

## **ARTICLE 5: CORPORATE BRAND VALUATION**

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### **BRAND VALUATION**

The four main approach of brand valuation are:

- i. Historic Cost
- ii. Market Observations
- iii. Economic Value and
- iv. Brand Strength

Each of one of these approaches are briefly discussed within this article. Each of them has more weaknesses than strengths.

#### **Historic Cost**

This is the most straightforward approach of valuing a brand. It involve the analysis of historic cost of the business far back from when the company was formed to creating the brand.

There is no justification for any sort of connection between “cost” and “value”. Valuing a brand on the basis of historic cost may appear to make logical sense within the framework of historic cost accounting, but from an economic viewpoint, value is a function of future economic benefits, which do not necessarily bear any relationship to historic costs.

#### **Market Observations**

Market observations values a brand by comparing the value of branded businesses against the value of similar “unbranded” businesses. It is achieved on the basis of comparative PERs, or by comparing the relative difference between the equity market capitalisation and the NAV for branded and unbranded companies in similar business areas.

This approach could has the difficulty of identifying genuinely similar branded and unbranded businesses. Companies have uniqueness brand identity, some are have strong brands and some weaker brands, and this will have an impact on the businesses value.

#### **Economic Value**

This involve placing an economic value on the brand by estimating the present value of the future cash flows generated by the brand.

It can be difficult separating basic cash flow generated from the business to the cash flow generated by the brand. However, the economic value of a brand can be established by looking at differences in profit margins between branded and unbranded companies.

The future life span of the brand and the discount rate to be applied to the brand cash flows can be difficult to estimate. Future maintenance costs of the brand all poses problem to estimate.

### **Brand Strength**

Here the brand strength would be judged on the basis of a range of factors such as market leadership, brand longevity, consumer “esteem” and consumer recognition. Then a subject multiplier could be applied, (a higher multiplier for higher brand strength and a lower multiplier for weaker brands), to the company’s earning, to arrive at a brand value. This method is highly subjective and makes its valuation highly debatable.

Each one of this valuation method will generate a slightly different value. In this case, an arithmetic mean can be apply to give a best estimate of the brand value.