Product and Brand Management
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Lecture 54
Brand Equity: Measuring Outcomes - II

Welcome back, friends. We are going ahead with the discussion on brand valuation in this session. If you remember the last session, I was mentioning valuation approaches, and we were talking about holistic methods. We talked about comparison as well. Now, I will be giving you a brief insight into how practically larger organizations (which are known for actually using these methodologies for their clients) broadly do it?

I would not be going into the finest of details on how they do it, but definitely, this will give you a very apt idea of how these organizations do that, and how actual brand valuation is done. A couple of sessions back, I mentioned that the brand value of an organization is somewhere between $22 billion or $21 point something billion dollars. So, one of these organizations, or any other organization for that matter, would have reached this number somehow.

We have talked about the approaches involved there. We talked about the cost-based approach and income-based approach also, and several approaches are there. Let us see, which of these organizations tend to use what kinds of approaches in totality, and how they proceed and put-up value in terms of particular brands. Now, largely I am focusing on only three, and the list is not limited to these three, but these are known.

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The source I have used for this is strategic marketing management, by Chernev A. So that source talks about broadly these three organizations, and these are well-known brands by themselves. Then I talked about rating and ranking agencies. These are valuation agencies or valuation organizations who have developed these methodologies in due courses of time.

They have a huge database. They have set methodological frameworks. They have experts involved with them, as their employees, as their team members who keep on focusing on the valuation of the brand. So, Interbrand, Brand Z, and Brand Finance. Let us look at their framework a larger broader framework, which they utilize.

Then for details, you can refer to the source I have mentioned already. Interbrand focuses on financial performance and economic profit. It is a whole lot of a methodology which definitely has a cue from all the methodologies we have talked about in our earlier discussions. They utilize those kinds of frameworks, or analyse the financial performance or economic profit of an organization or a brand at large.

The role of brand and purchase decisions is related to the brand index. So how a brand actually affects the purchase decisions of the customers may also influence the decisions of the prospective customers. Then they focus on brand loyalty, strengths, and here the focus areas are clarity, commitment, protection, responsiveness, authenticity, relevance, differentiation, consistency, presence, and understanding.

We have heard about these terms. We have been talking about these terms, and they are focusing on these terms to be deciphered in terms of value. We have talked at length about consistency, for example. They try to put up weight around these terms. Actually, these are all qualitative aspects, but then you have to put a number around them, and that number must be in terms of money value.

Then comes Brand Z. So, brand earnings are earnings attributed to a brand. This may resonate with the role of brand and purchase decisions but, somehow it is related to what a brand earns for you. Probably the orientation might be slightly similar, but there would be difference in the pathway and the methodologies they would be applying. Although ultimately you have to talk to the customers.

The financial value predicted future earnings, that is the potential of a brand. What it will bring, because if you try to understand this, then only you would be able to focus upon what kind of marketing program investment you should be making then, and your stockholders would definitely be worried about what kind of future potential this organization gains because your future prospect in terms of your revenue generation would affect the stocks as well as the dividends.

Then they focus on brand uniqueness. Here it is related to the brand's ability to stand out, known amongst known. That is the concentration. Many a times when you look at several luxury cars parked with each other and one of those may gain slightly more attention from your side. That is what we are referring to here. So, if you go to a large automotive retailer there are multi-brand retailers in many parts of the world.

So, if you stand in those large showrooms and you have several beautiful cars rotating on the platforms all around you, and some of the cars make you stop, and you want to take a picture along with that. This is what we are talking of calculated value wherein a formula for calculating the three factors above yields a single value. That is where they focus on, there are several kinds of combinations which can be generated. They have a specific kind of formula with them, or they might be working on revisiting the strength of the formula. Depending upon what kind of variables they evolve as the stronger ones in due course of time, where that definitely depends upon, how they pursue that. Now, brand finance is thinking in terms of enterprise value, and then the brand contribution, the overall uplift of the brands.

How a brand is contributing as far as the complete organizational growth goes, and then the third element, which they focus upon is related to brand value. The value of the trademark and associated intellectual property as well, which is again, a very important thing because you want to understand what your IP holds in terms of value.

Your IP definitely supports your brand strength because you have done something special, which you are known for. So that is again, another way of looking at things. We talked briefly about the income approach, market approach, and cost approach. Now, let us decipher those with reference to let us say what different organizations might be doing.

Here, this elaboration would actually yield for us, a broader picture of all these approaches because when we look at these organizations and their framework, somewhere the reflection of these approaches comes into play. For example, when you say enterprise value, then one of these approaches definitely would be apt for us to take us there towards that understanding.

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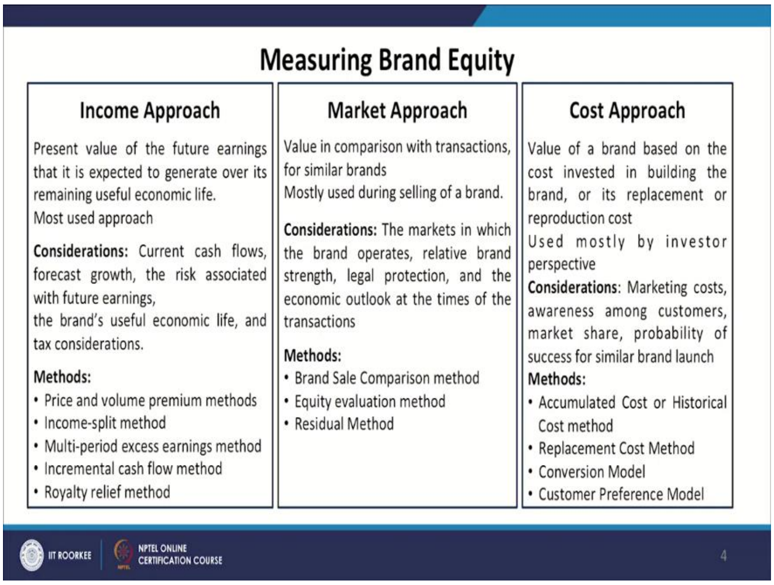

The income approach talks about the present value of the future earnings that it is expected to generate over its remaining useful economic life, and this is one of the most used approaches. You anticipate the returns or the income a brand would bring for you. Here, I would like to remind you of that at this moment, you are also looking at your marketing program.

You are thinking in terms of the product life cycle in consonance with the brand life cycle. The product life cycle is a more defined concept whereas the brand lifecycle is an evolving concept. There are so many aspects to it which are being brought about by several organizations and several thinkers.

Still, you are looking at your brand somewhere in terms of a pathway, because that is going to guide you in terms of what kind of income your brand would be generating in future. Now, considerations are current cash flows, forecast growth, the risk associated with future earnings, and here the competitive perspective, the environmental forces, the changing technology, everything comes in.

That reminds me of one or two examples. Kodak and Fuji, because the photography world, cameras, and the methodology through which we photograph, have changed dramatically in due course of time. Probably at one part of the time when these brands would have been evaluated, they would have been thinking in terms of when they would be utilizing.

For example, the income approach, they would be thinking in terms of risk associated probably. Although the brand valuation of these organizations was quite suitably respectable or high at one part in time. Again, I would not go into how, where did it reach and what happened. The point is, I am just trying to draw your attention towards the risk associated in terms of competition and technology, technological changes in coming times.

If you look from this perspective at Titan watches, for example, they also would have a similar kind of consideration in mind regarding the valuation perspective. Today, if someone is valuing Titan as a brand, definitely this changing technology or preferences of consumers or the risk associated in terms of why would people keep on wearing watches, and what kind of marketing programs trend they would have.

That kind of question would definitely come to their mind. So, the brands' useful economic life and tax considerations also are there. The methods applied here are related to price and volume, premium methods, income split method, and multi-period excess earnings method, and I am just enumerating those.

These are specific methodologies which consider giving specific weights in terms of value to be precise either the potential, or the marketing program, or activities. So, then to reach a number that would be the value. Then there is an incremental cash flow method and royalty relief method, and these approaches can be utilized independently and, in the association, as well.

You can utilize one approach, and then you can collaborate one approach with the other approach as well if you want to strengthen your belief that this should be the value in terms of a particular kind of brand. So, the market approach says that it is related to value in comparison with transactions for similar brands.

Here you have a particular kind of comparison. Medicine is mostly used during the selling of a brand. When it is exchanged, the hands are changing because you have to offer. For example, an organization offers itself for sales. So, what kind of premium they may charge, on the name precisely asset valuation can be easily done.

Looking at and remembering when I talked about brand equity earlier, I mentioned the word that brand can be looked upon with the perspective of being an asset. It can be seen from the accounting perspective wherein this asset value can be put up to the brand's name, and then one organization is looking for example, Walmart took over Flipkart.

So, some valuation would have been done, and there would have been a particular kind of methodology they utilize, and the considerations are the markets in which the brand operates, relative brand strength, legal protection, and economic outlook at the times of transactions.

Probably, in Flipkart's case, their subscriber base would have seen probably how strongly their customers believe in them, how well the program of pay at the time of delivery would have worked for them, and that was a unique program which was initiated by them. So, see, there are several considerations.

I am not sure what kind of actual balance sheets they would have been suggestive of at the time of this takeover. But the point is that they were valued and that too at a good price and a good premium. Now, the methods are brand sale, comparison method, equity evaluation method, and residual method. Now, the third widely used method is the cost approach, which is again a very apt approach.

It is slightly from this side and it is related to the value of the brand based on the cost invested in building the brand. What kind of investment we have made as far as brand development goes? Because the point is that investment is going to yield for the organization which takes over the brand at the latest stages, or you would like to put up a premium in terms of the cost which you have already incurred in developing that brand or the products you want to sell in future.

Then that is where the cost invested in building the brand or its replacement or reproduction cost vanishing it by off-putting something new wherein many times you have to take crucial decisions of changing the name, repositioning, revitalizing. I will be talking about all these things in later discussions, but these are the aspects wherein you want to focus upon because you have to take a call, in terms of going in for the future revitalizing. For example, Enfield would have done this somehow.

They would have focused on the kind of investments, they would have made in terms of developing that brand, and they would have immediately realized that this is the kind of potential. So they would have gone for probably, it is just a wild thought that they would have thought of cost approach, market approach as well as income approach in terms of potential, for example.

That is why somehow, we realize that at the end of the day, Enfield has a particular kind of price option. Then they went for a specific marketing program, opening up retail shops, and then interior lead decorating in interior decorations of Enfield. Retail showrooms are different as compared to what they would have been a decade back or two decades back, and then now it is a very different kind of outlook.

All those things would have been done on the basis of research as well as valuation methods. For example, this method, although is used most in terms of investor perspective, but not limited to that. Considerations are marketing costs, awareness among customers, market share, and probability of success for a similar brand launch. A similar brand launch is one of the keywords and methods like accumulated cost or historical cost method, replacement cost method, conversion method, and customer preference model. Customer preference, again, is an important aspect.

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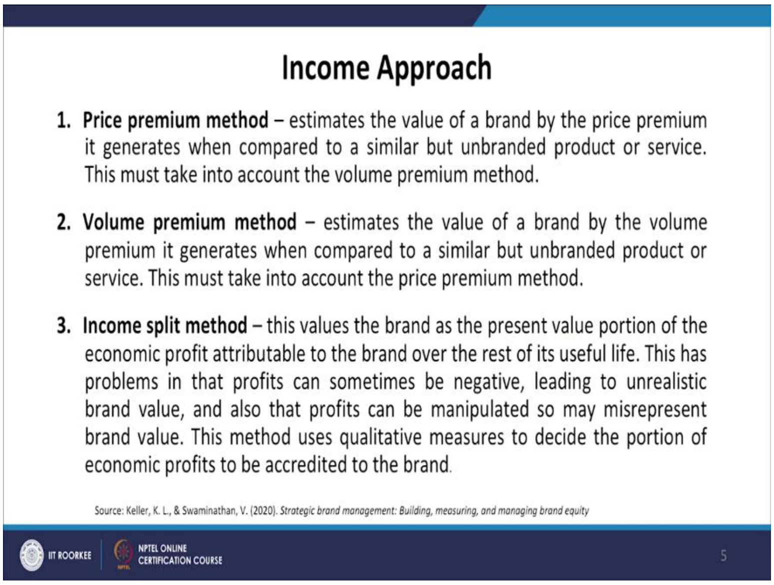

Now, let us quickly expand on what we are discussing. So, let us start with the income approach. The price premium method estimates the value of a brand by the price premium it generates when compared to a similar but unbranded product or service. Remember I mentioned what kind of energy should we be spending on the branding exercise for a brand?

This is a genuine question, which would come from the leadership. The leadership of the organization, why you want to put in that kind of marketing effort. Are you going to charge a premium for this or customer expansion is on the way? So that is a very genuine question before the organizational leadership supports the brand manager to actually put up a marketing program. Now, this must take into account the volume premium method as such.

The volume premium method estimates the value of a brand by the volume premium it generates when compared to a similar but unbranded product or service. This must take into account the price premium method. Now the whole of the situation is quite sequentially associated with each other. And then there is the income split method. This values the brand as the present value portion of the economic profit, just take it as one plus one kind of thing, basically sequentially. So, the present value portion of the economic profit is attributable to the brand over the rest of its useful life. So how the present value would support the future useful life? This has problems in profits that it can be negative sometimes.

Our sales are not doing well. It is a dip kind, and it may lead to unrealistic brand value at that particular time, or if you have considered that timeframe. Also, profits can be somehow, worked upon on a piecemeal basis. Then so many because if you exert on enhancing the profits, you would go for a specific marketing program and profit where that period might enhance.

That may also represent brand value at a later stage because you will be going for a periodical analysis. This method uses qualitative measures to side the portion of economic profits to be accredited to the brand. The point here is that somehow if we slowly reduce the marketing program investment, especially communications or another related kind of expenditure, would it go by itself?

Now, that is the point of concentration, because you want to take a call that either you want to determine that you can maintain the price of the product and reduce the cost on this side and gain profits, or you want to redirect your resources for some other product with a similar kind of a brand name. You want to project it that way, so you have limited resources. These are all strategic decisions, and that is why I suggest you, remember when we talked about brand architecture strategies. So, there we were thinking in terms of architecture and strategic perspective. Now, there is a multi-period excess earnings method as well.

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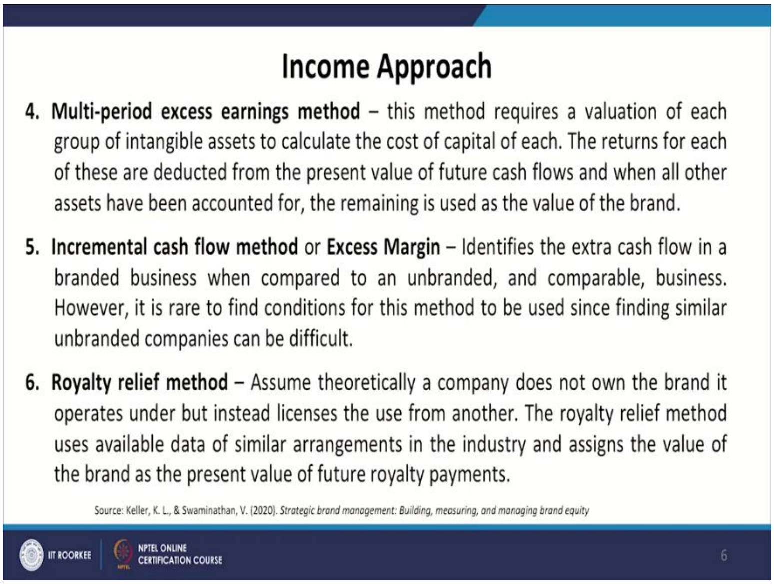

Now, this method requires a valuation of each group of intangible assets to calculate the cost of capital of each. The returns for each of these are deducted from the present value of the future cash flows and when all of the assets have been accounted for, the remaining is used for the value of the brands, a very simple kind of thing. It is a deductive kind of analysis. But again, the point is that you have to look into the periodical aspect.

Also, you have to look into several other elements which contribute to brand development. Definitely, the asset valuation has to be done. The incremental cash flow method or excess margin identifies the extra cash flow in a branded business when compared to an unbranded and comparable business.

However, it is rare to find conditions for this method to be used since finding similar unbranded companies can be difficult. But many a time when there are organizations which have been working in the business of commodities, or business to business only, and they are thinking in terms of generating a business-to-customer outlook, and they are dissociating themselves from the lot. So, there it would definitely become an important royalty relief method.

It assumes theoretically a company does not own the brand it operates under, but instead licenses the use for another. And the royalty relief method uses available data of similar arrangements in the industry and assigns the value of the brand as the present value of future royalty payments.

Again, some hypothesis is utilized, some valuation perspective is utilized here, some present value is utilized here, and some future values are utilized, and then the asset aspect is also there to accompany that. But again, the point is that we want to judge what is going to be the number associated with us in terms of this name, this logo, this symbol actually, for example, like it decides that today potentially decides that today.

Tata we all know, Infosys decides today and then we have statistics on this. You can visit some credible statistical sources, and you can think in terms of finding out, what brand valuation has been done for them. Then you can always think in terms of going backwards while reading literature or, either imagining, or if clues are given there that what kind of methodologies they have chosen.

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Now in terms of market approach, the brand sale comparison method is there. Now, this approach entails the valuation of the brand by observing current transactions concerning similar brands in a similar industry, and referring to similar multiples. Again, a different kind of perspective is simple. In other words, this approach takes the premium that has been paid for similar brands and applies this to the brands that the company owns.

Can it be with me as well? Now, the benefit of this method is that it appears from a third-party angle. That is what the third party is willing to pay. Then it is easy to calculate as well. However, the flaw in this approach is that the information for similar brands is rare, and the price paid for the same brand consists of the synergies and the specific goals of the buyers. And it may not be relevant to the value of the brand at issue.

As you would have noticed that none of the approaches is complete or composite by themselves. They can be utilized for specific purposes and by that expert who has that kind of efficiency for going for that kind of data. Finding out those details and then having that acumen of analysing, and calculating based upon that kind of information and data.

But, there are several kinds of flaws with almost every approach, but the purpose is the same. The objective is the same to reduce the flaws we can use multiple approaches and then collaborate the results with each other.

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Brand equity based on the equity evaluation method. Maybe it can also be seen with the reference to the market approach. Now, brand equity may be divided into components, the demand-enhancing component, which incorporates advertising and results in rate premium profits and the cost-benefit component, which is acquired by the brand during new product introductions and through economies of scale and distribution.

Hence, they essentially anticipate the price of brand equity using the financial market value. And the benefit of this method is that it is based on empirical proof. However, the shortfall of this method is that it assumes a very sturdy state of efficient marketplace hypothesis, and that all information is covered in the share price.

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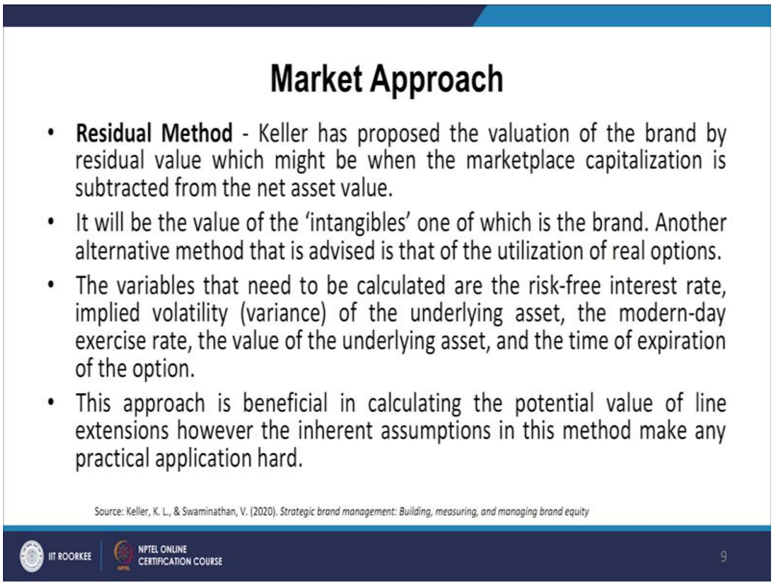

Then there is the residual method, and Keller has proposed the valuation of the brand by residual value which might be when the marketplace capitalization is subtracted from the net asset value. So again, we talked about the residual approach earlier as well. This approach is beneficial in calculating the potential value of line extensions. However, the inherent assumptions in this method make any practical application hard.

But again, there are pros and cons and profits, benefits and flaws to every kind of approach. Everything has to be seen cumulatively. The cost approach, I have talked about wherein accumulated cost or historical cost method is there.

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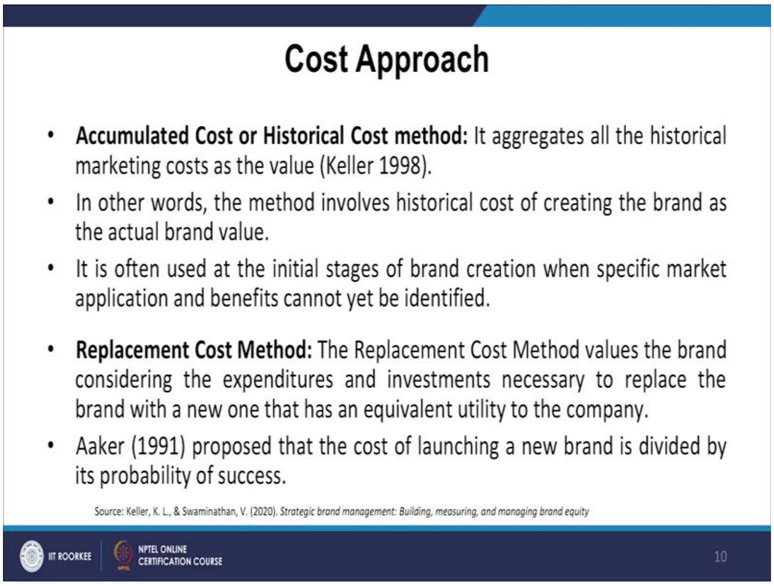

It is often used at the initial stages of brand creation when specific market applications and benefits cannot yet be identified. You see, it actually aggregates all the historical marketing costs as three values. Then there is the replacement cost method, which values the brand considering the expenditures and investments necessary to replace the brand with a new one that has an equivalent utility to the company.

Aaker has proposed that the cost of launching a new brand is divided by its probability of success. So, there are conversion models and customer preference models.

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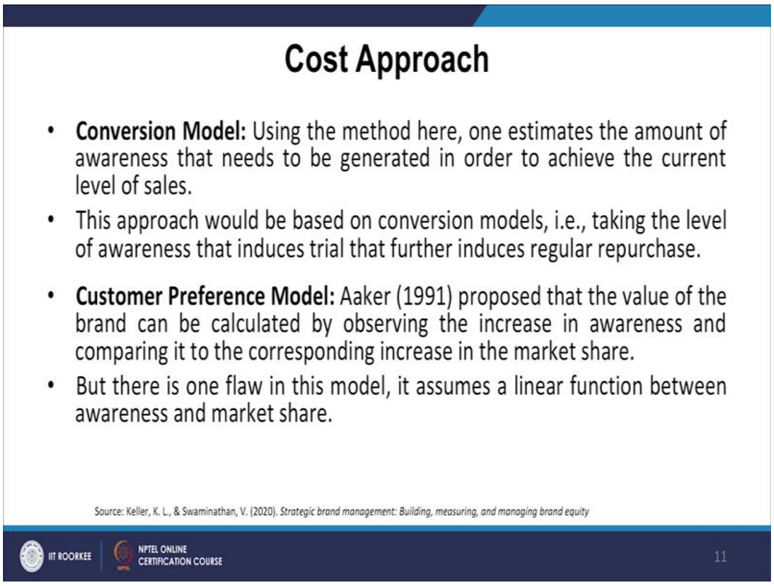

The conversion model is associated with that wherein one estimates the amount of awareness, that needs to be generated in order to achieve the current level of sales. This approach would be based on taking the level of awareness that induces trial, which further induces regular repurchase. What would take the customer forward, and then how the customer would keep on purchasing the product?

Are we thinking in terms of, analysing why a customer would become loyal at the end of the day? Probably yes. And the last part of, as far as my discussion goes, is the customer preference model. Customer is the king at the end of the day, Aaker in 1991, proposed that the value of the brand can be calculated by observing the increase in awareness and comparing it to the corresponding increase in the market share.

A very simple analysis and a wonderful one. Awareness gets generated and market share gets enhanced. Are we focusing on integrated marketing communication as a major part of the marketing program at this moment? And if we are, then you must visit the Integrated Marketing Communication course, which I recorded earlier, wherein there is one flaw with this model. It assumes a linear function between awareness and market share.

So, as I said, flaws are there, but let us look at the advantages of these models and let us utilize these models cumulatively to our advantage, as students of brand management as well as future brand managers. I will be coming back to you. Till then, keep studying. Goodbye.