The Valuation of Brand Architectures: An Empirical Investigation in the Wine Sector

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Abstract

In recent years, consulting firms and academics have developed a plethora of methods to place a monetary value on brands. The models used in practice either focus on product brands - the commercial trademarks used to target specific client segments, or on corporate brands - all the intangibles that come under an umbrella name. However, the current marketing strategies reveal that few companies use commercial brands and corporate brands separately, as they are typically integrated into complex brand architectures that combine product brands and corporate brands in different flavours. This study critically reviews the brand valuation literature to assist practitioners in choosing appropriate methods to estimate different brand architectures. The analysis is carried out applying the Brand Finance valuation process to two Italian wineries. The findings suggest that whenever wineries use strong umbrella brand strategies, it is feasible to bundle the product brands into one comprehensive brand. The latter can be measured either by splitting the incremental benefits from the core brand, as suggested by Anson (2000), or by assembling the core brand and the incremental benefits together, as proposed by the Excess Earnings Method. For integrated wineries producing high quality wines, it is proposed that brand strength analysis be combined with the relief from royalty method.

1. Introduction

Brands, along with other Intellectual Properties (IP), are firmly established as crucial assets for value creation in almost all industries (Predovic, 2004). They can be used either directly, to influence consumers' preferences, or indirectly, by licencing them. In order to maximize value, companies are often using multiple brands for single product categories along with the corporate brands. Some of the reasons driving the proliferation of complex brand portfolios are: i) the extension of trademarks in new product segments (Keller, 2013); ii) the greater flexibility that product brands allow in terms of opportunities in both target clients and markets (Morgan & Rego, 2009); iii) new product introductions and iv) the acquisition of a partner to enter a new market or to increase economy of scale (Petromilli, Morrison, & Million, 2002).

As a result of this development, marketers have examined brands from a portfolio perspective in order to decide how financial resources should be allocated across different companies' brands. The ways brands are structured and managed to add value is known in the marketing literature as brand architecture (Douglas, Craig, & Nijssen, 2001; Rao, Manoj, & Dahlhoff, 2004). Aaker and Joachimsthaler (2000) have developed a *brand relationship spectrum* to identify the main brand architectures (see Figure 1). This spectrum is based on the role that a brand plays in driving customers' preferences.

At the left end of Figure 1, in the house of brands, independent trademarks are used by companies to identify single products and maximize market share. For example, Procter & Gamble products are not signed by the company name; instead, multiple names are used in each product label (e.g., Olay, Febreeze, Tide and other recognizable brands). At the other end of the spectrum, in the branded house, a corporate brand is used for all the products offered by a company, since this is the only brand known by consumers. Virgin is a diversified company that sells all its products/services under the same company name: Virgin Mobile, Virgin Air, Virgin

Records, etc. However, many companies fall somewhere between these two end points. They either use sub-brands to extend the corporate image in new segments (Apple iPhone, Apple iPad, etc.) or use independent brands enhanced by a corporate brand (Courtyard and Fairfield Inn by Marriott).

WEAK   C ORPORATE BRAND RELEVANCE   S TRONG

HOUSE OF BRANDS
Firms have an independent set of stand-alone brands. (For example, P&G follows this strategy in its care business using three brands: Head and Shoulders, Per and Plus, Pantene).

ENDORSED BRANDS
Firms have independent product brands, but they are endorsed by another brand, usually an organizational brand (Examples include Novotel by Accor, Kit-Kat by Nestlè, and Obsession by Calvin Klein).

SUB-BRANDS
Firms have brands associated to a corporate brand or parent brand and they increase or modify the association of that corporate brand. (Examples include Microsoft and Microsoft Office, Gillette and Gillette Mach 3).

BRANDED HOUSE
Firms have a corporate brand that supports other descriptive brands (For example, Virgin has leveraged its name to a whole range of brand extensions, including Virgin Radio, Virgin Active and Virgin Cola).

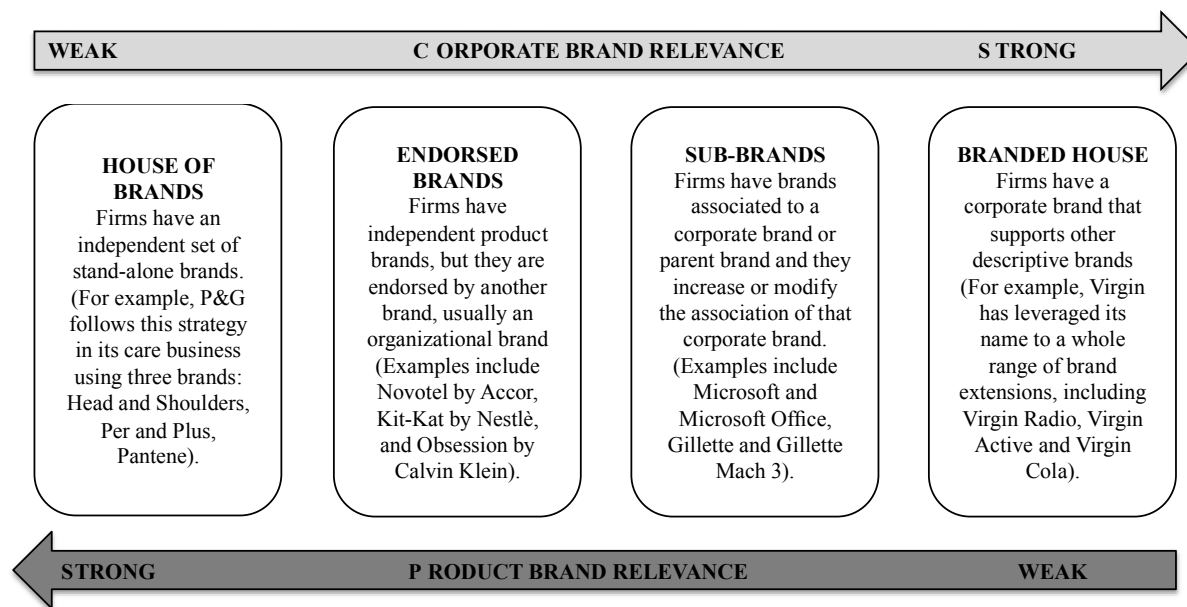STRONG   P RODUCT BRAND RELEVANCE   WEAK

Figure 1. Brand architectures strategies

Source: modified from Aaker and Joachimsthaler (2000).

Simultaneously to the marketing research, considerable efforts have been made to develop methodologies and models for brand valuation. Salinas and Ambler (2009) have elicited 23 brand valuation methods/models developed by academics and specialised valuation companies. These methodologies have been used for different purposes, for technical applications (e.g., Mergers and Acquisitions [M&A], accounting, litigations etc.) and for managerial purposes. However, the valuation of brand architectures is still in its infancy. In fact, the extant finance literature has paid great attention to the valuation of single trademarks, whereas few models have been developed to measure corporate brands along with product brands.

Thus, although brand architectures have been widely investigated in the marketing literature, managers and academics are still in need of practical examples and cases that illuminate how valuation of brand strategies may be undertaken. The aim of this study is to elicit appropriate methods for the valuation of brand architecture. To this end, we first review the finance brand valuation literature, and then we examine how and when apply the available methods to different brand architectures. The analysis is carried out applying an integrated version of the Brand Finance methodology to two Italian wineries: Italian Wine Brands (IWB) and Masi Agricola. These companies have been chosen as they are characterised by: i) brands as the main source for competitive advantage and ii) the coexistence of different business models to which correspond diverse brand architectures.

2. Theoretical Background

Brand valuation is based on a general premise that cannot be ignored. In economic terms, a brand is not a corporate asset due to the simple fact that it is a registered trademark. Instead, it assumes an economic value when it translates into a corporate asset capable of generating economic benefits, since its accreditation by consumers as a guarantee of product quality results in more effective sales by the company. Two further assumptions must be taken into account for brand valuation. The first relates to the purpose of the valuation. For whom is the valuation undertaken? Is it undertaken for a strategic buyer in M&A, for a seller required to sell, for accounting purposes or for managers interested in assessing the value of a branded business? We focus our current analysis on the financial valuation of brand architectures for strategic planning.

The second question relates to the scope of the estimate. What exactly are we valuing: the product brand or the corporate brand? We are interested both in the branded products and in the corporate brand. Thus, our analysis refers to: i) the product brand, defined as the name, term, design, symbol, used by marketers to differentiate one company's goods or services from those of competitors (American Marketing Association, 1960; Aaker, 1991)

and ii) the corporate brand, defined as the corporate name and all the other intangibles, such as company's culture, personnel, customer relationships (Haigh & Knowles, 2004).

Given this wide scope, we are interested in all the methodologies and models developed by academics and commercial providers to value both product brands and corporate brands. Table 1 classifies these methods/models according to the general ways in which any kind of asset can be valued: i) the cost approach; ii) the market approach and iii) the income approach (Wirtz, 2012). We focus on the market and income approach, as the cost methodologies have been used mainly to estimate new brands, for which the projection of revenues may be problematic, or to check the results of other methodologies (Haigh & Perrier, 1997).

Table 1. Brand valuation approaches and methods

Approaches	Methods/models for commercial brand valuation	Methods/models for corporate brand valuation
Cost	Reproduction cost, replacement cost.	
Income	Premium price, comparative methods, Interbrand, Excess Earnings Model, demand driver/brand strength analysis.	Brand Value Equation (Anson, 2000), Association-affinity model, Excess Earnings Model, demand driver/brand strength analysis.
Market	Multiples of comparable transactions, Relief from Royalty.	Percentage of market capitalisation.

3. Product Brand Valuation Literature

Traditional product brand valuation methodologies include the following methods: premium price, comparative methods, demand driver/brand strength analysis methods, multi-period excess earnings and relief from royalties. For each method we will review the basic assumptions and their advantages and disadvantages.

3.1 Premium Price

Income methods are the most rational, as they seek to determine brand value considering the incremental income that the single brand provides to the overall company profitability. The premium price requires comparing the income flows generated by the branded product to those generated by a similar, but unbranded, product, or by a product with a new brand (Aaker, 1991). This methodology is well-suited to many brands, as it seeks to measure the key competitive advantages derived by a brand. The ability to ask an extra charge for the product sold as a reward for the additional benefits regarded as valuable by consumers. These benefits relate both to the trademark and to other brand elements (e.g., product formula and product design).

In practice, however, it is quite difficult to identify an unbranded comparable product, especially for bundled goods and services that are hard to compare with offers from competitors (Orton-Jones, 2013). Furthermore, to determine the differential income of the branded product, the high production and selling costs (e.g., marketing and promotion expenses) should be considered as well (Organismo Italiano di Valutazione [OIV], 2015). Thus, whenever there are no data available to determine the brand's incremental costs, this method cannot be properly applied. A further difficulty relates to the benefits that the method can capture. Whenever the economic benefits of a branded product are different from high selling prices and relate to economies of scale and/or low selling and administrative costs, the premium price may not capture value creation (Tollington, 1999).

3.2 Comparative Methods

To overcome the above limitations, the income attributable to a brand is estimated by comparisons with relevant firms or by using qualitative models based on brand equity. The former solution considers the operating profit of a set of comparable companies as a benchmark. The difference between the branded firms' operating/marginal profit and the average income/margin of the benchmark sample gives the incremental benefits generated by the branded product. The value of the brand is then taken from the discounting of the projected excess incomes, using an adjusted weighted average cost of capital (WACC) to reflect the specific brand risk.

Differently from the premium price, this methodology takes into account economies of scale and the lower promotion, administrative and general expenses that may arise from brand ownership. It appears that neither technical nor management providers use comparative methods (Salinas & Ambler, 2009).

3.3 Demand Driver/Brand Strength Analysis Methods

The qualitative methodologies are, instead, based on market analysis that estimates the brand strength in the market in which the firm operates and its current and future performances (Fu Guoqun, 1999). Alternatively, or in combination with the brand strength analysis, the consumer preference for a branded product is assessed to derive an attribution rate to determine the profit attributable to the branded products.

Among the models developed, Interbrand has played a significant role in favouring the proliferation of proprietary valuation methodologies. The London-based consulting company has determined brand value either using: i) the Annuity Model (Motameni & Shahrokhi, 1998) or ii) the Discount Cash Flow Model (Interbrand 2006; Interbrand, 2008). In the former model, the brand's historical profit, estimated as the incremental operating income which accrues to branded products over unbranded products, is capitalised using a multiplier. In the latter model, a brand's future economic profits, determined as economic value added, are discounted by an appropriate rate. Both the multiplier and the discount rate are estimated considering the brand's strength in generating consumer demand.

The brand strength (BS) is measured as a score ranging from 0% to 100%, considering the following variables: i) the leadership, which expresses the competitive positioning of the brand; ii) the stability, expressing consumer loyalty to the brand; iii) the international presence of the brand; iv) the market, expressing the stability of the overall demand in the specific segment; v) the trend, which is the ability of the brand to remain relevant and consistent to consumers; vi) the support, which expresses the level of promotion and development of the brand and vii) the degree of legal protection of the trademark. The multiplier is determined following an S-Curve, which combines a specific multiplier for each BS score.

The main weakness of Interbrand is its subjectivity, since the scores attributed to the seven unknown variables are based on a manager's personal assessment (Fernandes, 2015). The BS score is also determined by subjective weighting of often redundant or interrelated factors, and it assumes identical weights for all industrial sectors, regions and product categories (Torres Coronas, 2002). The S-Curve suggests, instead, that a single multiplier corresponds to each brand score, implying that there is no variance (Salinas, 2009).

The second model, the Interbrand's Discounted Cash Flow (DCF), determines brand value by discounting the future expected cash flows, instead of capitalising average historical earnings. The brand value is determined in five stages: i) segmentation determines the main homogenous client groups on which the financial and demand analysis are based; ii) financial analysis defines 'Earnings from Intangibles' as the difference between net operating profit and the cost of capital employed (Economic Value Added); iii) market analysis calculates the Role of Branding Index (RBI), analysing the influence that a brand has on customer demand at the point of purchase (Interbrand, 2006); the RBI is then used to determine what proportion of Earnings from Intangibles is attributable to the brand; and iv) brand strength analysis determines a discount rate that reflects the brand's risk profile; and v) in the final stage, the adjusted discount rate is applied to the projected brand earnings to derive the brand value. This second model not only suffers from the same limitations as the first, but also presents further disadvantages related to the determination of the RBI, which is again subjective (see section 4).

Despite the above problems, the Interbrand models and other related demand driver methods are the most commonly used across specialist providers. This preference stems from the fact that they help in assessing the competitive performance of the branded products and in considering the customers' feelings and opinions related to the brand.

3.4 Multi-Period Excess Earnings

The multi-period excess earnings method assumes that business profit is the sum of the income generated by contributory and strategic assets - primary income-generating assets (PIGA). The contributory assets do not provide any specific competitive advantage to the company and contribute to the income on the basis of a normal remuneration, as the ordinary earnings that one could receive by renting or licensing the asset. PIGA are, on the other hand, primary strategic resources that generate competitive advantage for the company, an additional income over the normal remuneration. The income attributable to the PIGA is obtained by deducting from the business profit the normal return on physical and intangible assets. The excess income that would emerge after having paid the remuneration of all contributory assets, would be fully attributable to the brand.

The multi-period excess earnings method has some limitations. Firstly, in the case of companies with strong PIGA and many obsolete tangible assets reported in the balance sheet, the brand could be undervalued due to the high contributory asset charge that would be estimated for the tangible and intangible assets of the company (Bini, 2011). Furthermore, the allocation of a company's profits to primary assets is still subjective, since the

return on the tangible assets is often fixed at an arbitrary rate (Andriessen, 2004; Pratt, 2002). These disadvantages increase whenever different PIGAs are identified, since the extra income must be split between them, using an arbitrary attribution rate.

3.5 Relief from Royalty

Market methods estimate brand value by (i) considering the prices fixed in recent sales involving similar assets or (ii) using other information generated by the market. Unfortunately, the information on prices of comparable brands is in short supply, and it is not possible to find M&A deals to derive comparable market multiples. Thus, indirect methods, based on observable market inputs, have become popular both in the academic literature (Salinas & Ambler, 2009) and in the brand valuation industry.

The most widely recognized and used methodology is relief from royalty, which determines the economic benefit of a brand considering the licensing fee that the firm would have paid if it did not own the brand, or the avoided costs resulting by owning the asset (OIV, 2015). The method requires first the projection of future branded sales and the application to them of an appropriate rate to determine the after-tax royalty for each year of the residual life of the trademark, generally assumed equal to 10 years. After this, this stream of notional values is discounted back to the present to arrive at the brand value, as follows:

$$BV = \sum_{t=1}^{n} \frac{S*(RR-C)}{(1+r_{WACC})^t} \tag{1}$$

Where:

RR = royalty rate;

S = annual revenues expected from the sale of products covered by the trademark;

C = costs incurred for the management of the brand;

t = planning period corresponding to the residual life of the trademark;

r= discount rate given by the after-tax weighted average cost of capital.

With regard to the application of (1), the main problem is the lack of licencing agreements that can be used to determine a royalty rate for a specific firm. In the absence of comparable transactions, the rate is estimated using the range of royalty rates for a specific industry, surveyed by different data providers, such as RoyaltyStat® and Battersby and Grimes (2013). To calibrate these industry rates to the specificities of the brand being valued, its qualitative characteristics are evaluated following the Interbrand model or other methodologies based on brand equity. In general, this process is criticised for its subjectivity and for the difficulties of making any reliable comparison between the brand being valued and the agreements used by the providers of the industry royalty rates (OIV, 2015). For instance, the licensing agreements can refer to: i) brands that are not comparable; i) market conditions different from the present ones; ii) royalties influenced by the parties' negotiating power and iii) agreements with different payment provisions (e.g., lump sum, upfront fees + royalty, only royalty). Thus, it could be questioned whether the royalty rates at the bottom of the bracket really correspond to brands with low margins, low awareness, and low growth, or vice versa (Smith & Parr, 2000).

The academic literature (Smith & Parr, 2000) has highlighted that relief from royalty provides only a minimum value for the brand, since it does not consider all the economic benefits it may generate. The theoretical foundation of this criticism is that any asset can be regarded as a bundle of rights. In the specific case of the brand, the licensing agreement generates two intangibles: the active license for the owner of the brand and the passive license, or the rights of the licensee to use the brand. The brand value is given by adding the active license to the passive one. Thus, the relief from royalty method leads to undervaluing of the brand, since the payments for the passive license do not capture the benefits enjoyed by the licensor.

Despite the aforementioned limitations, it should be pointed out that the relief from royalty tends to be the most often used in valuing brands (Paugam et al., 2016). Given the difficulties in determining the incremental margin of a branded business over an unbranded one, the use of royalties is presented as the most reliable choice. Royalty rates are, indeed, directly observable external inputs that allow quantifying the exchange value of the asset in an arm's length transaction (Ortnon-Jones, 2013). In addition, they are industry-specific.

4. Corporate Brand Valuation Literature

Four main methodologies may be used to estimate corporate brand: (i) the direct sum of the values of the product or service brands whose names are associated with the corporate brand; (ii) the Anson model (2000); (iii) the affinity/association model; (iv) the demand driver analysis.

The first methodology derives the corporate brand value as the direct sum of the values of the product or service brands. Here the models proposed for commercial brands are used without measuring the incremental benefits that comes with the corporate brand, increasing the overall value of the branded business. Differently, the second methodology proposed by Anson (2000) measures the total value of the corporate brands as a sum of two elements: i) the core brand, equal to the cash flow attributable to the corporate brand based on comparable royalty rates, and ii) the incremental brand values. The latter is given by the additional cash flow or cash savings, resulting from the efficiency (such as distribution efficiency, sales and market efficiency, advertising/promotional efficiency, marketing efficiency and purchasing efficiency) created by the corporate brand for the products' portfolio. The main advantage of this model is that it divides the core brand value from the 'halo effect' that the corporate identity has on the business. However, the estimation of the incremental efficiencies is far from being objective (Salinas, 2009), since it is based on weights applied without revealing the underlying methodology.

The third methodology considers the customers as the only audience, and aims at estimating the value added by the corporate brand to the product brands. In this technique, the total value of commercial brands depends on the degree of association between the corporate and the product brands (association) and the degree of positive attitudes towards the corporate brand (affinity). Both variables are based on consumer surveys and measured in terms of weights. The main advantage of this method is that it is applicable when a corporate brand endorses the product brand, whether the endorsement is explicit or weak, but it reflects only the strength of the corporate brand's role in each client's segment and does not consider the relationship of the company with the other stakeholders (Salinas, 2009).

Different consultancies (Batten, Barton, Durstine, Osborn [BBDO], Brand Finance, FutureBrand, Interbrand) have used the demand driver analysis to determine the value of commercial brands (Haigh, 2000). This methodology, firstly, determines the relative importance of the main attributes that motivate consumers' preferences for a particular product/service (e.g., client service, innovative service, reputation and image). The relative importance of the demand drivers is often measured through consumers' surveys. Then, for each attribute the brand influence is estimated by using statistical analysis. In the next step, each attribute importance is multiplied by the 'Brand influence' to measure a total index/percentage. The latter measure is applied to sales, earnings, cash flow or other financial measures to determine the earnings attributable to the brand.

The demand driver analysis suffers from a main limitation. The specialist providers do not reveal the calculation algorithms ('black box' methodologies) used to determine the commercial brand relevance, thus the final index/percentage applied to identify the additional income generated by the brand, appears subjective and not comparable (Salinas, 2009). This limitation is augmented when the demand driver analysis is applied to corporate brands as well. Here a further percentage is used to split the total brand value between the corporate and the product brand, without explaining how the role of corporate brand can be measured.

On the basis of the above review, it can be argued that the extant literature has developed different brand valuation models, without considering the relationships between product and corporate brands in the context of different architectures. Only Salinas (2009) has identified some alternatives for the valuation of sub-brands strategies. Thus further analysis is still in need to illustrate how and when different brand architectures may be valuated, especially those that fall in the middle of the brand relationship spectrum.

5. Brand Architecture Valuation

The valuation approach used in this study is based on the methodology developed by Brand Finance. This consultancy company uses an integrated methodology in which the quantitative analysis, based on accounting data (the DCF and the relief from royalty), is combined with the demand driver analysis to derive a relative strength index of different brands within a given market. Figure 2 shows the five main steps of the approach.

The process starts by analysing the company's business model. This first step aims at identifying the main benefits associated with the brand: whether it commands additional earnings, cost savings or a combination of both. In the second step, the brand architecture strategy used by the company and its organizational structure should be examined. Based on the spectrum, described in section 1, the level of bundling should be defined.
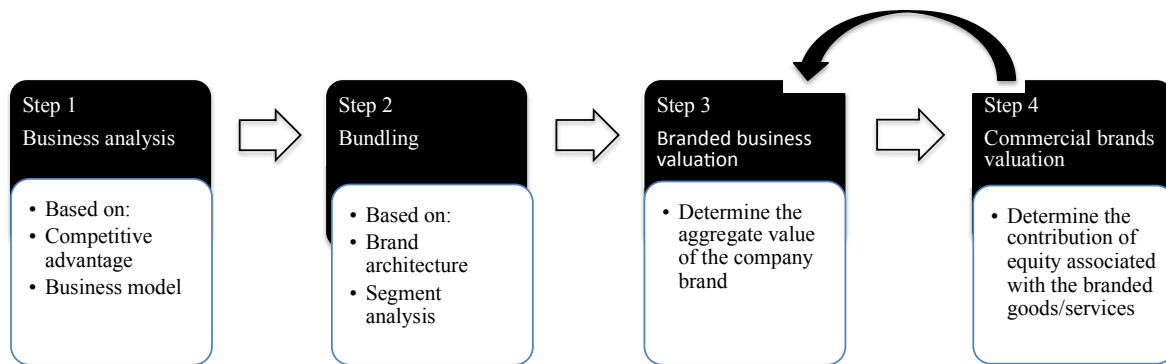
Figure 2. Brand valuation process

Whenever the relevance of the corporate brand is prevalent in driving customers' preferences, the use of one PIGA, that incorporates different brands, must be preferred. On the other hand, whenever the relevance of commercial brands is prevalent, and these correspond to responsibility centres with separate and independent economic benefits, multiple commercial brands must be valued. In the third step, the overall company branded value is estimated by subtracting from the business value the current value of the net assets. To this end, the accounting book value of tangible assets could be used as a proxy of fair value. In the fourth step, a methodology must be selected for product brand valuation. The relief from royalty method is suggested as an appropriate alternative, as explained below. Finally, the business branded value, calculated in the third stage, is compared with the commercial trademark values as a 'sense check'.

6. Case Studies

Following the approach described above we have examined two Italian wineries. The wineries selected are Italian Wine Brands (IWB) and Masi Agricola. These two companies have been chosen as they are characterised by: i) brands as the main source for competitive advantage, and ii) different business models to which correspond diverse brand architecture strategies.

6.1 Italian Wine Brands (IWB)

The IWB Group is a pure winery listed in the Italian Borsa Valori since January 2015. The Group, based in Piemonte, operates in the production and sale of an assorted range of wines that constitute the entire Italian production. In 2015, IWB had generated roughly EUR 145 MN in sales selling 44 million bottles, of which about 70% were sold abroad. The Group has a strong presence in the European markets, especially in Scandinavia, a region characterised by growing wine consumption. Activities are currently divided into two different business lines managed by the Giordano S.p.a and the Provinco S.p.a subsidiaries. Giordano includes the activities relating to the production and distribution of wines on the Italian market, through remote sale channels directly to final clients and secondarily through export channels. The Provinco winery follows the activities relating to production and distribution of wines on the international markets for international large-scale retail.

Giordano produces Protected Designation of Origin (PDO), Protected Geographical Indication (PGI) and table wines, targeted to the mass market, and standardised wines, targeted to the daily, popular premium and premium segments. The main objective is to cover the entire Italian wine assortment, selling competitive wines without particular strengths in quality. As previously noted, wines are distributed through a remote direct e-Platform, for which the company is one of the leaders in the Italian market. In this context, the competitive advantages are found primarily in the ability to acquire grapes/wines at low cost and in the ability to prepare a wide range of wines that are attractive in terms of price. To this end, the corporate size plays a decisive role, as it enables economies of scale within the transformation process and strengthens the bargaining power of the company towards suppliers of wines/grapes. At the same time, the distribution of production through the direct retail channel becomes key leverage for sales.

The company is characterised mainly by an umbrella branded house architecture, in which the corporate brand marks all the product lines (e.g., red, white, sparkling wines and others). For each product line (Figure. 3), individual labels identify the vine variety (e.g., for the red wines: Primitivo di Manduria, Barbera d'Alba, Barbaresco and so on). In this branding strategy, the concept of corporate brand overlaps with that of product brand. The final consumer hardly perceives the single product characteristics, whereas the consumers' perceptions are mainly tied to those of the 'corporation identity'.

Figure 3. Examples of Giordano's labels

For this brand architecture, it has been suggested that brand value can be calculated as the direct sum of the values of the wines whose names are associated with the corporate brand. However, the main problem with this approach is that it does not isolate the value that the corporate brand adds to the company's product segments. The Anson model could overcome this difficulty since it considers the brand value as a bundle of intangibles given by the core corporate brand and the incremental efficiencies that corporate brand brings to the business product lines (Anson, 2000). As previously explained, this methodology may be quite subjective. Alternatively, the benefits that Giordano brings, through the negotiation power with the wineries/vineyards and through the direct selling system, may be measured using the Excess Earnings Model. In this way, the corporate brand would be regarded as a primary strategic asset that covers not only the trademark, but all the intangible elements that, when combined together, build the competitive advantage for Giordano's business.

Different considerations can be made with regard to the choice of a brand valuation method for Provinco. This company, previously a group of wine-makers' cooperatives, produces and sells medium and high-quality wines for the premium segment. Provinco uses a brand strategy in which a set of standalone family brands are sold independently. Each family brand represents an important wine-growing region of Italy (e.g., Ripa Sotto for Veneto, Elenore for Puglia, Grandi Mori for Tuscany) and has different vine varieties (Figure 4). In this branding strategy, the corporate brand disappears and the final consumer perceives only the concept of the family name.

Based on prior analysis, it can be argued that brand valuation for this winery can be developed using the relief from royalty as the primary model. This choice is justified by two reasons. On the one hand, it should be pointed out that since it is not easy to determine the differential margin between a branded and unbranded wine, the use of royalties can be regarded as the most reliable choice. Royalty rates are, indeed, directly observable external inputs, recognized by the market, that allow quantifying the exchange value of the asset in the case of licensing. On the other hand, even in the absence of licensing agreements, involving similar brands, average industry rates allow the determination of a coefficient of royalties relevant to the company being valued. Based on the royalty industry range, it is possible to derive a coefficient that takes into account each brand's strength. Thus, the application of the royalties could be a useful metric in the measurement of this brand architecture, as suggested for IP in general (Heberden, 2011). Namely, each commercial label could be estimated following the process described in section 4.

Figure 4. Examples of Provinco's labels

After having established a royalty rate range using the data provided by RoyaltyStat® or Battersby and Grimes (2013), it would be necessary to identify where along the range each brand lies. The choice should always be the result of a fundamental analysis combined with a brand equity analysis aimed at identifying the main factors that drive value in each product segment. For instance, the Brand Strength Index could be used for this purpose. This rate combines, with equal weights, three main factors: i) the brand's financial performance (market share %, market share growth %, margin %); ii) the brand risk (visual identity, distribution, legal status of the brand) and iii) the brand equity (brand associations, loyalty, potentiality of brand extension, share of voice).

The future royalty revenues will then be calculated by applying the company's royalty rate to the sales estimated over a period corresponding to the residual life of the trademark. Finally, the value of the brand will be determined as the present value of the projected royalties, discounted using the WACC (Table 2).

Table 2. Wineries with house of brands architecture

	Sales (a)	Product royalty (b)	Royalty earnings (a*b)	Brand value
Product brand A	1 300	0.03	39	390
Product brand B	5 000	0.06	300	3 000
Product brand C	2 000	0.05	100	1 000
Product brand D	1 700	0.04	68	680
Total	10.000			**5 070**

Note. Turnover of target company: 10.000 €; royalty rate range: 3-6 %; WACC = 10%.

6.2 Masi Agricola

Masi Agricola is a leading Italian producer of red wines, based in Veneto and famous worldwide for its Amore della Valpolicella. Masi is listed in the Italian Borsa Valori since 2015, fitting into the category of the classic family wineries that own their vineyards and produce high-quality wines subject to aging. In 2015, Masi generated roughly EUR 64 MN in sales, with over 11 million bottles sold, 90% of which outside Italy. In particular, the company exports to Canada and Nordic countries with opportunities to grow in Germany, the United States and emerging markets. It has a vertically integrated production model coupling its own vineyards (25%) with managed vineyards (5%) and external purchases (70%). A further characteristic is the focus on long-term Research and Development (R&D) that has allowed the Company to master the drying process of grapes with the introduction of the Appassimento innovation, which, differently from other competitor techniques, does not use external sources to control the drying process. The distribution of Masi's wines takes place through independent distributors, which in turn have relationships with wine shops, hotels, bars and restaurants.

The company is splitting its product portfolio in three main categories: i) top red wines, including all Amarone

products, of which Costasera is the most famous; ii) premium wines, with the top-selling Campofiorin red wine and iii) classic wines with the flagship product Bonacosta. Three main features characterise Masi's business model. Firstly, the balance between its own vineyards and external purchases allows high flexibility to cope with demand fluctuation and makes the business less expensive. However, this set-up exposes the company to fluctuations in the grape prices. Secondly, the wines are produced focusing on their quality rather than on volume. The sourcing of primary grape quality and the Appassimento technique (which has been introduced in its premium wines as well), along with the aging of sophisticated red wine in exclusive wooden barrels are further fundamental drivers of value. Thirdly, branding plays a decisive role in creating/strengthening the image of the products by carrying labels that can create association with quality among consumers. Thus, brand identity and awareness became Masi's strategic tools to make its product quality clearly identifiable in the marketplace and to open up future potential growth through horizontal integration strategies and/or internationalisation.

With reference to this type of winery, it may be noted that the brand architecture is characterised by a different combination of corporate and product brands. In particular, for its three product categories, Masi uses a sub-brand strategy in which each wine label carries firstly the corporate name, then the wine denomination and finally the vine variety (Figure 5). For instance, for the label Masi Costasera Amarone, the corporate name taps into the quality, heritage and awareness of the winery, the wine denomination adds organoleptic association (multiple aromas) and food combinations (read: meats and aged cheeses), and the vine name Amarone adds association with the *terroir*. In this branding strategy, the concept of the corporate brand is somewhat predominant over the wine's denomination. The final consumer perceives both the single product characteristics and those of the corporate identity.

Figure 5. Example of Masi's labels

Also for this company, it is feasible to use the relief from royalty method. However, it is evident that under this strategy, the evaluation of individual labels looks somehow complex because of the difficulties encountered in distinguishing the portion of income attributable to product labels from that attributable to corporate brand. The brand value of a single wine is determined by the combination of the strength of the wine's name with that of the corporate brand. Then, it becomes necessary to consider which of these two signs is prevalent in influencing consumers' perceptions. If the winery sells different types of wine under the auspices of a well-known corporate brand, marked distinctively on each product, the corporate brand could be regarded as the primary frame of reference that supports the vitality of the wine product. In this scenario (Table 3), the product royalty, identified for the single wine, should be adjusted by subtracting an average royalty rate that measures the contribution of the corporate brand to the business income. In this way, it is possible to identify which product provides a specific competitive advantage to the company above the average remuneration (the ordinary earnings that one could receive by renting or licensing the asset) and which products instead destroy value.

Table 3. Wineries with sub-brand architecture

	Sales (a)	Product royalty (b)	Adjusted royalty (c= b - 3%)	Royalty earnings (c*a)	Brand value
Corporate brand	10 000	0.03	0.03	300	**3 000**
Product brand A	1 300	0.03	0.00	-	-
Product brand B	5 000	0.06	0.03	150	1 500
Product brand C	2 000	0.05	0.02	40	400
Product brand D	1 700	0.04	0.01	17	170
Total					**5 070**

Note. Turnover of target company: 10.000 €; royalty rate range: 3-6 %; capital corporate brand charge: 3%; WACC = 10%.

For other wineries with endorsed architectures, in which the wine denomination plays a primary driving role in consumers' perceptions and the corporate brand endorses the denomination, the royalty rate for the corporate brand charge could be set at the minimum of the industry range or even below minimum (Table 4). Alternatively, the contribution of the corporate name may be estimated using marketing analysis aimed at identifying the main factors that drive consumers' wine purchases: the affinity or the degree of positive attitude towards the corporate brand.

Table 4. Wineries with endorsed architecture

	Sales (a)	Product royalty (b)	Adjusted royalty (c=b- 1%)	Royalty earnings (c*a)	Brand value
Corporate brand	10 000	0.01	0.01	100	**1 000**
Product brand A	1 300	0.03	0.02	26	260
Product brand B	5 000	0.06	0.05	250	2 500
Product brand C	2 000	0.05	0.04	80	800
Product brand D	1 700	0.04	0.03	51	510
Total	10 000			507	**5 070**

Note. Turnover of target company: 10.000 €; royalty rate range: 3-6 %; capital corporate brand charge: 1%; WACC = 10%.

In sum, the approach followed is similar to that developed by Anson (2000) in the calculation of the core brand value, yet it benefits from the quantification of the current and potential value of each product brand, present in the company's brand architecture. The application of a capital charge for the corporate brand asset allows one to measure the value added by each business segment, avoiding the subjective measures of the commercial model based on consumer preferences.

7. Discussion

Consulting firms and academics have developed a variety of methods and models to place a monetary value on brands. The analysis carried out in this study shows that the models used in practice either focused on commercial brands, used to target specific client segments, or on corporate brands, regarded as a bundle of intangible assets that encompass the umbrella brand and the incremental benefits brought by the corporate brand. However, the current brand architecture strategies reveal that few companies use commercial brands and corporate brands separately, as they are typically integrated into complex brand strategies that combine product brands and corporate brands in different flavours. Whenever multiple brands are used, the assessment of the relationship between product and corporate brand becomes a key issue for brand valuation.

In the empirical section of this study, we address this issue by examining the brand strategies of two Italian wineries. The results provide mangers with some help in choosing methodologies to value their brand strategies. The analysis carried out suggests that whenever wineries use strong umbrella brands, it is feasible to bundle the brands into one comprehensive unit – an holistic corporate brand. This brand can be measured either by splitting the incremental benefits from the core brand, as suggested by Anson (2000), or assembling the core brand and the incremental benefits together, as proposed by the Excess Earnings Method.

However, most Italian wineries, especially those producing high quality wines, adopt either a sub-brand or an endorsed brand strategy. In this case, the valuation of single product branded segments is fundamental. The

affinity/association and the demand driver analysis can be integrated with other techniques, such as the relief from royalty method. Although the latter is mainly employed for technical valuation applications, it can also be useful for the design and assessment of brand architectures. Firstly, this methodology provides an external input to split the brand value between the parent and product brands, overcoming the criticism that the demand analysis has received in terms of subjectivity and uselessness in the calculation of a brand's economic value. Secondly, it provides an internal benchmark to assess the relative performance of each brand product segment, showing whether they are destroying or adding value to the parent brand. In all, this analysis offers a wider package of tools that may be used by listed companies and SMEs to plan and assess their brand architecture strategies.

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Notes

Note 1. The relief from royalty is often classified under the income approach as well, since the royalty rates are applied to projected sales in order to arrive at future income attributable to brand. We consider that when the royalties are measured using comparable licensing contracts for similar brands, it is more feasible to classify it as a marketing methodology. In other cases, when the royalties are based on average industry rates adjusted for brand-specific characteristics, it could be classified as an income split method (Bini, 2011).