

A substantial part of all brand experts specify the fact that there is no suitable method for brand valuation as a main reason for this abstinence.<sup>350</sup> Another paramount cause for refraining from brand valuation is the fact that such a valuation would be too time and/or cost intensive.<sup>351</sup>

Yet current literature shows that the belief in necessity and importance of brand valuation is undaunted. The abovementioned 2005 survey proves that – even though scepticism vis-à-vis current brand valuation tools is still strong – the majority of brand professionals is convinced of the importance of adequate valuation.<sup>352</sup>

Hence, despite the fact that most industry brand professionals have come to understand and appreciate that brand valuation is essential for a number of reasons, less than half of them actually perform such valuations. An implementation gap is slowly declining but still manifest.

The analyses following in this chapter will illuminate whether reasons having led to this gap are justified and if there are means to overcome it.

### 3.1.2 Systematisation of Brand Valuation Methods

As mentioned above, there are hundreds of brand valuation techniques available. Both practitioners and scholars divide them into groups in order to facilitate access to and understanding of the respective methodical information. More importantly, the analysis of some valuation techniques which will be performed later in this chapter can only be systematically carried out if the necessary degree of comparability between the discussed methods is reached. Such scrutiny therefore necessitates segmentation of methods into groups as a prerequisite for their analysis. Hence, the question how brand

350 *PricewaterhouseCoopers/GfK/Sattler/Markenverband* (ed.), *Praxis von Markenbewertung und Markenmanagement in deutschen Unternehmen*, p. 18, states that almost half of the surveyed experts saw this as a substantial reason for brand valuation abstinence (in 2005 – compared to 53% in the year 1999). *Günther/Kriegbaum-Kling*, *Schmalenbach Business Review* 2001, 263, 278 found that, in 2001, 36.7% of the respondents claimed there exists no suitable brand valuation method, this being the principal reason for not carrying out brand valuations.

351 *Günther/Kriegbaum-Kling*, *Schmalenbach Business Review* 2001, 263, 278; *PricewaterhouseCoopers/GfK/Sattler/Markenverband* (ed.), *Praxis von Markenbewertung und Markenmanagement in deutschen Unternehmen*, p. 18.

352 *PricewaterhouseCoopers/GfK/Sattler/Markenverband* (ed.), *Praxis von Markenbewertung und Markenmanagement in deutschen Unternehmen*, p. 9.

valuation methods can be expediently put in order needs to be answered at this point.

In theory, there are many different ways of systematic arrangement. A number of these can be found in current literature. For example, valuation models can be systematised according to disciplinary breadth,<sup>353</sup> time perspective,<sup>354</sup> process of value determination, degree of abstraction or process of data collection.<sup>355</sup>

However, a sustainable and acknowledged classification approach seems to be a categorisation on the basis of an assessment of the nature of input and output criteria or, in other words, the scientific discipline these criteria belong to.<sup>356</sup> Such procedure leads to a subdivision into three classes of methods: financial, psychographic and hybrid (combining the first two) ones. This is the most persuasive *modus operandi* since input and output criteria are central to every valuation process. The employment of these criteria lets one arrive at a clear and focussed distinction of models which allows for their systematic comparison yet keeps the subgroups as broad and thereby as easy to comprehend as possible. Furthermore, such subdivision facilitates communication between valuation specialists and their clients since a partition according to scientific disciplines is easily comprehensible for valuation laypersons. For these reasons, this classification approach is both widely used in general and utilised here in particular.

Financial models are characterised by their focus on variables measured in financial units, both with respect to input and output parameters of value determination. Such models mainly process data derived from the respective company's internal auditing processes.

Psychographic (also named customer-related or behavioural) models focus

353 *Irmischer*, Markenwertmanagement. Aufbau und Erhalt von Markenwissen und -vertrauen im Wettbewerb, p. 86 differentiates total ('Totalmodelle') and partial models ('Partialmodelle').

354 *Sattler*, ZfB 1995, 663.

355 *Baumgarth*, Markenpolitik. Markenwirkungen – Markenführung – Markencontrolling, p. 288, for instance, distinguishes compositional and decompositional brand valuation tools, the former being composed out of a multitude of single value factors, the latter starting with a global assessment which subsequently is being fractionised into individual components.

356 Similar to *Jenner*, Das Wirtschaftsstudium 2000, 945-951; *Esch/Geus*, Ansätze zur Messung des Markenwerts, pp. 1025-1057; *Cheridito*, Markenbewertung, pp. 946 et seq.; *Meissner*, Markenbewertung bei Mergers & Acquisitions. Analyse und Konzeption am Beispiel der Pharmaindustrie, pp. 122-152.

either on customer perception concepts or on criteria of buyer behaviour. Input data shows no financial dimension at all, nor is it being transformed into monetary parameters in the course of the valuation process. Such data is usually collected by specialised market research companies by means of customer surveys, customer observation or sales data analysis.<sup>357</sup>

Hybrid valuation models combine the two aforementioned methodical categories. Brand-related consumer behavioural factors are being detected and analysed. Output from such analysis is then combined with and/or related to economic parameters, such as estimated future income streams, in order to arrive at a brand value dimensioned in a monetary figure.

In each of these categories, generic and proprietary valuation tools can be distinguished.<sup>358</sup> This is not a qualitative segmentation as the one in financial, psychographic and hybrid methods but rather a subdivision according to origin and degree of data accessibility. It plays an important role as background information, since it needs to be borne in mind that the lack of detailed information regarding proprietary methods impedes their analysis and verification.<sup>359</sup>

<b>Brand Valuation Methods</b>					
Financial		Psychographic		Hybrid	
Generic	Proprietary	Generic	Proprietary	Generic	Proprietary

*Figure 3.1: Brand valuation methods.*

### 3.1.3 Empirical Data on Distribution Rates: Surveys

Having introduced three groups into which all brand valuation tools can be classified, it is expedient to take a closer look at these groups and the methods

357 *Gerpott/Thomas*, WiSt 2004, 394, 396.

358 For a definition of these terms, see above at 3.1.1.

359 Q.v. 1.4.1.3.

they comprise. The following paragraphs will therefore illuminate the practical popularity of specific brand valuation methods and the respective groups they belong to. This quantitative overview will be followed by a qualitative exemplary analysis of some valuation tools.

Retrieving data on the market share of specific brand valuation methods has proven intricate, especially with respect to the US and non-German European markets. However, a number of German surveys have been carried out in recent years dealing with – amongst others – the questions which brand valuation methods are being used in practice and how popular these methods are.

### 3.1.3.1 *Drees (1999)*

One of the early studies was conducted by *Drees* in 1999.<sup>360</sup> 1,080 brand experts were surveyed of which 190 individuals from all major industry sectors<sup>361</sup> (17.6%) returned completed questionnaires. Discounting the fact that a generic psychographic tool which is part of a number of proprietary methodologies achieved an awareness (and not an application) level of 50%,<sup>362</sup> merely four brand valuation methods achieved an awareness degree of over 30%. These were the ‘Brand Iceberg’ model by *Icon Added Value*, ‘BrandMonopolies’ by *Konzept & Analyse*, *ACNielsen*’s ‘Brand Balance Sheet’ and ‘Brand Character’ by *Grey*.<sup>363</sup> ‘Brand Iceberg’, ‘BrandMonopolies’ and ‘Brand Character’ are psychographic tools whereas ‘Brand Balance Sheet’ is hybrid.

360 *Drees*, Markenbewertung und Markenberatung in Deutschland – Ergebnisse einer empirischen Studie. As this work does not seem to be publicly available any more, all data on that study analysed in this work has been retrieved from secondary literature, which gives a good informative basis on the main conclusions of the study but does not reveal details on all possible valuation methods surveyed.

361 Fast moving consumer goods, durable consumer goods, services and producer’s goods sectors.

362 This is the so-called Brand Essence Analysis (Markenkern-Analyse). Cf. *sine autore*, absatzwirtschaft 1999, 96. This method will be ignored in the course of this work as it attains little independent meaning due to the fact that it is included in a number of proprietary methodologies.

363 *Ibid.*, p. 97. Cf. *Baumgarth*, Markenpolitik. Markenwirkungen – Markenführung – Markencontrolling, p. 299; *Bentele/Buchele/Hoepfner/Liebert*, Markenwert und Markenwertermittlung, p. 163. *Icon Added Value* and *Konzept & Analyse* are brand consultancies, whereas *ACNielsen* is a market research company and *Grey* is essentially an advertising agency. Q.v. <http://www.added-value.com>, <http://www.konzept-analyse.de>, <http://www.acnielsen.de> and <http://www.grey.de> (last accessed March 19, 2007).

However, few of the surveyed experts had actually applied such methods. Solely 15% of the respondents had in fact worked with the ‘Brand Iceberg’ model, eight per cent with ‘Brand Character’, four per cent with ‘Brand Monopolies’ and none of them had deployed the ‘Brand Balance Sheet’ model.<sup>364</sup>

This means that the abovementioned psychographic and hybrid proprietary brand valuation methods were rarely used in German practice in and around the year 1999. It therefore has to be suspected that both proprietary financial and generic brand valuation tools of all three categories enjoyed a significantly higher degree of practical application. This is, however, an indirect conclusion since *Drees* does not seem to have (with one exception) queried distribution of generic methods.

### 3.1.3.2 *Günther and Kriegbaum-Kling (1999)*

This conclusion is being confirmed in part by the study penned by *Günther and Kriegbaum-Kling*, also carried out in 1999. The authors surveyed 1,016 German companies of which 13% replied with fully completed questionnaires.<sup>365</sup>

These companies clearly favoured generic financial brand valuation methods. By far the most widely applied (and not merely known) valuation method was the determination of brand related profit (40.3% market share).<sup>366</sup> The following four methods, applied by on average approximately 20% of the companies, were determination of brand related revenues per period (application rate of 23.9%), of acquisition costs (20.9%), of the price premium (17.9%) and reference to brand values of comparable companies (17.9% as well). The most popular hybrid valuation methodology, the one by *GfK*,<sup>367 368</sup> was far behind on position five, being used by 14.9% of the companies.

For the sake of completeness, it needs to be mentioned that *Günther and*

364 *Sine autore*, *absatzwirtschaft* 1999, 96, 96; *Bentele/Buchele/Hoepfner/Liebert*, *Markenwert und Markenwertermittlung*, p. 164.

365 *Günther/Kriegbaum-Kling*, *Schmalenbach Business Review* 2001, 263. Even though this publication was made in the year 2001, the survey was carried out in 1999 (*ibid.*, 267).

366 Sample size was 46 companies, multiple statements were possible, cf. *Günther/Kriegbaum-Kling*, *Schmalenbach Business Review* 2001, 263, 280.

367 *GfK* (Gesellschaft für Konsumforschung – Society for Consumption Research) is a market research company. Cf. <http://www.gfk.com/group/index.de.html> (last accessed March 19, 2007).

368 This tool is proprietary, since it has been developed by *GfK*.

*Kriegbaum-Kling* focus on generic and proprietary brand valuation methods with a monetary outcome, hence on financial and hybrid ones. Psychographic tools are not considered at all. However, this omission does not necessarily render the collected data on the abovementioned monetary valuation methods useless.

It can be inferred from the results of *Günther* and *Kriegbaum-Kling's* study that, in and around the year 1999, generic financial brand valuation tools enjoyed far greater market shares than hybrid ones, which all seem to be proprietary.

Data concerning non-monetary valuation techniques can be used to complement these results. The question whether generic financial or other valuation methods were in fact the most widely used at that time can only be answered in synopsis with at least one additional study covering such other valuation methods.

### 3.1.3.3 *Schimansky et al. (2003)*

Looking at the survey carried out by *Schimansky et al.* in 2003, the strong focus on generic financial brand valuation techniques at first glance seems to have started shifting to psychographic and hybrid ones.<sup>369</sup> However, it has to be noted that financial brand valuation methods are not mentioned in the survey. All generic and all financial (generic and proprietary) techniques do not seem to have been inquired at all.<sup>370</sup> The results of the study therefore illuminate merely a fraction of the current state of the art of brand valuation, similar to works mentioned above.

Of around 2,000 surveyed German brand specialists, 344 returned completed questionnaires, which constitutes a return rate of 17.2%. Similar to *Drees'* study, the experts were relatively evenly distributed amongst the fast moving consumer goods, durable consumer goods, services and producer's goods industry sectors.

*Schimansky et al.* differentiate between the degree of popularity of the entities offering the respective brand valuation tools, of the tools themselves and the

369 The survey itself does not seem to be publicly available as of March 2007, yet its main conclusions are presented by *Schimansky*, *Markenbewertungsverfahren aus Sicht der Marketingpraxis*, pp. 15 et seq. and *Schimansky*, *marketingjournal* 2003, 44.

370 Moreover, most financial tools are generic and most proprietary methods are either customer-related or hybrid.

degree of actual application of these methods. A clear gradual decline can be identified between these three fields: whereas the most widely known provider of brand valuation services reaches a popularity degree of 69.2%, the most popular brand valuation technique is known to 34% of brand experts and the most widely applied method reaches a level of merely 12.8% market share.<sup>371</sup>

The survey shows that hybrid valuation methods, despite the partially considerable degree to which they are being advertised, are still relatively rarely applied in practice. On average, merely two per cent of companies with brands actually use such methods.<sup>372</sup>

Of the 344 respondents, 12.8% had actually used the psychographic ‘Brand Iceberg’ model by *Icon Added Value*. The ‘Genetic Code of the Brand’ by *Institut für Markentechnik*,<sup>373</sup> equally a psychographic method, ranks second with 6.7%, followed by the hybrid *Interbrand* model reaching 6.1%.

Looking at the relatively low market share of all surveyed proprietary psychographic and hybrid valuation methods, it can be inferred that the entirety of proprietary financial and all generic tools – of which financial ones are a major part – enjoys considerably more market share.<sup>374</sup> Hence, a renunciation from financial brand valuation techniques cannot be verified.

As it is the case with respect to the abovementioned studies, more detailed conclusions can only be drawn in light of results from other studies.

### 3.1.3.4 *Völckner* and *Pirchegger* (2004)

An empirical study on the role of intangibles in German corporate practice was carried out by *Völckner* and *Pirchegger* in 2004.<sup>375</sup> The 1000 companies generating the highest turnover<sup>376</sup> were queried and 119 completed questionnaires returned, which results in a return rate of 11.9%.

371 *Schimansky*, *marketingjournal* 2003, 44, 45-48.

372 *Ibid.*, at 49.

373 *IFM* – Institute for Brand Technology, a brand consultancy; cf. <http://www.markentechnik.ch> (last accessed March 20, 2007).

374 Again, the question which methods in this entirety de facto enjoy the highest market share can only be answered in synopsis with at least one other study covering complementary data.

375 *Völckner/Pirchegger*, *Immaterielle Werte in der internen und externen Berichterstattung deutscher Unternehmen – Eine empirische Bestandsaufnahme*.

376 Based on the business year 2002.

The authors, like those of earlier studies, distinguished high profile from the degree of actual utilisation of the valuation techniques. They found that, with 50% of the responsive companies carrying out brand valuations in regular intervals, two generic customer-related tools clearly held the highest average diffusion rate. Whereas 77.8% of the businesses examined single brand value indicators (such as brand image), 44.4% used a combination of several such indicators, which results in an average popularity rate of 61.1% of these two methods.<sup>377</sup>

The following two most popular brand valuation techniques were found to be the calculation of historic cost, e.g. marketing cost and disbursements for development of the brand (50.0% application rate), and capital- or income based methods (48.1%). All these are generic financial methods and reach an average popularity of approx. 49.1%. Techniques five to nine on the list fall in the same category; their diffusion rates vary between 42.6 and 11.1%. Hybrid methods are not mentioned at all.

This is likely due to the circumstance that hybrid brand valuation techniques all seem to be proprietary.<sup>378</sup> However, unlike *Schimansky et al.*, *Völckner* and *Pirchegger* inquired generic brand valuation tools only. Their work therefore also deals with merely part of the overall brand valuation market yet provides a useful counterpart to *Schimansky's* study.

### 3.1.3.5 Intermediate Findings

Despite the fact that brand valuation has become a timely issue in modern management, no clear-cut outline of market share of valuation techniques can be obtained since none of the abovementioned studies comprehensively surveys generic and proprietary financial, customer-related and psychographic brand valuation tools. Those few surveys which have been carried out fail to provide fully representative outcomes.<sup>379</sup> Varying between 11.9% and 17.6%, the return rates of completed questionnaires are realistic but rather low. It also needs to be borne in mind that the studies introduced make statements

377 *Völckner/Pirchegger*, *Immaterielle Werte in der internen und externen Berichterstattung deutscher Unternehmen – Eine empirische Bestandsaufnahme*, pp. 19-20.

378 At all events, the author of the work at hand did not detect any hybrid generic brand valuation tools in the course of her rather extensive search for valuation methods.

379 This is in part being admitted by the authors themselves, cf. e.g. *Schimansky*, *marketingjournal* 2003, 44, 44.

with respect to the German market only.

However, for the purpose of this part of the study – obtaining an overview of what kind of brand valuation methods were recently and are currently most widely applied – the studies provide a sufficient informative basis in order to at least work out general preferences and practical application trends.

Both the studies by *Drees* and *Günther/Kriegbaum-Kling* were carried out in 1999. The former deals with proprietary tools (with one exception, the Brand Essence Analysis, which is a generic tool incorporated in many proprietary methodologies<sup>380</sup>) whereas the latter focuses on both proprietary and generic financial and hybrid methods. Read together, the two works provide an almost complete picture, with merely generic customer-related methodologies missing. With all due caution in respect of the statistical significance of their outcomes, the studies nevertheless indicate a clear preference of generic financial valuation tools (market share of up to about 40%), such as the determination of brand related profit or revenue and of acquisition costs of the relevant brand. Hybrid and psychographic methodologies, both proprietary, attained market shares of roughly 15% and lower. Market shares of proprietary financial methods were extremely low. Generic hybrid tools seem not to exist.

The data sets provided by the *Völckner/Pirchegger* study, which focus on generic brand valuation methods only, and those made available by *Schimansky* et al., which deal exclusively with proprietary tools, can be read in synopsis in order to attain an indication of recent (2003/2004) trends for financial, customer-related and hybrid models. The instance that *Völckner/Pirchegger* make no mention of hybrid methods (but of financial and customer-related techniques) reflects the fact that there seem to be no generic hybrid brand valuation methods available. Similarly, *Schimansky* et al. itemise no financial techniques which goes in line with the circumstance that there are a number of proprietary financial valuation tools<sup>381</sup> which, however, attain little or zero market share, that is in Germany.

Like the 1999 surveys, the 2003/2004 studies prove a stable trend of popularity of generic financial brand valuation methods (market share of up to 50%). In addition, sufficient data was available to prove that generic psycho-

380 For this reason, it is ignored in the course of the analysis at hand.

381 Such as the Pricing Model by *Blackston*, the licence-based brand valuation by *Conсор* or *WoReWert®* by *Repenn*.