Choosing the winners in the brand value game

Letter to the FT

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Shailendra Kumar

This letter was published by the Financial Times in 2002. At the time of writing the author was the Head of Brand Valuation, Europe at FutureBrand.

Dear Sir,

I agree with Tim Ambler and Andrew Harrison that brand value *in isolation* does not mean much. However, that is equally true of measures advocated by the critics of brand valuation. Market share, for example, can be increased by lowering price. If the brand enjoys a high market share but does not generate a positive financial return for its owners then it fails to be economically valuable.

Understanding the value of a brand is not just applicable when buying and selling [brands]. Most importantly it provides a common language between finance and marketing. When investment in brands and marketing is financial and the return measured using marketing metrics it is not surprising that the two fail to communicate.

In addition, brand valuation provides a framework for strategic decision-making. Brands are, by their nature, subjective and decision-making around brands often follows suit. Taking the decision out of the subjective and emotional context and replacing it by more rational economics can assure Boards that they have understood the value at risk. Our clients have taken brand architecture, brand investment, naming and brand strategy decisions based on our brand value approach to problem solving.

Our approach to brand valuation is supported by market research detailing customers' attitudes to the brand, their purchase behaviour and other qualitative factors such as trust and leadership which contribute to what Tim Ambler refers to as 'brand equity'. These measures also include ones that are forward looking and while nobody has a crystal ball, they do give an indication of customers' propensity to choose one brand over another and the capacity of the brand to secure the cash flows generated.

Brands are valuable because they exist in a competitive environment, be it externally for customers or internally for capital. It is the comparative nature of valuation that provides the real insight.

While I accept the criticisms of Interbrand's latest league table our approach to our clients' issues demonstrate that valuing brands does add value.

Shailendra Kumar

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