



Brand Valuation: Why Measuring the Intangibles Makes Business Sense

David Haigh, group chief executive of Brand Finance, is a well known author, speaker and expert on brand and intangible asset valuation. A chartered accountant and fellow of the Chartered Institute of Marketing, he is a member of the UK Academy of Experts, member of the Society of Share and Business Valuers, and an advisory panel member of the Shares Valuation Division of the Inland Revenue (UK), specialising in trademarks and brands. Haigh is also a key expert advisor to the UK Inland Revenue, and has been an advisor and expert witness for the US Inland Revenue Service on intangible asset valuation and transfer pricing since 1998.

Haigh was the featured speaker on the topic "Brand Valuation: What does it all mean to companies?" earlier this year at the Center for Marketing Excellence, Singapore Management University. Haigh spoke to Knowledge@SMU about the concept of brand valuation, how it can be carried out, and why companies need to value brands to meet strategic, due diligence and investor relations goals.

Knowledge@SMU: What is brand valuation?

Haigh: Different people mean different things by brand. One [brand] that we normally talk about is business, so the business and its particular trademark would be a brand. For example look at Diageo, the drinks company. You could say they've got 50 brands – Baileys and various others -- and each one of those is a brand. They would have a profit & loss account and a balance sheet against each one of those brands. It's really a portfolio of businesses that aggregate up to make Diageo as a whole, and the same for others like Unilever. They have a whole variety of individual brands that go as a portfolio. Unilever said a few years ago, they've got 1,600 brands. They wanted to get rid of 1,200 of them, and only needed 400. Those are the 400 that are going to create growth going forward. So they sold off the 1,200 brands. But what they meant is they are selling off 1,200 individual branded businesses to different people.

Other people, when they talk about a brand, just really mean the trademark. It may be a logo or it may be a name. For example, Standard Chartered is the name of a bank. It's a trademarked name and they have the helix logo and blue and green as their colours. So, in their context, the trademarked material is the name, the logo and the use of those colours. When some people say they value a brand, they mean just those particular trademarks. When we're doing brand valuation, we could be doing one of two things: we could be valuing a fully integrated branded business to say what is it worth, or we could be valuing a bundle of trademarks for a particular reason.

Knowledge@SMU: What are the different reasons for doing a valuation?

Haigh: We do three things: technical valuation, strategy advice, and transaction - the buying and selling of brands. When you're looking at technical valuations for accounting or tax purposes, most of the time you are valuing at a narrower definition of brand; you're valuing a bundle of trademarks. Whereas when you're doing strategy or transactions, you're usually valuing the whole branded business.

Knowledge@SMU: It appears that brand valuation would be more useful for bigger or more established companies than smaller or newer ones.

Haigh: Well, valuation has its value for different companies. Small companies need to borrow money to expand. If they can't borrow the money because what they've got are intangible assets, then they can't expand. We've done valuation for quite well-known niche brands but they're still quite small. Then they borrowed the money and grew from niche brands to quite big brands. Brand valuation can be very helpful to reassure investors and lenders that you have a valuable asset. In Singapore more than 10 years ago, Banyan Tree was a very small brand. Look at it now. It's a global brand that many people have heard of, and they are diversifying from hotels into property developments, body care products and health spas. All of that happened because they have been well funded. We did a project for Banyan Tree at the point it was doing its IPO because they needed a brand valuation to support their IPO discussions.

Let me give you another example, the Ministry of Sound. We valued that in the UK about 10 years ago when it was quite small. The reason they wanted to value it was because they wanted to move it offshore to a new location, Jersey, because it is more favourable from a tax and financing point of view. So we valued the brand and they moved into the offshore location. They then borrowed money with which they expanded and now they are huge. They needed the brand valuation to show the tax authority that when they left, the value was this and they can only charge this amount of money. In fact, that was challenged.

The tax authority came back five or six years later and said that is a very valuable brand: "You took it out of the country; we want more tax." We went back and said we did this valuation five, six years ago when they moved, and at the point it moved it wasn't worth a great deal. It is a good brand but it wasn't that valuable. The growth happened since it moved abroad. In the end they accepted that argument. So, there is a need for brand valuation defensively against the tax authorities in case they come back later and ask for a lot of money. There are a lot of different times and reasons why people do brand valuation. But if a company is brand new that only started yesterday, then there is no point.

Knowledge@SMU: How do you measure value?

Haigh: Basically, you do a lot of analysis of the market. If someone asked me to do a brand valuation, I value it on the expected future income it's going to generate. It's a classic DCF (discounted cash flow). You look at the profit and loss for five to 10 years, work out what you think the revenue and cost are going to be, get the net profit figure and discount it back, and say that's the value.

The purpose of brand valuation is to thoroughly review the predicted performance of that brand. Sometimes, people overestimate and exaggerate the value of a brand, and sometimes they underestimate. The purpose of a brand valuation is to work out which one it is. You've got to analyse and ask if it's worth a \$100 million or \$200 million and why. Where is revenue coming from? Will it go on being strong in the future? I don't think many serious corporate finance people spend enough time doing it. Brand valuation and brand due diligence is a relatively new thing. They do a lot financial due diligence on costs, they do a lot of legal due diligence, but most don't really understand marketing and branding and they don't look closely enough. But it can make a huge difference between successful and unsuccessful acquisitions. So that's why brand valuation is a very important discipline for companies to make right decisions.

Knowledge@SMU: Of all the valuations you have done, how many of those have been accurate?

Haigh: To talk about accuracy is rather difficult because what you're doing is to put a value on expected future earnings. There are many things that can happen between here and there. All these are various moving parts and assumptions so the end result is going to be different.

The purpose of a brand valuation is to draw up a reasonable, sensible and supportable prediction. If you come back, two, three, four years from now, you will almost inevitably find that the actual results are different, but you hope that the difference is not ridiculous. People often talk about accuracy. The main thing is whether it is a number which is reliable enough for you to make sensible decisions on. I think many of them are though they do vary. If you have very poor information about a brand and the market it's operating in, if you don't have any decent market research and you don't have the industry trends, it's quite difficult to

come up with a reasonable valuation.

Let me give you an example of a market where it is pretty easy to value – cigarettes. The cigarette market is very stable in most developed countries. You know exactly how many smokers there, you know exactly how many they smoke. The whole market is highly regulated and no one is allowed to advertise. The level of demand is predictable; it's all just about market share. You look at the different brands and what had been their market share in the last 10 years, plus or minus. The market share is probably the same five years from now. Sometimes, they might gradually get a bigger or smaller share. The accuracy of a brand valuation largely depends on the quality of the information you are provided or able to get to form your opinions.

Knowledge@SMU: What other challenges do you face when doing a brand valuation?

Haigh: One of the real problems is getting a very clear brief about what the client wants the valuation for, and what they want it to deliver for. Sometimes it's a bit vague. Some clients will say they would like you to do a valuation of the brand because they want to think about overall strategy. But, then it turns out later, what they really meant was they wanted to know how to spend on advertising. The way you brief and look at the project would be slightly different if the primary objective is what you should spend on your advertising. We'd go into a lot more detail in analysing what advertising does to the market. If clients want to look at strategy, what they mean is, should they support this or that brand? It's a brand architecture study where they're deciding which are the good brands and which are the bad ones; which ones to keep and which ones to get rid off. It's not so much an argument about what should the resources be for advertising.

So getting a clear brief is critical. Sometimes it's for a technical valuation and people say, I want to know the value of my brand. So you ask why. They say they've got a technical deal going on. You ask what kind of technical deal? Then it turns out they are either trying for securitising with a bank to borrow some money, or they might be going for an IPO.

The second thing is getting internal buy in and back up. Quite often, you'll find that you will be appointed by the finance director and you struggle a bit to get information from marketing. If you're appointed by the marketing director, you struggle to get information from finance because basically they don't cooperate with each other.

Third is the information challenge which I've already described. It's about getting the information and testing it. I would say amongst all [the challenges], one of the biggest is having a reasonable understanding of where a particular market is going. If I've got a brand that produces 100 a year over five years and that represent 10% of the market, the whole market is 1,000. All things being equal, we should get 10% of that market. If it turns out that the market is shrinking, five years from now it's not going to be 1,000 but 500. Inevitably, our share would be 50, not 100. If it were to go from 1,000 to 5,000 and our share is 10%, we'll get 500. The critical issue is finding out where the market is going. The other part is in understanding how strong our brand is in relation to other brands. There's where we get into very detailed research -- what are the attributes associated with the brand, how familiar are people with it, do they prefer it, how many will switch to it, are will they recommend their friends?

Knowledge@SMU: Is brand valuation more important for some industries than others?

Haigh: I think it would be fair to say that, basically, branding is more important for the fast moving consumer goods market. But it's increasingly important in industrial markets. There is more and more equity of products in technical business so the differentiation is coming from the intangibles.

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