandweek, Issue 5, 1996

[11] Crimmins, J. C., *Better Measurement and Management of Brand Value*, Journal of AdvertisingResearch, July-August 1992

[12] Aaker, D. A., *Measuring Brand Equity Across Products and Markets*, California Management Review, vol. 38, no. 3, 1996

[13] Keller, Kevin Lane, *Conceptualizing, Measuring, and Managing Customer-Based Brand Equity*, Journal of Marketing, vol. 57, 1993

[14] Kapferer, Jean Noel, *Strategic Brand Management*, The Free Press, New York, 1992