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Randle D. Raggio
University of Richmond, rraggio@richmond.edu

Robert P. Leone

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Drivers of Brand Value, Estimation of Brand Value in Practice, and Use of Brand Valuation: Introduction to the Special Issue

Randle D. Raggio and Robert P. Leone

Brands constitute the largest asset for many firms, and brand valuations are increasingly being seen as an important performance metric both for companies and managers.[1] In addition, components of brand valuation models have been found to positively impact financial market performance, so it is critical that managers understand clearly what brand value is, and how they can create and appropriate (capture) as much of that value as possible.[2] Due to resource constraints, firms are forced at any given time to emphasize either value creation or value appropriation based on strategic priorities. Research shows that the stock market rewards increased emphasis on value appropriation over value creation,[3] but it is obvious that value must be created before it can be appropriated. This special issue on Brand Value and Valuation presents the latest research and ideas related to the diverse drivers of long-term brand value, strategies for appropriating brand value, valuation methodologies, and uses of brand valuation in practice.

Brand value and valuation remain important topics in the midst of the current financial recession. For example, it recently was reported that the world's top 500 banking brands shed more than $218 billion in brand value in 2008.[4] That might not seem like much spread over 500 brands until you consider that the top 100 brands from the prior year accounted for more than $183 billion (84%) of the loss. Further, brands like Lehman Brothers that no longer trade under their own names are not included in the rankings; 198 such brands were dropped. This represents a significant change in the future expected returns of these brands because the BrandBeta® analysis from Brand

Finance used to calculate the values considers the strength, risk and future potential of a brand relative to its competitors.

In an earlier article that appeared in *JBM,* [5] we distinguished between brand equity, conceived of as an intrapersonal construct that moderates the impact of marketing activities, and brand value, which is the sale or replacement price of a brand. We argued that frequently, brand equity – one potential *driver* of a brand's value – is confused with a brand's financial value. This distinction is important since both researchers and practitioners should be attempting to understand how best to leverage brand equity in order to create brand value that then can be captured by the firm. In a second article in JBM,[6] we illustrate why it is important to make this distinction between brand equity and value. In this article we argue that brand value must be considered from a specific firm's perspective. Therefore, this value will vary depending on the company that owns the brand (either the current owner or a potential owner), as different companies may be able to capture more or less of the potential value of the brand, based on their ability to leverage the brand equity the brand possesses.

Figure 1 shows how two levels of brand value, "current" and "appropriable," can vary based on the company owning the brand. Both measures of brand value are subjective and dependent upon the resources and capabilities of a focal firm. For a specific firm at a particular point in time -- all other things being equal -- that firm will have a "current" value. This current value is based on projected profits that will accrue to that firm given existing strategies, capabilities, and resources. However, there clearly

exists a higher "appropriable" value that it or another firm could capture if it could more effectively leverage the existing brand equity.

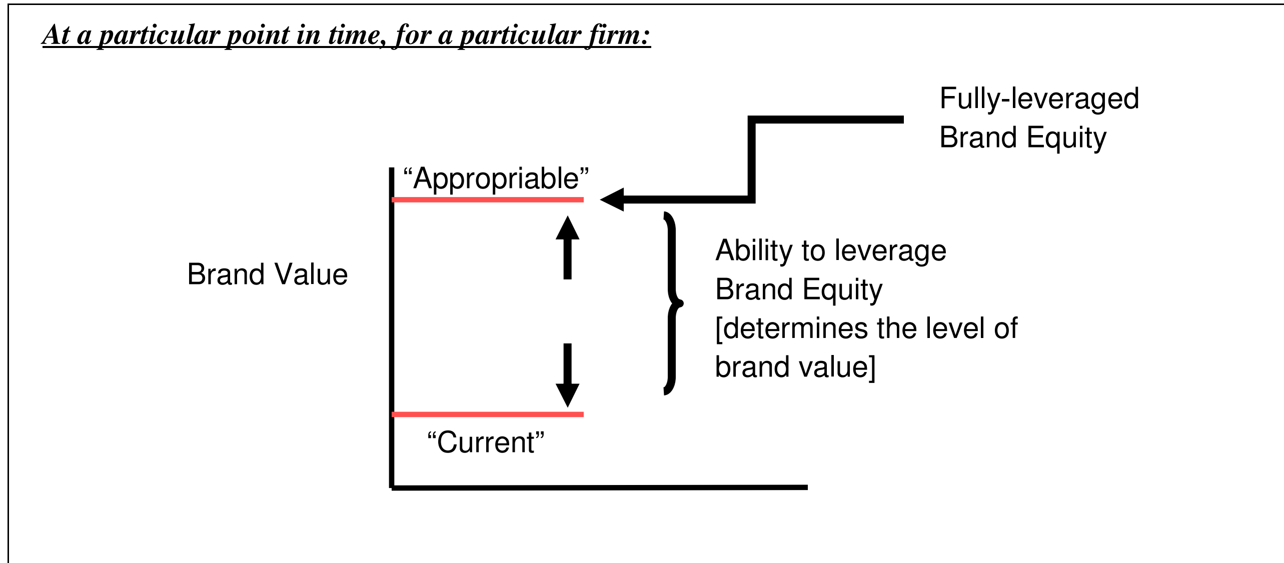

Figure 1: Levels of Brand Value[7]

Simply put, the difference between the current and appropriable value of a brand is based on the firm's ability to leverage the brand equity of that brand. Appropriable brand value represents the theoretical value that could be reached if all existing brand equity is optimally leveraged. The "current" measure of brand value is "what is" for a *particular* firm, while unleveraged brand equity helps define "what can be," i.e., the appropriable value, for a firm.

With this basic understanding of the two types of brand value in mind, we offer five articles in this special issue that offer further interesting insights into brand value and brand valuation. The special issue concludes with a postscript, where we explore the brand value implications of the economic downturn and suggest how brands can survive the immediate crisis and thrive in the future.

The special issue begins with an article by Kevin Keller and Donald Lehmann that discusses the drivers of long-term brand value in the context of Interbrand's brand valuation formula. This discussion is timely as it relates to our opening comment on the long-term impact to banking brands' value. Keller and Lehmann suggest that to drive long-term brand value, managers must recognize the inherent potential of their brand based on current brand equity and develop strategies and tactics for both maintaining and growing the customer franchise, which results in long-term brand value. The problem for the top-100 banks is that their equity has been damaged, which has negatively impacted their brands' inherent potential. Keller and Lehmann's framework suggests that the degree to which they are able to hold on to current customers and gain new ones will determine which brands are able to overcome their own past actions and an environment in which it is fashionable to blame "the banks" for our current crisis to regain lost – and build new – brand value.

Next we offer articles from two of the world's leading brand valuation companies, Milward Brown Optimor and Ipsos Marketing.[8] These invited articles offer deeper insight into their authors' respective valuation models and provide important considerations for those developing models or choosing a valuation provider.

Ove Haxthausen, Partner of Milward Brown Optimor, heads up the group's financial valuation practice. He suggests that brands drive value through their impact on customer choice or costs. As a result, the focus of Milward Brown Optimor's work and Haxthausen's article is the impact the brand has on an underlying business, valuing the brand based on the future cash flows for which it is responsible, discounted to the present. But the approach he describes is more than just a valuation exercise; his

approach allows for financial analysis of strategic options for the brand, getting close to our concept of appropriable value (Raggio and Leone 2007). Importantly, the model described considers both sales-response and brand building activities to produce a "Total ROI," the return on all marketing activities, including "calls to action" and investments geared toward changing consumer brand perceptions.

Sunando Das, Curt Stenger and Charles Ellis, of Ipsos Marketing, explore how their framework for measuring and understanding brand equity and brand choice can be extended to develop a measure of a brand's current value. The foundation for their brand equity work is the concept of *relevant differentiation*, the notion that a brand meets an important need in a unique way. The authors review seven learnings from the development of Ipsos's new Perceptor Plus framework and discuss future directions for brand equity measurement and implications for brand value. They first suggest that future brand equity models should take consumer heterogeneity seriously and report brand equity measures at a more disaggregate level, where they more clearly link to consumer behavior and thus to financial value. Secondly, they suggest that future models should take a systems approach so that changes in brand positioning are directly reflected in measures of brand equity, with consumer-based brand equity subject to changes in positioning, thereby making all customers *potential* customers of the brand.

Gabriela Salinas and Tim Ambler follow the Milward Brown Optimor and Ipsos articles with one that provides a taxonomy of brand valuation methodologies in use by practitioners. For the academic searching for a robust methodology or the manager considering valuation providers, they note that not all techniques are appropriate for all

purposes. Further complicating the landscape is the fact that valuation firms may use substantially similar methods but, for purposes of branding their valuation services, label them differently. Salinas and Ambler provide a valuable service by identifying the separate types of methodologies currently used in practice, consolidating those that differ only by label, and distinguishing them from those methodologies that are only theoretical, or appear only in academic journals. They begin by describing the four primary uses for brand valuation that have driven the industry's development. Based on a thorough review of academic and trade literature, they identify 17 methods that are used in practice and from their findings develop a taxonomy based on five criteria: 1) treatment of risk, 2) determination of the income attributable to the brand, 3) Audience that the model addresses, 4) origin of the model, and 5) usage of the method. While all models may not be sound according to academic tests of robustness or appropriate for all uses (e.g., measuring marketing performance vs. selling brands), it is helpful to have such a complete list of methods and a taxonomy by which to evaluate them for specific uses.

Ruth Taylor, Rudy Tamayo, Patricia Stuart and Spencer Case provide an introduction to brand securitization and note that securitization benefits are neither limited to cash production, nor is the practice limited to obscure brands. Indeed, Taylor, et al. highlight the fact that David Bowie, Disney, Ralph Lauren, and Sears, among others, have securitized their brands, some for cash, some for other brand management benefits. For example, when brand managers recognize the substantial amount of capital invested in brand development and therefore locked up in their brands and unavailable for future projects, they may conclude that securitizing their existing brand(s) is advisable in order to gain access to cash for investment in other

projects. However, Sears securitized its Craftsman, Kenmore, and Die Hard brands in a non cash-generating securitization to move them out of the reach of creditors in the event of Sears' bankruptcy. Through their article, Taylor, et al. answer four basic questions related to securitization: 1) what is securitization and what are some practical examples of its use, 2) how does securitization work, 3) why should marketing educators and brand managers care about brand securitization, and 4) what do supporters, critics and analysts say about the practice. The result is an overview of a tool that should no longer be considered solely within the realm of finance, one with which brand managers and educators should become more familiar.

The special issue concludes with a look at brand management strategies for surviving the current recession and thriving in the future. In this post-script we suggest that managers can either position their brands to become "just good enough," that is, a brand based on providing customer value, or position their brands to encourage consumers to alter their amortization schedules. A bargain brand becomes just good enough when consumers decide that they are not willing to pay a higher price for better quality. This strategy is applicable to a range of brands from consumer packaged goods to luxury automobiles from less-esteemed brands (such as Hyundai and its new Genesis). A brand can encourage consumers to alter their amortization schedules if it can demonstrate that paying more now may save money in the long run, as Land Rover and DeBeers have attempted. Reports indicate that due to the current recession consumer behavior may be changed for a generation. Each of these strategies has the potential to positively impact brand equity and long-term appropriable value.

Finally, we wish to extend our sincere gratitude to all the authors that contributed to the special issue and for the untiring efforts of Brenda Rouse and the editorial staff at the *Journal of Brand Management* for making this special issue possible. Nearly two years ago Rouse conceived of the special issue topic. Her vision combined with the authors' unique perspectives and thorough research have combined to move our thinking on brand value and valuation forward. It is our hope that this issue will encourage others to develop even further insights into the drivers of brand value, along with the methods and uses of brand valuation.

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[1] For example, see Clifton, R. (2009), "Brand Valuation: From Marketing Department to Boardroom," *Market Leader*, Issue 44 (Spring), p. 51-54. Also, Hull, J. (2009), "How Marketers Should Use Brand Valuation," *Market Leader*, Issue 42 (Fall), p. 51-55.

[2] Mizik, N. and R. Jacobson (2008), "The Financial Value Impact of Perceptual Brand Attributes," *Journal of Marketing Research*, Vol. 45 (February), p. 15-32.

[3] Mizik and Jacobson, ref. 2 above

[4] Luchter, L (2009), "Downturn Stripped Bank Brands of Value," *MediaPost News: Marketing Daily,* February 18, 2009.

[5] Raggio, R. D. and R. P. Leone (2007), "The Theoretical Separation of Brand Equity and Brand Value: Managerial Implications for Strategic Planning," *Journal of Brand Management*, Vol. 14 (May), p. 380-395.

[6] Raggio, R. D. and R. P. Leone (2009), "Chasing Appropriable Value: Fully Leveraging Brand Equity to Maximize Brand Value," *Journal of Brand Management*, Vol. 16 (January), p. 248-263.

[7] Raggio and Leone, ref. 6 above.

[8] We invited a number of leading valuation companies to contribute to the special issue and received submissions from Milward Brown and IPSOS.