

rationale, arousing the expectation of its use as basis of a truly comprehensive valuation method.

According to the WoReWert® method, trade mark value is computed by adding the ‘basic value’ (Grundwert), which consists of cost of creating and maintaining the trade mark, and the ‘operational value’ (Betriebswert), which arises from the ongoing use of the respective trade mark. The latter consists of 5% to 15% of the average annual turnover accrued within the five years preceding the date of valuation and, where applicable, licensing revenues.⁴⁵⁷ In the case of constant turnover figures, a fixed 10% shall be used.

It needs to be positively mentioned that WoReWert® leads to monetary valuation results and is relatively easy to comprehend and apply.⁴⁵⁸

However, it seems to be very past and present but not very much future-oriented.⁴⁵⁹ It operates to a considerable extent with historic data.

What is more, WoReWert® is a relatively one-sided and incomplete tool. It measures trade mark value under provision for the cost accrued for generating and maintaining the mark (‘basic value’) and its utilisation-related performance (‘operational value’), thereby combining cost-based and income-based elements (only).⁴⁶⁰ More importantly, as it is merely concerned with trade marks instead of brands, it is only able to cover a fraction of all the factors and characteristics constituting a brand. Consequentially, determinants which massively influence the value of a brand, such as determination of the relevant product or service market, market leadership and competition as well as the consumer perception side, are ignored.

All in all, the WoReWert® methodology does not seem to be freed from the one-sided constraints a purely financial valuation tool brings about. As it merely deals with trade marks, it cannot cover all the other vital factors of brand value. In addition, it involves a rather arbitrary and fixed percentage

457 Cf. *Repenn/Weidenhiller*, *Markenbewertung und Markenverwertung*, p. 91 et seq. The operational value derived from past revenues applies in the case of used marks. When valuing unused marks, an annual fixed amount based on empirical values is taken as a basis (depending on expiry of the use period).

458 *Bentele/Buchele/Hoepfner/Liebert*, *Markenwert und Markenwertermittlung*, p. 53.

459 *Berger*, *MarkenR* 1999, 271, 275.

460 The utilisation of elements from the income approach cannot belie the fact that WoReWert® is, due to utilisation of cost-based components, considerably past oriented. This is not useful for strategic valuations.

representing operational value which is not very helpful for appraisers looking for a methodically sound and flexible valuation tool.

In consequence, WoReWert®⁴⁶¹, like the two introduced generic methods, does not provide the appraiser with a comprehensive and contextual valuation process. On top of this, it does not seem to be made for brand valuation at all. Hence, WoReWert® is not appropriate for strategic future-oriented brand valuation. Appraisers persisting on using this method should never apply it as a sole brand valuation tool.

3.2.2.3 Intermediate Findings

Financial models usually operate with publicly available data only – in most cases, accounting facts and figures. This bears positively on the valuation process since the valuator only needs to spend little time and money on data aggregation. This contributes to a lean, economical and transparent valuation workflow.

Furthermore, the monetary quantification of brand value, as opposed to a non-monetary one expressed by relative output parameters, can facilitate formal comparability of the economic weight of brands vis-à-vis other valued assets held by the company.⁴⁶¹ This creates a basis for increased attention to brand-related aspects on the management level.⁴⁶²

However, the disadvantages inherent in purely financial valuation methods outweigh their advantages. Some of these drawbacks relate to the fact that such methods are based on one or several of the abovementioned general approaches, which entail a number of problems, passing these on to all derivative methods.

First of all, financial valuation tools bring about inflexible and one-sided valuation mechanisms. Important factors of brand value are being completely left out of the valuation process. Such factors relate to both the effect of the respective brand within the target audience and to non-financial characteristics of the brand as seen from the proprietor's point of view, such as the strength of the underlying legal protection or the quality of the brand management team. The fact that financial methods are quick and transparent

461 Supposing that other assets are valued at the same time under utilisation of the same valuation method.

462 *Gerpott/Thomas*, WiSt 2004, 394, 398.

causes them to be tempting. However, their valuation output is, in general, unemployable for strategic valuations, since it is the result of a mechanical and one-sided process.

Financial valuation models are purely quantitative. Consequentially, they merely project part – albeit an important part – of the value of the asset under scrutiny. Even though this means that a diligent valuator will not exclusively rely on such methods, he may still use them as a starting point or in order to obtain a rough picture or a first lead of where the value may reside. This applies especially to income-based methods due to their future-oriented nature. By contrast, historic cost-based tools are by definition unsuitable for any future-oriented valuations. Market-based techniques fail with respect to intellectual property assets due to the lack of usable data.

One core issue of the income approach is separation of brand-related income streams. A number of derivative methods have emerged in order to solve this problem. However, each of them is based on at least one defect, for example the assumption that price premia are derived exclusively from the respective brand. This causes skewed valuation output.

Proprietary financial brand valuation methods are (like generic ones) by definition not able to free themselves from the flaws and constraints involved in financial tools. They do not seem to bring about much noteworthy added value vis-à-vis generic financial techniques. Their market shares are therefore very low.

3.2.3 Psychographic Models

From a behavioural science point of view, brand value does not lie within the respective proprietor company but develops within the mind of the consumer.⁴⁶³ It is mirrored in brand-connected knowledge structures within the target audience.⁴⁶⁴ As brand value therefore cannot be measured directly, its operationalisation and measurement is carried out by means of consumer-related, non-monetary brand value indicators (both per se and accompanied by other operators).

463 *Esch/Geus*, Ansätze zur Messung des Markenwerts, p. 1266.

464 *Frahm*, Markenbewertung. Ein empirischer Vergleich von Bewertungsmethoden und Markenwertindikatoren, p. 19. Cf. above at 2.1.2.2.1.

Psychographic brand valuation models contrast strongly with financial ones since they do not arrive at a monetary value outcome. Rather, they operate with qualitative data as sole input parameters and arrive at a non-financial relative brand value or psychological brand strength figure as valuation results.

Such brand valuation methods are based on data collected about cognitions or behaviour patterns of current or potential consumers of branded marketing output.⁴⁶⁵ Market research institutes play a key role in aggregation of such data. They conduct both secondary research, which is based on already existing data such as official statistics, and – in case the secondary research does not meet all information needs – primary research, which is carried out by means of both customer interviews and consumer observations.⁴⁶⁶

The two psychographic valuation methods chosen for assessment in this work are the ‘Brand Iceberg’ model by *Icon Added Value*⁴⁶⁷ (proprietary) and the examination of one single or a combination of several brand value indicators (non-proprietary).⁴⁶⁸ Examination of single brand value indicators has achieved a diffusion rate of 77.8% and combination of brand value indicators has attained market share of 44.4% (*Völckner/Pirchegger*). Strictly speaking, these are two separate means of brand valuation, yet since both consist of value indicator examination, they are treated as one for the purposes of this work. The ‘Brand Iceberg’ model ranks second with a market share of 15.0%

465 *Gerpott/Thomas*, WiSt 2004, 394, 398.

466 *Böhler/Scigliano*, Marketing-Management, pp. 30-31. Client interviews are based on standardised surveys and queries which are to deliver information on consumer descriptions of brand attributes (such as the correct allocation of a symbol or device to the respective brand), brand-related preferences, memories or attitudes such as brand loyalty, cf. *Gerpott/Thomas*, WiSt 2004, 394, 398.

467 <http://www.icon-added-value.com> (last accessed November 5, 2006).

468 Further customer-related or psychographic valuation tools, all of which are proprietary, include ‘Brand Equity Ten’ by *Aaker*, the ‘Brand Image Clarity- and Attractiveness Index’ (‘Markenbildklarheits- und Attraktivitäts- Index’) by *Andresen*, the ‘Genetic Code’ (‘Genetischer Code der Marke’) by *Institut für Markentechnik* (Institute for Brand Technology), *Young & Rubicam*’s ‘Brand Asset Valuator’, ‘Brand Championship’ by *Roland Berger*, ‘Brand Dynamics’ by *Millward Brown*, ‘Brand Potential Analysis’ from *BBDO*, ‘Brand Stewardship’ by *Ogilvy & Mather*, ‘Equi Trend’ by *Total Research*, *IPSOS-ASI*’s ‘Equity Builder’, ‘Equity Engine’ from *Research International*, ‘IMP/SYS’ by *NFO Infratest*, *Keller*’s ‘Consumer Model’ (‘Konsumentenmodell’), ‘Brand Barometer’ (‘Markenbarometer’) by *TNS Emnid/Horizont*, ‘Brand Monopolies’ (‘Markenmonopole’) by *Konzept & Analyse*, ‘Brand Character’ by *Grey*, ‘Brand Simulator’ (‘Markensimulator’) from *Gesellschaft für Konsumforschung* (GfK) and others. For references cf. footnote 386. All found psychographic brand valuation methods are proprietary, except for the examination of (one or several) brand value indicators.

(*Drees*) or 12.8% respectively (*Schimansky et al.*).

3.2.3.1 Examination of Indicators

There is a large number of brand value indicators, which exist for every area, financial and non-financial, in which brands can have an impact. For clarity purposes, such success indicators can be subdivided into indicators relating to historic developments, current market position, current consumer judgment, and trend.⁴⁶⁹ Others⁴⁷⁰ use generic terms such as product, price, distribution and marketing communication policy, industry sector, future orientation and communication between company and society.

The following paragraphs will allude to psychological, consumer-oriented indicators only, such as customer satisfaction, acceptance of the brand, brand sympathy, brand image and brand loyalty.⁴⁷¹

Such indicators are used in various combinations and processes, with diverging functions and applied on different problem areas, depending on the respective valuation tool.⁴⁷² Even though most valuation techniques use indicators in connection with other processes, indicators are also applied per se.

Relatively little can be learnt about how exactly a psychographic brand value indicator is applied in practice. However, direct comparison of relevant data suggests itself. For example, a company seeking to evaluate consumer loyalty to its brands compared to the biggest competitor brands can commission market research on the basis of which the respective relative brand loyalty figures are then computed.

This shows that the strength of evaluating one or several brand value indicators lies in selective comparative industry studies. Such work is of significant importance for brand management purposes. To its advantage, all required data is publicly available or can be collected in public. Moreover, examination of indicators is a transparent and easy-to-understand valuation method.

469 Cf. *Sattler*, Wovon hängt der langfristige Wert von Marken ab?, p. 3.

470 *Bentele/Buchele/Hoepfner/Liebert*, Markenwert und Markenwertermittlung, p. 156 et seq.

471 There is no uniform system of denoting such indicators. In consequence, there may be considerable overlap between different indicators.

472 *Frahm*, Markenbewertung. Ein empirischer Vergleich von Bewertungsmethoden und Markenwertindikatoren, p. 25.

It can be flexibly adjusted to the respective valuation needs.

However, the main drawback with respect to valuation as put forward in this work is the fact that there is no comprehensive contextual assessment of all types of value determinants. This method merely gives the appraiser insights into one confined area of value. It is therefore not suitable for holistic strategic valuations as discussed in this work.

Furthermore, a sole look at brand value indicators, like all psychographic valuation tools, does not allow for a monetary valuation result. This is, however, needed for most valuation purposes and therefore enables widespread acceptance of the respective valuation method.⁴⁷³

In summary, examination of brand value indicators is a transparent and flexible tool which can be very useful for certain valuation scenarios in the context of brand management and strategy. However, it is not generally suitable for purposes of comprehensive strategic valuations.

3.2.3.2 Brand Iceberg Model by *Icon Added Value*

The Brand Iceberg model⁴⁷⁴ was developed in the 1990s by the market research company *Icon Added Value*, at that time under the name of *Icon Forschung und Consulting*.⁴⁷⁵

Brand value, according to this method, is expressed by the purely qualitative, psychographic term of brand strength, which reflects brand value from consumers' point of view. Pursuant to the Brand Iceberg model, brand strength is composed of two factors: brand iconography, or image, and brand assets.⁴⁷⁶

Brand iconography comprises all value components which are visible to consumers, such as advertising, product packaging and other actualities resulting from short-term marketing activities. On the other hand, brand assets are

473 See above at 1.4.2.

474 Also known as 'Brand Trek', 'Brand Status' or 'MAX' (Markenbildklarheits- und Attraktivitätsindex). Meanwhile, *Icon Added Value* have formed a joint venture company with the consultancy *Dr. Wieselhuber & Partner* called *B.R. Brand Rating*, cf. <http://www.brand-rating.de/cms/index.php?page=3-komponenten-modell> (last accessed December 8, 2006) and *B.R. Brand Rating*, Monetäre Markenbewertung auf Zielgruppen- und Marktbasis, slide 4. Brand Iceberg is both predecessor and part of the *Brand Rating* model yet so well-known by itself that it is introduced here. The *Brand Rating* methodology is, other than Brand Iceberg, a hybrid tool.

475 Cf. *Added Value*, Die Wurzeln von Icon Added Value: Der Markenerfolg.

476 *Spannagl*, markenartikel 2001, 38, 42.

not visible to consumers, or – speaking within the metaphor of an iceberg – under water (the brand iconography components are, in consequence, represented by the tip of the iceberg visible above the water line). Brand assets are factors showing the emotional ties of the target group to the respective brand, such as brand sympathy and loyalty.⁴⁷⁷ They represent longer-term changes in consumer attitudes,⁴⁷⁸ which is why brand assets as defined here are in general rather weak with respect to young brands. According to *Icon Added Value*, brand assets have (like brand image) a direct link to brand success and therefore to brand value, yet can, essentially, only be influenced by brand image.⁴⁷⁹

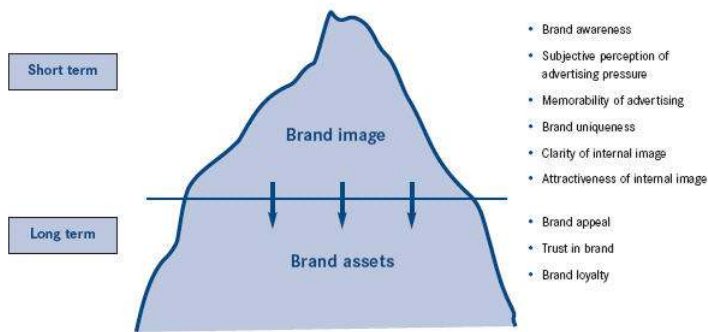


Figure 3.2: Brand Iceberg by Icon Added Value (source: Gebhardt/Stein, *Brand Status*. Auf Kurs zum Markenerfolg: Marken und ihre Wettbewerber mit den Augen der Zielgruppe sehen, slide 6).

The actual valuation process consists of two phases. First of all, the respective relative brand iconography and brand asset scores are determined. This is carried out by means of customer surveys within the relevant target group.⁴⁸⁰ In a subsequent step, these scores are compared to benchmarks taken from a proprietary database containing corresponding reference values for the market segment in question.⁴⁸¹ The appraiser thus arrives at a relative non-monetary brand value score.

Like the examination of brand value indicators, the Brand Iceberg model operationalises customer-related factors of brand value, which play a crucial

477 Gebhardt/Stein, *Brand Status*. Auf Kurs zum Markenerfolg: Marken und ihre Wettbewerber mit den Augen der Zielgruppe sehen, slides 6-9.

478 Zimmermann/Klein-Bölting/Sander/Murad-Aga, *Brand Equity Excellence*, Volume 1: Brand Equity Review, p. 49.

479 Esch/Geus, *Ansätze zur Messung des Markenwerts*, p. 1285.

480 Künzel, *Die Marke und ihr Wert*, p. 113.

481 Bentele/Buchele/Hoepfner/Liebert, *Markenwert und Markenwertermittlung*, p. 78.

role in comprehensive brand appraisal. Standardised customer surveys make it as objective as possible. The segmentation of customer-related brand value factors into brand iconography and brand assets facilitates both understanding of the method itself and of coherences on the qualitative side of brand value.

However, it too cannot tide over the fact that merely one important segment of brand value, the qualitative value building or distracting factors in the eye of the consumer, is being illuminated. Financial and other crucial aspects are left aside. The valuation outcome is a point score, which means that the Brand Iceberg is merely suitable for a limited number of valuation scenarios, such as comparative industry studies, for which a purely qualitative, non-monetary value outcome is sufficient.

In connection herewith, the fact that the brand value score is merely a relative figure stands out negatively as well. Brand Iceberg merely enables the appraiser to find out whether the brand under scrutiny is stronger or weaker (by points) than other brands in the industry. An absolute value cannot be attained. This is, however, a necessary characteristic of a sound brand valuation methodology as defined in this work.⁴⁸²

Furthermore, Brand Iceberg does not deliver clarification of the issue to which extent the value outcome is in fact attributable to the brand itself and to which extent it is product or service related.⁴⁸³ For example, the fact that the impact which short-term marketing-mix⁴⁸⁴ components such as product packaging have on consumers is measured in the context of brand iconography begs the question how much of a positive consumer feedback would in fact be attributable to quality of the branded product or service and not to the brand itself.

All in all, the Brand Iceberg valuation tool constitutes a viable method for all those valuation purposes in the context of which a relative, benchmarked point score result is sufficient. Qualitative comparative industry studies for example fall in this category. However, the methodology is inadequate for strategic future-oriented brand valuation purposes as introduced in the course of this work. Such type of valuation necessitates a monetary value outcome

482 Cf. above at 1.4.3.2.

483 Cf. *Zimmermann/Klein-Bölting/Sander/Murad-Aga*, Brand Equity Excellence, Volume 1: Brand Equity Review, p. 50.

484 For a short introduction to the marketing mix, see 2.3.1.1.