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In 2010, a major proprietary brand valuation service, BrandZ, ranked Google's brand number one in the world, with a value of $114 billion. Interbrand, another highly respected brand valuation organization, put it only in fourth place, with a meager $44 billion.

In light of those enormous variations, it is not surprising that the Swiss-based International Organization for Standardization (ISO) issued a new standard, ISO 10668. The new standard provides consistent, reliable procedures and methods for measuring brand values—including all financial, behavioral, and legal aspects—either as a single amount or as a range. This is an extremely important development, which will lead users of valuation reports with intangible assets to ask whether or not they are in conformity with ISO 10668.

This article summarizes the 11-page legal document, which is expected to have a global reach and effect. Fortunately, most of its pronouncements have already been adopted as best practices by many valuators. The key provision is that they use professional judgment and care to maintain independence and objectivity in reaching their conclusions.

In 2008 the ISO began considering the valuation profession seriously, taking the view that:

> 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.

The result in September 2010 was ISO 10668; more standards in the valuation field are likely to follow.

GENERAL THEME

The standard has the following eight underlying themes, all of which are current best practices:

- Transparency: The valuation processes must be transparent, including disclosure and quantification of inputs, assumptions, and risks, as well as, when appropriate, sensitivity analyses.
- Validity: The inputs and assumptions should be valid and relevant as of the valuation date.
- Reliability: Any model involved should reliably give comparable and reconcilable results.
- Sufficiency: Every valuation shall be based on sufficient data and analyses to form supportable conclusions.
- Objectivity: The valuator shall be free from any form of biased judgment.
- Parameters: Appropriate financial, behavioral, and legal parameters shall form part of the overall assessment.
- Purpose: A valuation report shall specify the intended use, the addressed audiences, the identified brand (including a full description),

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the premise of value, the position of the valuator, the valuation date, and the report date.

- Concept: The value of a brand shall represent the economic benefits conferred by it over its expected useful economic life. Generally this is calculated by reference to cash flows, earnings, economic profits, and cost savings.

APPROACHES AND METHODS

Brands may be valued by the income, market, or cost approach. The purpose, value concept, and characteristics of the brand shall determine which of those are appropriate.

Income Approach

In general this involves estimating the expected after-tax cash flows attributable to the brand over its remaining useful economic life, and present valuing them at an appropriate discount rate. The cash flows (or another measure of brand earnings) used shall be those reasonably attributable to the brand. Various methods are available to determine the cash flows to be calculated after tax.

Price premium method

Estimate a brand's value from the higher price it generates. This is usually obtained by comparing the price charged for goods or services marketed under a brand with that charged for a generic (unbranded) product. To arrive at the additional cash flows, the valuator shall identify and eliminate other factors that allow the owner of a brand to charge a higher price for the goods or services. Additional costs incurred to charge a premium price shall be deducted. In many industries, identifying a comparable generic product may be difficult. In that case, the price premium shall be assessed by reference to the brand with the lowest brand strength. This method shall be used together with the volume premium method as well as any cost-saving benefits.

Volume premium method

This estimates the value of a brand by reference to the additional volume it produces. In this method, additional cash flows generated through greater volumes are determined based on an analysis of market shares; they are the operating cash profits related to extra sales. The valuator should consider other factors (such as regulatory impediments) that may explain a specific market share. When valuing a brand with a significant position, the effect of any impediments on cash flows should be excluded from those attributed to the brand. As with the premium price method, consideration should be given to additional costs incurred in order to hold a larger market share or achieve faster growth.

Income-split method

A brand is also worth the present value of the portion of the economic profits attributable to it; those are the net operating profits after taxes less a charge for the market value of the capital employed in the business. The results of behavioral research are then used to identify the contribution of the brand to increasing earnings or reducing costs. The value of the brand is the present value of its portion of the economic profit over the brand's remaining useful economic life.

Multi-period excess earnings method

This ascribes to a brand the present value of the future residual cash flows after deducting returns on all other financial, physical, and intangible assets required to operate the business. When several groups of intangible assets generate cash flows in the business, this method requires a valuation of each group to calculate the cost of capital related to each of them.

Incremental cash flow method

The cash flows generated by a brand may be identified through comparison with a comparable business without one. In practice, there are few such situations. Cash flows are not only generated by increased revenues, but also through reduced costs. Such efficiencies are to be identified and considered when valuing a brand.

Relief-from-royalty method

This is often chosen to determine the cash flow generated by a brand. It measures the present value of expected future royalty payments, assuming that the brand is not owned but licensed. The royalty rate selected 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. It should be as close as possible to those for brands with the same characteristics and size.

What is the ISO?

The ISO develops worldwide standards that are intended to:

- Make the development, manufacturing and supply of products and services more efficient, safer, and greener;
- Facilitate fairer trade between countries;
- Provide governments with technical bases for health, safety, and environmental legislation;
- Share technological advances and good management practice;
- Disseminate innovation;
- Safeguard consumers, and users in general, of products and services; and
- Make life simpler by providing solutions to common problems.

There are more than 18,500 international standards and other documents in the ISO's current portfolio. Its work program includes traditional activities, such as agriculture and construction, as well as mechanical engineering, manufacturing, and distribution; it also covers transportation, medical devices, information and communication technologies, and standards for good management practices and services.

Discount rate

Risks that are not already reflected in future cash flows are to be considered in the discount rate. This should be derived from the WACC, which is used to discount the cash flows generated by the business as a whole. 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 projections or in the estimated lifetime of the asset, some entity-specific factors shall be reflected in the discount rate, including market, behavioral, and legal risks.

Useful economic life

This should consider the general trends for brands in the industry in which it is offered. The projection period shall not exceed the remaining useful economic life of the brand. It is possible for a brand to have an indefinite useful economic life.

Tax amortization benefit (TAB)

When valuing a brand, the effect of tax savings through depreciation (amortization) shall be considered, and where relevant, calculated, and included. The valuation report shall clearly state if the value includes any tax savings and, if so, show this amount separately.

Long-term growth rate

The period beyond the explicit projection shall be valued using a long-term expected growth rate based on justifiable economic fundamentals.

Market Approach

A measure of value may be based on what other purchasers have paid for reasonably similar assets. The market approach should result in an estimate of the price reasonably expected to be realized if the brand were to be sold. Data on the prices paid for reasonably comparable brands shall be collected and adjustments made for differences between them and the subject brand. For selected comparables, multiples are calculated on the basis of their acquisition price and then applied to the aggregates of the subject.

When applying this approach, comparables should have similar characteristics to the subject, such as brand strength, goods or services, economic and legal situation, as well as a transaction reasonably close in time to the valuation date. The valuator shall take into account the fact that the actual prices negotiated by independent parties in transactions may reflect strategic values and synergies that cannot be realized by the present owner. The number of transactions relating to brands as isolated assets is very small. In addition, when the data is known, the characteristics of the subject may differ significantly from those of the few examples of brands sold.

Cost Approach

The cost approach measures the value of a brand based on the costs invested in building it, or duplicating or replacing it. The premise is that a prudent investor would not pay more for a brand than the cost to replace or reproduce it. The actual amount invested encompasses all expenses to build and support it up to the valuation date. Replacement costs include those to create, at current prices, a similar brand of equivalent utility. Duplication costs represent the expenses needed to recreate an identical brand, adjusted for any potential losses of awareness and strength.

When adopting the cost approach, a comparison must be performed between past expenditures and awareness of the brand generated by them. It should not be automatically assumed that there is a link between money spent and value created. The cost approach is often based on retrospective data and does not consider a company's future earnings potential. It may be used when other valuation approaches cannot be implemented and there is no other reliable data. It is sometimes used to ascertain the consistency and reasonableness of values obtained through other approaches.

OTHER REQUIRED MATERIAL

ISO 10668 specifies certain information that should be collected and analyzed.

Market and Financial Review

To assess the market in which the subject brand operates (e.g. size, trends), an analytical review of current and predicted volumes, values, margins, and channels is needed. The valuator must ensure that its results and an assessment of all relevant financial data are reflected in the value conclusion.

Behavioral Aspects

To estimate the value of a brand, the key financial parameters and valuation assumptions shall be adjusted based on an analysis of its behavioral aspects. Under the income approach, this is necessary to establish the cash flows attributable to the brand, and to gauge the risks involved when determining the discount rate. When applying the market approach, such an analysis is needed to adjust the appropriate multiples. If opting for a cost approach, this analysis is required to estimate the cost of constructing a similar brand of equivalent utility.

Value Generation

The valuator shall directly address the ways in which a brand creates value and consider all economic benefits that can be derived from its functions in the context of the business. The core of a brand's value lies in the meanings associated with it among customers, which may limit or extend the use of the name for different purposes. The economic benefits deriving from a brand may include:

- Better recognition and interlinking of communicative messages that generate efficiencies in the firm's various communication initiatives, which contribute to the profitability of the branded business.

- Differentiation of the products or services that, if they are relevant, have a positive influence on the buying behavior of customers. Relevant differentiation leads to preference building, which ultimately generates financial growth.

- Acquisition and retention of customers, which adds to the sustainability of the business. Brands secure future demand and therefore reduce the operational risks of the company.

Brand Situation

The valuation report shall include an assessment of the brand's situation in the market, including its value drivers. The emotional and rational states of mind among relevant stakeholders in relation to the brand determine its future success and hence the maintenance of, or an increase in, its value. These relationships form the foundation of the role of brands and generate brand loyalty, leading to continued purchases and the capacity to achieve a price premium. Consequently, brand value assessment and its specific risks are generally not meaningful without a comprehensive and diligent evaluation of relevant stakeholders' perceptions relative to the brand in comparison with its competitors.

Brand Strength

To estimate future volumes, revenues and risks, an analysis of the brand strength must be performed among the relevant stakeholders and reflected in the valuation report. Measures commonly used to understand brand strength include awareness, perceptual attributes, knowledge, attitude and loyalty. The quality and quantity of such data will differ significantly from one brand to another. This attribute may be affected by changes in consumer behavior, trends, brand investment, competitors' activities, and trademark enforcement.

Effect on Demand

Every brand valuation shall incorporate an assessment of the brand's relevance in its specific market and sector; this describes the brand's influence on the purchase decisions of the target group. Combining the brand's position with company-specific activities indicates how much of the total cash flows is attributable to the brand; it also translates into how much it contributes to the total value. Brand relevance is important in relation to both current and anticipated brand values. Thus, estimates of growth or decline in the brand's future relevance in the market or sector segment investigated shall be incorporated in the value.

Legal Protection

An important component of brand valuation is assessing the legal protection afforded to the brand in each relevant jurisdiction. This factor affects brand value because it permits the owner to utilize formal legal measures to prevent third parties from using the brand, thereby providing exclusivity. The valuation report shall include an assessment of such legal protection, identifying all pertinent legal rights and any legal parameters influencing negatively or positively the value of the brand. With a few exceptions (the European Union's trademark system), legal rights protecting brands exist at a national level only. Therefore, an analysis under local laws is an essential element of brand valuation.

In general, registered trademarks offer the most important legal protection. However, other legal rights may also protect aspects of a brand. Those include: trade names, unregistered trademarks on the basis of use, registered or unregistered designs, copyrights, and rights to prevent unfair, deceptive, or anti-competitive behavior. Not all such legal rights will be relevant in every market, and further national rights may also exist.

Ownership

The value of a brand shall be attributable only to the owner of the legal rights, determined in accordance with relevant national and regional laws. Legal rights, either on their own, or as part of a family of rights, come into force through registration, use, or legislation. Those obtained through registration are defined by the relevant documents. Rights acquired through use must take into account the applicable territory and market recognition in accordance with their respective laws.

Legal Parameters Affecting Value

The valuator shall take into account all legal parameters that have a positive or negative effect on the brand's value. Those depend on the interaction between the legal rights and the markets in which it operates and often define the relationship between those legal rights and the market perception. Third parties' rights may influence the current or intended use of the brand, and thereby its value.

Important factors relate to:

- Distinctiveness;
- scope of use/scope of registration (territory, goods, and services);
- extent of use;
- consciousness of the brand; and
- risk of cancellation, priority, dilution, and the ability, or willingness, or both, of the owner to enforce legal rights.

Quality of Data and Assumptions

The valuator shall ensure that the data for the brand valuation is complete and reliable. This includes information from the owner and appropriate third parties. The relevance, consistency, and adequacy of all data and assumptions used must be thoroughly reviewed and assessed.

REPORTING

Every brand valuation report, as well as the material referred to above, shall clearly state:

- position and qualifications of the appraiser;
- purpose of the valuation;
- valuation date;
- report date;
- identification of the subject brand;
- brand-related assets included;
- potential audience/addressees;
- premise of value;
- approaches and methods used;
- monetary conclusion of brand value;
- information sources used;
- overview of legal rights, behavioral aspects and financial analyses;
- key assumptions and sensitivities; and
- any restrictions and limitations.

CONCLUSION

The first ISO standard on valuation, as discussed above, is likely to be followed by others. Therefore, all valuators should be aware of this document and ensure that its provisions are fully followed when preparing any valuation report on intangible assets.

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