CHAPTER VI
EXISTING BRAND VALUATION MODELS

Several approaches towards determining the value of a brand have been evolved over a period of time. These models lay emphasis on the method of ascertaining the brand strength of a product or service of a corporate entity.

In the age of merger and acquisition in many cases takeover company gets more value than the actual tangible assets of the company. Ciba Geigy (HCGL) was sold in entirety as a going concern to Colgate Palmolive (I) Ltd for a total consideration of Rs. 1.31 billion in which only 88.7 mm (i.e. 93%) was towards value of brand, copy right, technical know-how and non compete agreement fees (Pearson Stewart, 1996). In 1988, Nestle bought the UK company Rowntree (with the famous brand Kit Kat, Polo, Quality Street, After Eight) for 2.4 billion pounds, even though its market capitalization was worth 1 billion pounds. This transaction amount was reached because Nestle was reacting to the first offer made by Jacobs Suchard on 13 April 1988 offering to buy the shares which were then worth 450 pence for as high as 630 pence. On 26 April, Nestle offered 890 pence. On 26 May Suchard bid 950 pence, leading Nestle to settle their final offer at 1075 pence.

6.1. REASONS FOR VALUING BRAND:

**Corporate identity:** A consumer knows a company by brand name. It is similar to the identity of a company. A consumer may not know the company name but he remembers the brand name.

**Proper disclosure:** So far company values its tangible assets based on historical cost method (deducting the accumulated depreciation from the cost of the asset). If a company wants to disclose the proper value of all assets it owned, it should also value the intangible assets like goodwill, brand, copyright
etc. Many accountants feel the need to change the basis of the balance sheet reporting by switching from an historic cost approach to an approach that will also include the intangible assets to represent the actual value of the company. It is not easy to value an asset at its actual cost. Thus their contention is that all the assets of the balance sheet should be reviewed and revealed on a regular basis and the balance sheet should be a proxy for a company’s true worth or value. This brings the need for valuing intangible assets and the need to reflect them in traditional financial statements.

**Merger and acquisition:** Merger and acquisition are taking place frequently in our economy. If a company values its intangible assets like brand then it gets an advantageous bargaining position at the time of merger and acquisition. The value of intangible assets of a company very often is more than tangible assets in case of merger and acquisitions.

**Security requirements:** Bankers may want to establish a fair value for intangible assets as part of their collateral security requirement for a company. If anyone uses a valuable brand then he gets good amount of credit by showing the brand.

**Quality accounting:** Brand value when included in company balance sheet enhances the quality of accounting practices since the value added by corporate brands are considered significant in financial statements. This could ultimately improve the financial accounting system and management control.

**Social obligation:** Brand valuation and its disclosure would help managers and shareholders in maintaining and enhancing the market value of firms. This could help especially the shareholders in making evaluation of companies (rating) before investing their money. This exercise in a way helps firm to fulfil their social obligations.
Other benefits: Brand accounting provides a strong basis for self-evaluation of the corporate. This could help firms making a perfect estimate of their ability to face the competitors. It not only helps in tackling competitors locally, but could be of much greater advantage to the foreign joint venture and collaborations.

For valuation purpose brand can be categorized into two types: (1) acquired brands; and (2) created or home-grown bands. In case of acquired brands, since a market transaction (cost of acquisition of a brand) has already taken place, a company can determine its cost. But difficulty arises for the valuation of created or home-grown brands. There are many schools of thoughts for valuation of created or home-grown brands.

Many authors represent brand value as brand equity. Brand equity is defined as the financial advantage of a brand over a generic or less worthy brand. So, these two terms are frequently used in the same sense.

6.2. COST-BASED BRAND VALUATION METHODS

Depending on the different types of cost concepts (i.e. historical cost, current cost, replacement cost, etc.), the following methods of valuation of brands have been developed.

Valuation by historical cost: Brands are recognized as assets of the company. Company invests over a period of time, to develop a brand. Historical cost concept is most acceptable concept in India for valuing any asset. Previously brands were valued based on historical cost concept only. In this method accountant should add together all the cost associated at a particular period of time: the development costs, marketing costs, advertising and communication costs, etc. These costs can be determined from the past income statements.
Historical cost method is simple and logical according to the conventional accounting method of India and abroad but while determining value of brand using this method an accountant may face some practical problems:

- In this method accountant should compute the total cost of developing a brand. There are some established brands in the world that are very old. Coca-Cola dates back to 1887, Danone to 1919, Bull to 1933. According to the rule accountant should determine the cost from the beginning (e.g. Coca-Cola from 1887). Here the assumption is that all the past advertisings still have an effect today. All past brands have some value today even if they do not exist.

- Advertising has a dual effect on the company: It generates extra sales which can be measured immediately (i.e. we just compute the extra sales for increase in advertising cost), and at the same time builds brand awareness and image which facilitates future sales.

- While adding up all costs of developing a brand, the determination of appropriate discount rate to calculate the past cost into the current value should also be done. If it is not done correctly then this method might be of no use.

- Valuation of brand should be associated with many things, which have not been considered in this method. Brand value is generated with consistent product quality, accumulated know-how, and service profit chain with the consumer, etc., these large parts of the long-term investment might not involve a cash outlay. These are all important for valuing brand but all of these may not be taken into account due to difficulty in converting them into monetary terms.

**Valuation by replacement costs:** In this approach, the value of a brand is based on the estimated costs and expenses incurred for the
replacement/recreation of existing brand. It is the opportunity costs of investments made for the replacement of the brand.

Here, Brand Value = Replacement Brand cost.

This approach overcomes some difficulties associated with historical costs approach. In this method various characteristics like absolute and relative market share, distribution network, image, leadership, quality of the legal deposition and presence in different countries, etc are taken into account. The expenses over a period of time are also considered in order to create an equivalent brand.

This method considered the cost of recreating a new brand, which is sometimes not feasible. The possibility of creating old brand like Coca-Cola, Kodak, Pepsi etc is perhaps nil. Considering the high failure rate of new product launches, it is not easy to determine the return on the large amount of money that has to be invested in the long term.

**Valuation by Market Price:** In this method accountant valued a brand at the current value to the business or the royalty that a company can get by licensing the brand to others.

In the real estate market the buyer is a price taker, which is fixed by the market. Irrespective of the use that he will make of the property, the price remains the same. For brands the buyer is a price setter, that is, he sets for the price of a brand. Each buyer bases his valuation on his own views on potential synergies and on his future strategy.

This method involves one of the following two processes.

i) Comparable Market value (MRV) and

ii) Comparable Royalty Rate.
i) Comparable Market value/ Net Realizable Value -

According to this approach the current corporate brands are valued at the current value (current cost) to the business. This method values the brand at the sale price if it is sold to others. For this it also takes into consideration the sale value of same type of brand in the market. This method deducts any probable expenditure for selling the brand in the market.

Here, Brand value = Comparable market value - Probable expenditure (if any)

This method is based on current cost accounting concept. Some shortcomings of this method are:

- The determination of actual brand value is very difficult.

- Value of assets (in case resalable assets or self generated assets) generally depends upon the bargain power of the buyer and seller.

- Some big company may not get the potential buyer who wishes to purchase the brand. In that case the brand value may be determined as zero where in reality the brand generates large amount of profit.

- The only solution suggested in this method is the comparable market value of the brand, but if the business has a monopoly in the market then this solution is not fruitful for determination the value of the brand.

ii) Comparable Royalty Method:

This method considers the annual royalty could the company hope to receive if it licensed the rights to use the brand to others. The brand owner also supplies a package of basic materials, know-how and services, which allows the licensee to maintain the brand’s appropriate quality level. This method considers other similar brand royalty value for actual determination of comparable royalty
value. This is most useful while taking the comparable royalty value and determining the cost or running the licenses. Here,

\[ \text{Brand Value} = \text{Comparable royalty value} - \text{Cost of running the licensees.} \]

This method overcomes some difficulties like non-existence of expected buyer of the brand, determination of total value of brand, in net realizable value method. This method consolidates license fee received throughout the life of brand at a total value at the present date. But the value still depends upon the bargain power between the seller and buyer.

63. BRAND CONTRIBUTION METHODS / POTENTIAL EARNINGS:

In these valuation methods a brand is valued by considering the prospect of synergies, complementary marketing processes and the attainment of strategic market positions.

The former brand valuations were based on the existing business of a brand taking into account current facts and figures provided by the firm. Brand value depends on how the acquiring company intends to exploit it, on the product categories that it will be extended to and on the markets that it should enter.

Isolate brand net revenues: This valuation method is based on the proper estimate of a brand’s contribution to the net profit. In this calculation the income related to brand is isolated from any other income of the company. It is difficult to isolate brand contribution from the total contribution of intangible assets like patents, know-how, marketing structure, business relationship etc. It is very much difficult to determine whether the success of Zantac is due to its brand or its revolutionary formula ranitidine. Amway Company sells its product by direct marketing systems so it is difficult to attribute the sale to the Amway brand and its marketing structure separately. Intangible assets are very much associated with each other, and hence the determination of the contribution due to brand is very much difficult. Accounting methods face the
same problem too. For example some products require little specific know how whereas some products requires some revolutionary know how and for that reason it generate larger profit. Smirnoff vodka’s reputation does not come from any specific characteristic of the liquid itself. However, its diffusion is due to the strength of the company that sells it. As vodka is practically a generic product, the only form of differentiation comes from brand image. Therefore it is only necessary to acquire the rights of ownership to the brand image (bottle, logo, label, and name). Counterfeits and counter-brands reinforce this point by the way that they try to closely reproduce these images. But IBM’s reputation depends mainly on its know-how rather than brand image.

Colgate - Palmolive wanted to come out from the nappies market so it sold its Caline brand in France for two or three million francs (Kapferer, 2006). The buyer Celatose, went bankrupt a few years later. Caline’s market share was not entirely due to its brand image and name. It had previously been created and nurtured by a permanent and costly emphasis on R & D and by the corporate power of Colgate - Palmolive over distributors. This is the problem associated with the sector where technology plays an important role, or where the brand makes a real and noticeable difference.

To determine the actual brand contribution one should deduct the cost of marketing the brand, R & D costs, taxes on the excess income from the brand contribution, which is calculated after deducting the cost of production and normal profit from sales value. The identification and quantification of earnings directly attributed to the brand can be performed in many ways:

**Utility cost method:** This method calculates the brand utility cost, by deducting normal utility cost charged by an unbranded product or services from sales. To arrive at final brand contribution this method excludes the contributions of manufacturing, distribution and marketing functions from the previous utility figure.
Brand contribution under the utility cost method is calculated as follows:

Turnover generated by the product or service \( XX \)

Less: Utility cost of manufacture \( XX \)

Contribution (excess) \( XX \)

Less: Marketing cost \( XX \)

Other overheads (R & D etc.) \( XX \) \( \text{or} \) \( XX \)

Brand contribution before tax \( XX \)

Less: Taxation \( XX \)

Brand contribution after tax \( XX \)

i.) This method considers the marginal tax rate.

ii.) This method allocates the central overheads to the intangible assets.

**Return on capital method:** In this method brand earnings are identified and separated from the earnings of the underlying business by deducting an appropriate remuneration for capital employed.
The calculation of brand contribution is as follows:

- Brand gross contribution
- Less: Marketing cost
- Other overheads
- Return on capital
- Brand contribution before tax
- Less: Taxation
- Brand Contribution after tax

This method

i.) eliminates the value added by other assets employed in a business such as distribution network, fixed assets, etc. but cannot eliminate the value added by other intangible assets

ii.) calculates the remuneration of capital employed by a branded manufacturer comparable with unbranded manufacturer

iii.) considers the marginal tax rate.

This method depends on the accountant’s ability to determine a fair remuneration on capital employed, which is appropriate for the industry and on the capital employed. For this he should take the average remuneration on capital employed of the industry.

**Premium profit method:** The return on assets made by a company or business with one or more valuable brand will be greater than the return on assets achieved by a similar company or business with no valuable brand and this difference is entirely due to the existence of the intangibles. This method calculates the excess return of a company resulting from its brand value.
This method ignores the other benefits of brands such as high sales volumes, resultant economies of scale, stable demand and higher margins. In this method the brand may be slightly undervalued.

**Price premium method:** This method involves the identification of the price premium commanded by a branded product or service over and above that of an unbranded or generic equivalent. Remy-Martin brand was valued using this method. The difference between the sales price of a branded production company and the average price of generic brand which is not very well known is discounted over 15 years on the basis of average annual sales and is considered as brand value.

This valuation method implicitly assumes that all brands pursue a price premium strategy. This method overvalues the expensive small brands and undervalues the major brands that pursue an aggressive pricing strategy and derive their profit largely from consumer appeal, economies of scale and productivity.

**Royalties method:** This method is based on the economic theory of deprival value, whereby it is assumed that a business does not own the brand under consideration and, therefore has to pay a royalty to the owners of the brand for its use. Here the value of the royalties after-tax that a company is relieved from paying as a result of ownership of the asset is capitalized. This method focused on incremental revenue, which could be gained through licensing the use of the brand to other business. The brand owner undertakes to supply a package of basic materials, know-how and services which allow the licensee to maintain the brand’s appropriate quality level.

**Brand sensitivity method:** In this method the brand strength is not measured by the number of buyers, but by the number of people who recognize the brand. This was suggested by Kapferer and Laurent in 1992.
This method helps valuing those brands that has a monopoly in the market (like CESC, WBSEB etc.). For low involvement products the customer's behaviour is greatly influenced by such situational factors and very little by brand attachment. The formula for estimating this excess profit is defined by the following formula:

$$SPM = [RM - (t \times ATM)] \times \text{sensitivity} \times \text{awareness}.$$ 

Where, RM = Income Generated by the brand,

t = Average return on capital.

ATM = Tangible assets used for the brands activities.

Brand sensitivity is calculated by asking consumers a series of questions on the influence of brand on their decision making process. Awareness captures the percentage of consumers who know the brand under consideration.

There are other approaches too. In some cases the buying intention of consumers who have a good or average image of the brand and of those who say they hardly, or don't, know the brand, are measured. Next the net contribution of a good or average brand image is measured from the difference in buying intentions of the two groups. The sample is divided into groups of customers according to heavy, average or light consumption or buying pattern. The percentage of heavy consumers having a good or average image allows the theoretical buying intentions to be constructed, which when weighted by the average buying volume of these heavy consumers, determines the volume due to the brand. Similar calculations can be done in the cases of average and light consumers.

6.4. ECONOMIC VALUE BASED METHOD

This is the classic method of valuing a brand. This method calculates the anticipated annual income attributable over a five or 10 year period. The
discounted rate used is the weighted average cost of capital, which if necessary is increased to take account of the risk arising from a weak brand. Beyond this period the residual value is calculated by assuming that the income is constant or growing at a constant rate to infinity. The formula for calculating the brand value in this method is:

\[
\text{Value of the brand} = \sum \frac{RB_t}{(1+r)^t} + \frac{RB_n}{(1+r)^n}
\]

Where,

\(RB_t\) = Anticipated revenue in year \(t\), attributable to the brand

\(r\) = Discounting rate

\(n\) = Number of years

\[
\text{Residual value after year } n = \frac{RB_n}{r} \text{ or } \frac{RB_n}{r-g}
\]

Where,

\(g\) = rate of revenue growth

This is the classical model for valuation by the discounted cash flow method, even though analysts offer numerous variations of it (Mauguere, 1990; Melin, 1990). This method was used to value Cognac Henuessy at 6.9 billion francs, based on a capitalization of its net revenue over 25 years at a rate of 6.5 percent by Blance and Hoffletter in the year 1990. This method was also used to value the Candia milk brand as part of a restructuring program. The final figure is around 1.8 billion francs.
6.5. COMBINATION - BASED METHODOLOGY

The above brand valuation methods are formulated on net earnings from brand or its market value, but the following methods are combination of these two types of methods discussed so far.

**Asset approach:** If a company or business is purchased at a price in excess of the net tangible assets of the company, it may be implied that at least some of this premium has been paid for intangible assets. This method determines the value of premium that can be applied to the intangible assets and apportions this amount to the various intangible assets under consideration. However considerable subjectivity exists in separating the value of the intangible under review from the other intangible assets and the goodwill of the business.

**Potential earning model:** This model is based on the estimated potential earnings that would be generated by a brand and their capitalization by using an appropriate discount rate. The volume of revenue raised by a brand in the market determines its value. The calculation is as follows.

\[
\text{Net brand revenue} \times \text{Capitalization Rate} = \frac{\text{The market value of brand}}{\text{Capitalization Rate}}
\]

Where,

\[
\text{Net brand revenues} = (\text{Brand units} \times \text{unit brand price}) - (\text{Brand units} \times \text{Unit brand cost}) - [\text{Marketing Cost + R & D Cost + Tax Costs}]
\]

In this model it is difficult to select appropriate capitalization rate and to determine the market cost related to the particular brand.
**Incremental model:** The value of brand in this method is measured in terms of incremental benefits achieved by the firm on account of additions made to the brand value as a result of acquisition or revaluation of brands.

Here, Brand Value = Total expected benefits after acquiring/ revaluing brands - Total benefits of brand owned.

### 6.6. OTHER METHODS:

There are many methods that have been invented by different financial analyst. Some of them are not so much popular but their effort cannot be ignored.

**Image power:** The method is used by Landys Associates. In this method they value the brand on its familiarity and esteem. Two independent criteria used for rating a brand are:

1) how well a brand is known and
2) how well a brand is regarded.

They considered brand equity to be a combination of being well known and well regarded.

**The conversion model:** Market Facts organization used this method for valuing brand. They measured the willingness of consumer for continuing buying a brand (or not) to measure the brand equity.

**Brand equity index:** Longman Moran first used this method for valuing brand. He multiplied market share, relative price and durability to measure the brand equity.

So, Brand Equity = Market Share x relative price x durability.
**Consumer brand equity:** This method is used by Leo Burnett. In this method he created a brand index after considering sales, price and the product distribution.

**Brand asset:** Young and Rubicam used this method for valuing brand. In this method they considered these aspects for valuation of brand:

\[ \text{Validity} = \text{Differentiation} \times \text{Relevance} , \]

\[ \text{Magnitude} / \text{Stature} = \text{Esteem} \times \text{Familiarity} \]

\[ \text{Brand Asset} = \text{Validity} + \text{Magnitude}/ \text{Stature}. \]

**Method used by DDB Needlam:** In this method he valued brand by multiplying brand awareness, liking and perceived quality.

**Valuation by Aaker model:** According to Aaker brand equity is “a set of assets and liabilities linked to a brand, its name and symbol that add value or subtract from the value provided by a product or service to a firm and/or to that firm’s customers”. According to him this assets and liabilities can be grouped under five categories:

1. brand loyalty;
2. name awareness ;
3. perceived quality;
4. brand association in addition to perceived quality; and
5. other proprietary brand assets - patents, trademarks, channel relationships, etc.
This brand equity enhances the customer confidence and satisfaction and ultimately provides value to firm in form of margin, competitive advantage, brand loyalty, etc.

![Aaker's Model of Brand Equity]

**Figure 6A. Aaker's Model of Brand Equity**

**Valuing brand equity by brand image and brand attitude using Aaker's model (James et, al. 2004):** This valuation method operationalizes brand equity and empirically tests a conceptual model adapted from the work of Aaker (1991) and Keller (1993), considering the effect of brand attitude and brand image on brand equity.
Primary survey is the first step in this method and from there this method estimates the brand equity. Primary survey is basically done on some consumers after taking their ratings on the few questions on brand attributes on seven-point semantic differential scale (likely/unlikely, probable/improbable, and possible/impossible).

From the rating data this method uses structural equation model (SEM) to construct the relationship and get the measurement on the latent variables, which are inferred (through mathematical model) based on the rating data.

This model is good for estimating brand equity from survey data. Some companies run partial least square after SEM to estimate the impact of different variables in numeric term.

This model is very much useful to establish the relationship of different attributes with brand equity. From the SEM techniques the relationship between different variable can be established but to get this relationship in numeric term it is essential to run partial least square (PLS) techniques. P&G, IHG (International Hotel Group) generally run a PLS after SEM to estimate the effect numerically.

Ambler and Barwise method: Ambler and Barwise, in the year 1998 defined brand equity as “The marketing asset that exist in customers minds and is of continuing value to the brand owner because it influences future purchases by the buyer and the buyer’s social network through word of mouth”. So their method was focused on studying the influence of brand on the consumer minds and hence their future purchase.

Srivastava and Shocker method: In the year 1991 these financial analysts defined the brand equity as “a set of associations and behaviours on the part of a brand’s customers, channel members and parent corporation that permits the brand to earn greater volume or greater margin than it could without the brand name and that gives a strong, sustainable and differential advantage”. So Srivastava and Shoker concentrated their view on customer behaviour and
channel members. This method somehow resembled the previous method but it is a better approach than the previous one.

**Equity trend:** This method is used by Total Research Corporation. They believe that the best measure is the consumer’s perception of the brand’s quality (as defined by the consumer). They use an eleven-point scale with 0 labeled as unacceptable/poor quality, 5 labeled quite acceptable quality and 10 labeled outstanding/extraordinary quality. In this method a respondent decides on what basis he or she will define the brand’s quality.

**Brand value by using momentum accounting:** This method is used by Peter H. Farquhar and Julia Y. Han. Momentum accounting is a new system to monitor changes in a brand’s earning power over time, along with the reasons for those changes. Momentum accounting also standardizes patterns for adjusting brand values. This method determined the rate at which income is being earned and expended for a brand (for example, dollars per day, per week, or per month).

**Stock-price approach:** This method uses stock price as a basis on which it evaluates the value of a firm and its brand equities. The argument is that the stock market will adjust the price of a firm to reflect the future prospects of its brands.

This approach starts with the market value of the firm, which is a function of the stock price and the number of shares, from which the replacement costs of the tangible assets (such as plant and equipment, inventories and cash) are subtracted. The balance, intangible assets, is apportioned into three components:

- the value of the brand equity;
- the value of the non brand factors (such as R & D and patents);
- the value of industry factor (such as regulation and concentration).
Brand equity is assumed to be a function of the age of a brand and its order of entry into market (an older brand has more equity), the cumulative advertising creating equity, and the current share of industry advertising (current advertising share is related to positioning advantages).

The problem of this approach is that if a firm has more than one brand, it is difficult to evaluate the value of each brand of the firm. The internal records of the company are sufficient to evaluate brand valuation / equity in this method.

The following sections will discuss the use of different brand valuation models mentioned so far, in brand valuation practices adopted by Interbrand as well as different corporate sector in India.

6.7. INTERBRAND BRAND VALUATION METHOD:

London based Interbrand, the World’s premier brand valuation firm valued the brand of different companies. To avoid any possible conflict of interest with its clients, Interbrand provided no financial data on any particular brand. The valuation process is divided in to four stages:

i) Calculating the applicable net profit: Interbrand uses the profits for the last three years (t-2, t-1, t), to avoid a possibly atypical evaluation based upon a single year. These profits are discounted to take account of inflation. A weighted average of these three figures is calculated in accordance with what we consider to be the most and least important years. This weighted average after-tax net profit, which is attributable to the brand, forms the basis of all calculations.

ii) Assessing the brand’s strength: This step uses a set of marketing and strategic criteria to give the brand an overall score. Interbrand uses seven factors and takes a weighted sum of the individual marks for each factor in order to calculate the overall mark. The key factors are as follows:
a) **Leadership:** A brand which leads its market or market sector is generally a more stable and valuable property than a brand lower down the order. To score highly in the area of leadership a brand must be a dominant force in its sector with a strong market share. It must therefore be able strongly to influence its market, set price points, command distribution and resist competitive invasions.

b) **Stability:** Long established brands that command consumer loyalty and have become part of the ‘fabric’ of their market are particularly valuable and are normally afforded high scores.

c) **Market:** Brands in the markets such as food, drinks and publishing are in most (but not all) cases stronger than brands in, for example, high-tech or high fashion areas as these markets are more vulnerable to technological and taste changes. A brand in a stable but growing market with strong barriers to entry will score high.

d) **Internationality:** Brands that have strong international acceptance and appeal are inherently stronger than national or regional brands. Significant investment will have been incurred in the international exposure of such brands and they are less susceptible to competitive attack. They are therefore more robust and stable assets. Moreover, by no means all brands are capable of crossing culture and national barriers so that they are not considered as valuable assets.

e) **Trend:** The overall long-term trend of the brand is an important measure of ability to remain contemporary and relevant to consumers and hence of its value.

f) **Support:** Those brands that have received consistent investment and focused support usually have a much stronger franchise than those that have not, and the amount spent in supporting a brand is very significant.
g) **Protection:** A registered trademark is a statutory monopoly in a name, device, or in a combination of these two. Other protection may exist at common law, at least in certain countries. The strength and breadth of the brand’s protection is critical in assessing its overall strength. If the legal basis of the brand is suspect it may not be possible to apply a value to the brand at all.

When assessing brand strength a detailed audit is therefore conducted to each brand. A detailed questionnaire that gives all relevant brand information in a structured and comprehensive way should normally be prepared and completed. Packaging as well as TV and press advertisement will need to be examined and inspection visits carried out to trade and retail outlets. Once a thorough understanding of the brand, its market, competitive factors, trends and so forth has been acquired, the brand is scored on each of the above key factors.

iii) **Estimating the multiple:** The strength of a brand directly determines the reliability of future income flows from that brand so the brand strength analysis can be used to determine the discount rate or the multiple to apply to the brand-related profits. Interbrand developed a model known as the ‘S-curve’ which plots the multiple against brand strength.

This model is based on Interbrand’s examination of the multiples involved in numerous brand negotiations over recent periods - in sectors close to the one being studied. The P/E (price/earnings) of the companies with the closest comparable brands has been used. Intebrand then reconstructed the company’s profit and brand strength.

iv) **Calculating the brand value:** The brand value is calculated by multiplying applicable net brand profit by the relevant multiple.
Some problems with the Interbrand method:

(i.) Market multiple that is used as a parameter of this model may not be a valid indicator of the strength of the brand. Brand sale price includes both the estimated value of the brand and a certain amount that arises due to overbidding at the time of acquisition of a company. So, market price includes the effect of this overbidding and thus overvalues the brand. Calculation of market multiples ignores the effect of this overbidding. Hence, the value determined by Interbrand will be greater than the value to the brand as it will include an unspecified amount which is a result of overbidding.

(ii.) If there is no overbidding, the stated multiple measures the value of the brand from the point of view of the potential buyers. It expresses their vision, their strategies and any synergies that they may expect. The fact that in 1985 BSN did not buy Buitoni despite it being reasonably priced does not mean that Buitoni was worth less, but means that it was worthless in the eyes of BSN. In 1988 Nestle valued it as of worth several billion Swiss francs.

There are few companies in India, which are valuing their brands. The Rs.38,000 crore Tata group has valued the brand ‘Tata’ at round Rs. 10,000 crore (The Statesman, 23rd February 2002.). In 1999 the brand was valued at around Rs. 4000 crore, so the company can conclude that their brand is doing well in consumer’s mind.

Some companies are regularly valuing their brands like Infosys, Rolta etc. They show the computation of brand valuation in their annual reports to inform their shareholders.

The next section will show method of valuation followed by these companies and the way of disclosure in the annual report.
Valuation of Rolta Brand

According to the Mumbai based Rolta Company, the escalating value of Rolta brand indicates that its financial growth will continue to be consistent and sustainable. It is due to persistent quality in manufacturing, selling, service, advertising and marketing. The company had engaged the services of Deloitte Haskins & sells, chartered accountants for valuing its brand.

The valuation method consists of the following steps.

1. Determining brand earnings by

   i) determining profits from the brand related business by eliminating the non brand profits from the total profits of the company.

   ii) restating the historical profits at present day values.

   iii) providing for the remuneration of capital to be used for purposes other than promotion of the brand.

   iv) adjusting for taxes.

   v) deducting profits attributable to other intangibles associated with the business of the brand.

2. Determining the brand - strength or brand earning multiple as a function of a multiple of factors like leadership stability, market, internationality, trend, support and protection. These factors are evaluated on a scale of 1 to 100.

3. Computing the brand value by multiplying the brand earnings with the multiple derived in step 2 above.
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</tr>
<tr>
<td><strong>exceptional items (b)</strong></td>
<td>169</td>
<td>43</td>
<td>-</td>
</tr>
<tr>
<td><strong>Add: Interest (c)</strong></td>
<td>123</td>
<td>95</td>
<td>72</td>
</tr>
<tr>
<td><strong>Non - Brand income (d)</strong></td>
<td>(10)</td>
<td>(3)</td>
<td>(3)</td>
</tr>
<tr>
<td><strong>Net operating profit before</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>interest and tax (a+b+c -d = e)</strong></td>
<td>901</td>
<td>554</td>
<td>352</td>
</tr>
<tr>
<td><strong>Inflation Compound factor (f)</strong></td>
<td>1.00</td>
<td>1.06</td>
<td>2.12</td>
</tr>
<tr>
<td><strong>Present value of profits for</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>the brand and associated</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>intangibles (e x f = g)</strong></td>
<td>901</td>
<td>587</td>
<td>396</td>
</tr>
<tr>
<td><strong>Weightage factor (h)</strong></td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td><strong>Weighted profit (g x h = i)</strong></td>
<td>2,704</td>
<td>1,175</td>
<td>396</td>
</tr>
<tr>
<td><strong>Three year aggregate weighted</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>average annual profits (i)</strong></td>
<td>712</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average annual capital employed (k)</strong></td>
<td>2,658</td>
<td>2,134</td>
<td>1,674</td>
</tr>
<tr>
<td><strong>Average capital employed for the 3 years (m)</strong></td>
<td>172</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Profits attributable to Brand and other</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>associated intangibles (n)</strong></td>
<td>540</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Income tax (o)</strong></td>
<td>208</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Profits after tax attributable to Brand and other associated intangibles (n-o = p)</strong></td>
<td>332</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Brand Multiple Applied (q)</strong></td>
<td>21.333</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Brand value (pxq)</strong></td>
<td>7,083</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The assumptions of this valuation process:

1. Return on average tangible capital employed in brand related operation is assumed at 8%.
2. Tax rate assumed to be 38.5% of profits before tax
3. The brand earnings multiple is based on a brand strength for Rolta based on the following parameters namely market, stability, leadership, trend, support, internationality and protection.

In the year 2000 the valuation of Rolta brand has been increased to Rs. 12.20 billion or Rs. 12200 million from Rs. 7083 million. The appreciation of brand value is 72.24%.

**Infosys valuation:**

Infosys valued their brand in the same way as adopted by Rolta Co. i.e. using brand earning multiple model.

The valuation process adopted by the Infosys Technologies Limited in different years has been shown below:

**Table 6B Computation of Infosys brand value in the year 2007 (year ended March 31\textsuperscript{st})**

<table>
<thead>
<tr>
<th>in Rs. Crore</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before interest and tax</td>
<td>3,877</td>
<td>2,654</td>
<td>2,048</td>
</tr>
<tr>
<td>Less: Non-brand income</td>
<td>335</td>
<td>125</td>
<td>112</td>
</tr>
<tr>
<td>Adjusted profit before tax</td>
<td>3,542</td>
<td>2,529</td>
<td>1,936</td>
</tr>
<tr>
<td>Inflation factor</td>
<td>1</td>
<td>1.064</td>
<td>1.132</td>
</tr>
<tr>
<td>Present value of brand profits</td>
<td>3,542</td>
<td>2,690</td>
<td>2,192</td>
</tr>
<tr>
<td>Weightage factor</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Weighted average profits</td>
<td>3,033</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remuneration of capital</td>
<td>457</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brand-related profits</td>
<td>2,576</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax</td>
<td>867</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brand earnings</td>
<td>1,709</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brand multiple</td>
<td>18.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brand value</td>
<td>31,617</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Assumptions:

- The figures above are based on consolidated Indian GAAP financial statements.

- Total revenue after excluding other income and cost of earning is considered as brand revenue. Infosys’s valued the brand as a company and not for any of Infosys’s products or services.

- Inflation is assumed at 6% per annum, 5% of the average capital employed is used for purposes other than promotion of the brand, and tax rate is assumed at 33.66%.

- The earnings multiple is based on Infosys’s ranking against the industry average based on certain parameters (exercise undertaken internally and based on available information).

(Extract from Infosys Annual Report)

Table 6C Brand Value as a Percentage of Market Capitalisations (in Rs. Crore)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand value</td>
<td>31,617</td>
<td>22,915</td>
<td>14,153</td>
</tr>
<tr>
<td>Market capitalization</td>
<td>1,15,307</td>
<td>82,154</td>
<td>61,073</td>
</tr>
<tr>
<td>Brand value as a percentage of market capitalisation</td>
<td>27.40%</td>
<td>27.90%</td>
<td>23.20%</td>
</tr>
</tbody>
</table>

Some special Points to be noted:

Analysis of the Annual Report of the company for the year 2007 shows
1) The non-brand income assumed in the valuation process is not 9% of the total income (As recommended by the brand multiple method)

2) Brand multiple is changed in different years. So it is separately determined in each year.

Brand-strength multiple is a function of a multitude of factors like leadership, stability, market, internationality trend, support and protection. These factors have been evaluated on a scale of 1 to 100, internally by the Infosys management, based on the information available within the company.

The brand valuation methodology of Infosys brand is similar to the brand earning multiple method except certain points. The Infosys method has some drawbacks:

1) Distinction of branded and non-branded income is not very much clear. They cannot disclose it anywhere in the company’s annual report that why they take 9% of other income as non-brand income.

2) Determination of brand multiple is not also clearly stated. They only state a value as the brand multiple of that year based on certain factors. The factors are evaluated on the information available within the company. Brand multiple depends on the performance of nearest competitive available in the market. So the company should consider other brands and a broad market study should be taken before determining the brand multiple.

3) The value of human resource of the company for the year 2006 and 2007 are Rs. 46,637 crore and Rs. 57,452 crore respectively. The returns on human resources for 2006 and 2007 are 5.3% and 6.7% respectively.

**Satyam Computer Services (Business Standard, 30 May 2002):**

Satyam Computer Services also valued their brand. They used brand multiple earning model for valuing their brand. The brand earning for the year 2002 was
Rs. 2206.6 million and the brand multiple was estimated to be 14.5. The brand multiple was estimated based on internal evaluation, the company mentioned in their 15th annual report. The non-brand income for the company was considered at Rs. 146.6 million. The value of brand for the year 2001-2002 is Rs. 31996.5 million compared to Rs. 22745.4 million in 2000-2001 and Rs. 15176.2 million in 1999 - 2000.