Putting a Price Tag on Brands

By Joerg Niessing , INSEAD Affiliate Professor of Marketing

A universally accepted standard for brand valuation is an urgent need in a business world increasingly driven by intangibles.

The term “brand” represents something vital yet intangible – the nucleus of a unique customer relationship that drives purchases, but is only tangentially linked to actual products. It’s an identification that results in all-night queues outside the Apple Store when new iPhones arrive, or in consumer outrage when iconic packaging receives an impious redesign – as **Tropicana learned** in 2009, at a cost to the company of US$35 million. Establishing what brands are actually worth in terms of dollars and cents is no simple matter, much to the chagrin of potential investors as well as company directors.

Vendors such as Millward Brown and Interbrand promise to help companies resolve this ambiguity, each applying its own somewhat opaque methodology. But we believe it may be possible to develop a consistent and transparent standard for companies to use in-house. In fact, companies may require such a standard for brand valuation relatively soon, if long-expected changes to worldwide accounting rules take place.

A Blatant Contradiction

At the moment, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) do not consider "self-generated" brands, i.e. brands created internally (as opposed to acquisitions), to be assets, and forbid companies from listing them as such. And even for acquired brands, current accounting standards don't offer any way to quantify value increases over time, but mandate that they be fixed forever at their acquisition price – unless they lose value, which brands tend not to do.

This contradiction and the need to resolve it are addressed in the recent *Journal of Brand Management* article "**A case for brands as assets: Acquired and internally developed**" by Roger Neville Sinclair, (former Professor of Marketing at the University of the Witwatersrand in Johannesburg and a member of the Marketing Accountability Standards Board, MASB Advisory Council) and Kevin Lane Keller (Professor of Marketing at the Tuck School of Business at Dartmouth College and Executive Director of the Marketing Science Institute, MSI). "Until this conflict is rectified," the authors write, "the investment community will continue to miss out on a major source of enterprise value. This extends to boards of directors and their marketing departments being deprived of a key financial metric."

The accounting boards are at least dimly aware of the problem. Since 2001, they have made several stabs at addressing the basis of the contradiction: obsolete and inconsistent standards governing the recognition of "intangible assets" such as brands. But with the global financial crisis came a series of demanding projects that required the lion's share of the boards' attention.

Why It Matters

Sinclair and Keller convincingly argue that the authorities should redouble efforts to solve this problem sooner rather than later. They cite a study showing that since 1975, the percentage of enterprise value within the S&P 500 attributed to intangible assets has more than quadrupled, from 17 percent to 80 percent. (In addition to brands, a company's important "intangible assets" may include patents, processes, and the quality of its employee base). In the case of Procter & Gamble (which acquired Gillette in 2005), the authors point out that the company's non-tangible assets account for the entirety of shareholder equity, of which the Gillette brand is a major portion. "For a company like P&G or any firm that relies on brands for its survival, the value of the enterprise is dependent on its stewardship of these cash-generating assets," they write.

The data suggest that globalisation and increasing digitisation of commercial activity have tipped the balance of business away from physical and local resources and toward intangible properties that can more easily be translated across borders and technologies. As it stands now, major companies such as P&G appear to investors not unlike icebergs: massive, but with most of their bulk hidden from view. A coherent system for brand valuation would help investors and authorities pinpoint how deep or shallow a company's assets truly are.

A Price Tag For Brands?

Currently, I am working with some colleagues to develop a model for just such a system. How might companies measure the portion of revenue that is due solely to their brands? And how could this be made universally available to brand owners who need to measure brands in a way that is relatively easy to apply and not cost too much? Any reliable method would have to take into account consumer perceptions and preferences as well as the characteristics of the brand's category. The purest expression of brand value is the extra value the average consumer would pay for a smartphone because it is called Apple or Samsung. Without a blending of finance with consumer attitudes and behaviour, an acceptable figure would have no meaning.

In the long term, we envisage a world in which brand values produced by this approach are collected in a global database so that normative data can be made available for benchmarking, planning and academic research.

The current situation is untenable. On the one hand, the accountants allow a dysfunctional system to continue in which brands can be assets for a brief moment after they have been acquired but then cannot be recognised anymore once their nature is changed due to "internal development". On the other hand, there is no single valuation model that will produce reliable, consistent and comparable results that could have affordable utility in the closely related worlds of finance and management.

Our aim is to solve both problems with a single solution.

Joerg Niessing *is an Affiliate Professor of Marketing at INSEAD. You can follow Joerg on Twitter* ***@JoergNiessing***

*Follow INSEAD Knowledge on **Twitter** and **Facebook***

Find article at

https://knowledge.insead.edu/marketing/putting-price-tag-brands

About the author(s)

Joerg Niessing is a Senior Affiliate Professor of Marketing at INSEAD. He co-directs the **Leading Digital Marketing Strategy** and **B2B Marketing Strategies** programmes at INSEAD.