Journal of Intellectual Property Rights
Vol 7 January 2002 pp 46-49

Brand Valuation

Amar Raj Lall and Vinod Khurana

Institute of Intellectual Property Research & Practice
Plot No B-28, Sector-32, Institutional Area, Gurgaon 122 001

(Received 27 July 2001)

This article aims to provide an outline of some of the issues arising in connection with brand valuation in the changing economic scenario. Types of brands, their valuation, intangible and tangible benefits of brand valuation are discussed.

In the recent past valuation of intangible assets related to intellectual property particularly a brand has gained a considerable importance. Valuation of individual intangible assets is a recent concept in India, though the generic intangible assets, better known as 'goodwill', have been valued for a very long time. The goodwill was valued whenever a business as a whole was transferred from one entity to another or when new partners were brought in or old partners left the business to give them their dues as part of their contribution to the business. The recent concept of valuation of intangible assets related to intellectual property like patents, copyrights, designs, trademarks,brands, etc. is getting greater importance as these intellectual properties of the business are now often sold and purchased in the market by itself, like any tangible asset.

Coming to brand valuation, we would say that creating a power brand involves blending of resources in a unique way. The resources spent on brand building are not consumed and have a lagging effect, which ultimately turns out in formidable asset formation, over a period of time. Building of brands takes years; most of the famous brands are more than 100 years old.

What we need to understand is that the value of the brands needs to be maintained continuously and is not something that is consistent or permanent, they do change with the changing environment. What matters in business is to maximize economic wealth, therefore if the establishment cannot maintain brand or the importance of the brand has higher commercial value in the hands of other organization, one may just like to exchange hands or shake hands as it benefits both the parities and makes economic sense. In order to optimize the gains it becomes necessary to know the intrinsic value of brand from time to time. We illustrate this with a simple example, say a reputed Indian brand motorcycle is selling for Rs 40,000/- which has a basic cost of Rs 30,000 + 30% taxes, i.e. Rs 9,000 + Rs 1,000 profit, is facing a competition from import and imported comparable motorcycle in all respect is also selling for Rs 40,000 which has a basic cost of Rs 25,000 + custom duty and other taxes 60%, i.e. Rs 15,000 and with nil profit. Presently Indian manufacturer is not facing any serious threat due to its brand equity, though the market price is the same. As we know that India has committed to reduce their average tariff on industrial goods by more than half from 71.4% to 32.4%, by the year 2004 the scenario is going to change considerably and the taxes on the imported product in general would be comparable with the taxes on the indigenous product. So, in this case the revised cost of sale of imported motorcycle will be Rs 32,500, i.e. basic cost as it is of Rs 25,000 and revised taxes 30% as applicable to indigenous product, i.e. Rs 7,500 against the indigenous motorcycle cost of sale of Rs 39000, therefore, as it stands the Indian manufactures will find hard to sell his product in these circumstances. What does the indigenous manufacture do? Will he be able to compete with the imported motorcycle? And if he is not able to compete then what happens to his brand? Which he has built over many years and which presently can be sold for substantial economic consideration. The Indian corporate with substantial brand value of their product may face such situations in time to come, therefore he needs to address himself and formulate a strategy and to do that knowledge of brand value is of great importance.

Type of Brands

The Brand can be one of the following four forms:

(i) Brands, which are associated with the product and have no association with the manufacturers name.

(ii) Brands where the manufacturers name is attributed to a product.

(iii) Brands where the company and product name is blended.

(iv) Brands that are personalized.

Valuation

The *modus operandi* of the valuation would vary in every case. To valuate a brand or other intellectual properties the valuator requires careful analysis, keen judgment, thorough professional knowledge and a think tank of experts in finance, marketing, technical know-how, and in legal fields. There are forty odd variables, which in generic terms are called environments that affect the value. The environments broadly are internal or external and the major variables are internal strength, marketing scenario, technical know-how and its changing speed, growth prospective, competition scenario, government policy, impact of globalization, etc.

In the present scenario, impact of WTO treaty needs critical evaluation to understand its implication on the brand by the year 2004. This variable has given a new dimension to the valuation process and its importance needs to be urgently understood and addressed for formulation of business strategy. The impact of all these variables would vary from sector to sector and on the type of brand and hence would need different weightage for evaluating. One of the valuation techniques is 'Discounted Cash Flow Technique'. The focus of analysis of all these variables is to correctly predict the future cash flow exclusively attributable to the brand. This is comparatively a simple exercise if the future is continuity of the past but when there is divergence of one or more variables, then their impact in totality on the future cash flow with certainty becomes complicated and this deepens depending upon changes in number of variables and their individual and combined impact. Once we are able to formulate the expected future cash flow, we need to work out the discount rate. This is an important area of valuation. As said earlier not all the resulting cash flow can be attributed to the brand itself, large amount of it necessarily reflects the value of other assets employed in a business, such as fixed assets, distribution system, etc. hence we need to make appropriate adjustment for the discount rate to work out the brand valuation. The risk that is attached to a brand earning is given due weightage. Same analogy is also applied under different parameters to valuate other intellectual properties. In other words, valuation of these assets is worth now of the benefits of the future ownership.

Valuation has various intangible and tangible benefits.

Intangible Benefits of Brand Valuation

Enhances Confidence

Brand credibility shows faith and confidence of public at large in the product, valuation if reflected in the books of accounts further enhances the public loyalty to the product and hence becomes a force multiplier.

Indicator of Effective Utilization

The value in the brand building is generated in the reverse direction when compared to the capital expenditure. We invest in capital expenditure today and utilize the proportionate investment every year, which we write off in the form of depreciation or amortization, whereas the expenditure in brand building is incurred in installments and is converted into valuable asset over a period of time. The expenditure is considered as revenue expense due to accounting and taxation provision which really is not so, hence valuation gives us the real effective worth, which we have created over the years through brand building and hence becomes an indicator as to how effectively we have utilized the expenditure.

Credibility to the Real Worth

If you valuate your brand only at the time of disposal, it has a lesser influence and will always leave a doubt of its real worth in the mind of both the buyer as well as the seller where as if the brand is continuously valued, it has a different impact and gives much more creditability to the real worth.

Strategy Development

Companies are applying brand valuation techniques in order to understand and manage their brands better. Brand valuation involves a detailed examination of a brand from marketing point, financial and legal prospective. It also examines the brand performance, prospective, market opportunity, and competition. It thus provides an excellent tool for strategy development.

Tangible Benefits of Brand Valuation

Merger and Acquisition

It is of critical importance for an acquirer, as well as for the vendor to understand and evaluate their real worth for negotiating the correct price.

Disposal

The current focus on brands has led many companies to recognize that they cannot support properly all their brands or certain brands could be worth more to a third party than to their current owner. Brand evaluation technique can be used to judge which brand to dispose of and their possible economic worth to a third party.

Licensing

Brand licensing, either to third parties or internally to its own subsidiary, is an increasingly common practice. Brand valuation assists in formulating this strategy.

Fund Raising

Brand valuation is playing an increasingly prominent role in the area of fund raising, particularly from the public as brand represents robust asset against which to seek funds is much easier.

Discount Rate

Robust strength also assists in arranging the large funds at lower cost.

Conclusion

If the organization does not know its value how can it monitor its growth and other parties correctly valuate it. In view of its advantages, it therefore, becomes imperative for any business organization to know the value of its intangible assets from time to time to formulate a business strategy.