Learning Objectives
After reading this chapter, you should be able to
1. Recognize the multidimensionality of brand equity and the importance of multiple methods to measure it.
2. Contrast different comparative methods to assess brand equity.
3. Explain the basic logic of how conjoint analysis works.
4. Review different holistic methods for valuing brand equity.
5. Describe the relationship between branding and finance.
Measuring Outcomes of Brand Equity: Capturing Market Performance
Intel tracks the price premiums it enjoys over competitors as a measure of its brand strength.
352 Source: Intel Corporation
1. 2. 3.
4. 5. 6.
Perception of better product or service performance
Greater loyalty and less vulnerability to competitive marketing actions and marketing crises
Larger margins and more inelastic responses to price increases and elastic responses to price decreases
Greater trade cooperation and support
Increased marketing communication effectiveness
Opportunity for successful licensing and brand extension
The customer-based brand equity model maintains that these benefits, and thus the ultimate value

Preview
Ideally, to measure brand equity, we would create a "brand equity index"—one easily calculated number that summarizes the health of the brand and completely captures its brand equity. But just as a thermometer measuring body temperature provides only one indication of how healthy a person is, so does any one measure of brand equity provide only one indication of the health of a brand. Brand equity is a multidimensional concept, and complex enough to require many different types of measures. Applying multiple measures increases the diagnostic power of marketing research and the likelihood that managers will better understand what is happening to their brands and, perhaps more important, why.1
In arguments suggesting that researchers should employ multiple measures of brand equity, writers have drawn interesting comparisons between measuring brand equity and assessing the performance of an aircraft in flight or a car on the road; for example:
The pilot of the plane has to consider a number of indicators and gauges as the plane is flown. There is the fuel gauge, the altimeter, and a number of other important status indica- tors. All of these dials and meters tell the pilot different things about the health of the plane. There is no one gauge that summarizes everything about the plane. The plane needs the altimeter, compass, radar, and the fuel gauge. As the pilot looks at the instrument cluster, he has to take all of these critical indicators into account as he flies.2

The dashboard of a car or the gauges on the plane, which together measure its “health” while being driven or flown, are analogous to the multiple measures of brand equity necessary to assess the health of a brand.

The preceding chapter described different approaches to measuring brand knowledge structures and the customer mind-set that marketers can use to identify and quantify potential sources of brand equity. By applying these measurement techniques, we should gain a good understanding of the depth and breadth of brand awareness; the strength, favorability, and uniqueness of brand associations; the positivity of brand responses; and the nature of brand relationships for their brands. As we described in Chapters 1 and 2, a product with positive brand equity can enjoy the following six important customer- related benefits:

of a

Chapter 9 described, we can measure these individual components; however, to provide more direct estimates, we still must assess their resulting value in some way. This chapter examines measurement procedures to assess the effects of brand knowledge structures on these and other measures that capture market performance for the brand.3

First, we review comparative methods, which are means to better assess the effects of consumer perceptions and preferences on consumer response to the marketing program and the specific benefits of brand equity. Next, we look at holistic methods, which attempt to estimate the overall or summary value of a brand.4 Some of the interplay between branding and financial considerations is included in Brand Focus 10.0.

brand, depend on the underlying components of brand knowledge and sources of brand equity. As

COMPARATIVE METHODS

Comparative methods are research studies or experiments that examine consumer attitudes and behav- ior toward a brand to directly estimate specific benefits arising from having a high level of awareness and strong, favorable, and unique brand associations. There are two types of comparative methods.

- Brand-based comparative approaches use experiments in which one group of consumers responds to an element of the marketing program or some marketing activity when it is attributed to the target brand, and another group responds to that same element or activity when it is attributed to a competitive or fictitiously named brand.
- Marketing-based comparative approaches use experiments in which consumers respond to changes in elements of the marketing program or marketing activity for the target brand or com- petitive brands.

The brand-based approach holds the marketing program fixed and examines consumer response based on changes in brand identification, whereas the marketing-based approach holds the brand fixed and ex- amines consumer response based on changes in the marketing program. We’ll look at each of these two approaches in turn and then describe conjoint analysis as a technique that, in effect, combines the two.

Brand-based Comparative Approaches

Competitive brands can be useful benchmarks in brand-based comparative approaches. Although consumers may interpret marketing activity for a fictitiously named or unnamed version of the product or service in terms of their general product category knowledge, they may also have a particular brand, or exemplar, in mind. This exemplar may be the category leader or some other brand that consumers feel is representative of the category, like their most preferred brand. Con- sumers may make inferences to supply any missing information based on their knowledge of this particular brand. Thus, it may be instructive to examine how consumers evaluate a proposed new ad campaign, new promotion offering, or new product when it is also attributed to one or more major competitors.

Applications. The classic example of the brand-based comparative approach is "blind testing" re- search studies in which different consumers examine or use a product with or without brand identifica- tion. Invariably, differences emerge. For example, in one study, people who were asked to blind test Coca-Cola and two store brands of cola split their preferences almost evenly among the three—31 percent for Coke and 33 percent and 35 percent for the others. But when the samples were identified, 50 percent of other participants in the experiment said they preferred Coke.5

One natural application of the brand-based comparative approach is product purchase or consump- tion research for new or existing products, as long as the brand identification can be hidden in some way for the "unbranded" control group. Brand-based comparative approaches are also useful to determine brand equity benefits related to price margins and premiums.

TATA DOCOMO: CONNECTING WITH THE YOUNG

In a market that is cluttered with many operators and confusing options, Tata Docomo decided to position itself in a way that will set it apart from the competition. The brand was rolled out in the southern markets with an industry defying tariff plan—per second billing at one paisa. It managed to present this tariff plan not as a "cheap, cheap rate", but as a plan that reflected the spirit of the youth. After per second billing, came Diet SMS that offered flexible tariff on SMS based on the number of characters used.

Continuous engagement and proactive problem resolution also helped Tata Docomo build extremely loyal fans on social media. The brand's promise, its innovative brand identity system, and its breakthrough adver- tising captured the imagination of the young and propelled it to become the most preferred brand in brand track surveys.

Youth connect: Tata Docomo Facebook Page

Source: KV Sridhar, "A Liberating Experience," Financial Express, 22 April 2010; Business Standard, 15 May 2010; Tata DoCoMo Social Media Case Study, www.interface.com "Service Providers Subscriber Statistics," www.telecomdaily.com, February 2010; The Tata Teleservices–DoCoMo Joint Venture–Case Studies and Management Resources.

Image source: Tata Docomo

Critique. The main advantage of a brand-based comparative approach is that because it holds all as- pects of the marketing program fixed for the brand, it isolates the value of a brand in a very real sense. Understanding exactly how knowledge of the brand affects consumer responses to prices, advertising, and so forth is extremely useful in developing strategies in these different areas. At the same time, we could study an almost infinite variety of marketing activities, so what we learn is limited only by the number of different applications we examine.

Brand-based comparative methods are particularly applicable when the marketing activity under consideration represents a change from past marketing of the brand, for example, a new sales or trade promotion, ad campaign, or proposed brand extension. If the marketing activity under consideration is already strongly identified with the brand—like an ad campaign that has been running for years—it may be difficult to attribute some aspect of the marketing program to a fictitiously named or unnamed ver- sion of the product or service in a believable fashion.

Thus, a crucial consideration with the brand-based comparative approach is the realism we can achieve in the experiment. We usually have to sacrifice some realism in order to gain sufficient control to isolate the effects of brand knowledge. When it is too difficult for consumers to examine or experience some element of the marketing program without being aware of the brand, we can use detailed concept statements of that element instead. For example, we can ask consumers to judge a proposed new product when it is either introduced by the firm as a brand extension or introduced by an unnamed firm in that product market. Similarly, we can ask about acceptable price ranges and store locations for the brand name product or a hypothetical unnamed version.

One concern about brand-based comparative approaches is that the simulations and concept state- ments may highlight the particular product characteristics enough to make them more salient than they would otherwise be, distorting the results.

Marketing-based Comparative Approaches

Marketing-based comparative approaches hold the brand fixed and examine consumer response based on changes in the marketing program.

Applications. There is a long academic and industry tradition of exploring price premiums using marketing-based comparative approaches. In the mid-1950s, Edgar Pessemier developed a dollar-metric measure of brand commitment that relied on a step-by-step increase of the price difference between the brand normally purchased and an alternative brand.6 To reveal brand-switching and loyalty patterns, Pessemier plotted the percentage of consumers who switched from their regular brand as a function of the brand price increases.

A number of marketing research suppliers have adopted variations of this approach to derive simi- lar types of demand curves, and many firms now try to assess price sensitivity and willingness-to-pay thresholds for different brands.7 For example, Intel would routinely survey computer shoppers to find out how much of a discount they would require before switching to a personal computer that did not have an Intel microprocessor in it (say, an AMD chip) or, conversely, what premium they would be will- ing to pay to buy a personal computer that did have an Intel microprocessor in it.

We can apply marketing-based comparative approaches in other ways, assessing consumer re- sponse to different advertising strategies, executions, or media plans through multiple test markets. For example, SymphonyIRI's electronic test markets and similar research methodologies can permit tests of different advertising weights or repetition schedules as well as ad copy tests. By controlling for other factors, we can isolate the effects of the brand and product. Recall from Chapter 2 how Anheuser-Busch conducted an extensive series of test markets that revealed that Budweiser beer had such a strong image with consumers that advertising could be cut, at least in the short run, without hurting sales performance.

Marketers can also explore potential brand extensions by collecting consumer evaluations of a range of concept statements describing brand extension candidates. For example, Figure 10-1 dis- plays the results of a consumer survey conducted at one time to examine reactions to hypothetical

Average Scale Ratinga
10 9
7 Pretzels, chocolate nut candy, caramel corn
6 Snack crackers, potato chips, nutritional granola bars
5 Tortilla chips, toppings (ice cream/dessert)
4 Lunchables/lunch snack packs, dessert mixes (cookie/cake/brownie)
3 Ice cream/ice cream bars, toppings (salad/vegetable)
2 Cereal, toaster pastries, Asian entrees/sauces, stuffing mix, refrigerated dough, jams/jellies
1 Yogurt
aConsumers rated hypothetical proposed extensions on an 11-point scale anchored by 0 (definitely would not expect Planter's to sell it) and 10 (definitely would expect Planter's to sell it).
Proposed Extensions
Peanuts
Snack mixes, nuts for baking 8—
FIGURE 10-1
Reactions to Proposed Planters Extensions

extensions of the Planters nuts brand. Contrasting those extensions provides some indication of the equity of the brand.

In this example, the survey results suggested that consumers expected any Planters brand extension to be "nut-related." Appropriate product characteristics for a possible Planters brand extension seemed to be "crunchy," "sweet," "salty," "spicy," and "buttery." In terms of where in the store consumers would have expected to find new Planters products, the snack and candy sections seemed most likely. On the other hand, consumers did not seem to expect to find new Planters products in the breakfast food aisle, bakery product section, refrigerated section, or frozen food section.

Consistent with these survey results, besides selling a variety of nuts (peanuts, mixed nuts, ca- shews, almonds, pistachios, walnuts, and so on), Planters now sells trail mix, sunflower seeds, peanut bars, and peanut butter.

Critique. The main advantage of the marketing-based comparative approach is ease of implementa- tion. We can compare virtually any proposed set of marketing actions for the brand. At the same time, the main drawback is that it may be difficult to discern whether consumer responses to changes in the marketing stimuli are being caused by brand knowledge or by more generic product knowledge. In other words, it may be that for any brand in the product category, consumers would be willing to pay certain prices, accept a particular brand extension, and so forth. One way to determine whether consumer re- sponse is specific to the brand is to conduct similar tests of consumer response with competitive brands. A statistical technique well suited to do just that is described next.

Conjoint Analysis

Conjoint analysis is a survey-based multivariate technique that enables marketers to profile the con- sumer decision process with respect to products and brands.8 Specifically, by asking consumers to ex- press preferences or choose among a number of carefully designed product profiles, researchers can determine the trade-offs consumers are making between various brand attributes, and thus the impor- tance they are attaching to them.9

A brand like Planters has many extension opportunities that it should research carefully. Source: Jarrod Weaton/ Weaton Digital, Inc.

Each profile consumers see is made up of a set of attribute levels chosen on the basis of experimental design principles to satisfy certain mathematical properties. The value consumers attach to each attribute level, as statistically derived by the conjoint formula, is called a part worth. We can use the part worths in various ways to estimate how consumers would value a new combination of the attribute levels. For example, one attribute is the brand name. The part worth for the "brand name" attribute reflects its value.

One classic study of conjoint analysis, reported by Green and Wind, examined consumer evalua- tions of a spot-remover product on five attributes: package design, brand name, price, Good Housekeep- ing seal, and money-back guarantee.10 These same authors also applied conjoint analysis in a landmark research study to arrive at the design that became the Courtyard by Marriott hotel chain.11

Applications. Conjoint analysis has a number of possible applications. In the past, Ogilvy & Mather ad agency used a brand/price trade-off methodology as a means of assessing advertising ef- fectiveness and brand value.12 Brand/price trade-off is a simplified version of conjoint measurement with just two variables—brand and price. Consumers make a series of simulated purchase choices between different combinations of brands and prices. Each choice triggers an increase in the price of the selected brand, forcing the consumer to choose between buying a preferred brand and paying less. In this way, consumers reveal how much their brand loyalty is worth and, conversely, which brands they would relinquish for a lower price.

Academic researchers with an interest in brand image and equity have used other variations and applications of conjoint analysis. For example, Rangaswamy, Burke, and Oliva use conjoint analysis to explore how brand names interact with physical product features to affect the extend- ability of brand names to new product categories.13 Barich and Srinivasan apply conjoint analysis to corporate image programs, to show how it can determine the company attributes relevant to cus- tomers, rank the importance of those attributes, estimate the costs of making improvements (or cor- recting customer perceptions), and prioritize image goals to obtain the maximum benefit, in terms of improved perceptions, for the resources spent.14

Critique. The main advantage of the conjoint-based approach is that it allows us to study differ- ent brands and different aspects of the product or marketing program (product composition, price, distribution outlets, and so on) simultaneously. Thus, we can uncover information about consumers' responses to different marketing activities for both the focal and competing brands.

A comprehensive conjoint analysis project helped design Courtyard by Marriott to better satisfy consumer needs and desires.

Source: AP Photo/ PRNewsFoto/Marriott International, Inc.

One of the disadvantages of conjoint analysis is that marketing profiles may violate consumers' expectations based on what they already know about brands. Thus, we must take care that consumers do not evaluate unrealistic product profiles or scenarios. It can also be difficult to specify and interpret brand attribute levels, although some useful guidelines have been put forth to more effectively apply conjoint analysis to brand positioning.15

HOLISTIC METHODS

We use comparative methods to approximate specific benefits of brand equity. Holistic methods place an overall value on the brand in either abstract utility terms or concrete financial terms. Thus, holistic methods attempt to "net out" various considerations to determine the unique contribution of the brand. The residual approach examines the value of the brand by subtracting consumers' prefer- ences for the brand—based on physical product attributes alone—from their overall brand prefer- ences. The valuation approach places a financial value on brand equity for accounting purposes, mergers and acquisitions, or other such reasons. After an example from Liz Claiborne, we'll look at each of these approaches.

LIZ CLAIBORNE

A company that found great success selling popular fashions to working women in the 1980s—generating $2 billion in annual sales by the early 1990s—Liz Claiborne found itself in serious trouble two decades later when sales started to cool. A brand transformation that eliminated some slower-selling older lines to focus on younger customers failed to turn the business around. Aging core customers deserted the brand, and de- partment stores began to replace it with their own private labels. The company was posting annual losses by 2006, and sales dropped by half over the next five years. Management decided to retrench in 2011 and focus its resources on its faster-selling brands—Kate Spade, Lucky Brands Jeans, and Juicy Couture. The Claiborne and Monet brands were sold to JCPenney for $288 million, and as part of the sales agreement, Liz Claiborne was given one year to change its name. The firm was making another financial bet on a new brand strategy it hoped would prove more fruitful than the last one, while JCPenney was betting there was life left in the Liz Claiborne brand on which it could capitalize.16

Liz Claiborne decided to sell its own brand in order to concentrate on more financially promising brands like Juicy Couture.

Source: Nick Baylis/Alamy

Residual Approaches

The rationale behind residual approaches is the view that brand equity is what remains of consumer preferences and choices after we subtract physical product effects. The idea is that we can infer the rela- tive valuation of brands by observing consumer preferences and choices if we take into account as many sources of measured attribute values as possible. Several researchers have defined brand equity as the incremental preference over and above what would result without brand identification. In this view, we can calculate brand equity by subtracting preferences for objective characteristics of the physical prod- uct from overall preference.17

Scanner Panel. Some researchers have focused on analysis of brand value based on data sets from supermarket scanners of consumer purchases. In an early study, Kamakura and Russell proposed a mea- sure that employs consumer purchase histories from supermarket scanner data to estimate brand equity through a residual approach.18 Specifically, their model explains the choices observed from a panel of consumers as a function of the store environment (actual shelf prices, sales promotions, displays), the physical characteristics of available brands, and a residual term dubbed brand equity. By controlling for other aspects of the marketing mix, they estimate that aspect of brand preference that is unique to a brand and not currently duplicated by competitors.

More recently, a variation proposed by Ailawadi, Lehmann, and Neslin employs actual retail sales data to calculate a "revenue premium" as an estimate of brand equity, by calculating the difference in revenues between a brand and a generic or private label in the same category.19 Sriram, Balachandar, and Kalwani similarly use store-level scanner data to track brand equity and key drivers of brand equity over time.20

Choice Experiments. Swait, Erdem, and colleagues have proposed a related approach to measur- ing brand equity with choice experiments that account for brand names, product attributes, brand im- age, and differences in consumer sociodemographic characteristics and brand usage.21 They define the equalization price as the price that equates the utility of a brand to the utilities that could be attributed to a brand in the category where no brand differentiation occurred. We can consider equalization price a proxy for brand equity.22

Multi-Attribute Attitude Models. Srinivasan, Park, and Chang have proposed a comprehensive residual methodology to measure brand equity based on the multiattribute attitude model.23 Their ap- proach reveals the relative sizes of different bases of brand equity by dividing brand equity into three components: brand awareness, attribute perception biases, and nonattribute preference.

• The attribute-perception biased component of brand equity is the difference between subjectively perceived attribute values and objectively measured attribute values. Objectively measured attribute values come from independent testing services such as Consumer Reports or acknowledged experts in the field.
• The nonattribute preference component of brand equity is the difference between subjectively perceived attribute values and overall preference. It reflects the consumer's overall appraisal of a brand that goes beyond the utility of individual product attributes.

The researchers also incorporate the effects of enhancing brand awareness and preference on con- sumer "pull" and the brand's availability. They propose a survey procedure to collect information for estimating these different perception and preference measures.

Dillon and his colleagues have presented a model for decomposing attribute ratings of a brand into two components: (1) brand-specific associations, meaning features, attributes, or benefits that consum- ers link to a brand; and (2) general brand impressions based on a more holistic view of a brand.24

Critique. Residual approaches provide a useful benchmark for interpreting brand equity, especially when we need approximations of brand equity or a financially oriented perspective on it. The disad- vantage of residual approaches is that they are most appropriate for brands with a lot of product-related attribute associations, because these measures are unable to distinguish between different types of non- product-related attribute associations. Consequently, the residual approach's diagnostic value for strate- gic decision making in other cases is limited. More generally, residual approaches take a fairly static view of brand equity by focusing on con- sumer preferences. This contrasts sharply with the process view advocated by the customer-based brand equity framework. The brand-based and marketing-based comparative approaches stress looking at con- sumer response to the marketing of a brand and attempting to uncover the extent to which that response is affected by brand knowledge.

This distinction is also relevant for the issue of "separability" in brand valuation that various re- searchers have raised. For example, Barwise and his colleagues note that marketing efforts to create an extended or augmented product, say, with extra features or service plus other means to enhance brand value, "raise serious problems of separating the value of the brand name and trademark from the many other elements of the 'augmented' product."25 According to customer-based brand equity, those efforts could affect the favorability, strength, and uniqueness of various brand associations, which would, in turn, affect consumer response to future marketing activities.

For example, imagine that a brand becomes known for providing extraordinary customer service because of certain policies and favorable advertising, publicity, or word-of-mouth (like Nordstrom de- partment stores or Singapore Airlines). These favorable perceptions of customer service and the at- titudes they engender could create customer-based brand equity by affecting consumer response to a price policy (consumers would be willing to pay higher prices), a new ad campaign (consumers would accept an ad illustrating customer satisfaction), or a brand extension (customers would become inter- ested in trying a new type of retail outlet).

Valuation Approaches

An increasingly widely held belief is that much of the corporate value of many companies is wrapped up in intangible assets, including the brand. Many studies have reinforced this point:26

• A survey reported by Fortune magazine in 2006 suggested that 72 percent of the Dow Jones market cap was made up of intangible assets.

• Accenture estimated that intangibles accounted for almost 70 percent of the value of the S&P 500 in 2007, up from 20 percent in 2007.

Much of the company value of Prada has been attributed to the value of the brand.
Source: Pascal Sittler/REA/ Redux Pictures

• Brand consultancy Brand Finance has estimated that brand value for Nike and Prada made up as much as 84 percent and 73 percent of total company value, respectively, in 2006.

Recognizing that fact, many firms are interested in exactly what that brand value is. The ability to put a specific price tag on a brand's value may be useful for a number of reasons:

• Mergers and acquisitions: Both to evaluate possible purchases as well as to facilitate disposal

• Brand licensing: Internally for tax reasons and to third parties
• Fund raising: As collateral on loans or for sale or leaseback arrangements
• Brand portfolio decisions: To allocate resources, develop brand strategy, or prepare financial reports

For example, many companies appear to be attractive acquisition candidates because of the strong com- petitive positions of their brands and their reputation among consumers. Unfortunately, the value of the brand assets in many cases is largely excluded from the company's balance sheet and is therefore of little use in determining overall value. It has been argued that adjust- ing the balance sheet to reflect the true value of a company's brands permits us to take a more realistic view and assess the purchase premium to book value that might be earned from the brands after acqui- sition. Such a calculation, however, would also require estimates of capital required by brands and the expected after-acquisition return on investment (ROI) of a company.

Separating out the percentage of revenue or profits attributable to brand equity is a difficult task. In the United States, there is no conventional accounting method for doing so.27 Some of Coca-Cola's experiences with brand valuation are instructive here.

COCA-COLA BRAND VALUATION

Despite the fact that expert analysts estimate the value of the Coca-Cola name in the billions of dollars, due to accounting convention, it appears in the company's books as only $25 million. Based on accounting rules, Coca- Cola's assets in 2004 had a book value of $31.3 billion, with various intangible assets assessed at $3.8 billion and a market cap of $100 billion. On June 7, 2007, Coca-Cola acquired Energy Brands, also known as glacéau, maker of enhanced water brands such as vitaminwater, fruitwater, and smartwater, for approximately $4.1 bil- lion. Because these brands were acquired, different accounting rules apply to them. Based upon a preliminary

purchase price allocation, approximately $2.8 billion was allocated to trademarks, $2.2 billion to goodwill, $200 million to customer relationships, and $900 million to deferred tax liabilities. At the end of 2007, Coke had trademarks on its balance sheet with a book value of $5.135 billion. Of this figure, about $2.8 billion is associ- ated with Energy Brands.28

Although the Coke brand is estimated to be worth billions, for accounting purposes it is on the books for mere millions.

Source: Chen Jianli/ZUMA Press/Newscom

As the Coca-Cola experiences show, market-based estimates of value can differ dramatically from those based on U.S. accounting conventions.29 Other countries, however, are trying to capture that value. How do we calculate the financial value of a brand? This section, after providing some accounting back- ground and historical perspective, describes several leading brand valuation approaches.30 Brand Focus 10.0 reviews some financial considerations in the relationship of brand equity to the stock market and provides additional perspective on accounting issues in branding.

Accounting Background. The assets of a firm can be either tangible or intangible. Tangible assets include property, plant, and equipment; current assets (inventories, marketable securities, and cash); and investments in stocks and bonds. We can estimate the value of tangible assets using accounting book values and reported estimates of replacement costs. Intangible assets, on the other hand, are any factors of production or specialized resources that permit the company to earn cash flows in excess of the return on tangible assets. In other words, intan- gible assets augment the earning power of a firm's physical assets. They are typically lumped under the heading of goodwill and include things such as patents, trademarks, and licensing agreements, as well as "softer" considerations such as the skill of the management and customer relations.

In an acquisition, the goodwill item often includes a premium paid to gain control, which, in certain instances, may even exceed the value of tangible and intangible assets. In Britain and cer- tain other countries, it has been common to write off the goodwill element of an acquisition against reserves; tangible assets, on the other hand, are transferred straight to the acquiring company's bal- ance sheet.

Historical Perspectives. Brand valuation's more recent past started with Rupert Murdoch's News Corporation, which included a valuation of some of its magazines on its balance sheets in 1984,

By taking advantage of Australian accounting standards to put brand value on balance sheets, Rupert Murdoch was able to build a media giant with News Corporation.

Source: Jeremy Sutton-Hibbert/Alamy

as permitted by Australian accounting standards. The rationale was that the goodwill element of publishing acquisitions—the difference in value between net assets and the price paid—was often enormous and negatively affecting the balance sheet. News Corporation used the recognition that the titles themselves contained much of the value of the acquisition to justify placing them on the balance sheet, improving the debt/equity ratio and allowing the company to get some much-needed cash to finance acquisition of some foreign media companies.

In the United Kingdom, Grand Metropolitan was one of the first British companies to place a mon- etary value on the brands it owned and to put that value on its balance sheet. When Grand Met acquired Heublein distributors, Pearle eye care, and Sambuca Romana liqueur in 1987, it placed the value of some of its brands—principally Smirnoff—on the balance sheet for roughly $1 billion. In doing so, Grand Met used two different methods. If a company consisted of primarily one brand, it figured that the value of the brand was 75 percent of the purchase price, whereas if the company had many brands, it used a multiple of an income figure.

British firms used brand values primarily to boost their balance sheets. By recording their brand assets, the firms maintained, they were attempting to bring their shareholder funds nearer to the market capitalization of the firm. In the United Kingdom, Rank Hovis McDougal (RHM) succeeded in putting the worth of the company's existing brands as a figure on the balance sheet to fight a hostile takeover bid in 1988. With the brand value information provided by Interbrand, the RHM board was able to go back to investors and argue that the bid was too low, and eventually to repel it.

Accounting firms in favor of valuing brands argue that it is a way to strengthen the presentation of a company's accounts, to record hidden assets so they are disclosed to company's shareholders, to enhance a company's shareholders' funds to improve its earnings ratios, to provide a realistic basis for management and investors to measure a company's performance, and to reveal detailed information on brand strengths so that management can formulate appropriate brand strategies. In practical terms, how- ever, recording brand value as an intangible asset from the firm's perspective is a means to increase the asset value of the firm. Actual practices have varied from country to country. Brand valuations have been accepted for inclusion in the balance sheets of companies in countries such as the United Kingdom, Australia, New Zealand, France, Sweden, Singapore, and Spain. In the United Kingdom, Martin Sorrell improved the balance sheet of WPP by attaching brand value to its primary assets, including J. Walter Thompson

Company, Ogilvy & Mather, and Hill & Knowlton. The annual report states that intangible fixed assets include corporate brand names. These brand names could entail additional earnings that would accrue to the brand owner from such ownership of brands. The brand valuations could arise based on the pres- ent value of notional royalty savings. This could be a result of the brand ownership and an estimate of profits that could be attributed to brand loyalty.31

In the United States, generally accepted accounting principles (blanket amortization principles) mean that placing a brand on the balance sheet would require amortization of that asset for up to 40 years. Such a charge would severely hamper firm profitability; as a result, firms avoid such accounting maneuvers. On the other hand, certain other countries (including Canada, Germany, and Japan) have gone beyond tax deductibility of brand equity to permit some or all of the goodwill arising from an ac- quisition to be deducted for tax purposes.

General Approaches. In determining the value of a brand in an acquisition or merger, firms can choose from three main approaches: the cost, market, and income approaches.32

The cost approach maintains that brand equity is the amount of money that would be required to reproduce or replace the brand (including all costs for research and development, test marketing, advertising, and so on). One common criticism of approaches relying on historic or replacement cost is that they reward past performance in a way that may bear little relation to future profitability—for example, many brands with expensive introductions have been unsuccessful. On the other hand, for brands that have been around for decades (such as Heinz, Kellogg's, and Chanel), it would be virtu- ally impossible to find out what the investment in brand development was—and largely irrelevant as well.

It is also obviously easier to estimate costs of tangible assets than intangible assets, but the latter often may lie at the heart of brand equity. Similar problems exist with a replacement cost approach; for example, the cost of replacing a brand depends a great deal on how quickly the process would take and what competitive, legal, and logistical obstacles might be encountered.

According to the second approach, the market approach, we can think of brand equity as the pres- ent value of the future economic benefits to be derived by the owner of the asset. In other words, it is the amount an active market would allow so that the asset would exchange between a willing buyer and willing seller. The main problems with this approach are the lack of open market transactions for brand name assets, and the fact that the uniqueness of brands makes extrapolating from one market transaction to another problematic.

The third approach to determining the value of a brand, the income approach, argues that brand eq- uity is the discounted future cash flow from the future earnings stream for the brand. Three such income approaches are as follows:

1. Capitalizing royalty earnings from a brand name (when these can be defined)
2. Capitalizing the premium profits that are earned by a branded product (by comparing its perfor-
mance with that of an unbranded product)
3. Capitalizing the actual profitability of a brand after allowing for the costs of maintaining it and the
effects of taxation

For example, as an example of the first income approach, brand consultancy Brand Finance uses a Royalty Relief methodology for brand valuation. Their approach is based on the premise that brand value can be thought of in terms of what a company avoids in paying a license fee from actually owning the trademark. Their rationale is that such an approach has much credibility with accountants, lawyers, and tax experts because it calculates brand values on the basis of comparable third-party transactions. They use publically available information to estimate future, post-tax royal- ties of a brand and thus its net present value and overall brand value.33

The next sections and The Science of Branding 10-1 describe other income-based valuation approaches.34

 THE SCIENCE OF BRANDING 10-1

The Prophet Brand Valuation Methodology

Prophet's brand valuation methodology starts with the re- alization that accountants define an asset as an economic resource under the specific control of a company from where future economic benefits could flow.

Fundamental to Prophet's approach is that brands gen- erate future economic benefits, in that consumers who know of a brand and prefer it to other choices will spend money buying it now and in the future. The purpose of mar- keting, according to Prophet, is to find these customers in the first place and keep them over time. Prophet maintains that a credible brand valuation methodology must reflect this definition, which is why it is at the foundation of Proph- et's approach.

Prophet's brand valuation methodology is also con- structed on the basis of sound corporate finance principles and complies with the standards laid down by the U.S. Mar- keting Accountability Standards Board (MASB). Specifically, it has four steps:

1. Finance

Economic profit (EP) is the profit a company earns that ex- ceeds its cost of capital.35 Only firms that have developed sustainable competitive advantages over time are able to earn this class of profit. It is generally acknowledged that brands are a major cause of a company earning and sus- taining economic profit. The starting point for any valuation is therefore to extract from the income statement and bal- ance sheet the economic profit earned by the brand being valued.

2. Brand Contribution

The Prophet brand contribution is a procedure that breaks economic profit into a set of drivers and then isolates the por- tion that is attributable to the brand's equity or strength. The Prophet approach employs a classical qualitative/quantitative technique in the following steps:

1. An EP drivers list of around 10 to 15 variables is gen- erated by the top management using select group's re- sponses within an organization.
2. A knowledgeable panel of 50 experts in the specific cat- egory is given a quantitative questionnaire to rate the EP drivers. At this stage, the drivers are reduced to more manageable 5 to 9 variables.
3. The respondents then evaluate the market competitive- ness of each driver based on market-based criteria. A score of 100 points indicates each one's relative impor- tance rating.

3. Category Expected Life

The profit a brand can earn is to a large extent dictated by the nature of the category in which it sells. A category might be as broad as financial services, which can be narrowed to banking and insurance, or as precise as toothpaste, which can be expanded to dental care. Within the category, supply and demand pressures will exert an influence on the price range consumers will tolerate, which in turn determines profit mar- gins brand owners can achieve.

The Prophet model uses an evaluation of the category to measure the extent to which the category encourages or in- hibits the earning of economic profit for the brands that com- pete within it. It does this by looking at four variables: how mature is the category; are brand shares stable or volatile; does competitive activity create high barriers to entry or not; and, how vulnerable is the category to external pressures such as government regulation, raw material supply, and changing fashions. The outcome of this evaluation is to set parameters in years of expected economic life for a strong (dominant) and weak (marginal) brand.

4. Brand Knowledge Structure (BKS)

Brand knowledge structure, or BKS, is the bundle of knowl- edge consumers hold in memory and use to decide what products they need and which of the available brands they will buy. The comparative strength with which this informa- tion is held by the category community of users determines the success of the competing brands. It is also a good proxy for risk: the stronger the brand, the more likely consumers are to continue to buy in the future. Brand strength ensures future cash flows. The opposite is equally true. The Prophet method uses market research–based measurements of brand strength and preference to set the number of years in the cash flow projection: the stronger the brand relative to its competitors, the more years in the model.

The Valuation

The model calculates the value of the brand by working out how many years to project the growing part of the cash flows

and then the shape and duration of a theoretical decay pe- riod. It does this by merging the BKS data with the category expected life results. The value is the resulting capitalized value of the projected cash flows. The discount rate is a classi- cal weighted average cost of capital (WACC), and risk is taken into account by specially constructed probability weightings of the near term cash flows.

Key Differences
A few characteristics distinguish the Prophet brand valu- ation methodology. Other models typically look at only five years of future cash flows, add a perpetuity based on a discounted sixth year, and simply divide the sixth year by the discount rate. Frequently the perpetuity represents one-quarter to one-third of the total brand value; the five- year discounted cash flow into which most of the work has been invested results in only a small amount of the valuation.
The Prophet approach models the entire expected economic life of the brand in terms of the franchise run
(its rise) and decay (its decline). The nature of the brand category (category expected life) and the relative strength of the brand as measured by the BKS determine the to- tal number of years for the present-value calculation. The proportions are reversed compared to many other models, with the major portion of the Prophet valuation located in the early franchise run, which includes the five-year dis- counted part of the cash flow projection. This makes the valuation sensitive to changes in the BKS and early cash flows.
Also, like most corporate finance valuations, the Prophet approach uses a classically estimated weighted av- erage cost of capital (WACC). It takes specific risk into ac- count in the cash flows, as opposed to the discount rate. Other methodologies use the market risk and beta compo- nents of WACC to insert their consumer-driven brand risk premiums.
Source: Based on the research and writings of Prophet's Roger Sinclair whose considerable input is gratefully acknowledged. For more information, visit www.prophet.com.
Simon and Sullivan's Brand Equity Value. In a seminal academic research study, Simon and Sul- livan developed a technique for estimating a firm's brand equity derived from financial market estimates of brand-related profits.36 They define brand equity as the incremental cash flows that accrue to branded products over and above the cash flows that would result from the sale of unbranded products.
To implement their approach, they begin by estimating the current market value of the firm. They assume the market value of the firm's securities to provide an unbiased estimate of the future cash flows attributable to all the firm's assets. Their methodology attempts to extract the value of a firm's brand equity from the value of the firm's other assets. The result is an estimate of brand equity based on the financial market valuation of the firm's future cash flows.
From these basic premises, Simon and Sullivan derive their methodology to extract the value of brand equity from the financial market value of the firm. The total asset value of the firm is the sum of the market value of common stock, preferred stock, long-term debt, and short-term debt. The value of intangible assets is captured in the ratio of the market value of the firm to the replacement cost of its tangible assets. There are three categories of intangible assets: brand equity, nonbrand factors that reduce the firm's costs relative to competitors like R&D and patents, and industry-wide factors that permit monopoly profits, such as regulation. By considering factors such as the age of the brand, order of entry in the category, and current and past advertising share, Simon and Sullivan then provide esti- mates of brand equity.
Interbrand's Brand Valuation Methodology. Interbrand is probably the premier brand valu- ation firm. Figure 1-5 from Chapter 1 listed the 25 most valuable global brands according to In- terbrand. In developing its brand valuation methodology, Interbrand approached the problem by

According to Simon and Sullivan’s analysis, in the highly competitive candy category, Tootsie Roll’s brand name was a valuable financial asset. Source: Tootsie Roll Industries, Inc.
assuming that the value of a brand, like the value of any other economic asset, was the present worth of the benefits of future ownership. In other words, according to Interbrand, brand valuation is based on an assessment of what the value is today of the earnings or cash flow the brand can be expected to generate in the future.37

Because Interbrand’s approach looks at the ongoing investment and management of the brand as an economic asset, it takes into account all the different ways in which a brand benefits an organization both internally and externally—from attracting and retaining talent to delivering on customer expecta- tions. One advantage of the Interbrand valuation approach is that it is very generalizable and can be ap- plied to virtually any type of brand or product.

Three key components contribute to the brand value assessment: (1) the financial performance of the branded products or services, (2) the role of brand in the purchase decision process, and (3) the strength of the brand.38 Here’s how Interbrand addresses each of these three components.

Brand Financial Performance. Financial performance for the brand reflects an organization’s raw financial return to the investors and is analyzed as economic profit, a concept akin to economic value added (EVA). To determine economic profit, subtract taxes from net operating profit to arrive at net operating profit after tax (NOPAT). From NOPAT, subtract a capital charge to account for the capital used to generate the brand’s revenues, yielding the economic profit for each year analyzed. The capital charge rate is set by the industry-weighted average cost of capital (WACC). The finan- cial performance is analyzed for a five-year forecast and for a terminal value. The terminal value represents the brand’s expected performance beyond the forecast period. The economic profit that is calculated is then multiplied by the role of brand (a percentage, as described below) to determine the branded earnings that contribute to the valuation total.

Role of Brand. Role of brand measures the portion of the customer decision to purchase that is attributable to brand—exclusive of other purchase drivers such as price or product features. Conceptu- ally, role of brand reflects the portion of demand for a branded product or service that exceeds what the demand would be for the same product or service if it were unbranded. We can determine role of brand in different ways, including primary research, a review of historical roles of brand for companies in that industry, and expert panel assessment. We multiply the percentage for the role of brand by the

 economic profit of the branded products or services to determine the amount of branded earnings that
contribute to the valuation total.

Brand Strength. Brand strength measures the ability of the brand to secure the delivery of expected future earnings. Brand strength is reported on a scale of 0–100 based on an evaluation across 10 dimensions of brand activation. Performance in these dimensions is generally judged rela- tive to other brands in the industry. The brand strength inversely determines a discount rate, through a proprietary algorithm. That rate is used to discount branded earnings back to a present value, based on the likelihood that the brand will be able to withstand challenges and deliver the expected earnings.

Summary. Brand valuation and the “brands on the balance sheet” debate are controversial subjects. There is no one universally agreed-upon approach.39 In fact, many marketing experts feel it is impos- sible to reduce the richness of a brand to a single, meaningful number, and that any formula that tries to do so is an abstraction and arbitrary.

The primary disadvantage of valuation approaches is that they necessarily have to make a host of potentially oversimplified assumptions to arrive at one measure of brand equity. For example, Sir Mi- chael Perry, former chairman of Unilever, once objected for philosophical reasons:

The seemingly miraculous conjuring up of intangible asset values, as if from nowhere, only serves to reinforce the view of the consumer skeptics, that brands are just high prices and con- sumer exploitation.40

Wharton’s Peter Fader points out a number of limitations of valuation approaches: they require much judgmental data and thus contain much subjectivity; intangible assets are not always synony- mous with brand equity; the methods sometimes defy common sense and lack “face validity”; the financial measures generally ignore or downplay current investments in future equity like advertis- ing or R&D; and the strength of the brand measures may be confounded with the strength of the company.41

At the heart of much of the criticism is the issue of separability we identified earlier. An Economist editorial states that brands may not be separated as economic assets. For instance, in Cadbury’s Dairy Milk, how much value could be attributed to the umbrella brand Cadbury and how much extra value can be gener- ated for Dairy Milk and further, how much merely from the product’s contents or its specific design? 42

To draw a sports analogy, extracting brand value may be as difficult as determining the value of the coach to a team’s performance. And the way a brand is managed can have a large effect, positive or negative, on its value. Branding Brief 10-1 describes how Marico’s acquisition of Livon can open new doors in the haircare segment.

As a result of these criticisms, the climate regarding brand valuation has changed. See Brand Focus 10.0 for more on how accounting standards have changed to accommodate the concept of brand value.

REVIEW

This chapter considered the two main ways to measure the benefits or outcomes of brand equity: comparative methods (a means to better assess the effects of consumer perceptions and prefer- ences on aspects of the marketing program) and holistic methods (attempts to come up with an estimate of the overall value of the brand). Figure 10-2 summarizes the different but complemen- tary approaches. In fact, understanding the particular range of benefits for a brand on the basis of comparative methods may be useful as an input in estimating the overall value of a brand by holistic methods.

Combining these outcome measures with the measures of sources of brand equity from Chapter 9 as part of the brand value chain can provide insight into the effectiveness of marketing actions.

BRANDING BRIEF 10-1

Livon: Opening New Doors for Marico

Companies invest heavily in developing their brands be- cause of the sheer promises of future incoming values they hold. A sought-after brand does not just attract the cus- tomers, but also the best suppliers, distributors, and right talent towards it. It is also worthwhile to note that building a brand is a time-taking process spreading across months and years. To capitalize on the equity of brands faster and to save themselves from the hassles of creating new ones, acquisition is the most viable option exercised by big companies.

Marico, the Indian FMCG major, which boasts of power brands like Parachute and Saffola, acquired Livon in 2012 from Reckitt Benckiser.

Reckitt Benckiser had acquired a number of brands from Paras, including Livon, but decided to retain brands, such as Moov and Krack, which fitted with their overall corporate strategy of focussing on health and home care.

Marico’s acquisition of Livon opens up a whole new set of opportunities in the hair care space. While Marico’s Parachute is the single largest brand in the hair care domain, the company sees tremendous potential for value-added products catering to the modern Indian women.

Livon, as a product, is unique and its past owner, Paras, had invested heavily to build it. Marico would want to leverage the inherent strengths of the Livon brand and extend it into new product forms like hair serum.

“We wanted to enter categories that create tailwinds,” says Saugata Gupta, CEO, Marico. The company intends to enter into businesses that are poised to grow faster in the future, given that they cater to the young consumer base of 250 million Indians under the age of 35.

Personal care category requires aggressive brand building by the players with creatively presented and high-frequency communications, and customer engagement programs. Creat- ing new brands in such a turbulent environment could be a Herculean task for any company.

Marico’s strength lies in insight-led advertising and it has applied this approach to the marketing of its newly acquired brand. For Livon Silky Potion, it launched a cam- paign centred around the insight that young women to- day have a strong desire to leave their hair open, but are not able to because their open hair does not look good enough. Its communication had imagery which was high

Livon: Opening Newer Vistas in the Haircare Segment.

on beauty codes, thereby building a desire to use the brand. Livon has had equally powerful messages for men around the problem of hair loss. They created a television commercial featuring Rahul Bose to extend their brand communication.

The new areas where Marico has ventured into are quite different from its core ones in terms of changing customer demands, aggressive product development and research, demand for new variants, etc. The company hopes to real- ize true benefits from their new brands in the years to come and currently focuses just on developing them further.

Sources: Samar Srivastava, “Marico’s Unique Paras Strategy”, Forbes India, 7 August 2013; Campaign India Team, “Marico to acquire ParasPharma business from Reckitt Benckiser”, www.campaignindia.in, 15 February 2012; www.marico.com/html/ brands/livon.php.

Image source: Marico India

Comparative methods: Use experiments that examine consumer attitudes and behavior toward a brand, to more directly assess the benefits arising from having a high level of awareness and strong, favorable, and unique brand associations.
• Brand-based comparative approaches: Experiments in which one group of consumers responds to an element of the marketing program when it is attributed to the brand and another group responds to that same element when it is attributed to a competitive or fictitiously named brand.
• Marketing-based comparative approaches: Experiments in which consumers respond to changes in elements of the marketing program for the brand or competitive brands.
• Conjoint analysis: A survey-based multivariate technique that enables marketers to profile the consumer buying decision process with respect to products and brands.
Holistic methods: Attempt to place an overall value on the brand in either abstract utility terms or concrete financial terms. Thus, holistic methods attempt to "net out" various considerations to determine the unique contribution of the brand.
• Residual approach: Examines the value of the brand by subtracting out from overall brand preferences consumers' preferences for the brand based on physical product attributes alone.
• Valuation approach: Places a financial value on the brand for accounting purposes, mergers and acquisitions, or other such reasons.
FIGURE 10-2
Measures of Outcomes of Brand Equity
Nevertheless, assessing the ROI of marketing activities remains a challenge.43 Here are four general guidelines for creating and measuring ROI from brand marketing activities:
1. Spend wisely—focus and be creative. To be able to measure ROI, we need to be earning a return to begin with! Investing in distinctive and well-designed marketing activities increases the chance for a more positive and discernible ROI.
2. Look for benchmarks—examine competitive spending levels and historical company norms. It is important to get the lay of the land in a market or category in order to understand what we may expect.
3. Be strategic—apply brand equity models. Use models such as the brand resonance model and the brand value chain to provide discipline and a structured approach to planning, implementing, and interpreting marketing activity.
4. Be observant—track both formally and informally. Qualitative and quantitative insights can help us understand brand performance.
Perhaps the dominant theme of this chapter and the preceding chapter on measuring sources of brand equity is the importance of using multiple measures and research methods to capture the richness and complexity of brand equity. No matter how carefully we apply them, single measures of brand eq- uity provide at best a one- or two-dimensional view of a brand and risk missing important dimensions of brand equity. Recall the problems encountered by Coca-Cola from its overreliance on blind taste tests, described in Branding Brief 1-1.

No single number or measure fully captures brand equity.44 Rather, we should think of brand equity as a multidimensional concept that depends on what knowledge structures are present in the minds of consumers, and what actions a firm takes to capitalize on the potential that these knowledge structures offer.

There are many different sources of, and outcomes from, brand equity, depending on the marketers' skill and ingenuity. Firms may be more or less able to maximize the potential value of a brand accord- ing to the type and nature of their marketing activities. As Wharton's Peter Fader says that a consumer's business structure and resources may affect the actual value of a brand.45

The customer-based brand equity framework therefore emphasizes employing a range of research measures and methods to fully capture the multiple potential sources and outcomes of brand equity.

DISCUSSION QUESTIONS

1. Choose a product. Conduct a branded and unbranded experiment. What do you learn about the eq- uity of the brands in that product class?
2. Can you identify any other advantages or disadvantages of the comparative methods?
3. Pick a brand and conduct an analysis similar to that done with the Planters brand. What do you learn about its extendability as a result?
4. What do you think of the Interbrand methodology? What do you see as its main advantages and disadvantages?
5. How do you think Young & Rubicam's BrandAsset Valuator relates to the Interbrand methodology (see Brand Focus 9.0)? What do you see as its main advantages and disadvantages?

BRAND FOCUS 10.0

Branding and Finance

Marketers increasingly must be able to quantify their ac- tivities directly or indirectly in financial terms. One important topic that has received increasing academic interest is the rela- tionship between brand equity and brand strategies and stock market information and performance. Another important topic is the accounting implications of branding. We review issues around these two topics in this appendix.

Stock Market Reactions

Several researchers have studied how the stock market reacts to the brand equity and marketing activities for companies and products.

Brand Equity. In a classic study, David Aaker and Robert Jacobson examined the association between yearly stock return and yearly brand changes (as measured by EquiTrend's perceived quality rating of brand equity) for 34 companies during the years 1989–1992.46 They also compared the accompanying changes in current-term return on investment (ROI).

They found that, as expected, stock market return was positively related to changes in ROI. Interestingly, they also uncovered a strong positive relationship between brand equity and stock return. Firms that experienced the largest gains in brand equity saw their stock return average 30 per- cent. Conversely, those firms with the largest losses in brand equity saw stock return average a negative 10 percent. The researchers concluded that investors can and do learn about changes in brand equity—not necessarily through EquiT- rend studies (which may have

little exposure to the financial community) but by learning about a company's plans and programs.47
In a follow-up study, using data for firms in the com- puter industry in the 1990s, Aaker and Jacobson found that changes in brand attitude were associated contemporaneously with stock return and led accounting financial performance.48 They also found five factors (new products, product problems, competitor actions, changes in top management, and legal ac- tions) that were associated with significant changes in brand attitudes. Awareness that did not translate into more positive

attitudes, however, did little to the stock price (Ameritrade, Juno, and Priceline). The authors conclude, "So it's not the brands customers know, but the brands customers respect, that are ultimately successful." Similarly, using Financial World estimates of brand equity, another comprehensive study found that brand equity was positively related to stock return and that this effect was incremental to other accounting variables such as the firm's net income.49
Madden, Fehle, and Fournier found that strong brands not only delivered greater returns to stockholders versus a relevant market benchmark, they did so with less risk.50 Fornell and his colleagues find similar benefits of higher returns and lower risk for satisfied, loyal customers.51
Marketing Activities. Adopting an event study methodol- ogy, Lane and Jacobson were able to show that stock market participants' response to brand extension announcements, consistent with the trade-offs inherent in brand leveraging, depend interactively and nonmonotonically on brand attitude and familiarity.52
Specifically, the stock market responded most favorably to extensions of high-esteem, high-familiarity brands (Hershey, Coke, Norton/Symantec) and to low-esteem, low-familiarity brands (in the latter case, presumably because there was little to risk and much to gain with extensions). The stock market reaction was less favorable (and sometimes even negative!) for extensions of brands for which consumer familiarity was dis- proportionately high compared with consumer regard and to extensions of brands for which consumer regard was dispro- portionately high compared with familiarity.
In another event study of 58 firms that changed their names in the 1980s, Horsky and Swyngedouw found that for most of the firms, name changes were associated with improved performance; the greatest improvement tended to occur in firms that produced industrial goods and whose performance prior to the change was relatively poor.53 Not all changes, however, were successful. The researchers inter- preted the act of a name change as a signal that other mea- sures to improve performance (changes in product offerings and organizational changes) will be seriously and successfully undertaken.
Rao and his colleagues analyzed financial performance of 113 firms over a five-year period and found that corpo- rate branding strategies were associated with higher values of Tobin's Q.54 Tobin's Q is a forward-looking measure of intan- gible assets and a firm's future profit potential, calculated as the ratio of the market value of the firm to the replacement cost of the firm's assets.
A mixed branding strategy (where a firm used corporate names for some products and individual names for others) was associated with lower values of Tobin's Q. The researchers

also concluded that most firms would have been able to improve their Tobin's Q had they adopted a branding strategy different from the one suggested by examining their brand portfolios.

Similarly, Morgan, Rego, and colleagues showed how five brand portfolio characteristics (number of brands owned,

number of segments in which they are marketed, degree to which the brands in the firm's portfolio compete with one an- other, and consumer perceptions of the quality and price of the brands in the firm's portfolio) affected a firm's marketing effec- tiveness and efficiency and financial performance.55

Finally, Mizik and Jacobson found that the stock market reacted favorably when a firm increased its emphasis on value appropriation (extracting profits in the marketplace) over value creation (innovating, producing, and delivering prod- ucts to the market), although certain qualifying conditions prevailed.56

57 Accounting Perspectives on Brands

In the period following the Second World War, investors used the physical, tangible assets owned by a company to assess its value. Records show that the market value of companies on major stock markets more or less equaled their book value. Any surplus over book value was called goodwill and was considered to be a reflection of relationships the company had built with suppliers and customers and never amounted to much.

Coinciding with the introduction to business of the mainframe computer in the 1970s and the personal computer in the 1980s, the gap started to open. At the peak of the "dot.com" boom, market value was measured at five times book value.

Traditionally, company annual financial accounts were based on "historic cost"—a record on the balance sheet of what was paid for the tangible assets a company needed to operate the business. But the cost and the value of the asset at current market prices often differed. Asset strippers could buy a company based on the historic cost of its assets and then sell off the assets at market value and make a handsome profit. Since the dot.com bust in 2000, the ratio of market to book has dropped sharply to stabilize over the last 10 years at about 2.8.58 At the time of the 2008 financial crisis, it dropped below 2 before recovering somewhat afterward.

To provide investors with more readily useful informa- tion for making investment decisions, the major accounting bodies, the Financial Accounting Standards Board (FASB) in the United States and the International Accounting Stan- dards Board (IASB) representing accountants in the rest of the world, took two steps:

1. They moved from historic cost to fair value, which is the price that would be received if an asset were sold in an or- derly market between two market participants, that is, the current market value.
2. They began to develop accounting standards to take ac- count of assets that have no monetary value and no physi- cal substance—that is, intangible assets.

Over the past decade, FASB and the IASB have worked on the following four standards relevant to brands.59

IFRS 3 Business Combinations. The purpose of this standard is to guide preparers of financial statements in the treatment of companies after a merger or acquisition. A radical aspect of this standard is that it requires acquired goodwill to be allocated to cash generating units. This replaces goodwill as the arithmetic difference between net tangible value and the price paid and calls for it to be broken down into identifiable items. The standard specifies that trademarks and brands will feature among the marketing-based intangibles to be valued and included in the accounts.

IAS 38 Intangible Assets. This standard still has a label that indicates it has not been updated. When this happens, it will take on the IFRS appellation. In its current form, it contradicts IFRS 3 in that it states that brands developed by a company do not qualify to be described as assets. They fail to meet the recognition criteria. This is an anomaly that is known and un- derstood by the accounting standard setters. Work had been invested in bringing IAS 38 into line but was delayed as the accounting boards dealt with the financial crisis of 2008 and other matters.60