Brand valuation face-off – debating the merits of ranking tables

A passionate debate has erupted over the publication of brand valuation ranking tables. We brought two of the most high-profile parties together to state their cases and gave each an opportunity to respond. The result is thought provoking and, unsurprisingly, heated

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Earlier this year, trademark database manager MARKABLES publicly called on the brand valuation industry to cease publishing ranking tables. It argued that the "fast-increasing number of ranking reports released in early 2017" had prompted it to speak out about why this could be misleading or even harmful. Unsurprisingly, this call only escalated the war of words over the methodology of brand rankings – with valuers, brands and the media in the crosshairs.

Industry player Brand Finance deemed the public outcry "unprofessional and unfounded" and even considered legal action. In the months since, the debate has continued to simmer – with both parties addressing criticisms at events. The claims about brand valuation rankings tables thus still hang in the air, with no specific response to each side's key points currently being offered.

In a bid to overcome this stalemate, *World Trademark Review* reached out to Brand Finance and MARKABLES inviting them each to set out their side of the argument and then to respond to the other. Not only would this offer clarity, it would give readers a deeper understanding of brand valuation methodologies. Both agreed and were given strict guidelines – including a deadline and word count for both pieces – to ensure that the debate would be fair. In the following pages, we have both sides of the argument and – directly after each – the other party's response. It will be sure to spark more discussion and is a timely reminder of how passionate both sides feel about their respective positions.

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The case for brand ranking tables

David Haigh, chief executive of Brand Finance, on why brand valuation league tables are a positive force

The first significant public brand valuation league table was published by *Financial World*, the oldest business magazine in the United States. The table was launched in the early 1990s and continued until 1998, when *Financial World* suddenly went bankrupt. It is ironic that a publishing brand founded in 1902, which became famous for exposing stock market share pluggers in 1920s New York, went bankrupt so unexpectedly. But even great brands can die if they are badly managed.

The *Financial World* league table was prepared using an adaptation of Interbrand's early brand valuation methodology, which identified a proportion of corporate earnings attributable to a brand and then applied a multiple of those brand earnings to arrive at the brand's capital value.

Between 1988 and 1994 Interbrand calculated a brand's capital value by taking a three-year weighted average of historical corporate earnings, multiplying it by a subjective branding index percentage and then applying a multiple to the single-year average brand earnings figure.

However, in 1995 Interbrand listened to its critics and changed its valuation approach, following equity analysts' best practice. Henceforth, Interbrand explicitly forecast five-year earnings, determined a slightly less subjective brand index percentage and then applied a discount rate in a classic discounted cash flow (DCF) valuation model.

Before its abrupt demise, the *Financial World* brand value league table had also been a source of controversy. In particular, its multiple approaches were criticised for leading the Marlboro cigarette brand to be overvalued in 1992. While this was the peak year for premium pricing of the brand, which held a dominant share of the cigarette market, it came at a time when Marlboro was being cannibalised by cheaper labels and generic brands, many of which also came from Philip Morris. As a consequence, on April 2 1993 Philip Morris slashed the price of Marlboro by 20% to fight off the discount brands.

This came to be known as Marlboro Friday when the Philip Morris share price tanked by 26% in one day. Some commentators labelled this the death of the brand. However, Marlboro rapidly recovered its market share and its brand value, and today is one of the world's most valuable and strongest cigarette brands. All the incident really demonstrated was that even strong brands can be overpriced and that while they are elastic above their maximum perceived fair price, they are equally elastic in the opposite direction. In the case of Marlboro, the perceived fair price for the brand was significantly higher than its cheaper rivals', but even the Marlboro brand had its price limits.

Financial World continued to value the Marlboro brand until 1998 and the equity analysts came to realise that Marlboro was a highly valuable brand, with Marlboro Friday an overreaction by investors.

Growing demand

Fortunately for the *Financial World* journalists who were made redundant when the magazine collapsed in 1998, there remained an insatiable demand for comparative listings. *Forbes* magazine probably publishes more listings than any other media outlet, from best business schools to richest billionaires, most valuable sports teams and now most valuable global brands. A significant number of *Financial World* staff joined *Forbes* and for many years focused on sports team valuations. However, in 2010 they revived the global brand value league table, apparently using the same methodology as they had used at *Financial World*.

According to the *Forbes* website, in 2017 it "valued more than 200 brands by looking at three years of earnings and allocating a percentage of those earnings based on the role brands play in each industry". *Forbes* then "applied the average price-to-earnings multiple over the past three years to these earnings to arrive at the final brand value". Sadly, this methodology does not comply with International Organisation for Standardisation (ISO) 10668 which has been the global standard on monetary brand valuation since 2010, when the table was relaunched. *Forbes* had clearly missed the advances made in brand valuation methods in the intervening 12 years, driven by global exposure via other league tables.

I have focused on this producer of league tables for various reasons.

Financial World was, and *Forbes* is, a highly regarded business magazine. The brand values that it published between 1990 and 1998 were, and the values that *Forbes* has published since 2010 are, widely read and discussed on the boards of major companies worldwide. Both publications are regarded as authoritative.

There are clearly other high-profile brand valuation league tables. For example, Brand Finance has published 4,000 brand valuations based on public data in 2017 and in the first nine months of this year generated over

13,000 news mentions around the world worth millions of pounds.

There is no doubt that this level of interest and scrutiny has many beneficial effects.

It has raised the profile of the disciplines of marketing, branding, communications and reputation management. Increasingly, marketing has a place at the top table, with a small and growing number of chief marketing officers winning seats on boards.

It has made chief executive officers and chief financial officers far more sensitive, responsive and favourable towards long-term investment in brands, which were previously regarded as short-term tactical expenses.

Brand valuation league tables have also heightened investor perceptions of brands as significant and valuable corporate assets, something which would never have been considered credible before 1990.

Above all, it has stimulated a debate among accounting standard setters, financial reporting authorities and investment regulators about the disclosure of important intangible assets, including brands, in balance sheets. Professor Sir David Tweedie, who was technical director of KPMG in the 1980s, claims to be responsible for the first brand capitalised in a balance sheet. It was his decision to allow the inclusion of the $1 billion Smirnoff brand in the Grand Metropolitan balance sheet back in 1987. At the time, it was decried as "creative accounting".

As chairman of the International Accounting Standards Board (IASB), Tweedie pioneered International Financial Reporting Standard 3 (IFRS 3) which requires the capitalisation of brands in balance sheets post-acquisition and the use of DCF techniques for initial valuation and impairment testing. In his view, the only logical reason for excluding home-grown intangible assets and brands from balance sheets was scepticism over the accuracy and reliability of valuation methods. This explains why he has now joined the International Valuation Standards Council (IVSC) to push for higher valuation standards. The results are plain to see.

There is no doubt that brand valuation league tables have accelerated and enhanced discussions among companies, regulators and practitioners about improving brand valuation standards.

Improving standards

Going public and absorbing criticism is what led Interbrand to change and improve its valuation approach back in 1995.

Scrutiny and criticism has the same effect on other practitioners. Many of the leading brand valuation firms came together between 2007 and 2010 to promulgate ISO 10668. That standard outlines approaches and methods for valuing brands. Most professional practitioners now follow the ISO standard and most clients now insist on it.

For example, Interbrand and Brand Finance both produce brand valuation league tables and both assert that they use ISO compliant methods in doing so. Millward Brown, which produces the BrandZ brand valuation table, unfortunately declines to disclose the inner workings of its research algorithm which is a

When Philip Morris slashed the price of Marlboro by 20% to fight off discount cigarette brands, the company's share price fell by 26% – a day that commentators dubbed 'death of the brand'

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"Brand valuation league tables have heightened investor perceptions of brands as significant and valuable corporate assets

necessary prerequisite for ISO compliance. It also uses a multiples approach to brand earnings, even though ISO 10668 recommends DCF.

There is a strong tide in favour of technical unanimity and convergence among the major producers of brand valuation league tables. Nevertheless, I often disagree with the conclusions drawn by other brand value league table producers. However, that is my opinion, which you would expect, because I am paid as a valuer to have opinions and to defend them. It should be noted that when I or Brand Finance identify or are shown to have made a mistake in calculating or inputting data, we always admit our error, revise our valuation, show our workings and own up. If only all our competitors adopted the same standard of transparency, as they are required to under ISO 10668.

In conclusion, I have been working in brand valuation exclusively for 25 years and I have no doubt at all that the favourable change in attitude towards brands as corporate assets has been driven by public league tables which raise awareness of the subject and create strong pressure for constant technical improvement, as evidenced by ISO 10668.

The response from MARKABLES

To be honest, I had expected to respond here to David's emotional plea for the benefits of the brand rankings. I had anticipated that one of the most seasoned brand valuation professionals would have exciting success stories from the countless rankings and awards to tell, including brilliant case studies, landmark cases and impressive statistics. Instead, I have to deal with a rather dispassionate outline of the rankings' history and their vague beneficial effects. In my view, David misjudges the contribution of the rankings to progress in brand valuation and understates how they have contributed to growing levels of confusion.

Clearly, there is no evidence of convergence or harmonisation between the different rankings. If anything, the differences between the rankings can be seen to increase over time. Similarly, the rankings show no convergence when it comes to valuations for M&A transactions. The mantra-like reference to the brand valuation standard ISO 10668 cannot hide this hard truth. Realistically, ISO 10668 is a paper tiger. Each of the different valuation firms which participated in developing it ensured that all of their individual approaches were covered and compliant. If compliance with a valuation standard eventually results in value differences of 700% or more, something must be wrong.

I am also unaware of any evidence confirming that "most professional practitioners now follow the ISO standard". In my view, of the hundreds of thousands of brands valued each year, well over 95% are valued under the applicable accounting, financial reporting, taxation and litigation standards and rules, by individually certified or accredited members of professional services firms. The ISO 10668 standard plays a minor role and is mostly referred to in marketing-related valuations. Sadly, ISO does not report how many valuation firms are effectively ISO 10668 certified. Searching for them on Google reveals a handful of valuation firms, with another handful of service firms which award the certification. I am not too impressed with this small number – it is far too limited to call ISO 10668 a success.

As a side note, the development of ISO 10668 has nothing whatsoever to do with the brand rankings. ISO 10668 was initiated by a group of German brand valuation firms who were dissatisfied with the poor results of a German project group which worked on harmonising brand valuation from 2004 to 2007 ("Ten principles of monetary brand valuation"). To carry this forward, they approached the German Institute for Standardisation, which later handed over the project to ISO. Linking ISO 10668 to the rankings creates the wrong impression. If anything, the ranking firms sitting in the ISO project group were less flexible than others when it came to compromising and accepting harmonisation.

Clarity or confusion?

David is one of the strongest advocates for including homegrown brands on balance sheets. This would not only require completely new principles and standards in accounting and financial reporting, it would also affect the tax deductibility of marketing expenses. Even if David's proposition has some interesting aspects, there is still a long way to go. Part of this involves overcoming current scepticism as to the accuracy of brand valuation on the side of accountants, standard setters and regulators. The question is do the (inconsistent and largely incorrect) rankings help to convince accountants that brands are so important that they must be included on balance sheets or do the rankings cause confusion and scepticism that brand valuation is too unreliable to be included? I firmly believe that it is the latter.

One last word on the level of interest in the rankings – in a Marketing Society interview in 2011 (www.marketingsociety.com/the-clubroom/interview-david-haigh-brand-finance?), David was asked the question: "What's your golden rule?" His answer was: "In consulting, publicity is the oxygen of success." Similarly, he states in the director's report of Brand Finance's latest financial statements: "The league tables... are a powerful tool in marketing our technical approach to brand valuation." So much for public interest in the rankings and the high number of articles achieved. Maximising publicity is the self-interest of ranking producers.

I maintain that rankings are the result of non-commissioned, low-budget, low-quality valuations. They create confusion and scepticism. One solution would be for their issuers to explain this low quality and limited relevance in the operating instructions. Another option would be for all ranked brands to accept to pay the price of a serious valuation for being ranked. A third solution would be for them to cease publication. As the former two are unlikely to happen, it is up to the media and journalists to abstain and for readers to scrutinise.

PICTURE: OSTILL/SHUTTERSTOCK.COM

The case against brand ranking tables

Christof Binder, managing partner at MARKABLES, on why the validity of brand valuation league tables should be dismissed

I willingly admit that I was excited when I first read Interbrand's "Best Global Brands" ranking back in 2000. It seemed as if the company had discovered the 'marketer's stone' – not only how to value brands, but also how to do this from an outside observer's perspective. The boldness of releasing such a ratio-scaled ranking left no doubt that Interbrand was pretty confident of its approach and method. The ranking turned the brand management community upside down and was the starting point for many branding professionals to include brand value and brand valuation into their own activities. In the decade after the first brand ranking, there was some sort of brand valuation hype and a smell of big business. Many consulting and research firms, as well as academics, joined the bandwagon. By 2006 the number of firms releasing their own brand value rankings had risen to 22.

When trying to understand more about Interbrand's methodology, one naturally uses ratios to compare different brands (ie, the reported brand value to revenues or to market capitalisation). It was while doing this that my first doubts about the rankings arose. Some of these ratios were impossible to reconcile (ie, the value of a brand exceeding the firm's market cap). With the increasing number of valuation firms releasing their own rankings, there was also a direct comparison for brand values available from different rankings, which revealed significant and unacceptable differences.

With so many different brand rankings on the market and increasing criticism, one would have expected these differences to fall over time. Yet the opposite has happened. Unfortunately this suggests that brand valuation firms have absolutely no interest in contributing to a commonly accepted view of brand value, but rather prefer to cook their own meals.

Trend of inconsistency

There are countless examples to illustrate how controversial and inconsistent the rankings are. The most widely known and propagated brand rankings come from Interbrand, Millward Brown and Brand Finance. Some brands appear on the global rankings of all three, yet their values (and their year-on-year development) differ widely, as illustrated by three cases from their 2016 rankings (see Table 1 – the 2017 rankings of Interbrand were not released as of the time of writing). The gaps are significant.

For a brand sitting on all three global rankings, there is an average of 2.3 times between its highest and lowest value. For half of the brands, the three firms cannot even agree whether their value has risen or fallen in the previous year. When asked to explain the differences, the brand valuation firms give three excuses. One is different timing: Brand Finance releases its global ranking in February, Millward Brown in May and Interbrand in October. It looks as if the release dates are carefully aligned (or misaligned) to avoid direct comparisons and to maximise media coverage. In any case, a few months' time difference can hardly explain the huge disparities. The second is different methodologies. That is their problem, not ours. Whatever methodology they use, it should come to reliable and accurate results. The last – and worst of all – is that different companies eventually use different definitions of 'brand'. Beyond these excuses, the firms usually whitewash the differences by stating that they are entirely normal in valuation.

> **"The true intention behind the rankings is self-publicity**

One particularly egregious example is LinkedIn, the social network for professionals which was acquired in December 2016 by Microsoft. According to legal and regulatory requirements, Microsoft was obliged to show the value of the LinkedIn brand in its annual accounts. In order to meet this obligation, Microsoft retained a professional valuation firm; the result was then audited and approved by Microsoft's audit firm. This valuation and auditing resulted in LinkedIn's brand being valued at $2.148 billion, as was subsequently reported in Microsoft's financial statements. However, Millward Brown/BrandZ – without being commissioned – valued the brand at $13.6 billion in its 2017 ranking – six times higher than the brand value used by Microsoft. Are Microsoft's valuers and auditors all stupid? Looking at 220 similar cases between 2006 and 2016 where brands have been valued and reported after an acquisition, we find average overvaluation on the three best-noticed brand rankings of 526% (www.markables.net/files/Brand_Rankings_we%20

TABLE 1: Comparison of 2016 brand values across league tables

Brand	Interbrand	Millward Brown	Brand Finance
Shell	$4.599 billion (3)	$14.940 billion (2)	$31.665 billion (1)
SAP	$21.293 billion (2)	$39.023 billion (1)	$9.107 billion (3)
Samsung	$51.808 billion (2)	$19.490 billion (3)	$83.185 billion (1)

TABLE 2: Accenture brand value

Interbrand (2016)	Millward Brown (2017)	Brand Finance (2017)	Historic advertising cost as reported (sum 2001-2016)
$12.033 billion	$27.243 billion	$17.464 billion	$1.46 billion

have_had_enough_v3.pdf).

My final example here is the case of Accenture. Accenture is the largest IT consulting firm worldwide but a relatively young brand – it emerged as a spin-off from the now defunct Arthur Andersen in 2001. According to Accenture's financial statements, its cumulative advertising expenses from its inception in 2001 until today amount to $1.46 billion, including the one-time cost of $147 million to cover the rebrand. Over time, this accounts for a modest 0.4% of revenues on average. During the same period, Accenture spent eight times more on training, five times more for R&D and much more for the acquisition of new clients and projects.

Now, Accenture appears on all the three big brand rankings. Accordingly, Accenture's brand value was calculated as being between $12.033 billion and $27.243 billion (see Table 2). Relating these figures to the corresponding investment in advertising of $1.46 billion over the last 16 years, and even neglecting usual amortisation over time (does anybody remember Accenture's longstanding campaign centred on Tiger Woods?), this equation cannot possibly work.

I could go on. Whenever you compare, build ratios and cross-check for plausibility, you risk sticking in the mud. In fact, valuing brands from a purely outside perspective – as is the case with the rankings – is barely feasible. Brands do not work on a standalone basis. They are deeply embedded in an enterprise and intertwined with many other assets – in particular technology, know-how, people and customer relations. Valuing brands requires a detailed understanding of all different elements of a business. Surveying customers about their perceptions of brand and deriving brand value from there is simply not enough.

Too many rankings

For all that, not a week goes by without a new brand ranking being released somewhere: from global rankings, country rankings and sector rankings. The media then spreads this to the public, journalists and marketers provide their crystal ball interpretations of why particular brands may have improved their values and ranks – or not – and listed brand owners and their marketing advisers applaud themselves for their success. The ratio-

When LinkedIn was acquired by Microsoft in December 2016, a professional valuation firm calculated the brand as being worth $2.1 billion. At the same time, Millward Brown/BrandZ – without being commissioned – determined LinkedIn's brand value to be $13.6 billion, nearly six times higher than the commissioned valuation

scaled value data proposed in these rankings suggests proven methods and precise, valid results. However, on closer examination, the hard data turns out to be as creamy as butter – untested, inconsistent, inaccurate, unrealistic and effectively useless. With corporate finance and accounting, brand rankings have lost all credit. Nobody working outside marketing, PR and advertising would shed a tear if they vanished.

The naivety of those who still believe in the validity of the brand rankings is surprising. Would you trust a chartered surveyor who provides a valuation of your property free of charge? Would you trust a chartered surveyor who values your property without you having ever asked for such a valuation? And would you trust a chartered surveyor who – instead of visiting and closely examining the site – values your property based on some coarse images he or she finds on Google Earth? Very few people would.

The true intention behind the rankings is self-publicity, which in turn helps to drive business from extensive paid, in-depth valuations (which largely confirm the values found in the rankings), as well as brand monitoring, brand consulting, brand management and the like. It is not by chance that the brand valuation firms are part of larger groups of marketing and advertising firms for which rankings act as a teaser. The link is simple: the higher the brand value reported on the rankings, the better the prospects for follow-up business. Provided that the valuation firms are engaged as consultants, the company's brand value is unlikely to fall in subsequent rankings.

To be fair, rankings also have a positive side. They have helped to deepen understanding of brands as important

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business assets and branding expenses as longer-term investments beyond annual profit and loss. However, for some time now they have been overstepping the mark. It is because of these rankings that there is so much disagreement over the realistic value of brands – and so much confusion. This is bad enough in itself. I would hate to imagine how many business decisions have relied on rankings which turn out to be unfavourable (ie, through incorrect allocation of marketing budgets, non-performing brand-secured loans or bad investment decisions). In all known court cases, ranking-based brand values have been vigorously dismissed (eg, Dolce & Gabbana, Kodak and Amazon). We – the public – would be well advised to dismiss or disregard the rankings too.

The response from Brand Finance

MARKABLES dismisses all public rankings as rubbish, making no distinction between their production quality. This is a mistake: not all brand value league tables are created equal.

It asserts that all three brand valuation firms producing league tables are owned by marketing groups with a vested interest in building brands. I entirely agree with MARKABLES that Interbrand and Millward Brown, owned respectively by Omnicom and WPP, have an apparent conflict of interest, because many of the brands which they value publicly are their advertising clients. However, the same is not true of Brand Finance. This is actually a chartered accountancy firm regulated by the Institute of Chartered Accountants in England and Wales, it is entirely independent and has no business in brand building marketing communications.

MARKABLES claims that the three firms publish at different times to avoid comparisons. This is nonsense. The fact is that all ISO compliant valuations must disclose the value date. All Brand Finance valuations are dated January 1 because that is a convenient annual date to use as the starting point for DCF forecasts. We publish our results as soon after the value date as possible so they are current. Why Millward Brown publishes in May and Interbrand in September is not disclosed, nor is the value date used.

The criticism from MARKABLES fails to acknowledge that while some league table producers fail to define 'brand' clearly, Brand Finance certainly does. We define 'brand' as the trademarks and associated intellectual property which could be licensed as a package in an arm's-length transaction – transferable, separable, legal rights creating future economic returns.

MARKABLES does not mention the methods used by the different tables nor their validity. In the case of our tables, we only use the royalty relief method. Not only is this the method approved by virtually all judges, auditors and tax authorities, it is also recommended by the IVSC and ISO. Ironically, the method is indirectly recommended by MARKABLES itself, which argues that purchase price allocation valuations, used in IFRS 3 post acquisition valuations, are the best way to identify the true value of brands. Yet these are almost universally carried out using royalty relief.

MARKABLES asserts that because the valuation results are widely different they must all be wrong. The fact is that valuations in all asset classes vary widely because different valuers use different assumptions and have different opinions.

In a recent and widely reported Amazon tax case, I formed the expert view that the brand valuation should be based on a significantly higher royalty rate, longer useful economic life and lower discount rate than the experts acting for the client. The difference between our valuations was significant. The judge tended towards the other expert's view. While I respect the other valuer and the judge, I disagree with the final decision.

Makes sense to sense check

One of the important sense checks of any brand valuation is to compare it with the whole branded business value and the total intangible asset value of that subject business after eliminating tangible asset values. In both the Amazon case and all our public league tables, we always conduct such a sense check. In the Amazon case I believe that this sense check validated our higher brand value.

Our valuations often result in opinions which are significantly higher or lower than some other expert valuers. This is not unhealthy. A sensible user will read all reports in detail and form his or her own view as to which valuation is closest.

Finally, MARKABLES asserts that valuations carried out for free are worthless. I disagree. Real estate, art and specialist asset valuers often identify indicative valuations to stimulate business. Our league table valuations are marked clearly as "indicative" and they do provide a useful indicative result based on a wide array of high-quality public data. However, I always say that they should not be relied on in high-profile legal cases, such as Amazon.

Yes, we use the league tables to raise awareness of brands as assets, our ability to value them and to sell more detailed, complex work which can be relied on in court or the boardroom. Is that a bad thing? We suggest that they are a robust starting point for such work.

So I repeat my view that the league tables have been a good thing for those working in the brand field in the last 15 years and will continue to be in the future as increasing numbers of firms take note of indicative external valuations before commissioning more detailed and segmented internal valuations. **WTR**

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