onstrategy
brand value management

Valuation Methodologies

There are three main types of brand valuation methods:

The cost approach: In real estate appraisal, the cost approach is one of three basic valuation methods. The others are market, or sale comparison, and income. The fundamental premise of the cost approach is that a potential user of real estate won't, or shouldn't, pay more for a property than it would cost to build an equivalent. The cost of construction minus depreciation, plus land, therefore is a limit, or at least a metric, of market value.

The market approach: In this approach a comparison with the market is done. For example if a person wish to buy a property in place A, it is quite likely that the price of neighborhood would be checked before arriving at conclusion on the existing property, leading to an approach based on the market. This valuation method relies on the estimation of value based on similar market transactions (e.g. similar license agreements) of comparable brand rights Given that often the asset under valuation is unique, the comparison is performed in terms of utility, technological specificity and property, having also in consideration the perception of the asset by the market. Data on comparable or similar transactions may be accessed in the following sources:

1. Company annual reports.
2. Specialized royalty rate databases and publications.
3. In court decisions concerning damages.

The income approach: This approach measures the value by reference to the present value of the economic benefits received over the rest of the useful life of the brand. There are six recognized methods of the income approach.

1. Price premium method - estimates the value of a brand by the price premium it generates when compared to a similar but unbranded product or service. This must take into account the volume premium method.
2. Volume premium method - estimates the value of a brand by the volume premium it generates when compared to a similar but unbranded product or service. This must take into account the price premium method.
3. Income split method - these values the brand as the present value portion of the economic profit attributable to the brand over the rest of its useful life. This has problems in that profits can sometimes be negative, leading to unrealistic brand value, and also that profits can be manipulated so may misrepresent brand value. This method uses qualitative measures to decide the portion of economic profits to be accredited to the brand.
4. Multi-period excess earnings method - this method requires a valuation of each group of intangible assets to calculate the cost of capital of each. The returns for each of these are deducted from the present value of future cash flows and when all other assets have been accounted for, the remaining is used as the value of the brand.
5. Incremental cash flow method - Identifies the extra cash flow in a branded business when compared to an unbranded, and comparable, business. However, it is rare to find conditions for this method to be used since finding similar unbranded companies can be difficult.
6. Royalty relief method - Assume theoretically a company does not own the brand it operates under, but instead licenses the use from another. The royalty relief method uses available data of similar arrangements in the industry and assigns the value of the brand as the present value of future royalty payments.