
The Brand in
the Boardroom:
Making the case for
investment in brand

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Edited by:

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The Red Papers:™

Ogilvy

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Introduction

While corporate takeovers are rarely simple, this one looked like it might turn into a real problem. One of Canada's largest insurers had acquired a chief competitor. The two companies put together a joint-integration task force, composed of two teams, each headed by its own VP. Many of the issues were simple and mechanical. The teams resolved them without issue. But when it came time to get to the hardest and most emotional matter — the question of which brand to use going forward — the parties knew they needed help. They turned to a brand consultancy to advise them and smooth the process. It didn't work. After a month of work sessions, they were nowhere. Each side insisted on the merits of its brand over the other. They were at an impasse.

Introduction

That's when a senior executive got creative. Instead of relying on an imprecise and emotional process, she turned to brand valuation. A rapid-response group came together and, after a few late nights and awful red-eye flights, put together a complete picture of the real value of each brand. The effect was magical. Faced with credible data showing that one brand was stronger in the business-to-business world while the other was better suited to the consumer marketplace, the teams let go of their entrenched and opposing positions. Real answers and hard numbers made the way forward clear to even the most emotionally attached team members. One brand would sit atop the business-to-business division and the other would carry the consumer business.

Stories like this are becoming increasingly common, but soon, brand valuation will be more than just a last-ditch tool or an occasional exercise. Brand valuation is taking up residence in the marketing department, disrupting it. A new age of brand valuation is coming. When valuation's potential is fully realized, the nature of decision making will change because it will be possible to link brand and marketing to real money. Brand valuation provides a strong financial rationale for strategic recommendations and budget requests. When that happens, the corporate perspective on brand and marketing shifts. Brands become leverageable assets. Marketing acquires a new credibility - one that enables it to take its rightful place in the boardroom.

Ogilvy & Mather's clients often ask us to advise them on brand valuation methodology, as they struggle to demonstrate the business impact of marketing and to justify their budgets in a cost-conscious world. We do so, knowing that great marketing has a positive and provable bottom-line benefit.



Introduction

But we have faced a challenge. Until now, brand valuation has had a built-in accounting bias, stunting its usefulness for marketing. The approach and mindset of brand valuation originated with accountants and has not evolved. Brand valuation – even in a marketing context – has remained narrow, focused on a single number, and largely non-strategic. It has been the preserve of brand consulting and design firms, which are small businesses with a relatively narrow focus. Leading practitioners of brand valuation in companies such as Interbrand and Brand Finance are accountants by training and outlook, separated off by P&Ls and organization structure from the wider world of marketing. Behind closed doors, they have developed arcane formulas for valuation. These formulas have become black boxes, mysterious in content, jealously guarded and presented as proprietary. Brand valuation has come to be seen as a dark art, the preserve of a small number of specialists. Nothing could be further from the truth.

Several brand consulting companies make some big claims about their brand valuation offers. They are “Changing the way the world thinks about brands;” “Maximizing returns on brand and marketing investments;” “Optimizing shareholder value;” and “Bridging the gap between marketing and finance.” While we believe that brand valuation does indeed have the potential to change the way companies think about brand management and brand investment and can put the relationship between marketing and finance on a new footing, achieving those promises will require going well beyond the current approaches. In fact, we want to counter the status quo of today’s brand valuation – perhaps even shatter it. Companies should not be satisfied with brand survey rankings or other snapshot approaches. They are an *illusion*.

To understand the potential of brand valuation, it's worth looking back to its roots. How it originated has much to do with why it remains underutilized and what must change to make it useful. We have a new way of thinking about brand valuation, one that goes back to fundamentals – what brands are, and how they drive value creation and business growth. With that as a base, we can change the way in which valuation is applied, making it a practical tool for use by any marketer. Brand valuation needs to shed its black box present to become an open-source tool. It must transition from a snapshot to a longitudinal view, from a narrow to a holistic measurement of value, from a pass/fail judgment to a diagnostic and strategic tool. We won't claim that Ogilvy & Mather is the only practitioner capable of delivering on brand valuation analysis. In fact, we believe that the approach we define here can be followed by any organization that makes a commitment to strategic brand investment. But we do promise it will deliver a far more objective valuation of brands than typical global survey rankings.

There is an opportunity to integrate brand valuation into the day-to-day practice of marketing. As the link between marketing and money, it should lie at marketing's heart, informing every major decision. Some companies already understand this, while others are only starting to figure it out. We intend to accelerate the change.

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The origins of brand valuation

Despite being around for almost thirty years, brand valuation has realized little of its potential. Much of this has to do with who has been using it and what they have been using it for.

Investment bankers

*The origins
of brand
valuation*

Brand valuation originated far from marketing. It was invented by investment bankers as a method of acquisition accounting. The idea originated in the UK in the 1980s, following a wave of takeovers of consumer packaged-goods companies. The acquirers in each case paid a significant premium over the tangible assets on the balance sheet of the purchased company. These premiums recognized the additional intangible value of the company's brands. However, since intangibles couldn't be recognized on the balance sheet, these acquisitions created huge amounts of "goodwill" (purchase price premium over book value) that had to be recognized in the balance sheet. The result was either large amortization charges or large write-offs. The frustration surrounding this sparked a debate about how to quantify the value of brands in an acquisition and separate off the amount paid for the brand from the total amount of goodwill.

Accountants

Accountants were the next generation of brand valuers; they aimed to use brand valuation to reduce their clients' corporate taxes. This practice began with what became a near obsession – the idea of “putting the brand on the balance sheet.” Although there was a serious concept behind this – the idea that brands are value-adding assets – valuations were conducted solely for the purpose of recording a number that would result in accounting and tax advantages.

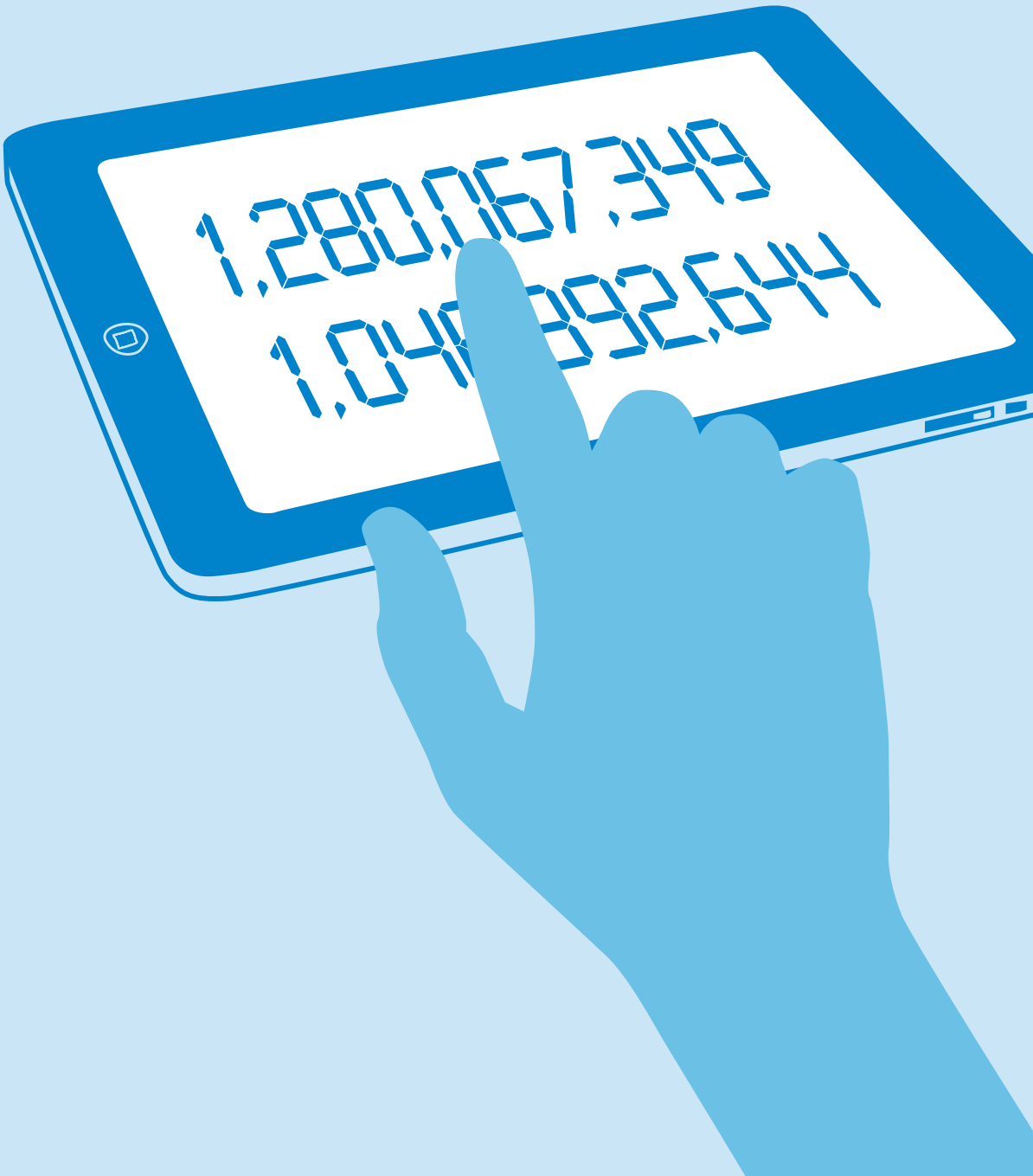
Brand valuation of this kind remains very much alive. Accounting for brands has evolved from a patchwork of rules to two sets of very similar standards, one US (GAAP) and the other for the rest of the world (IFRS).

This has led to a massive increase in the numbers of brand valuations conducted solely for balance-sheet reporting and compliance purposes. These valuations are generally conducted by the large accounting firms, which have a somewhat cavalier attitude to reporting brand value. For them, brand valuation is a purely financial exercise, without involvement of marketing departments or corporate strategy, and, consequently, without any thought for the future. While it may have short-term benefits, this practice can be dangerous and costly. Accountants have rushed to put brands at high values on balance sheets when acquisitions are made, only to find that marketing departments have subsequently eliminated those same brands, causing huge write-offs.

Tax experts

Following on the heels of the accountants, international tax experts devised yet more ways to use brand valuation to reduce corporate tax bills. In their most advanced form, these include the creation of separate brand-holding companies for the management of the brand asset. In this arrangement, ownership of the global brand is sold to the holding company, which is located in a low-tax jurisdiction. The brand and certain brand management and marketing functions are then licensed back to the corporation's subsidiaries, in return for an annual royalty fee. Clearly, this is financial engineering, not brand value creation.

The financial origin of brand valuation has its good points. Because it came out of the financial function, brand valuation has credibility with accountants and analysts. The concept has been enshrined in accounting rules and approved by standards bodies. However, this financial bias has limited the application of brand valuation. The goals are narrow – reducing the goodwill in mergers and acquisitions, creating additional assets for accounting purposes, or reducing international tax burdens. All of these are very specific, single-purpose use cases, and all require only a single, simple measure – one financial number. This provides a snapshot of brand value at a single point in time, with no link back into the business. We can do better.



1,280,767,349

1,048,892,644

Brand valuation methods today

As a result of its legacy, brand valuation remains stuck on the number, and there has been remarkably little interest in the process used in getting to the number. Instead, firms have sought to shortcut the valuation exercise to save time and money.

Comparables-based approach

*Brand
valuation
methods today*

Many of these shortcuts use what is called a “market approach,” looking at the marketplace in which the brand operates rather than the branded business itself. The value of a brand is established by comparing it to other brands whose value has already been established in the marketplace.

The most common example of this is comparables-based brand valuation. This method looks at how much similar brands were sold for. The simplest version just uses a number for the brand being valued; more sophisticated approaches calculate a multiple – say brand value per dollar of revenue, or brand value per dollar of EBITDA – and use that as the basis for valuation.

Unfortunately, you will find it very difficult, and often impossible, to find truly comparable brand transactions. And if you do, it is highly unlikely that you can learn how the brand value number was determined. In the end, the only empirical validation of a comparable is the fact that it resulted in a transaction – it was accepted as fair by both sides.

Royalty relief

Quite similar problems arise with another popular brand valuation method: royalty relief. Royalty relief arrives at the value of a brand by calculating the value of the future royalty payments that a company would need to pay a third party to license the brand.

How does a firm determine the correct royalty fee levels for the brand? Comparables, which in this case are derived from licensing deals for other brands. Unfortunately, the brand licensing market lacks transparency and sophistication. Comparables reflect the balance of power between particular licensors and licensees at the time of negotiation rather than the intrinsic value of the brand. As a result, valuations based on royalty relief calculations tend to undervalue the brand and favor the licensee over the licensor.

The market approaches may be full of holes, but they are based on a clear principle – an attempt to get at what the market would be willing to pay. This makes sense for brand valuations geared to transactions, and accounting standards generally accept market value as a test of a fair valuation.

Cost-based approach

*Brand
valuation
methods today*

Other widely used approaches fail the most basic test of any valuation method – that it should be conceptually sound. The most obviously flawed is the cost-based approach. The idea is that a brand can be valued as the sum of the marketing and advertising costs incurred to build the brand or of the replacement cost if the brand had to be built from scratch today.

There are two major problems. First, it assumes that advertising spending can be guaranteed to build brand value. This is by no means always the case. The most extreme examples occurred during the dot.com boom. In 2000, Internet businesses are estimated to have spent over \$3 billion on TV and sponsorships. Today, most of these brands have disappeared. More traditional businesses have also paid out huge sums on advertising without producing commensurate results.

The second fallacy of the cost-based approach is that it presupposes that brands are built only through investment in advertising. That's less true today than it ever was. A brand is the result of many different types of investment: advertising and marketing, as well as R&D, product design, and every aspect of the customer experience. Starbucks and Google have created very valuable brands by investing in the customer experience.

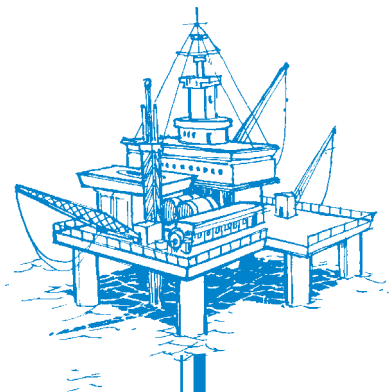
Rule-of-thumb approaches

The quintessential back-of-the-envelope approach is the rule of thumb or “Twenty-Five Percent Rule.” Originally developed for valuing technology, it has been around for 40 years.

The rule says that the value of any brand equals 25% of the business’s anticipated future profits. This is clearly ridiculous – it implies that all brands are equally effective in creating value. Despite its obvious flaws, the rule-of-thumb method is still used widely by major accounting firms for valuing brands.

How can the accounting firms be comfortable with taking such a cavalier approach to brand valuation? The answer is discouraging: they have no interest in seeing what lies behind the number. The finance profession is unconcerned with brands, caring instead about using a brand valuation number to game accounting and tax regulations. Their methods meet accounting standards, but you can’t do anything with them. They record value; they cannot *create* it.

It assumes that advertising spending can be guaranteed to build brand value.



The economic-use approach

A foundation has been laid for a new direction. The better brand consulting models rely on an economic-use approach to brand valuation. Economic-use methodologies look inside the business that owns and exploits the brand. The goal is to quantify the additional financial value the business creates as a result of brand exploitation.

Underlying the brand valuation is a financial valuation of the parent business. First, future cash flows (or, alternatively, earnings or equity) are forecasted. Then the practitioner conducts an additional piece of analysis that identifies the portion of cash flows that can be reasonably attributed to brand. These brand-created cash flows are then discounted back to a present value based on a risk factor of the brand's durability.

Economic use is inherently more accurate than other methodologies, since it is based on data about the business using the brand, rather than data about other brands. It creates the possibility of drilling down into the drivers of brand value, allowing the sources of value to be identified. This means that it can be used not just as a financial tool that provides a point-in-time brand value number but also as a management tool to identify the strategies that will best increase the value the brand adds to the business.

*Limitations of current brand
consulting valuations*

Although the economic-use method has the potential to be strategic, the reality is disappointing.

The proprietary attitude of brand valuation specialists has led to the multiplication of methodologies. Although the number of specialist firms is small, each group has its own black box. There are at least 39 different brand valuation models used by over 60 different sets of practitioners. Even when the methodologies are conceptually similar (which is by no means always the case), there are enough differences to ensure that they will produce different numbers. This has done a lot to discredit brand valuation in some markets, especially Germany and Spain. A famous study entitled “How nine experts evaluate a fictitious brand” was published in the German business magazine, Die Tank. Nine firms were given identical information on an imaginary brand and asked to value it. With their nine different methodologies, they came up with nine different answers, ranging in value from 173 million to 958 million euros.

Accusations of inaccuracy bedevil brand valuation rankings as well. The figures published by Interbrand differ from those published by BrandZ™. In 2012, for example, Interbrand's valuation of the Apple brand came out at \$77 billion, 58% less than BrandZ's \$183 billion. Differences in valuations included in rankings published by BrandZ, Interbrand, Brand Finance, and Eurobrand range from a minimum of 30% (HP, American Express) to a factor of more than four (McDonald's, Shell).

*Limitations of
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The crux of the brand valuation issue is this: *Its role in marketing today is little different from its role in accounting.* It only gives a point-in-time value, and so the major use of brand valuation is benchmarking.

Almost every large company at some time or other has conducted a proprietary brand valuation exercise. The objective is usually to produce a new brand measurement metric. A financial number for the brand is seen as a superior KPI compared to market research metrics. These brand valuations are based on internal data and can therefore be segmented to a much greater level of detail than published rankings. You end up with a whole lot of brand value numbers. This would be great if they were useful. Depending on the segmentation scheme, there may be one valuation number for each division, for each product/service, and for each customer segment, further divided into geographical markets in which the company operates, and rolled up into composite numbers for the company as a whole. But point-in-time numbers like this just aren't actionable. And so, while the original intent is to leverage valuation for other purposes, it rarely happens – leading many clients to drop brand valuation after doing it once or twice.

Clients also move away from proprietary brand valuations since they feel they can get as good or better benchmarking results by following one of the major published rankings. While brand rankings have been around, on and off since 1995, their popularity has soared with the emergence of BrandZ and the *Financial Times* as a counterpart to Interbrand and *Business Week*. Downloads from WPP's BrandZ database have more than doubled since the first ranking came out.

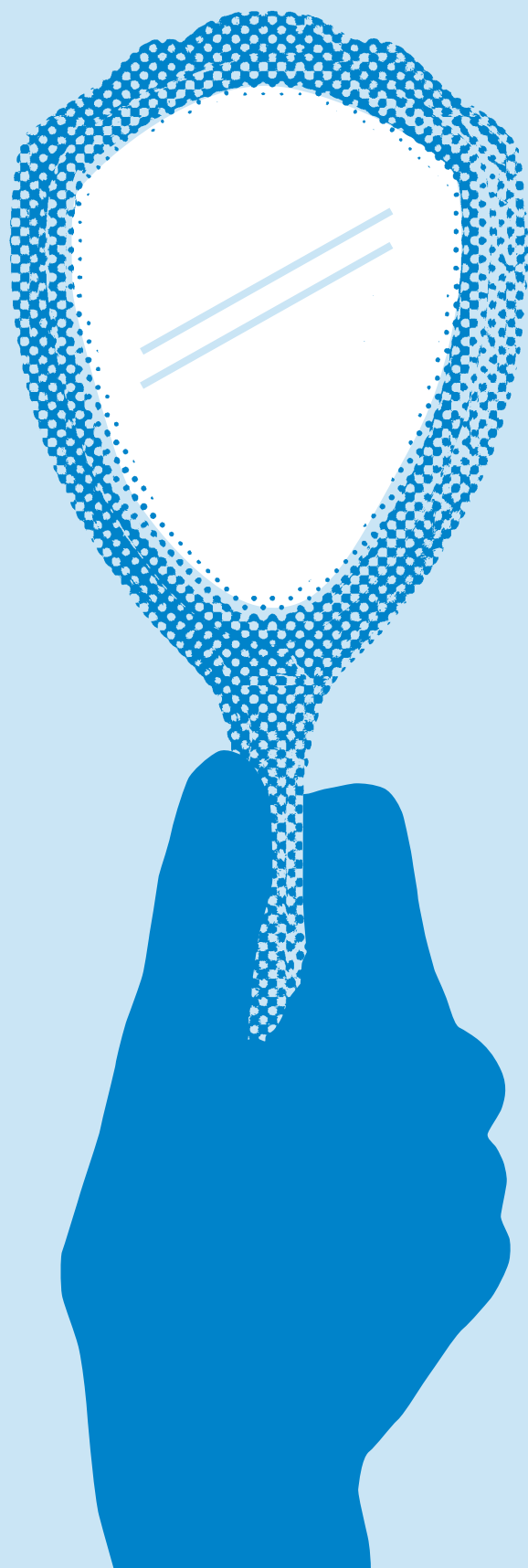
The rankings draw the attention of CEOs, CFOs, and the financial community to the fact that brands have value – in some cases, a great deal of value. The threshold for entry into the latest Interbrand *Best Global Brands* was just under \$4 billion; for the 2013 *BrandZ Top 100*, it was over \$8 billion. The top brands score in the \$70–180 billion range, which makes them worth more than the GDPs of many mid-sized countries.

Many companies have elevated these rankings to godlike arbiters of performance. The ranking number (and even more so the brand's position in the ranking) is used as a pass/fail judgment on CMOs, consultants, and agencies, and in some cases is built into the KPIs and performance management of top marketing executives.

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Care should be taken in placing too much reliance on rankings, even as benchmarks. Rankings are inevitably “a mile wide and an inch deep.” When hundreds of brands are being valued, some accuracy is sacrificed, even by the most conscientious professionals. Interbrand’s ranking, for example, is conducted at a global level only, without looking into countries or categories. While the financial numbers are solid, the portion attributable to the brand itself is determined qualitatively, by Interbrand’s leaders, who debate each brand’s merits in a two-week-long meeting. BrandZ is more robust – financials are built up from sales data, by market and by category. They calculate the brand portion by analysis of quantitative brand equity data, from an annual BrandZ study conducted in 433 categories and over 30 countries. But even here there are issues – the brand equity sample is not always stable and valuations can be disproportionately impacted by short-term fluctuations in share price. Brand Finance’s ranking is the most consistent and predictable...and the least interesting. Standard royalty rates are applied to market cap for brands in each category, making the brand values a mirror image of share price; brand strength and equity are ignored.

For brand valuation to progress beyond benchmarking and be of real use, it must no longer be considered in isolation from marketing. Instead of being just a number, it must become a diagnostic tool. Numbers change every day. As companies buy and sell and business circumstances change, any brand valuation limited to a number rapidly becomes meaningless.



*What we think: Ogilvy & Mather's
point of view on brand valuation*

Ogilvy & Mather has no preference as to the mechanics of brand valuation, provided the approach is accurate. We believe that by combining the best brand valuation approaches with other types of data, including big data, we can uncover true insights about brand value.

While we are agnostic on the mechanics, we have strong opinions on the principles that should be used and the steps that should be followed when valuing a brand.

Transparency – no black boxes

We do not believe in brand valuation black boxes. If brand valuation is to be adopted as a strategic tool, we have to make the methodology available to all. Only when this happens will brand valuation be fully accepted by the financial function. Today, many CFOs are suspicious of it, and rightly so.

The current lack of transparency exists for a number of reasons. Part of it is the tendency of small, specialty consultancies to clutch their specialty closely to their chests and exaggerate the proprietary nature of what they do (particularly when their senior people are trained accountants).

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Part of it is that there may truly be something to hide. This is usually related to the most critical part of the methodology – the process used to isolate the portion of value that is attributed to brand. For some brand valuation consultancies, there is no data behind the calculation – only qualitative estimates based on “our experience.” In other words, the brand contribution is arrived at through statistical analysis of market research. However, samples are often unstable and correlations frequently do not work – producing results that are nonsensical and cannot be replicated. We believe there is work to be done to improve the methodology; it will happen faster and better in the light of day, with openness and transparency.

Start with how brand creates value, and drive the methodology from there

The whole point of brand valuation is that brands make money for their owners. People will pay more for an Hermès bag than for the copy, no matter how accurate it is. To exploit the full potential of brand valuation, we must begin by understanding what brands are and how they make money. What is it about a brand that is valuable? How does a brand impact the business? How does this result in more financial value than the business would have without investing in brand? Without an understanding of the sources of value, brand valuation is limited to being an exercise to produce a point-in-time number.

The first step is to define brand, in a way that makes sense both to accountants and to brand managers. Technically, brand has two components:

Brand = Reputation + Identity.

Reputation (or Equity): Psychological benefits resulting from a particular set of associations in the mind of customers or other stakeholders. These differentiate it from competitors and create a promise of future performance. By delivering on this promise, reputation is created. It is reputation that is the source of value.

Identity: A clear and simple mark, with concrete and legally defensible attributes. This is how brand originated – from the red-hot iron used to stamp the owners' name on cattle. For a brand to create sustainable value, it must have an identity that can be protected. However, the point of an identity is to *identify*. That's all it does. An identity or trademark does not by itself create value. It is a visual and verbal organizing principle and system.

Reputation and identity come together to create brand by offering the guaranteed delivery on a clearly identified promise. The reputations of the most valuable brands are built on promises that have a higher purpose. They go beyond the product, beyond the category, to stand for a universal human ideal. This purpose is reflected in a strong visual and verbal identity extending past the logo to consistent implementation in every product and at every touch point.

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David Ogilvy helped create both the reputation and identity of one of the world's great brands – Dove. His agency has been building and protecting that brand since it was first launched in 1955 – from development of its distinctive mark to the higher purpose of Real Beauty, which has not only lifted sales and profits but led to a worldwide movement to promote a healthy self-image in women. David Ogilvy's legacy continues at IBM, where the ideal of using technology to make the world a better place has been realized through the Smarter Planet brand communications platform and brand visual identity, creating the world's most valuable B2B brand. Many other brands – from Coca-Cola to Nike to BMW – have built their value by defining a higher brand purpose and communicating it through an iconic brand identity. None – at least in the consumer world – has done it better than Apple, which drives its ideal of empowering “individual creativity and self-expression” through an instantly recognizable brand identity – disruptive, intuitive, and personal.

Brand can also be thought of as both cause and effect. The brand promise is a cause or point of view put forward by the company which causes stakeholders to think differently about its offering and impacts their behavior toward it. Brand reputation is a result, an effect of everything that happens in the business. Brand is created and managed through the experience – the points at which the company interacts with customers, potential customers, and other stakeholders. Brand establishes a non-rational hold over the behavior of the stakeholder, which leads them to prefer the company's offer to competitors'. This creates a co-relationship between the stakeholder and the company, guaranteeing a flow of future sales and profits.

Brand is different from other assets in that it acquires a power and existence of its own. The unique power of brand lies in its ability to transfer loyalty across products, services, and categories. Brand can be separated from the operations of the company and franchised and licensed to third parties for use in new situations. Leon Leonwood Bean would, no doubt, be surprised to know that his brand, L.L. Bean, helped increase the outdoor credibility of a Japanese carmaker.

Brands impact the demand side of the business (revenues and margins) and the supply side (employees, suppliers, regulators, and investors). They create value across the business value chain, to an extent that few companies fully understand, or leverage. *Understanding how a brand creates value is hugely important – it can unlock the secret of creating future value.*



Conduct a robust brand driver analysis

Brand valuations generally have two kinds of inputs – financial data and brand analysis. As we have seen, the second input is where most brand valuation methodologies fall down. The secret to making brand valuation useful lies in making the brand analysis as robust as possible.

There are statistical methods that can be used to isolate the financial contribution of the brand. While not perfect, they can be made at least as reliable as the financial forecasts, which, as we all know, include a large dose of judgment. We recommend using a quantitative brand driver analysis to determine the brand's contribution to value. This piece of market research, generally conducted among the brand's target customers, uncovers the reasons why a customer decides to purchase a particular product or service rather than that of a competitor and what role the brand plays in that decision.

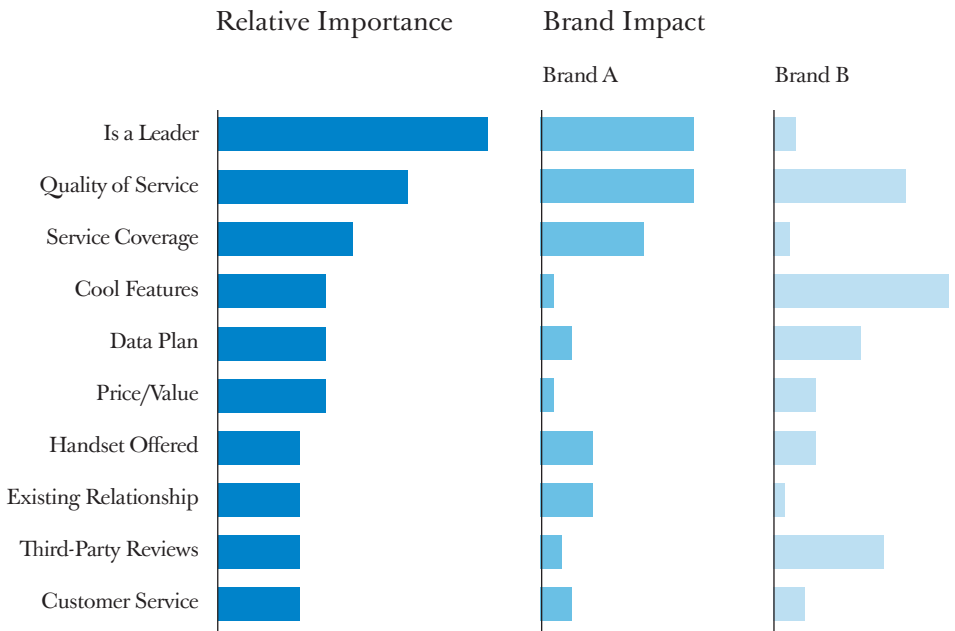
There are statistical methods that can be used to isolate the financial contribution of the brand.

Brand drivers: Illustrative example – wireless networks

The analysis answers two questions: i) what are the drivers of the purchase decision? and ii) how does brand impact each driver? In this example, Brand A is seen as a leader and has excellent coverage, while Brand B has cool features and better service.

Only with a quantitative brand driver analysis that identifies the drivers through which brand value is created can results become practical and actionable. So-called expert opinions are no substitute for statistical rigor.

What we think: Ogilvy & Mather's point of view on brand valuation



Make it diagnostic

We need to break free from the financial bias that has afflicted brand valuation. If it is to have practical application in marketing, brand valuation must be diagnostic. We are no longer interested in recording a value to achieve some accounting gain but rather in identifying what actions we can take to increase the value of the brand and business. A brand valuation must look inside the business to identify where brand value is created, determine how good a job the brand is doing at each touch point, and identify opportunities to do better. This has little to do with finance and everything to do with the customer experience.

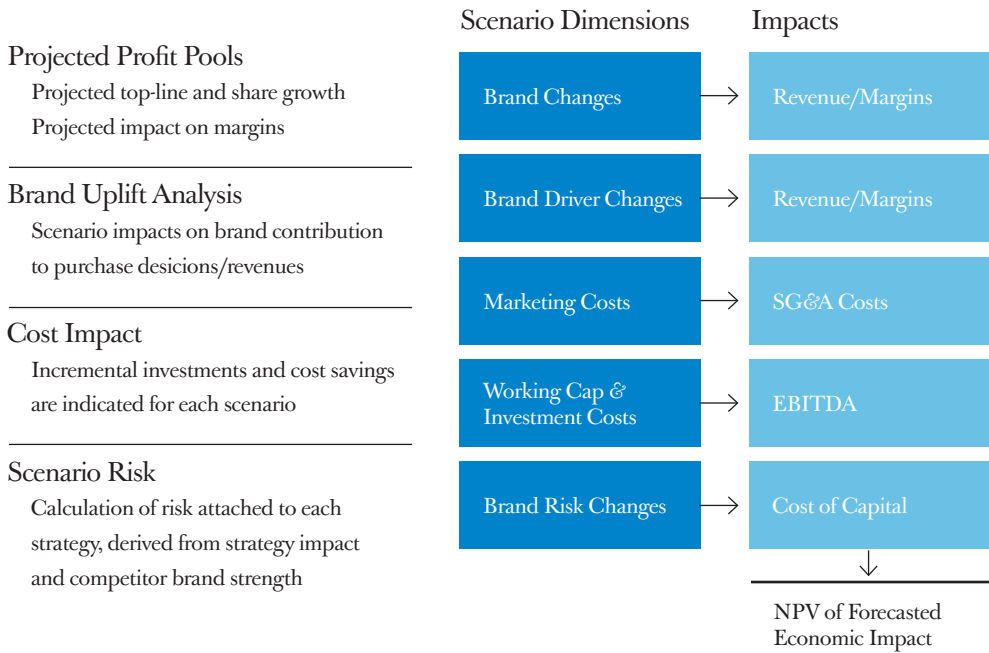
Brand valuation for a major US retail bank, for example, revealed a significant gap in brand contribution to value compared to competitors, with major differences by state – high brand contributions in Florida, very low brand contributions in Texas and Oklahoma. An examination of the individual drivers showed that Florida’s excellent performance was due to the strength of the brand in online banking; poor performance in Texas was caused by association of the brand with terrible customer service in the branches. This brand driver analysis gave the bank a tool to make changes. The bank took action, replicating Florida’s marketing of its online banking offer in other parts of the country, and implementing branch employee training programs in Texas.

Run scenarios to identify the best opportunities

Brand driver analysis can be used to identify opportunities for brand improvement. We can identify where the gaps in brand performance are compared to competitors. And, because the brand drivers are linked to a valuation model, we can estimate the incremental value that would be created by filling in the gaps. The financial impact of alternative brand strategies and actions can be quantified by running scenarios through the brand valuation model. This enables us to identify the brand strategies that will create the most value. We can then prioritize actions and investments across the business according to the expected returns. In being diagnostic, brand valuation becomes strategic.

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Brand modeling approach



In the diagram above, we estimate the impact of brand strategy on key metrics under different scenarios and feed the changes into the brand valuation model. Areas of impact include brand impact on revenues (brand’s power to attract and retain customers), on margins (the brand’s ability to command a price premium), cost impacts (investments in brand identity, marketing, and customer experience), and increase or decrease in competitive risk.

Take a holistic approach

Brand valuation needs to take a more holistic approach. We can measure how a brand creates value across the whole customer experience, including both tangible touch points (products, customer service, and the retail experience) as well as intangible touch points (marketing communications). This requires a more imaginative piece of research data – one that unites the areas usually split between brand tracking and customer satisfaction studies.

What we think: Ogilvy & Mather's point of view on brand valuation

Brand valuation should also look beyond customers to measure value creation across all key stakeholders, including employees, investors, local communities, and other influencers. This is especially important in B2B businesses where the main brand value creation may not occur on the demand side (for example, when the product is a commodity, as in, say, a mining business).

Stakeholders Impact Value in Different Ways

	Stakeholder decisions	Impact
Customers	Decision to purchase	Revenue and gross margins
Governments	Decision to license operations	Future revenues and profits
Environmental Entities	Decision to regulate	Operating costs
Local Communities	Decision to support	Operating costs
Employees	Decision to work	Operating costs
Suppliers	Decision to supply	Operating costs
Investors	Decision to invest (create demand for assets)	Shareholder value realization
Press	Decision to support	All other stakeholder decisions

Making the link between brand value and employees is particularly vital. Brand can play a large role in attracting and retaining employees. Companies with strong brands such as Google or Goldman Sachs are able to hire the most qualified employees more easily, pay them less, and retain them longer. In return, employees play a major role in creating (or destroying) brand value through their interactions with customers and potential customers. There is a huge and overlooked opportunity to grow brand value among employees – the *Gallup Business Journal* noted that a study of 3000 workers found that 60% of them did not believe in their company's brands.

Brand valuation should also expand its scope beyond the demand side of the business to examine every way in which the brand creates value. Yes, it drives higher demand for a company's products and services, but we can also assess its impact on the supply side of the business, including working capital, capital investment, and borrowing costs. A company with a strong brand may be able to pay its suppliers later, and get its customer to pay earlier, than a company with a weaker brand. A valuable brand can be leveraged to minimize the costs and risks of expanding to new categories and markets. Instead of making the capital investment itself, the company can license its brand to a third party and receive a risk-free stream of royalty rates – pure profit – in return. Some successful businesses, such as Calvin Klein, have been built entirely by this means. Brands can even create value in the financial markets – increasing analysts' willingness to recommend the stock and earning additional basis points on their stock and bond prices.

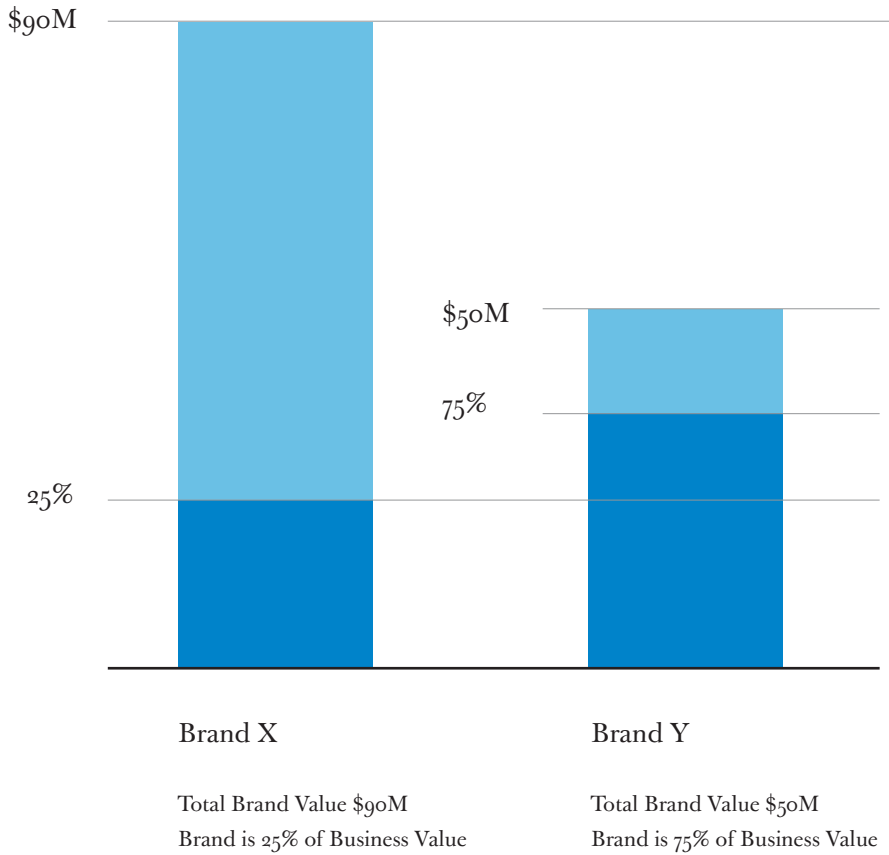
Look at many measures

To become strategic, brand valuation must encompass many measures, not just one. Today, everyone is fixated on “the number.” More meaningful and actionable measures need to be added. The percentage contribution of brand to value is, for example, a better measure of brand effectiveness than total brand value. The brand valuation number on its own doesn’t take the size of the pie into consideration. A large brand such as GE may have more brand value than Louis Vuitton, even though brand contributes only 18% of GE’s value versus 80% of Louis Vuitton’s value, simply because one is a much larger business than the other. Different metrics should cover the key drivers of brand value creation, related to differentiation and competitive advantage, among others. These metrics should be easy to understand, easily replicated, and forward-looking leading indicators of brand value creation. They must include a linkage between brand and share price – the indispensable condition for getting brand into the boardroom.

*What we
think: Ogilvy
& Mather’s
point of view
on brand
valuation*

Brand value vs. business value

A large amount of brand value may just mean this is a large business, not a strong brand.





Look over time – the new brand tracking

To be truly useful, brand valuation must shift from a point-in-time measurement to measurement over time. Conducting brand valuation once is a “nice-to-have.” If it is diagnostic, it can provide important input to strategy development. But the real ROI on brand valuation comes when the company’s progress in creating brand value is tracked on an annual basis.

Traditional brand health tracking has lost a lot of credibility. Too often, brand-tracking studies are big, slow, and expensive. Their constructs are complicated, their metrics intermediate and lagging. With their reams of PowerPoint slides, they seem increasingly irrelevant, devoid of actionable insights for the business, and with little meaning outside the marketing department, or perhaps even the market research department. Many companies, to their shame, are stopping tracking their brands with any regularity.

Brand valuation has the potential to resurrect brand tracking by taking it to a higher level, making it relevant and actionable for the business. It measures the success of brand initiatives in terms that everyone in the company cares about – revenue and profit growth and financial value creation. It identifies the useful market research metrics by looking at their ability to create financial value. It provides the means to integrate market research metrics with metrics from different sources – from social media to market share movement. It is forward looking, not lagging – brand valuation is an exercise built on financial forecasts, predictive metrics, and risk analysis.

And above all, it is diagnostic. A brand valuation conducted annually will not only track the brand’s success in building value but can also be used to identify and prioritize the actions to be taken to boost brand and business growth over the long haul, and allocate budgets accordingly. Companies that have made the best use of brand valuation have incorporated it into their annual budgeting processes, using the brand valuation metrics to feed into a marketing budget allocation model. At this point, brand valuation starts to fulfill a central role in brand and marketing management.

*How brand valuation can
transform marketing*

Brand valuation can become the foundation for brand and marketing decisions, which will have a transformative effect on marketing. Exploiting valuation's power to link brand to money can change the corporate perspective on brand and marketing. A sound financial underpinning for requests for money puts marketing on the same footing as other functions in the corporation and gives marketing credibility it's never had before. It also improves the quality of brand and marketing decisions, enhancing the effectiveness of strategies, driving greater business growth, and pushing share prices upwards.

All traditional areas of brand and marketing management — including budgeting, brand strategy, creative decisions, and channel/communications strategy — can benefit from this approach. It also has the potential to expand marketing's reach beyond its current boundaries, since brand impacts almost every area of the business, including customer experience, growth and innovation strategy, human resources, and investor relations.

Today brand value models are used piecemeal, by some companies, in some places, sometimes. Momentum for more consistent and rigorous application is building. Why? Because the benefits of brand valuation are starting to be felt in every part of marketing.

Marketing area 1: Investment

A value-based approach makes it much easier to make the case for marketing investment. Here is how:

Getting budget approval

Requests for budget can be justified in ways that finance departments, CEOs, and boards can relate to. They can be substantiated by an explanation of the financial value that will be created. CFOs can be very skeptical of commonly used ways of demonstrating marketing ROI – for example, market mix modeling or impressions. These speak to a world outside the one in which they operate. Value creation, however, is something they definitely understand. It provides a clear, quantitative rationale for what the marketing budget is going to do for the business and what the returns are.

How brand valuation can transform marketing

A valuation-based approach will also help to get adequate budgets and investment through, by changing the corporate mindset about marketing. Valuation demonstrates that the marketing budget is an investment, not an expense. If brand is an asset that generates value for the company, then marketing is an investment in increasing the value of the brand asset. Brand, just like any other asset, needs to be invested in, put to work to generate value, and held accountable for the results. Marketing exists to build brand asset value, not to entertain people as an optional element of business strategy.

Supported by brand valuation, marketing budget submissions will be supported by a solid financial rationale; requests for increased budget will go through because finance will understand the value generated.

Getting budget approval – Example 1

One of the major global Olympic sponsors needed to raise contributions from its Asia-Pacific regions to fund its marketing campaign for the Beijing Olympic Games. The local country managers refused to come up with the additional budget. There was especially stiff resistance from India, where the management argued that the sponsorship wouldn't appeal to Indian consumers, as cricket is not an Olympic sport. Brand valuation was conducted to quantify the additional sales and profits that the sponsorship investment would bring to each country in the region, and determine the budget levels that would generate the highest internal rate of return. The doubters were convinced, and the Asia-Pacific board approved the additional budget.

Getting budget approval – Example 2

After a number of acquisitions, the senior management of a major telecom company developed a new brand positioning and identity to reflect its more global reach. The work was finished and ready to go, with a global campaign and rollout scheduled. And then the Board said, "No. We won't approve the budget until we see a solid financial rationale." Implementation was put on hold while brand valuation was conducted, which demonstrated the added value that would be generated to the Board's satisfaction.



Marketing budget allocation

A valuation-based approach can also help to resolve the thorny question of allocating marketing budgets across a portfolio of products and brands. This process is often a nightmare for companies. One client recently described it to us as “poisonous” and “a snake pit.” This is because there is no rigorous process for deciding between the conflicting demands of products, categories, brands, global, and geographies. Budgets are apportioned based on political realities (the largest market gets the most money) or habit (a minor tweak to what was done last year). Sometimes it is even more capricious; either the most money goes to the group that shouts loudest or simple guesswork decides the distribution. The balance of investment between corporate/regions is subject to internal trends – are we swinging global or local this year? All this tends to hold companies back from investing enough in major growth opportunities – these are usually smaller, with lower political weight and less of a track record. With a valuation-based approach, simple principles will be developed and supported by facts and figures, considering the present, but focused on the achievement of future strategy goals. It’s a mezzanine approach, a level down in terms of detail from purely strategic “traffic light” approaches, and a level up from in-the-weeds attempts to measure marketing ROI. Future value creation replaces intuition as the principle for allocating the portfolio budget.

Take, for example, the case of a leading global corporation that wanted to introduce a rational, transparent, and simple approach for allocating marketing budgets across its large portfolio of brands and markets. Reflecting the new direction of the company, it needed to be brand-centric – a departure from prior methods, which had focused on regional markets and functions. The corporation developed a customized brand financial model to measure and compare each brand, in each major market, on the brand, financial, and competitive metrics most critical to growth. With that in place, the valuation team overlaid strategic priorities and major business constraints on the benchmarking model and ran scenarios to come up with the optimal allocation. As a result, the budget distribution shifted toward the brands with greatest potential and/or greatest need. This was a radical departure in policy, but brand valuation helped it sail through board and regional management approval without rancor.

Defending budgets

Of course, marketers are often fighting a very different battle. When business results dip for any reason, the marketing budget is the first thing to be sacrificed. Brand valuation can defend marketing budgets, showing that axing them is the exact opposite of what companies should be doing to restore their fortunes.

Defending budgets – Example

A comparison of the BrandZ portfolio of the most valuable brands with the S&P 500 shows that the share prices of companies that continued investing in their brands during the 2008–9 recession fell less far and recovered much faster.

The gap between the share prices of the brand-minded companies and the S&P as a whole widened significantly as the recession ebbed.

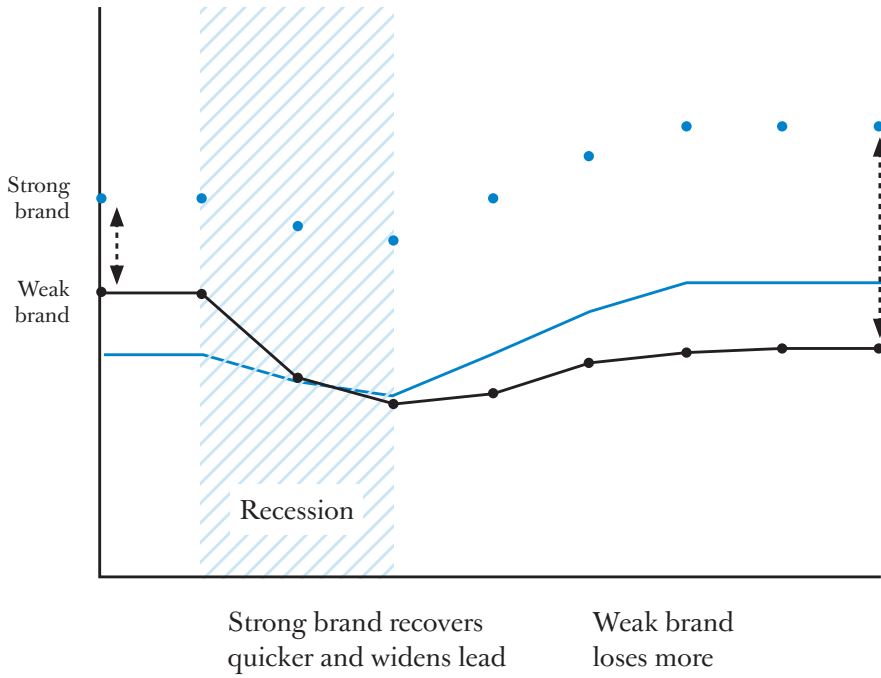
Companies that invested in their brands emerged with a sustainable competitive advantage.

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Louis Vuitton, Kellogg's, and Accenture all aggressively boosted marketing expenditure as a percentage of expected sales and were rewarded by significant increases in brand value and rapid recovery from the downturn. Louis Vuitton also put its prices up, invested in creativity, and heightened the focus on quality rather than compromising its brand value during the recession. The company has retained its position as the most valuable luxury brand, worth over \$23 billion.

When brand valuation underpins marketing, budgets are no longer the first items cut. Executive committees understand – and can prove to their satisfaction – that strong brands keep the business afloat when times are tough and position it to gain market share when conditions improve.

Strong brand's performance in last recession



Marketing area 2: Brand strategy

Brand strategy – perhaps one of the most overused and least understood terms in the marketing business – can be put on a different and more robust footing with brand valuation. From a brand valuation perspective, the job of brand strategy is to define the purpose of the brand in the way that is most likely to grow its reputation among its stakeholders, reflecting this in a compelling brand identity and architecture, thus creating the platform from which all brand communications and experience will spring.

Brand valuation ensures that the company's emphasis falls on strategies that spur the greatest revenue, profit, and growth. Not only can brand valuation help to identify the best brand strategy for the business, it can also play a major role in getting the corporation to buy into the recommendations, and persuading senior management and the board to fund it. Brand valuation translates the solution into terms that are understood outside the marketing department and provides the financial rationale for action.

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This has an astonishing impact on making things happen and speeding up implementation. It is particularly important for brand identity. For a company of any size, revamping the brand identity is a major undertaking, costing tens and maybe hundreds of millions of dollars. This decision has to be approved by corporate boards, which have great difficulty understanding why they should spend money on an identity system. In more than one case, the board has vetoed the rollout of a new brand identity. Making the financial case is critical to getting the decision through. Brand valuation will grease the wheels of brand strategy development and execution. Decisions on brand naming and architecture can be raised above emotion and politics into the realm of rational cost-benefit. The case for rebranding will be forcefully made, better strategies will be selected and more readily accepted, funding more easily approved, and implementation assured. Consider the key elements of brand strategy.

Brand assessment

Brand assessment establishes the current state of the brand and forms the jumping-off point for brand strategy development. Such an exercise highlights brand strengths, weaknesses, and leverage points in the context of the brand's current and potential customers, the evolving future marketplace, and the strategy followed by competitors. The findings are used to develop insights and hypotheses for strategy development.

Brand assessment is traditionally conducted in an unsystematic fashion. It typically includes management interviews, a review of extant data, the collation and analysis of competitors' communications, conducting focus groups, and, in the best cases, fielding some new quantitative market research. Absent a quantifiable framework for evaluating the brand, information is compiled and conclusions drawn subjectively. The brand consultant or brand manager's judgment and expertise reign supreme.

Adding a brand valuation component to the brand audit dramatically improves its objectivity and robustness. Setting up a model of how brand creates value in the business allows much more to be done with the findings. They can become the foundation for brand strategy development, providing a framework for idea generation and a dynamic model that can be used to test the financial impact of alternative brand strategy options.

Adding a brand valuation component to the brand audit dramatically improves its objectivity and robustness.

Brand assessment – Example

A large communications conglomerate conducted a brand audit of its six major businesses: wireless, fixed-line phone and Internet services, cable TV, business communications, and IT consulting services. The brand team conducted customized brand driver research and built a brand valuation model for each business, enabling the brand's impact on the customer purchase decision to be linked to sales and profits. The original purpose of the exercise was simply to raise brand health tracking to a higher level. But then they discovered they could link the models so that they could look across the entire company. They could now run scenarios and test the financial impact of different strategy options. The model proved so useful that brand valuation was used to answer just about any brand and business strategy question that came up. It caused them to change their thinking about budget allocation and to shift investment from consumer to their B2B business. They'd been spending ten times as much on consumer, which contributed one-tenth the brand value as business. Brand valuation guided decisions about branding for spin-offs. Armed with this knowledge, they had created a new name and brand identity for a spin-off of the wireless business. But cross-business-unit brand valuation analysis showed that the brand in wireless provided significant value to business customers. As a result, they changed their minds and allowed the spin-off to keep the brand. Moreover, brand valuation showed them that a problem with business service levels was destroying brand value, which gave the conglomerate the impetus to fix the issue. Finally, after five years, brand valuation was used to justify a premium for the brand when the business was sold.

How brand valuation can transform marketing

Brand benchmarking

Brand benchmarking is another area in which brand valuation can help shape brand strategy. In this process, the brand compares its overall success in growing financial value to the best practices of key competitors, focusing on each of ten key brand-building principles which are followed by the best brand-value builders. Points at which the brand deviates from best practices are identified and an action plan developed for addressing them.

Brand-building Principles

1. A purpose that goes beyond the product and category to tap into a universal human ideal

2. A positioning that looks forward but is authentic to the heritage of the brand

3. A brand identity that plays a central part in the organization

4. An experience that faithfully reflects the brand purpose across all touch points

5. A price that reflects the value that consumers and customers perceive the brand adds to their lives

6. A creative brand leader who has real power and manages all manifestations of the brand

7. A brand-centric organization, with a brand culture

8. One voice, consistency in visual and verbal communications messages, across businesses and geographies

9. A constant stream of marketing and product innovations, which keep buzz high and the brand fresh

10. Co-creation with consumers and customers, communications that invite consumers to share the purpose, while never telling them what to think

Brand benchmarking – Example

Faced with slowing sales, declining margins, and shrinking global share, a legacy pet food brand conducted a brand value benchmarking exercise to determine what was wrong. Benchmarking against the 13 brand-building principles, they uncovered a wide range of issues, from a loss of brand culture (key members of the senior management didn't have or like pets) to marketing strategy, budget allocation, and distribution channels. After implementing a range of corrective measures using the benchmarked data as a guide, the brand is now back on track with growing sales and share.

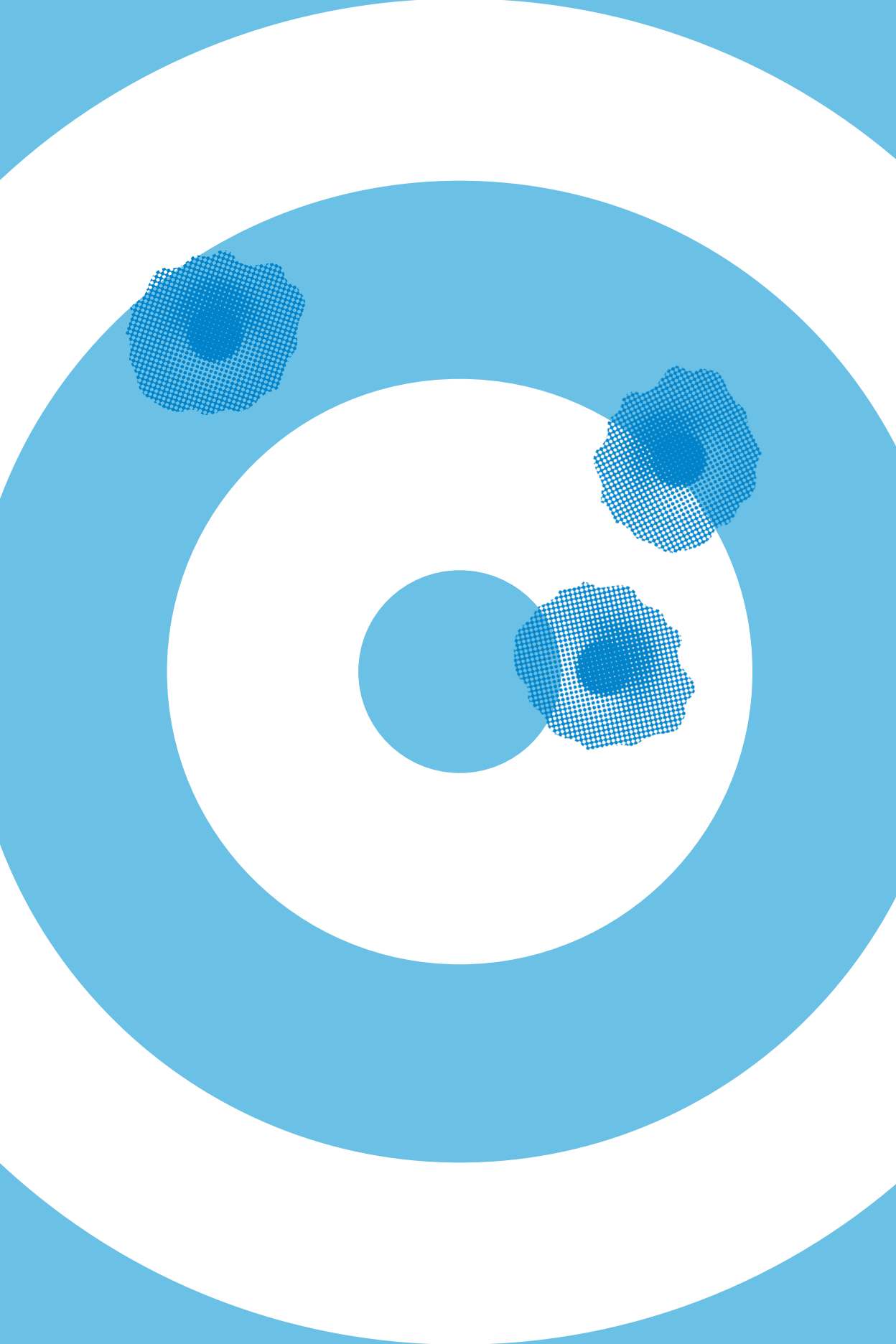
Brand positioning

A brand value assessment can form the framework for positioning. The key is the brand driver analysis (discussed on p. 37), which enables us to understand what customers really care about. This can be used to determine which positioning territories are likely to drive the greatest sales and profit growth and identify a “white space” that is under-occupied or entirely free of competition. It acts as a critical check to make sure that the positioning selected is not just a “cool creative idea,” but something that will generate additional sales. It also helps with targeting – making sure that the customer segments targeted by the positioning are those that will generate the greatest future value.

How brand valuation can transform marketing

Brand positioning – Example

Some companies have broad portfolios, such as one distribution player that was so diverse that it was unsure if it was even possible to develop a single corporate positioning. It feared it might have to brand some of its varied enterprises separately. However, a brand valuation identified the major drivers of sales and profit growth and uncovered some striking things all the different businesses had in common. The company's customers – from consumers to CEOs – shared major priorities, such as intelligence, innovation, personal relationships, and operational excellence. These drivers became the inspiration for a single corporate positioning.



Brand architecture & portfolio strategy

Decisions about brand architecture and brand naming can have major business consequences.

This is certainly true at the level of individual brands. Eliminating a strong brand can drive away customers and lead to declining market share. If the new brand is unknown or, worse, comes with baggage, you can expect a significant drop in sales. For example, Coco Pops, a Kellogg's cereal brand in the UK for 28 years, changed its name to Choco Krispies to be consistent with other markets. Sales dropped 20%, and there was a national outcry. Almost a million people contacted Kellogg's to complain and the company had no choice but to apologize and change the name back.

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These factors are also true at the portfolio level. Having too many brands will fragment your marketing budget and reduce its effectiveness. Trademark registration and protection costs will rise disproportionately to the value they confer. If your brands overlap, customers will be confused and more likely to turn to competitors. On the other hand, if there is no obvious relationship between your brands, cross-selling and upselling will be difficult. Without a clear organizing principle that sets out the purpose and benefits of each brand, your offer will be less relevant to customers.

Brand architecture decisions are difficult to make, especially in the aftermath of an acquisition. The issues are emotional and political. The CEO of the acquired brand will almost always claim that changing the name will lead to loss of sales. Sometimes this is very true, sometimes not true at all, and, most often, partly true. Brand valuation injects objectivity into the debate.

The first step is to include valuation in an assessment of the strength and effectiveness of each brand in question. Alternative brand architecture scenarios can then be run through the brand valuation model. This makes it possible to identify the optimal solution, the one that will generate most future revenues, profits, and value for the business, taking into account the different levels of investment that each option will require.

Brand architecture & portfolio strategy – Example 1

Following a global acquisition spree, a European insurance business found itself with a large number of different brands, many in similar businesses and often in the same markets. Each company was advertising its own brand, leading to inefficiencies and duplication of spend. To combat this, the enterprise valued its 14 major brands to determine the importance of each to customers and the risk of losing business if the brand was changed. On the basis of the brand valuation results, the CEO and board overturned their original decision, which had been to move rapidly to one brand. Instead, some brands that had a large amount of value were retained for certain countries and business segments; for other brands, a gradual cobranded decision would be most profitable. Finally, some brands had little value, and, despite the strident protests of some of their MDs, they were eliminated immediately.

Brand architecture & portfolio strategy – Example 2

Since the late '90s, under the leadership of Peter Brabeck, Nestlé has outperformed other major consumer products companies, including Unilever, Kraft, and P&G. A dramatic brand portfolio architecture reorganization has played a major part in this. Nestlé drastically trimmed the total number of brands in its portfolio from about 6,000 to 800. Moreover, they identified a core set of six to eight global strategic brands that were nominated to serve as range brands that could endorse other product brands. Nestlé wanted to create a structure that tapped the power of global brands while allowing a large amount of flexibility to respond to local market needs. The strategic brands today account for about 70% of sales. Both Unilever and P&G have since undertaken similar rationalizations.

B2B brand and corporate reputation strategy

In many B2B businesses, the emphasis is on corporate reputation rather than consumer-facing brand building. Here, brand valuation also has a large, but underexploited, potential to add value. It can be employed to demonstrate the effectiveness of corporate marketing budgets and to identify the higher shareholder returns to be had through shrewd reputation management.

Purely B2B industries need to look at valuation in a different way. Take the mining industry as an example. Here the product is a true commodity; it's sold on global spot markets. There is no opportunity for any brand to deliver higher volumes or higher prices. But the brand still matters. It just doesn't matter on the *demand* side of the business. It can play a critical role on the *supply* side. The corporate brand or reputation can have a decisive influence on decisions by governments and regulators to grant licenses, by local communities to welcome or protest against an operation, and by potential recruits to join the company. The value of the brand must be measured in context of the impact it can have on these decisions and how they translate into new growth opportunities, lower working capital costs, and the cost of capital.

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New business growth

Brand valuation can also accelerate new business growth. Product innovation, market entry, and M&A success rates rise when brands make choices on the basis of value potential and risks:

Innovation

Companies rarely struggle with the development of new ideas. A couple of work sessions and there you go – 50 or 60 ideas with their associated scribbles and sketches. Choosing among them on the basis of their potential value is the challenge. Brand valuation won't give you the inspiration, but it can narrow the funnel by identifying the areas in which the brand has both the permission and the market opportunity. By setting boundaries, you make inspiration possible. As any good creative director will tell you, you have to kick up against something to come up with something new. Once the ideas have been developed, brand valuation can provide a framework for concept evaluation, ensuring that innovation priorities are set according to the potential for increased value and the anticipated level of risk. Brand valuation has been used very successfully, many times, for this purpose.

Innovation – Example

This IT company has one of the most talented R&D departments in the world. It wanted to make better use of its inventiveness and augment its product pipeline with new ideas that were more responsive to customer needs. To do that, it needed to identify the most promising new product opportunities. By looking at potential products within the boundaries set by initial brand analysis, a quick decision could be made about where the brand did and did not have permission to go. Leading concepts stood out and were given priority. The company turned to quantitative research, category sizing, and financial analysis to measure customer interest, determine the value added by the brand, assess the competitive situation, quantify the financial opportunity, and assess potential risks. As a result of this process, 20 new products have been brought to market – so far.

Market entry

The issues with new market entry are very similar. With so many markets, which to choose? Or is it better to go deeper into new segments within existing markets, instead of venturing farther afield?

Many factors have to be taken into account in a market feasibility study – from market size and growth to customers and competitors, operation and distribution setup costs, and regulatory and political factors. Brand impacts all these factors. Brand determines the proportion of customers who will switch to a new provider, the price they will pay, and how much they will buy. It influences the willingness of suppliers to do business with the new company, of employees to apply for new jobs, and of governments to grant permits. The ability of the brand to create value in the new market competitive environment should weigh heavily in an evaluation of market entry risks. Brand value can also be used as a way of minimizing risks. As we have seen, brand licensing forms a component of many geographical and product line expansion strategies.

How brand valuation can transform marketing

Market entry – Example

A retailer with a globally famous brand was present in only one country. Its owners wanted to monetize the brand asset by extending it into new markets. They used brand valuation to quantify the current value of the brand and identify what propelled that value. With that in hand, the owners looked at six potential overseas markets. How much value, based on brand appeal, could accrue? What competitive advantage would that provide? And how much revenue would flow into company coffers? All of those questions had to be balanced against the costs and risks of entry. The answers led the brand in an unexpected direction. It moved aggressively into China and the Middle East, putting the US on the back burner.

Mergers & acquisitions

In the future, brand valuation will be built into decisions on buying and selling businesses. Investment bankers are, albeit reluctantly, conceding the need to value the brand assets along with other assets in M&A deals. Bankers now include consideration of the value that the brand can add to the acquirer's business, or vice versa, in the final price paid. Private equity firms have awakened to the importance of brand and now field teams who think through brand strategy, positioning, and communications based on the potential value these elements drive. The potential of the brand to generate value is often the basis of the decision to proceed or not for deals with many distressed assets. Tata Motors paid \$2.3 billion for the Jaguar and Land Rover brands because of the potential to leverage the brands to revive the businesses. Their brand valuation calculations have proved right. Jaguar has roared back to health in the four years since its acquisition.

Mergers & acquisitions – Example

David D'Alessandro, CEO of John Hancock and one of the few marketing people ever to lead an insurance company, realized that his business was too small to survive in the globalizing world of financial services. To ensure that the company received a premium for its historic brand, he commissioned a study to quantify the value that it would add to the businesses of each of ten potential acquirers. A deal was done with the Canadian corporation ManuLife, which had a much less powerful brand, at a significant premium. ManuLife has subsequently rebranded most of its businesses to John Hancock.

Marketing area 3: Measurement

Brand valuation will change the way that marketing investment is judged and measured and the way decisions are made. Brand valuation can help raise the effectiveness debate to a higher level – from individual, near-in, and short-sighted measures which are as fragmented as the channels they are measuring, to a holistic view, which considers offline and online, tangible and intangible, short-term and long-term, all from the single vantage point of business results.

A holistic approach

Because it looks over the head of the different channels to the financial outcome, brand valuation can initiate a holistic approach to marketing. This is needed urgently to cope with the great fragmentation we live with now. As new media has multiplied, it has not displaced old media, but added new layers – channel upon channel and measurement upon measurement. Measurement is just as fragmented as the media. Confusing this further, it operates at different altitudes – from the big picture (market mix modeling and brand equity tracking) to the most micro (e.g., campaign-specific copy testing, impressions-based analysis, social media metrics). These measurements address different questions at different frequencies and in different places. Companies need a way of coming to a single decision about how to allocate their marketing money most effectively. A way has to be found to integrate all the different tools, bring them all down to the same level, and create a common currency for measurement. There is no choice about what this currency will be – it already exists. Financial results are the test by which, in the end, all endeavors are judged.

How brand valuation can transform marketing

This is where brand valuation can come into its own. Brand valuation looks at every measure of marketing, in all media, unconcerned with fragmentation, and brings it all together under a common unit. It is ideally suited to fulfill this integrating function, providing the framework through which different metrics and measures can be linked to money.



From one to many measures

Marketing investment is often focused on single measures – one number in one channel. The most ubiquitous measure for communications is the copy test score. It is one number erected over the head of creatives and set in judgment on their work. Pre-testing was originally intended as a development tool to provide guidance into the creative process. It has been co-opted by all but the bravest clients as an easy way out – a way of shifting the responsibility for the decision off their shoulders. Instead of a guide, it has become a hurdle and the basis for a yes-or-no decision that dictates the creative future. The copy test score measures only one thing – the rational and logical parts of the intended message. The emotional and the implicit lead to communications that change consumer behavior, but they are ignored by this metric. This is a failure in relevance of measurement.

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Brand valuation can change the game by looking to the ultimate goal of communications – creating financial value. Discussions about marketing communications effectiveness can move beyond intermediate measures to the end game. No more bickering over scores on TV ads; we'll have conversations about business results instead.

From one to many measures – Example

When Lou Gerstner came in to revive IBM in 1993, he focused communications on business results. He started with “Solutions for a Small Planet” which gave way to e-business. His successor, Sam Palmisano, continued the brand story with “Let’s Build a Smarter Planet,” an effort that goes on to this day. For the IBM brand, communications became the external expression of business strategy. Brand valuation was one of the most important metrics used to track progress in the turnaround. The success of this focus on the end game can be seen from the results – IBM’s brand value has grown from negative \$50 million in 1993, to \$75 billion in 2012 (and even higher at \$112 billion in BrandZ).

Long-term ROI

Brand valuation can fill in one of the biggest holes in marketing measurement – the ability to measure long-term ROI. Current metrics are either focused on capturing the direct short-term impact of marketing on sales, or they measure longer-term brand equity building. Brand valuation measures the indirect, longer-term impact of marketing, provides a mechanism for integration of short-term analyses, and completes the link to future financial value. How does it do this? By taking the sales identified as due to marketing activities through market mix modeling and other types of direct marketing measurement, along with the sales identified by driver analysis as attributable to brand, and feeding both into the brand valuation model. Not all the linkages have been cemented – it is not the Holy Grail – but with brand valuation it becomes easier to judge long-term ambitions fairly against short-term priorities. Long-term value (estimated at 75% of the total) is the major missing piece in marketing ROI measurement. ROI measures have focused attention on short-term, promotional, and often brand-destroying activities.

Long-term ROI – Example

Seeking to manage its complex portfolio more effectively, a major consumer products company needed a management tool to optimize brand and marketing investment to support its strategic objectives. There was concern that they were spending too much on consumer promotions, and that their brands and longer-term growth outlook were suffering. They developed a brand valuation model that integrated longer-term brand data and financial forecasts with short-term sales and marketing spend data, linking both to financial value. The company ran scenarios to see what would happen if they emphasized different strategies, such as short-term profit maximization or long-term market share growth. The initiative showed that reallocating marketing dollars away from promotions to above-the-line, brand-building activities would increase business value significantly, with little impact on short-term sales. This was a hard sell to the retailers, but armed with the data, the company was emboldened to go ahead and reduce its promotions significantly.

Brand experience measurement

Brand valuation goes beyond marketing to the whole experience. As we have seen, brand value comes from more than just marketing communications. It is built or destroyed at every point the brand touches a customer or other stakeholder. An internal brand valuation takes you beyond marketing by quantifying all the drivers of the purchase decision, both tangible operational and intangible marketing factors. For service businesses in particular, environments and operating efficiencies are at least as important in driving brand value as marketing communications. When running scenarios to identify the initiatives that will generate the most incremental brand value, you may find the top priorities have nothing to do with communications. Because it looks at the whole experience, brand valuation allows the ROI from investments in intangibles, such as brand and marketing, to be compared equally with investments in tangibles such as technology, R&D, or hiring more salespeople.

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For service businesses in particular, environments and operating efficiencies are at least as important in driving brand value as marketing communications.

Brand experience measurement – Example

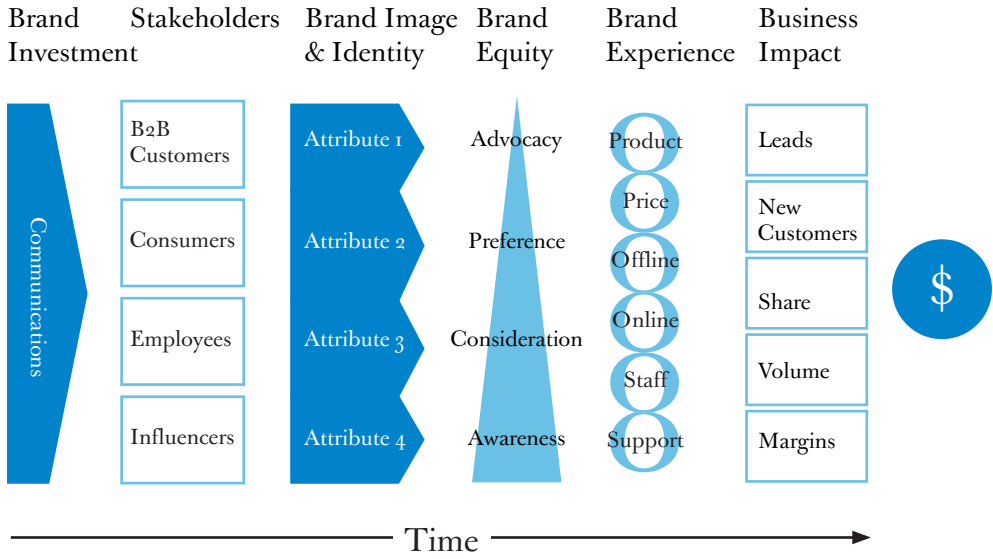
The senior management of a major airline was concerned that, with success, it had grown too big and was losing the verve that had made it special. Growth was slowing, and the management undertook a brand valuation of the entire customer journey for business and leisure customers on each of its routes. They uncovered the drivers of ticket purchase, ranked them, and compared the brand's performance with its competitors'. This revealed some major gaps, and after running some scenarios, management knew that the initiatives it needed to pursue included both tangible investments (such as improving the boarding experience and making the frequent flyer program more generous) as well as greater investment in marketing to business passengers.

The new brand tracking

Brand tracking is the final link in the transformation of brand and marketing by valuation. To become a tool for managing and growing the value of the brand asset, brand valuation has to move from a point in time to a longitudinal measure. This implies a revolution in brand tracking – one that is sorely overdue. Brand tracking must in the future blow past intermediate measures such as awareness, preference, differentiation, or recommendation. It must go all the way to the only measure that has real meaning outside the marketing department – money. We don't advocate money as a single measure. Far from it; brand tracking should include many measures. Some should record milestones achieved; others ought to be predictive of future performance. There should be financial, perceptual, and market metrics. They should encompass not only end customers, but all key stakeholders, including employees, intermediaries, investors, and other influencers. Brand and marketing investment, brand image and identity, brand equity, brand experience, and business metrics should all be tracked. All these measures need to be selected through the lens of their contribution to brand value creation. Brand and marketing's success in value creation should be measured on a regular, ongoing basis, instead of at a couple of points in time, so that brand valuation will become the new brand tracking.

How brand valuation can transform marketing

The new brand tracking



Marketing area 4: Linking brand to shareholder value

The final step is to make explicit the link between brand building and growth in shareholder value. The brand value metric should be viewed in the context of not just business value, but also stock market valuation and share price. Attempts to value brands through the simple correlation of a bunch of reputation factors to share price lack credibility. There are just too many other factors involved. However, the evidence is clear: companies that have invested in building strong brands have higher share prices. There is both a long-run effect (higher share price over time) and a visible short-term effect (an immediate lift of share price to a new level by successful advertising campaigns). For individual stocks, the relationship between successful brand campaigns and short-term share price growth can often be demonstrated. Examples include a 24% improvement in stock performance in Adidas in the year following the launch of “Impossible is Nothing;” a 38% increase in IBM’s share price following the launch of Smarter Planet compared to 6% the previous year; an estimated 2.49 times increase in value per share for the Orange launch campaign in the UK, “The future’s bright. The future’s Orange.” While it may not be possible to develop a mathematical formula for the impact of brand investment on share price, the relationship is there and should be included in future brand tracking. Awareness of this lies behind the growing movement toward corporate branding. Major “houses of brands” such as P&G and Unilever are activating their corporate brands as masterbrands on their products and in advertising to consumers, secure in the knowledge that increased corporate brand visibility is likely to have a positive impact on share price.

How brand valuation can transform marketing

*The evidence is clear:
Companies that have invested
in building strong brands
have higher share prices.*



*The result — the brand in
the boardroom*

Bringing brand valuation out of the box and into the daylight will dramatically improve the financial performance of businesses that adopt it. It also has the potential to transform marketing.

This new brand valuation will underpin all brand and marketing decisions. It will be based on not a single point in time, but many points in time; not a single measure, but many measures. It will be used not for single decisions, but will be a critical input into the many decisions that surround the creation of demand and the propulsion of business growth.

The result will be much more effective marketing. When brand valuation is used as the input into the budgeting process, marketing budgets will go through more easily, because they are supported by a solid financial rationale. Investment in brand will be at more appropriate levels. Marketing budgets will no longer be the first item to be cut. Investment will be allocated to those parts of the portfolio that can benefit from it most, rather than being ring-fenced by the largest, most powerful, and least deserving divisions.

Decisions about marketing campaigns will be based on anticipated business impacts, instead of being held hostage to a single intermediary measure. A holistic approach to marketing mix will become possible. Brand valuation will be the framework through which all types of media can be integrated, and a common currency for marketing adopted. Media spend decisions will no longer be taken in isolation, each on the basis of its own set of metrics, or, in some cases (such as sponsorship) no metrics at all. The long-term impact of marketing on brand will be weighed alongside short-term impact on sales. The overemphasis on consumer promotions will end, once it is not the only vehicle whose results can be measured.

*The result –
the brand in
the boardroom*

The right amounts will be spent on the right things, in the right places, maximizing sales growth and profit potential.

Companies will make better brand decisions. Brand strategy will cease to be driven quite so much by emotion and politics and will, instead, rely on calculations of revenues and profits and future returns. Brand positioning will focus on that which creates brand value and target the most valuable segments.

The risk attached to innovation and growth strategies will decline through consideration of the potential for brand value creation. In the most risky situations, brands will avoid capital expenditure through licensing strategies.

Through the adoption of optimal brand strategies, brands will attract and retain more (and more desirable) customers, and command higher price premiums, spurring revenue and profit growth and creating incremental business value.

New measurement systems will focus on the leading growth indicators and sound the alarm when performance drops. Today's intermediate measures are incompatible with one another, but brand valuation converts them into a single unit – cash – thus solving the major measurement crisis affecting marketing. This is much more than offering guidance. Looked at this way, brand valuation will be marketing's answer to the unified field theory in physics – a way of describing all fundamental forces and the relationships between the parts in terms of a single theoretical framework. Across a portfolio, from brand to brand, from channel to channel, everything will be put on the same footing. With this will come a new predictability. Brand valuation provides a financial framework that can be applied to future generations of marketing innovation – the same measurement concepts can be used, just the inputs will be different.

Solving the measurement problem and putting marketing on a financial foundation will change culture at the top levels. CEOs, CFOs, and boards will come to see that marketing is not an expense but an investment. They will recognize that brand is an asset, and that it should be treated like any other asset – invested in, put to work to generate value, and held accountable for results. Investment in marketing will be seen as critical. Marketing leaders will be empowered to claim their rightful place in the boardroom, as managers of one of the corporation’s most valuable assets – the brand.

When this happens, the results will be transformative, not just for marketing, but for brands and how consumers experience them. A stronger, more powerful marketing function, armed with greater visibility into how brands work, will take branding to a higher level. The brand’s purpose will become clearer and more compelling, and will be better understood by employees in every part of the enterprise. Brand thinking will galvanize the enterprise’s activities – from R&D and product design, to manufacturing and procurement, to finance, legal, and IT, to sales, distribution, and partner relationships. This will drive development of more desirable products and services, brought to life more consistently and vibrantly. Looking forward, brands will become more trusted as signifiers. They will become more relevant to us, and our affinity with them will grow. Brand valuation creates an opportunity to change how we think about brands and make their meaning central to our lives.

*The result –
the brand in
the boardroom*



Key takeaways

Brand valuation has the potential to transform marketing. Exploiting valuation's power to link brand to money can lead to better marketing decisions, more effective strategies, and accelerated business growth. Due to its roots in accounting, brand valuation has not yet been integrated into the day-to-day practice of marketing, and its potential remains untapped.

Brand valuation was invented by investment bankers as a method of acquisition accounting. Today, it is often carried out by small, specialty firms with an accounting pedigree and bias. The resulting valuation is usually a single, non-strategic, snapshot number arrived at through an opaque methodology.

There are multiple approaches to brand valuation today, and each has its own limitations.

Ogilvy & Mather believes that by combining the best brand valuation approaches with other types of data, including big data, we can uncover true insights about brand value. These are our principles for brand valuation:

- Transparency: No black boxes
- Focus on *how* brand drives value
- Make the brand inputs as robust as the financial inputs
- Make it diagnostic
- Run scenarios to identify the best opportunities
- Take a holistic approach
- Look at many measures
- Look over time

Brand valuation can provide the critical financial underpinning for the many decisions that surround the creation of demand and the propulsion of business growth, among them:

Brand and marketing investment

- Brand valuation can be used to make the case for marketing investment, optimize budget allocation, and defend budgets from cuts

Brand strategy

- Brand valuation dramatically improves the robustness and quality of brand assessment and benchmarking and leads to better and better substantiated decisions on positioning, brand architecture and portfolio strategy, B2B brand and corporate reputation strategy, innovation, market entry, and M&A

Key takeaways

Brand measurement

- Brand valuation will raise the effectiveness debate to a higher level, by taking a holistic view which considers many measures, offline and online communications, tangible and intangible experiences, short-term and long-term ROI – all from the single vantage point of business results. Moving from a point in time to a longitudinal measure, brand valuation will become the new brand tracking.

By making explicit the link between brand building and shareholder value, brand valuation will empower marketing leaders to claim their rightful place in the boardroom, as managers of one of the corporation's most valuable assets – the brand.

The results will be transformative not just for marketing, but for brands and how consumers experience them. A stronger, more powerful marketing function, armed with greater visibility into how brands work, will take branding to a higher level. The brand's purpose will become clearer and more compelling, and will be better understood by employees in every part of the enterprise. This will drive the development of more desirable, more trusted, and more relevant brands, whose meaning is central to our lives.

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Joanna leads the global brand valuation consulting practice for OgilvyRED, Ogilvy's global strategy consulting unit. Joanna specializes in helping clients maximize the financial potential of their brand and marketing strategies. She is recognized as a global expert on brand creation and growth strategies, brand architecture, and brand valuation. She has more than 20 years of experience in providing strategic recommendations with measurable financial impact to leading clients worldwide.

Joanna was previously the founder and CEO of Millward Brown's global brand consulting practice. In her role at Millward Brown, Joanna was responsible for the development of fresh, financially based approaches to brand and marketing strategy. This included creation and implementation of the BrandZ Top 100 ranking of the world's most valuable brands, published annually in the *Financial Times*.

Prior to joining Millward Brown, Joanna was a founding partner and Executive Vice President for Worldwide Strategy at FutureBrand, pioneering the integration of brand strategy, brand identity, and brand valuation. Joanna also led a cross-agency group within IPG dedicated to creating best practices in marketing accountability.

Joanna has worked with the world's leading companies as well as private equity firms to design, develop, and implement programs to optimize the value created by brand and marketing. Engagements span a wide range of categories, from Procter & Gamble and Unilever to Coca-Cola, Bacardi, Visa, Citi, BP, UPS, Microsoft, and AT&T. Joanna also helped to lead the successful turnaround and sale of a division of McKesson Corporation, a global leader in supply chain management.

Joanna holds a doctorate from Oxford University and is well known as a speaker and writer on brand strategy, brand valuation, and marketing ROI issues.

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