Wellfit Fixtures and Systems Private Limited:

Financial Valuation of Brand [1]

I am the Managing Director of Wellfit Fixtures and Systems Private Limited[2] and my company is engaged in marketing of bathroom and sanitary fittings. My company has reached a crossroad in its growth. Future of my company now will depend on the growth path that I choose and how well I plan and implement strategy. I need your help in clarifying my choice. More specifically, I need your help in arriving at a "true" value of the brand that I have created. The 'problem' that I am facing is the following.

In order to obtain value of my brand, I approached a professional firm to prepare a brand valuation report. This firm, based on four different approaches, arrived at four different values that have a wide range. Based on their overall assessment, they also recommended one specific value of the brand. However, I was not certain whether one valuation report by just one firm would be easily acceptable to my Board members as well as the shareholders. Therefore, I requested my statutory auditors to make an independent valuation of my brand so that we have a second opinion. This valuation report by our statutory auditors suggested a different value for my brand. How do I reconcile these differences? What value should I propose to my Board and the shareholders? It is in this context that I am seeking your professional help and this help would be useful for me to start a dialogue with shareholders of the company to whom I am planning to transfer the brand's legal rights.

In order to enable you to give your considered opinion, let me brief you about the context of my decision, background of my companies, choices available to me and the rationale for seriously pursuing the option of selling my brand.

Context of Brand Valuation

I have the choice to remain focussed on the geographical markets where my brand is currently present. In these markets, my brand is doing well. However, the incremental advantages of focussing on improving performance in these markets do not commensurate with the efforts. Therefore the second alternative is to get into the 'big league' by expanding geographical market coverage as well as by introducing new products. If I pursue these alternatives, then I should prepare my company to face stiff competition from bigger brands and bigger companies. I need to infuse more professionalism in my company. I need to bring better systems and processes in operations. But the most pressing requirement at this juncture is to merge this company with the manufacturing company, which is a separate legal entity. This manufacturing company is a public limited company that has a wider shareholder

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[2] *Name of the companies and their location, brand name of product, financial data, and product category have been disguised to protect confidentiality.*

base, though my close relatives and I hold the majority shares. Issues relating to cost control are the major impetus for me to think this way. Logic and reasons that prompted us to establish two legal entities - one company to manufacture and to assemble the products and the second one to market the same - do not exit any more in the current business environment.

Antecedents of my current business

I started this company (Wellfit Fixtures and Systems Private Limited) in 1988 as a registered small-scale unit in this city. All the shareholders and directors of this private limited company are my close relatives. For me, establishing this company was a culmination of my search for an opportunity to develop a strong brand that I can proudly call my own.

Even in my early youth, I was involved in my family business of managing distributorship for a well-known FMCG company in one territory. But, the policies of this company that we were representing restricted our growth opportunities; we were always playing a second, if not a third fiddle, in this activity. This company (principals), as a policy, never allowed their distributors to grow beyond a certain level of turnover. By the time our turnover reached that point, they divided the territory further and appointed another distributor. It takes considerable efforts to develop markets within a territory and your wings get clipped once you start getting the fruits of your labour. There was no fun in doing such a business. Therefore, by early 1985, I decided to resign the distributorship of this company.

Early Brand Development Experiences

By this time, I managed to get exclusive rights to market a consumer durable product in this State. An unknown company manufactured this product and their brand was almost non-existent in this market at that time. Moreover, this product category was still in a nascent stage. There was only one major brand in this territory then and all others were very marginal players. But this brand leader's strategy was inappropriate for inducing market growth; they were content with whatever sales that they could generate with minimal effort. I knew that I could profit from this complacency of the leader. Therefore I concentrated on developing a well-thought out marketing strategy with clear segmentation and positioning strategy. I also developed advertisement strategy for this brand in this territory with the help of a small advertising agency. My principal company, since they were relatively unknown, gave me sufficient freedom and flexibility to carry out such activities. Within a period of two years, I developed this unknown brand into the position of a market leader in this territory. I clocked the highest turnover, highest volumes and highest market share for this brand in this territory. However, the thrill of creating a brand started to wane slowly. This was not a brand that I owned any way! Therefore I started to search for opportunities.

Searching for alternative business opportunity

I experimented with various business ideas during this phase. Based on my experience and observations of market, particularly consumer durable product categories, I identified several products such as light fittings, electrical gadgets etc., and then tried to locate manufacturers who could supply these under my own brand name. I could not meet with success in locating a good supplier in most cases. In some cases I could; but the landed costs made the products nonviable. I even launched my own brand in one product category. Initial experience was good. However, the supplier did not keep dispatch schedules and there were also quality problems. In any case, I could not offer any differential advantages either in terms of new designs, or better functional properties or even cost advantages in any of these products. I soon realized that unless I provide better value to customers by giving them something better, I would not succeed. My search for a potential winner therefore continued.

It was by accident that I got a break through. Once I had to wait for a long time in Mumbai airport as my flight was delayed for several hours. At the airport, I met a gentleman who too was in a similar situation. He was a freelance product designer. He told me about some new designs for bathroom and sanitary fittings that he had developed using alternative materials. He obliged me with considerable details. He also told me about the machinery needed for manufacturing different components and possible sources to obtain more details. He was willing to sell his design including the necessary drawings and blueprints for a consideration. We parted after promising to be in touch soon.

As soon as I came back, I asked my field sales people to do a quick "survey" of consumers to find out whether they faced any problems as far as working of some of these key sanitary fittings in their respective houses. To my surprise, we found that almost two thirds of those contacted reported some problem or the other with working of such fittings in their houses. I knew then that if I am able to introduce a product that can address these problems that a typical household faced at a cost affordable to such customers, then I could succeed. Therefore, I entered into an agreement with this gentleman and purchased his design and blueprints for this product. By this time, I had resigned the exclusive rights to market the consumer durable product that I had earlier.

Initial Business Model

My initial plans were to manufacture and market this product under one roof. But before proceeding further, I carefully studied the market - who purchased such products, who influenced purchase decisions, what were the roles played by dealers and distributors, what were the major factors considered while choosing a brand etc. I also studied the manufacturing processes of different components and parts, materials needed to manufacture and supply chain requirements. These efforts provided me insights into three aspects. First, it provided me an assessment of the magnitude of tasks that I need to undertake to build a brand. Second, it provided inputs to improve design and quality of the product so that I could differentiate my product well. And third, it gave a good assessment of technical, managerial and commercial requirements to set up manufacturing facilities.

Based on these inputs, I, with the help of some friends who had adequate technical knowledge, modified the design that I had purchased. I then assembled a limited number of this product and fitted these in my own as well as some of my relatives' houses. I could find out some problems with the initial lot and hence made further changes in the design. Three considerations enveloped these modifications. One was functional performance including installation and maintenance, second was possibilities of outsourcing components with ease and the third was costs.

After these experiments, I realised that setting up a manufacturing facility at this juncture would be costly and risky. My first priority was to establish my brand and product so that volumes and therefore economies of scale would justify investments in manufacturing at a later stage. Moreover, I did not have sufficient money to go in for a full-fledged manufacturing facility. I also could not have approached my friends, relatives and acquaintances to invest money in this venture because at this time I only had a dream and not a convincing business proposition! Therefore I decided to outsource all parts and components at this stage and chose to focus only on assembling the final product. Marketing was my first priority.

I identified manufacturing units in small-scale sector with specialised skills and capabilities that could supply specified parts and components. I supplied moulds and fixtures to manufacture some parts designed exclusively by us to some manufacturing units. Since I owned these moulds and fixtures, I offered to pay them 'conversion' charges for units produced. I set up facilities to assemble the final product in one central location. Number of units assembled depended on the order position. I decided to brand my product *Wellfit* after due deliberations. I had also checked with legal experts about ease of getting registration for the brand name so that I can legally protect my brand in India. I designed primary and secondary packaging with the brand name *Wellfit* prominently displayed. My company - Wellfit Fixtures and Systems Private Limited - thus came into being in 1988. We were on road to growth within one year.

Changing Business Model

As the volumes grew, I decided to re-analyse manufacturing options. I found that if I were able to save some costs on some of the major parts that I was outsourcing at that time, I would have better cost advantages. Also, my company was now critically dependent on limited supply sources and therefore vulnerable to their bargaining. Moreover, dependence on outside units reduced my flexibility in changing designs significantly. Hence I decided to establish my own manufacturing unit. By this time the volumes reached a position to sustain investments in a separate manufacturing facility. This decision was implemented in 1994. By this time, my brand *Wellfit* was firmly established in one state and had made significant inroads in three neighboring states.

This new manufacturing company was located in another town that offered incentives applicable for industrially backward district. I also decided to make this unit a public limited company. My family members and me held the largest proportion of shareholding. I also offered shares to friends, acquaintances and public through private placement. Board of Directors consisted of not only my close relatives, but also some professionals. One of the most important reasons for making this manufacturing unit a separate legal entity was excise duty and such other tax incentives applicable. This unit was named *Jambo Polyparts Limited.* I have improved the quality of my product due to this decision. I was also able to introduce complimentary product with new designs because of my manufacturing facilities. We were also able to carry out some limited 'research and development' activities in this unit to bring out better designs using cheaper, but functionally superior materials. This company had been making profits since the last few years and had declared dividends, though a token one, since the last two years.

Rationale for Brand Valuation

During the last 13 years, I have nurtured my brand *Wellfit*. We were very successful in one state and doing reasonably well in three other states. By 1995, I could place my product in almost all the leading sanitary ware outlets in these markets. It required consistent promotion and brand support to achieve this position. Now I need to take it further. Now is the time to consolidate my operations.

Competition has increased considerably over the years in this market. There are several 'imitators' who are able to copy our designs. Even the big boys have introduced products that are directly competing with our brand. Moreover, I am also anticipating competition from some manufacturers from South East Asia and even China in the wake of WTO regime. In addition, export markets are looking up. Even now we are exporting some quantities to nearby countries. However, the costs of products coming from South East Asian countries are pretty low compared to my prices. Given all these factors, it is very important that I control my costs. Right now, location of *Jambo Polypart Limited* which is our manufacturing unit, location of suppliers of components and parts, location of my assembling unit and geographical spread of the market are making physical logistics a problem. Transportation costs are becoming a major area for worry. So is the case with inventory. I also need to invest in better and more flexible technology so that we can introduce new models and new products. I need more capital to do all these. Present rules concerning excise duty and sales tax etc. that have been modified by the Government do not provide any advantages for having two separate units - one to manufacture products and the other to market them. I also need to bolster my capital so that I could leverage a stronger capital base to cover debts if we plan to take some. Therefore I need to integrate both these legal entities under the manufacturing company *Jambo Polypart Limited*. While doing so, it is only logical that this company also owns the brand *Wellfit*.

Brand is the biggest asset we have in Wellfit Fixtures and Systems Private Limited; there are hardly any other fixed assets in this company. However, this value of my brand is not reflected in the balance sheet of the company. Therefore, while I merge these two companies, this value of our key asset, namely the brand, needs to be reflected while restructuring the capital base. Apart from this more professional reason, I also need to know how much is my brand worth. After all, over the years we have spent a total of about Rs.30 million in promoting this brand. Despite my constraints and limitations, my company has done well. We achieved a turnover of over Rs.35 million in domestic sales and about Rs.8.6 million in export sales in 1999-2000. (*See Table 1* for details).

A study based on a limited sample in the market where the brand is present, suggests that my brand has performed well. This study indicated that the level of awareness of my brand is 62% where as the awareness level of market leader's brand - the brand that has been nationally advertised by a company with full range of products - is 63%. Customers' level of satisfaction with my brand is higher than that of the market leader. This study suggest that 86% of customers are satisfied with my brand where as only 71% said that they are satisfied with the market leader brand. Of course, the market leader has much higher customer preference; 29% of respondents in this study indicated preference for the market leader brand where as 14% indicated preference for *Wellfit*. This is in one sense understandable; my market share (based on this study) is only 9% where as the market leader has a share of 28%. But then one should consider the fact that there are 35 brands jostling in this market where this study was done.

Table 1

Sales and Profit of Wellfit Fixtures and Systems (Pvt.) Ltd. from 1995-'96 to 1999-'00

(Figures in Indian Rupees in Million)

	1995-96	1996-97	1997-98	19998-99	1999-2000
Domestic sales	26.65	58.24	52.59	37.45	35.46
Export sales	1.02	1.82	1.93	13.40	8.60
PAT	0.12	0.91	1.19	0.43	0.09
Share capital	3.6	3.6	3.6	3.6	3.6
Reserves	0.77	1.69	2.88	3.31	3.40

Assessing Financial Value of Brand

My board and the shareholders need to be convinced about the true value of my brand before they approve my proposal for buying of *Wellfit* brand owned by Wellfit Fixtures and Systems Private Limited by the manufacturing company Jambo Polypart Limited. Later, I can even change the name of the manufacturing company to Wellfit Limited. This will help greater recognition of the company by different constituencies. The reason for giving a more convincing valuation report is due to the fact that my close relatives and I legally own the brand Wellfit and hence only we get the benefit of such a sale. Since Jambo Polypart Limited has a wider shareholder base, it is important to take all the shareholders into confidence before the deal is carried through. I can get this proposal accepted as I hold significant majority in this company as well; but this is against my basic beliefs. Hence I first approached a professional firm to prepare an independent brand valuation report. Later, based on a specific suggestion by the Board of Directors of Jambo Polypart Limited, statutory auditor of this public limited company carried out another independent valuation. Both these firms gave very different recommendations on the financial value of the brand and each method employed by them to value my brand also produced different financial values. I need to take a decision as to which value I should propose to the board of Jambo Polypart Limited and if the board negotiates, what flexibility should I retain.

Let me briefly describe the methods employed by the two professional firms an their recommendations based on the reports that they have submitted.

Valuation Report by the Professional Firm 1

The first professional firm used four different methods to obtain the value of my brand. The following sections give relevant extracts of this report:

Method 1: Historical Cost Method

This method represents the total cost incurred on the brand *"Wellfit"* by the company from the period 1990-'91 to 2000-'01. The details were taken from the books of account of the company for the 10-year period. Details of the costs incurred are as follows (See Exhibit 1 for details) :

1. *Print Media* - Rs. 9.92 million. This cost comprises of the advertisement released in English and local language newspapers and magazines in the four states where the brand is sold.
2. *Broadcasting and Telecasting* - Rs. 6.54 million. This comprises of cost of advertisements in commercial slots in All India radio, Doordarshan and other local channels.
3. *Hoarding* - Rs. 2.47 million. This consists of hoarding erected in the main market, cost of glow signboard, banners and display boards exhibited at sales outlets.
4. *Compliments* - Rs. 3.15 million. Over the years, the company has devised various incentive schemes for the plumbers and other influencers (of buying decision of consumers) such as cash schemes, tool kit etc. These costs reflect the expenditure on this account.
5. *Exhibitions* - Rs 0.35 million. This is the cost of participating in exhibitions organized by trade bodies.
6. *Sponsorship* - Rs. 0.08 million. This relates to the expenditure for sponsoring limited number of events to promote the brand.
7. *Product launching* - Rs. 0.26 million. The company incurred this expenditure for launching the brand in two states that the company entered recently.
8. *Overseas Market Development* - Rs. 0.98 million. This is the expenditure for market visits abroad.
9. *Packaging* - Rs. 4.86 million. The company incurred expenses for promoting brand through its packaging, cartons, stickers and other related items. Appropriate percentage of expenses incurred for the brand has been reckoned under this head.
10. *Administrative expenses* - Rs. 1.17 million. Expenses incurred for salaries, travelling etc as directly attributable to brand promotion have been grouped under this head.

The total expenditure incurred by the company under the historical cost method is Rs. 29.78 million. Detailed workings are given in Exhibit 1.

Method 2: Replacement Cost Method

This is the cost, which has to be incurred to replace the brand *"Wellfit"* and create a new brand with similar profitability, turnover, distribution reach and brand loyalty. This is calculated as follows:

Replacement cost of the brand = Launch cost + Historical cost incurred till date factored at present levels + Brand premium acquired over the years.

Exhibit 2 gives the detailed estimation of the launch costs of a new brand at current costs. The total expenditure estimated for launching a new brand is Rs. 10.36 million.

Exhibit 3 gives the brand building costs based on escalation in media costs. The total historical cost incurred on the brand till date has been reckoned at Rs. 29.81 million. This cost, when adjusted at current market rates will be Rs. 64.44 million. (see Exhibit 3 for details).

During the past 10 years, the company was able to sell more than 8 lakh pieces of "*Wellfit*" systems. It is estimated that each system could fetch a premium of Rs. 35/- per piece due to the brand reputation when compared with unbranded system. Based on this estimate, the premium earned on sale price over other brands works out to Rs. 28.80 million. Detailed calculations are given in Exhibit 4.

The total value of the brand based on the above calculations works out to Rs. 103.60 million.

Method 3: Discounted Cash Flow Method

Under this method, realistic projections of profitability estimates of the company for the next 10 years have been calculated. In addition, cash flow estimates for the next 10 years have been made. This cash flow is discounted at the rate of 15%, which is the return expectancy of the shareholders. The projections for the next 10 years result in an aggregate of Rs. 115.05 million. This amount when discounted at the rate of 15%, comes to Rs. 53.32 million. The value of the brand under this method, therefore, is Rs. 53.32 million. Detailed calculations are given in Exhibit 5.

Method 4: Interbrand Model

This method of estimating brand's financial value is based on the model developed by Interbrand. Interbrand model of Brand Valuation considers multiple factors to arrive at brand value. This model first take into account the last three years' weighted average profit after tax in which highest weight is giving to the last year's profit, and next highest weight for the previous years. This is then adjusted based on two components; one is the price-earning ratio applicable for the industry in which the firm operates and the second is a composite index called Brand Strength. The steps in arriving at the brand value using this method and explanation of price earning ratio and brand strength is as follows:

Step 1: The weighted average of last three years' cash profits (profit after taxes + non-cash expenses) of the brand is calculated. The weights given to the last year are 3, previous year is 2 and the first year is 1.

Step 2: This figure is then multiplied by price earning ratio of the company or the industry in which the company operates. Price earning ratio applicable to the industry in which *Wellfit* operates is assumed to be 3.9, based on price earning ratio of similar industry published by a leading stock market journal.

Step 3: This composite figure is then multiplied by Brand Strength Factor. This factor is calculated based on variables such as leadership, stability, protection, international scope, support, protection, market conditions and trends shown by the brand. The maximum score for all these factors are 100. Based on the performance of *Wellfit*, a score of 66 is assigned to the brand. This is arrived based on the following seven variables:

1. *Leadership:* This refers to the ability of the brand to influence its market and act as a dominant force with high market share such that this brand can set price points, command distribution and resist competitive attack effectively. Therefore a brand that provides leadership to the market is a more stable and valuable property. Interbrand model assigns a maximum score of 25 to this variable. *Wellfit* brand is third in terms of market share. However, this brand has a spontaneous recall rate of 62 per cent where as the market leader has a recall rate of 63 per cent. In addition, 86 per cent of *Wellfit's* current customers indicated satisfaction with this product where as only 71 per cent of the market leader's customers were satisfied with that brand. Based on these considerations, a score of 23 is assigned to the brand on this variable.

2. *Stability:* This variable refers to brand's ability to survive over long period of time due to consumer loyalty and past history of the brand. Those brands that have become part of consumers' life and have had good track record in the market surviving adverse conditions are considered to be valuable brands with high stability score. Interbrand model assigns a maximum score of 15 for this variable. *Wellfit* brand is ranked third in terms of market share among 35 competing brands in the market. This brand has been in existence since 1990. Hence a score of 7 is assigned to this brand.

3. *Geographic Spread:* This variable refers to the brand's ability to perform well across geographical and cultural borders. International brands by definition are more valuable than national or regional brands. Interbrand model assigns maximum score of 15 for this variable. *Wellfit* brand has been exported to neighboring countries such as Sri Lanka and Middle East Asia. However, this brand did not perform particularly well in these markets. Price realization of this brand was particularly low in these markets due to intense competition from brands from South East Asian countries. More over, this brand was competing in market segments where price was the most dominant consideration. Hence a score of 1 is assigned for this brand.

4. *Brand Support:* This variable in Interbrand model refers to the amount and consistency of marketing support provided by the company for the brand. Brands that have received consistent and focussed support are considered as more valuable. While assessing this variable, not only the amount spent on brand

support, but also the quality of support is considered. Maximum score assigned to this variable in Interbrand model is 15. *Wellfit* brand has received good support from the company. Approximately about Rs. 30 million was spent over the years for promoting this brand. Product improvements were carried out regularly. Based on these considerations a score of 13 is assigned to the brand.

5. *Protection:* This variable in Interbrand model refers to legal protection that the brand enjoys in terms of registered trademark. According to this model, a brand that has legal protection in a large number of countries is considered as strong brands. Interbrand model assigns a maximum score of 5 for this variable. *Wellfit* brand has applied for trademark registration. Their application with Trade Mark authority has been admitted on record and the process of hearing of objections have been completed. The registration number and certificate is expected shortly. Therefore, a score of 4 is assigned to this variable.

6. *Market condition:* This variable is an assessment of market environment in which the brand operates. Elements such as growth prospects, volatility, vulnerability to technological and fashion changes, and barriers to entry are assessed to arrive at a score for specific brand. A maximum score of 5 is assigned for this variable in the model. Market in which *Wellfit* operates has been stable over the years and there has been a steady growth in this market. However, there are 35 brands operating in this market and all these brands have almost similar features. Therefore, those with stronger brand names tend to perform better in such a situation. A score of 4 is assigned to this variable based on these reasons.

7. *Trend:* This refers to the ability of the brand to remain contemporary and relevant to consumers. Interbrand model assigns a maximum score of 20 for this variable. As noted earlier, *Wellfit* brand has been introducing newer models and upgrading the product consistently. Market survey revealed that a higher proportion of customers of this brand is satisfied with its performance when compared with that of the market leader. This is achieved not only because of product improvements, but also due to better management of after sales service. In addition, the company is planning to make additional investments in improving production capacity and flexibility in manufacturing to improve product features and reduce costs.

Based on the above factors, the value of the brand is estimated to be Rs. 4.27 million. Exhibit 6 gives the detailed calculations.

Conclusion of Brand Valuation by Professional Agency – 1

The report submitted by Professional Agency – 1 concluded the Valuation Report as follows:

"In this study I have relied on cost based methods for valuing *Wellfit* brand as I found that the price based and consumer based methods for brand valuation is not very relevant in this case.

Under the historical cost method the brand value of *Wellfit* arrived at is Rs.29.78 million. There are several problems in using historical costs. A prospective buyer is interested in the future cash flows from the brand and the fact that about Rs.30 million was spent on *Wellfit* does not guarantee the realisation of even a portion of this amount in future sales.

Under the replacement cost method, the brand value arrived is at Rs.103.60 million. One commonly noted criticism of valuing brand using replacement cost is that it rewards past performance in a way that may bear little relation to future profitability. In other words, many brands with expensive introductions have not been very successful.

Under the discounted cash flow method, the brand value arrived at is Rs.53.32 million. This method is more reliable as an estimate of future performance of the brand. But estimating the sales of a product several years down the line is difficult. Competitors may out perform *Wellfit*. The nature of the industry might change. Moreover, fixing the price of a brand only on estimated future earnings without any relevance to its historical cost may not be the right measure. However the market for the products sold under *Wellfit* brand name has been very stable during the last decade. There has been no volatility in price or margins over the years. Hence this method has more relevance to this brand because company's turnover and cash flow are stable and predictable.

Under the Inter Brand method the brand value arrived at is Rs.4.21 million. It might be deserved that this method gives emphasis on several qualitative factors to arrive at brand value. For e.g., brand strength computation rests more or less purely on subjective judgement. This may note be entirely valid. It is difficult to arrive at a brand value by taking into consideration only the subjective element in its computation.

All brand purchase or sale transactions have one aspect in common. The price at which the brand changes hands depends on the eagerness of the company buying the brand and the potential benefits it sees in the brand.

Due to the peculiar circumstances of the brand *Wellfit*, I am unable to assign any one of the above four cost based methods as an exclusive measure of the brand's value. I am of the opinion that it is more logical to arrive at the brand value of *Wellfit* by taking a simple average of its value arrived at under each of the above cost based methods.

Therefore I am of the opinion that brand value of *Wellfit* brand is Rs.47.74 million."

Assessment of Value by Professional Agency – 2

As per the decision of the Board of Directors of *Jambo Polyparts Ltd*., I requested our Statutory Auditors to prepare evaluation report of the brand *Wellfit* owned by *Wellfit Fixtures and Systems Pvt. Ltd*. I have received the following letter from my tatutory auditor:

"Dear Sir,

Subject : Brand Valuation as on 31.3.2001 of *Wellfit* owned by Wellfit Fixtures & Systems Pvt. Ltd.

In accordance with your request, we have carried out the valuation of the brand *Wellfit* developed and owned by Wellfit Fixtures & Systems Pvt. Ltd. as at 31.03.2001. For the purpose of this valuation, the brand comprised principally of bathroom systems and fixtures which is developed and marketed by the company. The company was incorporated in the year 1988. The brand was developed by the company during the last ten years. The company has achieved a reasonable turnover by marketing this product and in our opinion the brand has a definite value. Audited accounts of the company from 1.4.1989 to 31.3.2001 have been made available to us. On the verification of the above documents we are of the opinion that the company has incurred during the years promotional expenditure and direct identifiable costs for promoting the brand.

Purpose of Valuation

This valuation is mainly done for the purpose of taking over of the brand owned and developed by Wellfit Fixtures & Systems Pvt. Ltd.

Documents Relied On

As mentioned above, we have gone through only the balance sheet and profit and loss account for the period 1.4.1989 to 31.3.2001 and we have not gone through any other records for the purpose of valuation.

Basis of Valuation

For the purpose of this valuation we have relied on the cost basis method since the company has commenced its operation in the year 1988 only. Moreover the promotional expenditure has substantially increased in the last ten years. The expenditure incurred has brought in a good turnover for the company and brand loyalty for the products. The company's main thrust area was marketing of the products and the promotional expenditure incurred has definitely affected the profitability of the company.

Disclaimer

In preparing this valuation we have relied upon the financial statements of the company and we have not made any independent investigation into the accuracy or completeness of the financial and other information provided. We accordingly take no responsibility for omission or errors for the data provided.

The opinion expressed herein are for use only for the party to whom this report is addressed and no liability or responsibility to any third party is accepted for the whole or any part of the content of this report or any documentation supplied by us during the course of carrying our this report.

Summary

Based on the information the company has furnished to us and applying the methodology to facts as made known to us we are of the opinion that the existing brand value of *Wellfit* on the basis of the replacement cost basis as on 31.3.2001 is Rs. 16.46 million. (See Exhibit 7 for detailed calculations).

Direct identifiable costs like promotion, advertisement and export market development expenditure incurred by the company for achieving the present turnover are considered for this purpose.

Yours faithfully,

Partner

Decision Issue

Give four different values of my brand, and two different recommendations, what should be the value of my brand that I developed and nurtured?

Exhibit I

Cost Incurred on Brand Building Activities

(Figures in Indian Rupees '00,000)

Year	Print Media	Broadcasting/Telecasting	Hoarding, Slides, display Boards	Complementary Products and Schemes	Exhibitions Trade Fairs	Event Sponsorship	Overseas Market Development	Advertisement through packaging	Others	Total
1990-91	2.52	-	-	-	-	-	-	0.38	-	2.90
1991-92	3.62	-	-	-	-	-	-	0.52	-	4.14
1992-93	10.24	5.87	1.53	0.97	-	-	-	1.10	0.05	19.76
1993-94	22.48	2.61	2.57	0.76	0.50	0.68	-	1.17	0.81	31.57
1994-95	3.83	1.37	0.68	-	-	0.09	6.30	1.08	1.12	14.47
1995-96	13.70	5.42	3.36	1.62	0.51	-	0.67	4.32	0.94	30.76
1996-97	6.39	13.86	6.23	10.71	0.38	0.05	-	9.95	1.49	49.05
1997-98	3.71	6.82	2.41	11.34	0.20	-	-	7.94	0.81	33.23
1998-99	4.41	2.32	0.29	0.02	-	-	1.91	4.77	1.53	15.26
1999-`00	4.68	13.61	3.51	1.98	1.89	-	0.95	5.42	2.68	34.72
2000-`01	23.94	15.55	3.96	4.43	0.05	-	-	11.99	2.30	62.21
Total	99.20	65.43	24.74	31.52	3.53	0.82	9.83	48.64	11.73	298.07

Source: Company records

Exhibit 2

Estimated Launch Costs of A New Brand at Current Costs

(Figures in Indian Rupees million)

1.	Launch expenses in 20 towns in home state	22.50
2.	Awareness Advertisements during initial period in home state	22.50
3.	Initial discount, incentive and promotional offer to distributors in home state	6.75
4.	Launch expenses in 10 towns in neighbouring state 1	11.25
5.	Awareness advertisements during initial period in neighbouring state 1	11.25
6.	Initial discount, incentives and promotional offer to distributors in neighboring state 1.	3.40
7.	Launch expenses in 10 towns in neighbouring states 2 and 3	11.25
8.	Awareness advertisements during initial period in neighbouring states 2 and 3	11.25
9.	Initial discount, incentives and promotional expenses to distributors in neighbouring states 2 and 3	3.40
	Total	103.55

Source: Estimates by Managing Director

Exhibit 3

Brand Building Costs Estimated based on Escalation in Media Costs

Year	Historical Cost on brand building (Indian Rupees million)	Average Media Tariff * (Rs.per column centimeter)	Incremental Cost factor (Rs.1450÷ column 3)	Cost incurred adjusted to current level (Indian Rupees Million)
1990-91	2.90	260	5.58	16.18
1991-92	4.14	260	5.58	23.10
1992-93	19.76	260	5.58	110.43
1993-94	31.57	350	4.14	130.70
1994-95	14.47	350	4.14	59.91
1995-96	30.76	750	1.93	59.37
1996-97	49.05	975	1.49	73.08
1997-98	33.23	975	1.49	49.51
1998-99	15.26	975	1.49	22.74
1999-`00	34.72	1350	1.07	37.15
2000-`01	62.21	1450	1.00	62.21
Total	298.07	-	1.00	644.38

Source: Company records

<u>Note:</u> Company's highest cost incurred during the decade for advertisement had been through print media. Therefore, average per column centimeter tariff charged by print media is taken as a basis for estimating cost escalation. For example in 1990-92 cost per column centimeter of print media was Rs.260/- and in 2000-2001, this was Rs.1450/-.

Exhibit 4

Quantity sold and estmate of Brand Premium

Year	**Total Quantity sold** (No. of units)	**Proposition of *Welllfit's* sales** (%)	**Quantity of *Wellfit* sold** (No. of units)	**Brand premium earned** (@ Rs. 35/- per piece - in Rs. Million)
1990-91	5477	100	5477	0.19
1991-92	43031	100	43031	1.51
1992-93	92084	100	92084	3.22
1993-94	124104	98	121622	4.26
1994-95	34740	74	25708	0.90
1995-96	66047	76	50196	1.76
1996-97	128720	93	119710	4.19
1997-98	117704	80	94163	3.30
1998-99	128435	67	86051	3.01
1999-`00	111233	84	93436	3.27
2000-`01	99045	92	91124	3.19
Total	8,32,912	-	8,22,595	28.80

Source: Company records

Note: Brand premium potential of Wellfit brand is estimated to be Rs.35/- per piece.

Exhibit 5

Projected Working Results and Present Value of Cash Flow

YEAR	1	2	3	4	5	6	7	8	9	10
Capacity Utilization (in %)	55	60	65	70	75	80	85	90	95	95
Raw Materials*	**23.20**	**25.31**	**27.42**	**29.53**	**31.64**	**33.75**	**35.86**	**37.97**	**40.08**	**40.08**
Cosumable Stores	**22.28**	**24.30**	**26.33**	**28.35**	**30.38**	**32.40**	**34.43**	**36.45**	**38.48**	**38.48**
Power	**0.07**	**0.08**	**0.09**	**0.09**	**0.10**	**0.11**	**0.11**	**0.12**	**0.13**	**0.13**
Direct Labour	**0.96**	**1.06**	**1.16**	**1.28**	**1.41**	**1.55**	**1.70**	**1.87**	**2.06**	**2.43**
Depreciation	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**0.00**	**0.00**	**0.00**	**0.00**
Cost of Production	**48.42**	**52.65**	**56.90**	**61.16**	**65.43**	**69.71**	**72.10**	**76.41**	**80.74**	**81.11**
Add Opening Stock FG	**6.32**	**7.96**	**8.66**	**9.35**	**10.05**	**10.76**	**11.46**	**11.85**	**12.56**	**13.27**
Less Closing Stock FG	**7.96**	**8.66**	**9.35**	**10.05**	**10.76**	**11.46**	**11.85**	**12.56**	**13.27**	**13.31**
Cost of goods sold	**46.78**	**51.95**	**56.20**	**60.46**	**64.73**	**69.00**	**71.71**	**75.71**	**80.03**	**81.08**
Administrative Expenses	**3.66**	**4.27**	**4.64**	**5.02**	**5.41**	**5.80**	**6.21**	**6.63**	**7.05**	**7.25**
Cost of Sales	**50.43**	**56.22**	**60.84**	**65.48**	**70.13**	**74.81**	**77.92**	**82.33**	**87.08**	**88.32**
Net Sales(After Excise Duty)	**59.94**	**70.90**	**76.89**	**82.88**	**88.88**	**94.86**	**100.86**	**106.85**	**112.84**	**113.82**
Profit Before Interest	**9.51**	**14.68**	**16.05**	**17.41**	**18.74**	**20.06**	**22.94**	**24.52**	**25.75**	**25.66**
Operating Profit	**5.93**	**10.83**	**12.04**	**6.48**	**14.41**	**15.53**	**18.18**	**19.47**	**20.42**	**20.31**
Other Income	**0.60**	**0.71**	**0.77**	**0.83**	**0.89**	**0.95**	**1.01**	**1.07**	**1.13**	**1.14**
Profit Before Tax	**6.53**	**11.54**	**12.81**	**7.31**	**15.30**	**16.48**	**19.18**	**20.54**	**21.55**	**21.44**
Income Tax @ 35%	**2.29**	**4.04**	**4.48**	**4.92**	**5.36**	**5.77**	**6.71**	**7.19**	**7.54**	**7.51**
Profit After Tax	**4.24**	**7.50**	**8.33**	**9.14**	**9.95**	**10.71**	**12.47**	**13.35**	**14.01**	**13.94**
Present Value of Cash Flows@										
Net Cash Flow	**6.14**	**9.40**	**10.23**	**11.04**	**11.85**	**12.62**	**12.47**	**13.35**	**14.01**	**13.94**
Factor (number)	1.15	1.32	1.52	1.75	2.01	2.31	2.66	3.06	3.52	4.05
Discounted Cash Flow	**5.34**	**7.12**	**6.73**	**6.31**	**5.89**	**5.46**	**4.69**	**4.36**	**3.98**	**3.44**
Total DCF	**53.32**									
Brand Equity	**53.32**									

* **All amounts in Indian Rupees (Million)**

@ Interest Rate of 15% reckoned as discount rate.

Exhibit 6
Interbrand Model of Valuation of the Brand

Year	**Net Cash Profits (Indian Rs. Millions)**	**% sale of *Wellfit* in total sales**	**Net profit attributable to *Wellfit***	**Weight assigned**
1997-98	2.68	78	2.09	1
1998-99	2.05	63	1.29	2
1999-00	2.41	73	1.76	3
Weighted average profit from the brand: (2.09*1)+(1.29*2)+(1.76*3)/ 1+2+3 = 1.66 million (Rs)				
Brand Strength Score 66/100 = 0.66				
P/E Multiple for the industry = 3.9				
Brand's Value = 1.66*0.66*3.9 = 4.27				

Exhibit 7

Brand Value Assessment - Calculations submitted by Professional Agency 2

Year	1994	1995	1996	1997	1998	1999	2000	2001	Total
Sales promotion	0.26	0.14	0.86	1.27	1.18	0.27	0.72	1.53	6.23
Advertisement	1.41	0.47	0.83	2.75	1.38	0.75			7.59
80% of Export Market Development Expenses								1.64	1.64
80% Deferred Revenue Expenditure as on 31.3.01 Advertisement expenses								4.98	4.98
Total	1.67	0.61	1.69	4.02	2.56	1.02	0.72	8.15	20.44
Less: 30% of expenditure estimated which might not have increased the intrinsic brand value									6.13
Balance amount									14.31
Add: 15% towards brand loyalty and distribution equity									2.15
Final Value									16.46

Amount in Indian Rupees Million