Schmalenbach Business Review ◆ Vol. 53 ◆ October 2001 ◆ pp. 263–294

Thomas Günther/Catharina Kriegbaum-Kling*

Brand Valuation and Control: An Empirical Study**

Abstract

In economies with a growing service sector, the importance of intangible assets like brands, customer relationships, and organizational capabilities is rapidly increasing, as is the importance of information and knowledge for the production of goods and services. New concepts in such areas as knowledge management or intellectual capital management underline the increasing importance of these "soft" production factors. Both financial and managerial accounting still focus on the "hard" production factors, especially the physical and tangible assets of the production area. From the managerial accounting perspective, the question is how a firm's valuable intangible assets can be managed, controlled, and evaluated.

Brands represent very important intangible assets, that have been especially in the light of marketing research. We use an empirical survey, based on 132 German companies with brands, to investigate the state of the art of brand accounting, brand control, and brand valuation. The focus of our study is the general perception of brands as an (intangible) asset and as an investment, the organization of brand management, the valuation of brands for internal control purposes, and the tactical and strategic performance measures for brand management. We also examine the budgeting process, the brand-related decision making and the underlying incentive systems. Our results show a gap between the perception of brands as valuable intangible assets and the implementation of an adequate management control process (implementation gap). Our study discusses implications for better strategies in brand management and control that can also be used in the management control process of other intangible assets.

JEL-Classification: M41, M31.

1 Relevance of Intangible Assets and Brands

In recent years both managers and researchers have expressed doubts that the traditional financial accounting method of recognizing assets is adequate to support managerial decision making. In all financial accounting systems set by legislation (for example, the commercial law in Germany and other countries) or by accounting standard-setting bodies such as the IASB, APB, FASB, and SEC in the Anglo-American world self-created intangible assets usually cannot appear in the

* Prof. Dr. *Thomas Günther*, Chair of Managerial Accounting, Department of Business and Economics, Dresden University of Technology, Mommsenstrasse 13, D-01062 Dresden (Germany) and Dr. *Catharina Kriegbaum-Kling*, MBA, Trumpf GmbH + Co. KG, Ditzingen (Germany).

** We are grateful for helpful comments from an anonymous referee.

balance sheet[1]. Investments in these intangible assets must be immediately set off from income and are considered to be current expenses.

On the other hand, in most of our economies the service sector comprises a significant share of the GDP. Information and knowledge are gaining importance in our increasingly communications-oriented society. Management now focuses more attention on such intangible assets as brands, customer relationships and knowledge. Both academics and practitioners are developing different concepts of incorporating intangible assets in managerial decision making. Prominent examples for these "new" concepts are "intellectual capital" by *Edvinsson/Malone*[2], hidden balance sheet by *Sveiby*[3], the intellectual capital navigator of *Stewart*[4], and the "statement of intellectual property" by *Maul/Menninger*[5]. Like many other companies (such as *Celemi International*, *WM-data AB*, *KREAB*, *Jacobson & Widmark*, *Carl Bro a/s*, *Coloplast a/s*, *Deutsche Bank AG*, etc.) the Scandinavian financial service group *Skandia* supplements its annual reports with a special report on the created intellectual capital, using a balanced scorecard type ratio system called "Navigator". The *Austrian Research Center Seibersdorf* has created a "balance sheet for knowledge" that informs on the value of the company's knowledge management activities.

Exhibit 1: The most valuable brands in the world[6]

No.	Brand Name	Country of Origin	Industry	Brand Value 1999 (US $ m)	Brand Value 2000 (US $ m)	Market Value 30.06.00 (US $ m)	Brand Value 2000 in % of Market Value
1	Coca-Cola	U.S.	Beverages	83,845	72,537	142,163	51 %
2	MS Windows	U.S.	Software	56,654	70,197	420,992	17 %
3	IBM	U.S.	Computers	43,781	53,184	194,236	27 %
4	Intel	U.S.	Computers	30,021	39,049	447,719	9 %
5	Nokia	Finland	Telecom	20,694	38,528	239,828	16 %
6	General Electric	U.S.	Diversified	33,502	38,128	524,351	7 %
7	Ford	U.S.	Automobiles	33,197	36,368	48,781	75 %
8	Disney	U.S.	Entertainment	32,275	33,553	80,645	42 %
9	McDonald's	U.S.	Food	26,231	27,859	44,012	63 %
10	AT&T	U.S.	Telecom	24,181	25,548	118,671	22 %

Exhibit 1 shows that one of the most frequently discussed intangible assets is brands.

In this paper, we focus on the accounting, control, and valuation of brands as an example of intangible assets. The purpose of our study is to gain insights from the special field of brands and draw conclusions that might apply to intangible assets in general.

1 See § 248 II HGB for the German commercial law and IAS 38, APB Opinion 17 in connection with AIN-APB Opinion 17, FRS 10 for the regulations in Anglo-American countries.
2 See *Edvinsson* (1997) und *Edvinsson/Malone* (1997).
3 See *Sveiby* (1997).
4 See *Stewart* (1997).
5 See *Maul/Menninger* (2000), pp. 529.
6 Based on an estimate of *Interbrand*. See www.interbrand.com/league_chart.html

Much research has already been conducted to quantify the value of brands[7]. However, to continue to research brand valuation we must first determine if companies use the existing brand valuation methods. If companies are not using these methods, we wish to find out why not. Further, we wish to identify and analyze the problems that occur when companies do try to apply brand valuation methods. Our results can then be applied to the research needed to solve existing problems. Without such a study, empirical research and the day-to-day needs of companies will drift further apart.

Therefore, the purpose of the research project "Brand Management – State of the Art"[8] was to examine how and if German companies use brand value measures and how these companies manage and control their brands.

Sattler and *Pricewaterhousecoopers* (PWC)[9] have conducted a similar study in which the minor focus is on accounting and control of brands. We compare the results of our study with those of *Sattler* and *PWC* in that fields that were covered by both studies.

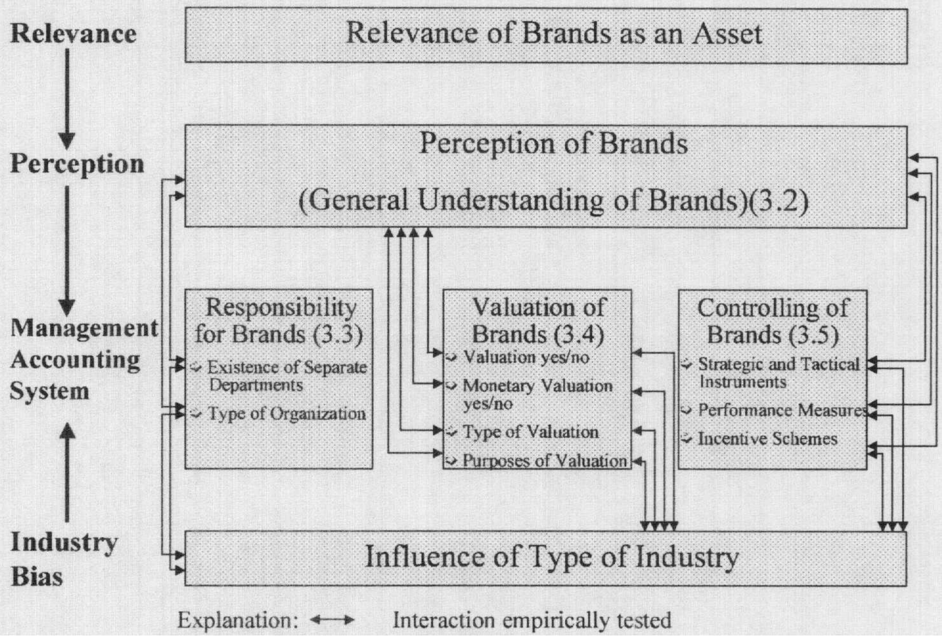
2 Aims of the Study and Study Design

We base our study on a broad empirical survey that examines the question *whether*, and if 'yes', *how* German companies evaluate and control brands. We examine:

- What's the companies *general understanding* of the term 'brand'?
- Who is *responsible* for brand management?
- How do firms *value brands?*
- How do firms run the *tactical and strategic management and control* of brands?
- How do companies *budget for brands?*
- How do firms *procure brand related information?*
- How do firms *motivate brand managers* to establish and preserve the integrity of brands over the long run?
- What are differences in brand accounting, control and valuation between durable goods and consumer goods companies?

7 See the overview at *Krieghaum* (1998).
8 The research project was supported financially by the Arthur Andersen Foundation.
9 See *PricewaterhouseCoopers/Sattler* (1999).

Exhibit 2: Design of the study[10]



The aims of the study are primarily to describe the present state of brand valuation and brand accounting/control in German companies and to assess the requirement for future research. Second, we examine possible interactions between different areas of the study where we could define variables to test different hypotheses. *Exhibit 2* shows the design of our study.

Because our sample includes only those companies with at least one patented brand, we can assume the relevance of brands for the company in the sample. What we wish to determine is how a company's management understands and perceives the brand management function (perception). Even if the hypothesis holds that managers perceive brands to be assets and investments, we ask how management controls, evaluates, and accounts for the firm's brands (management accounting system).

Our study determines the extent to which companies apply conceptually possible approaches of brand valuation and brand control in actual practice. Because we hypothesize a difference between durable goods and consumer goods companies in the brand management system (industry bias), we empirically test all interactions between the different fields of the study (double arrows in exhibit 2). As a result, we can deduce the weaknesses and inconsistencies of the management accounting system for brands and develop new approaches for future research projects[11].

10 In brackets relevant chapters of this article.
11 See *Kriegbaum* (2000).

To develop a consistent concept for the design of a questionnaire (pre-testing), we conducted interviews with leading German companies such as *Henkel Detergents GmbH, Procter & Gamble GmbH, Nestle Germany AG, BMW AG, GfK AG*. We then developed a standardized questionnaire, which we tested in companies that are members of the *GEM* (**G**esellschaft zur **E**rforschung des **M**arkenwesens (Society for the Research of Branding)).

To cover various industrial branches, we selected 1,016 companies out of 4,558 registered companies of the *Hoppenstedt-Data Base* that had annual sales revenues exceeding 15 million Deutsche Mark. We also required that the companies in our sample have patented brands. This sample gave us a database that covers a broad area of industrial branches[12]. The study was conducted in July and August 1999.

Our sample includes both durable goods producers as well as the consumer goods industry. For consumer goods, the importance of brands in the decision-making process for a product's performance is widely accepted. However, because durables are linked with higher acquisition costs and longer periods of use, branding importance is problematic. Management views the purchase of durable goods as an investment that requires a comprehensive process of information procurement about specific distinctive product features. Important criteria for purchase decisions are not only the price and the brand of a product, but its quality and reliability, a good price-performance ratio and a powerful after-sales-service[13]. Yet, the brand can become a decisive purchase criterion for durable goods, especially when it is difficult to distinguish one product from another by its technology or quality. For example, the cost-driven strategy of standardizing and platform development that is widely used in the car manufacturing industry, might actually harm the unique brand identity and blur the image of a particular vehicle brand.

Among the companies that we interviewed and investigated during the project were 84 whose brands have, according to measures of the market research company Gesellschaft für Konsumforschung (GfK) AG, an extraordinarily high customer recognition[14]. Inclusion of these 84 firms ensured that the sample contained companies whose brands have a significant intangible value.

To examine interactions and correlations between variables, we performed contingency and correlation tests. We performed all tests at a significance level of $\alpha = 0.05$. We could not test LISREL models because of the stringent requirements on the size of the sample. Because of space considerations, we present here only the most important results. We also restrict the description of our tests to only the most relevant test parameters.

12 In the study of *PricewaterhouseCoopers/Sattler* (1999) 403 questionnaires were sent to the top hundred German companies concerning sales volume as well as to members of the German brand association.

13 See *Lenz* (1996), p. 153.

14 GfK Panel Services/Nürnberg provided brand rankings based on consumer recognition.

3 Results

Out of the 1,016 companies surveyed, 276 replied (27.2%). We received 132 completed questionnaires (13.0%)[15]. Out of the companies that did reply but did not send in questionnaires, 22 companies stated that they did not fill in the questionnaire because our investigation was not relevant for them. Four companies told us that their marketing activities were outsourced, and another 11 companies stated that brand management was in the responsibility of the foreign headquarter. Thirteen companies could not pass on internal data due to security reasons. A few companies cited time restrictions as another reason for not filling in the questionnaire properly.

3.1 Structure of the Sample

Exhibit 3 illustrates the structure of all industrial branches in the analysis. It shows that the groups of the durable goods and consumer goods companies each comprise about 50% of the total sample. Large companies with revenues exceeding 100 million Deutsche Mark represent more than 60% of the sample (*Exhibit 4*).

The questionnaires were most often completed by the firm's marketing or sales department (72.0%). 4.5% of the respondents work for the marketing department and 3.8% for other departments at the company's headquarters. 10.6% belong to the top management. Only 2.3% of the questionnaires were completed by employees who work in financial accounting or controlling departments. The remaining 6.8% work for other departments such as public relations, legal departments, etc.

Because we required that each company in our sample should have patented brands, each company therefore owns at least one patented brand, and each of these companies primarily distributes its own brands: 71.3% of all companies in the sample stated that they have generated at least 90% of their total earnings during the last fiscal year by selling producer's brands, i.e. their own products.

3.2 The General Understanding of 'Brand'

So far, we have been unable to find a consistent definition of 'brand' in the business literature. The German trademark law (Markengesetz) defines all producers' marks as protected trademarks that legally distinguish one company's products and services from those of its competitors, and which can be graphically displayed. The definition of a "graphic display" includes words, displays of a product, letters, numbers, three-dimensional designs (including the shape of a product's packaging material) as well as other elements such as colors.

15 The *PricewaterhouseCoopers/Sattler* (see *PricewaterhouseCoopers/Sattler* (1999)) study analyzed 126 questionnaires, or 31%.

Exhibit 3: Structure of industrial branches within the sample

Industrial Branch		Frequency	Percent
food industry	consumer goods (51.5 %)	25	18.94
beverages industry		24	18.18
cosmetics industry		7	5.30
detergents industry		5	3.79
tobacco industry		4	3.03
office and stationery supplies		3	2.27
chemical / pharmaceutical	durable goods (48.5%)	11	8.33
textiles		8	6.06
suppliers to automotive industry		7	5.30
electrical engineering		6	4.55
furnishing		3	2.27
car manufacturers		3	2.27
precision engineering / optics		2	1.52
space- and aircraft engineering		2	1.52
mechanical engineering		2	1.52
metal industry		2	1.52
oil industry		2	1.52
paper		2	1.52
jewelry		2	1.52
consumer electronics		2	1.52
porcelain		2	0.76
building equipment industry		1	0.76
information technology industry		1	0.76
automotive industry		1	0.76
toy animals		1	0.76
heating systems		1	0.76
leather		1	0.76
power generation		1	0.76
telecommunication		1	0.76
Total	**100.00**	**132**	**100.00**

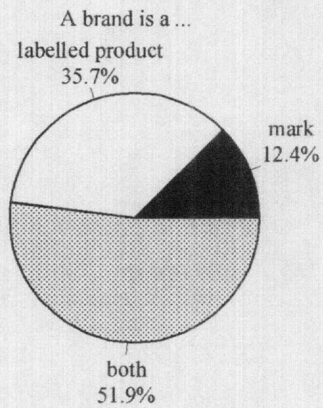
Exhibit 4: Size of questioned companies

Sales	Frequency	Percent
no statements	2	1.50
up to 50 million DM per year	24	18.18
50 - 100 million DM per year	22	16.67
more than 100 million DM per year	84	63.64
Total	**132**	**100.00**

However, studies in business and social sciences are less consistent in their definitions of 'brand'[16]. On the one hand, authors refer to the trademark law, stating that brands are graphics that a company applies to its products to distinguish them from products of its competitors. Other authors regard brands not only as trademarks, but expand the definition to include labeled products, services, or both. Clearly, a trademark alone is not a brand. Only in combination with other product qualities does the trademark becomes a brand.

Because the understanding of 'brand' as separate from the product has a significant influence on the valuation and control of brands, we investigated the general understanding of brands among the participants. Only 12.4% believe that a brand is just a label, but 87.6% state that a product is part of the brand (*Exhibit 5*).

Exhibit 5: Understanding of 'brand' (sample size: 129 companies)



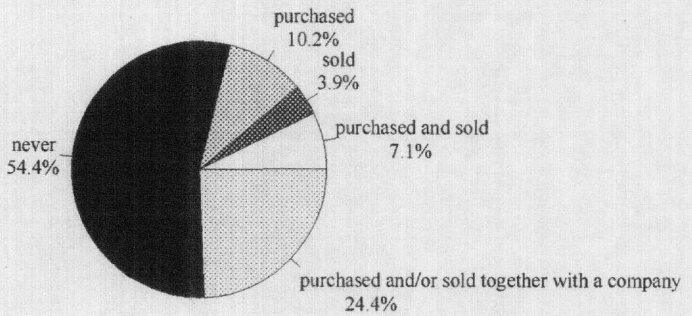
Nevertheless, 78.1% of all participants agree with the statement that brands have a value even without a product. Another 63.3% also agreed that the value of a brand does not depend on the profit that is generated by the labeled products. This finding can be interpreted to imply that brands are widely accepted as intangible assets, but that to make that value accessible to a buyer, they also need an object that carries the brand name.

Another possible explanation for the varying defintions of "brand" might be that all participants had only little experience in purchasing or selling brands without products. Our study shows that more than 50% of the investigated companies have never conducted such a transaction (*Exhibit 6*). *The PricewaterhouseCoopers/Sattler* study even supposes that since the German trademark act from 1995 is still rather new[17], many people do not know that it is possible to buy or sell isolated brand names.

16 See § 3 part 1 as well as § 8 part 1 German trademark law, as well as *Hentschel* (1996), p. 438; *Schröder* (1997), p. 168.

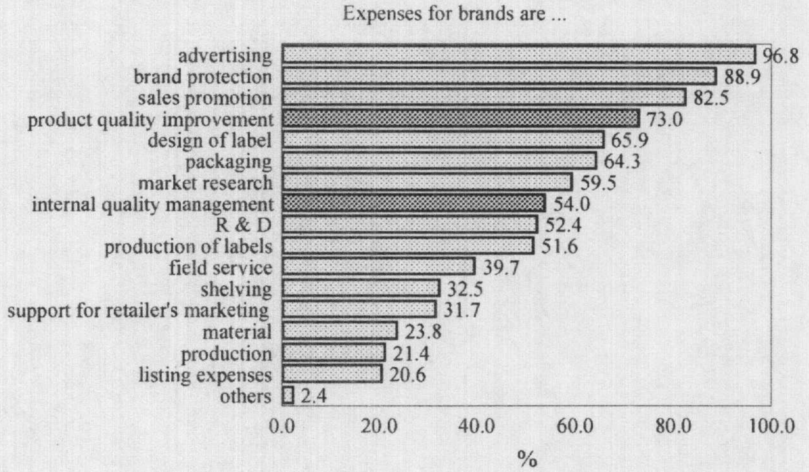
17 *PricewaterhouseCoopers/Sattler* (1999), p. 16.

Exhibit 6: Purchase or sale of trademarks without products (sample size: 127 companies)



Clearly, although a brand is rarely regarded as an independent and intangible asset, in most cases decisions about a brand are always linked with decisions affecting a product. Therefore, it is not surprising that, for example, expenses for quality improvements of a product are regarded as direct expenses for the brand (73.0% of all participants) as well as expenses that are supposed to benefit a brand directly (e. g., advertising (96.8% of sample), brand protection (88.9%), sales promotion (82.5%)) (see *Exhibit 7*).

Exhibit 7: Expenses for brands (sample size: 126 companies, multiple statements possible)



Another question was designed to find out if managers perceive brands as cost units that cause current expenses, or as investments objects that lead to future cash flows. The results indicate that only 4.2% regard brands as current expenses. The majority, 65.8%, see them as investments and 30.0% agree on both statements (*Exhibit 8*).

This result implies that almost all companies appreciate the long-term benefit of brands. We use this question as a proxy for the variable "perception of brands" in the design of the study shown in *Exhibit 2*.

Exhibit 8: Brands as current expenses or investments for the future (sample size: 120 companies)

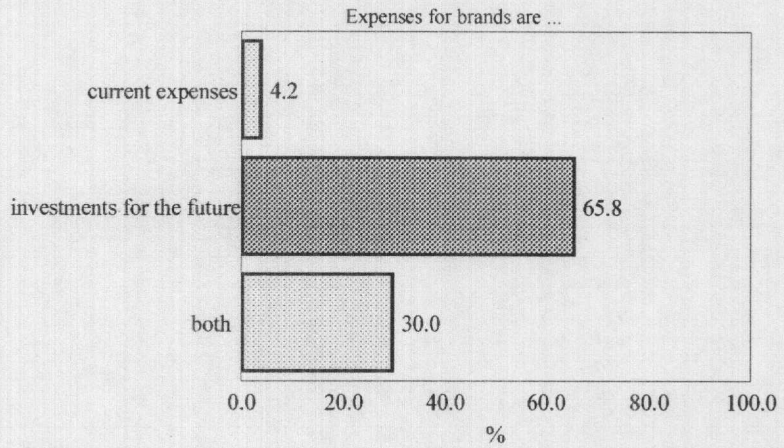
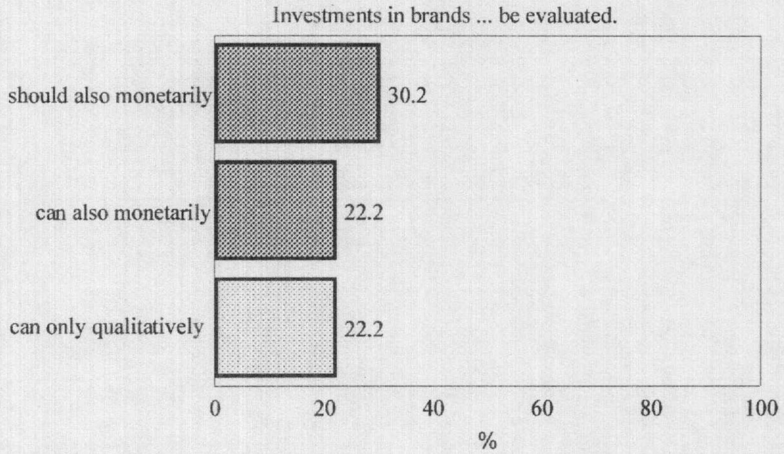


Exhibit 9: Valuation of investments in brands (sample size: 126 companies, multiple statements possible)



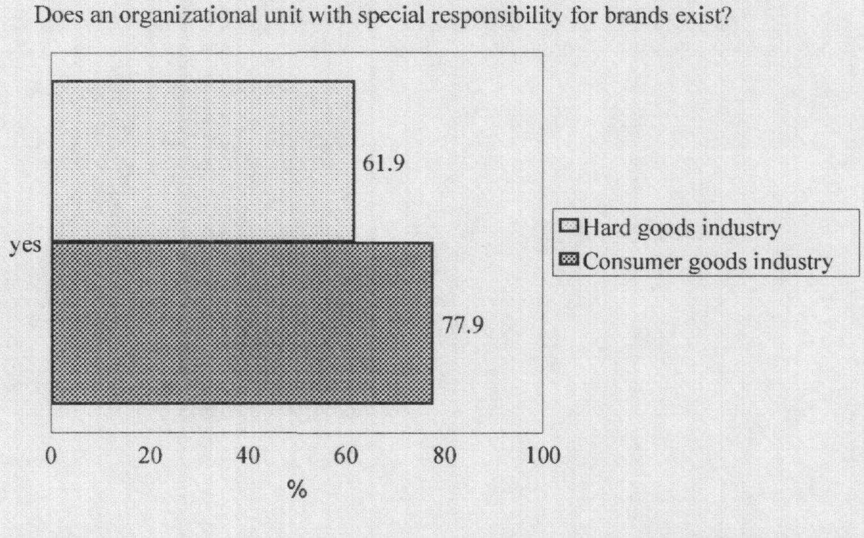
Although the majority of companies that responded regard brands as an investment for the future, only 30.2% state that brands should be given a monetary valuation similar to the valuation of tangible assets. Only 22.2% believe that a monetary valuation is possible (*Exhibit 9*). A contingency test to examine the correlation between the perception of brands as investments (*Exhibit 8*) and the method for valuing brand investments (*Exhibit 9*) did not show a significant correlation (degree of freedom (df) $(k-1)(l-1) = 1$; $\chi^2 = 0.1$, $\alpha = 0.752 > 0.05$).

3.3 Responsibility for Brands

Of all companies within the sample (sample size: 131 companies), 70.2% have an organizational unit which assigned to brand management. Our results could not reject the hypothesis that the perception of brands as investments is unrelated to the existence of a separate department responsible for brands (df = 2; $\chi^2 = 0.461$, $\alpha = 0.794 > 0.05$).

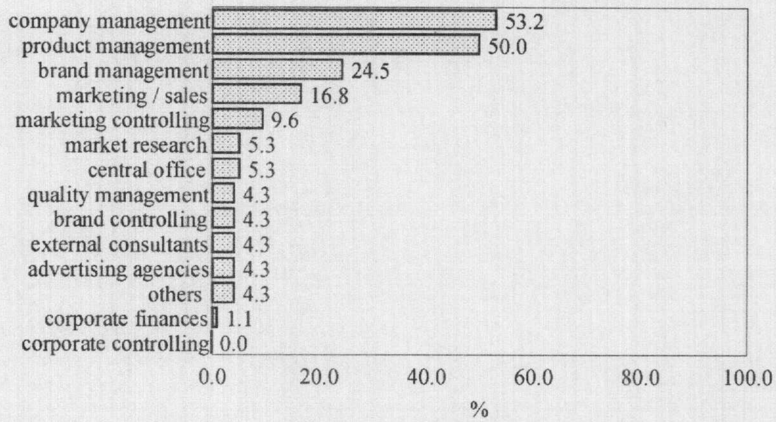
However, we find that these departments are more likely to exist in the consumer goods industry than in the durable goods industry (*Exhibit 10*). A chi-square test rejects the hypothesis that the existence of a department responsible for the brand management is not influenced by the type of industry (consumer or durable goods) (df = 1; $\chi^2 = 4.02$, $\alpha = 0.045 < 0.05$).

Exhibit 10: Existence of organizational units with special responsibilities for brand management in the consumer goods industry and the durable goods industry (sample size: 63 companies of the consumer goods and 68 companies of the durable goods industry).



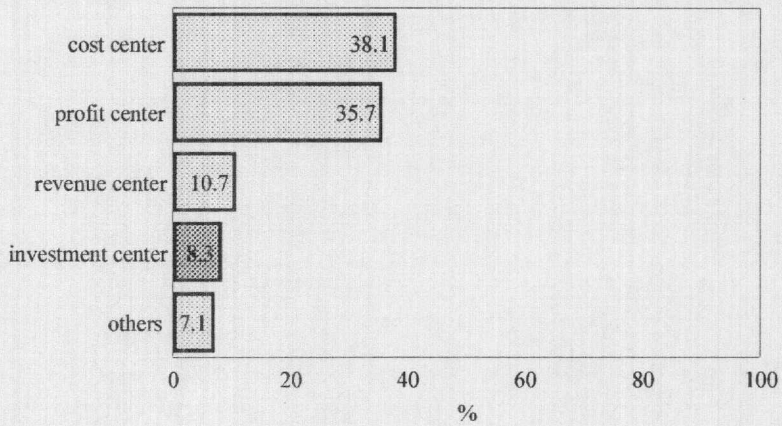
In 53.2% of the companies in our sample, the organizational unit assigned to brand management reports directly to top management. This fact may indicate the importance of brands for the companies. 50.0% of these companies stated that the product management division was responsible for the brands. This finding underlines the close connection between brand and product. Only 24.5% of these companies have an organizational unit assigned to brand management. 4.3% pass on the responsibility for their brand to external consultants or to advertising agencies (*Exhibit 11*). The other departments that were mentioned as having special responsibilities for a brand were the legal and patent departments, and the departments for corporate communication and strategic planning.

Exhibit 11: Departments with special responsibilities for the brand (sample size: 92 companies, multiple statements possible)



In most companies (84.5%), the responsibilities of the brand management units are limited to the tactical level and only cover the responsibility for costs, revenues, or profit. Only 8.3% are responsible for the return on investment of the brand (including decisions about investments and divestments) even though this department belongs to the top management in more than 50% of all companies in the sample (*Exhibit 12*).

Exhibit 12: Type of organization of those units responsible for brand management (sample size: 92 companies)



On one hand, our analysis of the data showed that there is no statistically significant connection between the general understanding of a brand as an investment and the type of organization of the units responsible for brand management. On the other hand, we find a statistically significant bias for the type of industry on the type of the organization ($df = 4$; $\chi^2 = 11.732$, $\alpha = 0.019 < 0.05$). Consumer goods companies have a higher percentage of profit center and revenue center organizations than durable goods producers.

Clearly, the perception of a brand as an investment does not affect a company's organizational structure at all. Despite the fact that brands require high investments, most units that are responsible for a brand have no responsibility for the return on investment.

This finding underlines a criticism that has been made in several prior studies, that profit-oriented planning targets for a brand lead to incentives for short-term actions that will harm the brand in the long run[18]. In general, actions intended to improve and develop a brand do not have immediate noticeable effects. Therefore, if they are measured with traditional indicators, long-term actions do not appear to be reasonable in the short run[19]. For example, increasing expenses for marketing activities will negatively affect profit, so business units that are organized around a cost or profit center organization will certainly not have incentives to market the brand.

Our study also identifies other organizational structures (7.1% of the sample) for the brand management units. These structures are mainly organizational units of the headquarter (such as specialized service centers or strategic business units).

Most of the companies in our sample indicated that among all the tasks that are most frequently assigned to the brand management unit are the development of strategies for a brand, the design of an annual marketing program, and an annual revenue forecast. Companies also cited cooperation with advertising agencies and achieving set targets for a brand as important tasks.

Most companies with special brand management units also valued initiatives for product improvements, budgeting for a brand, and manager oversight of a brand's product development. Again, this finding clearly shows that decisions about brands coincide with decisions about the product development.

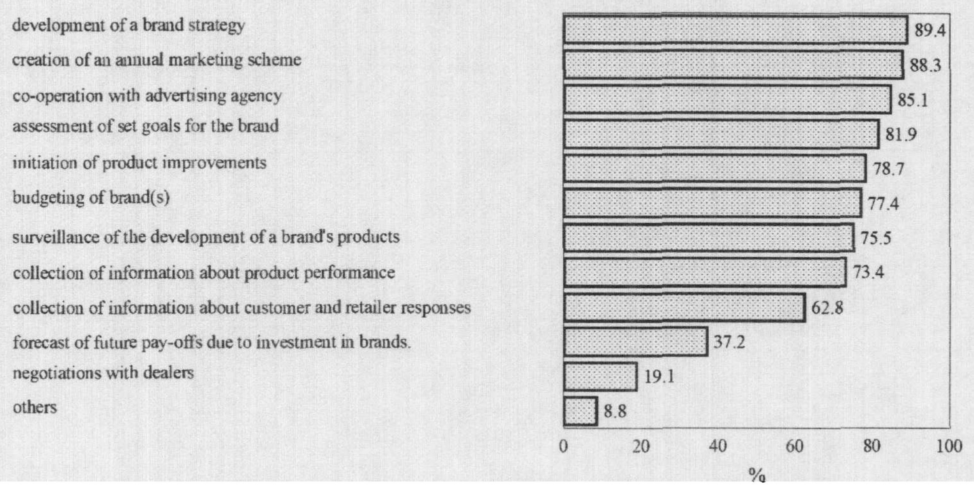
Also, most companies perceive the continuous collection of customer and retailer responses as a major task of the specialized business units (*Exhibit 13*).

Only 37.2% of all companies consider the appraisal of investments in brands as an important task of the brand management. Again, we can interpret this finding as empirical evidence for the short-term orientation of current brand management. Management develops strategies but does not evaluate them in a financially and future-oriented way.

In 36.4% of our sample, companies base the organizational integration of business units with strategic character, called strategic business units, on brands. However, 30.4% of all companies assign brand management to their units according to categories or segments. This category management is characterized by specialization

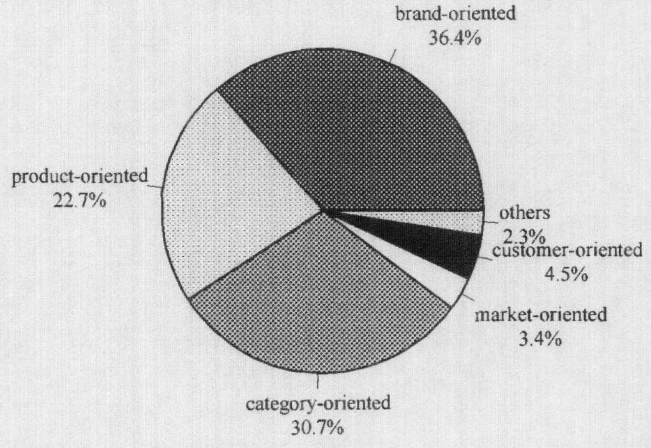
18 See *Barwise et al.* (1989), p. 34; *Aaker* (1991), p. 25; *Rubinson* (1994), p. 48.
19 See *Barwise et al.* (1990), p. 57; *Roeb* (1994), p. 59.

Exhibit 13: Tasks of the department responsible for a brand (sample size: 91 companies, multiple statements possible)



and delegation of responsibility along similar product lines or categories (e. g., body lotions, washing powders). These categories can include several brands with similar products. About 25% of our sample companies define their strategic business units according to their products. These results clearly show that only a few companies appreciate the importance of a strategic management that is purely brand-oriented (*Exhibit 14*).

Exhibit 14: Definition of strategic business units (sample size: 88 companies)



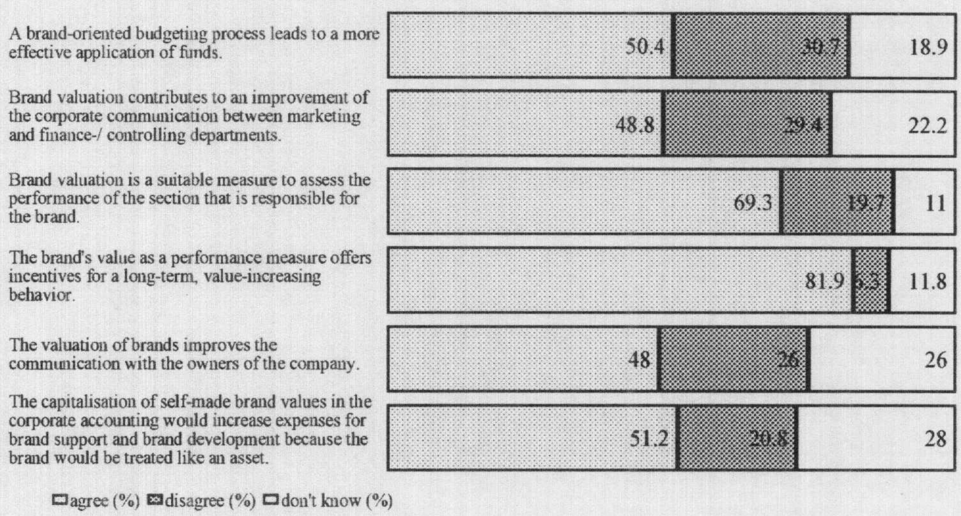
3.4 Brand Valuation

In general, companies perceive brands as an essential part of the net worth of a company[20]. This fact is not surprising, since customers tend to transfer a brand's image to the overall perception of a company[21]. Hence, if brands create a sustainable competitive advantage and greatly increase actual company value, then investments in the brands assure the long-term company value. Nevertheless, management often underestimates brands' true importance as an asset and therefore often neglect brand management[22]. Therefore, brand valuation should be an opportunity to uncover these misperceptions and improve the controlling of a brand.

To examine this aspect of brand management, our study investigates the extent to which German companies believe a brand's value is an effective performance measure.

81.9% agree with the statement that using the brand value as a performance measure offers incentives to increase the brand's value over the long term. Another 69.3% also agree that brand valuation is a suitable way to assess the performance of a department that is responsible for the brand (refer to *Exhibit 15* for further statements).

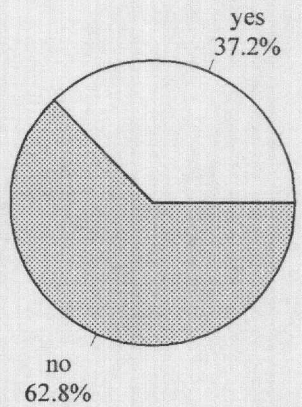
Exhibit 15: Statements about brand valuation (sample size: 128 companies)



20 See e.g. *Kunisch* (1998), p. 6.
21 See *Bruhn* (1994), p. 643.
22 See *Franzen* (1994); p. 1625; *Mussler/Mussler* (1995), p. 184.

Despite the predominantly positive statements supporting brand valuation, only 37.2% of the companies in our sample perform a monetary and/or non-monetary valuation of their brand (*Exhibit 16*)[23].

Exhibit 16: share of companies that do/do not evaluate their brands (sample size: 129 companies)



However, almost 25% of all companies that do not evaluate their brands stated that there had been discussions about doing so (*Exhibit 18*). However, we could find no statistically significant correlation between the appreciation of a brand as an investment and the actual brand valuation. Neither could our statistics give significant support to any bias in the type of industry on the implementation of any kind of valuation (df = 1; $\chi^2 = 0.384$, $\alpha = 0.536 > 0.05$).

As we noted earlier, if companies do not understand the necessity of brand valuation, we cannot use this as a reason why brand valuation rarely takes place. Only 19% see no good reason for brand valuation. However, 31.9% (too time consuming 10.3%; too cost intensive 1.3% and too time and cost intenstive 20.3%) see it as very useful, but state that it is too time and/or cost intensive[24]. 36.7% of all companies claimed that there is no suitable method available for brand valuation. (*Exhibit 17*)[25], which could be the reason for the restricted recognition of self-created intangible assets in financial accounting.

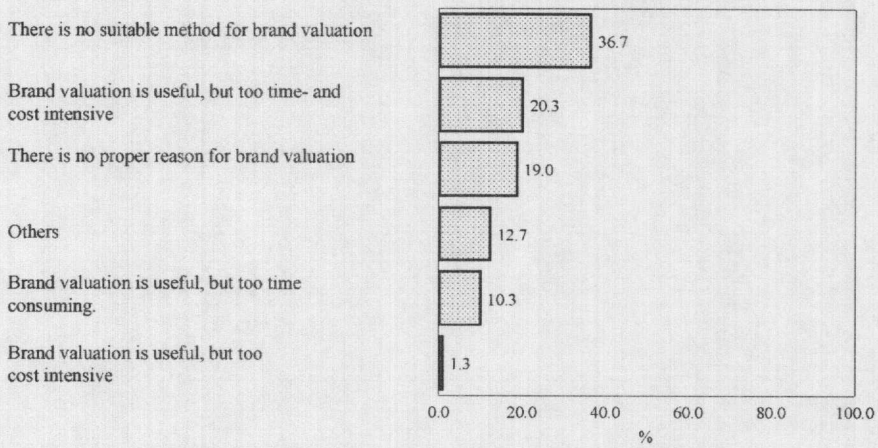
Other companies noted that brand values could not be treated as assets and therefore this topic had no priority for them. Only 17.8% (11.6% + 5.4% + 0.8%) of all companies try to derive a monetary value for their brands. 11.6% assign both a

23 In the *PricewaterhouseCoopers/Sattler* study, only 26% of the participants had already valued their brands (see *PricewaterhouseCoopers/Sattler* (1999), p. 14).

24 The *PricewaterhouseCoopers/Sattler* study also mentions the time and cost effort necessary as a reason against brand valuation. The study identifies this reason as the second most important for why companies do not value brand (see *PricewaterhouseCoopers/Sattler* (1999), p. 15).

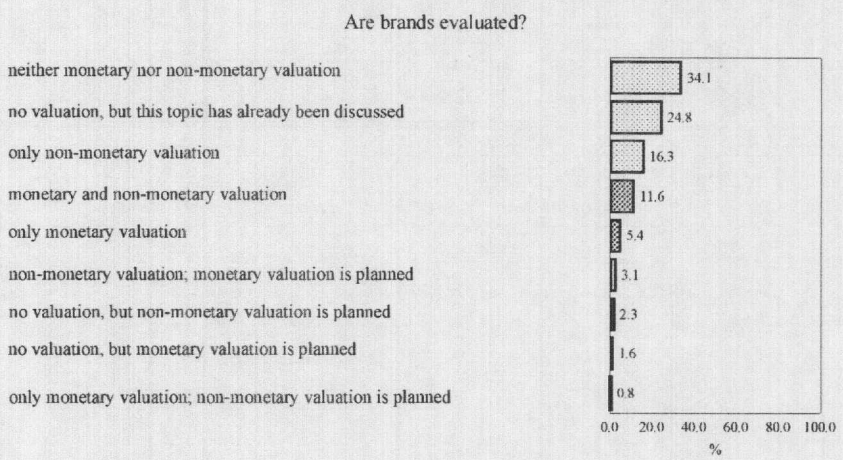
25 The *PricewaterhouseCoopers/Sattler* study also identifies this point as the main reason for not valuing brands (see *PricewaterhouseCoopers/Sattler* (1999), p. 15).

Exhibit 17: Reasons, why brand valuation is not done (sample size: 79 companies)



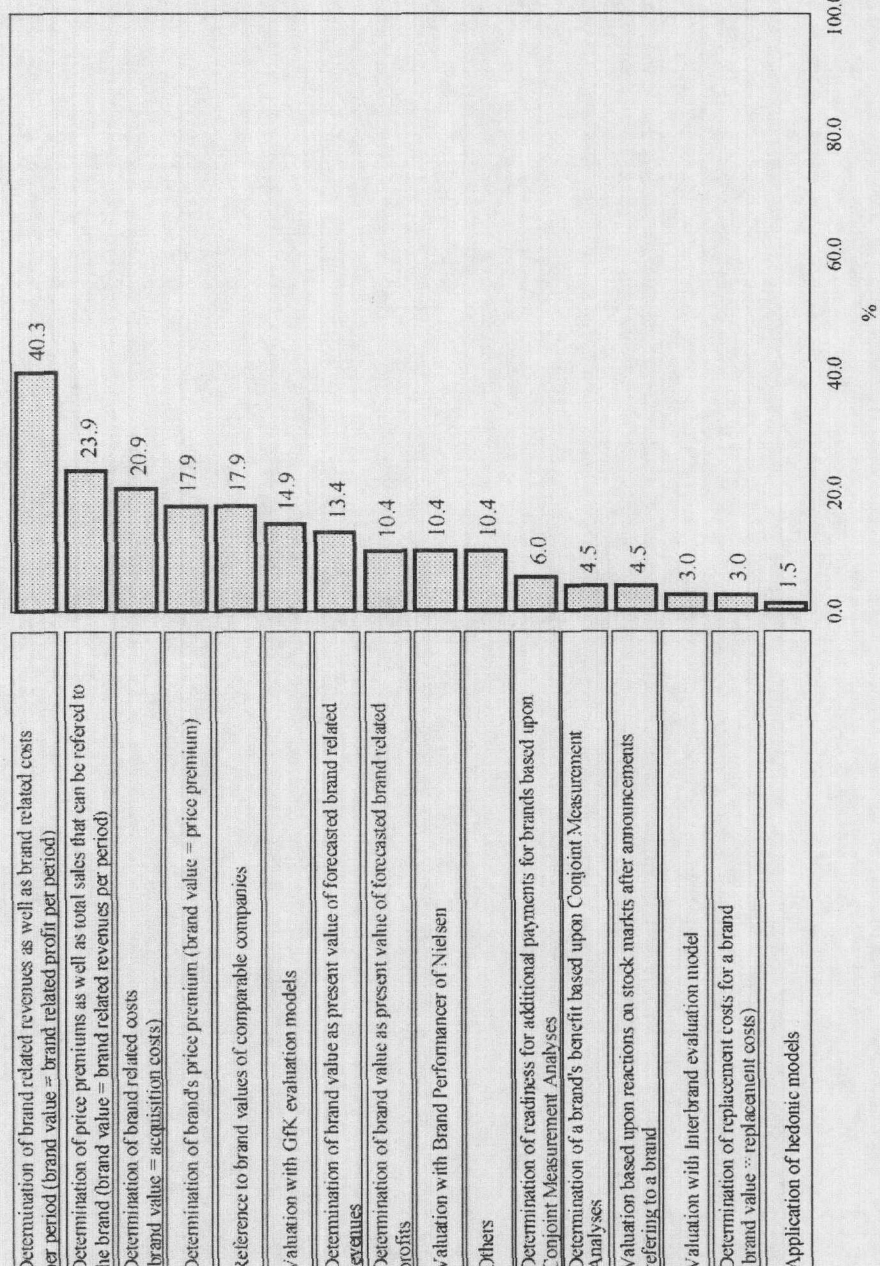
monetary and non-monetary value to their brand. 19.4% (3.1% + 16.3%) prefer to use qualitative performance measures (*Exhibit 18*).

Exhibit 18: Brand valuation in German companies (sample size: 129 companies)



Whether the brand valuation is monetary or non-monetary or not, has no relation to the perception of brands as investments (df = 16; $\chi^2 = 17.223$, $\alpha = 0.371 > 0.05$) or to the type of industry (consumer compared to durable goods) (df = 8; $\chi^2 = 10.964$, $\alpha = 0.204 > 0.05$).

Exhibit 19: Applied methods for brand valuation (sample size: 46 companies, multiple statements)



When we investigate those companies that do value brands, our study shows that few companies use only one single method of brand valuation. 63% of all companies use two or more methods[26], 58.7% use two, three, or even four methods.

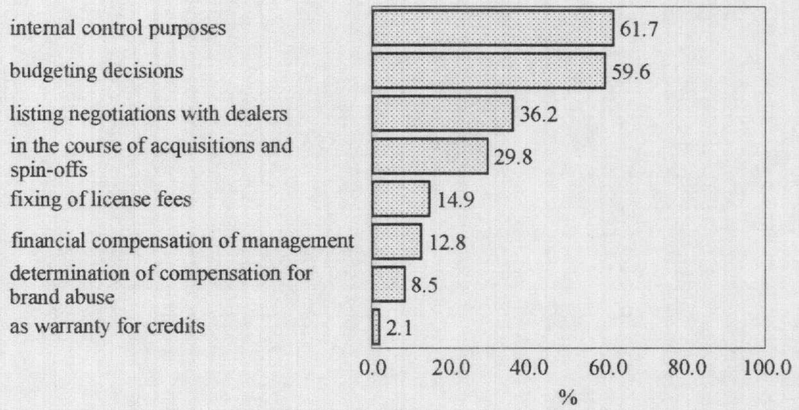
In our sample of 46 companies, the most popular method for valuing brands is the calculation of the brand-related profit, which again underlines the short-term orientation in brand management (*Exhibit 19*). Therefore, we see that firms do not consider the value of a brand as essential to future success, but merely as the current profit generated by a brand (actually, the products that are sold with that brand) in one single accounting period.

Of the commercially available brand valuation models, we find that 14.9% of all companies in our sample use GfK models, 10.4% apply the *Nielsen* Brand Performancer Model, and 3% use the brand valuation models of *Interbrand*. Other methods that were mentioned were primarily based on qualitative performance indicators, such as image, reputation of the brand compared with competitors, and the uniqueness of a brand.

Again, we could find no correlations between the applied methods and the perception of brands as investments (df = 10; $\chi^2 = 7.197$, $\alpha = 0.707 > 0.05$), or the type of industry (df = 5; $\chi^2 = 7.773$, $\alpha = 0.169 > 0.05$).

61.7% of all companies that value brands use the brand valuation for internal control purposes only, whereas 59.6% derive decisions for the brand budgeting (*Exhibit 20*)[27]. The reasons for brand valuation do not seem to be related to the perception of brands as investments and intangible assets (df = 2; $\chi^2 = 2.25$,

Exhibit 20: Reasons for brand valuation
(sample size: 47 companies, multiple statements possible)



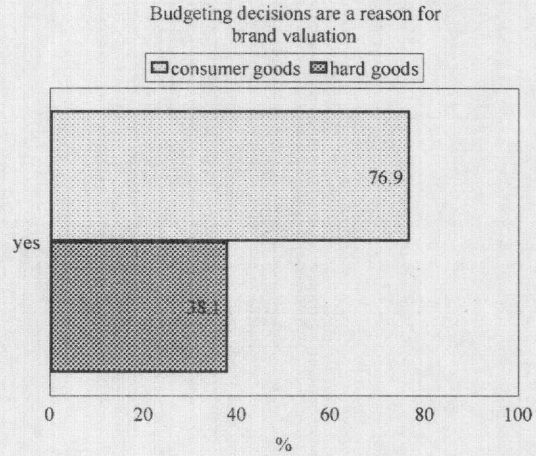
26 For an overview of brand valuation methods see, for example, *Kriegbaum* (1998).

27 The *PricewaterhouseCoopers/Sattler* study also finds that the reasons for brand valuation include the internal management and control of brands. Further, brand valuation is used for decisions concerning mergers and acquisitions (see *PricewaterhouseCoopers/Sattler* (1999), p. 15).

$\alpha = 0.325 > 0.05$). A chi-square test ($df = 1$; $\chi^2 = 7.27$, $\alpha = 0.007 < 0.05$) shows significant differences between the consumer goods and durable goods industries and the application of brand valuation for budgeting decisions.

Looking at the number of companies that view budgeting decisions as a major reason for brand valuation (*Exhibit 21*), the study shows that companies in the consumer goods industry re-evaluate their brands much more frequently than do companies in the durable goods industry. Statistics show a low level of significance ($df = 1$; $\chi^2 = 3.372$, $\alpha = 0.066 > 0.05$).

Exhibit 21: Budgeting decision as reason for brand valuation, grouped by durable goods/consumer goods industry (sample size: 21 consumer and 26 durable goods companies)



Planning targets that are not brand-oriented appear to play a more important role in the budgeting in the durable goods industry. Companies in the consumer goods industry appreciate the importance of their brands' value and therefore have a more brand-oriented planning.

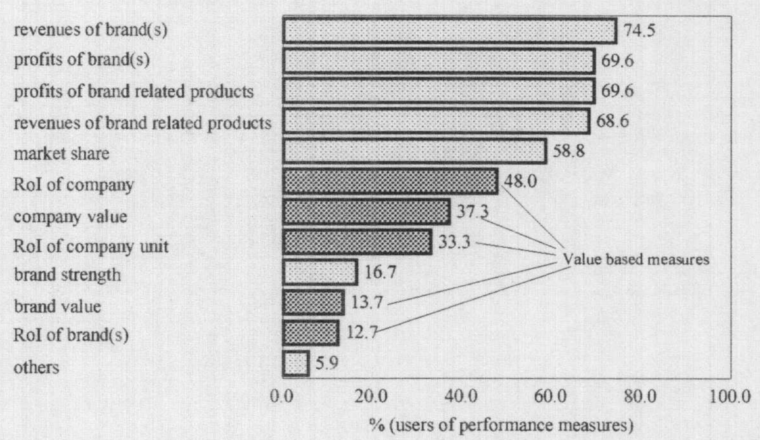
All the other stated reasons stated in *Exhibit 20* show no significant correlation between the branch of industry and the reason.

Of the companies that have already bought or sold a brand (25 companies) 61.5% say that they had not performed an explicit brand valuation to support the purchase or sale decision. Other companies derived a brand's value as a starting point for price negotiations, based on, e. g., total acquisition costs, image analyses, and price comparisons of brand brokers. However, it is unclear how companies calculated the final price for a brand. Since a brand's price can reach several million dollars[28], it is difficult to understand why an explicit monetary brand valuation still has no meaning for many companies.

28 The trademark rights for the trademark *Rolls Royce* were sold to BMW AG for 120 Mio. DM.

13.7% of the companies in the sample appreciate the brand value as a performance measure, but 37.3% stated that they would use a company's value as suitable performance measure. Nearly 70% of all companies use the profit or revenue as a measure. This measure is characterized by a short-term, single-period valuation based on past performance, in contrast to the future-oriented and multi-period company valuation (*Exhibit 22*). In addition, we could find no significant correlation between the companies that use the value as a performance measure and the companies that use the brand value (df = 1; $\chi^2 = 0.218$, $\alpha = 0.641 > 0.05$). Therefore, we conclude that the performance measurement systems of most of the companies are not consistent in their structure, since companies that focus on creating shareholder value would also evaluate their intangible assets, such as their brand values.

Exhibit 22: Performance measures in use (sample size: 102 companies, multiple statements possible)

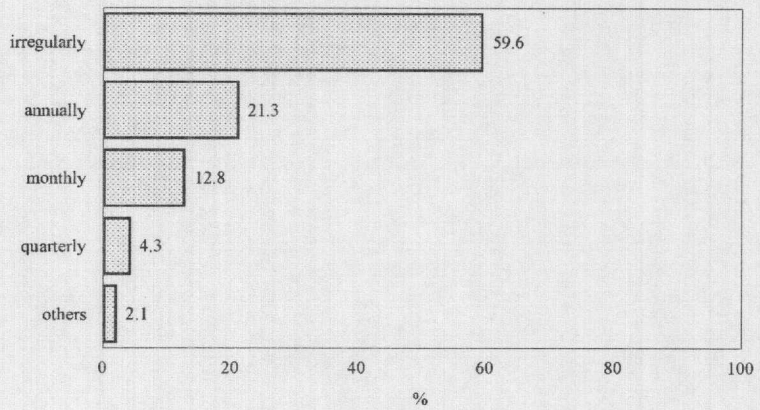


62% of the companies (sample size: 47 companies) perform their own brand valuations. When companies do consult external advisors, 63% of 19 companies hire management consulting firms that specialize in brand valuation. 59.6% of all companies that do value their brands admit that the actual valuation is not a regularly scheduled undertaking. This is an astonishing finding, since the most frequently mentioned purpose of valuation is the internal control over the brand and its use in long-term planning (*Exhibit 23*).

We follow earlier studies in constructing very detailed specifications of requirements for the valuation of brand[29]. Our goal is to reveal which requirements for the internal controlling of brands are relevant in practice. Therefore, we asked our sample companies to grade the importance of given requirements on a scale from one (important) to five (unimportant). *Exhibit 24* shows that the most important

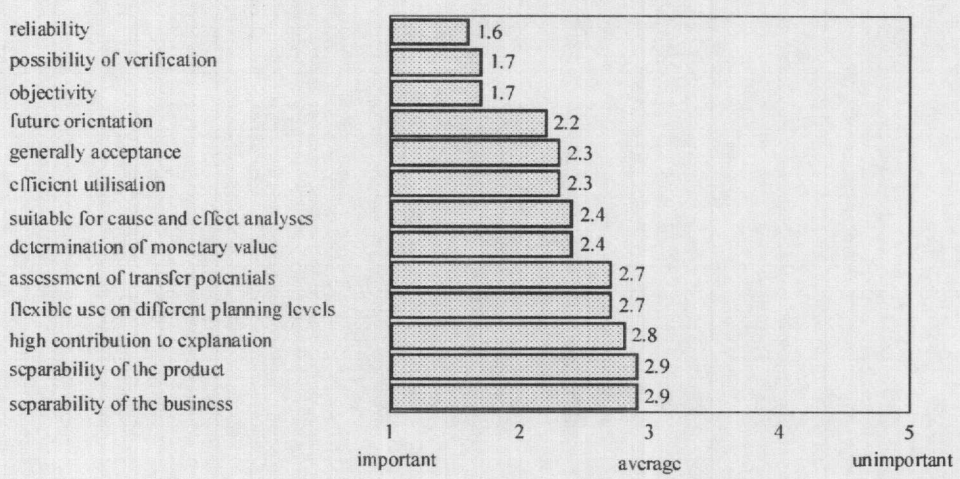
29 See *Barwise et. al.* (1989), pp. 66; *Arthur Andersen* & Co (ed.) (1992), p. 29; *Hammann* (1992), p. 214; *Berndt/Sander* (1994), p. 1370; *Sattler* (1995), p. 666; *Brockington* (1996), p. 177; *Bekmeier-Feuerhahn* (1998), pp. 66; *Irmscher* (1997), p. 100; *Sattler* (1997), p. 4.

Exhibit 23: Frequency of brand valuation (sample size: 47 companies)



criteria were the method's reliability, the ability to verify the valuation, the objectivity, and the future orientation of the applied method.

Exhibit 24: Assessment of the importance of requirements for brand valuation methods (sample size: 123 companies)

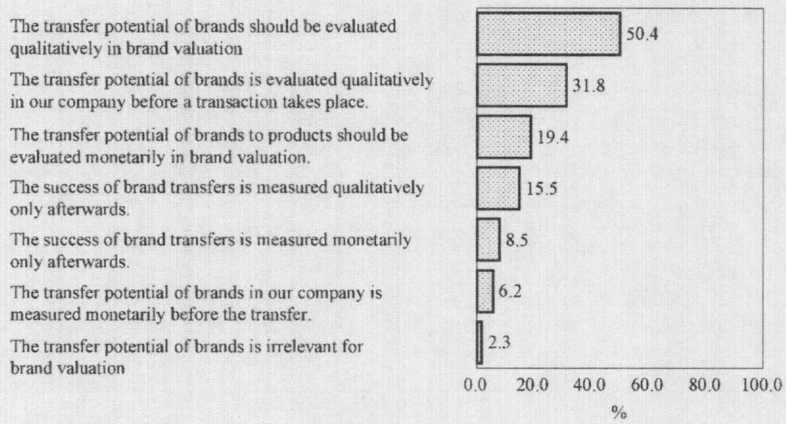


Some companies mentioned other requirements, such as the possibility of doing benchmarking studies, the speed of doing the valuation, and the ability to repeat the valuation precisely. Companies rated the ability to separate the brand as an independent, intangible asset as the least important requirement, with an average factor of 2.9. Again, we interpret this finding as evidence for the assumed relation between brands and products and the less appreciated stand-alone value of a purely intangible asset "brand".

Companies assign little importance to the meaning of possible transfer potentials (average factor of 2.7), although future brand transfers could increase income and reduce expenses. This statement is even more surprising when we remember that 53.4% of all interviewed companies have already done a brand transfer. In fact, only 45.7% of our sample value the transfer potential of their brands. Only 74.6% value their brands' transfer potential before the actually transfer brands to other products. Furthermore, only 44.1% revalue the transfer ex post to measure its success.

Exhibit 25 summarizes companies' statements on the valuation of transfer potential. Slightly more than half (50.4%) of the sample believed that a brand's transfer potential should be evaluated. However, only 34.1% (6.2% + 8.5% + 19.4%), as *Exhibit 25* shows, of those companies stated that the valuation must be monetary.

Exhibit 25: Assessment of the valuation of transfer potentials (sample size: 129 companies, multiple statements possible)



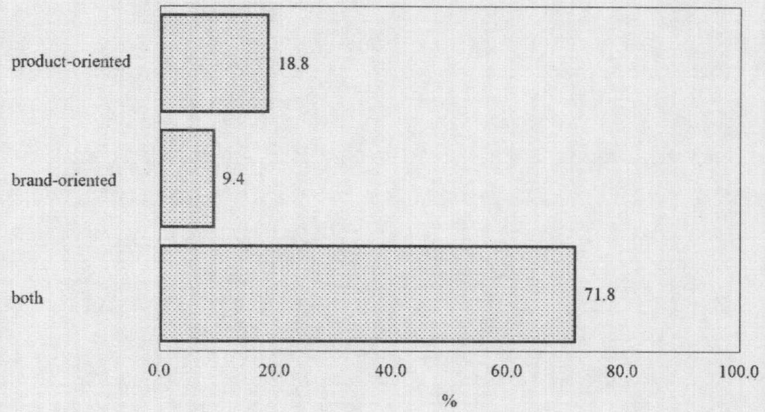
3.5 Controlling Brands

3.5.1 Tactical and strategic controlling instruments for brands

To identify applied controlling instruments in strategic and tactical brand management, we investigate the extent to which our sample companies use known instruments.

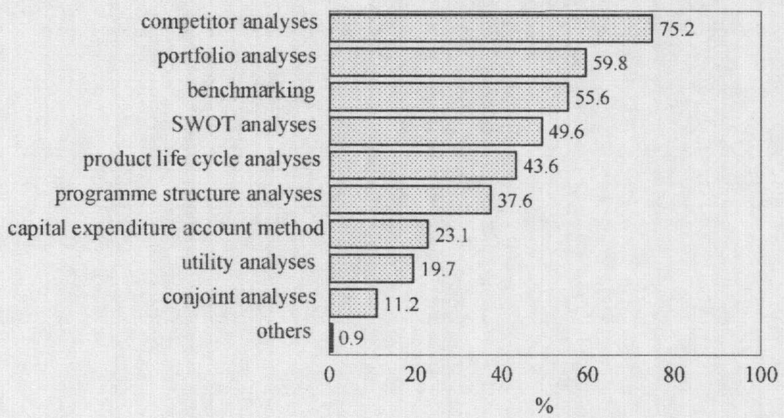
We examine whether instruments are especially applicable for brands as intangible assets, or for products/product groups. We follow the predominant understanding of 'brand' by using applied instruments that are product-oriented (*Exhibit 26*). However, we note that in practice, a purely brand-oriented brand management or controlling does not exist.

Exhibit 26: Product- or brand-oriented demarcation of applied controlling instruments (sample size: 85 companies)



Among the strategic instruments, competitor analyses play a predominant role. However, *Exhibit 27* shows that more than half of all investigated companies also use portfolio analyses and benchmarking studies.

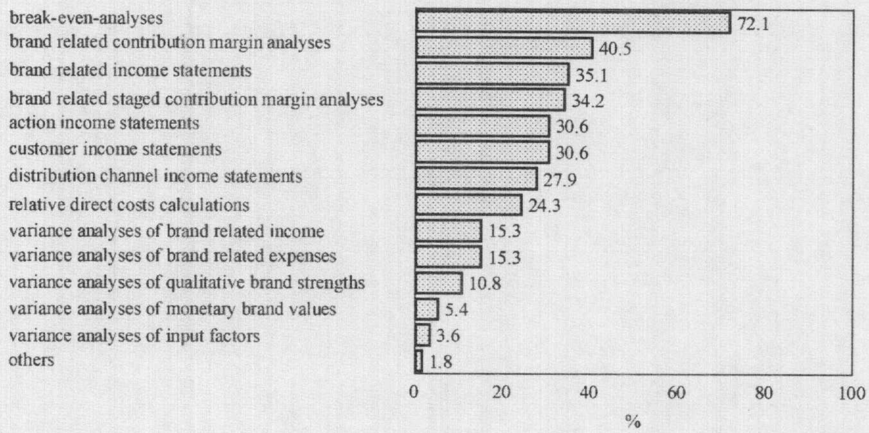
Exhibit 27: Applied analyzing instruments in strategic brand management (sample size: 117 companies, multiple statements possible)



More than 75% of all companies use break-even analyses in the field of the tactical brand management. Only one third of all sample companies use income statements for brands, customers, promotional activities, or distribution channels.

Only 15.3% of all companies apply financial variance analyses of income or expenses per brand as planning and controlling instruments. Indeed, 10.8% analyze variances of a brand's strength. However, statistically, only 5.4% analyze the variances of a brand's value. Companies measure the variances of factors affecting a brand's actual value even more rarely (3.6%) (*Exhibit 28*).

Exhibit 28: Instruments for planning and control in the field of the tactical brand management (sample size: 111 companies, multiple statements possible)



Strategic and tactical instruments are vital to effectively control brands. However, from our point of view, it is not theoretically possible to properly derive statistically testable hypotheses on the interaction between the perception of brands as valuable assets and on the type of industry and the spread of selected strategic and tactical instruments.

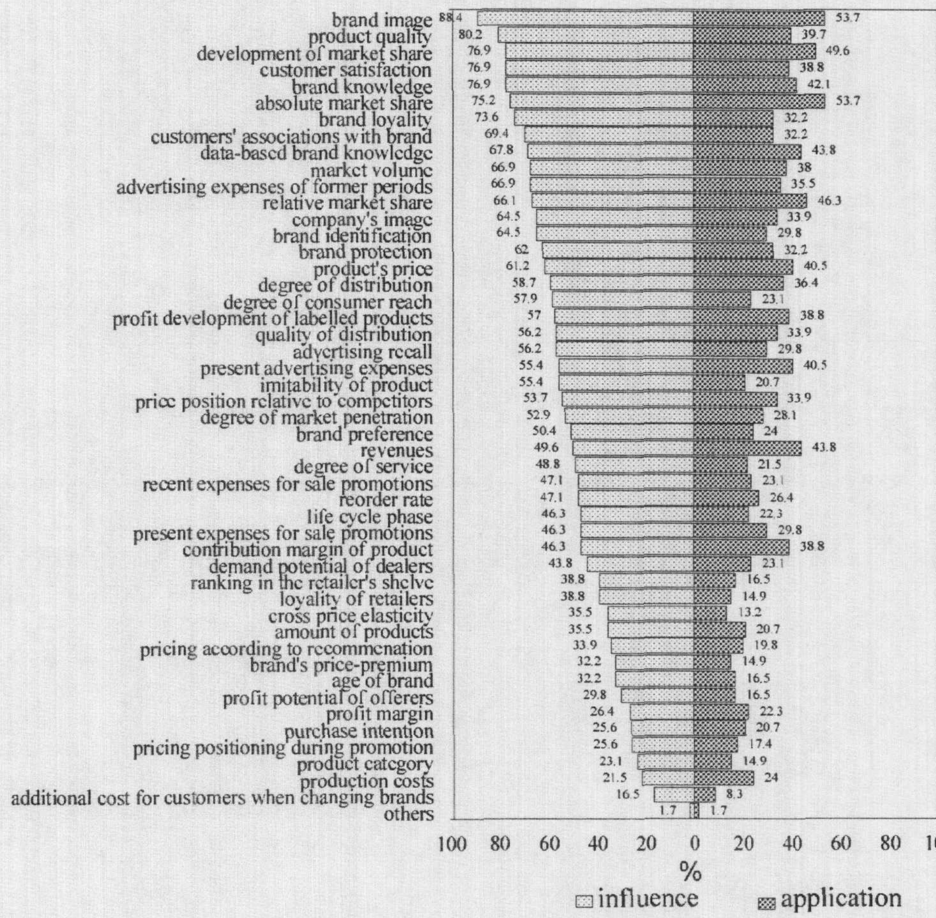
3.5.2 Measures for a brand's success

Because the standard business literature presents several different approaches for measuring a brand's strength and its input factors[30], we investigate the question of which input factors should have a noticeable influence on a brand's value, and which ones are applied to measure a brand's success. The majority of companies in our sample believe the brand's image has a strong influence on the actual brand value (88.4%), but only 53.7% of the respondents use image as an indicator for the brand's success. Although companies regard product quality as second in terms of importance (80.2%), *Exhibit 29* shows that only 39.7% use its actual application as an indicator.

Only 38.8% of the sample use customer satisfaction, which is fourth on the list of input factors that affect a brand's value (76.9%), as a measure. Therefore, customer satisfaction is listed on rank 11. In contrast, companies more frequently apply those measures for a brand's value that are relatively easy to derive. These measures include the brand's image, absolute market share, development of the market share, and relative market share, as well as the brand's popularity and its revenues. The revenues measure illustrates the great gap between recognized influence and its application. Although revenues are listed on position five, the actual influence is weak (position 27).

30 See the overview at *Sattler* (1994), pp. 12; *Sattler* (1997), p. 51.

Exhibit 29: Comparison of an input factor's appreciated influence on the brand's value and its actual application for the assessment of the brand's success (sample size: 121 companies)



To analyze the association between the variables "appreciation as an influencing factor" and "application for the assessment of a brand's success," we perform a statistical correlation calculation. We calculate, a Bravais-Pearson correlation coefficient of + 0.853, thus determining the strength and the direction of the association. This result means that both variables correlate positively on a high significance level ($\alpha < 0.0001$). Hence, we also apply factors that we expect to influence a brand's value, despite the exceptions mentioned above. However, even though companies appreciate their influence on a brand's value, we emphasize that some firms do not use certain measures. *Exhibit 29* displays the comparison of both variables.

Again, the interdependence between the application of these performance measures, the perception of brands as investments (df = 2; $\chi^2 = 2.25$, $\alpha = 0.325 > 0.05$), and the type of industry (df = 1; $\chi^2 = 1.066$, $\alpha = 0.302 > 0.05$) could statistically not be rejected.

When asked for indicators that they use for brand management, 64% of the companies answered that they used indicators to control distribution. 42.1% use indicators to control prices, and 35.1% apply indicators to manage communication.

31.6% use a so-called Balanced Scorecard, which is a system of connected, quantifiable measures for the financial perspective (ROI, cash flow, etc.), customer perspective (customer satisfaction, etc.), internal perspective (quality, etc.), and the innovation and development perspective. Firms use the scorecard for internal control of a brand[31].

3.5.3 Financial incentive schemes for brand-responsible employees

Our examination of financial incentive schemes in brand management shows that 70.8% of all companies within the sample (sample size: 120 companies) use financial incentives for the payment of their managers, but only 28% apply financial incentive schemes in brand management. If there is a variable financial portion in a brand manager's salary, it varies between 8.9% and 24.4% of the gross salary.

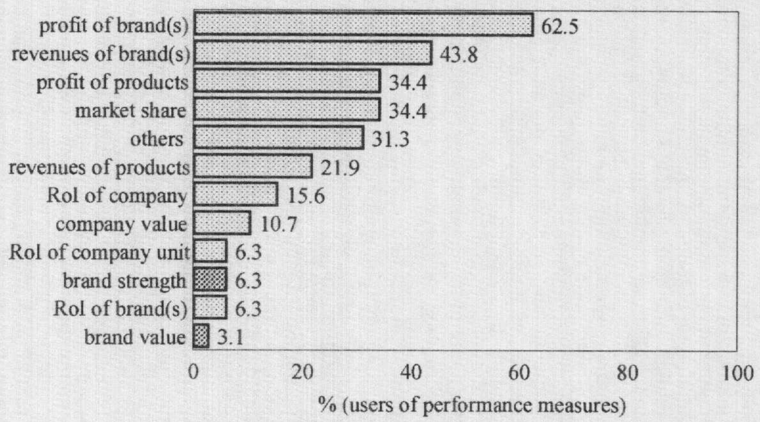
In 69.7% of all sample companies, the evaluation period against which the variable portion is calculated ranges between one and five years. There is no company with an evaluation period exceeding five years, and 30.3% use a horizon of less than one year. We regard both results as evidence for the predominant short-term orientation in brand management.

The profit generated by a brand is most frequently used as a basis for calculating the variable portion of a brand manager's salary (62.5%). Only 6.3% base incentive systems on a brand's strength and 3.1% on a brand's value, which means that these measures are essentially meaningless for financial incentive schemes (*Exhibit 30*).

This result is surprising, since a total of 69.3% firms agreed with the statement that "... the evaluation of brands is a reasonable method to assess the performance of the unit which is responsible for the brand". But it is not surprising that the hypothesis of an interdependence between the perception of brands as investments and the applied measures for the incentive scheme could not be rejected (df = 2; $\chi^2 = 0.012$, $\alpha = 0.994 > 0.05$). However, the low level of significance (df = 1; $\chi^2 = 3.665$, $\alpha = 0.056 > 0.05$) might indicate that the type of industry introduces some bias on the measurement system for the incentives. Perhaps, for those firms that apply financial incentives in brand management, many brand managers believe that a brand's profit is an adequate estimate for the actual value of a brand.

31 See *Kaplan/Norton* (1996), p. 11; *Bruhn* (1998), p. 150; *Reinecke/Tomczak* (1998), p. 100.

Exhibit 30: Applied measures for incentive schemes (sample size: 32 companies, multiple statements possible)



3.6 Summary of statistical correlations

Because we choose only companies with at least one major brand for our general sample, the interaction between relevance and perception is not statistically testable because there is no control group. However, we can analyze the interaction by using descriptive statistics.

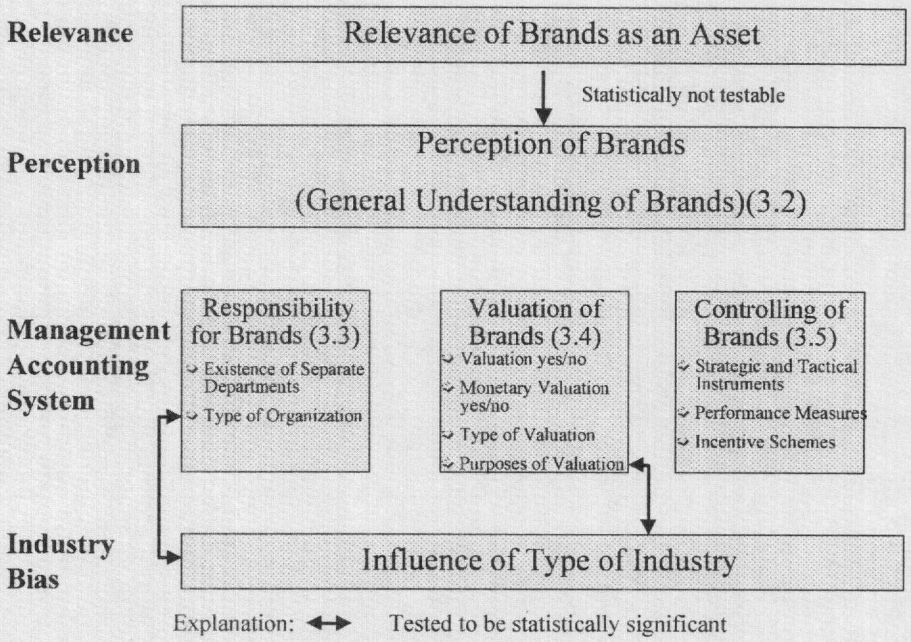
In *Exhibit 31* we see that the tests show almost no statistically significant correlations between the perception of brands as investments and valuable intangible assets, and the variables of the management accounting systems. However, we do find some differences between consumer and durable goods industries in the structure of the management accounting system. Out of 18 tested interactions, only two (for the industry bias) show statistically significant correlations. We conclude that the current management accounting systems for brand management do not support the companies' perceived relevance of brands. Our testing confirms that there is a wide implementation gap for the majority of the companies in the sample.

4 Conclusions

Our study derives the following implications for the accounting, control and valuation of brands in German companies:

- Brands are usually thought of as 'labeled products'. This finding emphasizes the close connection between the intangible asset 'brand' and the underlying tangible product. In many cases, companies regard brands and underlying products as one and the same.

Exhibit 31: Statistically significant correlations between the analyzed variables of the study



- In practice, companies do not perceive brands as independent, intangible assets. A possible reason for this might be that only about a quarter of all companies has ever purchased or sold a brand name without its underlying product.

- Despite most companies accept and appreciate the fact that brands as long-term investments, companies perform the actual valuation and control on a short-term profit- or cost-oriented perspective. Furthermore, only one third of all investigated companies believe that they should do a monetary valuation, similar to the valuation of tangible assets. Thus we see a gap between perception and appreciation on one hand and the actual implementation on the other hand (implementation gap).

- Although they accept the valuation of brands as a suitable assessment of performance and an incentive for long-term-oriented behavior to increase a brand's value, more than 60% of all companies do not evaluate their brands.

- The lack of suitable methods to assess a brand's value is regarded to be a main reason for the neglect of brand valuation.

- If companies evaluate brands monetarily, the assessment is primarily based on the brand-related profit or revenue. Long-term future-oriented evaluation methods play no significant role in practice.

- Commercially available brand valuation models (such as the so-called Brand Performancer, Interbrand or GfK) are used infrequently.

- Companies perform evaluations primarily for internal control purposes and budgeting decisions. However, because of the irregular evaluation periods of at least 60% of all companies, these aims are unlikely to be reached.

- In strategic brand control, qualitative instruments dominate the forecast and the analysis.

- The sample companies note many factors that should influence a brand's value. Hence, we expect a complex network of causes and effects. However, our study shows that quantitative factors (such as market shares, revenues and contribution margins) that can be evaluated more easily, are applied more often in brand valuation than are the qualitative factors (such as product quality, customer satisfaction or the popularity of a brand) that are more difficult to derive.

- A brand's strength and value do not play a significant role as performance measures for incentive schemes. However, short-term measures (such as brand-related profit, brand-related revenues, product-related profit or market share) have great importance.

- The study shows differences between companies of the consumer goods and the durable goods industries. Consumer goods companies tend to put more effort into their brands. We find such companies are more likely to have departments with special responsibilities for a brand that they perform brand valuations more regularly, and that they construct brand-related budgets more frequently.

We find a gap between the perception of a brand as an intangible asset that represents a long-term investment and the actual management of brands in practice. Brand management predominantly focuses on short-term, tactical, single-period targets. This fact becomes obvious when we look at the present definition of 'brand', the state-of-the-art brand valuation, and the organization of brand management and control. We do not find any currently available method for brand valuation that can be used for control purposes.

Despite the fact that brand management has been focused in marketing management and marketing research for decades our results are disappointing. If we assume that the management of other intangibles such as knowledge or organizational capital is years behind the development of brand management, we might find an inconsistency when analyzing the management, control, and valuation of other intangibles. There remains much to be done in future research and in the future implementation in the companies.

References

Aaker, David. A. (1991), Managing Brand Equity, Capitalizing on the Value of Brand Name.

Arthur Andersen & Co. (ed.) (1992), The Valuation of Intangible Assets, Special Report No. P 254, The Economist Intelligence Unit, January 1992.

Barwise, Patrick/Higson, Chris/Likierman, Andrew/Marsh, Paul (1989), Accounting for Brands, London Business School.

Barwise, Patrick/Marsh, Paul R./Wensley, Robin (1990), Brands as Separable Assets, in: Business Strategy Review, Vol. 1, Summer 1990, pp. 43–59.

Bekmeier-Feuerhahn, Sigrid (1998), Marktorientierte Markenbewertung – eine konsumenten- und unternehmensbezogene Betrachtung, Habil.

Berndt, Ralph/Sander, Matthias (1994), Der Wert von Marken – Begriffliche Grundlagen und Ansätze zur Markenbewertung, in: *Bruhn, Manfred* (ed.), Handbuch Markenartikel, Volume 2: Markentechnik, Markenintegration, Markenkontrolle, pp. 1353–1371.

Brockington, Raymond (1996), Accounting for Intangible Assets – A New Perspective on the True and Fair View.

Bruhn, Manfred (1994), Markenpolitik, in: *Diller, Hermann* (ed.), Vahlens Großes Marketing Lexikon, pp. 643–645.

Bruhn, Manfred (1998), Balanced Scorecard: Ein ganzheitliches Konzept der Wertorientierten Unternehmensführung?, in: *Bruhn, Manfred/Lusti, Markus/Müller, Werner. R./Schierenbeck, Henner/Studer, Tobias* (ed.), Wertorientierte Unternehmensführung, Festschrift zum 10jährigen Bestehen des Wirtschaftswissenschaftlichen Zentrums (WWZ) der Universität Basel, pp. 145–167.

Edvinsson, Leif (1997), Developing intellectual capital at Skandia, in: Long Range Planning, Vol. 30, no. 3, pp. 366–373.

Edvinsson, Leif/Malone, Michael S. (1997), Intellectual Capital: Realizing Your Company's True Value By Its Hidden Roots.

Franzen, Ottmar (1994), Markenbewertung mit Hilfe von Ertragswertansätzen, in: Deutsches Steuerrecht, Vol. 44, pp. 1625–1629.

Hammann, Peter (1992), Der Wert einer Marke aus betriebswirtschaftlicher und rechtlicher Sicht, in: *Dichtl, Erwin/Eggers, Walter* (ed.), Marke und Markenartikel als Instrumente des Wettbewerbs, pp. 205–245

Hentschel, Ulrich (1996), Das neue Markenrecht, in: Betrieb und Wirtschaft, Vol. 50, no. 12, pp. 438–440.

Irmscher, Markus (1993), Modelling the Brand Equity Concept, in: Marketing and Research Today, Vol. 21, no. 2, pp. 102–110.

Kaplan, Robert S./Norton, David P. (1996), The Balanced Scorecard.

Kriegbaum, Catharina (1998), Valuation of Brands – A Critical Comparison of Different Methods, Dresdner Beiträge zur Betriebswirtschaftslehre, no. 13/98.

Kriegbaum, Catharina (2001), Markencontrolling – Bewertung und Steuerung des immateriellen Vermögenswertes Marke.

Kunisch, Rolf (1998), Markenwert und Shareholder Value, in: Marketing Journal, Vol. 31, no. 1, p. 6.

Lenz, Rainer (1996), Die Entwicklung von Handelsmarken – Untersuchungen und Zukunftsperspektiven im Gebrauchsgüterbereich, in: *Bruhn, Manfred* (ed.), Handelsmarken im Wettbewerb, pp. 149–169.

Maul, Karl-Heinz/Menninger, Jutta (2000), Das "Intellectual Property Statement" – eine notwendige Ergänzung des Jahresabschlusses?, in: Der Betrieb, Vol. 53, 2000, pp. 529–533.

Mussler, Dieter/Mussler, Sven (1995), Marken-Bewertung in der Praxis – eine Zwischenbilanz, Teil 1, in: Marketing-Journal, Vol. 28, March, pp. 184–187.

PriceWaterhouseCoopers/Sattler, Henrik (1999), Praxis von Markenbewertung und Markenmanagement in deutschen Unternehmen.

Reinecke, Sven/Tomczak, Torsten (1998), Aufgabenorientiertes Marketingcontrolling, in: *Reinecke, Sven/Tomczak, Torsten/Dittrich, Sabine* (ed.), Marketingcontrolling, pp. 90–109.

Roeb, Thomas (1994), Markenwert: Begriff, Berechnung, Bestimmungsfaktoren.

Rubinson, Joel R. (1994), Brand Equity – zum Management komplexer Markenportfolios, in: Planung und Analyse, Vol. 21, no. 3, pp. 48–51.

Sattler, Henrik (1994), Der Wert von Marken, Manuskripte aus den Instituten für Betriebswirtschaftslehre der Universität Kiel, no. 341.

Sattler, Henrik (1995), Markenbewertung, in: Zeitschrift für Betriebswirtschaft, Vol. 65, pp. 663–682.

Sattler, Henrik (1997), Monetäre Bewertung von Markenstrategien für neue Produkte.

Sveiby, Karl E. (1997), The new organizational wealth: Managing & Measuring Knowledge-Based Assets.

Stewart, Thomas A. (1997), Intellectual Capital, the new Wealth of Organizations.