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2-2022

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Samir DIXIT

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Citation

DIXIT, Samir. How do you measure a brand’s value?. (2022).

Available at: https://ink.library.smu.edu.sg/pers/599

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How do you measure a brand's value?

28 Feb 2022

There is an ISO standard, and a brand could be worth more than you initially thought

When mentioning ISO, the *International Organization for Standardization*, most people would think of the ISO 9000 family that relates to quality management. Widely adopted but slightly less well-known ISO standards are the ISO/IEC 27000 family for information security management and ISO 45000 family for occupational health and safety.

Then there is ISO 20671 that lays out the principles and fundamentals for evaluating the value of a brand, which also addresses measurements of brand strength.

"Brand strength is a more holistic method of assessing the brand rather than looking at the brand equity by itself," explains **Samir Dixit**, Managing Director, BrandFinance Asia Pacific. Speaking at a Centre for Marketing Excellence (CME) Marketing Seminar Series lecture, Dixit elaborates how three areas of a brand factor into brand strength evaluation:

> *"It looks at the inputs, equity, and output for the brand. All three are combined under one single framework to see how does the input impact the brand equity and how does the brand equity then impact the performance of the business.*
>
> *"Inputs are all your things, your products, your promotion, your place, everything that you control 100 percent. Those inputs generate the equity for the brand, and that brand equity then drives the business for the success in terms of sales volume, in terms of profitability, in terms of market share and loyalty."*

ROYALTY RELIEF

All that underpins ISO 10668, which specifies requirements for procedures and methods of monetary brand value (BV) measurement. According to the 2021 BrandFinance Global 500 list of valuable brands, Apple has the highest BV at US$263.4 billion.

Dixit notes that other notable companies that do brand valuations attach a different BV to Apple due to a difference in methodology. While Interbrand and Millward Brown use the Earnings Split method, BrandFinance adopts the Royalty Relief method.

"What it fundamentally means is if you did not own the brand and you had to pay someone else to use it, how much would you pay?" he says. "Because you own it, you're given a relief from the royalties, so that's where the royalties come in.

"And the royalties are not something that you pluck from thin air. You actually have to look at the royalty databases or you have to have a very strong rationale of why you're charging one percent and not half a percent [of net sales], or why you're charging 5 percent and not 3 percent."

He adds: “We look at how strong or weak the brand is in the royalty relief method, and we see that a strong brand will attract higher royalty while a weak brand will attract lower royalty. Take McDonald's, for example. If you were to license the McDonald's name, you'd have to pay higher royalties to them. If you were to get another burger franchise, it will have to be lower. So stronger brand, higher royalty; weaker brand, lower royalty.

“We apply those royalties to the future earnings or the forecast of the business at the company, and after factoring in discounting processes you get to the value of the brand, which is calculated for perpetuity.”

BRAND OVER PATENTS

What constitutes a brand is often intangible things, be they marketing-related ones such as trademarks, or artistic-related ones such photographs or music. It could also be things like software (technology-related) or customer contracts or lists (customer-related).

When assessing the value of these intangible assets, it is necessary to assess their useful economic life, or UEL, Dixit stresses.

“The longer the useful economic life of an asset, the higher the value it will have or the more valuable it should be,” he explains. “So basically, the useful economic life for the patents is the patents are protected for 20 years, and that's the useful economic life. After 20 years you lose your patent. But if someone comes and improves on your invention, let's say in year two or year three, the useful economic life is even shorter.

“Trademarks on the other side have indefinite useful life because the brand is not going to die in two or three or five years. And that's why when we are actually putting a value to the brand, our calculation factor in the value calculation is until perpetuity.

“A lot of companies are very patent focused, but guess what? A patent always needs a brand. A brand does not require a patent. So, if you have a lot of patents that you're focusing on, go back to your management and tell them, ‘Link those patents to a brand because the brand is what's going to outlast and out-survive those patents.”

Samir Dixit was the speaker at the SMU Centre for Marketing Excellence (CME) Seminar Series event, "Brand Valuation: Top 100 Brands in Asia" that was held on 4 October, 2021.

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