

"My Brand's Bigger Than Your Brand"

How NOT to get Caught in the Brand Valuation Trap

by Jonathan Knowles and Pat LaPointe

Like moths to a flame, marketers are attracted to published rankings of brand value to see how their brand compares to those of key competitors, and how much it went up or down year-on-year. These rankings cater to both the basic human instinct of the need for comparability and to marketers' desire to demonstrate that their investments are creating tangible shareholder value.

Brand valuation is regarded by many marketers as providing the definitive proof of the business value of marketing. Their assumption is that the ability to ascribe a single, financial figure to a brand will elevate their status in the eyes of their numerically endowed colleagues in finance and give the

CEO the answer she's looking for to the question, "What are we getting for all this marketing spending?"

The appetite for brand valuation data is so strong that three respectable agencies now produce annual rankings of the world's most valuable brands. Given that these rankings are published in reputable journals such as *BusinessWeek*, the *Financial Times* and *The Banker*, and quoted in many others, this should amount to an emphatic validation of the importance of brand valuation.

But there's a slight problem. The valuations of the same brand differ wildly across the three rankings. Not by the odd 20% - but by as much as a factor of four. Putting the highly volatile

financial sector aside for the moment, legitimate arguments may be put forward about why the estimates of the value of the brands of high growth companies such as Apple and Google might vary considerably (is the growth caused by the product or by the brand?). But it is harder to rationalize why the value of Coca-Cola should vary from \$45bn to \$67bn depending on whose 2008 ranking you read.

We compared the 2007 and 2008 rankings of the world's most valuable brands produced by Interbrand, Millward Brown and Brand Finance. The two former publish a top 100, the latter publishes a top 500 list. There are 53 brands that appear in common between the three lists across both years. The sum total of value of these 53 brands in each year is similar for each list, suggesting that there is no systematic bias by one agency in favor of higher valuations across the board.

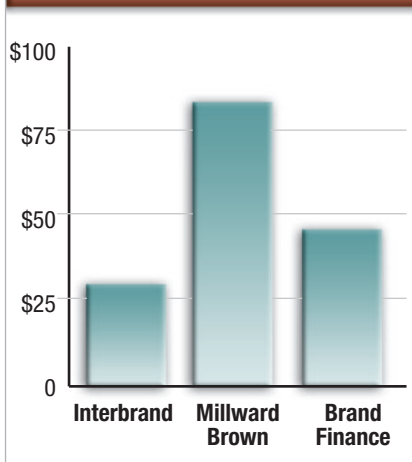
Some variance should be expected given that there are differences in the valuation methodologies used by each agency. Interbrand and Millward Brown both use an "earnings split" approach which calculates brand value as the net present value of the proportion of a company's forecast future earnings that are directly attributable to its brand. However, each uses different sources for the forecast future earnings and, more critically, the estimation of what proportion of earnings are brand-related. In contrast, Brand Finance uses a royalty rate approach which estimates what a company would have to pay out in

Figure 1: 2008 Brand Value in \$Billions

Brand	Interbrand	Millward Brown	Brand Finance
Apple	\$13.7	\$55.2	\$21.8
Google	\$25.6	\$86.1	\$43.1
HSBC	\$13.1	\$18.5	\$35.5
Oracle	\$13.8	\$22.9	\$9.5
McDonald's	\$31.0	\$49.5	\$21.8
GE	\$53.1	\$71.4	\$36.1
Pepsi	\$13.2	\$15.4	\$24.8
Marlboro	\$21.3	\$37.3	\$23.7
BMW	\$23.3	\$28.0	\$17.2
Microsoft	\$59.0	\$70.9	\$44.5
IBM	\$59.0	\$55.3	\$37.9
Coca-Cola	\$66.7	\$58.2	\$45.4



Figure 2: Google 2008 Brand Value in \$Billions



royalties if it were licensing its brand from a third party. This approach starts with a sector average royalty rate that is then flexed up or down according to the strength or weakness of the individual brand.

The trouble is that each of these valuation methods can result in dramatically different estimates of the value of individual brands. In the 2008 survey, the average difference between the low and high figure for each of the 53 brands was around 100%. This is an increase over the 2007 surveys where the average high-to-low difference was (only) 85%. For certain brands the differences were even more marked – Figure 1 shows some examples of the value ascribed to some of the top brands in the 2008 rankings.

The three agencies can't even seem to agree about which brands make it into the top 100 list. In 2008, there were only 46 brands that were common to

each of the three lists, (the number for 2007 was 48). And while Millward Brown and Brand Finance tend to be most in agreement, they are still only in agreement about 70% of the time.

However, the most troubling thing of all is the lack of agreement between the three agencies about whether the value of individual brands is increasing or decreasing from year to year. For nearly half of the brands that were common to the three rankings in both years, they disagreed about whether the value of those brands had risen or fallen over the previous year. Figure 3 is a comparison of the percentage change in brand value for a number of leading brands between 2007 and 2008:

Implications for Marketers

The most important implication for marketers is that it takes an expert to truly explain the differences underlying the valuations derived from each methodology. Each agency has a

strong rationale for its preferred approach. But they can't each be right, can they? So if it's not clear why one brand is valued substantially higher/lower than another or whether brand value has gone up or down, then considerable care should be taken when using the numbers in conversations or reports. Credibility can be lost much faster than it is gained.

The mathematically creative marketer may be tempted to attempt to "triangulate" amongst the three rankings and look at averages, mean differentials, or indexes to neutralize the variances in the valuation methodologies. The statistical validity of this is questionable (trust us – we have done this analysis) and it overlooks the bigger problem, namely that the valuation differences may be less the result of the valuation methodologies than a reflection of fundamental differences of opinion between the three agencies about the relative importance of brands across different industry sectors. For example, Brand Finance seems to believe in a

Figure 3: % Change in Brand Value '08 vs. '07

Brand	Interbrand	Millward Brown	Brand Finance
McDonald's	6%	49%	-9%
Gillette	8%	20%	-1%
Samsung	5%	-7%	-16%
Disney	0%	5%	-15%
Mercedes	9%	1%	-11%
BMW	8%	9%	-4%
Marlboro	0%	-5%	-12%
Budweiser	-2%	9%	6%
UPS	5%	-4%	5%
HSBC	-3%	6%	6%

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stronger role for brands in the financial services industry than do the other two agencies.

Even assuming that your organization is financially savvy enough to identify the valuation methodology that is most appropriate to your brand context (industry structure, company culture, competitive dynamics, etc.), you still need to anticipate how to account for potentially substantial swings in valuation from one year to the next. At some point it will most



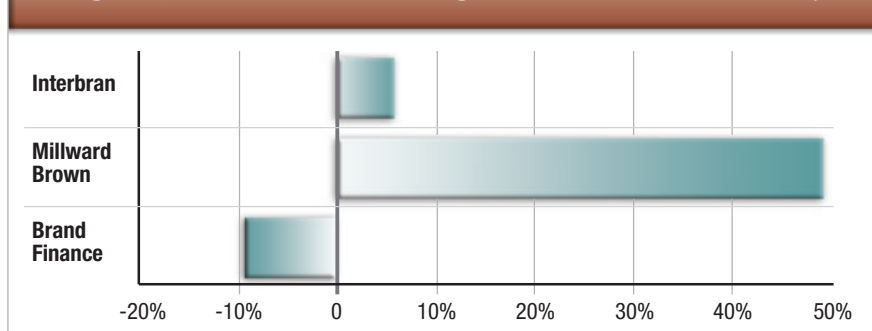
What Conclusions Should Marketers Draw?

First, hopes that brand valuation would be the “silver bullet” of marketing accountability need to be put on ice until such time as there is a Generally Agreed Approach to Brand Valuation that delivers results that are broadly consistent across different providers (in the same way that GAAP gives confidence that the financial results for a given firm will look essentially identical irrespective of the accounting firm that is producing them).

year earlier in its \$57bn acquisition of Gillette. Note that these acquisitions were in the same industry sector and less than one year apart.

Third, given the host of factors beyond marketers’ control that affect the final valuation number, marketers need to focus on the variables over which they have demonstrable influence. Their argument should be that marketing acts as a multiplier on the underlying performance of the business. Their goal should be to identify the marketing metrics that best measure the value that marketing delivers to the business – more customers, greater retention of customers, more revenue per customer, and more margin per dollar. Translating this simple approach into a credible financial framework is then a matter of accounting for the impact of marketing on the three major drivers of business value - profit, growth and risk. Unless and until marketers first establish a foundation of credibility by quantifying the impact of marketing on cash flows, any talk about marketing’s contribution to asset creation is likely to be discounted, if not blatantly ignored.

Figure 4: McDonald's % Change in Brand Value '08 vs. '07




certainly happen, and when it does it can be very difficult to forensically trace the differences back to specific causal factors – a task which is often far more qualitative than the quantitative nature of the valuation process would lead one to believe.

In the light of the above, it is only the bravest or foolhardiest of marketers who would set KPIs for themselves or their department based on year-to-year changes in the absolute or relative valuation or ranking of their brand. The unexplained variations can be demoralizing and cause very perverse thinking about prioritizing actions.

Using the current brand valuation surveys as proof of the value of marketing is a strategy that will surely backfire once your finance colleagues begin to examine the data.

Second, marketers need to remind themselves that the value of a brand is deeply contextual – there is no “market price” at which the marginal buyer and seller will transact. Brands change hands only infrequently and when they do, their valuation is driven by a host of company- and industry-specific factors. For example, Johnson & Johnson paid \$16.6bn in 2006 for Pfizer’s consumer goods business – this 4.3x multiple of sales compares with a 5.7x multiple that P&G paid a

It is understandably human to be attracted to rankings and ratings to see how we stack up to others. But, as in other areas of business and life where we are tempted by our basic instincts, our duty is to resist the temptation and focus our energies on activities which will add real value to our businesses. 

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For a complete listing of companies surveyed for this report including brand value data across the three different rankings and % change from 07 to 08, please visit www.MarketingNPV.com.