
Brand valuation — Requirements for monetary brand valuation

*Evaluation d'une marque — Exigences pour l'évaluation monétaire
d'une marque*



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Foreword

ISO (the International Organization for Standardization) is a worldwide federation of national standards bodies (ISO member bodies). The work of preparing International Standards is normally carried out through ISO technical committees. Each member body interested in a subject for which a technical committee has been established has the right to be represented on that committee. International organizations, governmental and non-governmental, in liaison with ISO, also take part in the work. ISO collaborates closely with the International Electrotechnical Commission (IEC) on all matters of electrotechnical standardization.

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The main task of technical committees is to prepare International Standards. Draft International Standards adopted by the technical committees are circulated to the member bodies for voting. Publication as an International Standard requires approval by at least 75 % of the member bodies casting a vote.

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ISO 10668 was prepared by Project Committee ISO/PC 231, *Brand valuation*.

Introduction

Intangible assets are recognized as highly valued properties. Arguably the most valuable but least understood intangible assets are brands. However, reliable values need to be placed on brands. This International Standard provides a consistent, reliable approach to brand valuation, including financial, behavioural and legal aspects.

Brand valuation — Requirements for monetary brand valuation

1 Scope

This International Standard specifies requirements for procedures and methods of monetary brand value measurement.

This International Standard specifies a framework for brand valuation, including objectives, bases of valuation, approaches to valuation, methods of valuation and sourcing of quality data and assumptions. It also specifies methods for reporting the results of such valuation.

2 Terms and definitions

For the purposes of this document, the following terms and definitions apply.

2.1

asset

legal right or organizational resource which is controllable by an entity and has the capacity to generate economic benefits

2.2

brand

marketing-related intangible asset including, but not limited to, names, terms, signs, symbols, logos and designs, or a combination of these, intended to identify goods, services or entities, or a combination of these, creating distinctive images and associations in the minds of stakeholders, thereby generating economic benefits/values

2.3

intangible asset

identifiable non-financial asset with no physical substance

2.4

monetary brand value

brand value

economic value of the brand in transferable monetary units

NOTE The result obtained can be either a single economic value or a range of values.

2.5

premise of value

assumption regarding the most likely set of circumstances that can be applicable to the subject valuation

2.6

present value

current discounted worth of a future monetary amount

2.7

stakeholder

person whose decision making is, or might be, affected by a brand

NOTE Common stakeholders are customers, consumers, suppliers, employees, potential employees, opinion leaders, shareholders, investors, governmental authorities and non-governmental organizations.

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2.8
trade mark
legally protectable sign, or any combination of signs, capable of distinguishing the goods or services of one undertaking from those of other undertakings

EXAMPLE Words (including personal names), letters, numerals, figurative elements and combinations of colours.

NOTE 1 This definition is in accordance with the trade mark definition of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

NOTE 2 A trade name is the name of a business, association or other organization used to identify it. It might or might not be the same as the trade mark used to identify the company's goods and/or services.

2.9
valuation date
date on which the valuation is concluded

2.10
value date
date on which the valuation inputs, assumptions and valuation result are valid

3 General requirements

3.1 Transparency

Monetary brand valuation processes shall be transparent. This requirement includes disclosure and quantification of valuation inputs, assumptions and risks as well as, when appropriate, sensitivity analyses of the brand value to the main parameters used in the valuation models.

3.2 Validity

A valuation shall be based on valid and relevant inputs and assumptions as of the value date.

3.3 Reliability

If a valuation is repeated, it shall reliably give a comparable and reconcilable result.

3.4 Sufficiency

Brand valuations shall be based on sufficient data and analysis to form a reliable conclusion.

3.5 Objectivity

The appraiser shall conduct the valuation free from any form of biased judgement.

3.6 Financial, behavioural and legal parameters

When performing a monetary brand valuation, financial, behavioural and legal parameters shall be taken into account, the aforementioned parameters forming part of the overall assessment. The monetary brand valuation shall be conducted on the basis of the findings from the financial, behavioural and legal modules.

4 Specific requirements

4.1 Declaration of purpose

The declaration of purpose shall specify the intended use, the addressed audiences, the identified asset, the premise of value, the position of the appraiser (valuator), the valuation date and the value date.

The value concept shall be specified in accordance with the purpose of valuation.

NOTE The purposes of valuation are diverse. Common purposes are:

- a) management information;
- b) strategic planning;
- c) value reporting;
- d) accounting;
- e) liquidation;
- f) legal transaction;
- g) licensing;
- h) litigation support;
- i) dispute resolution;
- j) taxation planning and compliance;
- k) loan and equity financing.

4.2 Value concept

The monetary value of a brand shall represent the economic benefit conferred by a brand over its expected useful economic life. Generally, the monetary value shall be calculated by reference to cash flows, determined by reference to earnings, economic profits or cost savings.

4.3 Identification of brand

The appraisal shall identify, define and describe the brand subject to valuation.

5 Valuation approaches and methods

5.1 General considerations

Brands shall be valued by applying the income, market or cost approach. The purpose of the valuation, the value concept and the characteristics of the brand being valued shall dictate which approach (or approaches) is (are) utilized to calculate the value of a brand.

5.2 Income approach

5.2.1 Description of the income approach

The income approach measures the value of the brand by reference to the present value of the economic benefits expected to be received over the remaining useful economic life of the brand.

The steps followed in applying the income approach shall include estimating the expected after-tax cash flow streams attributable to the asset over its remaining useful economic life, and converting these after-tax cash flow streams to present value through discounting with an appropriate discount rate.

5.2.2 Determination of cash flows

5.2.2.1 General

The cash flows (or an alternative measure of brand earnings) used in a brand valuation shall be those cash flows reasonably attributable to the brand. Various methods are available to determine the cash flows, as outlined in 5.2.2.2 to 5.2.2.7.

5.2.2.2 Price premium method

The price premium method shall estimate the value of a brand by reference to the price premium that it generates.

The price charged for goods or services marketed with a certain brand shall preferably be compared with the price charged for a generic product, i.e. an unbranded product.

In order to arrive at the additional cash flow attributable to a brand, the appraisal shall identify and eliminate non-brand factors that make it possible for the owner of the brand to charge a higher price for the goods or services in question.

Additional and extra costs incurred in order to be able to charge a premium price shall be deducted from any price premium charged.

In many industries, identifying an unbranded or generic product for comparison with a branded product can be difficult, and price premium shall then be assessed through reference to the brand with the lowest brand strength (see 6.2.4) in the market.

The price premium method shall be used taking into account the volume premium method. In addition, it shall take into account cost-saving benefits.

5.2.2.3 Volume premium method

The volume premium method shall estimate the value of a brand by reference to the volume premium that it generates.

In order to determine the cash flow generated by the brand, the volume premium method can be applied. In this method, additional cash flows generated through a volume premium shall be determined based on an analysis of market shares.

The additional cash flow generated by the brand is the operating cash profit related to the excess market share.

The appraisal shall pay attention to the fact that there may be other factors explaining a specific market share. Market imperfection is one such very important factor. When valuing a brand with a significant market position, the appraisal shall identify the effect of any market imperfection on the generated cash flow and exclude this from the cash flow attributed to the brand.

As with the premium price, consideration shall be given to additional costs incurred in order to hold a larger market share or faster growth in market share.

The volume premium method shall be used taking into account the price premium method. In addition, it shall take into account cost-saving benefits.

5.2.2.4 Income-split method

The income-split method shall value the brand as the present value of the portion of the economic profit attributable to the brand. The economic profit corresponds to the net operating profit after a charge for capital employed in the business, expressed at market value. The results of behavioural research shall then be used to identify the contribution of the brand to increasing earnings or reducing costs. The value of the brand shall then correspond to the present value of the portion of the economic profit over the brand's remaining useful economic life.

5.2.2.5 Multi-period excess earnings method

The multi-period excess earnings method shall value the brand as the present value of the future residual cash flow after deducting returns for all other assets required to operate the business.

When there are several intangible assets generating cash flow in the business, this method requires a valuation of each individual group of intangible assets in order to be able to calculate the cost of capital related to each of them.

5.2.2.6 Incremental cash flow method

The incremental cash flow method shall identify the cash flow generated by a brand in a business through comparison with a comparable business with no such brand. In practice, there are few situations where one can identify such similar conditions of operations, without one specific asset — the brand. Cash flows are not only generated through increased revenues, but also through reduced costs. Such cost efficiencies shall be identified and considered when valuing a brand.

5.2.2.7 Royalty relief method

In order to determine the cash flow generated by the brand, the royalty relief method can be applied. This method shall measure the value of the brand as the present value of expected future royalty payments, assuming that the brand is not owned but licensed. The value calculated through the royalty relief method thus constitutes the present value of the royalty payments saved through the ownership of the brand.

The royalty rate applied in the valuation shall be determined after an in-depth analysis of available data from licensing arrangements for comparable brands and an appropriate split of brand earnings between licensor and licensee, and shall be as close as possible to brands with the same characteristics and size as the brand subject to valuation.

5.2.3 Determination of financial variables

5.2.3.1 Determination of discount rate

Under the income approach, risks that are not already reflected in future cash flows shall be considered in the discount rate.

The discount rate used for discounting future expected cash flows attributable to a brand shall be derived from the discount rate used for the discounting of cash flows generated by the business as a whole, i.e. the weighted average cost of capital (WACC). As a business is a portfolio of assets and liabilities, the discount rate shall also reflect the specific risks of the brand.

Unless explicitly considered in the cash flow projection or in the estimated lifetime of the asset, some entity-specific factors shall be considered in the discount rate including, but not limited to, market, behavioural and legal risks.

5.2.3.2 Useful economic life

The useful economic life of a brand, using the income approach, shall consider the general trend for brands in the industry in which the brand is used. The valuation shall not cover a forecast period that exceeds the remaining useful economic life of the brand.

NOTE It is possible for a brand to have an indefinite useful economic life.

5.2.3.3 Tax considerations

5.2.3.3.1 Tax rate

Cash flows in the income approach shall be calculated on the after-tax basis.

5.2.3.3.2 Tax amortization benefit (TAB)

When valuing a brand, the effect of tax savings through depreciation (amortization) shall be considered and, where relevant, calculated.

The valuation reports shall clearly state if the value includes the value of any tax savings and, where relevant, show this value as a separate item.

5.2.3.4 Long-term growth rate

Under the income method, the period beyond the explicit forecast shall be valued using a long-term expected growth rate. The growth rate used shall be based on justifiable economic fundamentals.

5.3 Market approach

5.3.1 Description of the market approach

The market approach measures value based on what other purchasers in the market have paid for assets that can be considered reasonably similar to those being valued.

The application of the market approach shall result in an estimate of the price reasonably expected to be realized if the brand were to be sold. Data on the price paid for reasonably comparable brands shall be collected, and adjustments shall be made to compensate for differences between those assets and the brand under analysis. For selected comparables, multiples shall be computed on the basis of their acquisition price. Those multiples shall then be applied to the aggregates of the subject brand.

5.3.2 Considerations when applying market approach

When applying the market approach, brands considered as comparable shall have similar characteristics to the brand subject to valuation, such as brand strength, goods and services, or economic and legal situation.

In order to be comparable, the transactions shall have been made within a reasonable closeness in time to the value date of the subject for valuation.

The valuation shall take into account the fact that the actual price negotiated by independent parties in a transaction may reflect strategic values and synergies that cannot be realized by the present owner.

NOTE The number of transactions relating to brands as isolated assets is very small. In addition, when the data are known, the characteristics of the brand being valued can differ significantly from the characteristics of the few examples of brands being sold.

5.4 Cost approach

5.4.1 Description of the cost approach

The cost approach measures the value of a brand based on the cost invested in building the brand, or its replacement or reproduction cost.

NOTE It is based on the premise that a prudent investor would not pay more for a brand than the cost to replace or reproduce the brand.

The actual cost invested in the brand shall encompass all costs spent on building and protecting the brand up to the value date. The cost to replace the brand shall include the cost of constructing a similar brand of equivalent utility at prices applicable at the time of the valuation analysis. The reproduction cost shall represent the cost to be incurred, at the value date, to recreate a similar brand and shall be adjusted in order to take into account potential losses of awareness and strength.

5.4.2 Considerations when applying cost approach

When applying the cost approach, a comparison shall be performed between the past expenditure and the awareness of the brand generated by such expenditure. It shall not be automatically considered that there is a link between money spent and value.

NOTE The cost approach is often based on retrospective data and does not consider a company's future earnings potential.

The cost approach can be used when the other valuation approaches cannot be implemented and there is reliable data to estimate the cost.

The cost approach can be used to assess the consistency and the reasonableness of the value obtained through other approaches.

6 Necessary valuation inputs

6.1 Market and financial data

In order to assess the market in which the subject brand operates (e.g. size, trends), an analytical review of the current and predicted market volumes, values, margins and channels shall be performed. The appraiser shall ensure that the results of this review are reflected in the valuation.

The appraisal shall include an assessment of all relevant financial data.

6.2 Behavioural aspects

6.2.1 Relation to financial aspects

In order to assess the value of the brand, the key financial parameters and valuation assumptions shall be adjusted based on an analysis of the behavioural aspects of the brand.

When applying the income approach, an analysis of the behavioural aspects of the brand is necessary in order to determine the monetary proportion attributable to the brand, and to assess the risk connected with the brand when determining the discount rate.

When applying the market approach, an analysis of the behavioural aspects of the brand is necessary in order to determine the appropriate multiples.

When applying the cost approach, an analysis of the behavioural aspects is necessary in order to determine the cost of constructing a similar brand of equivalent utility.

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6.2.2 General considerations

The valuation of a brand shall directly address the ways in which a brand generates value and shall consider all economic benefits that can be derived from the brand's functions in the context of the branded business.

NOTE The core of the brand value lies in the asset's associated meaning(s) among stakeholders. Associated meanings can limit or extend the use of the brand for different purposes.

There are many economic benefits deriving from a brand, such as those listed below.

- a) The brand creates better recognition and interlinking of communicative messages and thus generates efficiencies in the company's various communication initiatives. Communication efficiencies contribute to the profitability of the branded business.
- b) The brand contributes to the differentiation of the product and services and, if the difference is relevant, it has a positive influence on the buying behaviour of the customers. Relevant differentiation leads to preference building, which ultimately generates financial growth.
- c) The brand contributes to the acquisition and retention of customers and thus adds to the sustainability of the business. Brands secure future demand and therefore reduce the operational risks of the company.

6.2.3 Determining the brand situation

The appraisal shall include an assessment of the brand situation in the market, including the brand value drivers.

NOTE The emotional and rational states of mind among relevant stakeholders in relation to the brand determine its future success, and hence the maintenance of its value, or the increase in its value, or both. These relationships are the foundation of the role of brands and the generation of brand loyalty, leading to continued purchase and the capacity for such brands to attract a price premium. Consequently, an assessment of the value of a brand and of the specific risks to a brand is generally not meaningful without a comprehensive and diligent evaluation of relevant stakeholders' perceptions of the brand in comparison with its competitors.

6.2.4 Brand strength

In order to estimate the level of future sales volumes, revenues and risks, an analysis of the brand strength shall be performed among the relevant stakeholder groups and reflected in the appraisal.

NOTE 1 Measures commonly used to understand brand strength include awareness, perceptual attributes, knowledge, attitude and loyalty.

NOTE 2 The quality and quantity of brand strength data available for the valuation will differ significantly from one brand to another.

NOTE 3 Brand strength can be impacted by changes in consumer behaviour and trends, brand investment, competitive activity and trade mark enforcement protection programmes.

6.2.5 Effect on demand

Every brand valuation shall incorporate an evaluation of the brand's relevance in its specific market and sector environment. The brand's relevance describes the influence which the brand exerts on the purchase decision in the target group in a market. Combining brand relevance for the industry with company specifics translates into how much value the brand contributes to the total value.

NOTE This information indicates how much of the total cash flow is attributable to the brand.

Brand relevance shall be taken into account in relation to both current and future brand value. Thus, estimates of changes — growth or decline — in the brand's future relevance in the market or sector segment investigated shall be incorporated in the evaluation.

6.3 Legal aspects

6.3.1 Assessment of legal protection

The appraisal shall include an assessment of the legal protection afforded to the brand, identifying

- each of the legal rights that protect the brand,
- the legal owner of each of those legal rights, and
- the legal parameters influencing negatively or positively the value of the brand.

NOTE 1 An important component of brand valuation is assessing the legal protection afforded to the brand in each relevant jurisdiction. Legal protection is one factor that informs brand value because it permits the brand owner to utilize formal legal systems to exclude third parties from using the same brand, thereby providing exclusivity.

NOTE 2 The legal rights that exist to protect aspects of a brand vary between legal systems. With a small number of exceptions (e.g. the European Community trade mark system), legal rights that protect brands exist at a national level only.

6.3.2 Legal rights to be valued

6.3.2.1 General

An analysis under local laws shall be an essential element of brand valuation.

The appraisal shall include the identification of the legal rights related to the brand and their ownership.

NOTE In general, the most important form of legal protection will be registered trade marks. However, other legal rights might also exist that protect aspects of a brand. Examples include rights to protect trade names, unregistered trade marks on the basis of use, rights to protect registered or unregistered designs, rights to protect copyright works and rights to prevent unfair, deceptive or anti-competitive behaviour. Not all such legal rights will be relevant in all markets, and other national rights might exist in addition to these examples.

6.3.2.2 Ownership

The value determined in a brand valuation shall only be attributable to the owner of the legal rights.

6.3.2.3 Determination of legal rights

The legal rights shall be determined in accordance with the relevant national and regional laws.

NOTE A legal right comes into force through registration, use or legislation. The legal rights come either as a single legal right or as a family of legal rights.

6.3.2.4 Legal rights through registration

The legal right(s) acquired through registration shall be defined in terms of sign(s), goods/service(s) and territory(ies) as they appear in the registration document(s).

6.3.2.5 Legal rights, or potential legal rights, or both, acquired through use

The rights acquired through use shall be defined taking into account the territory of use and the market recognition in accordance with respective national or regional law.

6.3.3 Legal parameters affecting the brand value

The appraisal shall take into account all legal parameters affecting positively or negatively the value of the brand, including:

- a) distinctiveness;
- b) scope of use/scope of registration (territory, goods and services);
- c) extent of use;
- d) notoriety/extent to which brand is well-known;
- e) risk of cancellation, priority, dilution and the ability, or willingness, or both, of the owner to enforce legal rights.

NOTE 1 The legal parameters depend on the correspondence between the legal rights of the brand and the market it operates in. These parameters often define the relationship between the legal rights and the market perception.

NOTE 2 Third parties' rights can influence the current or intended use of the brand, and thereby its value.

6.4 Sourcing and use of quality data and assumptions

The appraiser shall ensure that reliable data for the completion of the brand valuation is obtained. This shall include data available from the brand owner and appropriate third parties. The appraiser shall thoroughly assess the relevance, consistency and adequacy of all data and assumptions used.

7 Reporting

Every brand valuation report shall clearly state the following:

- a) position and status of the appraiser;
- b) purpose of valuation;
- c) identification of the subject brand;
- d) brand-related assets valued;
- e) addressed audience/addressees;
- f) premise of value;
- g) approaches and methods used;
- h) valuation date;
- i) value date;
- j) result of the monetary brand valuation;
- k) data sources used;
- l) overview of legal rights, behavioural aspects and financial analysis;
- m) key assumptions and sensitivities;
- n) limitations.

8 Independence

The appraiser shall use care and professional judgement to maintain independence and objectivity in reaching the valuation opinion.

