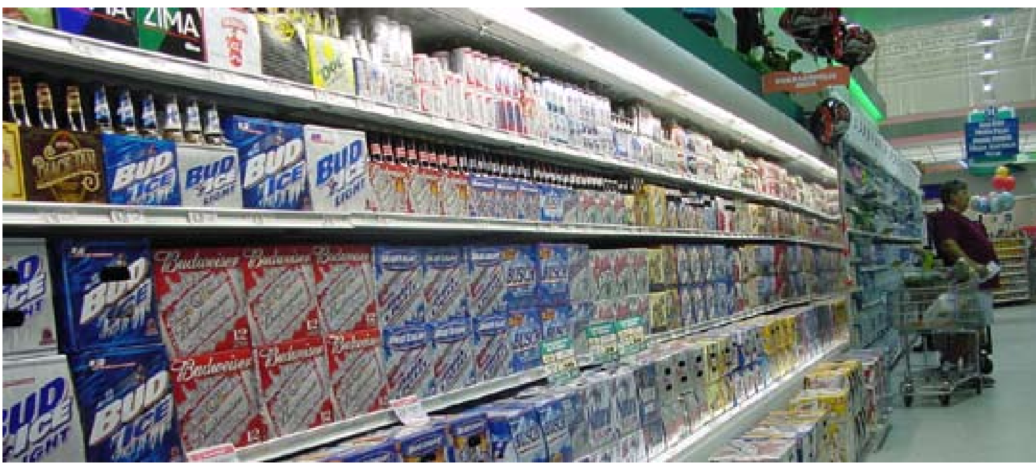
Measuring Brand
The First Crucial Step Maximizing Value

Improving brand value should be a key goal for management and workers alike. To improve brand value, it must be constantly monitored and measured, as exemplified by the model described herein, which was developed for that very purpose



Accounting standards address the issue of measuring the value of intangibles, for instance through IFRS3, but these present methods for measuring brand value are flawed. One of the problems is that there is no distinction between goodwill resulting from the brand and goodwill in general. Another problem is that a brand developed does not appear in the books: it is not considered an asset. Its value only appears during an acquisition event, whether it is acquired alone or as part of a business operation. Bare accounting practices, as expressed in the company's books, cannot provide a full picture of the company's value, including all tangible and intangible assets.
To illustrate the point, just compare the book value of companies versus their fair value (market value). Over the years, it has become apparent that intangible assets are driving value creation for shareholders. A study conducted over 20 years on the Russell 3,000 companies found a sharp shift towards intangible values. If in 1978, 95% of a company's value was clear from the books, by the beginning of the 2000s

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By Nitza Sasson and Idan Doron

that proportion had plunged to about 15%. Other studies carried out among S&P-500 index companies and among the 350 largest-cap companies listed on London's FTSE delivered similar results – 70% to 75% of the companies' values, respectively, could not be explained by their books.
Let's look at specific companies. In Disney's case, 70% of its value can't be explained through the book figures. For Heinz that ratio rises to 85% and for Microsoft, 98%. Coca Cola's ratio is 80%. Where is the value coming from? Intangible assets, mainly the brand.
Companies are increasingly beginning to grasp that they have to manage their intangible assets, just as they do their tangible ones. During the economic downturn in the early 1990s as part of the global economic cycle, companies slashed expenditure. They scaled back their tangible assets and stopped investing in supporting their intangible assets, including their brands – without carefully considering accruing and future outcome of these actions.
In hindsight, we now know that companies who didn't neglect their intangible assets, and continued to build and financially manage their brands, weathered the trouble. The capital markets applauded their sustained growth, too. As a retail giant, Wal-Mart for instance is highly vulnerable to market fluctuations: yet it did not cut back spending on branding, and in fact leveraged the recession to build up its brand even more, creating a sustainable competitive edge for itself. The lesson is that even when times turn rough, a company must not cease managing its portfolio of tangible and intangible assets. It needs not to stop spending, but rather spend effectively.
The benefits of measuring brand value touch on almost every aspect of the business, from strategy and management to finances, marketing, and even the legal department. Brand value is a factor when analyzing returns on marketing drives, brand portfolio, or brand performance, even management performance. Brand value is key

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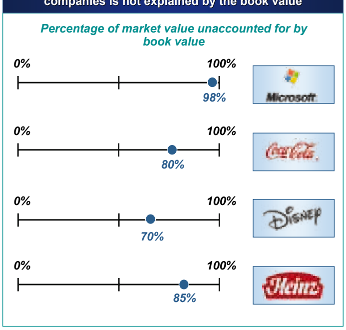
when evaluating a company for the purposes of M&A or in the event of ownership disputes, licensing lawsuits, partnership conflicts, and licensing agreements.

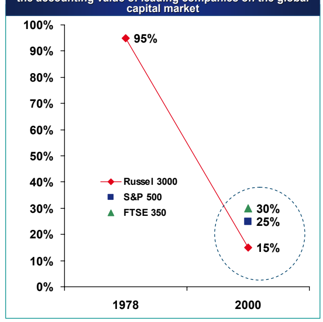
The Tefen-Globes-Giza Model

The model we developed is based on premium pricing, a method designed to calculate the current net value that the brand can be expected to produce for the company, and to other links in the value chain along the years.
The model focuses on the basic role of the brand – to create a preference based on which the consumer can be charged a premium. Therefore, the monetary value that the brand creates is the total premium revenues collected from the consumer, minus the brand's maintenance costs (advertising, support, and so on), capitalized based on the risk of the brand minus the rate of growth.
How is the premium underlying the brand calculated? The premium is the difference between the branded product's price, and that of the identical non-branded product available on the shelf. The premium is the end that the consumer is willing to pay.
The premium paid by the consumer is divided by the different value chain components. For example, the premium paid for Coca Cola, will be divided between Coca Cola, the brand owner, and the specific retailer selling the brand.
Tefen and Giza carried out risk evaluation of each brand in the Israeli market, assessing the risks at three levels: sector risk, the specific risk of the brand, and the inherent risk of the brand owner. Each of these levels present different risks for the brand. The analysis compared these risks and focused on evaluating each and every brand by analyzing the ten most dominant parameters, such as degree of regulation, steadiness of demand, entry barriers, and intensity of competition. The lesser amount of risk, the greater the value the brand will hold.
There are other models alongside the Tefen-Globes-Giza model used in business circles to evaluate brand value. One such model is the Interbrand model. Developed by Omnicom, Interbrand ranks the leading brands in world markets each year and the leading brands in selected markets. The model's methodology measures the brand value in three phases: financial forecasting – identifying revenues from the model or service that originate from the company's intangible assets, and building an estimate of future revenues originating from the intangible assets over the next six years; the role of branding – identifying

For example, the share of market value of leading global companies is not explained by the book value



In recent years, there has been an increase in the discrepancy between the financial value (market value) and the accounting value of leading companies on the global capital market



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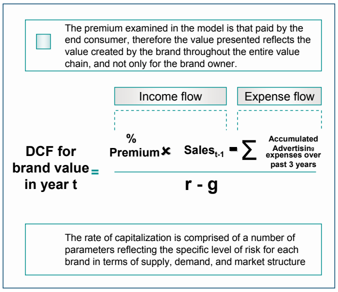

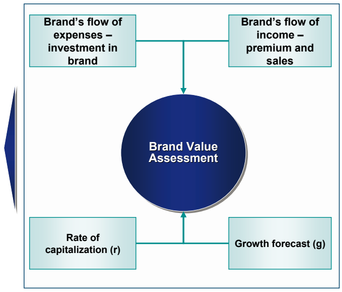

the proportion of revenues from the intangible assets that originate from the brand alone; and brand strength – to calculate the net present value of the brand's revenues, a deduction representing the risk profile (time and likelihood of the scenario).
The Tefen model, unlike the Interbrand model, can measure more than just the brand value of companies: it can also measure the brand value of products. This is especially significant in markets such as FMCG, where companies have developed into "houses of brands." Leading companies such as P&G and Unilever should measure the value of each brand separately, since the consumer is usually unaware of the corporate brand.

Brand Management

Much has been written about brand management, but a thorough investigation using the Tefen-Globes-Giza model shows that a company must invest its efforts on three main fronts to squeeze the most out of its brand: volume, premium, and branding expenditure. Correct management on the three fronts will maximize the brand's economic potential for the company, thus creating value for both the company and the consumer.
The product and its characteristics are fundamental to creating high brand equity. Comparisons cannot be drawn between products and services provided in a saturated market to those in "blue oceans," which can grow much more and for which the consumer will pay much greater premiums. Therefore, brand equity is not only a function of the brand itself, but is also influenced by market characteristics such as regulation, entry barriers, and steadiness of demand.
The company usually cannot affect these external parameters, but should be aware of them. There are three main factors which can be influenced and can increase brand equity: volume, premium, and branding expenditure.

Volume

Naturally, the three parameters affect one another. Product volume is affected by the premium charged from the consumer, which in turn is affected by the investment in

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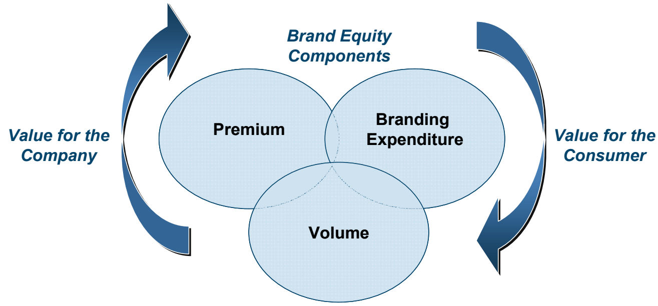

marketing the brand.
There are many ways to stimulate volume demand for a product, such as stretching the brand or approaching new consumer segments. Adjusting the value offering of the brand to changing market needs is critical to maintaining sales.
Let's take the example of Ford and Toyota, which were measured using the Interbrand global brands model. In 2003 both companies had roughly the same brand value ($17 billion for Ford and $20 billion for Toyota). By 2007, however, Toyota had a brand value of $32 billion while Ford's had shrunk to $9 billion.
The Globes-Tefen "brands index," an annual study of the 100 leading brands in Israel, likewise showed that Toyota's brand value in Israel increased by 32% from 2002 to 2007, while Ford's dropped in real terms, losing 2% in the five years.
How does a thing like that happen? Toyota identified rising demand for economic and environmentally friendly cars, while Ford continued to make gas guzzlers and SUVs. The Detroit giant misread the future of the market and lost miles to their rival from Japan. Toyota recognized the market's yearning for "green" and adjusted its model, offering perceived added value to the consumer in the form of more efficient cars.
The success of the Toyota Prius and the good press the model received showed that identifying and meeting existing demand required lower investment on the brand than the standard models launched by the other car companies.

Premium

The premium charged for the brand is the difference between the price of the branded products and the price of comparable products lacking branding. The premium positions the brand, and determines its profitability.
Setting the premium lower forces the manufacturer to drive heavy demand for the product in order to achieve high brand value. Drumming up demand of that magnitude requires heavy investment in branding, which in and of itself, diminishes the brand value. On the other hand, setting the premium too high can hurt sales and stunt growth.
To properly set the premium the brand can collect, the manufacturer must know the market inside and out: the competition and consumers. It also depends on the positioning of the brand itself – is it a luxury brand? Does the added value that it brings the client justify a high premium? What is the highest possible premium under prevailing market conditions?
Luxury brands are the best example of charging a high premium in exchange for added value, for the feeling of exclusiveness and perceived quality. If a mass market brand can command a premium of up to 30%, then for a luxury brand the premium could reach more than 90%. The Interbrand index of 100 global brands includes three luxury brands of Louis Vuitton - Moet & Chandon, Louis Vuitton, and Hennessy. Louis Vuitton has a brand equity of more than $20 billion.
Another area where brands command high premiums is sports. The Tefen-Globes-Giza brands model places Nike Israel and Toyota Israel side by side, with a negligible difference of 2.5% between their brand values. However, Toyota Israel's sales turnover is much greater than that of Nike Israel. The reason for their practically identical brand value is the premium that Nike

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charges, meaning the percent of the price that the customer is paying for the pleasure of the brand. It can be more than 50% of the final price. Toyota, which is considered expensive for a non-luxury brand, charges a premium of less than half that of Nike.

Brand expenditure

This front includes all the direct expenditure on branding your product, from studying the market to designing the product to marketing –whether the branding is above or below it. This does not include actual product development costs, but focuses on expenditure that advances the product as a brand.

The company's goal is to optimize these expenses while preserving the values of the brand, whether at the level of design or experience. Ideally, the product and the value that the consumer derives from it, should speak for itself. Positive buzz, or word of mouth, can be major marketing tools.

Our index of the 100 leading brands in Israel placed Google Israel in 21st place, and immediately following it was the Danone dairy brand. The brand value of the two brands was practically identical, even though Danone's local branch makes more than double the revenue of Google Israel. How is this possible? Danone spends terrific sums of money in marketing and promotion, while Google relies on the good name of its parent company and the strength of its products. Compared with peer enterprises, it invests relatively little on branding itself, which inflates its brand equity to beyond that of heavy-spending Danone.

A Juggling Act

Balancing between volume, the premium, and branding expenditure is a perpetual juggling act by the brand manager throughout the brand's lifetime. The manager's purpose is to maximize the value of the brand for the company and the consumer. Maximizing the brand's economic value should be a basic goal of strategic planning, alongside the company's desire to maximize shareholder value. Management should ask whether the brand is realizing its full financial potential.

Volume, the premium, and branding expenditure are interlinked. Change one and you change the rest, directly affecting brand value. Measuring these components is not trivial, but it is necessary to keep track of brand value and to design a strategy to maximize it. A company that wants to maximize value must keep constant track of these parameters, and define goals and work plans, which should all be a part of its corporate marketing strategy.

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