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Brand Valuation: What, How and Why?

Introduction

As Chief Marketing Officer of a privately held Swiss luxury goods company, Lena Müller was tasked with valuing the company's brand, whose products traded under the same name as the company itself. The reason her CEO gave for the valuation exercise was to better understand "this strange animal called brand" one that over the last decade kept cropping up as a formidable intangible asset on post-M&A balance sheets,[1] such as in the G-III Apparel Group's recent acquisition of Donna Karan International.[2]

"It might be useful to know our own brand's value", the CEO had added, "in case we get acquired, but also to better manage and leverage the brand, how we handle our taxes internationally and, frankly, so I can assess *your* performance!" Lena too was interested in putting a number on the value of their brand, as she was evaluating a co-branding arrangement for a new bag collection, as well as negotiating a licensing agreement for a range of fragrances.

Valuing the brand

In order to figure out what exactly was to be valued, Lena started with ISO 10668,[3] the requirements for monetary brand valuation. This defines a brand as "a marketing related intangible asset including, but not limited to, names, terms, signs, symbols, logos and designs, or a combination of these, intended to identify goods, services or entities, or a combination of these, creating distinctive images and associations in the minds of stakeholders, thereby generating economic benefits/value." So far, so good.

She next looked at two of the leading league tables by *Brand Finance* (Exhibit 1) and *Interbrand* (Exhibit 2). Reassuringly, even though these did not include all of the same brands due to the use of different brand selection criteria, many of the top brands listed were the same. *Amazon* topped the *Brand Finance* ranking at nearly $151bn, up a whopping 46% from the year before, with *Apple* in second place at $146bn. The same two brands topped the *Interbrand* table, but the values themselves deviated significantly. *Interbrand* valued *Apple* as the top brand at a massive $214bn, with *Amazon* coming second at a comparably paltry $100bn.

Lena wondered how this could be. Could the value of the *Apple* brand have increased so dramatically in just six months? *Apples'* share price had increased nearly 10% from $171 to $187 over the same period. But *Amazon's* share price too had increased by a massive 53%, from $1,162 to $1,777. And why should share prices matter in any case? Lena considered that the analysts at *Brand Finance* and *Interbrand* might be making different assumptions about the two brands, their sectors, or the global economy's prospects. Alternatively, maybe comparing their methods was like comparing apples and oranges.

This case study was prepared by Nader Tavassoli of London Business School.

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