***Interbrand’s Brand Valuation Methodology.***

Interbrand is probably the premier brand valuation firm. [**Figure 1-5**](https://jigsaw.vitalsource.com/books/9781269342674/content/id/ch01fig5) from [**Chapter 1**](https://jigsaw.vitalsource.com/books/9781269342674/content/id/ch01) listed the 25 most valuable global brands according to Interbrand. In developing its brand valuation methodology, Interbrand approached the problem by assuming that the value of a brand, like the value of any other economic asset, was the present worth of the benefits of future ownership. In other words, according to Interbrand, brand valuation is based on an assessment of what the value is today of the earnings or cash flow the brand can be expected to generate in the future.[**38**](https://jigsaw.vitalsource.com/books/9781269342674/content/id/ch10fn38)

**According to Simon and Sullivan’s analysis, in the highly competitive candy category, Tootsie Roll’s brand name was a valuable financial asset**

*Source:* Tootsie Roll Industries, Inc.

Because Interbrand’s approach looks at the ongoing investment and management of the brand as an economic asset, it takes into account all the different ways in which a brand benefits an organization both internally and externally—from attracting and retaining talent to delivering on customer expectations. One advantage of the Interbrand valuation approach is that it is very generalizable and can be applied to virtually any type of brand or product.

Three key components contribute to the brand value assessment: (1) the financial performance of the branded products or services, (2) the role of brand in the purchase decision process, and (3) the strength of the brand.[**39**](https://jigsaw.vitalsource.com/books/9781269342674/content/id/ch10fn39) Here’s how Interbrand addresses each of these three components.

***Brand Financial Performance.***

Financial performance for the brand reflects an organization’s raw financial return to the investors and is analyzed as economic profit, a concept akin to economic value added (EVA). To determine economic profit, subtract taxes from net operating profit to arrive at net operating profit after tax (NOPAT). From NOPAT, subtract a capital charge to account for the capital used to generate the brand’s revenues, yielding the economic profit for each year analyzed. The capital charge rate is set by the industry-weighted average cost of capital (WACC). The financial performance is analyzed for a five-year forecast and for a terminal value. The terminal value represents the brand’s expected performance beyond the forecast period. The economic profit that is calculated is then multiplied by the role of brand (a percentage, as described below) to determine the branded earnings that contribute to the valuation total.

***Role of Brand.***

Role of brand measures the portion of the customer decision to purchase that is attributable to brand—exclusive of other purchase drivers such as price or product features. Conceptually, role of brand reflects the portion of demand for a branded product or service that exceeds what the demand would be for the same product or service if it were unbranded. We can determine role of brand in different ways, including primary research, a review of historical roles of brand for companies in that industry, and expert panel assessment. We multiply the percentage for the role of brand by the economic profit of the branded products or services to determine the amount of branded earnings that contribute to the valuation total.

***Brand Strength.***

Brand strength measures the ability of the brand to secure the delivery of expected future earnings. Brand strength is reported on a scale of 0–100 based on an evaluation across 10 dimensions of brand activation. Performance in these dimensions is generally judged relative to other brands in the industry. The brand strength inversely determines a discount rate, through a proprietary algorithm. That rate is used to discount branded earnings back to a present value, based on the likelihood that the brand will be able to withstand challenges and deliver the expected earnings.

***Summary.***

Brand valuation and the “brands on the balance sheet” debate are controversial subjects. There is no one universally agreed-upon approach.[**40**](https://jigsaw.vitalsource.com/books/9781269342674/content/id/ch10fn40) In fact, many marketing experts feel it is impossible to reduce the richness of a brand to a single, meaningful number, and that any formula that tries to do so is an abstraction and arbitrary.

The primary disadvantage of valuation approaches is that they necessarily have to make a host of potentially oversimplified assumptions to arrive at one measure of brand equity. For example, Sir Michael Perry, former chairman of Unilever, once objected for philosophical reasons:

* The seemingly miraculous conjuring up of intangible asset values, as if from nowhere, only serves to reinforce the view of the consumer skeptics, that brands are just high prices and consumer exploitation.[**41**](https://jigsaw.vitalsource.com/books/9781269342674/content/id/ch10fn41)

Wharton’s Peter Fader points out a number of limitations of valuation approaches: they require much judgmental data and thus contain much subjectivity; intangible assets are not always synonymous with brand equity; the methods sometimes defy common sense and lack “face validity”; the financial measures generally ignore or downplay current investments in future equity like advertising or R&D; and the strength of the brand measures may be confounded with the strength of the company.[**42**](https://jigsaw.vitalsource.com/books/9781269342674/content/id/ch10fn42)

At the heart of much of the criticism is the issue of separability we identified earlier. An *Economist* editorial put it this way: “Brands can be awkward to separate as assets. With Cadbury’s Dairy Milk, how much value comes from the name Cadbury? How much from Dairy Milk? How much merely from the product’s (replicable) contents or design?”[**43**](https://jigsaw.vitalsource.com/books/9781269342674/content/id/ch10fn43)

To draw a sports analogy, extracting brand value may be as difficult as determining the value of the coach to a team’s performance. And the way a brand is managed can have a large effect, positive or negative, on its value. [**Branding Brief 10-1**](https://jigsaw.vitalsource.com/books/9781269342674/content/id/ch10bx6) describes several brand acquisitions that turned out unsuccessfully for firms.

As a result of these criticisms, the climate regarding brand valuation has changed. See [**Brand Focus 10.0**](https://jigsaw.vitalsource.com/books/9781269342674/content/id/ch10bx7) for more on how accounting standards have changed to accommodate the concept of brand value.

**BRANDING BRIEF 10-1: Beauty Is in the Eye of the Beholder**

Companies make acquisitions because they wish to grow and expand their business. In making acquisitions, a company has to determine what it feels the acquired brands are worth. In some instances, the hoped-for brand value has failed to materialize, serving as a reminder that the value of a brand is partly a function of what you do with it. The booming business environment of the 1990s witnessed many such failures.

A classic example is Quaker Oats’s $1.7 billion acquisition of Snapple in 1994. Snapple had become a popular national brand through powerful grass-roots marketing and a willingness to distribute to small outlets and convenience stores. Quaker changed Snapple’s ad campaign—abandoning the rotund and immensely popular Snapple Lady—and revamped its distribution system. Quaker also changed the packaging by updating the label and putting Snapple in 64-ounce bottles, moves that did not sit well with loyal customers. The results were disastrous: Snapple began losing money and market share, allowing a host of competitors to move in. Unable to revive the foundering brand, Quaker sold the company in 1997 for $300 million to Triarc, which owned other beverages such as Royal Crown Cola and Diet Rite.

Another unsuccessful acquisition occurred when Quality Dining bought Bruegger’s Bagels in 1996 with $142 million in stock. Within one year, Quality Dining agreed to sell the bagel chain back to its original owners for $50 million after taking a $203 million charge on the acquisition. Experts blamed an overly ambitious expansion strategy. Quality Dining planned to expand to 2,000 stores within four years, despite the fact that before the acquisition, Bruegger’s had posted two consecutive annual losses due to its expansion to 339 stores. The new ownership also set the lofty goal of entering the top 60 domestic markets, which limited the amount of advertising and promotional support each market received. As Bruegger’s fortunes turned, competitor Einstein/Noah Bagel overtook the company as the market leader in the United States. One franchisee commented, “[Quality Dining] would have had to stay up pretty late at night to screw up anything more than they did.”

**A brand is partly worth what you can do with it—a lesson Quaker Oats learned the hard way after it mismanaged the Snapple brand after acquiring it.**

*Source:* Ramin Talaie/Bloomberg via Getty Images

More recently, despite much success with its Ford brand, Ford Motor Company could never seem to find the right formula for the overseas acquisitions that made up its Premier Automotive Group collection. The company sold the Jaguar and Land Rover brands to India’s Tata Motors in March 2008 for $1.7 billion—roughly a third of the price it had paid for the two luxury brands ($2.5 billion in 1989 and $2.7 billion in 2000, respectively). After paying $6.5 billion for Volvo in 1999, Ford sold it to China’s Geely for $1.5 billion in 2010. Ford’s decision was motivated by a lack of success with its luxury brands and a desire to focus on its more promising Ford brand.

In all these case, despite the best of intentions, brands were sold with an implicit assumption that could be more profitably marketed by someone else.

*Sources:* “Cadbury Is Paying Triarc $1.45 Billion for Snapple Unit,” *Baltimore Sun*, 19 September 2000; Thomas M. Burton, “The Profit Center of the Bagel Business Has Quite a Big Hole,” *Wall Street Journal*, 6 October 1997; “Ford Sells Luxury Brands for $1.7 Billion,” Associated Press, 26 March 2008; “Ford Sells Volvo to Chinese Carmaker Geely for $1.5 Billion,” *New York Daily News*, 3 August 2010. For an interesting academic analyses, see S. Cem Bahadir, Sundar G. Bharadwaj, and Rajendra K. Srivastava, “Financial Value of Brands in Mergers and Acquisitions: Is Value in the Eye of the Beholder?,” *Journal of Marketing* 72 (November 2008): 49–64; Michael A. Wiles, Neil A. Morgan, and Lopo L. Rego, “The Effect of Brand Acquisition and Disposal on Stock Returns,” *Journal of Marketing*, 2012, in press.