How much for the brand license?

Valuation of brand extension license opportunities

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Corporate or brand licensing represents a growing share of the many trademark license agreements developed each year. A trip to any major retailer reveals numerous brand extension and co-branded licensed products. Given the value of these brands, it's surprising that few licensor's use a formal valuation process for new license opportunities. Although valuation remains a hotly debated subject, a modified 'value in use' approach can help to determine the market value of brand extension license opportunities.

Background

Numerous studies have found that brands provide greater value than other corporate assets. Perhaps best known is the "Global Brands" study conducted by Interbrand; it concludes that brands account for more than a third of shareholder value (on average), and in many cases, more than 70% of shareholder value.

Today, there is a consensus among many academics, analysts and marketers that a strong brand can provide powerful competitive advantages such as greater customer loyalty, higher margins, and opportunities for brand extension and licensing.

The recognition that brands are powerful yet underutilized assets is why trademark licensing has become a popular marketing strategy. Because many brand owners don't have the resources to pursue every viable business opportunity, they utilize trademark licensing to enter new markets beyond their core competencies.

Brand extension licensing (i.e. licensing the brand in new product categories) allows companies to obtain even greater 'leverage' from their brand assets. For the brand owner or licensor, brand extension licensing provides royalty revenue and a variety of brand benefits. For licensees, licensing a strong brand can provide high consumer awareness and a clear, appealing image for their products.

Although a brand extension license relationship can offer significant benefits to both licensor and licensee, determining the value of the license, and gaining agreement on the terms of the license agreement, can be quite challenging.

Unfortunately, valuation methodologies that focus only on financial metrics or comparable transactions are not adequate to determine the value of brand extension license opportunities. Brand is important, however, the licensor's operations and stakeholder relationships can also have significant value to the licensee and need to be considered. In addition, the value must be determined in the context of each licensee's business. The Brand License Valuation™ (BLV) provides a solution to the limitations of traditional valuation methodologies. The BLV model brings together brand metrics, market analysis, and finance to accurately assess the value of brand extension licenses. This 'value in use' approach also considers important licensee business objectives, needs and resources.

The BLV methodology reflects the licensor's brand, marketing, operations and stakeholder relationships as well as the capabilities and interests of each licensee. Uncovering the needs of qualified licensee candidates, and identifying how the brand license can meet their needs, is at the heart of the valuation.

The BLV model assesses two key drivers: 'brand fit', which reflects category dynamics; and 'business fit', which reflects licensee dynamics. The methodology is based upon four premises:

1. Brand health and support are key drivers of market value. Brand image is a critical element that should be evaluated among several stakeholder groups.
2. Licensor stakeholder relationships influence market value. These relationships can add or detract from the value of a brand extension license opportunity.
3. Licensee candidates are unique and have different business objectives and resources. The license terms should reflect the value of the brand license in meeting the business objectives of individual licensees.
4. Brand license value is dynamic and variable. A strong brand can have significant value, but not if it compromises a licensee's existing or future products and marketing programs.

Approaches to Valuation

Business valuation grew out of traditional valuation methods applied by accounting firms. These firms often have a financial orientation and lack the experience to understand how brands operate within a competitive context. There are several traditional methodologies have been adopted for valuation of brands and other intangibles, but the results have not been very useful or satisfactory.

Today, a widely accepted method of valuing a company or business is to discount the profit or cash flows it produces to a net present value (i.e. discounted cash flow). However, there is a growing consensus that financial measures alone do not provide a complete picture of the strengths and weaknesses or value of a business, especially for consumer products.

According to Gartner, 'The lack of generally accepted standards to measure knowledge management and other intangible asset classes will continue to erode the relevancy of accounting-based information in deciding where to find and how to build business value (0.8 probability).'

Value is a concept with many interpretations. The value of the brand extension license is most often considered based upon the use of the brand for a line of products or services. There are two popular methods that have been adopted by licensors for this purpose:

- Market-based valuation – uses "comparable" trademark license opportunities and/or historical market transactions
- Income-based valuation – establishes a sales target, then applies a royalty rate to determine the licensing fees or 'royalty minimums' to be paid by the licensee

The above valuation methodologies revert to traditional measures that have not kept pace with the real drivers of business value, and are not capable of reflecting the benefits created by brand extension licenses. These methodologies also lack the ability to consider how value changes based upon the business objectives of different licensees.

The value of a brand extension license is determined, to a large extent, by the ‘business fit’ with a given licensee. That is, value must reflect the benefits conveyed by the license to the licensee. These benefits are derived from licensor’s brand, marketing programs, and stakeholder relationships. Measuring the value of these benefits or business fit must be done in the context of each licensee’s business.

Brand License Valuation™ Model

In developing a useful valuation model for brand extension licenses, it is important to understand and reflect the differences between conventional and brand extension licensing.

Conventional licensing involves trademark imagery and affinity. Typically, there is little or no transfer of the ‘product attributes’ of a given licensed trademark or brand. In addition, the consumer doesn’t necessary identify the licensor as the product supplier.

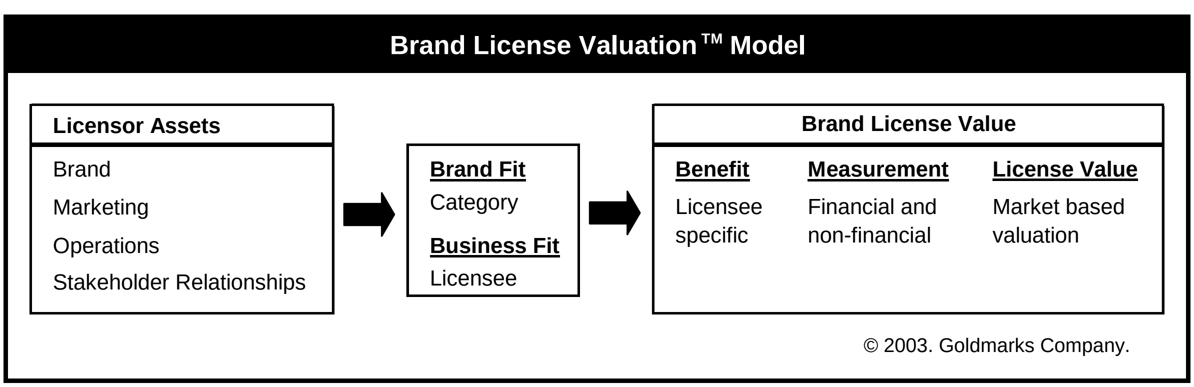
Brand extension licensing involves products where the brand image and association with the brand owner are the primary drivers in the consumer purchase decision. The key objective of brand extension licensing is to develop product categories with a strong brand connection or ‘brand fit’ that is logical, relevant, and appealing to consumers.

The valuation of brand extension licenses requires a different orientation than conventional licensing because the consumer purchase decision is different and the integration with the licensee’s business is greater. An effective methodology must reflect these dynamics to accurately assess the brand extension license value.

The Brand License Valuation™ (BLV) model brings together brand metrics and market analysis to assess the value of brand extension licenses. ‘Brand fit’ (reflecting category dynamics) and ‘business fit’ (reflecting licensee dynamics) are the two underlying principles in the determination of license value.

The BLV model assesses how the licensor’s brand and business assets or ‘licensor assets’ affect brand fit and business fit for a given licensee. These licensor assets include:

- Brand - brand name, logo, trade dress, and slogans/tag-lines
- Marketing - communications, media, and support level
- Operations - product development, manufacturing, and distribution
- Stakeholder relationships - consumers, retailers, employees, other licensees



Implementation of the BLV model requires information from both licensor and licensee and involves a five-step process:

1. Conduct a licensor assets audit: evaluate the licensor's brand and identify licensing related assets
2. Conduct a market analysis: assess product categories using a screen to evaluate category value and product appeal.
3. Assess the License Value Drivers (LVD): determine the presence and importance of brand fit and business fit
4. Determine license value: factor LVD elements for qualified licensee candidates
5. Create the license proposal: develop a business case and proposal that delineates key business terms or licensee performance commitments

Although securing relevant information can be a challenge in any business analysis, the licensor can realize significant benefits from making this effort and using the BLV process for new brand extension license opportunities.

About Goldmarks

Goldmarks (www.goldmarks.net) is a consultancy that specializes in brand extension licensing. Founder Kirk Martensen has assisted a diverse range of licensors (e.g. DuPont, General Motors, Jack Daniels, Motts, Maytag and Nabisco) to develop successful brand extension licenses with leading manufacturers (e.g. Eureka, Fedders, HJ Heinz, Proctor & Gamble).