IMPORTANCE OF CONSUMER'S PERCEPTION IN A HOLISTIC BRAND VALUATION

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"Your brand is what people say about you when you're not in the room." (Jeff Bezos, Amazon)

"Business is built on customer relationships, and brand perception sets the tone." (Jana Barrett, 2016).

"Companies don't control brand perception—consumers do. They're the ones perceiving and sharing those perceptions." (Brandwatch)

Introduction

The aim of this paper is to highlight the importance of a consumer's perception of a brand in a holistic approach towards brand valuation.

The material discusses the existing approaches of brand valuation as to their structure, the metrics used and the limitations of such approaches; *however*, the major part of this paper will discuss the significance of consumer's perception of a brand on its valuation.

Meanwhile, it is worth stating herein that what will not be discussed in this paper is how such valuations are mathematized.

To that end, it would be of essence, first of all, to examine what the terms 'brand', 'valuation' and 'consumer's perception' mean/stand for from different perspectives.

What is a 'brand'?

In Meriam-Webster, a 'brand' is defined as "a category of products that are all made by a particular company and all have a particular name".

In the legal context, a 'brand' is synonymous to a 'trademark' which refers to any sign, word and/or artwork or a combination of some/all of these items-that is capable of identifying and distinguishing a product, a merchant, a manufacturer or a service provider from others in the market.

The American Marketing Association defines a brand as "A name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers."

Academic research shows that in addition to expressing their identity through the everyday choices they make, consumers will often seek new ways in which they can express their personal identity through brands. "As a result, brands can be used to create a unique social identity for each customer"[1].

Brand + Consumer's Perception

From a present-day marketer's point of view, the emotional and rational states of mind among consumers in relation to the brand decide its success and control its value:

"Business is built on customer relationships, and brand perception sets the tone." (Jana Barrett, 2016)

"A brand is the emotional relationship between the consumer and the product… The deeper the relationship, the more brand equity exists". (Neil Feinstein of True North)

"Brand is the sum total of how someone perceives a particular organization. Branding is about shaping that perception. (Ashley Friedlein–Econsultancy.)

The definitions of a 'brand' connecting it to consumer's perception reflect a realistic understanding by the experts that a brand is more than a name and a category of products for the consumers: it is in the center of the consumer's perception now that brand is created and influenced by people, visuals, culture, style, perception, words, messages, public relations, opinions, news media and especially social media. It is a set of expectations, memories, stories and relationships that, taken together, account for a consumer's decision to choose one product or service over another.

A sociologist research put it as follow: "brands can be used to create a unique social identity for each customer: "A brand is a means for self-expression and is a lifestyle "beacon"…Brands can be used to create a unique social identity for each consumer" (M.C. Cătălin and P. Andreea, 2014).

What is brand valuation important for?

Although a brand recognition/goodwill/emotional attributes are not physical assets that can be seen or touched, its positive effects on bottom-line profit are the driving force behind companies' global sales year after year.

Brand valuation can be useful and of vital importance in different ways including on-going brand management and development, a benchmark of return on investment (ROI); compliance with US GAAP, IAS and IFRS and negotiating with licensees or joint venture partners. Information from a brand valuation is also useful in brand transactions, dispute resolution and for investor relations.

In finance, a brand can be used to help raise finance. The brand valuation process is often used to support the value of a brand which is then used as collateral for a bank loan or a loan from another investor for financing and raising finance.

IFRS 3 requires, in essence, that all assets on an acquisition, both tangible and intangible like brand value, be restated at their market values when accounting for the acquisition.

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[1] Brands as a Mean of Consumer Self-expression and Desired Personal Lifestyle (PDF Download Available). Available from: https://www.researchgate.net/publication/260007967_Brands_as_a_Mean_of_Consumer_Self-expression_and_Desired_Personal_Lifestyle

In legal disputes, brand valuation was of major impact on the outcome of several court proceedings like in the case of *Laura Ashley v L'Oreal* where, in 2004, Laura Ashley employed a UK team of experts in intangible business to give evidence in the International Chamber of Commerce in Paris for the purpose of evaluating the change in value of the Laura Ashley brand between 1995 and 2002. The experts were capable of demonstrating the relationship between consumer loyalty, brand image and market performance with that of financial performance. The value of the Laura Ashley brand in the Fashion and Home furnishings sectors from 1995 to 2002 was calculated and compared against its share price. The ICC in Paris ruled in Laura Ashley's favour[2].

Taking this fact into account, brand valuation is now becoming an integral part of internal accounting and budgetary control systems and, where applicable, must be valued for tax purposes.

Due to this importance of brand valuation, the number of brand valuation leagues is increasing year after year. The following Table compares the rank and brand value of *Apple* brand in three recent brand value reports.

Report	Publisher	Rank of Apple	Brand value (USD Millions)
The World's Most Valuable Brands 2017	Forbes	1	170, 000
The most valuable brands of 2017	Brand Finance 2017	2	109,470
The 2017 BrandZ™	WPP and Kantar Millward Brown	2	234,671

As one can immediately notice, the USD value of *Apple* brand in each report is tens of USD Billions different!!!

So, what is brand valuation?

Brand valuation is the process of assessing/calculating the value of a brand using different approaches or blended approaches that are either based on actual value of the brand, that is, the financial value of a brand or "In other circumstances brand value means one of the intangible measures that contribute to the brand's financial value. Such brand value attributes can include brand awareness, familiarity, relevance, heritage or understanding. These brand values all contribute towards the financial value of the brand".[3]

The prevailing brand valuation methods are based on the above definition less the emotional attributes of the brand. The reason is that the universal valuation methods were originally designed to measure tangible assets such as real estate, machinery, stocks, cars, ships etc.

However, nowadays, most of the business value is now embodied in its intangible assets including items such as patents, trademarks, copyrights and business methodologies.

[2] The Telegraph, http://www.telegraph.co.uk/finance/2897605/Laura-Ashley-wins-first-round-of-17m-battle.html

[3] Source: http://www.brandvaluation.co.uk/Brand-Valuation-Issues/Brand-value-vs-brand-value~18.html

A brand is now *perceived* as the trademark in addition to a combination of physical, functional and emotional attributes.

In different sectors, the importance of each element varies in degree but they can all be part of a brand, summarized as follows: "Physical: names, colours, descriptors, smells/tastes, symbols, packaging, logotypes, straplines, sounds, advertising. Functional: ensure recognition, simplify selection, guarantee origin, confirm quality. Emotional: association, reassurance, aspiration, self-expression".[4]

It is based on the above elements that there exist different approaches of brand valuation but which divide into two major approaches:

A one approach that calculates the value of the brand based on 'tangible' data related to income, cost and market, which, for the purposes of this research, will be referred to as the 'Conventional Approach'.

A second one, is an approach that calculates the value of the brand based on tangible data in addition to 'less tangible' data related to intelligence about consumer's perceptions/psychology, brand awareness, familiarity, relevance, heritage or understanding. In this research, we shall refer to this approach as the 'Comprehensive Approach'.

The Conventional Approach

This is a combination of the following methods[5]:

Income based brand valuation methods:

- *Relief from royalty method*: this brand valuation method is based on how much the brand owner would have to pay to use its brand if it licensed the brand from a third party. It uses discounted cash flow analysis (dcf) to capitalize future branded cash flows.
- *Excess-earnings method*: this brand valuation methodology calculates the earnings above the profits required to attract an investor – which uses the estimated rate of return based on the current value of the assets employed.
- *Price premium method*: this brand valuation method is based on a capitalization of future profit stream premiums attributable to a business' brand above the revenues of a generic business, without a brand.
- *Capitalization of historic profits method*: the brand valuation method is based on the capitalization of profits earned by the brand.

Market based brand valuation methods:

- *Price to earnings (p/e) ratios method*: the p/e brand valuation method multiples the brand's profits by a multiple derived from similar transactions of profits to price paid based on the value of reported brand values.

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4 Source: Intangible Business, http://www.intangiblebusiness.com/legal/brand-valuation

5 Rajesh Kumar, 2016. Valuation: Theories and Concepts.

- *Turnover multiples method*: this brand valuation method multiplies the brand's turnover by a multiple derived from similar transactions.

Cost based brand valuation methods:

- *Creation costs method*: this brand valuation methodology estimates the amount that has been invested in creating the brand.
- *Replacement value method*: this brand valuation method estimates the investment required to build a brand with a similar market position and share.

The Comprehensive Approach:

Another campaign values a brand using intangible measures that pay out for the brand's financial value. Please see pages 9-15 for more on this approach.

Initiatives for a universal standard for brand valuation

In order to streamline and harmonize the brand valuation methods, initiatives where taken by international and national bodies to formulate a manual for brand valuation and set out principles which should be adopted when valuing any brand. The most prominent example is the ISO 10668 standard which was developed by International Organization for Standardization technical committee ISO/TC 289. ISO 10668 and was published for the first time in September 2010.

ISO 10668

ISO 10668 is a summary of existing best practice and intentionally avoids detailed methodological work steps and requirements. As such ISO 10668 applies to all proprietary and non-proprietary brand valuation approaches and methodologies that have been developed over the years, so long as they follow the fundamental principles specified in the meta standard.

ISO 10668 specifies that when conducting a brand valuation, the brand valuer must conduct 3 types of analysis before passing an opinion on the brand's value. These are Legal, Behavioral and Financial analysis.

According to this Standard, a brand is defined as a 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.

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. According to the Notes of said Standard, stakeholders are defined as, amongst others, the "customers, consumers"

ISO 10668 requires 3 types of analysis to arrive at a thorough brand valuation opinion. This requirement applies to valuations of existing brands, new brands and brand extensions:

ISO 10668: Module 1 Legal analysis

The first requirement is to define what is meant by 'brand' and which intangible assets should be included in the brand valuation opinion. ISO 10668 begins by defining Trademarks in conventional terms but it also refers to other Intangible Assets ('IA') including Intellectual Property Rights ('IPR') which are often included in broader definitions of 'brand'.

International Financial Reporting Standard 3 ('IFRS3') specifies how all acquired assets should be defined, valued and accounted for post-acquisition. It refers to 5 specific IA types which can be separated from residual Goodwill arising on acquisition.

ISO 10668: Module 2 Behavioral analysis

The second requirement when valuing brands under ISO 10668 is a thorough behavioral analysis. The brand valuer must understand and form an opinion on likely stakeholder behavior in each of the geographical, product and customer segments in which the subject brand operates.

ISO 10668: Module 3 Financial analysis

The third requirement when valuing brands under ISO 10668 is a thorough financial analysis.

ISO 10668 specifies three alternative brand valuation approaches - the Market, Cost and Income Approaches.

The purpose of the brand valuation, the premise or basis of value and the characteristics of the subject brand dictate which primary approach should be used to calculate its value.

ISO 10668 applies to brand valuations commissioned for all purposes, including:

- Accounting and financial reporting
- Insolvency and liquidation
- Tax planning and compliance
- Litigation support and dispute resolution
- Corporate finance and fundraising
- Licensing and joint venture negotiation
- Internal management information and reporting
- Strategic planning and brand management
- The last of these applications include:
- Brand and marketing budget determination
- Brand portfolio review
- Brand architecture analysis
- Brand extension planning

The ISO 10668 received some critique from global experts in brand valuation: *Gabriela Salinas*, Deloitte's global brand manager, considers that the model of brand valuation defined by the International Organization for Standardization (ISO) will mainly influence the credibility of the industry, but will not make a significant impact on the technical development of the practice.[6]

[6] Source: Issue 29 of WTR magazine.

Amidst the many different approaches to brand valuation and the huge variations between such valuations of a given brand (like *Apple's*), the ISO 10668 provides a credible model for brand valuation that can be relied on to measure the economic value of brands through a globally harmonized three-tiered analysis focusing on financial, legal and behavioral aspects.

Now, why a consumer's perception of a brand matters, and how experts can measure it?

Experts agree that customer opinion is more influential than ever in determining brand perception:

> "Brand perception is owned by consumers, not brands. Regardless of your message, whatever people are thinking and saying about your brand, that is your brand."[7]

As Brandwatch points out, companies don't control brand perception—consumers do. They're the ones perceiving and sharing those perceptions. <u>This is why a brand perception is an essential element of a more reliable brand valuation methodology.</u>

Positive brand <u>perception</u> means consumers are more likely to choose your brand over a competitor's. Negative brand <u>perception</u> means they're more likely to choose a competitor—and tell other potential customers why they didn't choose your brand.

Sociological research shows that consumers can use brands as a valid tool of self-expression when brands are convergent with their perceived ideal identity:

Product Category	Brands	Identity (self reference)	Identity (friend reference)	Lifestyle (self reference)	Lifestyle (friend reference)
Deodorant	Rexona	20.5	19.7	20.5	22.3
	Nivea	18.2	18.4	16.6	16.7
	Dove	41.1	36.9	38.9	41
	Fa	20.2	25	24	20.1
Sportswear	Adidas	32	29.9	37.9	39.3
	Lotto	19.2	20.3	12	11.1
	Nike	36.5	34.5	34.6	35.7
	Puma	12.3	15.3	14.5	13.9
Fast food	McDonald's	23.7	27.8	12.3	10.1
	Pizza Hut	21	21.1	33.2	30.9
	Subway	29.6	27.5	40.3	44.5
	KFC	25.7	23.6	14.2	14.5

Note: Numbers in each cell represent standard mean ratings ($p< .05$)

Source: Munteanu Claudiu Cătălin and Pagalea Andreea / Procedia - Social and Behavioral Sciences 109 (2014) 103 – 107.

According to said research, these effects are consistent across all product categories and are statistically relevant (absolute ratings: $M_s=41.1$; $M_f=36.9$; $F_{2, 320}=35.12$, $p< .001$; marginal ratings: $M_s=12.9$; $M_f=10.9$; $F_{2,320}=31.12$, $p< .001$). The data shows that brands can be used at projecting a strong congruent image about individual lifestyle (absolute ratings: $M_s=40.9$; $M_f=44.5$; $F_{2,320}=37.72$, $p< .001$; marginal ratings: $M_s=11.9$; $M_f=14.5$; $F_{2,320}=32.29$, $p< .001$). Brands can also serve as an instrument for expressing certain preferences regarding lifestyle in circumstances where identity satiation is strong[8].

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[7] Kit Smith, 2015

[8] Brands as a Mean of Consumer Self-expression and Desired Personal Lifestyle (PDF Download Available). Available from: https://www.researchgate.net/publication/260007967_Brands_as_a_Mean_of_Consumer_Self-expression_and_Desired_Personal_Lifestyle [accessed Jul 20, 2017].

These results provide strong evidence for supporting the claim that the brand and not the product is the one that must be congruent with customer identity. (McGovern&Moon, 2007)

So which metrics need to be looked at to measure consumer's perception of a brand?

A consumer's perception is in part formed through shared experience: a word of mouth: a study from Nielsen shows that for 77% of consumers, the advice of family and friends is the most persuasive when looking for information about new products. This word-of-mouth aspect of social is part of what makes it so effective in improving brand perception.

The bulk of brand perception can be traced nowadays through measuring sentiments on blogs, on-line forums, social media, mobile apps, in the electronic news and digital media. Such digital space of communications provides for the biggest mode of interaction in the history of humanity.

Research shows there are 2.1 million negative social mentions about brands in the U.S. everyday.

Zuckerberg's network, with 1,393 billion monthly active users, is the dominant social network in 128 out of 137 countries analyzed. It has 449 million users in Asia (+39 million since last August), 301 million in Europe, 208 million in USA & Canada, 436 million in the rest of the world.

The following slide from Global Web Index (GWI) gives the latest top-level summaries on the social network usage and growth in January 2017:

So, employing the appropriate tools and techniques will help build a tangible picture and figures about what has always been described as intangible.

Nowadays, there exists global expert companies who specialize in '*social listening*', and which would generate to marketers and decision makers priceless wealth of data including, among others, information that reflects the real picture of a brand in the minds of the consumers- their perceptions e.g. "What is the overall sentiment towards your brand? What is your brand's share of voice compared to competitors? Does your share of voice vary over time/ across regions/different types of social media? Which of your products is most talked about? How does sentiment about your brand change over time? What has caused spikes in conversation about your brand? What are the top topics talked about in relation to your brand? What do people like most about your brand or your products?"[9]

The above data can then be filtered and sorted out into categories to allocate patterns like:

By mention-type: complaint, referral, sales lead, customer inquiry, review, etc.

By author-type: past/present or prospective customer, advocate, detractor, influencer, etc.

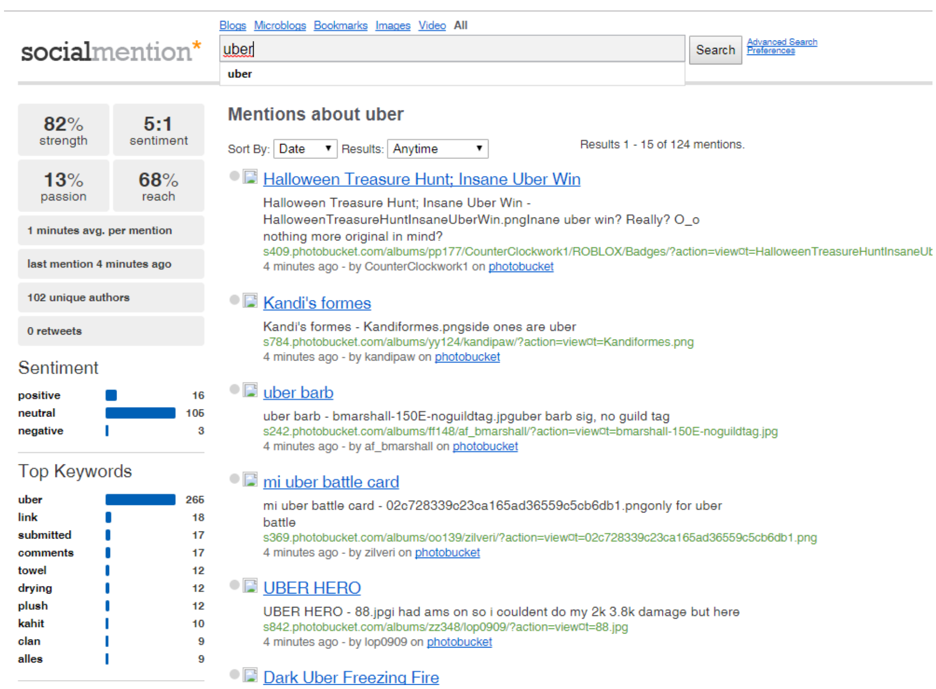
By customer-type: first-time buyer, long-standing customer, age, sex, location, etc.

By topic: customer service, product/service by name, product feature, etc.

By sentiment: positive, negative, neutral

By region: continent, country, state, etc.[10]

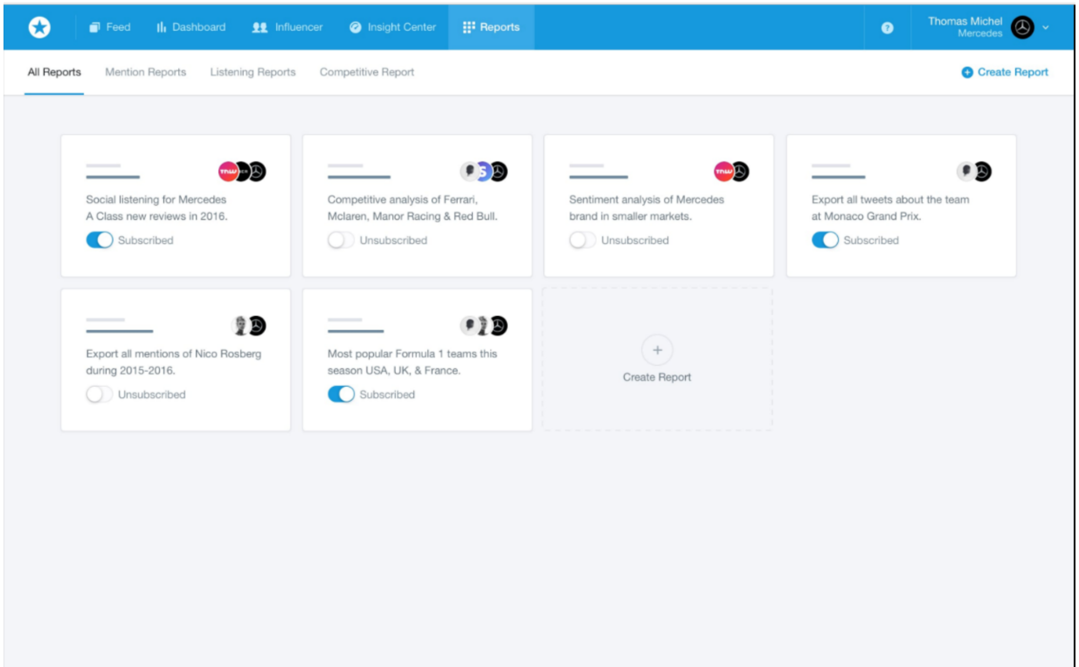
According to experts in the field of social listening and brand monitoring, the current technology allows for collecting mentions from more than 84 million sites! There are free and paid platforms that analyze social mentions of a brand on the web. Among others, it shows the likeliness of the brand being discussed on the web, the ratio of positive to negative mentions, the likelihood of people mentioning the brand repeatedly, and the range of influence. Following is an analysis of Uber brand using the free platform *Socialmention.COM* :

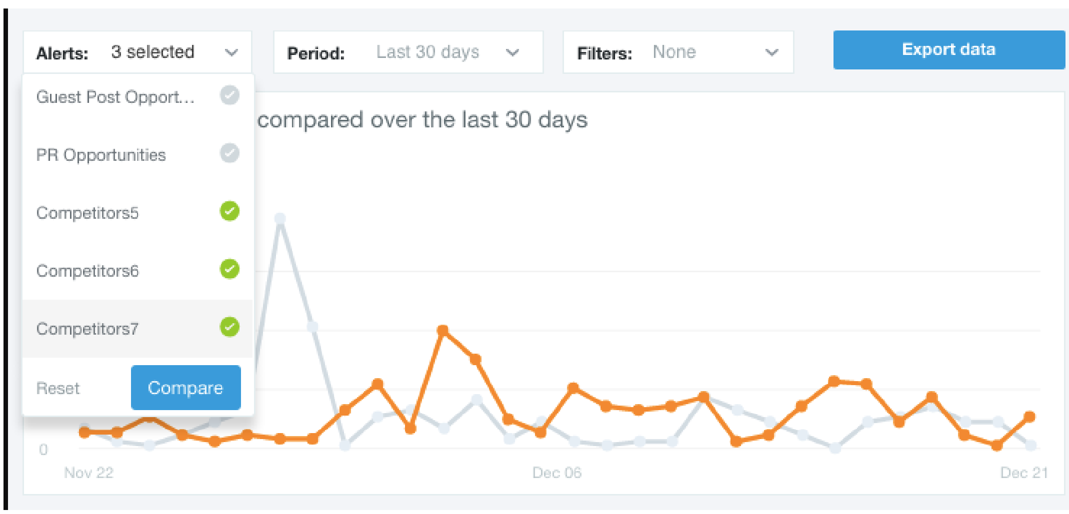


An example of a paid platform that measures how a brand is perceived online is *mention.com* which provides the marketing tools to monitor a brand's perception online, track brand awareness, sentiment, and reputation of a brand or a competitor's. The following two screenshots are of samples of such reports from *mention.com*:

[9] Iris Vermeren at https://www.brandwatch.com/blog/social-listening-truth-brand/

[10] Iris Vermeren at https://www.brandwatch.com/blog/social-listening-truth-brand/





Customer surveys

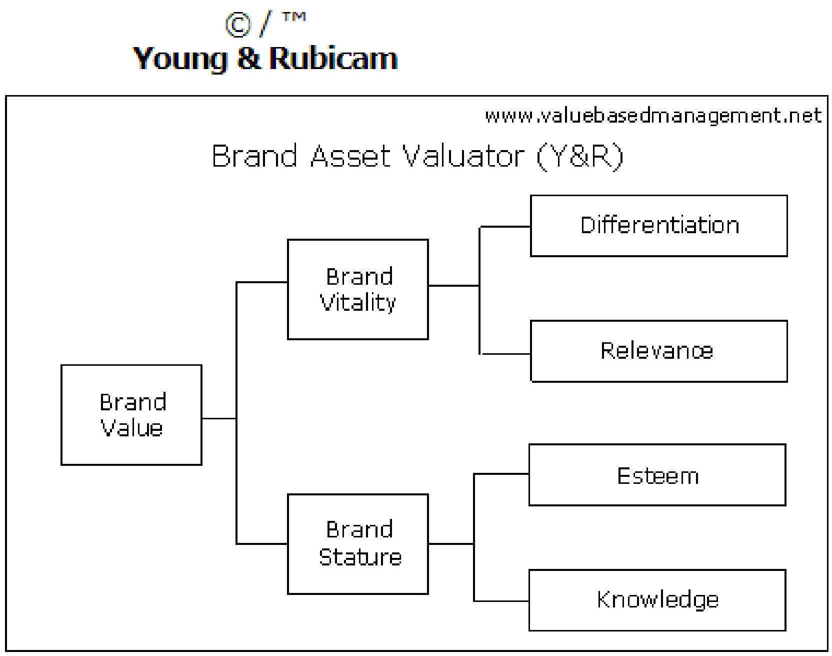
Another tool of measuring brand perception is customer surveys a variety of which capture feedback at critical moments of the customer journey. Examples are:

- A customer satisfaction (CSAT) measures customer health and sentiment by asking customers targeted questions. It's usually sent after a specific customer experience—like a purchase, customer support interaction, or store visit.
- Net Promoter Score (NPS) measures customer loyalty with a simple question: How likely are you to recommend us? The NPS survey is typically sent at specific stages of the customer lifecycle, and it's a fantastic way to identify brand advocates or brand detractors.

- A product survey measures product satisfaction and stickiness. It gives marketing and development teams unique insights on their offerings, which can inform competitive positioning efforts.

Adopting the above metrics of consumers' perceptions of a brand to build quantifiable data for the purpose of brand valuation has been the measures provided by suppliers such as Research International's Equity EngineSM, Young & Rubicam's BrandAsset Valuator, and Millward Brown's BRANDZTM.

Following is the brand asset valuation model adopted by the advertising agency Young and Rubicam (Y&R) which it developed based on four pillars and where consumer's perception is core to such model:



Differentiation measures the degree to which a brand is seen as different from others.

Relevance measures the breadth of a brand's appeal.

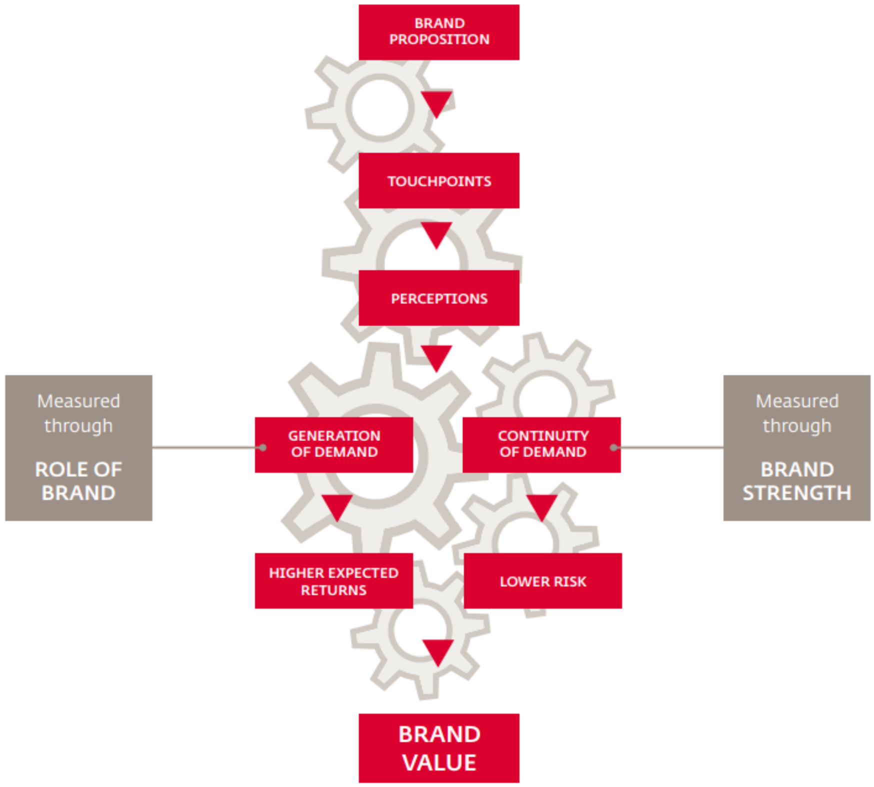
Esteem measures how well the brand is regarded and respected.

Knowledge measures how familiar and intimate consumers are with the brand.

Interbrand [11] was the first company to have its methodology of brand valuation certified as compliant with ISO 10668: '<u>perceptions</u>' according to *Interbrand's* brand valuation methodology are at the center of its brand value chain:

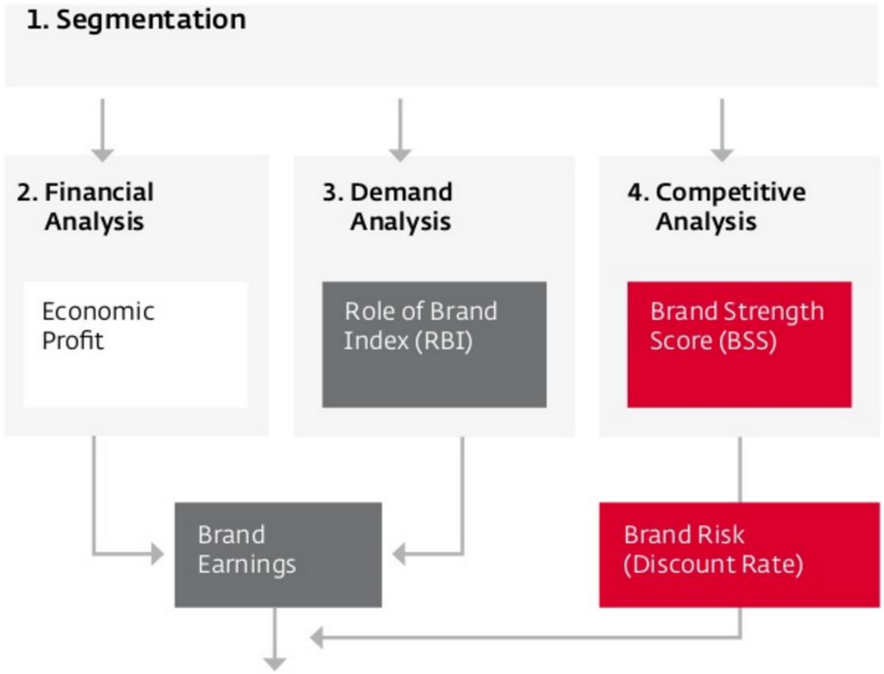
[11] Michael Rocha, 2014. Brand valuation - A versatile strategic tool for business.

Interbrand 's Brand value chain

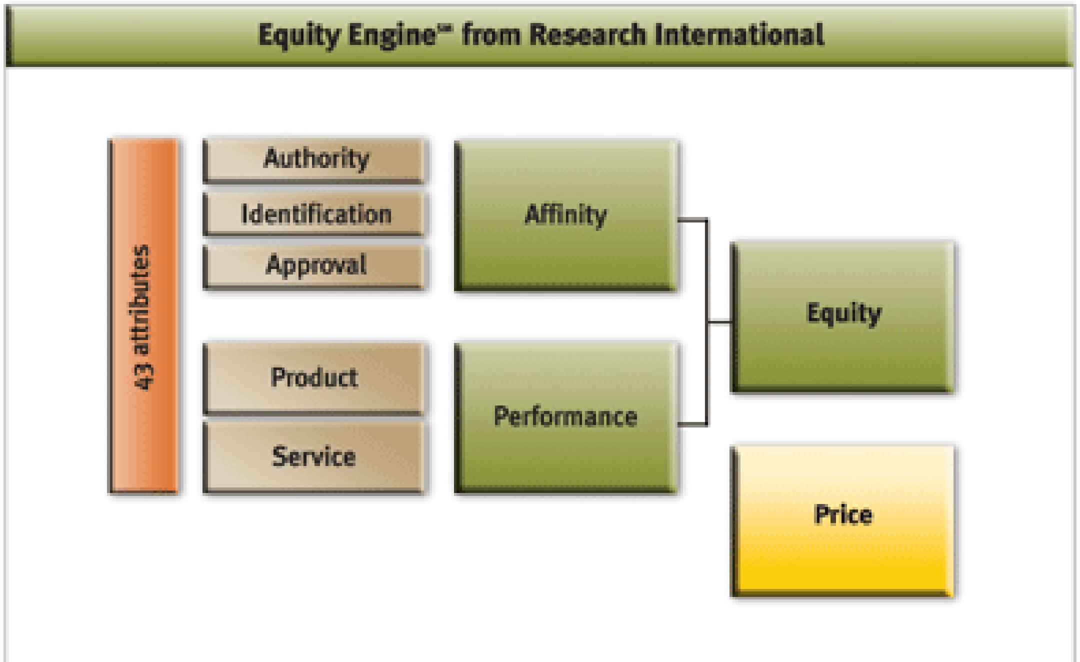


Role of Brand analysis is critical to understanding purchase behavior, assessing the brand's influence on the factors that drive demand and choice. Brand Strength analysis measures the ability of the brand to create continuity of demand into the future and its potential to reduce risk. It takes both "internal" (management and employee) and "external" (customer) factors into account. Finally, these inputs are combined with an in-depth financial model of the business to measure the brand's current and future ability to create economic value for its owner:

Interbrand's brand valuation methodology



An older model *Equity EngineSM*, developed by Research International expresses brand equity as a combination of the functional benefits delivered by the brand (performance) and the emotional benefits (affinity). Underlying each of these macro constructs is a further layer of analysis that expresses performance as a function of product and service attributes, and affinity as a function of the brand identification (the closeness customers feel to the brand), approval (the status the brand enjoys among a wider social context of family, friends, and colleagues), and authority (the reputation of the brand):



Source: Jonathan Knowles, In Search of a Reliable Measure of Brand Equity. http://www.zibs.com/knowles.shtml

Conclusion

A brand lies at the center of any successful business; brand valuation is an indispensable exercise for the diligent management of any legal dispute, financial reports, M&A, brand management, brand architecture and the list is long. Core to a comprehensive and diligent brand valuation is measuring the consumer's perception of that brand: again, *it is not the brand who controls the consumer-but it is the consumers who control the brand.*

The former CEO of Quaker Oats in the early to mid-1920s noted: *"If the business were split up, I would give you the land and bricks and mortar, and I would take the brands and trademarks, and I would fare better than you."*

Current conventional metrics favored by experts of brand valuation and marketers would remain suitable measures of brand equity only if careful attention to metrics that capture and explain customer overall perception is taken into consideration. These measures have useful diagnostic power and richness that will add significance to any brand valuation report and serve as an indispensable article on the boardroom table to discuss issues like brand and marketing budget determination, brand portfolio review, brand architecture analysis and brand extension planning or make big decisions related to insolvency and liquidation, dispute resolution, licensing and joint venture negotiations.