

What is more, a strong brand may constitute an enabling platform for new products or services in the course of brand extensions, line extensions¹⁹³ and other strategic options such as new distribution channels or new geographic markets.¹⁹⁴

Like for proprietors, risk reduction is one of the central brand functions from a customer's point of view. As set out above, the information a brand conveys and experiences consumers have with the brand build a specific brand image in consumers' minds. As buying decisions are generally made on the basis of incomplete information, a positive experience and therefore a favourable brand image raise the likelihood of repurchase considerably. Strong brands can therefore significantly facilitate and accelerate the decision making process and thereby lower transaction cost.¹⁹⁵ This reduced complexity provides orientation and lowers risk of buying something unknown or unwanted. The certitude and trust a strong brand conveys do not only reduce this functional risk (related to performance) but also economic risk (linked to price), experiential or social risk (related to customers' experience with the product or their social image respectively).¹⁹⁶ Due to such risk perceived by customers, the offeror needs to build trust within the target audience. The main instrument for achieving this is a strong brand.¹⁹⁷ Closely linked to experiential risk is the issue of quality. As every brand conveys a certain statement with respect to the quality of the marked product or service, brands can, if they are experienced positively by customers, function as a quality guarantee and orientation in this regard (so-called warranty function).

p. 22. Note that currently only the two strongest consumer goods brands are able to keep or increase their market share; others lose market share to store brands, cf. *Esch/Wicke/Rempel*, Herausforderungen und Aufgaben des Markenmanagements, p. 12.

193 For an explanation of these terms cf. fn. 182.

194 *Kaufmann/Sattler/Völckner*, Markenstrategische Optionen, pp. 2 et seq.

195 *Bamert*, Markenwert, p. 47.

196 *Kapferer*, The new strategic brand management: creating and sustaining brand equity long term, p. 11.

197 *Eva Wellendorff* of *Schmuckmanufaktur Wellendorff* in Pforzheim, Germany, in 2001: "Eine unverwechselbare Marke gibt dem Kunden Sicherheit." ('A unique brand gives the customer certainty.'). cf. <http://www.gem-online.de/markendefinitionen/index.php?id=16&keyword=> (last accessed July 11, 2006). *Karl Popp*, then president of the Austrian branded goods association, similarly said in 1997: "In einer immer unsicherer werdenden Welt bietet die Marke das, was die Menschen sich wünschen: Sicherheit – Vertrauen – Qualität." ('In a world becoming increasingly insecure, the brand offers what people wish for: Certainty – trust – quality.'). cf. <http://www.gem-online.de/markendefinitionen/index.php?id=12&keyword=> (last accessed July 11, 2006).

For consumers, brands also fulfil a social image or prestige function. As early as in the 19th century, *William James* was aware of the fact that a “man’s self is the sum total of all that he can call his, not only his body and his psychic power, but his clothes and house, his wife and children, his ancestors and friends, his reputation and works, his lands and yacht and bank account. All these things give him the same emotions.”.¹⁹⁸ In this light, brands can act as means of outward communication of one’s own personality. Inversely, consumers can utilise brands in order to define their own identity by conferring certain brand attributes to themselves. They can thereby show social group membership. In some cases, brands even give meaning in a quasi-religious way.¹⁹⁹

2.1.2.3 Intermediate Findings

The preceding details have shown that trade marks and brands are overlapping but distinct. A trade mark, as a legal concept, is a government-granted exclusivity right which is renewable ad infinitum. It can be defined as a sign or combination thereof, provided that such signs are capable of distinguishing goods or services from one undertaking from those of another. As such, it performs functions of origin and differentiation, both of which are important for assessment of important points of trade mark registrability and infringement.

A trade mark is, if used in practice, always accompanied by marketing elements in combination with which it constitutes a brand. Hence, a trade mark is a brand inasmuch as it is protected by trade mark law. For this reason, this work is concerned with brand valuation instead of merely with trade mark valuation.

A brand is a complex, personality-like phenomenon with the interrelating components brand identity and image. It can be defined as a bundle of specific benefits which ensures that it – from the viewpoint of relevant target audiences – strongly differentiates from other such bundles meeting the same needs. Brand achievements, as components of brand identity, comprise the market-oriented signage (also known as devices), such as logos, sounds or specifically designed smells, some of which is protectable as trade marks.

198 *James*, *The Principles of Psychology*, p. 291; as cited by *Burmam/Meffert/Koers*, *Stellenwert und Gegenstand des Markenmanagements*, p. 12.

199 *Bamert*, *Markenwert*, p. 49.

Brands affect almost every sector of the respective business. Brand management, therefore, needs to be carried out in a holistic way. If this is done successfully, the respective brand will be able to generate and maintain a strong and positive consumer relationship, reducing risk and lowering transaction cost on both sides. What is more, it will ensure relatively low cost of capital. In addition, strong brands can open up strategic options for the proprietor and (especially in some sectors, e.g. the luxury car sector) fulfil a social prestige function for the respective (internal and especially) external target groups.

2.1.3 Findings

Both trade marks and brands are intangible assets. Trade Marks, in particular, belong to the subgroup of intellectual property and can be part of the signage or device part of brands. In other words, the part of a brand known as a device can be protected as one or several trade marks, but this is not a *conditio sine qua non* for the existence of a brand.

For purposes of comprehensive brand valuation, it is important to understand both nature and functions of brands as these are value influencing factors. It has therefore been elaborated that brands bring about certain characteristics both due to their belonging to the group of intangible assets and due to their nature as complex, personality-like phenomena. These characteristics and functions, such as the ability and potential to reduce certain risks, need to be operationalised in any proper valuation tool for use in the course of comprehensive strategic (i.e. future-related) valuations.

2.2 Introduction to Brand Valuation

2.2.1 Development of Brand Valuation

The first brand valuation literature was publicised as early as 1962,²⁰⁰ yet the topic was hardly mentioned in the period before 1985.²⁰¹

200 *Kern*, Betriebswirtschaftliche Forschung und Praxis 1962, 17.

201 *Kapferer*, The New Strategic Brand Management: creating and sustaining brand equity long term, p. 443.

It was not until the late 1980s that brand valuation became a concept which was increasingly used in business. Widespread takeover bids for and acquisitions of large brand-focussed companies sparked this process. Many businesses sought to enlarge their brand portfolios for reasons such as cost savings in production and distribution and the fact that the development and management of new brands is sumptuous.²⁰² As it was expressed in a 1985 *Los Angeles Times* article, “In recent weeks, the business world watched as almost \$15 billion and about 400 brand names changed hands in rapid-fire sequence. Before the dust began to settle, Procter & Gamble owned Richardson-Vicks, Philip Morris Inc. had General Foods, R.J. Reynolds Industries consumed Nabisco Brands and Monsanto took G.D. Searle & Co. [...] The brand name suddenly has emerged as the most coveted corporate asset of all. Brands no longer are merely products competing for market share; they’re annuities being plugged into the big-money equations of corporate acquisitions. It has become wiser to grab somebody else’s established brands and extend the lines than spend \$80 million or more trying to get a new name into the mix.”²⁰³

Hence, the hidden value generated by brands began to be unveiled as large sums were paid for companies whose tangible assets’ value was estimated to be far lower than the actually paid price. When *Philip Morris* bought *Kraft Foods* for US\$ 12.9 billion in 1988, 11.6 billion US\$ were estimated to account for the brand value.^{204 205} This was and still is due to the fact that internally generated brands may not be posted in the balance sheet. Another reason for increasing need of brand valuation was that every single merger and acquisition transaction necessarily involves a pricing process.

Furthermore, in the late 1980s, a number of British companies such as *Cadbury Schweppes* and *Guinness* sparked a brand accounting debate by including acquired brands as separate assets on the balance sheet (instead of leaving them as not recognisable parts of goodwill, which was widespread practice at that time).²⁰⁶ The intensive discussions raised thereby contributed to an

202 It is estimated that the complete development of a new brand in the USA, Europe and the Middle East costs approximately one billion US\$, cf. *Häusler/Stucky*, Markenmanagement und finanzielle Transaktionen, p. 6.

203 *Los Angeles Times*, 1985, as cited by *Tauber*, 16 *Journal of Advertising Research*, iss. 4, 26, 26 (1988).

204 *Farquhar/Han/Ijiri*, 1 *Marketing Management*, 16, 16-22 (1992).

205 This brand takeover spree was not just an American phenomenon but could be observed in virtually all developed economies. For instance, *Nestlé* acquired *Rowntree* and *Danone* took over *Nabisco*’s European business.