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Valuing Brand Assets: A Cost-effective and Easy-to-Implement Measurement Approach

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Abstract

Shareholders, creditors, and other stakeholders are increasingly demanding that the true value of intangibles be reflected in financial reports. Further, empirical research in accounting reveals that intangible assets such as brand equity are highly relevant to value.

In this study, author Marc Fischer proposes a new measure of financial brand valuation. He extends previous research on brand valuation by providing a measure that is consistent with modern accounting standards. In particular, the measure meets the requirements of future-orientation, objectivity, completeness, comparability, simplicity, and cost-effectiveness. In addition, it can be adapted to organization-specific conditions of planning and reporting.

The measure integrates Keller's (1993) concept of customer-based brand equity with the customer equity modeling framework suggested by Rust, Lemon, and Zeithaml (2004). The financial value of a brand at the individual level is obtained by multiplying the brand equity share with customer lifetime value, and aggregation across all customers produces the market-level brand value.

The author tests the proposed brand equity model with data from three representative surveys that cover consumer durables (automobiles), fast-moving consumer goods (cosmetics), and retail services (groceries). He also suggests a simplified brand valuation method, and finds that the simpler method is able to replicate results of the proposed model.

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The suggested measure offers significant benefits to practitioners: it directly models the goal that practitioners have in mind when they think about separating the brand asset from other assets. Further, it permits the application of established valuation routines that often preexist in companies and reduces market research costs to a minimum. The methodology has been successfully applied to value more than 50 brands covering diverse industries in 11 countries. A major impetus for its adoption was its cost-effectiveness and compatibility with existing company planning and reporting procedures.