

Microsoft over Louis Vuitton? Really?

Analyzing the flaws in Interbrand's brand valuation method for M&A

By Mark Ritson

Twenty years ago a widening disparity began to appear between the tangible net assets of a company and the actual price that would be paid to buy that company. This created a maelstrom of merger, acquisition and defense as companies scrambled to value their most precious assets-their brands.

Interbrand emerged from this era as the industry leader in brand valuation and, since 1999, its joint publication with BusinessWeek of the top 100 global brands has solidified that position. Each August Interbrand tells us what the world's most valuable brands are and, unlike other marketing surveys, the managerial world listens.

How does it do it? To cut a long story very short, Interbrand uses three sources of data to value a brand. First, the expected earnings the brand will generate for the next six years. Second, the percentage of earnings that can be attributed to the brand, as opposed to other decision-making factors such as location. Third, the relative strength of the brand. The higher the brand strength, the less risky the six-year earnings predictions and the more likely they are to materialize.

Combining these figures produces remarkably precise calculations. Last year, for example, Interbrand informed us that Intel's brand was worth \$35.6bn (20bn), up 6% on 2004. As marketers, we are typically afraid of numbers, especially big ones that are derived using super-complex financial calculations.

The reality, however, is that despite the apparent precision and current dominance of Interbrand's top 100, one would argue that much of it is actually a load of old trash.

The problem with the top 100 is that the majority of the brands on the list did not work directly with Interbrand. Whereas the expected future earnings of a brand can be extrapolated from annual reports and the estimates of merchant banks, the brand data in the survey is often based on a series of educated guesses by a bunch of Interbrand employees. Peel away the complex calculations and impressive PR and ultimately you have a bunch of accountants using a simplistic seven-point scale that some bloke came up with years ago to score brands on which they have no consumer data.

Even worse, the top 100 may feature global brands, but their presence is often the result of a single global rating for brand strength that ignores the manifest variations that most brands experience from market to market. It is hardly likely that IBM has the same brand strength in China as it does in the US, nor that the brand has the same magnitude of influence on decision-making in both markets. Yet IBM was most likely awarded a singular global rating for its multinational, multidimensional brand equity.

These flaws may help to explain some of the peculiarities in the current top 100. In 2005, was Coca-Cola really the world's most valuable brand? If you had a choice between owning the Microsoft brand or the world's top 12 luxury brands (including Louis Vuitton, Chanel, Porsche and Armani, to name a third of them), would you really be better off going with software? And can Interbrand seriously exclude Wal-Mart completely from its list on the technicality that 90% of its revenues come from the US? Wal-Mart, not a strong, global brand? Come on.

In fairness, Interbrand does, very quietly, acknowledge the flaws in its method, but argues that finding accurate international metrics for brand strength is all but impossible to do without clients engaging its services.

30 seconds on... Interbrand's top 100 global brands

- Sony was the biggest loser in Interbrand's 2005 survey. Its value dropped from \$12.8bn in 2004 to \$10.8bn in 2005 - a 16% drop.
- Coca-Cola was rated the most valuable brand at \$67.5bn, followed by Microsoft in second place at \$59.9bn.
- The biggest winner was eBay, which posted a 21% uplift in its value from \$4.7bn in 2004 to \$5.7b.
- Apple's value also rose from \$6.9bn to \$8bn on the back of the continued success of its iPod.
- The highest-ranked non-US brand was Finnish telecoms company Nokia, placed sixth in the table, with a value of \$26.5bn.
- The highest-placed UK brand was HSBC, which came 29th in the table, with a valuation of \$10.4bn.

Source: Interbrand/BusinessWeek

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