BRAND VALUATION AND ISO 10668

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Brand Valuation exercises help in detecting the strengths and weaknesses of the brand, helping companies to distinguish between strong brands and weak brands and allocate resources in the most appropriate way. This article reviews brand valuation in the light of new ISO standard – 10668 which sets out the requirements for procedures and methods of monetary brand value measurement

"If this business were split up, I would give you the land and bricks and mortar, and I would take the brands and trademarks and I would fare better than you."

-John Stuart, Chairman of Quaker (ca.1900)

A brand is a name, logo, slogan and/or design scheme associated with a product or service. It often includes a logo, fonts, color schemes, symbols and sounds which may be developed to represent implicit values, ideas and even a personality.[1] The most fundamental function of a brand is to enable the consumers to distinguish the products produced by one enterprise from that of the other.

It is possible to argue that the majority of business value is derived from brands.[2] They have the potential to generate revenue for years to come. Through their associations with the consumers, brands create a significant economic impact. They initiate future purchases by influencing the choices of customers, employees and government authorities. The consumer's awareness and perception about the company's brands reflect the bottom line of the company. In a way, it represents the reputation and goodwill acquired by the business and is therefore used as a marketing tool by the companies.

Nowadays, the words 'trademark' and 'brand' are used synonymously. According to the report of the Accounting Standards Committee, a trademark is a subset of a far wider concept of brand. A trademark is a distinctive sign or indicator of some kind which is used by an individual, business organization or another legal entity to allow consumers to uniquely identify the source of its products and services and to distinguish its products from those of other entities. It helps in communicating its uniqueness to the consumer.[3]

NEED FOR BRAND VALUATION

The term brand value can have various definitions according to the context in which it is used. In some contexts, it can mean the financial value of the brand. Otherwise, it can refer to the value of one of the attributes that contribute to the value of the brand. Such attributes may include brand awareness, familiarity, relevance, heritage and understanding.

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Brand Valuation,http://www.brandvaluation.co.uk/Brand-Valuation-Issues/What-is-brand-valuation~11.html

2 *Jan Lindermann, Brand Valuation: The Financial Value of Brands,* http://www.brandchannel.com/papers_review.asp?sp_id=357

3 *Amar Raj Lall&Vinod Khurana, Brand Valuation,* http://www.iiprp.com/tm/brandval.htm

Brand Valuation exercises help in detecting the strengths and weaknesses of the brand, helping companies to distinguish between strong brands and weak brands and allocate resources in the most appropriate way. As far as accounting is concerned, brand valuation helps in areas like balance sheet reporting, tax planning, licensing and franchising, mergers and acquisitions, litigations, investor relations and securitized borrowing.[4]

Brand valuation has various tangible and intangible benefits. Among intangible benefits, brand valuation:[5]

- Gives a picture of public loyalty at large.
- Acts as an indicator of effective utilization.
- Acts as an excellent tool for strategy development by revealing the strengths and weaknesses of the brand.

Among tangible benefits, brand valuation:[6]

- Helps in capitalization
- Gives a clearer picture of goodwill acquired by the band
- Facilitates speedy transfer of capital during dissolution
- Enables the use of Intellectual Property as collateral security.

Brand valuation also helps the management to review brand decisions by linking investment made on a brand to the increase in brand value over a reasonable period of time. It reveals to the management, the disparities between its assumptions and the market realities pertaining to the brand.[7] ISO 10668, the standard on brand valuation laid down in 2010, acts as a comprehensive set of guidelines to be followed in a brand valuation exercise.

ABOUT ISO

The International Standard Organization (ISO) was formed on 23rd February 1947 in London in a conference of 25 delegates. It came out as the product of the merger of two organizations- the International Federation of the National Standardizing Association (ISA), which was established in New York in 1926 and the United Nations Standard Coordinating Committee (UNSCC) established in 1944.[8] The purpose of the formation of such an organization was stated to be "to facilitate the international coordination and unification of industrial standards".[9] Today, ISO is the pioneer in development of standards in the world and has 163 members.

WHY STANDARDS?

Standards can be defined as clear identifiable references that are internationally recognized. They represent an international consensus on the best practice.[10] Standards play a vital role in the current world scenario. Compliance

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4 *Arindam Bhattacharjee & C.Prashanth, Need for Brand Valuation,* http://www.hinduonnet.com/businessline/2000/03/23/stories/112302c2.htm

5 *Jan Lindermann, Brand Valuation: The Financial Value of Brands,* http://www.brandchannel.com/papers_review.asp?sp_id=357

6 *Ibid*

7 *Ibid*

8 *Founding,* http://www.iso.org/iso/about/the_iso_story/iso_story_founding.htm

9 *Ibid*

10 *David Martin, Review of Standards, Best Practice, Testing and Calibration in Global Navigation Satellite System (GNSS),* http://www.fig.net/pub/monthly_articles/september_2008/martin_september_2008.pdf

with standards is completely at the volition of the party. But as the current economic trend shows, compliance with standards has become a requirement. With standards like ISO 9001, it has become more of an expectation.[11]

A whole range of different people and activities are benefited by the usage of standards. Standards ensure certain attributes of products like quality, reliability, safety, interchangeability and compatibility and hence encourage fair competition in free market economies.

The usage of standards brings along many other social, economic and societal benefits. For businesses, the standards enable them to compete in an international arena, thereby increasing their market reach. For consumers, it serves as an assurance of reliability and safety and offers them a wide range to choose from. As far as innovations are considered, they help in faster dissemination and marketing, by laying down the guidelines for safety and compatibility.[12] In a nutshell, standards:[13]

- Promotes fair competition.
- Help in sharing technological advances and good practices.
- Help in the dissemination of innovation.
- Helps consumers by assuring them of the safety and reliability of a product.

HISTORY OF ISO 10668

The need for brand valuation gained prominence in the 1980s when there was a wave of acquisitions happening. The accounting practices of the time were not equipped to deal with the valuation of goodwill and other intangible assets. The companies were even penalized in certain cases for making value enhancing acquisitions.[14]

In countries like the UK and France, the accounting aspect of brands was a grey area. In the mid-1980s, Reckitt & Colman, a UK Company put down the value of Airwick, which it had acquired recently in its balance sheet. Reckitt& Colman was followed by Grand Metropolitan's acquisition of Smirnoff.[15]

In 1988, Goodman Fielder Wattie (GFW) made a hostile takeover bid to acquire Rank Hovis McDougall (RHM). A part of the defense strategy of RHM was to put down the value of its own brand in its account books. This was the first independent brand valuation to establish that brands could be valued even when the company had created the value by itself. The concept was endorsed by the London Stock Exchange in 1989, by allowing the inclusion of intangible assets in the class test for shareholder approvals during takeovers. This acted as a driving force for branded companies to recognize the value of their intangible assets.[16]

Before the ISO standard came into existence, the accounting systems in the UK and the USA provided detailed guidelines as to how to deal with brand valuation. The UK came out with IFRS 10 and 11 on the treatment of acquired goodwill and the USA came out with FASB 141 and 142.[17]

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11 *About ISO*, http://www.iso.org/iso/about/discover-iso_the-iso-brand.htm

12 *Who Standards benefit?* http://www.iso.org/iso/about/discovers-iso_who-standards-benefits.htm

13 *ISO Standards*, http://www.iso.org/iso/about/discover-iso_what-standards-do.htm

14 *Brand Valuation, A chapter from brands and branding, An Economist Book*, http://www.marketingritson.com/documents/week1brandvaluation.pdf

15 *Ibid*

16 *Ibid*

17 *Interbrand, Brand Valuation: The Financial Value of brands* http://www.brandchannel.com/papers_review.asp?sp_id=357

If an industry or a sector realizes the need for the existence of a standard in that sector, it is suggested to any member state of the ISO. The member state then proposes it to the ISO. If the proposal is accepted then it is assigned to a technical committee. The technical committee after taking into account the interests of the member state who made the proposal and other stakeholders and interested parties submits a report, which if approved becomes the final draft which becomes the standard.

The first move towards a standard for brand evaluation was made in Germany. The proposal was made by the Deutsches Institut für Normung (DIN), the German Institute for standardization. The technical committee set up for this purpose began its work in March 2007 and concluded it in December 2009.

ISO 10668: A SYNOPSIS

ISO 10668, the standard for brand valuation can be termed effective since it brought various aspects pertaining to brand valuation under one umbrella. It combines the behavioral, financial and legal aspects related to brands in order to arrive at an accurate result.

The standard sets out two kinds of requirements that need to be followed in a brand valuation exercise:

(i) General Requirements

(ii) Specific Requirements.

In addition, ISO 10668 also sets out the valuation approaches and the valuation inputs.

General Requirements

(i) *Transparency*- this requirement involves disclosure and quantification of valuation inputs, the risks and assumptions involved and the sensitivity analyses of the brand value wherever required.

(ii) *Validity*- the validity has to be based on inputs and assumptions that are valid and relevant.

(iii) *Reliability*- if the valuation is repeated, the result obtained should be comparable and reconcilable

(iv) *Sufficiency*- the brand valuation is to be based on sufficient data and analysis.

(v) *Objectivity*- the brand valuer should not be biased

(vi) *Financial, behavioral and legal parameters*-the brand valuer should take into account, all the above parameters.

Specific Requirements

Declaration of Purpose

The first requirement is the declaration of purpose which suggests that the brand valuer is required to state the intended use, addressed audiences, identified asset, premise of value, valuation date and value date. These aspects have to be specified in relation to the purpose of the valuation. The purposes behind brand valuation are diverse, and these include, strategic planning, licensing, accounting, liquidation etc.

It needs to be specified whether the brand valuation is technical or commercial. Technical valuations are usually carried out for licensing, mergers and acquisitions, litigation etc. Commercial valuations are used for marketing strategy, portfolio management etc.[18]

Value Concept

The brand valuer needs to take into account the value concept surrounding the brand. The idea behind this is to manage the asset value of the brand.[19]It is concerned with the economic benefit conferred by a brand over its estimated economic life. It is generally calculated by reference to earnings economic profits or cost savings. In order to do this, the brand valuer shall focus on consumer-based inputs like brand supremacy, vitality, stature, environment, safety and support and arrive at a proper assessment of the brand strength.[20]

Identification of the brand

The brand valuer shall identify, define and describe the brand subject to valuation, i.e. the valuer shall address the query as to what exactly is being valued- the trademark, the brand or the business.[21]

Valuation Approaches

ISO 10668 suggests the employment of three valuation methods in a brand valuation analysis

Cost Approach

It calculates brand value based on the cost invested in building the brand. The approach is not considered to be effective as the brand value is not equivalent to the cost invested in creating them.

Market Approach

It bases its analysis on what a consumer would pay for a similar brand with similar attributes in the market. The approach is not usually preferred because it is hard to find relevant comparables.[22]

Income Approach

It is considered to be the most appropriate. This is because the value of the brand stems from its ability to generate higher profits in the future. This approach involves an assessment of the economic benefits expected to be received by the brand during the rest of its estimated economic life.

Valuation Inputs

In the next section, the standard provides a set of valuation inputs that need to be taken into account for any brand valuation. These methods include market and financial inputs i.e. a review of the current and predicted market volumes, values and channels. The results of the analysis conducted shall be reflected in the brand valuation.

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18 *Ibid 1*

19 *Ibid*

20 *Ibid 5*

21 *Ibid*

22 *Get ready for the new ISO standard on brand valuation, http://www.themarketer.co.uk/articles/legal/get-ready-for-the-new-iso-standard-on-brand-valuation/*

Behavioral Inputs

The behavioral aspects of the brand have to be taken into account in order to arrive at a proper brand value. It should include the assessment of the brand situation in the market and an analysis of brand strength.

The behavioral approach takes into account the behavior of the stakeholder in different geographical product and customer segments in which the brand operates. For this purpose, the brand valuer needs to analyze how the stakeholders perceive the brand in a particular segment in comparison with other brands. This is done through analyzing loyalty, perceptual attributes, etc. The purpose of behavioral method is to estimate the brand strength, future risks involved, the durability of the brand etc.[23]

Legal Inputs

An analysis of legal inputs involve an approach involves identifying all the attributes for which a brand can claim legal rights. The extent of legal protection afforded to a brand is measured by the "brand security factor".[24] The legal ownership of each of these attributes and the legal parameters negatively or positively influencing the brand has to be taken into account. This might include trade names, trademarks, trade symbols, domain names, design rights, trade dress, packaging, and copyrights over associated colors, smells, sounds, descriptors, logotypes, advertising visuals and written copy.[25] The legal analysis may be segmented by the type of IPR involved.[26]

The legal analysis has to be done in reference to the relevant national and regional laws .This requires the assessment of the rights available to the brand under different jurisdictions.[27] The brand valuer should look into the mode of acquisition of the legal rights, i.e., whether it is through registration or through acquired use. The variation between the legal rights among different geographical jurisdictions has to be considered.[28]

The legal inputs should involve ample due diligence and risk analysis as well. Due diligence is defined as the process of investigating the party's ownership, right to use and right to stop others from using the rights involved in a sale or merger. The nature of the transaction and the nature of the rights being acquired will determine the extent and focus of the due diligence review. It should answer questions regarding the ownership of the property and the encumbrances on rights.[29]

Sourcing and use of quality data and assumptions

The appraiser shall ensure that the data and assumptions used for valuation are relevant, consistent and adequate. In order to do this, the appraiser shall thoroughly assess the relevancy, consistency and adequacy of data and assumptions used.

Reporting

The valuation report shall contain all the required information like purpose of valuation, valuation date, value date, limitations, sources used etc.

Independence

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23 *David Haigh, A New ISO Standard on Brand Valuation,* http://www.businessrevieweurope.eu/blogs/economics/new-iso-standard-brand-valuation_

24 *Ibid 5*

25 *Brand Valuation: What it means and why it matters?*

26 *Ibid 22*

27 *Philip Hannay, What's in a name?,* http://www.journalonline.co.uk/Magazine/55-8/1008498.aspx_

28 *Ibid 22*

29 *Ibid 6*

The valuer shall exercise thorough professional judgment and shall be free from any form of bias.

CONCLUSION

Previous protocols like the IFRS and the accounting guidelines set out by Generally Accepted Accounting Principles (GAAP) were directed at accountants and focused on more technical and financial methodologies and not from a commercial or a marketing perspective.

ISO 10668 is a strong official acknowledgement that brands can be valued consistently, reliably and transparently like any other major asset class.[30] It is expected to further professionalize the matter of brand management. It enables the companies to manage the valuation process and communicate the value of the brands more effectively.[31]

Brand is a precious business asset. Studies have shown that brand building has higher rates of return than any other investment. With the arrival of ISO 10668, it is expected that the blend of legal, financial and behavioral inputs would prove effective and remedy the discrepancies in the previous standards and address the existing problems. It is desirable that the traditional methods are not abandoned as they would serve as a check on the results obtained from a more thorough analysis.[32]

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30 *Stuart Whitwell, New ISO Brand Valuation Standard,* http://www.intangiblebusiness.com/Brand-Services/Marketing-services/News/-Marketing~301/New-ISO-Brand-valuation-standard~3665.html

31 *Ibid*

32 *Rick G Schwartz and Frank GE Bollmann, Valuation Choose wisely: how IP value depends on R & D strategy(2007)*