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BRAND EVALUATION: A REVIEW OF INTERBRAND AND MILLWARD BROWNMODELS

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Abstract: *Increasing number of organizations adapt to the need of using large amounts of data information for decision making in order to be competitive on the market. The main benefit of using a system for determining brand value is that it connects brand management and business efficiency. The main objective of this paper is to give a contribution to the marketing literature byexamining and analysing the Interbrand and BrandZ™ models. These two important models, defined by academics and used by practitioners, are used for brand valuation, as part of the management strategy of the modern business organizations. The current analysis is targeted at shedding light on the main features of each of them.*

Keywords*: brand equity models, brand evaluation, brand rankings, Interbrand, BrandZ™.*

1. Introduction

In the age of competition, branding has become a very important aspect of the management strategy of any organization. Strong and well-known brands play an important role in the marketing strategy of the business organizations and are perceived as valuable intangible assets, sources of differentiation and a competitive advantage for companies. Moreover, in the modern business reality, financial and physical assets can be easily imitated by competitors, while intangible assets (brands) allow to maintain a sustainable competitive advantage (Vasileva, 2015, p.150).

The promotion of company's products (see Vasileva, 2014), both on domestic and global markets, is possible under the conditions of effective branding. The brand is an asset that allows the company to reach the desired competitive advantages in the market. The brand needs constant investments, not only in the form of financial expenses for promotional activities, but also for building a positive image, which aims at bring positive reactions from consumers. In order to achieve all of the above mentioned, certain brand models must be planned, developed and implemented.

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In the modern business reality, indicators such as ‘sales volume‘ and ‘profit‘ provide only ‘partial picture‘ for the results, achieved by the business organization. In this regard, Tim Ambler (2003) stresses that intangible assets (such as brands) provide a more objective basis for analysis of the results fromthe marketing activities.

Many researchers (the issue has been a subject of research for the autors:Aaker (1991; 1996); Keller (1993); Brodie, Glynn, Van Durm (2002); Davis (2002); Ambler (2003); Shankar, Azar and Fuller (2007); Christodoulides and de Chernatony (2010)) argue that brand equity is a key marketing asset through which therelationship between the company and its shareholders is implemented and, in the long run, brand equity maintains sales.

Brand equity is often based on the extent to which the brand has a recognizable name, perceived quality and creates strong associations in the minds of consumers. It could be argued that brands acquire value on the market, i.e. the brand must have a potential customer, because it acquires commercial value when the consumer wants to buy the certain brand.

It is important to note that different models (see Василева, 2015) for brand valuation lead to discrepancies that depend both on the valuator and the valuation variables. Despite the importance of the current topic and the literature that has been developed on it, there is still no consensus and standard practice.

The effective system for brand valuation helps the businesses to: *Understand how the brand performs in order to meet consumers' expectations; *Identify brand weaknesses before they become business problems;*Determine how the brand performs compared to its competitors.*Identify areas, where to focus brand building efforts, in order to create business value.All of these reasons make business organizations review their positions and rethink their marketing management.

2. The models

Companies such as Interbrand Group and Millward Brown (BrandZ‘s list) offer ranking lists for top brands each year that is based on economic principles and replies to one major question: ‘How much more valuable is the business because it owns this certain brand?‘. The rankings of best global brands are different and depend on the company that made them.The brand valuation,the abovementioned companies use, includes both a marketing measure (the security and growth prospects of the brand) and a financial measure (the earnings potential of the certain brand).

Interbrand’s Brand Valuation Model

The Interbrand Group‘s model is among the most famous models and is well accepted in the marketing community. While this model is relatively easy to understand and apply in practice, it only considers the financial elements and the market factors and ignores the factors of consumers. It should be also notedthat Interbrand’s Brand Valuation Model cannot be used by practitioners, because some of its parameters – Brand Role Index and the Brand Strength Score – are estimated upon formulas, protected by the company that markets the valuation services.

Interbrand started developing its business in 1974 and now is one of the world's largest brand consultancy companies with nearly 40 offices in Asia, America, Europe, Africa. When the company has been founded, the word 'brand' was still considered to be just a synonym for 'logo'. Today these ideas have greatly changed and the business practice has shown that the brand has the potential to increase the business value and to bring high profits to the organization that has created and managed the brand.

Interbrand Group first introduced their brand equity evaluation model in 1984 and have been constantly developing their model. Since 2000, when their report, called 'Best Global Brands' was launched, each year Interbrand has continued this commitment of promotion of brand equity as 'the incremental cash flows which accrue to branded products over unbranded products'.

Interbrand Groupannually prepares and publishes a list of the 100 best brands in the world. This global-scale evaluation is based on companies' performance and in order for the organizations to be part of the report, there have to be sufficient data available. The number of companies that are suitable for the list of the most valuable brands in the world is reduced by several criteria: 1) there has to be a significant amount of publicly available financial data for the global brands; 2)brands have to be positioned in such a way that they play a valuable role in influencing customers' purchase decisions; 3) another requirement for the brands is to derive about a third of their earnings outside their home countries; 4)brands have to be well-known and last, but not least important criteria 5) brands' economic value added (EVA) must be positive in order to show that the organization has made some earnings after deducting its operating and financial costs.

Interbrand's model assumes that brand value is the present worth of the benefits of future ownership.The critical component of the model is how to convert the brand's future income into practical value. To be more specific, the evaluation process follows five valuation steps (see Figure 1).

The abovementioned valuation steps are as follows:

1) *Market segmentation* – Brands influence consumers' choice, but the influence varies depending on the market in which the brand operates. The brand is valued in each segment and the sum of the segment valuations constitutes the total brand value.

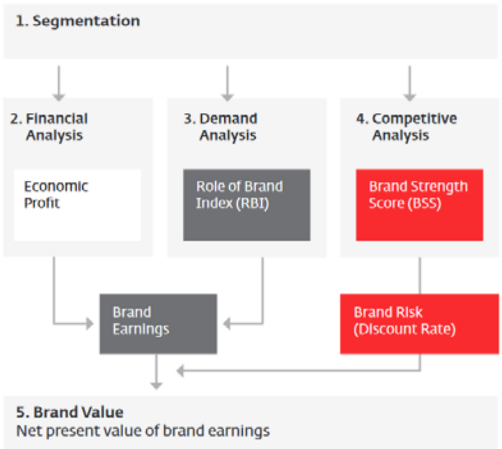
The number and choice of segments depends on:*The strategic priorities of the business and of the brand valuation exercise.*The level at which brand management decisions are taken.*The number of parts of the business that can be identified, where financial performance, Role of Brand and Brand Strength are considered to be sufficiently different to warrant separate analysis.*The availability of data (Rocha, 2012).

2) *Financial analysis*– The financial analysis identifies and forecasts revenues and earnings from intangibles, generated by the brand for each of the segments, that have been determined in the first step – Market segmentation. Intangible earnings can be defined as brand revenue less operating costs, applicable taxes and a charge for the capital employed. The concept is similar to the notion of the so called economic profit.

3) *Demand analysis* – This analysis is used to asses the role that the brand plays in driving demand for products and/or services in the market(s). Demand analysis determines what proportion of intangible earnings is attributable to the brand, measured by an indicator called Role of Branding Index. Through the Role of Branding Index (RBI), the brand-

contributed revenue can be separated from the contributed revenue of other intangible assets. It should be noted that, the RBI varies for different (product) categories.

Figure 1. Interbrand's brand valuation methodology



Source: Rocha, M. (2012) Brand Valuation, A Versatile Strategic Tool for business, Interbrand, p. 6.

4) *Competitive analysis*is used in order to determine the competitive strengths and weaknesses of the brand. Brand strength is assessed from seven aspects (see Table 1.).

Table 1. Brand strength aspects

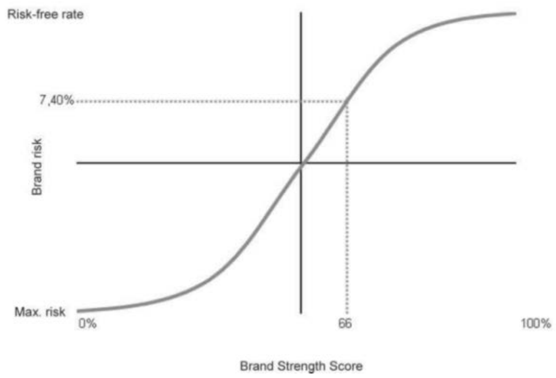
Aspect	Weighting of aspect	Definition	Operationalising criteria
Market	10%	Considers whether the market is growing and if there are strong barriers to entry.	Overview (structure of competition, value, volume), trend (market dynamism), prospects.
Stability	15%	Values customer loyalty.	History, current position, future development.
Leadership	25%	Looks at the position of the brand in the (product) category.	Market share (MS), market position, relative MS, market segment, structure, etc.
Internationalization	25%	Considers the strength of the brand internationally (it should not be applied on local brand earnings).	Past (exports history), present (presence on foreign markets), future.

Trend	10%	Gives an indication of where the brand is moving.	Development (sales volume, MS), status (competitive trend), planning (development plans).
Marketing support	10%	Evaluates the support that the brand has received.	Quality and continuity (advertising activities, sales promotions, etc), future strategy
Legal protection	5%	Looks at the ability of the company to protect the brand.	Rights to name, registration, etc.

Source: The table is developed to serve the purposes of the paper.

The Brand Strength Score, that measures the competitive strength of the brand in the market, is transformed into a discount rate by using an S-curve (see Figure 2).

Figure 2. S-curveof Interbrand model



5) *Brand value calculation (BV)*:Brand value =Brand profit xBrand multiplier (see Table 2).

Table 2. Brand value

Brand profit	Brand multiplier
Three-year average, qualified using 15-step process in terms of inflation factor, creation of third-party brands, weighting of past history, expected rate of interest, then applied to a single year	The brand-strength-score value BS from over 80 valuation dimensions isconverted into brand multiplier BMvia regression analysis (basis: proceedsfrom brand sales, taxes, etc.,reconstructed brand strength values

*Source:*Zimmermann, R., Klein-Bolting U., Sander, B., and Murad-Aga T., BBDO`s Brand Equity Review, 2002, Vol.1, p 56.

The model, however, has some drawbacks. The *shortcomings*of the model can be summarized as follows:

✓ Aaker (1996)states that '…the Interbrand system does not consider the potential of the brand to support extensions into other product classes. Brand support may be ineffective; spending money on advertising does not necessarily indicate effective brand building. Trademark protection, although necessary, does not of itself create brand value.'

✓ The data used by the Interbrand model are for the most part estimated values, so that the resulting monetary brandvalue must also be viewed as an estimated or trend value (Bekmeier-Feuerhahn,1998, p. 80-81).

✓ The determination of RBI is too subjective (Zhang, 2006).Role of Brand Index has a key role in the process of separating brand-contributed revenue from other-intangibleassets. In the Intrebrand's model, the determination of RBI is based on both the expert's personal experience and the historical data. These are the reasons why the result may lack objectivity.

Summing up, the Interbrand model has itsstarting point in the company´s operating profitsafter taxes (or business unit´s), subtracting acharge for the invested capital, obtained from theresult between the amount of capital investedintangible assets and the cost of capital, in orderto reach what they call in tangible profit. Then,the previous result is multiplied by the Role ofBrand Index (RBI). The RBI is mainly determinedthrough primary sources from market researches,where the goal is finding in what percentagethe purchasing decision is generated by the brandinstead of other determinants such as price orproduct attributes (Rocha, 2012).

Based on Interbrand brand valuation model, Ratnatunga and Ewing (2009) extended themodel by developingan approach that guides brand and marketing managers in theirbudgets and processes of strategic decisionmaking, focusing on the creation of brand value.The model is named Brand Capability Value (BCVTM) and estimates the future impact of brandingdecisions over the brand value.

Millward Brown

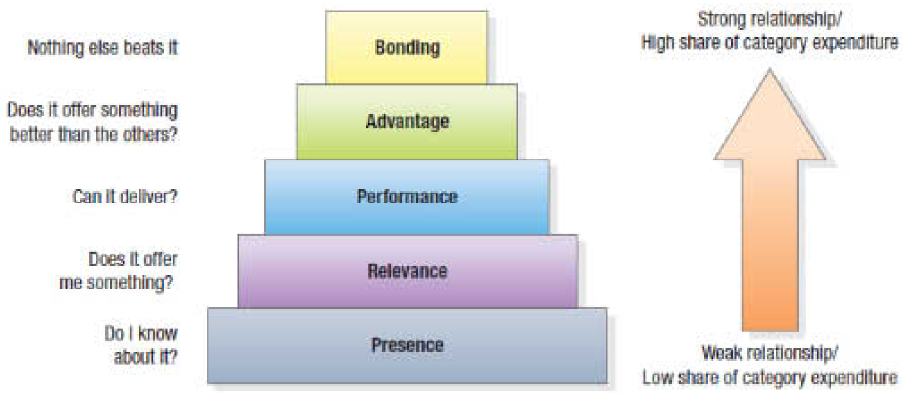
About its BrandZ™ model, Millward Brown state that it represents a database that provides a 'detailed, quantified, understanding of consumer' decision-making worldwide' and 'the most reliable, comprehensive and useful brand valuation ranking available'(see Reference 18).Aninteresting fact is that BrandZ™ 'sresearch cover 100 000 different brands in over 50 markets.This intensive, inmarket consumer research differentiates the BrandZmethodology from competitors that rely only on a panel of 'experts' or purely financial and market desktop research…At the heart of a brand's value is its ability to appeal to relevant customers and potential customers. BrandZ™ uniquely measures this appeal and validates it against actual sales performance(see Reference 19).According to Millward Brown's BrandZ™ model brands that succeed in creating the greatest attraction power are those that are:*meaningful* (understand consumers' expectations and needs), *different* (unique in a positive way and 'set the trends') and *salient* (come spontaneously to mind as the brand of choice for the specific need).

Brand Dynamics Pyramid

Developed by themarketing research consultants Millward Brown and WPP, this model of brand strength follows several steps, suggested by the model developers.Five pyramid levels define the strength of brand (see Figure 3)at the heart of which is the Brand Dynamics pyramid. It is important to note that there are several different versions of the Brand Dynamics pyramid. Most of them, however, are based on the model created by Millward Brown in the 1990s.

This model suggests thatbrand building involves a sequential series of steps/levels (presence, relevance, performance, advantage and bonding) and each step is contingent upon successfully accomplishing the previous one. The pyramid illustrates the five key steps the consumers go through with a brand – starting with brand awareness and finishing with brand loyalty. Each step up to the pyramid top means a greater level of brand loyalty and 'bonded' consumers, those at the top level of the Brand Dynamics pyramid, build stronger relationships with the brand. However, a greater part of the consumers can be found at the lower levels. The goal is to get as many of the consumers as possible to the higher levels of the pyramid, because the higher the customres are up the Brand Dynamics pyramid, the more money they are willing to spend for the brand.Consequently, the challenge for brand managers is to develop activities and programs that help consumers move up the pyramid.

Figure 3. BrandDynamics Pyramid



Source: http://manualofmarketing.blogspot.bg/2013/09/establish--and-measure-brand-equity-via.html.

The width of a slice (see Figure 3) represents the number of consumers that are loyal to the brand when it has reached that level. Research results usually also list a percentage for the width of the slices. A slice, in theory, has a maximum width of 100%. The lowest slice is always thewidest, but will in practice never exceed 90% to 95% in width… Research data shows that the number of consumers drops per level. And research data has also shown that the width of the pyramid depends on the type of product (Dyson,Farrand Hollis, p.1).

The *five steps* to the top of the pyramid, in ascending order, are listed below:

✓ *Presence*–At this step, consumers are aware of the brand (mayhave tried products and/or services, that are sold under this brand before). However, these customers have little or no emotional attachment to the brand at this level of the pyramid. 'This level can be attained by heavy advertising, a presence at the greatest possible number of sales outlets, or by creating a buzz in the market. The authors also refer to this as instating active familiarity based on trial, salience, or knowledge of the brand promise' (Dyson, Farr and Hollis, p.2).

✓ *Relevance*–On the second step consumers ask themselves questions such as:'Does this brand fit my needs?';'Is it worth it?'.At this level of Brand Dynamics pyramid, the brand promise has to be relevant to the customers. This means thatadded value has to be offered (in terms of functionality or image), in addition toawareness.

As, there is still little or no emotional attachment to the brand at these two stages(presence and relevance) and consumers are still comparing prices and value of the brand(s), brand managers should make sure that the marketing strategy they use focuses on these key concerns.

✓ *Performance*is the third step of the pyramid and at this stage consumers start comparing the brand with its competitors on the market, in order to find out whether the brand delivers on its potential.At this levelcustomers begin associating the brand with a specific identity.

Brand managers have to make sure that their marketing activities give consumers the information they need and show the customers how much better the specific brand is by communicating its benefits.

✓ *Advantage*–At this stage the brand has to outperform the average quality standard of the market, so that the consumers believethat this specific brand has an emotional and/or rational advantage over the other brands in the (product) category.

✓ *Bonding*–At this final stage, customers have established a bond with the brand. As brand loyalty increases at higher levels of the Brand Dynamics pyramid, consumers at the level of Bonding are likely to be active advocates of the brand/brand ambassadors. The brand has become a valuable part of their self-image and thismakes the consumers exclude competitors' brands in favor of this one.

It should be noted that the lack of an active market for brands means that,in most cases,models' results cannot be tested empirically. Thus the wide range of alternative assumptions and valuation modelsleads to quite different results in the valuation of one and the same brand (see Table 3).The problem, however, is that sometimes brands ranking differs greatly and even leading companies may have considerably different ranks, depending on the valuation model that has been used for determining brand equity.

The *differences* between the Interbrandand MillwardBrown's BrandZ™ model are due to several reasons:*The difference in the valuation approach –Interbrand uses a present value approach, while MillwardBrown uses the benchmarked multiples (i.e.multiples vs. discounted earnings approach); * The assessment of risk – Interbrand model relies on expert point of view and MillwardBrown employsbrand pyramid, which is emotionally driven (i.e.expert view vs. consumer behavior).

Table 3. Evaluation of the brand equity of the leading global brands in 2015 by Interbrand and Millward Brown (BrandZ™)

Brand	Interbrand Ranking	Brand equity ($m) /Interbrand/	Brand Value % change 2015 vs 2014	BrandZ™ Ranking	Brand equity($m) /BrandZ™/	Brand Value % change 2015 vs 2014
Apple	1	170 276	+43%	1	246 992	+67%
Google	2	120 314	+12%	2	173 652	+9%
Coca-Cola	3	78 423	-4%	8	83 841	+4%
Microsoft	4	67 670	+11%	3	115 500	+28%
IBM	5	65 095	-10%	4	93 987	-13%
Toyota	6	49 048	+16%	30	28 913	-2%
Samsung	7	45 297	0%	-	-	-
General Electric	8	42 267	-7%	17	59 272	+5%
McDonald's	9	39 809	-6%	9	81 162	-5%
Amazon	10	37 948	+29%	14	62 292	-3%

Source: The table is developed to serve the purposes of the paper, based on the Interbrand‘s ’Best Global Brands 2015’ and BrandZ™’Top 100 Most Valuable Global Brands 2015’ reports.

3. Conclusion

Nowadays the impact of brands has become more powerful than ever before and brand managers are aware that brand growth and expansionare valuable for the increase of sales and the development of business organizations. The models, analysed in this paper, describe the status of a brand on the market as a result of the evaluation of the consumers, respectively, the purchasing or not of the brand.

There are a few companies that offer ranking lists for top brands in certain industries, countries, regions,etc.These companies are as follows: Interbrand;Millward Brown (with BrandZ™ ‘s list);the European Brand Institute; Brand Financeand many others. Different models for brand valuation, developed by scientists, business consultants and other institutions, in many cases overlap or diverge. Thus it is recommended for the company to choose a model,depending on their strengths and weaknesses, and taking into account both the brand and the context.

The models, presented in this report, suggest a direct link between the contribution of the brand and its value. Furthermore, the use of Interbrand and BrandZ™ models shows how they can be involved in the process of determining brand equity.

Interbrand‘s Brand valuation model considers the following aspects of thebrands: the financial power, the role of the brand in buying decision of consumers and theprobabilities of obtaining ongoing future revenues, generated by the certain brand.Millward Brown, on the other hand, shows thatBrandZ™ is the only brand valuation model that finds out how much the brand alonecontributes to the corporate value. Millward Brown call the core brand value of corporate portfolio ‘brand contribution‘ and claim that this approach differentiates BrandZ™ model from other companies’ brand valuation models.

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OCENA BRENDA: PREGLED INTERBRENDA I MODELA MILVORDA BRAUNA

Apstrakt: Povećava se broj organizacija koje se prilagođavaju potrebi korišćenja velike količine informacija za donošenje odluka kako bi bili konkurentni na tržištu. Glavna prednost korišćenja sistema za određivanje vrednosti brenda je da se povezuje upravljanje brendom i poslovna efikasnost. Glavni cilj ovog rada je da pruži doprinos marketing literaturi istraživanjem i analiziranjem modela interbrand i BrandZ ™. Ova dva važna modela, definisana od strane akademika i korišćena od strane stručnjaka, koriste se za procenu brenda, kao deo strategije upravljanja savremenog poslovanja organizacijom.Ova analiza je usmerena na rasvetljavanje glavnih karakteristika svakog od njih.

Ključne reči: modeli vrednosti marke, evaluacije brenda, rangiranje brenda, interbrend, BrandZ ™.