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BRAND EQUITY EXCELLENCE

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Volume 1:
Brand Equity Review

BBDO Group Germany | Brand Equity Excellence | Volume 1: Brand Equity Review

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BBDO Brand Equity Excellence

	Brand Equity Review	Brand Equity Evaluator	Brand Equity Drivers	Brand Equity Benchmark
Focus	BBDO's Five-level Model Systematic brand classification Mechanism for measuring brand equity (today's best approach)	Computer-aided model for calculating specific brand values	Causal model to explain brand strength and identify brand equity drivers	Data Envelopment Analysis to be used as benchmark tool in taking account of best practice
Application	Use of BBDO Five-Level Model of brand management to determine brand status	Modular calculation of monetary brand values adapted to the purpose at hand	Identification of points of leverage for brand management	A multiple input/output environment modeled to "generate" brand equity values
	Ready	2002	2002	2003

Brand Equity Excellence becomes a company's most important asset. But the questions are: How much is the brand actually worth? And how can a brand's value be boosted?

This volume, intended as the first of a four-part scientific publication on Brand Equity Excellence, will cover the existing brand valuation models to be used as benchmarks, as well as the development of an initial set of integrated brand equity tools which will already constitute substantial progress on the road to achieving a comprehensive brand equity valuation model.

The project of BBDO Group Germany is intended to develop a modular model which is both theoretically and methodologically sound, which clearly illustrates the complex dimensions in the value of a brand, and which defines the points of leverage and the value drivers that can be used to achieve sustained growth in the value of a brand portfolio and hence of a company.

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Contents

Editorial

Dr. Rainer Zimmermann, CEO BBDO Group Germany

Brands are growing ever more valuable. In this age of cross-border mergers and acquisitions, the value of brands is also a key determinant of enterprise value and stock market capitalization. Because this is also the age of globalization, transnational corporations now depend for their success on global brands as well as on a professionally managed, worldwide brand portfolio. A decade of mergers and acquisitions has clearly demonstrated that financial markets reward consistently focussed international brand strategies. As a result, brand management has long since grown into a vital ingredient for success in corporate strategy. On the other hand, managing brand portfolios spanning the world's markets is becoming an increasingly complex business, as it entails respecting regional differences in cultures and consumer habits without sacrificing the consistent values and outlooks embodied in a brand.

As far as consumers are concerned, a brand plays a significant communicative, informative role. It offers a compass to guide them through a purchasing environment typified by a deluge of information. The brand is seen by consumers as a sign of quality, helping them make their purchasing decisions. Moreover, in the developed industrial and the newly industrializing countries, brands have actually become part of how people build up their identities and gain fulfillment in their personal lives. In an age in which the boundaries between nations, corporations and political systems have grown less important, brands have long since evolved into free-standing institutions with a wide variety of intrinsic social and emotional dimensions.

Given increasing market deregulation and the associated trend toward ever greater interchangeability in product ranges and prices, consumers are benefiting from increased transparency in the information available as they develop their own, self-assured preferences for particular brands. Yet brand loyalty and established customer relationships can no longer be taken for granted or assumed to last forever in an environment of intensifying competition. Brand loyalty is vitally dependent on how the relationship between the brand and the consumer is nurtured and specifically developed: This is an area where investing wisely is sure to pay dividends. A strong brand brings with it the opportunity to raise the profile of a product and the company that sells it, setting them apart from rivals in the marketplace. That strong brand can also command a price premium for its producer, and can reduce price elasticity. All of which makes brand-conscious customers the more valuable customers to have.

So the value of a brand, or brand equity, becomes a company's most important asset. But the questions are: How much is the brand actually worth? And how can a brand's value be boosted? Especially when corporate mergers or acquisitions are in the offing, it is increasingly important for the "due diligence" report on a company's value to put a figure on brand equity. This term originated as a business-financial concept, and consists in "[the] net present value of all future net surpluses over his cash input that the owner of a brand can earn".[1] Such financially-oriented measurement of brand equity is a suitable approach for expressing it as a monetary value as required for purposes of financial statements, licensing agreements, acquisition decisions or the assessment of damages when intellectual property rights have been infringed. Yet the numerous brand equity valuations carried out focussing on different quantities such as earning capacity, profit etc. yield totally different results. There is a wide variety of models available for placing a monetary value on brand equity, but in some cases these are controversial, and the value of their results as an objective statement may be limited.

The consumer-oriented perspective on brand equity breaks free from the business-financial approach by spotlighting the judgments made by consumers, with a view to improving the effectiveness and efficiency of marketing measures and also brand management on a long-term basis. The behavioral approach endeavors to reach a qualitative explanation of the factors driving brand equity and to determine psychological constructs of brand strength by means of operational measurement. In many cases, these models have not attempted to link their behaviorally operationalized brand equity with a concrete monetary value, nor have they yet led to the development of a comprehensive valuation approach. No complete, complex

[1] Cf. Bekmeier-Feuerhahn (1998), p. 30.

model to establish brand equity by combining the financially-oriented and consumer-oriented approaches has as yet emerged.

To close this gap in scientific knowledge, corporate management and consultancy, BBDO Group Germany and Prof. Dr. Hans H. Bauer of the University of Mannheims Department II of Business Economics and Marketing have set up a two-year research project at the university. The collaborative project is intended to develop a modular model which is both theoretically and methodologically sound, which clearly illustrates the complex dimensions in the value of a brand, and which defines the points of leverage and the value drivers that can be used to achieve sustained growth in the value of a brand portfolio and hence of a company.

This volume, intended as the first of a four-part scientific publication on Brand Equity Excellence, will cover the existing brand valuation models to be used as benchmarks, as well as the development of an initial set of integrated brand equity tools which will already constitute substantial progress on the road to achieving a comprehensive brand equity valuation model.

Dr. Rainer Zimmermann
CEO BBDO Group Germany

Volume 1: Band Equity Review

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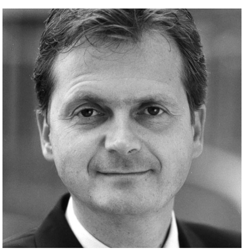

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Björn Sander

Tharek Murad-Aga

1. **The functions of a brand**
2. **The challenges of brand leadership**
3. **Brand management**
4. **Dimensions of brand identity**
5. **Brand core development**
6. **Brand valuation**
7. **Appendix: Synopsis of existing brand valuation models**

1. The functions of a brand

A brand is a consistent, holistic pledge made by a company, the face a company presents to the world. A brand serves as an unmistakable symbol for products and services. It functions as the "business card" a company proffers on the competitive scene to set itself apart from the rest. In addition to differentiating in this way, a brand conveys to consumers, shareholders, stakeholders, society and the world at large all the values and attitudes embodied in a product or company. A brand fulfills key functions for consumers and companies alike.

The functions of a brand for consumers

- Brands play a role in terms of communication and identification. They offer guidance, convey an expectation of quality and so offer help and support to those making purchase decisions. Brands make it easier for consumers to interpret and digest information on products.
- The perceived purchasing risk is thus minimized, which in turn helps cultivate a trust-based relationship.
- A brand can also serve as a social business card, expressing membership in a certain group. Premium brands, for instance, can even engender a sense of distinction and prestige.
- Consuming certain brands is also a means of communicating certain values. By opting for particular brands, a consumer demonstrates that he or she embraces particular values; the brand becomes a tool of identity formation, one element in the "mosaic of the self." To wit: A brand can be said to function as a "corporate identity of the self-design."

A brand is the face a company presents to the world.

The functions of brands from a company's perspective

- A brand fosters brand and customer loyalty. Particularly strong brands can establish the prevalence of premium prices on the market and soften consumer reactions to price changes. Specifically brand-oriented buyers – who are more concerned with brands than prices – are more resilient when it comes to changes in the competitive scenario. This decreased sensitivity to price changes makes them more valuable as customers.
- The reduction in perceived purchasing risk lays the groundwork for a relationship of trust, giving brands a role to play in lashing customers to a company.
- Brands can counter the swelling ranks of trade because dealers stock their shelves and fill their order lists with products explicitly requested by consumers. Strong brands in particular keep sales levels and market share constant and considerably lessen dependence on short-term special promotions.
- A brand unlocks great potential in terms of licensing opportunities as well, helping companies achieve plans for international expansion.
- Finally, brands also offer companies potential for honing a clear profile

and overshadowing the competition. Strong brands in particular can reduce the risk that new product launches will flop and can be used as platforms for successful brand stretching (also in terms of launches in completely new product segments and sectors).

In this way, brands can help generate significant value for a company, above all in market segments where brands have the upper hand. Thus a brand – particularly a strong brand – represents sustainable value for a company. Investment in a brand is hence investment in the future and in a company's greatest asset.

A brand's significance and contribution to success are generally expressed in terms of its monetary value. As a result, around half of the capitalized value of companies worldwide consists of brand and name rights, which means that a brand, or brand value, can literally be considered a company's most valuable asset.

Investment in a brand is hence investment in the future and in a company's greatest asset.

This new interpretation of the significance and functions of brands is clearly demonstrated in the area of mergers and acquisitions. Where production capacity or manufacturing technology were once the decisive factors considered during company takeovers, today brands and the space they inhabit in the minds of consumers increasingly occupy center stage. This view or interpretation of brands and their value can be seen particularly in the consumer goods sector, where price/earning ratios of 20 to 25 are today by no means a rarity. One well-known example is the takeover of Rowntree Macintosh by Nestlé: here, the purchase price was three times the market value and 26 times the earnings generated by Rowntree Macintosh. According to estimates, as much as 90% of the $12.9 billion purchase price paid out when Philip Morris acquired Kraft Foods went toward brand value. The most recent example is Interbrew's purchase of the Beck brewery, which up till then had only a single premium brand, Stella Artois, to its name. Interbrew CEO Hugo Powell explained the premium of € 500 million (for a total purchase price of € 1,8 billion) by saying that Beck's brand value was much higher than that of Stella Artois.

Under current market conditions, however, marketing-oriented brand appraisal and brand management in particular have gained in importance because the non-monetary, consumer-oriented valuation of brands carries a great deal of weight – alongside monetary brand value – from a marketing standpoint. This is why successful brand management encompasses all strategic brand decisions that add to a brand's strength.

Depending on the reasons for determining brand value, the focus of interest tends to vary. Financially-oriented brand valuation aims first and foremost to assess the monetary value of a brand for the purposes of acquisition, licensing or accounting.

This approach ignores the reality of brand value in the eyes of consumers. As a result, the consumer-driven perspective parts paths with the financially-oriented approach and places consumer perceptions and considerations in the spotlight. The aim is to gather the information necessary for successful brand management as a way of facilitating strategic brand decisions. Consumer-oriented brand value can be based on analysis and standardized gauges of psychological constructs and is often referred to as brand strength. However, there is frequently a failure to link assessments of brand value based on the principles of behavioral science – and the findings of these assessments – with the monetary value of a brand.

The aim is to gather the information necessary for successful brand management as a way of facilitating strategic brand decisions.

The various application areas of brand valuation on the management, marketing and financial ends clearly show that both perspectives – the financial and the consumer-oriented – must be fused if the totality of brand value is to be faithfully described. Along these lines, Bekmeier-Feuerhahn defines brand value as "triggered by the labeling of a brand, the economically useful and monetarily quantifiable increase in the present and future value of services for consumers and companies."[2]

2. The challenges of brand leadership

Brand management is today beset with challenges as a result of prevailing market conditions. Many markets, especially in the consumer goods segment, have now reached such a degree of saturation that market potential is virtually exhausted. Increasingly, growth can be achieved only at the expense of competitors. This is why suppliers in competitive environments such as this are attempting to hone competitive edge through increasing differentiation of their brands, emphasizing how they meet the needs of selected customer groups and market segments.

This trend is reflected by a major leap in product and brand diversity (with registrations of brands doubling since 1988) that makes the range on offer appear overwhelming to consumers. This brand and product inflation is compounded by increasing internationalization, and with it, market entry by new competitors.

On the production side, companies must also deal with dramatically shorter product life cycles and constantly accelerating product aging. In Germany alone, 100,000 products were launched onto the market within a period of two years, i.e. an average of 910 new products a week. But the pressure to innovate also means an increased risk of producing flops. The flop rate for newly launched products is around 85%.

On such a competitive field, it becomes harder and harder for a company to differentiate its products from those of the competition and make them

[2] Cf. Bekmeier-Feuerhahn (1998), p. 46.

stand out from the diverse range available. As brand and product diversity rapidly increases, the volume of advertising insertions grows apace. The number of advertising campaigns in the conventional media alone (i.e. above the line) has more than doubled since 1980.

Ultimately, the advertising pressure this generates makes communication measures less efficient because consumers are increasingly overloaded with and unable to absorb brand information. What's more, media costs are skyrocketing.

3. Brand management

Under these conditions, brand leadership – particularly building sustainable brands and creating brand value – is becoming a strategic success factor for companies. Within the past eight years, for instance, costs per cross rating point (GRP) on TV have expanded by 46%.

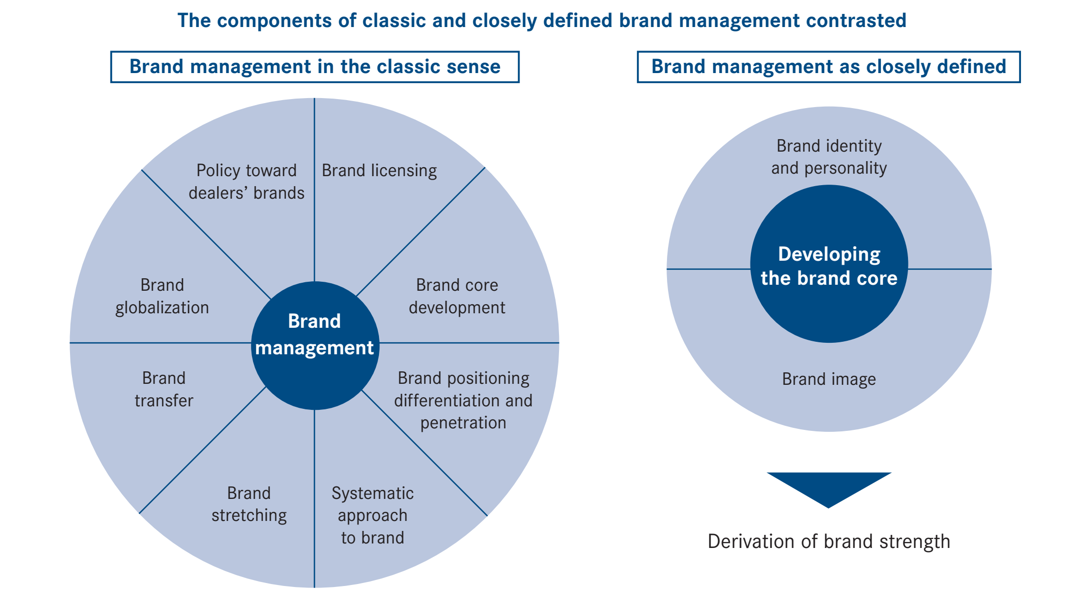
Creating brand value is becoming a strategic success factor for companies.

Brand management in this sense covers all aspects of managing a branded product. The following areas are faced with challenges:

- Brand core development
- Brand positioning
- Brand differentiation
- Brand penetration via the marketing mix
- Brand stretching
- Brand strategy/brand architecture
- Brand transfer
- Brand licensing
- Brand globalization
- Trade marketing

When it comes to establishing or supporting a brand, the monetary value of that brand serves as a corporate planning and monitoring tool – for instance, in terms of budgeting brands at companies with multiple brands. At the same time, brand value is also used as a yardstick to measure success and a basis for compensating brand management. Thus brand value functions as an evaluation tool for the marketing concept as a whole.

Classic vs. closely defined brand management



Brand value is closely lashed to brand strength, which is derived from brand identity, brand personality and brand image. Thus brand strength goes beyond the brand as legally protected asset; it is, rather, the product of everything yielded in the marketing mix. This makes brand management a matter of shaping the value of a brand into as positive a form as possible. To this end, the drivers influencing the substance of brand value in consumer eyes are of particular importance. Information on the determinants of brand value and the associations consumers make with a brand provide base information that can be used to tweak and steer brand development. In the marketing trenches, this interpretation of brand leadership clearly has more relevance than any other application area for brand valuation.

Strategic brand decisions can be made by brand management thanks particularly to ongoing tracking of a company's brand value and/or comparison with the brand value of competing brands.

Consequently, brand management means shaping all aspects of a brand in such a way that its impact on consumers in terms of knowledge structure, decision-making and self-image ultimately boosts the brand's strategic and monetary yield. Thus the cultivation of brand identity, for instance, can enhance brand value.

The Ford Company, for instance, paid € 6,2 billion for the Jaguar brand. Such a high brand value can only be explained by the existence of knowledge structures that can be efficiently tapped, i.e. a brand identity that motivates consumers to accept a higher price, remain loyal to the brand, buy it again and again and recommend it to others.

4. Dimensions of brand identity (share model)

Brand identity is composed of various shares that trigger particular responses in consumers in addition to filling the afore-mentioned functions. These shares build on one another; the more shares a brand has, the stronger and more positive the relationship with consumers.

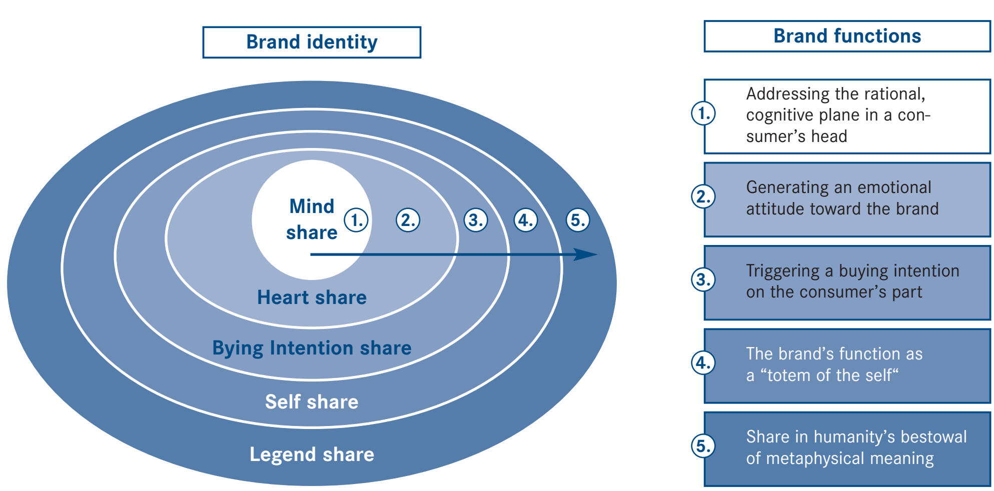
At the very lowest level, **mind share** must be created in the consumer consciousness (cognitive level). This means that, as a complex perceptual and conceptual construct, the brand evokes an internal neural representation in the minds of consumers, leaving behind certain brand impressions. The Nivea brand, for instance – which is associated with a message of gentle care and simplicity (of application) – has achieved mind share among many consumers and can thus be considered part of their evoked set.

Heart share has to be the next step. This refers to the emotional relationship a consumer should develop with a brand. Heart share is less a matter of a product's functional utility and more a matter of its symbolic attributes. The buyer of a Ferrari, for instance, will not develop an affection for the car based purely on functional attributes, but rather as a result of the values associated with the brand and the brand environment it operates in.

Brand identity must also trigger a **buying intention share** in consumers. After all, despite the importance of a brand's mind and heart share, it only makes sense for a supplier to invest in brand identity if consumers will also want to buy the brand.

Brand identity also contributes to **self share**, which means that the brand functions as a manifestation of the self, a tangible expression of self-image within the social environment. In this context, brands serve self-

Dimensions of brand identity



expression and self-design purposes, differentiating the individual within the social group. Brands can easily serve similar ends in the realm of business-to-business, where they bolster self-image in terms of a company and its functions.

Next, the brand and the ethics it conveys must also capture a **legend share**. Here, the brand shares in the existential search for meaning conducted by a consumer in a world enlightened to the point of meaning-lessness and takes on a virtually religious character. This aspect sheds light on the cultural-sociological proposition that brand management is worshiping the customer. Brands allow consumers to achieve social position or status, to partake of cultural expression, to create mythology and shape meaning, and as a result, to weave themselves into the social and metaphysical fabric of the world. In this context, a loyal customer is a member of a community and an individual loyal to that community not just a customer who makes repeat purchases. A brand is a tool for building a sense of community and belonging, for building the community itself.

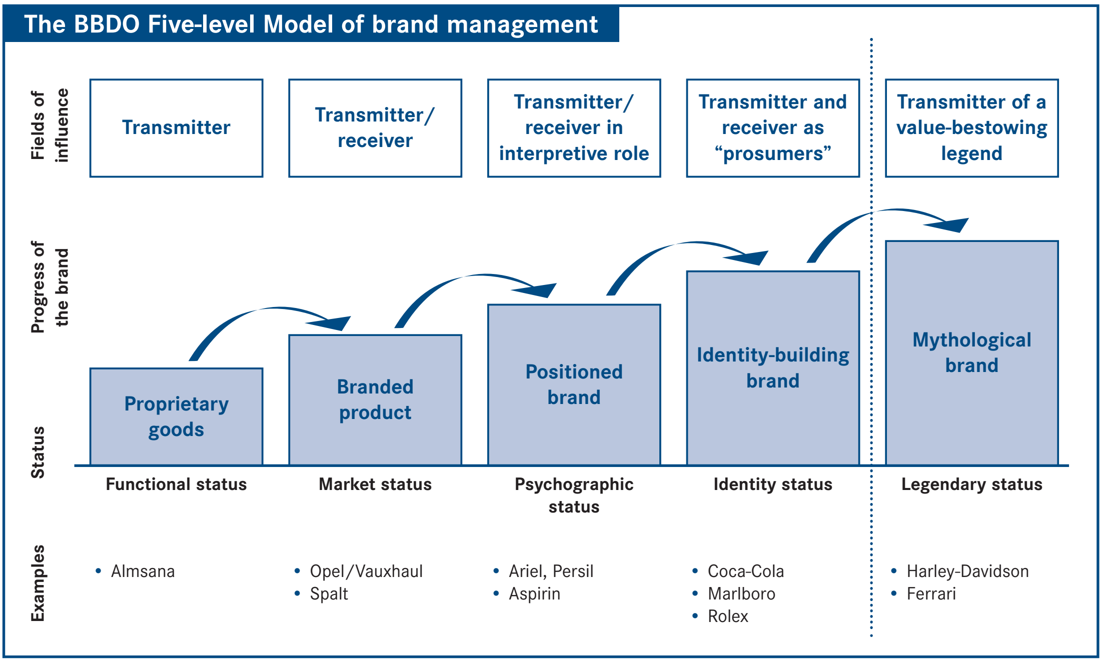
Brands allow consumers to achieve social position or status and to weave themselves into the social and metaphysical fabric of the world.

5. Brand core development

The BBDO's five-level brand leadership model provides a systematic approach to developing brands. This model comprises five development stages that function as building blocks for brands to reach or be elevated to. The "drivers" that go hand in hand with the various steps are also identified, allowing brands to be matched with the various levels. This makes it possible to determine the current status of a brand and reveals the levers of brand management that can be used to further develop that brand.

The first level of the model is the "ground floor" for brands: **proprietary goods**. At this level, the functional aspects of a product are in the foreground. Typical of a proprietary good is the fact that, though it literally has been "branded" with a label (in the physical sense), no advertising effort is expended for it.

At this stage of development, the primary driver is a wide (geographically speaking) and deep (covering as many product types as possible) legal buffer created by the law to protect such brands from intentional or unintentional confusion with competing products. Added to this is a level of quality that remains constant. In this context, the product is branded to indicate its provenance and affix a "seal of quality" that comes from its manufacturer. This quality pledge allows consumers to clearly associate any deviation from the expected quality with a specific manufacturer. The supplier commits itself to a pledge on which consumers can call the company at any time and which they expect – if not demand – that company to deliver.



In light of today's competitive situation, purely physical labeling/branding and a constant level of quality no longer suffice as differentiating factors. As a result, additional attributes are grouped at the next highest level.

The next level is occupied by **branded products**. In addition to the characteristics of a proprietary good as outlined above, this level also includes success factors as yardsticks of "major brands." Besides bearing the basic manufacturer's mark, a branded item fulfills certain criteria such as constant, above-average quality, above-average price level and a high level of awareness created by way of advertising pressure. A branded item is characterized by the fact that it is widely distributed and enjoys major recognition on the market.

To develop from a proprietary good (Level 1) to this higher level of branded goods, a brand must surpass the basic brand symbol and enter the realm of brand status symbol. This can, for instance, be an awareness rate of 90% or a distribution rate of 80% among the relevant trade. At this level, product attributes and distribution efforts are characterized first and foremost by stability and continuity. Marketing activity and investment in advertising and distribution are also decisive as drivers. The drivers listed for Level 1 also come into play.

Thanks to the higher distribution rate and increased awareness level, consumers have more contact with these brands and as a result enjoy greater access to information and knowledge about them. A brand-name manufacturer with a loyal customer base cannot afford to jeopardize this kind of market status through negligent dips in quality.

One characteristic of brands at this level is the fact that, while their consumers have access to additional information, the quality of this information has achieved neither mind share nor heart share. In other words, these brands have not yet succeeded in forging emotional bonds with consumers. Brands that have done so are relegated to Level 3 and above.

Level 3 in terms of brand development is occupied by so-called **positioned brands**. The brands clustered here are set apart by their emotional and cognitive impact on consumers in addition to their functional utility. For this reason, these brands can be said to have achieved mind share, heart share and buying intention share in the consumer consciousness.

In this context, brand positioning leads to “the set of associations and behaviors on the part of brand customers, channel members and parent corporation that permits the brand to enjoy the sustainable and differentiated competitive advantages (i.e. brand strength results in barriers to competition and, therefore, some degree of monopolistic power controlling the brand).”[3]

At this level, brand management must pursue non-financial goals alongside financial ones. The mechanism by which consumers process information (e.g. attitude formation and risk reduction via trust-building) must be influenced in such a way that experiences are conveyed to anchor brand loyalty emotionally, thus creating acceptance of premium pricing.

At this level, brand management must pursue non-financial goals alongside financial ones.

At this level of development, consumer attitudes and associations are extremely important. Expertise about preferences and purchase patterns, coupled with cognitive and emotive positioning efforts, is used to evoke certain associations (including personality-based associations) among consumers. To this end, the consumer must, however, also interpret the message conveyed by the brand. “This process of decoding the meaning and value of brands and using brands correctly is active involvement of the consumer in the brand’s image,”[4] i.e. the consumer must be willing to actively engage with the brand.

To elevate a brand to this level and keep it there – to actively involve consumers – brand management must position the brand cognitively and emotionally by way of a brand-building program. Positioning efforts on the part of brand management, plus integrated communication measures, make it possible to create brand strength and cultivate brand personality.

The result of these measures can then be seen in a product’s ability to capture a certain position on the market and hold its own against the competition.

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[3] Srivastava/Shocker (1991), p. 9
[4] McEnally/de Chernatony (1999), www.amsreview.org/amsrev/theory/mcenally02-99.html [20.6.01]

The next level up, Level 4, is devoted to **identity-building brands**. This identity is the product of interplay between producer and consumer to create a suitable brand environment. Interactive communication provides the framework for this, a process which necessitates active involvement on the part of the consumer. The brand is integrated into the consumer's personality (self share), i.e. the brand exhibits an overlap with the consumer's own self-image. The consumer and the brand grow together in what can be described as a mimetic process. At this level of brand leadership, consumers define themselves via the brand (and the brand via its loyal customers), relying on it for self-expression and identity formation.

The suitable drivers at this level are communication tools with specific attributes – for instance, emotionality, interactivity or virtuality – that support the process of building brand identity particularly well. This socio-psychological expertise charges the brand with certain elements of emotional and social utility that make it useful to consumers in defining and positioning themselves in the social environment.

Today's consumers often move in different, emotionally charged worlds of experience.

The consumer must not only be actively involved, but also undertake the effort of interpretation. This is because the complex and cryptic performance pledge made by a company must first be decoded. This takes place within the framework of an extended brand-and-consumer experience in which both the individual consumer and consumer groups must experience, interpret and "unpack" the brand's conceptual attributes.

The fact that brands are discussed, celebrated and criticized and that these aspects of communication are public also results in the emergence of so-called brand communities. These communities form because today's consumers often move in different, emotionally charged "worlds of experience," or in alternating clusterings within their social environment.
Because conventional target groups are being replaced by hybrid or multiple-option consumption patterns, brand communities are gaining in importance. This makes it harder and harder for manufacturers to match consumers with the usual segment descriptions (socio-demographic and psychographic criteria). To achieve target marketing of potential consumers and thus promising revenues, a supplier can focus on the epicenter of interest, the experiential environment and the motivations that characterize the brand communities. These communities can thus be considered new target groups, with individual consumers in some cases occupying several at once-placing them in multiple target groups, depending on the product range.

A brand at Level 5 of brand management has attained a **mythological brand**, or legend share. As with the level of identity-building, a "mystique brand" helps provide customers with a social orientation, and most of all with a metaphysical orientation. Increasingly, such a brand assumes the function of a guide or mentor offering insight into the meaning of life, helping consumers better process the social and the existential, and offering them support when it comes to finding their place within the "collective self."

No drivers can be identified for this level because the timeframe for brand development is extremely long and special societal factors are indispensable.

This brand status is not desirable for all brands and can only be achieved in isolated cases. A brand at this level, virtually having attained a cult or "religious" status, is difficult to manage; the danger of falling down to earth is extremely high due to the risk of disappointing followers or alienating a portion of them. In addition, such a brand is vulnerable to potential value shifts within a society that are completely beyond a company's control.

This five-level model clearly shows that certain drivers play a role at all levels of brand development and shape brand development as a whole. A constant level of quality is one example. The higher the level of development, the more drivers that differentiate a brand. Depending on the level to which a brand should be elevated, certain attributes, utility components and values must be leveraged to position it. The foundation for effective brand-building is a clear and consistent brand strategy. Using various instruments, all brand management activities can be planned, implemented and steered on the basis of this strategy.

Consistent, ongoing brand leadership the cultivation and care of a brand is necessary.

The goal of these activities should be an emotion-based brand positioning along the lines of brand personality marketing (Level 3) and a positioning in the sense of "symbiotic" marketing to facilitate individual self-expression (Level 4). At the highest level, a brand's emotive positioning helps create a "brand religion" via a communication of values.

As time goes by, however, a brand's status does not remain constant. Brands can lose their status due to external factors (though also through internal ones such as misguided brand management) and slip from a very high position down to a lower level. Consistent, ongoing brand leadership – the cultivation and care of a brand – is necessary if this is to be prevented.

The Coca-Cola brand is a good example of this. After the War, the brand was considered "the beverage of freedom" and attained a mythological status. Though Coca-Cola retains a hint of this mystique even today (in the sense of a cult brand), it no longer exhibits the properties of a mystique brand (helping determine "the meaning of life") as described here.

6. Brand valuation

In recent years, the issue of how brand value, or brand equity, can be operationalized and measured has grown more prominent in both academic and practical debates on brands in general. This is borne out by the sheer number of different approaches applied both in theory and in practice for valuing brands.

However, it is interesting to note that the first moves toward quantifying the value of brands were not driven by marketing issues. In fact, the discussion was set in motion by corporate finance experts who needed a way of expressing brands in dollars and cents when either the brands themselves or the whole company that owned them was up for purchase or sale. This gave birth to the first, financially-oriented valuation methodologies.

Especially in more recent years, consumer-based perspectives on brand valuation have also featured more strongly, as it was hoped that an enhanced understanding of the determinants (or "drivers") of brand value from the customer's viewpoint would yield key indicators for efficient brand management.

The discussion was set in motion by corporate finance experts who needed a way of expressing brands in dollars and cents.

The methodologies developed to date for establishing brand equity or brand value can be classified into four groups:
- Business finance-oriented models
- Psychographic or behaviorally oriented models
- Composite financial/behavioral models
- Input/output and portfolio models

Classification of the models

Brand valuation models

Categories	Characteristics
Business finance models	• Quantitve procedures to compute a monetary value for brand equity • Consumer's perspective not taken into account • Used to value brand equity in the context of acquisitions, licensing and analysts' opinions
Psychographic/ behaviorally oriented models	• Brand equity seen as a qualitative construct that can be made manifest using scorecards • Not empirically verifiable • High degree of subjectivity in the choice of factors explaining brand strength • Endeavor to explain what goes on in the "hearts and minds" of customers to determine a brand's value
Composite financial/ behavioral models	• Provide a monetary value for brand equity • Include variables covering earnings status, market status and psychographic status of a brand • Interlink qualitative and quantitantive factors
Input/output and porfolio models	• Establish a realtive brand value index • Determine potential changes in a product's market share (given constant distribution) • Identify potential for optimizing specific products

Depending on their chosen starting point, business finance-oriented approaches to brand valuation can be divided into “bottom-up” and “top-down” methodologies.

The former begin by measuring certain specific aspects, then combine them to arrive at an overall brand value. The elements aggregated in this way may be brand-relevant factors such as the product’s price premium attributable to the brand, or costs relating specifically to the brand. This frequently used approach is found in particular brand valuation methods such as the cost-oriented, price-oriented, capital market-oriented and earning capacity-oriented methods.

In contrast, top-down models start out from a holistic, or global, view of a brand’s value and then endeavor to establish the contribution made by particular attributes such as the process of product branding. Conjoint analysis, or conjoint measurement, is one such approach. This gathers information on global preferences with regard to product concepts and then determines the incremental contributions to these global preferences made by specific feature levels. The contribution made by a brand – in effect, its utility value – is derived from the entire range of performance generated by a product concept. Customers’ overall willingness to pay for a product is used to identify their willingness to pay for specific product features, one of which is the brand itself, and its value can be ascertained as a result.

These business finance-oriented brand valuation approaches are used primarily to determine brand equity in the context of mergers and acquisitions (including brand acquisitions), licensing issues or financial analysts’ opinions.

One of the advantages of such models, speaking in their favor as a means of measuring brand value, has directly to do with the data sources they tap. Because they are based entirely on figures from within the company, there is no need for costly, time-consuming efforts to gather external data. A further benefit is that the models are relatively easy to use, allowing brand value to be computed swiftly and economically. For these reasons, models in this category are used especially frequently by analysts in the investment banking field.

However, from a brand-management angle these advantages are counterbalanced by a number of severe drawbacks.

The result produced by all these models is the brand’s monetary value from an accounting perspective. Yet, because they ignore the consumer’s role in the generation of brand value, some important information is lost, or rather it is not even recorded in the first place. A number of aspects that are interesting from the perspective of brand management and monitoring simply cannot be established by referring to the brand’s current monetary value. The important thing to know in this context is how a high or low brand value actually came about. Not until this is known can decisions be taken on how to sustain and/or enhance the value of a brand on an ongoing basis. Another point of criticism, this time from an analyst's perspective, is that a number of the models in this category do not take the competitive environment into account when arriving at a valuation. Brand equity calculated in this way cannot offer an adequate basis for analysts wishing to know what a business is worth.

New value measurement methodologies were developed based on behavioral science.

To get at the information on the generation of brand value that is relevant for brand-management purposes, new value measurement methodologies were developed based on behavioral science, with their prime focus on customers' judgments. The models in this second category include the brand strength as a demand-driven parameter when operationalizing and measuring brand value. In this context, brand value is viewed as an essentially qualitative construct which can be made manifest using scorecards. These models set out to explain what goes on in the "hearts and minds" of consumers. In contrast to the financially focused models, they provide those responsible for brand management with an understanding of where the value of a brand actually comes from. This way, they paint a precise picture of how brand strength is generated. The information they provide helps to identify reasons for a loss or gain in value and to track brand-value trends, making them much more suitable for brand management than their counterparts based on business finance.

Nevertheless, the design of these behavioral models involves a variety of weaknesses besides the benefits outlined. An immediately evident point of criticism is that the psychographic recordings of brand value are not converted into any objective monetary value. This rules out the behavioral models for answering the questions that arise in the context of acquisitions, licensing arrangements or analysts' evaluations. Another point that needs to be viewed critically is the fact that these models completely ignore certain aspects of business administration such as competitors' strategies or general market developments. Yet these are factors that could easily have a retarding impact on brand development and ought therefore to play a role in the valuation process. Another problematic aspect of these approaches is the considerable degree of subjectivity involved in the choice of factors used to explain brand strength or the generation of brand value. In certain models, there is also a danger that some of the chosen variables may not really be mutually independent, thus posing a measurement problem by breaching an important methodological assumption. This problem can be illustrated by referring briefly to *Aaker's* frequently cited model. *Aaker* sets out to highlight the factors influencing the generation of brand equity by focussing on the consumer's side, considering dimensions such as brand loyalty, brand awareness, perceived quality, brand associations and other brand assets (the legal and institutional benefits offered by a brand that protect its value). However, in reality it is impossible to assess perceived quality independently of the other factors of brand awareness, associations and loyalty. A further problem is that factors *Aaker* has picked out as determinants are in some senses also consequences of brand value, which means he has conflated the input and output levels in any functional relationship of brand equity generation.

Another difficult area pertaining to these models is empirical validation, which in some of them is actually impossible or at least inadequate. This calls into question the models' relevance to practical issues. As such, they are best seen as a form of heuristic procedure but it is difficult, or almost impossible, to verify them.

In the attempt to overcome the respective disadvantages of the business finance and behaviorally oriented approaches, a third generation of measurement models has grown up, known as composite models. In effect, these interlink the business financial and the behavioral approaches. In measuring brand value, they take into account variables depicting the position held by a brand as a result of customers' purchasing behavior which can be aggregated into the following combined variables: the earnings status, market status and psychographic status of a brand. These qualitative and quantitative factors are drawn together in each model, in order to compute a monetary value for the brand. The composite approach to brand valuation has been quite well received in practice, also attracting media attention accordingly; this is borne out by the large number of valuations already carried out, e.g. by the *Interbrand* company.

Composite models interlink the business financial and the behavioral approaches.

However, a critical observation of these models is that, in combining business-related determinants of brand equity with behavioral ones, they tend to get tied up in a degree of confusion between the input and output sides. The business-related factors may, in some circumstances, be better interpreted partly as consequences of brand value rather than just determinants; the result is a conflation of input and output levels in a production function for brand equity. Another point of criticism concerns the high degree of subjectivity involved both in the choice of factors contributing to brand value within the various models and in the relative weightings of the factors. The problem is compounded by the fact that the procedure used for the actual calculation of a monetary value is sometimes undisclosed, or may be subject to arbitrary assumptions. Yet another objection concerns the actual weightings chosen, or a built-in imbalance between the types of determinant when the brand value is calculated: Models tend to be dominated either by the business (financial) determinants or by the consumer-oriented perspective. A final, especially critical point about these models is that they have not, to date, contained any facility for adaptation to differing valuation needs. That is to say, the procedure applied remains the same regardless of the purpose for which the valuation is being carried out (e.g., a brand acquisition or ongoing brand management), despite the differing requirements inherent in those situations.

To round out the overview, the procedure developed by *Preißner* for measuring brand potential will be briefly outlined here. This input/output model may be placed in a fourth category of approaches, known as consumer status and market status models. Measuring brand value, or brand potential, in this input/output approach provides a picture of the direction in which a product's market share is likely to move relative to the competition, given constant distribution. This allows products to be examined with regard to efficient communication, attractive price spreads, distribution, product performance, price-setting, etc. The advantages of this method include the ability to forecast future developments and the inclusion of competitors. However, the approach can be used to generate a relative brand value index only; it does not allow an absolute monetary value to be determined. In addition, there is the problem that the identified brand value does not refer exclusively to the value generated by branding, but rather the potential realized via the entire marketing mix. The latter problem also arises with some of the models in the other categories.

None of the models or measurement approaches reviewed was free of criticisms.

It is worth noting at this point that none of the models or measurement approaches reviewed was free of criticisms, and that none stands out as superior to all the others. However, the various approaches, which differ substantially in their orientation, underlying philosophy and methodology, yield up results that vary just as much. To cite an example, the *BMW* brand was valued by *Semion* at approx. $ 6,43 billion for the year 2000, while *Interbrand* came up with a figure about twice as high: $ 13 billion. When we see differences such as this, the question of the usefulness of the results inevitably arises.

Having looked at the various approaches and analyzed the models in detail, a list of requirements will now be presented which any newly developed, comprehensive model of brand valuation ought to fulfill to arrive at a monetary value of brand equity and also have the capability to operate as an effective brand management tool.[5] The list is qualitative in nature, but general prerequisites such as validity and reliability – though not explicitly contained in the list – should also be taken as read. The requirements are:

- A balance between business financial and consumer-oriented perspectives.
- The approach must be suitable for use as a brand management tool and hence must include a determination of brand status.
- The brand equity measured must be expressed as a monetary value.
- The model must be adaptable to different situations in which a valuation is required.
- It must take account of the intangible asset created by the performance of a brand, i.e. it must distinguish between the performance of the underlying product and that of the brand as such.

[5] Following Bekmeier-Feuerhahn

- The model must be capable of valuing any type of brand, whether a corporate or product brand.

There now follows a description of a possible approach which, as things stand today, best does justice to this list of demands. Rather than a detailed presentation of a full model, this will be an outline sketch of the kind of mechanism that will allow the type of valuation we are looking for. It will be clear from the preceding discussion that, ideally, a comprehensive assessment of brand equity should forge a link between business-oriented and consumer-oriented perspectives. This can best be assured by a two-stage valuation approach which concludes by placing a monetary value on brand equity:
Stage 1: Measurement of the determinants of brand equity
Stage 2: Computation of its monetary value

The brand value determinants measured in stage 1 should be brand strength – the subjective value placed on the brand by consumers – and brand earnings, i.e. those attributable solely to the brand itself.

A comprehensive assessment of brand equity should forge a link between business-oriented and consumer-oriented perspectives.

The determining factors proposed for measuring brand strength are these:

- Perceived quality
- Brand knowledge
- Brand positioning
- Brand identity

These drivers should be measured by conducting consumer surveys. **Perceived quality** can be assessed by asking them what level of risk they sense when they purchase a certain branded product. This perceived functional risk offers insights into the extent to which a branded product fulfills consumers' expectations as to the functional qualities of that product type.

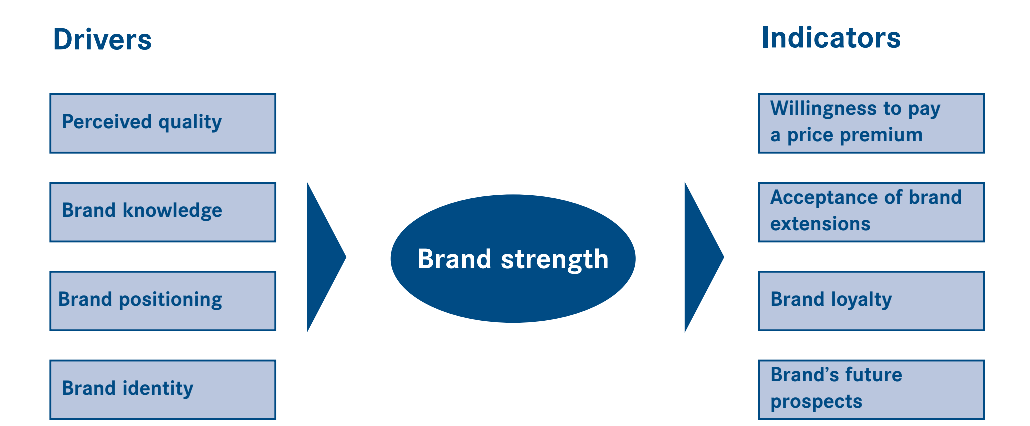
Brand knowledge can be established by surveying brand awareness, both aided and unaided. Consumers are asked to name the brands they spontaneously recall in certain product areas, and are also called upon to rate their level of familiarity with brand names cited to them. The quantity, quality and intensity of associations offer a further means of evaluating consumers' brand knowledge.

The next step is to record the **market positioning** parameter by inquiring into brand and product assessments. Consumers should be asked to judge what they consider to be a brand's performance as regards a number of emotional (symbolic) and cognitive (functional) brand features. The survey questions may ask, for example, about technical reliability or about the overall appeal of a branded product. Particularly when seeking to learn more about symbolic characteristics and a brand's "personality", it would be useful to draw upon *Aaker's* brand personality inventory.

The final dimension, **brand identity,** can be measured via the prestige value the brand conveys. A distinction should be drawn between direct and indirect prestige value. The direct variant can be addressed, for example, by asking survey participants to say whether brand X helps them to demonstrate a certain social status. A possible way of assessing indirect prestige value is to ask respondents for their verdict on certain statements about the brand. For example, the statement may suggest that owning brand X counts among the pleasures in life. Questions should also be worded to establish the extent to which parallels between personal and brand identities are actually perceived by consumers, plus the extent of their own active involvement in shaping their relationship with the brand.

Once these individual determinants of brand strength have been recorded, brand strength itself can be operationalized with the help of a number of indicators such as consumers' willingness to pay a price premium, their acceptance of brand extensions, their brand loyalty and the brand's future prospects. One of the questions would thus be how much cheaper a competing, unbranded product would need to be before customers were persuaded to switch their preference; another would be whether they might be prepared, given the opportunity, to try out other (new) products carrying the same brand name, or whether they intend to purchase a brand they already own again in future.

Drivers and indicators of brand strength



Measurements of the latter indicators would suffice to arrive at a straightforward indicator value for brand strength. However, that would not yet provide the desired insights into potential efficiency gains in brand management. To develop these, it is necessary to take into consideration, or indeed measure, the individual determinants discussed above. Using multivariate statistical analysis, the indicators can then be merged with the other proposed determinants to produce an overall indicator value for brand strength.

The second of the main determinants of brand equity, brand earnings, is derived from the company's own figures and metrics, and those covering the industry in which it operates. The relatively straightforward computation entails deducting the usual costs pertaining in the industry from the product's revenues, weighting the difference with a rate of return typical for that market. The monetary value this produces is then transformed into an index value.

In stage 2 of the process, the information from the combined determinants is used to compute a monetary value for brand equity. This involves establishing market prices – as required by the situation, such as the acquisition of a brand – for the combined drivers of brand strength and brand earnings, on the basis of expert opinions. These do not cite a value for a particular brand, but for various levels or qualities of brand earnings and brand strength, based on industry analyses. In the next step, the market prices established for brand strength and brand earnings are multiplied by the indicators for these determinants already identified in stage 1. The monetary values thus identified for brand strength and brand earnings are finally added together to produce an objectivized, market-driven value for the brand in question.

The monetary values thus identified for brand strength and brand earnings are finally added together to produce an objectivized, market-driven value for the brand.

In the process of establishing the determinants of brand strength, it will also be possible to assess brand status, using BBDO's five-level model as referred to earlier.

In the consumer surveys, a brand's perceived quality is investigated by obtaining consumer judgments on their sense of functional risk when they purchase the product concerned. If this functional risk is judged to be low, this allows the conclusion that the quality of brand X is high, qualifying it for at least **level one** in the BBDO model.

During the brand-knowledge portion of the consumer survey, unaided awareness of brand X, built up chiefly via advertising and distribution, is recorded. In this context, one is seeking to discover whether the brand has attained a certain level of familiarity that can be considered the "critical mass" of market awareness (the "quantity problem"). Once brand X is perceived by an appropriate number of consumers as familiar to them, it will be ranked at least on **level two** of the brand development model.

Similarly, brand positioning can be more precisely assessed by consumers' judgments relevant to the brand's cognitive and emotional characteristics. If the brand is in some way embossed in consumers' minds and its positioning well-defined, it assumes its own personality, and is then located on **level three.** Whether the brand has an established identity, which would place it on **level four** of the brand management model, may be at least partly revealed by the responses regarding its prestige value. If consumers believe that brand X offers them a high prestige value – that is, the brand helps them to make a good impression in the social arena – the brand's identity can be assumed to be established, and the brand also functions as a creator of identity.

This procedure, then, allows those responsible for brand management both to value a brand and at the same time to establish its status and identify potential for ongoing brand management.

Although the mechanism described here comes closest to meeting the list of requirements presented earlier, it too has a number of aspects giving rise to criticism.

The explicit call for the model to take into account the particular purpose of the valuation has only actually been fulfilled implicitly, via the expert opinions on market prices. The criticism that determinant factors are sometimes subjectively chosen also applies to this model. Further, it suffers from another problem inherent in composite models, namely conflation of the input and output levels: The drivers of brand earnings may, in fact, also be consequences of the brand's value. Another problem is that the model still needs to be fleshed out in detail, which means that it is too early to judge the relevance of such an extensive model to practical needs, or its functionality when in use.

Summary:

It is widely recognized that the brand has developed into one of a company's most important assets, which makes effective management of the brand a key factor in corporate success. The development and long-term enhancement of brand strength has been identified as a target function in brand management, allowing brand equity, and hence the company's enterprise value, to be increased for the long haul.

To pursue this objective efficiently, the first step that needs to be taken is to gain a clear picture of the status of the company's brand. Then it will be possible to identify where the greatest leverage can be obtained in developing the brand. This can only be achieved with a standardized and recognized system of brand valuation, coupled with a mechanism for determining brand status.

There is a need for a new, integrated approach to brand valuation.

The models available to date have not been able to satisfy these requirements fully, though they do in principle allow brands to be valued, with the insufficiencies that have been described. In light of this, there is a need for a new, integrated approach to brand valuation that will comprehensively cover both the business-financial and behavioral aspects of brand equity.

The purpose of the next stage in the process (Volume II), building on the lessons learned so far, must therefore be to develop a general, modular system of brand valuation measures, into which BBDO's five-level model will also be integrated for the purpose of identifying brand status. Then, detailed model requirements need to be worked out, based on a more detailed breakdown of valuation purposes. Finally, these two aspects should be merged to give a purpose-specific, modular system of building blocks for a model that will be valid both theoretically and methodologically.

7. Synopsys of existing brand valuation models

7. Synopsis of existing brand valuation models

7.1. Business finance-oriented models

Business finance-oriented models can be classified according to whether they adopt a bottom-up or top-down approach. In the former, specific brand-relevant aspects are aggregated to form an overall judgment of a brand's value. Such approaches, frequently used for brand valuation, include the cost-oriented, price-oriented, capital market-oriented and earning capacity-oriented methods. Top-down models first take a holistic view of a brand before subsequently endeavoring to place a value on specific attributes such as the process of product branding. This category of global brand value measurement includes such approaches as conjoint analysis.[6]

7.1.1. Capital market-oriented brand valuation (Simon and Sullivan)

As seen by the theory of markets, any brand can be assumed to be worth the maximum amount a purchaser would be prepared to pay to acquire it. Thus from a **financial markets perspective**, brand value (or "brand equity") can be calculated from a company's **stock market capitalization or market value**. The model is based on the idea that the stock price of a "brand company" will perform so as to reflect the future potential its brands provide. In the case of a single-brand company, brand value will therefore consist in the company's capitalized or realized market value (stock price x number of shares) minus its tangible and its remaining intangible assets; if a company has more than one brand, the calculation is done pro rata for each brand's share of total revenues or profits.[7]

This approach was pioneered by *Simon* and *Sullivan*, who defined brand equity as the present value of all future earnings attributable solely to branding.[8] However, it should be pointed out that this method has a number of weaknesses. For example, the events generating market identity need to be readily identifiable marketing measures, and the market needs to be transparent. If the information influencing brand equity did not filter into the capital markets, or did so only slowly, it would be impossible to attribute stock market movements to changes in brand value, thus undermining the fundamental logic of the model. Another problem is that it can only be used for stock exchange-listed companies. Finally, the approach is best suited to single-brand corporations, because the pro rata method of dividing brand equity among a number of brands can only, at best, be an approximation.

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[6] Cf. Bekmeier-Feuerhahn (1998), p. 68.
[7] The cost of all tangible assets is deducted from the established value of the company. The remaining intangible assets comprise brand value plus the value of other items such as R&D and special industry factors. See also Bekmeier-Feuerhahn (1998), p. 74.
[8] Cf. Simon and Sullivan (1992), p. 29.

7.1.2. Market value-oriented brand valuation

In a **market value-oriented approach**, the value of a brand is established by referring to the fair market prices of comparable brands. The kinds of assets typically valued using a market-value approach include expensive items of personal property such as used automobiles and real estate. Taking the market value of comparable assets as the starting point, the value of the item being assessed is adjusted upward or downward to take account of any of its own specific characteristics that are pertinent to its market value. This approach assumes that a market for brands actually exists, and that transactions have been completed which can offer a frame of reference. In reality, the latter assumption is often not fulfilled because it is difficult to find readily comparable brands, let alone absolute equivalents. On the one hand, the typical lack of transparency in the marketplace makes it difficult to draw meaningful comparisons between brands. On the other, its uniqueness is part of a brand's very essence, so this in itself renders direct comparison impossible, and makes the adjustment of a brand's value based on reference objects into a largely subjective affair, difficult to reconstruct unequivocally. Consequently, objective reference values are rarely available, and the method is not suitable for use as a generally applicable model of brand valuation. Yet another problem is that market prices may not necessarily reflect an individual purchaser's or vendor's sense of a brand's value. Different purchasers, for instance, might be prepared to pay differing amounts as they will not all be subject to the same financial restraints and may be pursuing different objectives and interests when they buy the brand. In sum, the market-value approach appears to be an unsuitable basis for a theoretically grounded valuation of brands. The best it can do is to point up trends in brand values.[9]

7.1.3. Cost-oriented brand valuation (residual value according to investment theory)

Cost-oriented approaches to brand valuation are based on the underlying ideas of the **net asset value approach** frequently drawn upon in the field of corporate valuation. This "reconstructs" the company being valued by aggregating all assets at cost and deducting liabilities to obtain the net asset value. There are two variants to the net asset value approach: Depending on the time perspective chosen, the assets may be valued either at their historic cost or (if the focus is on the present situation) at replacement cost. A historic cost valuation assumes that a brand is an asset based on the resources that have been invested in it. The replacement cost perspective, by contrast, concentrates on what it would cost today to build up an equivalent brand from scratch.[10]

[9] Cf. Sander (1994), pp. 100-101.
[10] Cf. Bekmeier-Feuerhahn (1998), p. 69.

The determination of “residual” value using **investment theory** is one example of a cost-oriented approach. This states the value of a brand as the “residual value” obtained when cumulative brand costs to date are deducted from cumulative revenues attributable to the brand:

$$\mathbf{BV} = \sum_{t_{-x}}^{t_0} \textbf{Brand costs} - \sum_{t_{-x}}^{t_0} \textbf{Brand revenues}$$

In theory, it would be possible to reconstruct valuations using this accounting approach. However, the problem lies in crystallizing out the level of costs and revenues associated with the brand as such.

Cost-oriented approaches are appealing because they use straightforward computations, can be implemented without the need for major personnel and time input, and avoid the difficulties of uncertain forecasting and overvaluation because they focus on net asset value. Nevertheless, they give rise to a number of problems. A fundamental one is the assumption that a brand will be all the more valuable, the more resources have been invested in it. In reality, this link does not apply unreservedly: Some brands are strong despite relatively low investment in them, and these would be significantly undervalued.[11] What’s more, the focus on cost creates an incentive to invest a disproportionate amount in a brand to supposedly enhance its value. In addition, the difficulties in attributing costs to a brand can lead to computational errors and distorted results. Another questionable aspect is the emphasis on replacement cost: Precisely because of the unique positioning implicit in a brand, it is almost impossible to find any other brand truly comparable with it for purposes of establishing its replacement value. Substantial doubt regarding the validity of the results also arises due to the lack of market transparency and a dependence on expert opinions when establishing replacement cost. A key weakness in cost-oriented valuation is that it fails to take account of the future, including the potential further success of the brand, and bases its verdict solely on historical data.
A final point of criticism is that cost-oriented approaches concentrate on inputs whereas the value of a brand ought to be geared to outcomes, i.e. to realized output.[12]

7.1.4. Brand valuation based on the concept of enterprise value (Repenn)

Another of the classic approaches in business economics is that of **enterprise value.** *Repenn* is one of the authors who have applied the approach to brand valuation, computing the “saleable value” of a brand from an underlying value – the cost of creating and maintaining the brand, also adding in development costs, patent fees incurred, etc. – plus the brand’s operational value. The latter, which arises from the ongoing use of the brand, is calculated at 10% of average annual revenues during the past five

[11] Cf. Sander (1994), pp. 98.
[12] Cf. Bekmeier-Feuerhahn (1998), pp. 69 et seq.

years.[13] It is difficult to justify this method of estimating brand revenues as an arbitrary 10% of revenues (the "Repenn factor"). This would imply a 10% brand-induced price premium for the product concerned, yet the premium in reality differs from one brand to another, and there is no empirical evidence that the percentage factor applies (say, as a market average).

7.1.5. Earning capacity-oriented brand valuation (Kern's x-times-model)

Approaches **geared to earning capacity** establish the monetary value of a brand by capitalizing the value of potential earnings. This entails estimating future earnings flows and discounting them to their present value using a predetermined interest factor. Thus, in the case of a brand, its value is established by discounting brand-induced earnings to today's value. The idea of earning capacity value is incorporated into all the models used in practice which apply a multiplier of "x times" earnings or revenue to value brands or entire companies, and also all models using a factor to determine a present value of perpetuity. In the latter case, this factor includes both the market rate of interest and the *x* multiplier for earnings. Thus the value of a company or brand is established by applying multipliers, appropriate to the industry involved, to the earnings or revenues generated by the company or brand.

Kern's earning capacity model values a brand at the capitalized value of the additional future earnings stream created. In fact, the model is based not directly on earnings but on revenues, subsequently building in the assumption that it should be possible to achieve a return on sales in line with the industry average (4–6%). *Kern* also makes brand value a function of revenues in another way, assuming that it will grow along with revenue, but on a decelerating upward curve (using a root function). The model includes a further, market-oriented variable in the shape of a license fee rate to reflect the market power of the brand and its level of protection by intellectual property legislation. The methodology is also forward-looking in that the future revenue stream is discounted for the estimated useful life of the brand:[14]

$$BV = \sqrt[3]{R^2} \cdot L \cdot \frac{q^n - 1}{q^n \cdot (q - 1)}$$

BV = *value of the brand or trademark*
R = *average expected annual revenues*
L = *normal license fee rate in the industry*
n = *number of years' duration for the expected revenue stream (the brand's useful life)*
q = *1+ p/100 (annuity present value factor), where p = the normal imputed interest rate for the country concerned*
c = $\frac{q^n - 1}{q^n \cdot (q - 1)}$ *(capitalization factor)*

[13] License fee income, if any has been earned, is also added to this figure. Cf. Repenn (1998), pp. 36 et seq.
[14] Cf. Kern (1962), pp. 26-27.

The value of a brand in *Kern's* earning capacity value approach consists in the revenues that will be attainable by branding a particular product line. A point of criticism on this model is that there is no proof available to back up the assumption of the decelerating curve for the growth in brand value in line with revenues. The assumption does not appear plausible in theoretical terms either. Although it might be fair to assume diminishing marginal revenues from a brand on the price side, in line with the *Weber-Fechner* law of psychophysics,[15] in reality any substantial increases in revenues are generated by increased sales volume. Growing sales volumes and market share, though, have a highly supportive influence on a brand, so if anything the function relating its value to revenues ought to be progressive rather than degressive. A further problem with the approach is that the estimates of future developments, expert opinions on the license fee rate, the arbitrary determination of a useful life for the brand and the imputed interest rate combine to allow subjective parameters a considerable influence on the final outcome.[16]

On an overall view, the advantage of an earning capacity approach to brand valuation lies in its being future-driven, since the intrinsic value of brands has a strong element of future potential. However, forecasting future income and expenditure streams does involve numerous subjective factors such as what imputed interest rate to use for discounting purposes. In practice the rate normally set is the capital market interest rate on long-dated bonds in the country concerned, modified by certain premiums and discounts. These premiums and discounts, reflecting expectations on profitability, sometimes differ substantially from one another, however.

7.1.6. License-based brand valuation (Consor)

This approach values a brand on the basis of the **license rates** typical of the industry **and earned by comparable brands**. That is to say, it translates the license fees attracted by a reference brand into a monetary value of the brand being assessed. The **brand valuation methodology** developed by ***Consor***, a U.S. consultancy, focuses on brand licensing, and the value calculated is the sum of money another company would be willing to pay either to purchase the brand outright or to obtain a license for it. *Consor* begins by assessing brand strength on the basis of 20 key drivers (or determinant factors) including profit margins, the stage of brand life-cycle reached, the brand's transferability and its international protection. For comparison purposes, the company draws upon a data archive of more than 8,500 actual brand licensing and sale transactions completed in the past. The comparison provides data on the license fees normally obtainable in the marketplace, expressed as a range of percentages of the product's wholesale price. Multipliers are then applied to this information, to reflect the remaining useful life of the brand, annual growth in brand

[15] Cf. Diller (2000), p. 129.
[16] Cf. Herreiner (1992), pp. 38-39.

revenues, current annual sales, and a discount rate as commonly applied. The resulting formula expresses the current brand value as brand cash flow:[17]

$$BV = \left(\begin{array}{l}\text{Average license}\\ \text{fee as a percentage}\\ \text{of the product's}\\ \text{wholesale price}\end{array}\right) \times \left(\begin{array}{l}\text{Remaining}\\ \text{useful life}\end{array}\right) \times \left(\begin{array}{l}\text{Average annual}\\ \text{growth rate of}\\ \text{brand revenues}\\ \text{(percent)}\end{array}\right) \times \left(\begin{array}{l}\text{Current annual}\\ \text{sales, discounted}\\ \text{at a normal rate}\\ \text{over useful life}\end{array}\right)$$

One problem with this methodology is that the license fees recorded are assumed to be an objectively correct quantity. Even though a database of past licensing agreements is used, and even though 20 other key factors are taken into account, it must still be considered extremely difficult to identify a suitable reference brand to provide objective comparability. Moreover, there have to be fundamental doubts as to whether the license fee negotiated in practice, reflecting varying tactics and strategies used by the parties involved, can allow conclusions to be drawn about the intrinsic value of a brand. In fact, the more logical sequence would be to derive the level of license fees from the underlying brand value.

7.1.7. Price premium-oriented brand valuation (Sander, Crimmins, conjoint analysis, Herp)

Price premium-oriented approaches work on the premise that certain characteristics such as brand quality, brand awareness or brand strength will allow a producer of goods or services to command a price premium for its brand. In other words, the brand is seen as generating an additional benefit for the customer, for which he or she is willing to pay a little more. Brand value as expressed in price premiums can thus be measured by comparing the price of a branded product with that of an unbranded one that is identical in all other respects. To obtain total brand value, the unit price differential is multiplied by the quantity sold. In this approach, brand value is regarded as the additional earnings that are achieved as a sole result of the brand being in place.

One particular variant of brand value measurement based on price premiums is ***Sander's* hedonic brand valuation method**. This is based on hedonic price theory, which aims to explain product prices in terms of various product characteristics, or rather the extent to which they are present. Certainly, there is assumed to be a functional relationship between product prices and characteristics. The general form of the hedonic price function is $P(I) = P(I_1,\ldots, I_j\ldots,I_J)$, where $P(I)$ is the price of a product with the characteristic vector I, and I_j is the extent to which the particular characteristic j is present.

[17] Cf. Pimpl (1999), pp. 99 et seq.

If such hedonic price functions can be identified, the price changes can be predicted which will occur if certain product characteristics are altered. These incremental amounts are the hedonic prices of particular product features. In the case of the brand as one such product feature, the final price of the product can be computed both with and without branding, which in turn shows the unit revenue generated by the presence of the brand. This hedonic price for the brand (brand revenue per unit) is determined using multiple regression analysis.[18] When the unit revenue directly attributable to branding is multiplied by the total quantity sold, this gives the brand-specific revenues that would not have been earned without the brand. To establish the actual profit, i.e. net revenue, earned thanks to the brand (its true value added) it is necessary to deduct from these revenues the brand-specific costs, i.e. those that would not arise for an unbranded product. The result is the net income earned by the brand as an intangible asset, or the value of the brand from its owner's point of view:

BV	**=**	**Brand's share of revenues**	**–**	**Brand's share of costs**
Earnings item		Established by hedonic regression		Established by subtracting costs generated by an equivalent non-branded product from those of the branded product

$$\text{Revenue} = a_0 + b_1 x_1 + \sum_{i=2}^{I} b_i x_i$$

x_1 = Brand
x_i = All other beneficial features
b_1 = Hedonic coefficient for the brand
b_i = Coefficients for the other features

Sander believes the advantage of his method lies in its universal applicability, which means it can be used equally well to value domestic or international brands, in services, consumer goods or capital goods.[19] The problem with the method, however, lies in how to identify brand-induced costs, particularly how to demarcate between the costs generated by a branded product and general marketing costs. *Sander's* method defines brand-related costs simply as the cost of developing trademarks, labeling the trademark protection, etc., and completely excludes ongoing marketing activities such as advertising, sponsoring, public relations, POS activities etc., which in fact are also involved in generating brand value.

Another price premium-oriented approach is adopted by ***Crimmins' model of brand measurement***. *Crimmins* points up three dimensions of brand value: the actual *amount*, the *breadth*, i.e. the number of product categories in which the brand can generate added value, and the *content* of brand value, or the associations conjured up by a brand which are the *cause* of its added value.[20] In measuring the *amount* of value added by a brand, *Crimmins* assumes this can be established by raising or lowering the price of the branded product under examination until the point is reached where consumers are indifferent between it and a competing product.

[18] On this, see also Sander (1995), pp. 78-79.
[19] Cf. Sander (1995), p. 79.
[20] Cf. Crimmins (1992), p. 16.

The remaining differential between the prices of the two products is the price premium. For example, if two branded products are equal in terms of consumer preference when Brand A costs € 1,80 and Brand B € 1,50, the added value implicit in Brand A is 20%.[21] Thus the *amount* of value added per unit of the branded product is derived from the price differential relative to a reference competing brand when consumers have no preference between the two.

A similar procedure is used to measure the *breadth* of brand value, i.e. to determine the value of a leading brand in one category when it is transferred to another. The reference brand used in this further category is the market-leading or no. 2 brand in that specific market, and again, the price differential remaining when preferences are equal is the yardstick used.

Crimmins also suggests that longitudinal studies should be carried out to identify the determinants of brand value. This proposal focuses on the *content* and the sources of brand value. “Because it is relatively easy and inexpensive to measure the *amount* of value [our italics] added by our brands in this way, we should be tracking the value added over time to better understand the conditions that cause value to increase or diminish.”[22] In *Crimmins’* view, measuring brand value ought to be part and parcel of brand management and monitoring. Should brand value change, those responsible for managing the brand may need to take action to steer it in the direction they want.[23]

The comparative simplicity of *Crimmins’* approach (as compared to *Sander’s* rather laborious method, for example) is a positive feature. However, this structural elegance is also accompanied by severe deficiencies in the measurement concept. One weakness is that brand value is established as a relative value, even though many of the purposes for which brand valuations are carried out call for an absolute value. A further problematical aspect is that the measurement of brand value rests upon consumers’ statements of their willingness to purchase at particular prices, despite it being common knowledge that there is often a rift between consumers’ stated intentions and what they really do. However, the key criticism of *Crimmins’* approach is that it does not take account of differences in product characteristics. Differences in the prices consumers are willing to pay is due in the real world to the fact that besides their brands, products also have different features, or carry certain features at different levels. As a result, this method does not properly filter out a pure brand value, but conflates it with the assessment of other qualities that differ between the products under comparison.

All in all, the price-oriented approaches make intuitive sense, are straightforward to use and are comprehensible in practical terms. However, they raise problems insofar as they only take price and cost data into account

[21] Cf. Sander (1994), pp. 95-96.
[22] Crimmins (1992), p. 19.
[23] Cf. Sander (1994), pp. 96-97.

and fail to consider "the many facets of the brand value phenomenon."[24] What's more, the price premium approach can only be applied if there is a real unbranded equivalent to the branded product actually available. If not, researchers face the difficulty of defining a zero or index point as a benchmark. However, the prime criticism of this methodology is directed against the assumption that there is a direct link between the price premium commanded by a product and the influence of its brand. This is not unreservedly true, as the price may also carry other aspects such as strategic intentions – generally manifested in market-share dynamics – so consequently, a price premium-oriented approach is not the method of first choice.

Conjoint analysis can also be regarded as a price premium-oriented approach to brand valuation, but this time on a top-down basis. Starting out by identifying global preferences regarding product concepts, conjoint analysis aims to derive the specific utility values for particular levels of features which go to make up the global preferences. Thus brand valuation by conjoint measurement establishes the influence of different product features on the preferences expressed by consumers for a product. The required data are obtained by means of interviews or forced choice experiments. Customers' overall willingness to pay for a product is used to identify their willingness to pay for specific product features, one of which is the brand itself, the value of which is ascertained as a result.

BV = Price premium commanded by brand x Sales volume

Earnings item: computed using conjoint analysis

$$\text{Purchase preference} = b_1 \cdot x_1 + \sum_{i=2}^{I} b_i \cdot x_i$$

(measured as a used ranking, switched, evoked set etc.)

Symbols $b_i \cdot x_i$ etc. are used as in the hedonic model

There are evident parallels between conjoint analysis and hedonic price theory, since both focus on a supposed link between product prices and product features that will allow the former to be explained by the latter, each product feature having a calculable value. However, a key difference is that the hedonic approach does not use survey data as conjoint analysis does, and concentrates instead on price differentials between products.

***Herp's* approach** builds upon the methods of conjoint measurement. In this model, brand value is defined as the sum of all incremental revenues earned as a result of branding a company's products, as *Herp* hypothesizes that product branding will impact the company's sales success.[25] The approach therefore endeavors analytically to filter out brand-specific effects as a certain proportion of a product's sales, by drawing upon conjoint

[24] Heider and Strehlau (2000), p. 504.
[25] Cf. Herp (1982), p. 3.

analysis to break down revenue differentials between product variants into utility values, and then calculating the effects of different product feature profiles and variants to establish the net impacts of pure branding. So this methodology does provide information on what price and revenue effects are attributable entirely to brands. The results are expressed as a consumer-specific utility of a brand relative to the product's price. The value of the brand is obtained when this is multiplied by the total quantity of the product sold.[26]

One disadvantage of *Herp's* approach is that it only calculates a relative brand value. This is because of the link established between the relative share of the product price attributable to the brand on the one hand and relative sales results on the other. The benchmark used in this method does not consist in the sales of unbranded products but in those of other branded ones. Thus the value differential established is merely a floor amount for the ultimate value of the brand "which will be all the closer to [its] full value, the lower the absolute brand value of the reference brand."[27] Another difficulty is that *Herp's* model can only be applied when the brands under scrutiny belong to the same product category and there is little difference between the products in terms of their objective features.

In general terms, an advantage of conjoint analysis is its objective determination of the utility of a brand, since consumers' judgments are not subjected to any external distortions such as those that occur when criteria are imposed or weighting coefficients used. However, a weakness of the approach is that it does not take account of forward-looking aspects.[28] Moreover, the fact that conjoint analysis aggregates specific utility values means that these specific feature profiles have to be independent of each other. There must not be any other cross-influences between the brand, the other product features and the product price. This requirement is unrealistic, given that branding exerts a substantial influence on the perception of other features, due to halo and irradiation effects.

7.1.8. Customer-oriented brand valuation

The **brand valuation approach based on customer contribution margins** focuses on the fact that some products and services generate firm customer relationships for an enduring period because they function as a system, and as a result repeat purchases are not subject to any new purchasing decision. The underlying assumption of this approach is that a brand's purchasers are the ultimate generators of value, since their decision to commit themselves to a product system determines the level of future earnings. Consequently, the earning-capacity indicator used by the model is not annual net income but the average customer contribution margin attained by a product and the churn rate in the customer base. The churn rate is a key

[26] Cf. Heider and Strehlau (2000), pp. 507-08.
[27] Herp (1982); pp. 141-42.
[28] Cf. Herreiner (1992), p. 58.

parameter, since the strength or ratio of customer commitment is the competitive factor that will determine the level of future earnings promised by a newly acquired customer ("customer value").[29] Brand/customer value is a function of the following quantities:

BV = ƒ (customer contribution margin, initial customer base, churn rate, interest rate, time)

The computation of customer value incorporates continual discounting of all future customer-specific revenues, and can be formally presented as follows:

$$(1) \qquad \pi = \int_0^\infty e^{-it}(p-c) \cdot x(t,r)\,\partial t$$

Assumption: The brand will lose a certain percentage "g" of its customer base (churn rate) in each period, which is formally expressed thus:

$$(2) \qquad \frac{\partial x}{\partial t} = -gx$$

Substituting for *g* with the customer loyalty ratio *r* from the equation g = 1–r and resolving the differential equation in (2) under the initial condition that x(0) = br after x(t), the development of the customer base can be expressed as follows:

$$(3) \qquad x(t,r) = bre^{(r-1)t}$$

When this is inserted into (1) and the determinate integral solved, we obtain the following simplified formula for customer value:

$$\pi = \frac{(p-c)br}{(1+i-r)} \quad \text{mit } r-i \neq 1$$

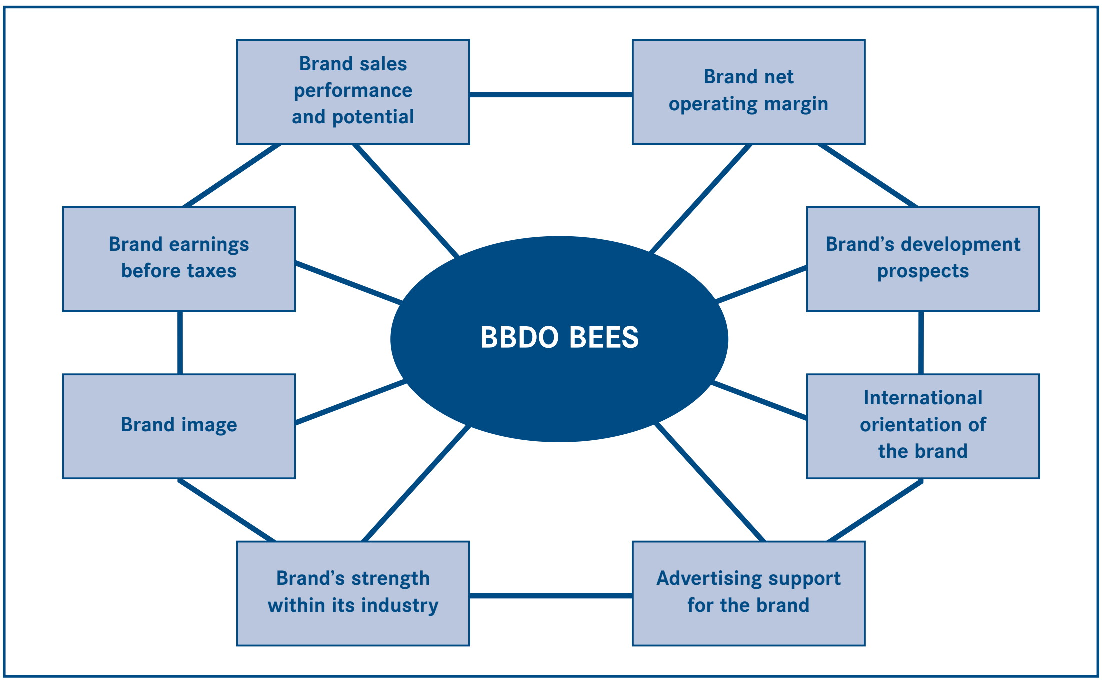
π = customer value
i = perpetual interest rate (capital market yield)
p – c = customer contribution margin
x = customer base
t = time
r = customer loyalty ratio
b = size of initial customer base
g = churn rate

7.1.9. BBDO's Brand Equity Evaluation System (BEES) ranking

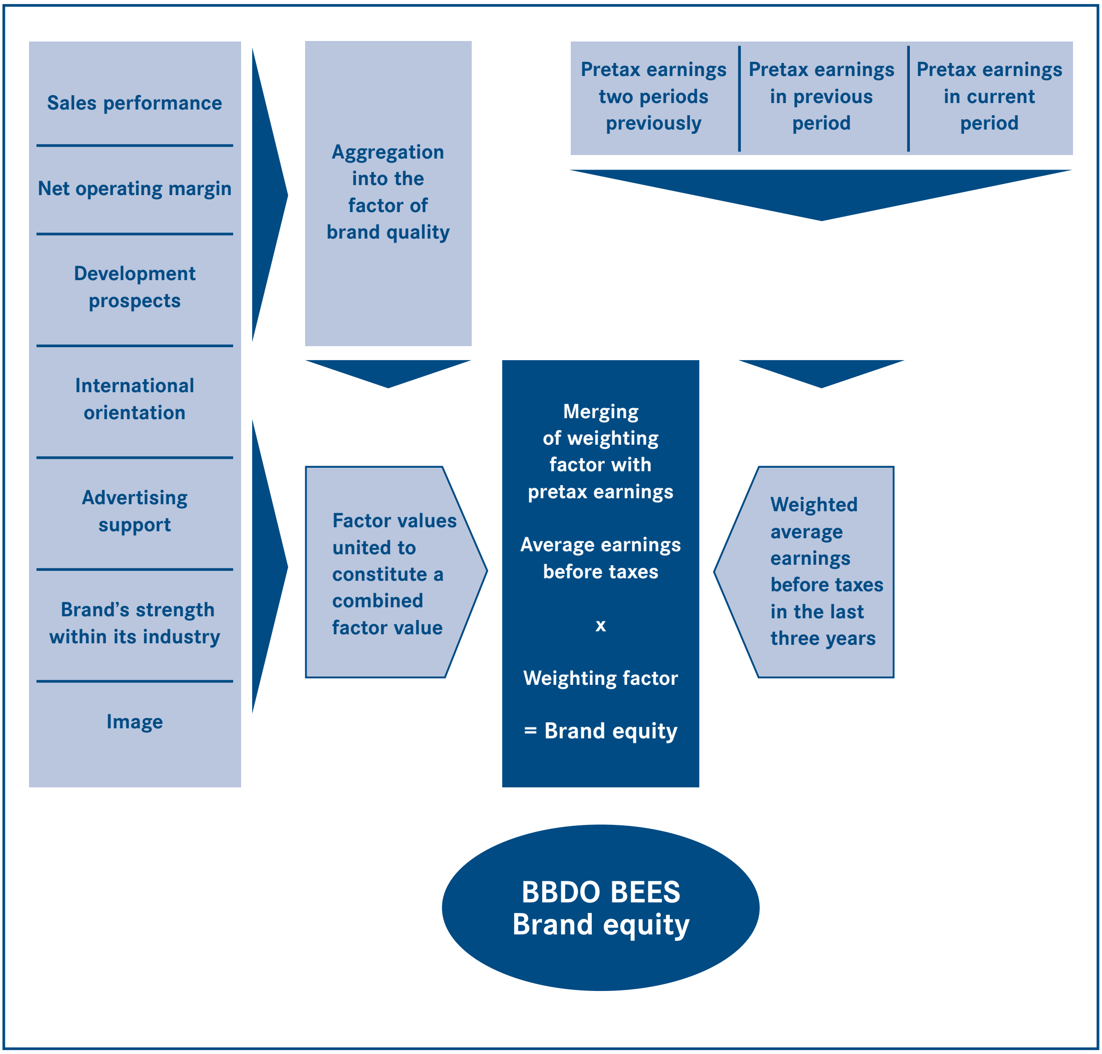
The **Brand Equity Evaluation System (BEES)** by *BBDO Consulting GmbH*[30] is a multi-phase factor model of brand valuation which takes account of differences between industries. In the first step, the model identifies eight determinants of brand equity as outlined below. A **brand's sales performance** also serves as an indicator of its future sales potential; for this determinant, specific factor values are also obtained from outside the industry. The second indicator, net operating margin (i.e., percentage return on sales),

[29] Cf. Fischer, Hermann and Huber (2001).
[30] Cf. BBDO Consulting GmbH (2001), pp. 13 et seq.

is calculated as an average value over the preceding three years; this gives an idea of the true worth of the revenues earned. The next determinant, the **brand's development prospects**, uses analysts' opinions on the prospects for the industry as a metric for the brand's future value potential. In addition to this view of the immediate market segment, analysts' opinions of overall economic prospects are also factored in. The **international orientation of the brand** records the proportion of revenues earned abroad and offers a perspective on the brand's potential for international development. **Advertising support for the brand** is operationalized on an intra-industry basis, measuring the percentage of pretax earnings spent on advertising. The **strength of the brand within its industry** measures sales relative to those of competitors; the benchmark used is the sales figure for the market's leading brand producer. **Brand image** encapsulates the brand's attractiveness to stakeholders, and is assessed taking a broader sweep beyond the brand's own industry. The final determinant comprises **earnings before taxes in the past three years**, to act as an indicator of the brand's value potential.



The actual valuation proceeds in several stages. First, the determinants that constitute the brand environment – sales performance, net operating margin and development prospects – are aggregated and consolidated into a joint factor of brand quality, the subcriteria within the contributory factors being weighted appropriately when the calculation is made. Then the new brand quality factor is channeled together with the remaining four weighting factors to form an overall factor value, which will subsequently be used as a multiplier of earnings before taxes. The monetary value of brand equity is the product of the average pretax earnings in the last three years and this combined weighting factor. Earnings *before* taxes have been explicitly chosen for the model, to avoid any possible distorting influences on the value of a brand that might come from the current tax system, and to establish the model on a more uniform financial basis. In addition, when average earnings are calculated, the model takes account of the fact that more distant past earnings are less significant than more recent ones by weighting them accordingly. The processes involved in implementing the BEES model are summarized in the diagram below:



An advantage of the BEES approach is that it differentiates between industries. This is especially important with regard to advertising support for the brand, which varies hugely from industry to industry, and a failure to take this into consideration would substantially distort the results. The approach also incorporates an extensive selection of relevant determinants of brand equity, and it can be added to by adapting and integrating other appropriate metrics. A further benefit is that it takes forward-looking variables into account to establish the brand's development potential and prospects. Finally, the BEES brand valuation procedure is easy to work with and relatively economical to use, as the data required to do the calculations are normally readily available and easy to access.

However, there are also some points of criticism. Firstly, like other methodologies, BBDO's BEES approach is unable completely to rule out subjective influences in the choice and weighting of factors. Secondly, the model's main drawback at present is that BEES can only value corporate brands. However, it could conceivably be evolved and adapted to allow product brands to be evaluated also.

7.2. Psychographic or behaviorally-oriented brand valuation models

Some ten years ago, criticism grew louder among both marketing practitioners and theoreticians that financial models were failing to do complete justice to the essential qualities of strong brands, since they concentrated on quantities such as stock market capitalization, earning-capacity value, license revenues, acquisition costs, price premiums or the customer contribution margin. This gave rise to new concepts incorporating brand strength as a demand-oriented component. Behavioral valuation methodologies, for example, focus on consumer judgments and investigate brand value as an essentially qualitative construct, but one that can be made manifest using scoring techniques. They endeavor to explain what goes on in customers' or potential customers' "hearts and minds" and what determines the value of brands from their point of view.

7.2.1. Aaker's brand equity approach

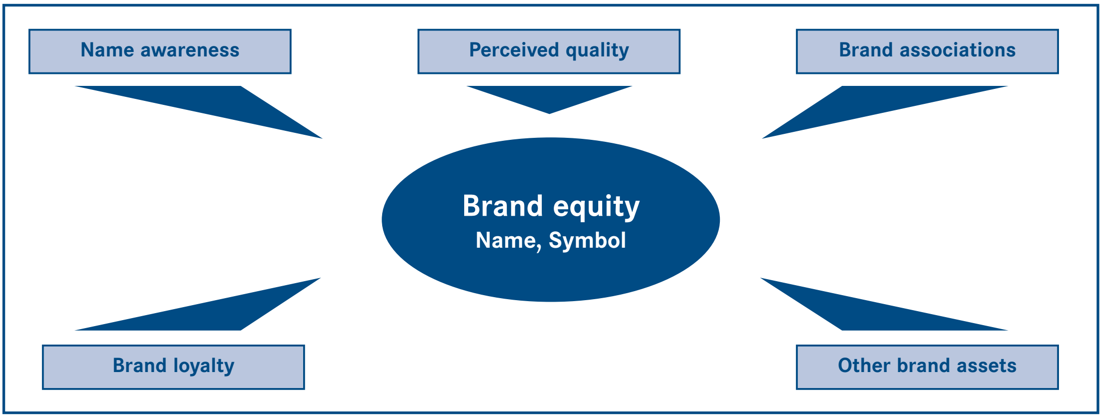
Among the best-known theoretically oriented concepts in this field is that of ***Aaker***. *Aaker* regards the brand as a symbol associated with a large number of mental assets and liabilities that serve to identify and differentiate products. He defines brand equity as "a set of assets and liabilities linked to a brand, its name and symbol, that add to or subtract from the value provided by a product or service to a firm and/or to that firm's customers."[31] Aaker identifies five determinants of brand equity: brand loyalty, brand awareness, perceived quality, brand associations and other brand assets.

- Brand loyalty lies at the heart of a brand's value. This loyalty shows through, for example, in repeat purchasing and hence in relatively stable brand revenues.

- Awareness of a brand name may be a precondition for the product even entering into the frame for a purchasing decision. What's more, people

[31] Aaker (1991), pp. 15-16.

tend to feel happier with things that are familiar to them, so they are more likely to associate quality with names they know than with others they don't.



- *Aaker's* next determinant is "the customer's perception of the overall quality or superiority of a product or service with respect to its intended purpose, relative to alternatives."[32] From the customer's viewpoint, high perceived quality may be a precondition for making the purchase, while for the producer it may mean being able to command a price premium for the branded product.

- Brand associations are characteristics that consumers attribute to the brand. These are primarily conveyed by advertising, but need not be related to the product itself. These associations may enrich the brand with new perceived characteristics to generate additional benefit, providing customers with a positive feeling of, say, security, confidence or exclusivity, which in turn will boost brand equity.

- The other brand assets consist in legal and institutional benefits which a brand can offer and which protect its value. These include the protection of the trademark, markets and distribution channels afforded by legislation covering intellectual property rights.[33]

Aaker's model is an oft-cited conceptual approach seeking to highlight the determinants that build brand equity from a consumer's perspective. From a measurement point of view, though, the approach is problematical insofar as the determinants are not mutually independent. Quality, for example, is partly also a function of awareness, associations and loyalty. Moreover, the factors *Aaker* has identified are not only determinants but also outcomes of brand equity, so in this respect they intermix the input and output stages of a brand equity production function. *Aaker's* approach also takes no account of the requirements posed by sound measurement techniques, and the information is lacking to place any numerical value on particular dimensions of the model. Although quantities from business

[32] Aaker (1991), p. 85.
[33] On the factors influencing brand equity, see also Schlaberg (1997), pp. 184 et seq.

economics, such as high profit margins, are implicitly postulated as outcomes of positive brand equity, the psychographic phenomenon is not transformed into any monetary equivalent.

7.2.2. Kapferer's brand equity model

***Kapferer's* brand equity model** is built on an underlying assumption that the value of a brand lies in a tacit contract between the brand and its customers, "trading" a seal of quality for automatic repeat purchasing. The brand name generates utility by reducing transaction risk for the producer and consumer alike. According to *Kapferer*, "brands identify, guarantee, structure and stabilise supply. They draw their value from their capacity to reduce risk and uncertainty."[34] The contract between customer and brand generates financial rewards for the producer while it reduces the customer's cost of obtaining security. The consumer and his/her purchasing behavior take center stage in *Kapferer's* brand system. Advertising and point-of-sale product presentations incite the customer to try out the brand. Depending on his/her experience with this purchase, and the quality and price of the branded product, this may generate a habitual purchasing decision, or a brand preference, which will be manifested in repeat buying. The brand's market share, which according to *Kapferer* correlates positively with brand earnings, is primarily determined by the number of consumers loyal to the brand. Brand earnings "derive from an increment in demand compared with that of a generic product, or from reduced production and distribution costs resulting from overall savings and productivity gains based on the experience curve."[35] If the brand earnings are reinvested, e.g. in marketing, R&D and productivity increases, this may well strengthen the brand system by firming up existing contracts and creating new ones, thus further enhancing brand equity and establishing a virtuous circle.[36]

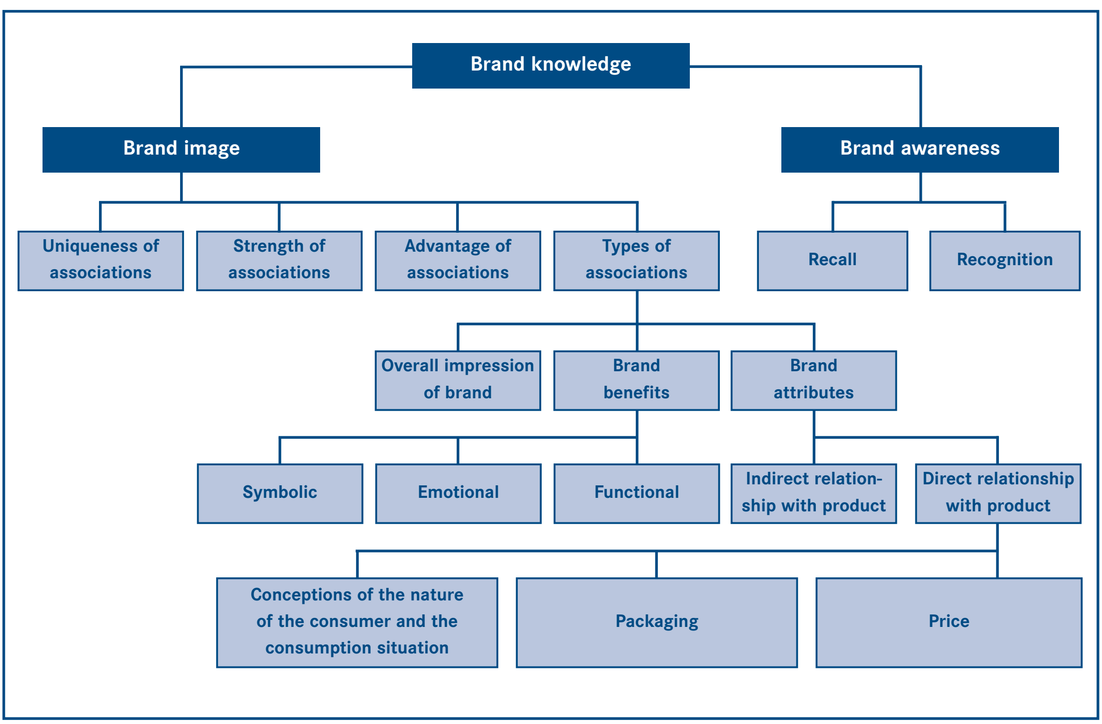
As in *Aaker's* model, brand equity is a result of consumers' changed purchasing behavior. However, in contrast to Aaker, who attributes this change to brand loyalty, *Kapferer* proposes that it is due to a reduction of purchase risk. A feature both approaches have in common is that they do not put their hypotheses to any empirical test. An interesting point to note about the building of value in *Kapferer's* approach is that it occurs in a system that involves positive feedback. Reinvested brand earnings also create increased long-term financial earnings, establishing a form of perpetual motion via brand management. However, the model does not consider changing consumer values, competitors' strategies or other factors that can have a retarding effect on brand equity growth. Certainly, though, a positive feature is that the model clearly demarcates its determining factors and outcomes, thus ensuring it is functionally logical.

[34] Kapferer (1992), p. 10.
[35] Kapferer (1992), p. 191.
[36] On Kapferer's brand system, cf. also Schlaberg (1997), pp. 186 et seq.

7.2.3. The Keller brand equity approach

Another psychographic approach is ***Keller's* technique for determining brand equity**. *Keller* operates on the assumption that consumer-oriented brand value – which he calls "customer-based brand equity" – is tied to knowledge of the brand and based on comparison with an unbranded product from the same product category. He defines brand value as "the differential effect of brand knowledge on consumer response to the marketing of the brand. That is, customer-based brand equity involves consumers' response to an element of the marketing mix for the brand in comparison with their reactions to the same marketing mix element attributed to a fictitiously named or unnamed version of the product or service."[37]

According to *Keller*, brand knowledge comprises brand awareness and brand image. Brand awareness can involve either brand recall (unaided) or brand recognition (aided). Brand image is shaped by numerous associations made with a brand that are interconnected via a semantic network. *Keller* characterizes these associations in terms of type, advantage (i.e. consumer satisfaction with and positive overall image of a brand), strength and uniqueness. Distinctions can be made between the various types of associations as regards brand properties, brand benefits and overall impression. Brand properties encompass product-related properties (for instance, price and packaging) as well as those with an indirect relationship to a product. Depending on specific user needs, the benefits of a brand can be functional, emotional or symbolic. Ultimately, the overall impression made by a brand is determined by consumer attitudes.



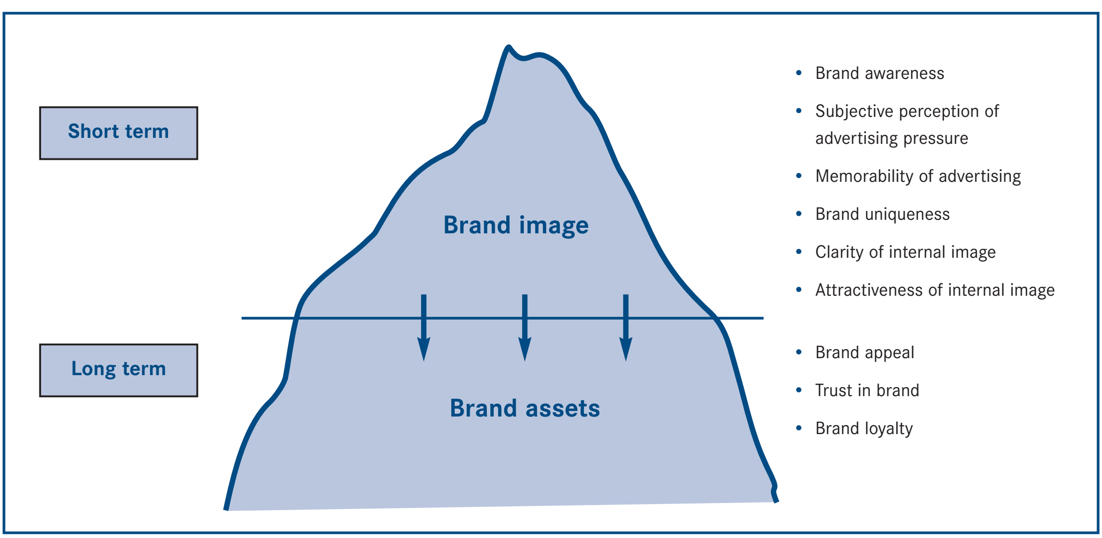
[37] Keller (1993), p. 2.

Keller's model approach has drawbacks similar to those directed at *Aaker's* concept. Though *Keller* does offer an analytical and conceptual description of brand equity development, the approach lacks a firm theoretical foundation. Moreover, in view of the 14 identified drivers, the interdependence problem grows considerably. In addition, it remains unclear how qualitatively based brand evaluation can be converted into monetary units. Overall, it must be noted that *Keller's* system is a conceptual strategy for brand appraisal that remains as yet unconfirmed by empirical evidence.[38]

7.2.4. The icon Brand Trek approach

The ***icon* Research and Consulting Brand Trek approach** is yet another (partial) model for determining brand value based purely on the tenets of behavioral science.[39]

According to this model, brand strength – i.e. brand value – is derived from brand image and brand assets. The model is often also referred to as the "brand iceberg" model, which visualizes the value of a brand using the analogy of an iceberg. Brand image constitutes the components of a brand that are "visible" to consumers, i.e. the short-term measures in the marketing mix – such as product and packaging design, advertising, promotions, events, etc. – that are perceived by buyers. Brand image is shaped by brand awareness, the clarity and appeal of internal brand image, the distinctiveness of brand identity, the lasting impact of advertising and advertising pressure as subjectively perceived. The brand assets make up the portion of the iceberg that is "under water". They represent longer-term changes in consumer attitudes and also include earlier investments in the brand that exist beneath the surface more or less as assets. The brand assets encompass brand appeal and trust in the brand (brand loyalty).[40] Internal brand value is thus the sum of internal brand image and brand assets.[41]



[38] Cf. Bekmeier-Feuerhahn (1998), pp. 95-96.
[39] The brand valuation model is often referred to as "brand status". Cf. Drees (1999), p. 20.
[40] Cf. Andresen and Esch (1999), p. 1013.
[41] Cf. Andresen (1991), pp. 31-32.

The contribution made by both dimensions to determining brand value depends on the age of the brand. For example, the brand assets of new brands are not as well developed as those of old ones. According to *icon's* concept, though brand assets do have a more direct connection with the success of a brand, they can only be influenced via brand image. The identified brand values for the individual indicators making up the brand iceberg can be compared using *icon's* database, which contains corresponding reference values for the respective sector or product area. This system offers an indication of the realms in which a brand will be perceived more positively or less positively than the industry average, making it possible to benchmark.[42]

Several aspects of the *Brand Trek* approach are also problematic. First of all, the method does not allow absolute brand value to be determined, only relative value. The reference points for comparison are not the brand image and brand assets of unbranded products, but rather of other branded items. Brand value determined in this way can serve only to delineate a floor for brand value. The lower the absolute brand value of the reference brands, the more the floor approximates real value. As the example of *Herp's* concept has already shown, this result cannot be termed very satisfactory if the aim is to attain brand valuations of universal utility. Secondly, the component values may not be combined to determine brand value due to the postulated interdependence between brand image and brand assets. In addition, the issue of brand comparison invites the question of whether differences in strength between brand image and brand assets can be offset. Thus, it hardly seems possible to definitively determine the impact on brand value of brand image and brand asset indicators. Another questionable point is whether the specific brand value is a purely brand-driven value or whether it is actually a product-driven value. Finally, it must be emphasized that, while the *Brand Trek* approach is based on principles of behavioral science and focuses on a qualitative analysis of brand value, it does offer a limited gauge of brand value, including at least relative score values.[43] The exact methodology of this brand valuation system is outlined in section 7.3.4. along with the **Brand Rating Model**, which incorporates the “iceberg” model.

7.2.5. Young & Rubicam's Brand Asset Valuator

The **Brand Asset Valuator** developed by the *Young & Rubicam* advertising agency is an international brand appraisal system based on the principles of behavioral science. Like the *Brand Trek* approach taken by *icon*, this model is meant to support brand management, which is why it does not determine monetary brand value. As *Young & Rubicam* sees it, brand value rests on four pillars: differentiation, relevance, esteem and knowledge. “Differentiation measures how distinctive the brand is in the marketplace,

[42] Cf. Esch (1999), p. 986.
[43] Cf. Bekmeier-Feuerhahn (1998), pp. 98-99.

... relevance measures whether a brand has personal relevance for the respondent, ... esteem measures whether the brand is held in high regard and considered the best in its class, ... knowledge is a measure of understanding as to what a brand stands for ...".[44] Determining the components mainly involves conducting consumer surveys, asking respondents to evaluate various elements connected with the brand. The model clusters the components of differentiation and relevance to brand strength, which is a key indicator of a brand's future development. The components of esteem and knowledge make up brand stature, which stands for a brand's presence. Thus, Young & Rubicam sees brand value as a function of brand strength and brand stature:

$$\mathbf{BV = f} \left\{ \left[\textbf{Brand strength (differentiation, relevance)} \right] \textbf{ and } \left[\textbf{brand stature (esteem, knowledge)} \right] \right\}$$

Fifty-two criteria are analyzed to determine what the individual components are and what they add up to. However, nothing is known about the configuration guidelines, i.e. which individual criteria within the components are ascertained and how these values are combined. Finally, the brands analyzed using the Brand Asset Valuator are graphed as points within a four-field matrix known as the "Power Grid" based on their brand strength and brand stature.[45] However, this model also fails to convert the resulting brand values into concrete monetary terms.

7.2.6. The Emnid/Horizont Brand Barometer

Brand valuation using the **Emnid/Horizont Brand Barometer** is yet another psychographic system. This approach assesses brands using a preference barometer on a scale ranging from below average to above average. The following criteria are used to determine brand preference: unaided brand recall (doubly unaided survey), aided brand recognition (by name only), aided advertising recognition (advertising recently seen), relevant set (aided question about brands in question), trial purchase (trial purchase already made), principal brand (brand currently purchased) and appeal (unaided appeal set). However, it is not known how these criteria are weighted in brand valuation. As with the other behavior-based models, the Brand Barometer does not yield monetary brand values that are anchored, absolutely or otherwise. The preference barometer allows the value of a brand to be determined only relative to the other brands studied.

[44] Aaker (1996), p. 304.
[45] Cf. Drees (1999), p. 21.

7.2.7. The McKinsey brand valuation system

McKinsey's method for determining brand value operates on the assumption that brand strength is definitively quantifiable. However, the system does not determine aggregate brand value, but rather quantifies as target values four individual benefit components of brands from a brand management perspective and can be viewed as a model based on behavioral science only in terms of the drivers (the three P's of the brand). The benefits of a strong brand are expressed, for instance, in larger market share in the long term (e.g. *Persil, Lufthansa*), a higher attainable price premium (e.g. *Porsche*), lower marketing costs per sale as the result of brand loyalty (e.g. *Mercedes*) and higher leverage potential via transfer, extensions and licensing (e.g. *Nivea, Disney*). These individual dimensions are used to analyze and measure brand strength, eliciting a profile of strengths and weaknesses and indicating the brand's potential for developing into a power brand.[46]

McKinsey defines the three P's of the brand – performance, personality and presence – as the key determinants of such a power brand. Performance, i.e. the product's ability to deliver, is an indispensable prerequisite for a strong brand. A clearly differentiated benefit pledge and its consistent implementation above all in advertising (e.g. *Porsche, Nivea, Magnum ice cream*) help make brand performance visible to consumers. The second characteristic of a power brand is brand personality. A brand must be expressive and "stand for something," as *Marlboro* stands for freedom and adventure. This is possible only by way of a consistent benefit pledge and advertising pursued consistently over many years, with only cautious fine tuning of the way in which the brand is depicted. Ongoing relaunches and agency or management changes are extremely damaging to the development of brand personality (e.g. *Apollinaris, König-Pilsener*). The third attribute of a strong brand is presence. A power brand is characterized by an ongoing, towering presence, ubiquity, innovation in advertising materials, and an up-to-the-minute, contemporary image (e.g. *Nokia, Langnese*).

McKinsey supposes that the quantitative brand strength values are a function of the three P's:

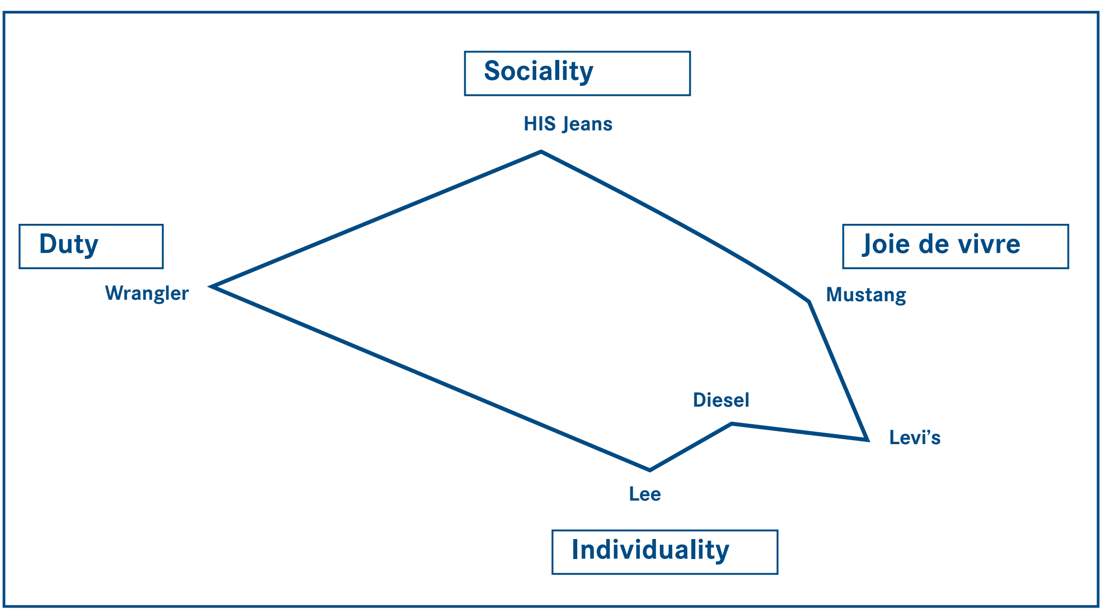
Quantitative brand strength elements	**=**	**f (the 3 P's of a brand)**
• **Sustainably higher market share**		• **Performance**
• **Higher enforceable price premium**		• **Personality**
• **Lower marketing costs per sale, e.g. through brand loyalty**		• **Presence**
• **Higher leverage potential through transfers, extensions, licensing**		

46 Cf. Riesenbeck (2000), pp. 10-11.

It must be noted that, while McKinsey's system for brand appraisal postulates individual brand strength values and designates them as quantifiable, it does not offer any information on the functional context or global brand value. Moreover, it is not clear whether the three P's truly encompass all relevant drivers of brand strength or whether there are others. It is, for instance, conceivable that pithiness could be considered a "fourth P" indicating the extent to which brand image is differentiated and delineated.

7.2.8. Psychometric brand positioning models (Emnid/Horizont)

We will turn briefly to the last type of model driven purely by the principles of behavioral science: **psychometric brand positioning models**, illustrated here by the example of the ***Emnid/Horizont*** sociometric model. The psychometric and/or sociometric approach gauges fundamental sociocultural and psychological positions via spatial reconstructions of conceptual environments. The varying value contexts of individual target groups are expressed in specific fundamental attitudes that can be tied to concepts. This allows the fundamental attitudes of target groups to be gauged by how they judge certain words. The results of each sociometric survey are depicted via the mapping process, known in marketing theory as spatial or positioning models. The basis for this is a sociometric positioning method such as factor analysis or multidimensional scaling. In terms of brand valuation, this means that brands are allocated to a sociometric realm according to dimensions such as sociality/individuality and obligation/joie de vivre. The psychological spatial model is reconstructed based on consumer responses.



The fundamental sociocultural attitudes and values predominant in the target group surveyed (e.g. a more individualistic culture with a strong sense of duty or a social culture characterized by marked joie de vivre) provide the basis for the brand preference dimensions. A brand's positioning is determined by the way it combines fundamental attitudes and mindsets – in the case of *Levi's*, for instance, this would be a combination of individuality and freedom.

The behavioral models presented here – with psychographic values such as awareness, purchasing intention, relevant set, top of mind, image/personality associations, appeal, product performance, consumer relevance, uniqueness, expressiveness of the brand symbol and recall value – must be integrated with the purely business-financial approaches. The following composite models are dedicated to this consideration.

7.3. Composite business financial/behavioral models

A third group of marketing-oriented brand value measurement indicators has established itself parallel to the focus on psychographic values. These indicators depict the status of a brand on the market as the result of consumer buying patterns. This further supports the focus of brand valuation on financial and/or management-related factors and essentially creates a third level within a phased concept of brand creation. These values for consumer-based market penetration include such dimensions as market share (quantity, value), trial-buyer share (per period, cumulative trial-buyer rate), brand loyalty (repeat purchase rate, brand loyalty rate), buyer share for the brand, purchasing volume per buyer index (usage intensity) and the price index as check and balance for quantity values. The composite models include variables for the earning-power status (3rd level), market status (2nd level) and psychographic status (1st level) of a brand.

7.3.1. The Interbrand brand value approach

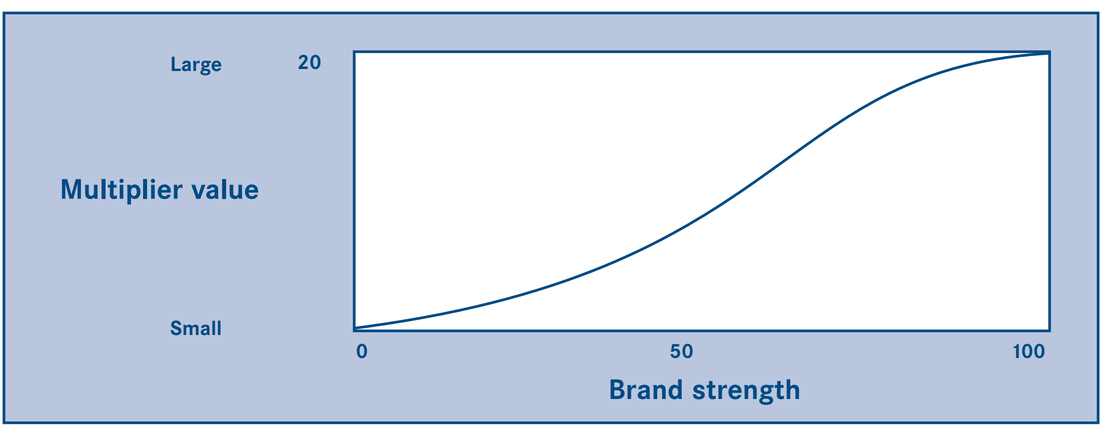
One of the best known composite or indicator models is the ***Interbrand* consulting firm's brand value system**, which must be considered an earnings-based approach using a scoring system (point-based valuation model). The scoring system is founded on seven factors that are operationalized and gauged on the basis of a total of 80–100 criteria. These seven determinants of brand value are: (1) brand leadership, (2) brand stability, (3) market, (4) international presence of the brand, (5) brand trend, (6) marketing support and (7) legal protection enjoyed by the brand. The table shows the criteria/indicators associated with each determinant and the respective determinant weightings.[47] For each indicator, the brand can achieve a fixed maximum point value. The point score achieved per deter-

[47] Cf. also Sander (1994), pp. 69-70.;
Herreiner (1994), pp. 24-25.

minant is derived from the sum of points earned for their operationalization criteria. Together with the weighting of determinants, this count determines brand value potential in points.[48]

Drivers	Weighting of drivers	Operationalizing criteria (a selection)
Brand leadership	**25%**	**Market share (MS), market position, relative MS, market segment, structure, future aspects, etc.**
Brand stability	**15%**	**History, current position, future development**
Market	**10%**	**Overview, (structure of competition, value, volume, etc.), trend (market dynamism, etc.), prospects**
International reach of brand	**25%**	**Past (export history, etc.), present (presence on foreign markets), future**
Brand trend	**10%**	**Development (sales volume, MS), status (competitive trend), planning (development plans)**
Marketing support	**10%**	**Qualitiy and continuity (advertising activities, sales promotions, etc.), future strategy**
Legal protection of brand	**5%**	**Rights to name, registration, etc.**

Monetary brand value is determined in a four-step process. In the first step, the brand value driver criteria for each of the seven influencing factors are ascertained and assigned a point score. In the second step, the seven scores are combined and weighted according to their significance as regards brand value to arrive at overall brand strength. In the third step, this point score – a standardized index value ranging from 0–100 – is converted into a multiplier using a transformation function. The transformation is expressed as a special, S-shaped brand index curve that depicts the relationship between brand strength and the brand multiplier. *Interbrand* relies on longstanding market experience and empirical ex post studies showing correlations between the prices found to have been realized during company mergers or acquisitions and reconstructions of brand strength. This allows the brand index curve to be ascertained inductively, yielding a multiplier value ranging from 0–20.[49]



[48] Cf. Schlaberg (1997), p. 191.
[49] Cf. Berndt and Sander (1994), pp. 1364-65.

In the fourth step, the resulting multiplier value is multiplied by average earnings after taxes[50] for the last three years to determine monetary brand value.

BV =Brand profit	x	Brand multiplier
Three-year average, qualified using 15-step process in terms of inflation factor, creation of third-party brands, weighting of past history, expected rate of interest, then applied to a single year		The brand-strength-score value BS from over 80 valuation dimensions is converted into brand multiplier BM via regression analysis (basis: proceeds from brand sales, taxes, etc., reconstructed brand strength values)

The four process steps illustrate that the *Interbrand* approach is an easy-to-use system, a fact also made clear by the large number of appraisals carried out using the approach. The *Interbrand* model represents an attempt to assess brand value as a whole. A broad-based catalogue of criteria is used in an attempt to chronicle the complexity of a brand in its key evaluation dimensions. The model can also be used for tracking purposes as it is possible to compare the brand's current values and target values (fixed or implicit in the scale's upper range) for the individual criteria. In addition, management is effectively sensitized as regards brand decisions as the consequences of these decisions can be seen in the criteria values.[51]

The concept does, however, have some drawbacks. A decisive weakness is the strong influence of subjective components. This criticism applies above all to the selection and weighting of factors and/or their criteria for determining brand strength, the arbitrary scale system for the multiplier, delineation of the relevant market and the estimates necessary to determine brand earnings. In addition, earnings after taxes are used for determining monetary brand value, which means that brand value is partially dependent on the tax system in use. What's more, the results are distorted by a lack of independence, an insufficient functional hierarchy of criteria and the correlations between indicators. Thus, determinant factors are counted several times over (parallel and successively), resulting in a tendency to inflate the overall rating. The use of some input factors such as marketing support must also be viewed critically as it appears questionable to assume a direct correlation between purely quantitative values such as advertising spending and brand value. It is also unclear whether the customer-related factors relevant to brand valuation are sufficiently operationalized and integrated. Overall, it can be said the data used by the *Interbrand* model are for the most part estimated values, so that the resulting monetary brand value must also be viewed as an estimated or trend value.[52]

[50] The earnings value is determined by the values from the three most recent periods to prevent distortions caused by disproportionately high or low values during the most recent period.
[51] Cf. Sander (1994), pp. 79-80.
[52] Cf. also Bekmeier-Feuerhahn (1998), pp. 80-81.

7.3.2. The A. C. Nielsen brand balance sheet

Like the *Interbrand* model, the ***A. C. Nielsen* brand balance sheet**, developed by *Schulz* and *Brandmeyer*, is built around a scoring model. The brand balance sheet relies on six criteria groups containing a total of 19 individual criteria (see illustration) that are deemed good indicators of brand value.[53]

I. How does the market look?

1. Market value (market-development potential)
2. Market development
3. Value creation in market

II. How big is the brand's share in its market?

4. Market share in value terms
5. Relative market share
6. Development of market share
7. Share of profits earned in market

III. How do wholesalers and retailers assess the brand?

8. Weighted distribution
9. Commercial appeal of brand

IV. What does the company do for the brand?

10. Product quality
11. Brand's price behavior
12. Share of voice

V. How strong is consumer loyalty to the brand?

13. Brand loyalty
14. Confidence capital of brand
15. Share of mind (unaided brand awareness)
16. Advertising recall
17. Identification with brand

VI. How big is the scope of influence?

18. International reach of brand
19. International brand protection

All market-related values are viewed in value terms rather than quantity terms, with the goal of preserving brand value over time and staving off a short-term "sell off" of the brand based on price/quantity strategies. The relative degree of each of the 19 criteria is converted to a standardized scale value to facilitate comparison and operationalization. The scaled criteria are then added together, reaching a maximum point score of 500, with the individual criteria weighted differently. The total score determines a brand value factor that serves as a reference value for the brand's future potential.[54] The exact procedure for scaling and weighting data is not, however, explained by *Nielsen* for reasons of competition.

[53] Cf. Schulz and Brandmeyer (1989), p. 366.
[54] Cf. Sander (1994), p. 81.

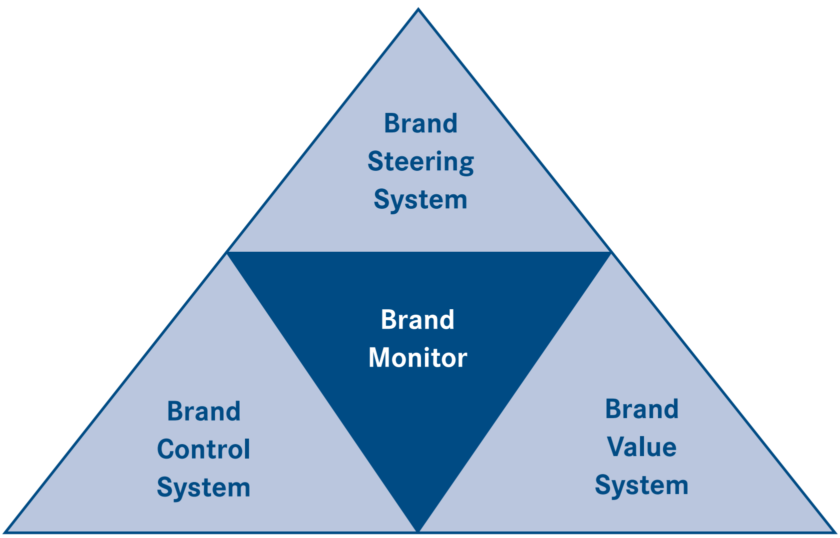
In a further step, the monetary value of the brand is calculated using the income approach. This entails calculating brand revenues from total sales in the industry, estimated market share and the sectoral returns of the brand, finally applying a discount factor (long-term capital market yield, plus risk premium as a function of brand strength). The discount factor and/or the size of the risk premium it entails are derived from the point count obtained in the scoring model. High scores result in an overall lower discount factor and thus to a higher earning-capacity value for the brand (and vice versa).The earning-capacity value is seen as an expression of brand value.[55]

The brand balance sheet is fraught with the problems typical of scoring systems (cf. the *Interbrand* approach): subjective determination and weighting of criteria, interdependence and insufficient functional hierarchy among them, compensation premises implicit in the criteria, delineation of the relevant market and the need for the brand to have at least a minimum level of tradability to permit valid measurement of the criteria. In addition, it is not clear how brand strengths and weaknesses based on the criteria can provide a good estimate of market share or any changes in it. Estimates must also be relied on for the levels of some specific criteria such as value creation or normal returns in the brand's overall market. A questionable aspect is the validity of the correlation between the point score and the risk premium. A final point to be viewed with a critical eye is the largely arbitrary valuation timeframe built into the model.[56]

[55] Cf. Berndt and Sander (1994), p. 1363.
[56] Cf. Sander (1994), p. 87.

7.3.3. The A.C. Nielsen Brand Performancer

Nielsen itself has also acknowledged that the brand balance sheet is in need of improvement and has developed a more advanced model based on it, the so-called **Brand Performancer**. The Brand Performancer is intended to provide relevant data tailored to the specific information needs of marketing decision-makers while preserving the fundamental idea of the brand balance sheet, i.e. to create a correlation between complex market environments, the significance of long-term brand cultivation and successful brand management. The modular structure of the *Nielsen* Brand Performancer makes it possible to supplement gauges of brand value with analyses for the purpose of brand steering, financial brand valuation and tracking of brand leadership. The four modules are depicted below.



The central element is the *Brand Monitor*, a scoring model and the basis of the analyses that follow. The criteria used rely on fewer indicators than included in the brand balance sheet. These are market volume, market share, growth of market share, market growth, relative market share, brands in the relevant set, weighted distribution, brand loyalty and brand awareness.[57] The criteria are weighted based on causal analyses, with objective selection and weighting of criteria.[58]

The weighted values are added together and scaled, with a brand reaching a maximum of 1.000 points in the best-case scenario. Next, absolute brand strength is determined as a percentage value of the point score achieved by the brand (max. 1.000 points). Once absolute brand strength is known, relative brand strength is determined by juxtaposing absolute brand strength for the brand in question against the absolute brand strength of competitor brands already analyzed.

[57] Cf. Bekmeier-Feuerhahn (1998), p. 84.
[58] Cf. Franzen, Trommsdorff and Riedel (1994), p. 1394.

To determine monetary brand value (Brand Value System), estimated market volume is then multiplied by the annual net operating margin to calculate the earnings potential of the market as a whole. The brand value share of the brand for the current business year is determined by multiplying this sales potential and relative brand strength. Next, brand value is determined by assuming an annuity in perpetuity, discounting future brand earnings using a capital market interest factor. The Brand Monitor is supplemented by the Brand Steering System, intended to support brand steering in a targeted manner. The system studies marketing activities as compared with those of competitors using a strength/weakness analysis. In addition, the current position of the brand is compared with strategic objectives. The Brand Control System allows goal-oriented tracking of marketing by correlating marketing spending and their success with the resulting brand strength, thus tracking the efficiency of brand management.

1. Relative brand strength (RBS_b) of brand b is determined as the sum of corresponding brand balance sheets for j = 1...N brands:

$$RBS_b = \frac{BS_b}{\sum_{J}^{N} BS_j}$$

2. Estimates are made of market value and net operating margin p.a., to compute market earnings potential (E)

3. Brand value share (BVS_b) of brand b during a reference year is measured by:

$$BVS_b = RBS_b \cdot E$$

4. The formula for brand value BV_b is:

$$BV_b = \frac{BVS_b}{i} \text{ ; i = interest factor}$$

$$BV_b = \text{Annual sales of respective brands} \times \text{Net operating margin} \times \text{Relative brand strength} \times \text{Perpetual annuity NPV discount factor}$$

As can be seen, this procedure is based on three assumptions: the same net operating margin for all brands, a perpetual life cycle for all brands and an attraction theorem of brand preference familiar from market response theory. From a theoretical perspective, the latter aspect is very positive.[59]

The Brand Performancer attempts to deliver an integrative consumer and company-oriented brand valuation system. In addition, it avoids certain measurement-related weaknesses of the brand balance sheet, on the one hand by limiting the number of criteria on the scorecard and on the other by validating the system of criteria by causal analysis. The diminished size

[59] Cf. Franzen, Trommsdorff and Riedel (1994), p. 1394; Drees (1999), pp. 19-20.

of the data pool makes the methods more transparent. The formation of brand value is easier to follow and reproduce. In addition, competing brands can be evaluated with little effort as the necessary data for the attraction model are not a problem to obtain. However, there are still subjective factors in the procedures for determining revenue potential, estimating net operating margin and calculating the risk premium integrated into the earning capacity-value formula. Another shortcoming is that adjustment components for future development are not incorporated into the model. The approach also dispenses with all types of knowledge structures, which means that the determinant of customer acceptance is standardized only for certain phases of information processing and thus may not be adequately operationalized. In addition, cost factors as regards brand-building are not taken into account, which will presumably fail to satisfy marketing controlling. Finally, the assumptions of constant net operating margins and the perpetual life cycle of brands must be seen critically, though both areas could be modified relatively easily.[60]

7.3.4. The Brand Rating valuation approach

The ***Brand Rating* valuation system** is a consumer-oriented, monetary model for determining brand value. This is a three-component model based on the assumption that brand value must be "measured above all in the heads of consumers." The first component of the concept is the *icon* iceberg model, which expresses brand value from a consumer perspective as qualitative brand strength. The iceberg index measures and encapsulates visual brand image (e.g. attractiveness, communication) and hidden brand assets (e.g. appeal, loyalty). See *section 7.2.4.* for an in-depth description of this model.

The second component is discounted price differential and/or the monetary value creation tied to the brand, which is also the basis for comparison of competing brands as well as industry specifics and risks introduced into the model. The price differential, or price premium, Δp is determined in relation to an unbranded product from the same category. Here, the average value over the last three years is used to avoid distortion. Value creation is discounted using an interest rate that takes into account the specific future risk of the respective industry (risk premium). Overall, the second component represents the earning-capacity value of the brand.

The third component is designated the "brand future score" and reflects future value and quantity curves. This index describes the brand's potential using, for instance, strategic brand development potential (brand leadership in the broader sense) and existing brand protection (in a legal sense, too). To calculate monetary brand value, these three components are linked algorithmically. Brand Rating does not divulge the details of these algorithms.

[60] Cf. also Bekmeier-Feuerhahn (1998), pp. 84-85; Kriegbaum (1998), p. 17.

BV =	**icon iceberg index** **1.** Brand strength criteria: Brand image Brand assets **2.** Weighting based on brand age **3.** Indexed using average sectoral reference values	**Discounted price differential** $\frac{\Delta p \cdot q}{i}$ (Using annuity in perpetuity)	**Brand future score** • Development potential • Brand protection

The advantage of this model lies in the link between based-based and financially-oriented perspectives. While this is also provided by most of the other composite models, they often deal only fleetingly with behavioral components. The Brand Rating concept also scores well by virtue of its simple data collection process, regardless of the competitive situation.

Another advantage is the fact that strategic brand potential is taken into account. In addition, the price premium is determined based on a three-year average, avoiding upward or downward distortions. The problem of the price premium as a concept has already been discussed. Finally, an industry-specific risk premium is also taken into consideration.

The approach is not, however, without its weak points. As with the Brand Trek method, it is also affected by interdependence problems between brand image and brand assets. No information is given as to whether certain feature levels of brand image and brand assets can be offset. In addition, the general criticisms leveled at the premium-price approach also apply here (definition of the zero mark, assumed direct correlation between price and brand, etc.). Finally, how the three components are linked is also problematic: If this is an algorithmic linkage as postulated, the question is how it comes about.

7.3.5. The GfK brand power model

The ***GfK* brand power model** describes the value of a brand as brand power, defining this as the “attractiveness of a brand to consumers, an attribute that can’t be explained by the short-term marketing mix.”[61] Brand power is cultivated in the long term, through such channels as complex brand image creation or also through consumer habit. Thus it cannot be observed directly, but is expressed in buying patterns. Brand power is determined and made measurable by consumer purchasing patterns. The

[61] Cf. Maretzki and Wildner (1994), p. 102 (our translation).

yardstick of brand power is the price that consumers are prepared to pay for the brand as compared with competitor products.[62] Purchasing patterns are gauged by means of consumer panel data and are reflected, among other things, by the market share achieved by a brand in the respective product category. Impacted by brand power, purchasing behavior is also influenced by short-term marketing-mix strategies for the brand itself and for competing brands. The marketing mix, in turn, has a varying positive or negative impact on brand power. Promotions, for example, can positively influence purchasing patterns in the short run, yet affect brand value adversely in the long run. This is why determining brand power entails first identifying the impact of short-term marketing-mix measures. After deducting this, we are left with pure brand power ("magnetism") generated out of long-term, sustainable brand strength as the difference in the equation:

Market share = Brand power due to the brand strength of long-term assets	–	Impact of **short-term marketing mix** on branded products	=	Core portion of market share attributable to **lasting brand strength magnetism**

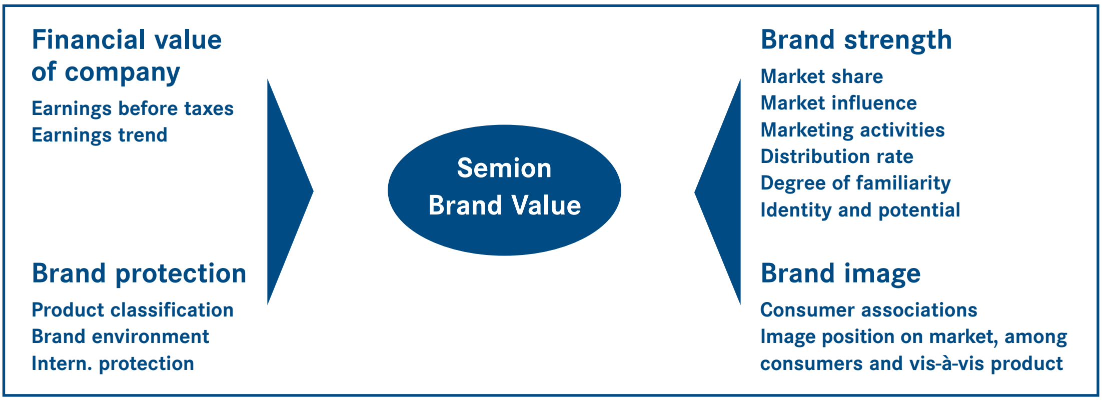
The suitability of the *GfK* model for appraising brands, especially for the purpose of brand steering, is restrained because of its limited explanatory power. The brand-power value elicited by the model does not give any indication of why the value is high or low, what influences brand power and which measures need to be taken to increase brand power. As a result, it is necessary to resort to behavioral data to enhance brand value. Consumers and their view of the brand must be considered, and not simply on the basis of the number of purchasing acts. In addition, the model is geared toward the determination of value differentials. An absolute value for brand power – or absolute brand value – can be obtained only if the brand's value differential is determined as compared with a notional branded and/or unbranded product.[63]

7.3.6. The Semion brand value approach

The **brand valuation system used by *Semion Brand Broker GmbH*** is yet another approach relying strongly on behavioral and image data in addition to financial values. *Semion* defines four brand value drivers whose levels, in turn, are determined by indicators. The influencing factors are the financial value of the company, brand strength, brand protection and brand image. The chart shows the subcriteria into which these factors break down.

The *Semion* approach comprises four steps. The first step consists of ascertaining a factor value for each of these four drivers on the basis of the criteria for the four factors. The indicators for each factor are aggregated

[62] Cf. also Heider and Strehlau (2000), p. 517.
[63] Cf. Esch and Andresen (1997), pp. 15-16.



to give a single factor value. In the second step, the values thus obtained are added together to form an overall factor value, or weighting factor.

Finally, average earnings before taxes in the past three years are determined (step three) and then multiplied by the weighting factor (step four). The product of this formula is the monetary value of the brand being valued.[64]

$$\textbf{BV = financial value x} \left(\begin{array}{c} \text{financial} \\ \text{value} \\ \text{factor} \end{array} + \begin{array}{c} \text{brand protection} \\ \text{and conflict} \\ \text{factor} \end{array} + \begin{array}{c} \text{brand} \\ \text{strength} \\ \text{factor} \end{array} + \begin{array}{c} \text{brand} \\ \text{image} \\ \text{factor} \end{array} \right)$$

With this procedure, too, it is clear that subjective influences cannot be ruled out. Both the selection of determinants and the individual weighting factors for establishing the factor values are arbitrary and unverifiable, as *Semion* does not make these values public. Another shortcoming lies in the potential correlations between the criteria used. In addition, the model neglects forward-looking values, indications of development potential and brand sustainability. Finally, generating the base data, particularly for the factor of brand image, is an arduous task.

7.3.7. The Sattler brand value approach

The ***Sattler* approach to appraising brands** is an indicator model allowing long-term brand valuation. In the *Sattler* system, long-term brand value is determined using a five-step empirical analysis. The first step entails identifying potential brand value indicators by means of an explorative survey of experts. The experts are presented with abstract brands in a marketplace they are familiar with. These brands are described by them in terms of familiar criteria as well as indicators they consider important to long-term brand value.[65] This process yields the criteria highly relevant to an assessment of long-term brand value: market position during the past five years,

[64] Cf. also o.V. [Semion?] (1998), p. 20.
[65] Cf. Sattler (1997), p. 47.

market share in value terms, weighted distribution rate, level of aided awareness, image advantages over competitors according to brand surveys, and repeat purchase rate.

In the second step, the experts estimate the long-term value of selected brands in an experiment for the purpose of data collection. The brands are described in terms of identified brand strength coefficients and ranked by the experts as regards their long-term value. Next, based on the expert data, the relative importance in forecasting long-term brand value is determined using conjoint analysis and regression. Once these coefficients have been identified, they can be used to determine the long-term benefits of any brand (fourth step).

The final step involves translating the long-term brand benefit into long-term monetary brand value. A linear function is assumed for this purpose. At least two data points are needed to determine the conversion function, i.e. the long-term brand benefits of at least two brands must be translated into brand value.[66] Finally, long-term monetary brand value is determined as a function of long-term brand benefit, the brand's contribution to earnings during the past year and the NPV discount factor for an annuity in perpetuity.

1. Brand strength coefficients

Brand preference ranking made by experts ("Long-term Brand Benefits", LTBB) **= *f*** **(Market status, market share, distribution rate, degree of familiarity, image edge, repeat purchase rate)**

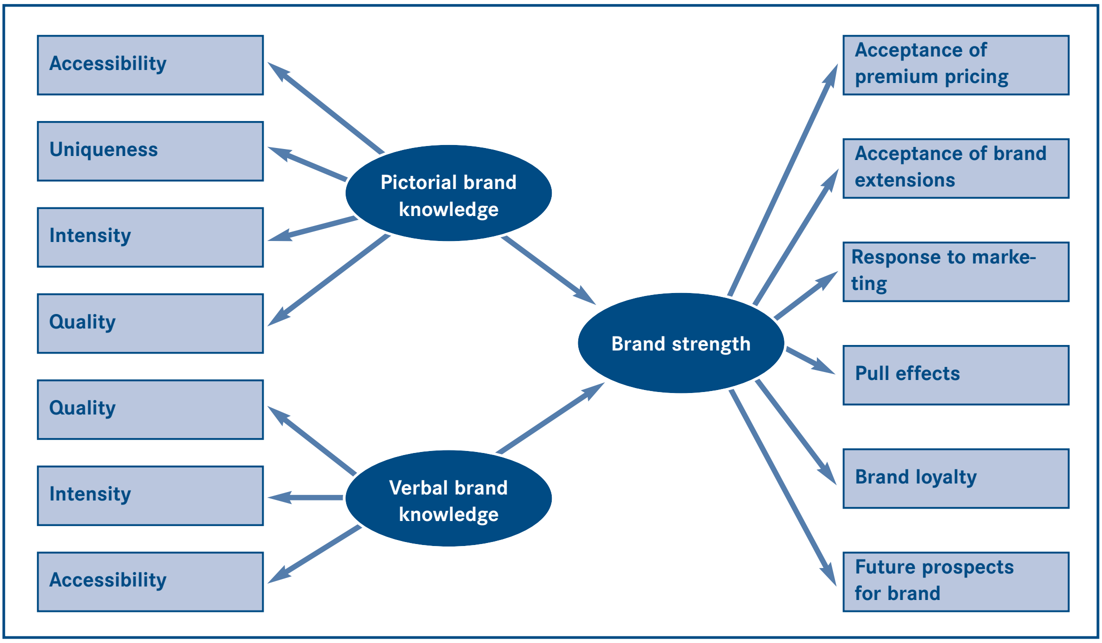
2. BV = *f* (LTBB coefficients, annuity-in-perpetuity discount factor, annual earnings contribution)

The *Sattler* analysis assumes a market volume that remains virtually constant in the long term as well as similar objective product quality from brand to brand. However, these conditions are not always satisfied by product groups other than those studied by *Sattler*. In general, it can be stated that the monetary conversion of the calculated benefit values is accompanied by a significant level of uncertainty; the estimated parameters permit only an inexact forecast of real brand value and the generalization of results makes sense only for product groups with the same structure as those analyzed.

[66] Cf. Sattler for details of this computation (1999), pp. 644-45.

7.3.8. Bekmeier-Feuerhahn's market-oriented brand valuation

The ***Bekmeier-Feuerhahn* approach**[67] is a market-oriented system of valuation that combines a consumer-based perspective with a company-based one. As this system involves an extremely comprehensive model, it can be outlined here only briefly. *Bekmeier-Feuerhahn* operates on the assumption that brand value is derived from brand strength and brand earnings, both assessed on the basis of market prices.



The approach comprises two steps. In the first step of the brand-specific brand value analysis, the determinants of brand value are identified. These include brand strength and brand earnings. Brand strength describes a driving force that is generated by consumers' subjective perception of a brand's value and helps it to achieve a better competitive position. The factors influencing brand strength are on the one hand brand consciousness (perceived risk, involvement), product perception (brand knowledge, product assessment) and prestige value, and on the other the accessibility, quality, intensity and uniqueness of inner brand image. Brand strength must be determined on the basis of primary consumer surveys. To operationalize the brand strength construct, *Bekmeier-Feuerhahn* explains the willingness to act generated by brand strength in terms of the marketing-related realms of influence for brand strength. Six indicators are used to gauge this factor: willingness to pay a premium for the brand, acceptance of brand extensions, brand loyalty, response to marketing, generation of pull effects and the brand's future prospects.

Brand earnings, the second driver of brand value, is based on company and industry-related metrics and is calculated by subtracting normal

[67] Cf. Bekmeier-Feuerhahn (1998), pp. 111 et seq.

industry costs from product revenues weighted using a normal market rate of return.

The brand value indicators of brand strength and brand earnings constitute the starting point for the second step – namely, a market-related analysis of brand value or company-oriented brand valuation – in which a market price is identified for brand strength and brand earnings. Aside from any specific brand, an expert survey is conducted to place a monetary value on brand strength and brand earnings. Here, the type of survey carried out must depend on the purpose of the valuation. If, for example, a valuation

1. Brand strengths = f_1 (f_a **(Brand consciousness, product perception, prestige value)**

+

f_b **(Accessibility, intensity, quality, uniqueness of pictorial and verbal brand knowledge)**)

- **Acceptance of premium pricing**
- **Acceptance of brand extensions**
- **Brand loyalty**
- **Trademark recognition**
- **Brand pull effect**
- **Future forecast**

f_a **= factors added together**
f_b **= factors multiplied together**

2. Brand earnings = f_2 **(Size of market, market growth, market quality, competition, market position)**

3. Brand value = $f\left[f_1, f_2\right]$

problem associated with a brand acquisition is being addressed, the utility should be determined with the goal of brand acquisition in mind. The experts surveyed must outline the benefits they envision as regards brand strength and brand earnings when the brand is being acquired. The holistic value of a certain brand is ultimately determined by multiplying the market prices for brand strength and brand earnings by the brand strength and brand earnings metrics and aggregating these results. The aggregated earnings from these two sources provide the objectivized, market-oriented value of a brand.

A positive feature of the *Bekmeier-Feuerhahn* model is that it is a comprehensive, integrative approach to brand valuation that takes into account the special requirements of brand appraisal and yields a tangible monetary value. The approach is forward-looking since brand strength involving knowledge structures anchored in the long-term memories of consumers is significant not only for current behavior but also, due to its stability, for future patterns. In addition, the experts draw upon both present and past data in determining market prices, allowing them to forecast future developments.

Another advantage of the model is that it identifies purely brand-triggered, intangible brand value (brand strength) on the basis of special branding associations that are juxtaposed with general product-related associations. For calculating brand earnings too, general product-related influences on revenues are eliminated. A product-independent brand assessment is achieved because the expert valuation does not apply to a real brand, but to specific brand performance factors of brand strength and brand earnings, which exist independently of product-related attributes.[68]

There are, however, also cases in which application of the approach becomes problematic. If, for instance, the product market to be analyzed does not provide any category perceptions, the category associations necessary for identifying brand strength cannot be defined. In this case, notional category products or weak branded products have to be used, with the danger that the strength of the brand studied will be slightly underestimated. However, the less marked the brand strength of the reference brand, the less likely this is. There is also great difficulty when the brand to be analyzed is a product innovation as no category products or other comparative products exist to help determine brand strength at the launch of a so-called pioneer brand. But imitation and/or competing products are generally quick to follow in highly competitive markets, so consumers also develop particular category perceptions relatively quickly, thus solving the problem of insufficient comparability.

7.4. Input/output and portfolio models

Against a backdrop of increasingly dynamic development and competition, product and market analyses are becoming more and more important in determining brand potential. These analyses are, however, frequently complex, difficult to understand and extremely labor-intensive on the data-collection end. Alternatively, they may be quick and easy to carry out, but not very enlightening. *Preißner*[69] has developed a method for determining brand potential which is easy to apply and yields informative results. Four values are needed for each product: (1) **market share**, (2) **weighted distribution**, (3) **average retail price** and (4) **product performance assessment.** The first three values can be ascertained in panel evaluations. Product performance can be assessed, for instance, via scorecards.

The method proceeds in a number of stages. In the first step, the market to be analyzed has to be demarcated, and all products perceived by consumers as alternatives must be included. A distinction by trade channel may also be necessary: Certain variables, such as the price, may have varying significance in different channels.

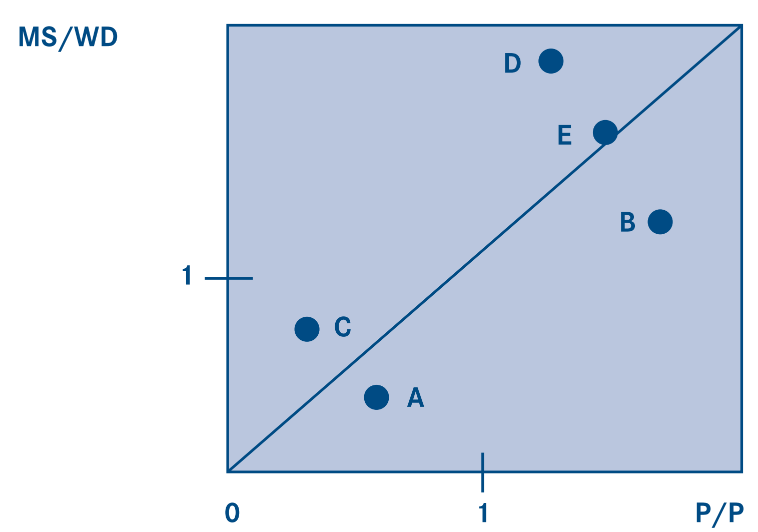
[68] Cf. also Bekmeier-Feuerhahn (1998), pp. 269-70.
[69] Cf. Preißner (1990), pp. 83 et seq.

As a second step, the **quotient of market share and weighted distribution** is calculated for each product (*MS/WD*). This value eliminates the influence of distribution on the success of a product and so mirrors its success with consumers. This division allows all products to be handled as if they were distributed in the same way. Next, the *MS/WD values* are translated into index values (dividing by the average value).

The third step entails evaluating the products, with all factors impacting the purchasing decision taken into account. Here, the results of product tests scoring purchase-relevant factors can be taken into account. Once all products are evaluated, the values obtained are also indexed.

In the fourth step, average prices are gleaned from the panel evaluations and converted into indices. Finally, the quotient is determined for each product in the form of a product performance and price index (*performance/price index*).

In other words, two values are calculated per product, the *MS/WD index* and the *P/P index*. These form the coordinates of a matrix chart. The values show how successful a product is compared with the average and/or how good or bad its relative price/performance ratio is.



The chart shows that brands *A* and *B* are undervalued (weak brands). Brand *B* does, however, have the best price/performance ratio and hence the potential to be a market leader. Brands *C* and *D* are currently being "oversold" (strong brands). Their market position can be expected to worsen in the long run. Brand *E*, on the other hand, is positioned exactly on the diagonal. It can be assumed that this brand will maintain its relative position in the near future.

These input/output models in general constitute **consumer status and market status models. Brand value (the brand value index)** is determined here in the form of an **output/input quotient.**

$$\textbf{Brand value index} = \frac{\dfrac{\textbf{MS index}}{\textbf{Weighted distribution rate index}}}{\dfrac{\textbf{Product perfomance score index}}{\textbf{Price index}}}$$

In line with the concept of production functions, the input and output should not be added to or multiplied by one another, but may only come together in a ratio for the purpose of measuring efficiency. This is due to the fact that addition or multiplication would increase brand value by double-counting some factors since an output in time period *t* is generally reinvested as an input in *t+1*, or an input in *t* becomes effective as an output in *t+1*. There is, however, an exception to this rule: when the addend or multiplier is an input that has *not yet* become an effective output.

Determining brand value and/or brand potential using the output/input approach makes it possible to depict the direction in which a product's market share (given constant distribution) will potentially move in relation to the competition. In addition, the approach draws attention to products that, for instance, have moved a long way from the diagonal and necessitate a more exact analysis. Products can be studied in terms of efficient advertising and PR, attractive price spreads, distribution, product performance, price-setting, etc. The advantages of this method include the ability to forecast future developments and the inclusion of competitors. However, the approach can be used to generate a relative brand value index only; it does not allow an absolute monetary value to be determined. In addition, there is also the problem that the identified brand value does not refer exclusively to the value generated by branding, but rather the potential realized via the entire marketing mix.

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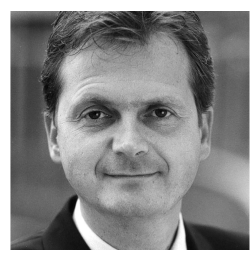

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