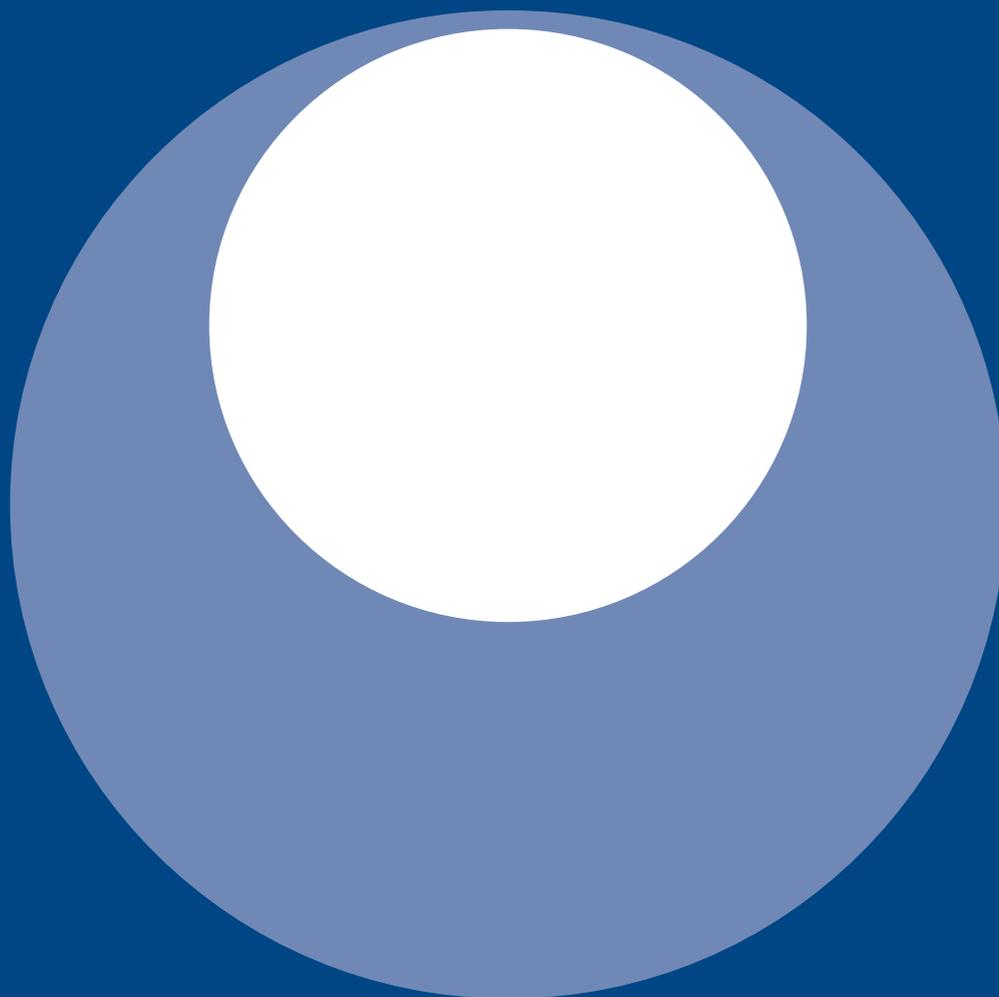


Overview of ISO 10668: Brand Valuation

Requirements for Monetary Brand Valuation

10 August 2011



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BRAND VALUATION



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*Copies of the Standard may be purchased from Standards Australia
www.standards.org.au*

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Introduction from the Australian Marketing Institute

Brands have long been recognised inside the marketing profession as important intangible assets. Brands can confer considerable advantages, such as building customer loyalty and enabling a price premium for the branded product.

As such, the valuation of brands is an important function, to provide tangible, financial evidence of their status as assets.

The Australian Marketing Institute's involvement in the promotion of the role and value of brands is central to its overall aim of the promotion of marketing. Thus, when the ISO established a brand valuation Working Party, the Institute was pleased to accept an invitation from Standards Australia to nominate an Australian representative, then-Institute Chairman Roger James. The Working Party comprised representatives from a number of nations, principally European, with Japan and Australia being the non-European nations represented.

The Working Party met initially in March 2007, and convened on a further six occasions to advance and finalise the Standard. The foundation document on which the Standard was based was a draft document prepared by the German Standards Institute, DIN.

The Australian Marketing Institute looks to Australian businesses to adopt the Standard, both as a means of validating their own brand valuation activities and also to promote the wider adoption of brand valuation itself.

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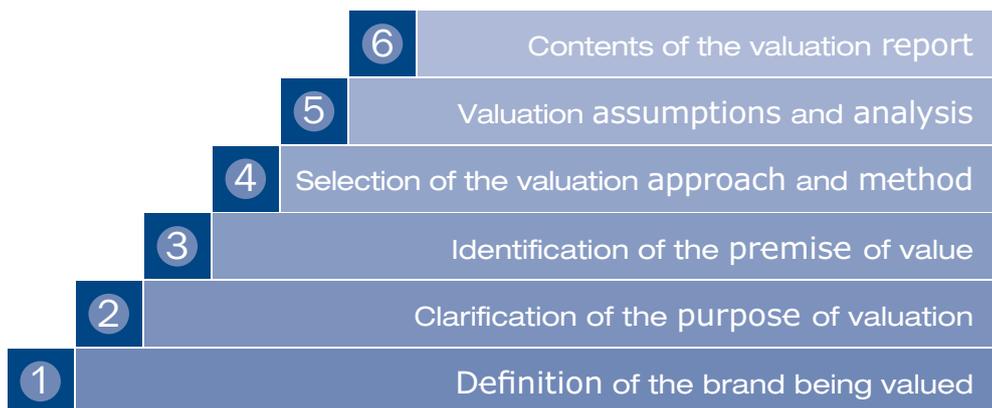


PART 1

Overview of ISO 10668: Brand Valuation

The introduction to ISO 10668 states that: “Intangible assets are recognised as highly valued properties. Arguably the most valuable but least understood intangible assets are brands.” The purpose of the Standard is to provide a consistent and reliable approach to brand valuation. To this end it specifies requirements and procedures regarding valuation methodologies, sources of information, and reporting requirements.

Although not dealt with in this particular sequence, the Standard provides guidance for the each of the key steps in a valuation.



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1

Definition of the Brand that has been Valued

The term 'brand' is defined in the Standard as a marketing-related intangible asset that may include names, terms, and logos that are intended to identify goods and create distinctive images and associations in the minds of stakeholders, thereby creating economic benefits for the owner.

A more specific description is required in a valuation report; this must clearly identify and describe the specific legal rights that are the subject of the valuation. The need for clarity is heightened by different uses of the term 'brand'; in some instances it refers to a trade mark, on other occasions it refers to a bundle of intellectual property such as recipes, formulations and design rights, in addition to trade marks.

2

Purpose of the Valuation

Brand valuations can be carried out for a wide range of purposes including strategic planning, financial reporting, dispute resolution, and pre-acquisition due diligence. It is important that the valuer declares the purpose of the valuation and the audiences to whom the report is addressed. The purpose of the valuation can influence the premise of value and the scope of the report.

3

Premise of Value

The Standard defines the premise of value as "the assumption regarding the most likely set of circumstances that can be applicable to the subject valuation." Value is in the eye of the beholder, so it is essential to determine whether an asset is to be valued from the perspective of a typical purchaser (market value), a specific purchaser (investment value), or an unwilling seller (liquidation value). In most commercial situations market value is the appropriate premise.

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4

Selection of the valuation approach and method

The Standard gives the valuer the opportunity to select from a range of valuation approaches and methods. There are three valuation approaches: the Income Approach, Market Approach, and Cost Approach. Within each approach there are several possible methods. It is necessary for a valuer to have broad experience of the available valuation methods. The purpose of the valuation, characteristics of the brand and market, and availability of data will influence the selection of the most appropriate method for a specific valuation.

Income Approach

The income approach values a brand as the present value of the future earnings that it is expected to generate over its remaining useful economic life. This is a commonly used approach to value businesses and other assets. Specific assumptions that require research and analysis include the brand's current cash flows, forecast growth, the risk associated with future earnings, the brand's useful economic life, and tax considerations.

The Standard lists the following income based methods of determining the cash flow attributable to a brand.

- **Price and volume premium methods:** Estimate the value of a brand by reference to the price premium and/ or volume premium that it generates. In situations where a brand yields both a profit and volume premium, both methods should be applied. Consideration should also be given to cost efficiencies resulting from the brand.
- **Income-split method:** Values the brand as the present value of the portion of economic profit attributable to the brand. Behavioural research is used to determine the brand's contribution to economic profit.
- **Multi-period excess earnings method:** Values the brand as the present value of the future residual cash flow after deducting returns for all other assets required to operate the business.
- **Incremental cash flow method:** Identifies the cash flow generated by a brand in a business through comparison with a comparable business which does not own a brand.
- **Royalty relief method:** Measures the value of the brand as the present value of notional future royalty payments, assuming that the brand is not owned but licensed. This method is widely used for financial reporting and tax valuations as it is aligned with the commercial practice of licensing brands.

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Market Approach

The market, or sales comparison approach, measures value in comparison with transactions, for similar brands. This approach requires a detailed evaluation of the comparability of the two brands, considering factors such as the markets in which they operate, relative brand strength, legal protection, and the economic outlook at the times of the transactions. Account has to be taken of the fact that the price negotiated in a transaction may reflect strategic values and synergies that are not available to the present owner.

Cost Approach

This approach measures the value of a brand based on the cost invested in building the brand, or its replacement or reproduction cost. It is based on the premise that a prudent investor would not pay more for a brand than the cost to replace or reproduce it.

5

Assumptions and Analysis

The Standard's general requirements specify that a valuation must:

- use valid inputs and sufficient data;
- take account of financial, behavioural, and legal parameters;
- be based on assumptions and conclusions that are objective and reliable.

Additionally, a brand valuation requires a range of specific inputs and assumptions that are summarised overleaf.

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Market and financial data

In order to gauge the current performance of the subject brand, the appraisal should carry out an analytical review of the current and forecast size of the market. Although not explicitly stated in the Standard, it is often necessary to separately evaluate all key market segments in which the brand operates, in order to take account of differences in competitive forces and market trends.

Financial data referred to in the Standard includes the discount rate, tax, long term growth rates and the useful economic life of the brand. The information requirements vary depending upon the valuation approach and method that have been selected.

Behavioural aspects of the brand

The Standard uses the term 'behavioural' to describe the attitudes and behaviour of consumers and other business stakeholders. It states that "the valuation of a brand shall directly address the ways in which a brand generates value and shall consider all economic benefits that can be derived from the brand's functions in the context of the branded business". All valuation approaches require an evaluation of brand strength, the effect of the brand on demand, and the position of the brand in its key markets.

Legal rights attached to the brand

Legal protection is important as it permits the brand owner to use formal legal systems to prevent third parties from exploiting the brand, thereby providing exclusivity. An assessment of the legal protection available to the brand includes an analysis of all legal rights included in the definition of the subject brand, confirmation of their ownership, and consideration of legal parameters such as distinctiveness, extent of use and notoriety.

In general, the most important form of legal protection will be registered trade marks. However, common law rights and copyright might protect certain aspects of a brand.

Legal rights have to be considered in all jurisdictions where the brand generates significant cash flow.

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Valuation Report

The Standard provides a check list of fourteen matters that must be disclosed in every valuation report, In addition to the six steps illustrated on page 4, these include:

- position and status of the appraiser;
- the audience to whom the report is addressed;
- the date of the report and date at which the brand has been valued;
- data sources used;
- limitations to the scope of the valuation.

In Australia, valuation reports must also comply with APES 225 Business Valuation, issued by the Accounting Professional and Ethical Standards Board.

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PART 2

Views on the Relevance of the Brand Valuation Standard

Professor John Roberts

Professor John Roberts holds a joint appointment as Professor of Marketing at the Australian National University and London Business School, and is an Emeritus Scientia Professor at the University of New South Wales.

We live in an era where managements are held accountable for the stakeholder returns on the investment of resources they make. From the input and production side are the ISO Standards that have achieved considerable currency for shareholders, managers and employees, consumers, and regulatory agencies. From the financial returns side, accounting standards are being refined and globally harmonised by global GAAP, IFRS and other processes. It therefore seems sensible that another important part of the value chain, the firm's customer facing activities (in terms of researching and meeting their needs) should also be capable of, and subject to, systematic evaluation. And, indeed, they should.

Academic research shows us that strong market based assets (including brands, customer bases and collaborative relationships) are predictors of market capitalisation growth of the firm. What a respected method of calibrating brand value does for us is provide the building blocks by which this aggregate level analysis can be undertaken by individual firms. Without this, a CEO knows that strong brands are good on average but cannot work out whether her brand building activities are too meagre, excessive, or just right.

Many marketing managers complain that marketing expenditure is regarded as a cost not an investment. In accounting terms, it is expensed in the period in which it is incurred, while in management planning terms, the long term pay offs of marketing and brand building are heavily discounted relative to their current costs. A widely accepted, reliable metric of brand value, based on the future earning potential of the brand, is a prerequisite to changing these attitudes. Many other benefits also follow. With businesses using the same approach, such metrics become a common currency across businesses, allowing performance benchmarking. Such measures also help marketers manage more finely and more accurately inform external stakeholders.

The ISO provides a useful start. It has identified the issues involved and catalogued methodologies by which they can be addressed. This Standard will help the marketing activity achieve its rightful position in terms of performance accountability, between the production insights of ISO quality standards and the results insights from AFRS/GAAP accounting standards.

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Tim Heberden

Tim Heberden is Australian Managing Director of Brand Finance PLC, which specialises in the valuation of brands and other intangible assets. He lectures on the evaluation of marketing performance at the University of Sydney's Master of Marketing.

Brand valuation came to the fore in the late 1980's when corporate raiders exposed the gap between the market value and balance sheet value of many companies. Since then, two distinct user groups have emerged. The financial community frequently values brands for the purposes of financial reporting, M&A planning and tax compliance. On the other hand, marketers use valuation techniques for brand architecture, budget setting and performance tracking.

The required output of brand valuations carried out for financial and marketing purposes is somewhat different. When a brand is valued for tax or balance sheet reasons, the focus is on the dollar output. The findings have to be robust, and this necessitates well supported assumptions and the use of the most appropriate valuation methodology. Brand valuations carried out for marketing purposes require a broader array of outputs. The dollar output is balanced by measures of brand equity and competitive performance. Segmentation of the findings by channel, region or customer type helps identify opportunities for adding brand value. Marketers require robust valuations, but are usually more interested in relative value (between market segments or scenarios) than a single, static value.

The financial community was the first to develop standards for the valuation of intangible assets – of which brands are a sub-set. Since 2005 international accounting standards have required acquired intangible assets (including brands) to be disclosed on balance sheets. International Valuation Standards released a guidance note on the valuation of intangible assets in 2007 and now has a standard on the topic.

Does ISO 10668 add anything to existing valuation standards?

The answer is 'yes'. ISO is the first standard dealing exclusively with brands, and targeted at a broader audience than the valuation community. An important development is the requirement to integrate market research, legal and financial analysis. This recognises that it is not possible to gauge a brand's demand contribution without considering attitudinal and behavioural metrics. Similarly, the available legal rights influence the risk associated with brand earnings.

At present, valuations carried out for financial purposes sometimes fail to incorporate analysis of attitudinal and behavioural measures, while valuations carried out for marketing purposes do not always adhere to valuation best practice. The ISO standard will help merge the two distinct brand valuation silos. This will result in more valuations being robust, insightful, and balanced.

In organisations that are not yet aware of the benefits of brand valuation, the credibility of the ISO makes it easier for marketers to gain the support of the CEO and CFO. Additionally, the new ISO standard provides marketers with sufficient background information to brief a brand valuation, and vet the quality of a valuation report. A good start is to ensure that your valuer is certified to produce ISO compliant brand valuations.

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PART 3

Applications of Brand Valuation

In isolation, the dollar value of a brand is of limited use to a marketer. It helps communicate the economic importance of the brand to internal stakeholders, but provides few clues to marketing strategy. The good news is that a well-constructed brand valuation yields a range of metrics, and when these are viewed together they provide great insight into the opportunities and threats in key market segments. These metrics include:

- Market conditions and competitive forces.
- An analysis of the strength of the brand relative to key competitors.
- Expected market and brand growth rates.
- Quantification of brand risk.
- Brand value expressed as a percentage of enterprise value.

Much of this information already exists in many marketing departments, however, brand valuation integrates it into a consistent and coherent set of metrics that form a platform for strategy development and performance evaluation. Some common marketing applications of brand valuation are listed below.

Budget setting

As with other assets, it is hard to know how much to invest in a brand without understanding its current worth, and whether value will be added, or eroded, by alternative levels of investment. Even in organisations where the brand is acknowledged as a key asset, the marketing budget can be vulnerable in the absence of a robust business case.

Resource allocation

Which region, channel, product, or customer segment should get the next dollar of marketing budget? There is no better way of answering the question than gauging the brand value implications within each segment.

Scenario valuations

Scenario valuations allow marketers to forecast the impact of different strategies on brand value – thereby stripping out the usual subjective arguments that accompany strategy determination. At the outset it is often unclear which strategy will yield the best result. Once market trends, consumer research and financial information have been integrated into a valuation model the choice usually becomes clear.

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Brand architecture

Brand architecture dilemmas are a common reason for organisations to undertake a brand valuation. The underlying issue can be:

- a swollen portfolio of brands resulting from mergers and acquisitions;
- the intention to extend a strong brand into new product categories;
- concern that the existing brand lacks relevance in new product segments.

Views on the benefits of new brands, sub-brands, umbrella brands and brand termination are often strongly held - and polarising. The use of brand valuation models avoids subjective arguments by integrating market research into a framework that places a value on each option.

Reputation risk management

The fine print of branding says that value can go down as well as up. Risk management procedures should identify events that could erode the value of brands and corporate reputation. It is then possible to develop responses that mitigate the risk.

Marketing dashboards

A brand value framework highlights the measures that matter, and prevents dashboards being a random collection of measures. Value-based dashboards enable marketers to focus on the best opportunities, allocate budgets to activities that have the greatest impact, measure the results, and articulate the return on brand investment.

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Australian Marketing Institute

The Australian Marketing Institute's record of service to the marketing profession goes all the way back to our origin in 1933. Over the intervening years we have continually evolved to meet the changing needs of marketers, delivering services to help members maximise their professional growth.

Today the Institute represents professional marketers throughout Australia, including practitioners from all marketing functions and industries. Through our unified voice, the Institute has established strong links with business, academia and government to become the voice of the marketing profession.

The Institute's leadership role in advancing the marketing profession has resulted in the emergence of Certified Practising Marketer (CPM) accreditation as a practising benchmark, the establishment of a Code of Professional Conduct, and the move towards defined practising standards for marketers and marketing metrics for organisations.

Members guide the policy and priorities of the Institute through elected State Councils and a National Board of Directors, ensuring representation for every state at the national level. Councils in each state conduct events on topics of local interest to augment national programs.



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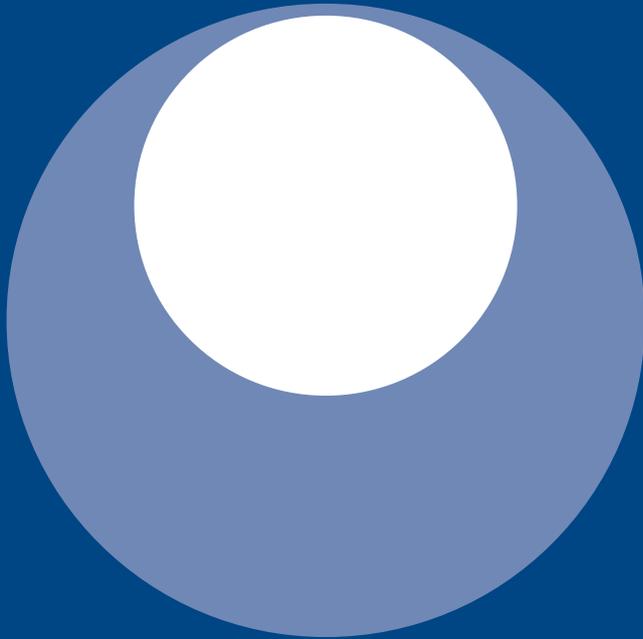
Brand Finance operates in sixteen countries, and is a global leader in the valuation of brands. We are one of the few companies certified to produce ISO compliant brand valuations.

Brand Finance is entirely focused on valuing - and adding value to - brands and other intangible assets. Within this specialist field, we offer a range of services:

- **Valuation:** International leader in the field of intangible asset valuation for financial reporting, tax and litigation.
- **Analytics and Strategy:** We help organisations select the marketing strategy that generates the most value. Brand Finance evaluates strategic options, tracks marketing performance and articulates the return on marketing investment.
- **Transactions:** Brand Finance's brand due diligence and licensing advice enables clients to leverage the value of intellectual property through transactions, licenses and structuring.

These services complement and support each other, resulting in an in-depth understanding of intangible assets from financial, consumer and commercial perspectives.





This overview of ISO 10668: Brand Valuation
has been prepared on behalf of the Australian Marketing Institute
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