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## BRAND VALUE – HOW TO EVALUATE?

We live in a world, in which the attention cost expensive. Consumers are offered wide spectrum of opportunities, often with unclear parameters, which hampers their choice. The brand facilitates this choice saving time and reducing risk. Brands with big value provide bigger stability for companies, which possess them. All this explains the interest of specialists in the theme for the brand equity. In this article the main reasons provoking the interest in brand value are commented, the term "brand equity" is clarified and the main methods for brand value assessment are analyzed.

Keywords: *brand, brand value, methods for brand value assessment.*

**1. Introduction.** Brands are main players in the modern world. They exist in all spheres of our life: economic, social, cultural, sport and even religion [Kapferer, 2005].

The brand is a part of the company equity. It is intangible asset providing additional benefits for the business. The trademark has own worth. The trademark-worth is additional value from trademark to goods and services. The brand elements, which provide value, transform it into brand. These elements can be ideal or illusory, rational or emotional, palpable or invisible. Important requirement is that they to be acknowledged as essential by the customers.

The value, added by the trademark, is a totality of perceptions, associations, relations and/or behavioral preferences, which increase or decrease perceived by customer product value, which may influence the market share and/or rate of profit for brand owner. The trademark can cause positive or negative influence on perceived value, because its image can be favourable or unfavourable. The effects of the role of the trademark on value added for the company are shown on:

- the rate of profit
- the market share
- the degree of return on investments
- recoverability on basis of assets
- recoverability on basis of sales etc.

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The trademark value influences the consumer's behavior provoking the customers' loyal attitude. There are situations, when such influence is not observed due to: the lack of the trademark in trade network, lack of funds, lack of time to carry out purchase, lack of reason for purchase or other reasons.

In process of seeking the answer of the question which indicators are used for brand equity evaluation, are formed two approaches: consumer' and financial. In first approach the attention is focused on consumer's attitude towards the brand – from full indifference to attachment, devotion and readiness for purchase.

The financial approach measures the brand value determining the additional cash receipts generated by the brand. They are result of the consumer's readiness to purchase your brand even if the competitive are cheaper. The consumer is ready to pay more due to associations and relations, which are generated in his consciousness over the course of time by the brand marketing.

In short the consumer's equity is a preamble of the financial equity [Kapferer, 2004]. Brand has a financial value as they generate assets in minds and hearts of consumers, distributors and opinion leaders. These assets include: brand awareness; confidence in that it is extraordinary and excellent; emotional relation with brand etc. In this relation Keller determines the brand as: "Set of associations, which are arose in consumers' consciousness, added perceived worth to the product or service" [Keller, 2008]. These associations have to be unique, strong and positive.

In financiers' opinion when the brand value is determining we have to consider the following three statements:

- The brand is intangible asset
- The brand is contingent asset

To gain profit and to create financial value it has to work jointly with tangible active. There are no brands, which exist independently, without support from goods or services.

- Without profit there is no brand value

Brand, which is incapable to gain profit, has no financial value regardless of that how it is perceived by consumers.

## **2. The term "brand equity"**

The term "brand equity" was interpreted in different ways by different authors. Some authors restrict the use of the term "brand equity" only in measuring of the brand influence on consumers' mental associations [Keller, 1993]. Aaker in his early work connects it with the consumers' loyalty [Aaker, 1991]. Later he included ten categories for brand equity evaluation and indicators such as: market share, distribution and price premium [Aaker, 1997].

One of the difficulties, with which the managers are facing to, is the try to measure the brand equity – these are numerous interpretations, each of which is using different set of parameters. For example two independent groups of scientist from USA (Farquhar, 1989; Simon and Sullivan, 1993), on basis of the financial

perspective, they examine the brand equity as future cash flows arising from the association with the brand name. Aaker and Biel (Aaker and Biel, 1993) examine the brand equity as value added to the goods or service at the expense of the occurrence of positive associations with the brand name. Wide used definition for brand equity is suggested by Srivastva and Shoker (Srivastva and Shoker, 1991), and then accepted and specified in the Marketing Science Institute. They determine the brand equity as “set of associations and types of behavior of the consumers of the brand, the participants in the distribution channels and the corporation-brand owner, which all allow the brand to reach large volume sales or bigger margin in comparison with the options without using the brand name as well as to provide strong competitive differentiating advantage.

In Ambler’s opinion the trademark equity is a quintessence of the trademark dignity [Ambler, 1996].

The trademark has own value different from product worth. The specialists’ attention to the theme for the trademark equity becomes very trendy in 80’s of the XX century in the stage of intensive mergers and acquisitions of companies. In case of purchase of one trademark, it is included in the trial balance of the buyer by acquisition cost. In case of acquisition of a company the assessment of the value of its trademarks can be done as taking the acquisition cost from the value of all others assets.

Theoretically the value of a certain brand is formed as a difference between prices of branded and unbranded product. The allowance in the market assessment is a result of some factors:

- the higher price, which the customers are inclined to pay for purchase of the branding product
- the larger volume of the demand and respectively the bigger market share of the brand
- the customers’ confidence in the quality of the product – under the famous brands the absolute loyalty occurs in 25–50 % of customers, while under the products with unknown trademarks it does not exceed 10–15 %
- the easier access to big chains of shops

In companies with a lot of strong trademarks the value of tangible assets is a little part (8–12 %) of the companies’ market value. The equity forming by brands is called “brand equity” and it is a part of so-called reputational assets. The brand equity is the pure value of the future cash flows generated by brands of the companies, peculiar surplus above the value, which the unbranded products have for customers.

### **3. Reasons for the interest in brand value**

The main reasons, which provoke the interest of the companies in the value added by brands, are:

- Brands distinguish the products of certain proposers, i.e. make products distinctive and unique by totality of certain associations meaningful for the customer.

- Big part of companies does not want to enter in direct price wars. Brands are tool for forming of competitive advantages by building of lasting and distinctive image.
- Brands with high additional value are provided bigger stability for companies, which possess them. Famous brands have large base of loyal customers, which is serious asset in periods of deteriorated market conjuncture.
- The development of own strong brand is an opportunity to restrict the pressure of the middlemen. The good brand positioning increases its demand by end customers, who require its presence in the middlemen's trade centers. They in turn are competing between each other and offer better conditions for distribution to leading brands.
- The optimal positioned brand provides easier recognition, which allows its better boost in new segments or markets and its more successful extending in new product categories.
- Determining of brand market value allows provision of better management of the whole trademark portfolio as well as optimal spending of money by phases of the life cycle of the brands.
- The value added by brands and its dynamics is a reference point for the effectiveness of the marketing (in particular of the communicating) activity of the companies.
- The brands' value is relevant for forming a fair market assessment of companies. This is very important for sale-trades of entire companies, for determining a shares' value, for signing a franchise agreements etc.

#### **4. Methods for assessment of brand value**

There are different methods for evaluation of brand equity [Ambler, 1996; Doyle, 2000]:

- method of discounted cash flow
- method of capitalization of earnings
- method of price premiums
- method of consumer's assessments
- "Replacement cost" method
- method with accounting of changing of shares price
- method of residual value
- total costs method
- "Royalty" method

*The method of discounted cash flow* is connected with the different value of the money over the course of time. The idea is the value of the future cash flows generated by certain brand to be accounted in present time – i.e. the calculated net present value of the future brand revenues. For implementation of the method of discounted cash flow data for predicted revenues is needed, which requires certain dose subjectivity. In some cases the forecast of cash flow can be very various, but in other spheres, in which are signed a long-term contracts for producing of a certain number of branded products, the forecast is overlapped with the plan.

Other essential attribute for the implementation of the method of discounted cash flow is the discount rate. For its determining for practical aims it is recommended as a database to be used the average annual interest rate, multiplied by two: thus the risk is accounted. The discount rate includes two components – interest rate and factor for risk taken.

*The method of capitalization of earnings* has one basic admission – with the increase of the revenues (respective the profit) generated by one brand, its value is increasing too. In this method the brands and the companies are quoted and trade on basis of data for the profit corrected with certain coefficient (multiplier). The method is applicable on basis of detailed plan for brand sales (profit). When there is no detailed plan can be used data for the current profit implementing smoothing of monthly data. In sudden changes in the data for the profit influenced by different reasons, the average rate for the profit in certain branch can be used. The profit obtained is correcting with coefficient (it varies from 5 to 50 and reflects the expectations of market participants). The value of multiplier is calculating on basis of the follow factors:

- attractiveness and potential of the branch at all
- brand competitive positions in the branch

The attractiveness and the potential are estimating by historical analysis. The multiplier accounts the assessment of the investors in the branch in regard to the potential for growth, the intensity of the competition, the threat from substitutes and others. The multiplier is established in certain limits. The determining of the brand competitive positions in the branch has the task to determine the certain value of the multiplier for the analyzed brand. This is carried out via assessment of the brand competitive position in following spheres: loyalty, awareness, perceived quality, associations, and other assets. Each of listed spheres is a component of the value, added to the brand.

*The brand loyalty* is evaluating via questions such as:

- What is the level of brand loyalty by segments (including in competitive plan)?
- What are the reasons for lack of satisfaction?
- If there is a connection between the satisfaction and loyalty of the customers and if “yes” how strong is it?
- Which are the main factors which stimulate the loyal behavior of the customers?
- Particularly in what is expressed the customers’ loyalty (second purchase, inclination for recommendations, inclination for obtaining feedback etc.)?

*The brand awareness* is evaluated via following questions:

- To what extend the brand awareness is a factor for its market success?
- What is the level of knowledge by segments?
- What is the level of knowledge in competitive plan?
- To what extend the awareness is a factor for including the brand in the customer’s basket for choice?

The brand *perceived quality* is evaluated as follows:

- Which are the main factors, which determine the perceived quality by the customer?

- To what extent the perceived quality is an engine of consumer's behavior?
- What is the level of the perceived quality (including in competitive plan)?

*The brand associations* are evaluated with questions such as:

- What is the level of the brand image?
- To what extent the brand image influences the purchase?
- How the brand is positioned?
- Which are the strongest associations?
- Which associations have to be developed in perspective?

The presence of *other assets* is evaluated via questions such as:

- Does the company possess patents?
- Is the company managing properly the relationships with its partners?
- Does the company have a monopoly position on the certain market?
- For each of components of the value added to the brand (loyalty, awareness, perceived quality, associations, and other assets) is assigned certain weight.

The certain weights depend on following factors:

- *Relative importance of certain components of the value added by the brand by markets.* For example if the perceived quality of the competitive trademarks is on the similar level, then this component does not have big influence on the value and will obtain lower weight.

- *Adequacy of the certain components of the value added by the brand by markets.* For example if the loyalty has a significant impact on the value, but the loyalty to our brand is low, then the component "loyalty" will obtain lower weight.

- *The capability of the company to operate certain components of the value added by the brand.* Depending on certain conditions each component has different potential to generate value. Even if it is clear that one component has a high potential for influence on value, it can be insignificant, because the company is not capable to use it properly. For example it is proved as a rule that the loyalty has a potential to generate value, but by the company depends if will implement the proper actions for encouragement of the satisfaction and the loyalty of its customers.

The multiplier's value will be as high as the brand is more competitive with the most important components of the value added to it. Its value depends on the capability of the company to operate certain components.

A version of the method of capitalization of earnings is the method of the company "Interbrand". The idea is that after determining the profit generated by certain brand, to make clear how the last will be discounted. "Interbrand" suggests a special methodology known as "Brand power index". The index has to account the brand risk profile, its potential for generating profits and the probability for making profits. The power of each brand is evaluated by seven different indicators. For each can be given maximum grade (pointed out in the brackets below):

- *Market (10)*. Brand on stable and developing market with high barriers for market entrance are the most attractive.
- *Stability (15)*. Brands, which are sold for a long time on the market, obtain higher assessment in comparison with new brands and brands, which are managed by managers with lower qualification or experience.
  - *Leadership (25)*. The leading brands obtain higher assessment – i.e. those with higher market share, with ability to influence others, with a potential for impact on the prices, distribution etc.
  - *Internationality (25)*. The brands which are popular on the international market have higher assessment in comparison with the national brands.
  - *Trends (10)*. The brands demonstrating stable growth in the volume of the sales are evaluated higher.
  - *Maintenance (10)*. The brands, in which is invested purposefully and systematically, have a wide range of loyal customers.
  - *Protection (5)*. The brands which have legal protection have higher grades.

Each brand may obtain maximum 100 points. As higher is the brand power index as lower is the risk and therefore the discounting rate is smaller. The discounting rate of the ideal brand (100 points) is 5%, i.e. a little bit higher than the long-term profitability of the riskless investments.

*The method of price premiums* is expressed in determining of the price premium for one product, obtained by the company in result of branding of the product. When the number of the sold units for the certain financial year is multiplied by the size of the price premium, is formed the value, which the brand is created. This value can be discounted so as to form more fair assessment for the brand value. The method is not appropriate for assessment of the brand value of products with lower price differentiation (i.e. with insignificant differences in the prices of the competitive brands).

There are different methods for determining of the price premiums:

- *Observance* – the levels and dynamics of the prices of similar products sold under competitive brands are monitored. It is seeking an answer to the question “To what extend the changes in the prices of the similar products are due to the brand, under which they are sold”.
- *Poll* – the potential customers are polled seeking an answer to the questions: “What price you will pay for this product?” and “What price you will pay for each of pointed characteristics (different characteristics are listed, among which is the trademark of the product)?”.
- *Experiment* – it is measured the customers’ sensitivity in price reduces. Brands with high value would increase significantly their sales provided that their prices would be reduced. Valuable brands shell not have serious reduces of sales when there is a price reduces of similar competitive brands. The experiments in

price levels have to be implemented very carefully. Brands with high image shall not pass a certain critical threshold of the price, because this will reflect negative on their reputation.

*The method of consumer's assessments* can establish how the brand reflects on the assessment of the customer for certain product. This method evaluates the differences in customers' attitudes and preferences.

*The "Replacement cost" method* determines the costs for creation of brand comparable in strength. All cost for creation and positioning of new brand are calculated. By expert way is determined what the possibility for its success is.

*The method with accounting of changing of shares price.* Reference point is that the market stability of the company is forming by the number of the shares and their price. In this method the price of tangible assets (buildings, equipment etc.) is not accounted. The intangible assets are divided in the following way: brand value, value of factors outside the brand (patents, licenses, research and development activities) and value of the industry factors. The brand value is a result of:

- the life cycle of the brand and the sequence of entering of certain brand on the market (as a rule older brands have higher value)
- the communications costs carried out up to now (it is supposed that the communications costs influence the brand value)
- the relative share of the communications costs for the brand by total communications costs in the branch (it is supposed that communication directly influences the positioning although this is not true for campaigns with low efficiency). This method for value determining is the most appropriate for brands with dominant market position.

*The method of residual value* is implemented when from the total value of the company is subtracted consequently the value of the tangible and financial assets and the value of intangible assets too, which is irrelevant to the brand. The resulting difference (if there is such) is due to the brand reputation. Problem can occur with this that a little part of companies has calculated and known total value.

The total cost method is consisted in the calculating of all cost for creation and promotion of the brand. The method is easy for implementation, because each company has accounting data for calculating the value of its brands. However it is necessary all costs to be bring under one basis by comparable prices and then to be summed. The method has disadvantages too. For example it is very hard to base the relation between actually realized costs for creation and positioning of the brand and its value.

The "Royalty" method suggests assessment of the sum which the company has to pay to third party if it was not brand owner but want to obtain franchising rights for its use. Royalty is "a tax which the franchisees pay periodical (usually every month) for the right to work under the trademark, to use the business model, to participate in the system and to have a guaranteed territory. Usually it is deter-

mined as percentage of the turnover but can be a fixed sum too ([http://www.franchising.bg/business/franchising\\_dictionary.html](http://www.franchising.bg/business/franchising_dictionary.html)). Many leading auditing agencies consider that this method for assessment of the brand value is the most effective. The problem is that it is difficult to determine the exact value of the royalty tax.

### **5. Conclusion**

The effective brand management requires considerable resources and for this reason managers have to assess the condition of their brands periodically. This will help them to evaluate the investment profitability of these brands.

However there are pros and cons for surviving of the brand value. Pros for brand assessment are the following:

- undoubtedly the strong brands generate additional cash flow for its owners in comparison with the sale of unbranded products or those with weaker brands
- existing approaches or combination of them allow to separate and assess the generated brand cash flows
- the brand value assessment is a necessity for the business

Cons for brand assessment are:

- the brand value assessment is very subjective and depends both on method used and the specialist's qualification
- It is not possible to separate the revenues generated only by the brand image from the revenues obtained in result of other tangible and intangible assets
- It is not an accountant's job to evaluate the brands while when decisions are making the investors account the future value of all tangible and intangible assets of the company
- When the brands are assessed many suggestions are made, which may have an aim to manipulate the data for the liquidity of the company

In result of the research conducted we can say that in recent years the question for the expediency of the reflection of the brand value in the asset of the trial balance is widely discussed. Non-inclusion of this value in the balance leads to decreasing of the real market value of the companies to their balance value.

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## **СТОИМОСТЬ БРЕНДА – КАК ОЦЕНИТЬ?**

Мы живем в мире, где внимание стоит дорого. Широкий набор возможностей, часто с туманными параметрами, затрудняет потребителям их выбор. Бренд облегчает этот выбор, экономит время и снижает риск. Известные бренды обеспечивают большую стабильность компаний, которые этими брендами обладают. Все это объясняет интерес специалистов к теме бренда. В статье изложены основные причины, провоцирующие интерес к стоимости бренда, уточняется термин «капитал бренда» и дается анализ основных методов оценки стоимости бренда.

Ключевые слова: *бренд, стоимость бренда, методы оценки стоимости бренда.*

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