BRAND VALUATION

Source: Wall Street Mojo

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What Is Brand Valuation?

Brand valuation refers to the computation of a company's financial worth, i.e., the price that a prospective buyer will willingly pay for its acquisition.

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Brand Valuation Meaning

Brand value is the total of a company's brand equity, financial performance, customer perception, goodwill, etc. Knowing a company's brand valuation during tax planning, commercial valuation, financial reporting, licensing, financing, mergers and acquisition, and strategic decision-making is essential to avoid losses and risks.

A brand is represented by its name, logo, motto, visuals, tagline, etc. However, the brand image is built over the period through its patents, goodwill, trademarks, software, formula, techniques, copyrights, and other intangible assets along with all the tangible assets.

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Brand asset valuation, thus, determines how far and how much a company has achieved in this journey. Earlier, brand valuation was all about brand equity and the financial management of the business.

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But, the present scenario has a broader perspective on brand valuation. It is measured in terms of three parameters, i.e., financial, legal, and behavioral analysis.

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The financial analysis of a firm is performed through various approaches based on cost, market, and income.

The legal analysis ensures that the various intangible assets like trademarks, designs, copyrights, and patents are registered, and the firm can claim property rights over them.

Behavioral evaluation deals with the market trend, consumer perspective, brand recognition, etc.

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METHODS FOR BRAND VALUATION

#1. Cost-Based Approach

This approach focuses on the cost incurred in developing a brand. The following are the different cost-based methods:

- Customer preference model,
- Replacement cost method,
- Historical cost method, and
- Use of conversion model.

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#2. Market-Based Approach

This method determines the brand valuation through the market standing of a brand, i.e., the highest value that a buyer is willing to offer and the seller is ready to accept when the brand is sold in the market. Some of the prevailing market-based methods are:

- Brand equity is based on the equity evaluation method,
- The comparable approach or the brand sale comparison method, and
- The residual method.

#3. Income-Based Approach

Also known as the economic use approach, it is an evaluation model that figures out the future net earnings of the brand and, thus, determines its current brand value. It is a crucial approach that helps investors identify the business's future potential. The underlying methods include:

- Differential of price-to-sale ratios method,
- Brand equity based on discounted cash flow, and
- Brand equity is based on differences in return on investment, return on assets, and economic value added.

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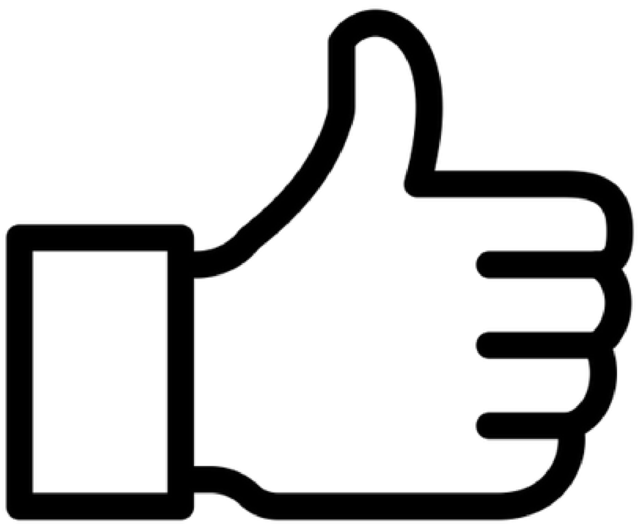

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