DOI 10.2478/sbe-2018-0043
SBE no. 13(3) 2018

MEASURING BRAND VALUE: THE CASE OF ROMANIAN PUBLIC TRADED COMPANIES

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Abstract:

Today most of the world's products benefit from a huge success because of a big brand. If in the past this was the case for the luxury industry where the power of branding it's reaching the consumer in the most impactful way. First by the mystery surrounding the brand, then by keeping the consumer as loyal as possible, the result being huge revenues for this brands, for, eg. LVMH, the largest group by revenue. But things are no longer the same, today the power of branding and huge revenues moved to another industry flourished, tech industry, where companies like Apple, Google, Facebook, Amazon, dominate their sectors benefiting from a strong brand name.

Key words: *Brand value, Corporation, Evaluation, Goodwill, Intangible Assets*

1. Introduction

The interest for brands increased significantly in mid 80's when a large number of companies were acquired for their brands. Since then financial evaluation, and accounting procedures for goodwill and intangible assets started to be a real challenge debated in many articles. Beside the technical aspects, the research pointed out the importance of investments in intangible assets for the modern corporation. Accounting standards were rethought, IFRS introduced IAS 38 and U.S. GAAP ASC 340-20, 350 and 985-20, as relevant guidance that deals with intangible assets. Both accounting standards were subject of changes over time, and there is still work in progress.

2. Literature review

2.1 Challenges in defining brand value

According to Kapferer (2012) when it comes to defining the concept of „brand", it is quite a challenge because each expert has its definition of a brand. However, the tough part is when we are trying to measure the value of a brand. Using indicators to measure the strength of a brand is called brand equity, claims Kapferer (2012).

Based on the definition provided by Investopedia (2018), brand equity „refers to a value premium that a company generates from a product with a recognisable name when compared to a generic equivalent. Companies can create brand equity for their products by making them memorable, easily recognisable, and superior quality and reliability. Mass marketing campaigns also help to create brand equity."

The Longman Business English Dictionary (2000) categorise brand equity as an asset included on the balance sheets of some companies, but this shouldn't be allowed, claim others because it is difficult to evaluate the brand properly.

The opinion of those who claim that is difficult to evaluate a brand is well founded due to the nature of the brand as an asset. Kapferer (2012) identified two paradigms around the brand measurement issues:

a) The first one suggests that brand is focused on customer loyalty, the relationship created between the customer and brand, all the experience, loyalty, the emotions created etc.;
b) The second one aims to measure how a brand worths in for, e.g. dollars, euros etc.

The confusion goes deeper when it comes to making the difference between intangible assets and goodwill. There are several differences between intangible assets and goodwill, although both concepts are characterized by being non-monetary and non-physical they appear as distinct in a company's financial statement. Nevertheless, intangible assets compared with goodwill, are identifiable, for, e.g. patents, licenses, the company's proprietary technology, is on one side non-physical but possible to estimate their value, and on the other side can be acquired and sold independently from the business. Goodwill is considered more a „miscellaneous category" of assets, is more difficult to analyze and measure it individually, for, eg. customer loyalty, brand equity, name or brand recognition, the company's reputation count as goodwill, quantifiable assets that bring value for the company more than is shown in the books. When a company want to acquire another company, they pay the fair value of the assets held by the company acquired, but if the company has goodwill, in the form of the above examples, that is considered a „premium" value paid over the value of the classic assets.

Kapferer (2012) points out the same issue that comes when a company is bought by another company, and often there is a huge difference between the book value, based on the evaluation of the assets and the price paid. He also suggests that this situation ism et when strong, well-known brands are the subject of an acquisition, moreover when the growth is forecasted as positive, due to the impact of the brand. This difference paid for, a „premium" price, is known as goodwill and can be considered as a (positive) reaction of the market regarding the financial future of the company. From the accounting standing point, this difference must be shown in the balance sheet, as what has been bought, to obtain the match between the patrimonial elements. For a brand to create that „premium” value, should have the power to influence the buyers, the market.

As was pointed out, brand value/brand equity count as goodwill, and from an accounting perspective, it’s been a challenge to properly evaluate their value over time. Financial Accounting Standards Board (FASB), the organisation which determines financial accounting and reporting standards, and recognized by the SEC, proposed in 2014 an alternative accounting rule for goodwill, applicable for private corporations and since 2017 for public traded companies. According to their rule, „goodwill can be amortised on a straight-line basis over a period not to exceed ten years.”

Changes in goodwill recognition are also made by The International Accounting Standards Board (IASB), the organisation which approves International Financial Reporting Standards (IFRSs). In 2003, IASB abolished goodwill amortisation when they adopted the IFRS 3, which relies on the impairment-only approach, is considering the amortization of goodwill, this change is part of the IFRS 3 review since it was adopted.

The theory around the brand concept evolved over time. First, the discussions about the brand were focused on the law, how to protect that brand from being stolen. As a result, the definitions were influenced by this trend. Next, besides the legal issues, the brand started to be distinguished from the quality point of view, is a competitive advantage. Later on, the dominant theory in marketing, became cognitive psychology, according to Kapferer (2012). Furthermore, Kapferer proposed the evolution of the brand, from a historical point of view.

Today a brand is not only associated with a product, but it is also a business tool, an instrument, used by the company for growth and profitability. This is the main reason why brand as a concept is affecting all companies. The difference is that not all companies are aware of the influence of their brand. For, eg. the companies from the industrial sector, were the power of the brand is considered less important or significant in the company’s profitability, compared with the fast-moving consumer goods (FMCG) or products and services from the technology sector, even though is the impact of the brand is not that huge, industrial companies have their own markets. Kapferer suggests that the meaning of a brand changed, it is no longer associated with a specific product the company sells, today several factors for, e.g. innovation drive contribute to building a brand.

A strong brand, prefered by the financial analysts, is very convenient from a very important point of view; are less risky. From this perspective, a financial analyst sees the brand like the consumer, by paying that „premium” price, there is sort of guarantee included in the price that removes a big part of the risk. For an analyst, a strong brand has the potential to generate certain future cash flows, because if that brand benefits from a strong market share, awareness, loyalty, etc., these factors offer the premise for future sales. Being a well known and established brand in the market, associated with superior quality, the „premium” or the added value is justified. Moreover, a strong brand could act as a barrier to competitors. If the brand value is also provided by innovation, known as a trendsetter in the industry, a pioneer, this could generate revenue from royalties, by licensing that brand.

2.2 Brand valuation methods

Regarding determining the financial value of brands, there are several companies and methodologies that measure the brand value, because the focus on brand and the value it produces increased exponentially in the last couple of years. Even though is a popular topic few organization provide a proper brand valuation methodology that accurately measures the value (financial) created by a brand. One of the first organisations that pioneered brand valuation is Interbrand, being the first company with a certified methodology. In their methodology, they focus on the following three „key" aspects (Interbrand, 2018):

a) Financial analysis – by measuring the economic profit from which they subtract the capital charge that was used by the brand to generate revenue and/or margins;
b) Role of the brand – they developed ‚The Role of Brand Index (RBI)', quantified as a percentage and it is determined based on three methods: primary research, a review of historical roles of brands for companies in that industry, or expert panel assessment, depending on the brand;
c) Brand strength – „measures the ability of the brand to create loyalty and, therefore, sustainable demand and profit into the future". Interbrand takes into consideration ten factors (4 external and six internal) that makes a brand strong.

To successfully apply their methodology and measure brand value, Interband is using for gathering their data sources like Thomson Reuters, annual reports for the financial data; for consumer goods data they use data from GlobalData Plc and for social media impact data from Infegy.

Another company that is publishing annually their brand value estimation is Kantar Millward Brown's BrandZ division. According to them (Kantar Millward Brown, 2018), they cover more than 100.000 brands in 45 countries. In their brand valuation, Kantar Millward Brown uses data to calculate brand equity.

Brand equity „is the added value endowed to products and services with consumers" (Kotler and Keller, 2016) which refers to the „premium" value generated by the company from a product that has re recognizable name compared with its peers. BrandZ is focused on a common approach used by marketers and researchers, a customer-based approach which as Keller and Lehmann (2006) claim recognises that „the power of a brand lies in what customers have seen, read, heard, learned, though, and felt about the brand over time."

Financial Times (2013) analysed Kantar Millward Brown's brand valuation tool, and they found out that it is made out of three components:

a) Financial value – they gather information from annual reports and other sources such as Kantar Worldpanel and Kantar Retail and Bloomberg. Based on the financial information gathered, they introduce in their formula based on calculation the brand multiple, which is an indicator capable of forecasting future earnings;

b) Brand contribution – this step is meant to show how much from the total value produce by the company can be attributed to the brand. In order to do that, factors such as price, availability, distribution, etc. The concept „brand contribution” was first introduced and provided by BrandZ;
c) Brand value – the third component is actually the result of the first two components. The financial value (FV) is multiplied by brand contribution (expressed in % of FV), and the result is the brand value.

With not such a long history in measuring brand value, but with a simple and compelling methodology, Forbes started in 2010 to release their annual list called „World’s Most Valuable Brands”. A list containing 100 brands analysed from a 200 brands list. Their methodology is little more restrictive; they require for brands to have a strong presence in the USA. In this case, some big brands could be skipped from their list due to this criteria. With the release of the 2018 „World’s Most Valuable Brands” Forbes presented their methodology used in measuring brand value (Badenhausen, 2018) and it is done in the following steps:

a) Financial information is gathered from the annual reports, Wall Street reports and industry experts. Based on that information, they calculate EBIT for the last three years and then average EBIT over the past three years;
b) To the average EBIT over the last three years, they apply an 8% charge, which they consider to be the generic charge for the capital employed and the brand should earn at least 8%;
c) Then by using the tax table provided by KPMG (2018), they apply the maximum corporate tax, in this case from 2017. Depending on the country the corporate tax is applied to those earnings calculated previously;
d) The next step requires to allocate a % to those earnings based on the importance of the brand in each industry. Forbes does not provide how much they allocate for brand depending on the industry, but they claim that for, e.g. in the luxury industry brands are crucial compared with the mining industry where other factors play a crucial role;
e) The number that results they call it „net brand earnings number”. To this number, they apply the average price-to-earnings multiple from the past three years. The result is ‚the final brand value’.

3. Methodology

3.1 Data and sample

The purpose of this article is to test a brand valuation methodology provided by one of the three companies above, Interbrand, Kantar Millward Brown and Forbes on a sample that consists in 65 Romanian companies listed at the Bucharest Stock

Exchange (BSE), except the non-financial ones. The companies selected are public companies and ranked as standard and premium at the BSE. All variables have been collected and calculated using the annual reports and trading data (stock price, market capitalisation) provided by the BSE for the fiscal years 2015, 2016, 2017 (appendix 1).

In order to determine the brand value for the companies sampled, we decided to use Forbes's methodology with the following small changes:

- Due to the fact that Forbes does not provide the brand % allocated depending on the impact of the brand in each industry, we allocated the % arbitrarily taking into consideration the specificities of the Romanian market, consumers perception and brand awareness, as shown in table 1.
- The price-to-earnings multiple or P/E was calculated not from the past three years, but taking into consideration the market capitalisation and the company's stock price at the time we have made the calculations, on 26th of October 2018.

Table 1: Brand based allocated %

Sector of activity*	***%****
Chemicals	2%
Industrials	2%
Aerospace & Defence	2%
Materials	2%
Engineering & Construction	2%
Energy	2%
Household Products	2%
Health Care	4%
Hotels, Restaurants & Leisure	4%
Food, Beverages & Tobacco	4%
Motor Vehicles & Parts	4%
Apparel	4%
Business Services	4%
Wholesalers	4%

*We used the division by sectors of activity provided by Fortune 500 in their rankings.

**Based on the concept of brand awareness which „is related to the strength of the brand node or trace in memory, which we can measure as the consumer's ability to identify the brand under different conditions" (Rossiter and Percy, 1987; referenced by Keller 2013, p. 72), we allocated the percentages.

Table 2: Brand Value by sector of activity in Romania

Sector of activity	*Brand Value (mil. RON)*	*Average EBIT last three years (mil. RON)*	*Net income 2017*	*Intangible assets (mil. RON)*
Chemicals	3.852 RON	-1.288 RON	-6.136 RON	589 RON
Industrials	3.884 RON	77.042 RON	21.885 RON	38.588 RON
Aerospace & Defence	15.549 RON	51.922 RON	37.896 RON	6.786 RON
Materials	51.357 RON	199.876 RON	127.939 RON	244.766 RON
Engineering & Construction	3.267 RON	29.398 RON	32.676 RON	193 RON
Energy	1.254.848 RON	1.916.928 RON	997.079 RON	370.317 RON
Household Products	-907 RON	1.815 RON	-174 RON	0 RON
Health Care	275.195 RON	290.083 RON	221.042 RON	150.351 RON
Hotels, Restaurants & Leisure	9.914 RON	8.928 RON	5.462 RON	415 RON
Food, Beverages & Tobacco	1.334 RON	3.124 RON	1.759 RON	0 RON
Motor Vehicles & Parts	63.207 RON	129.175 RON	44.814 RON	3.973 RON
Apparel	205 RON	-859 RON	-693 RON	40 RON
Business Services	33.507 RON	10.173 RON	1.439 RON	133 RON
Wholesalers	5.735 RON	14.809 RON	2.572 RON	708 RON

4. Discussions and Conclusions

In this study, we used the methodology provided by Forbes in order to measure the brand value for the public traded companies in Romania. Measuring brand value is challenging due to the fact that it requires lots of data and we were limited from this point of view. This the main reason we didn't used the methodologies proposed by Interbrand and Kantar Millward Brown. As we shown when we described their methodologies, this organisation are using various databases in order to gather financial data on one side and on the other side data about consumer behaviour, brand sales, consumer perception, etc. They combine the data they gather, financial data and scores into a proprietary brand valuation tool.

Having in mind the fact that Forbes methodology is not taking into consideration some of the aspects mentioned above, focusing on data gathered from the annual report and from BSE, we managed to measure the brand value for the publicly traded Romanian companies. The challenge was when we had to allocate a brand % based on the impact it has on different industries. We took into consideration the fact that in average the brand awareness for local brands in Romania is not that strong because the companies are not MNC's. As a result, we allocated the brand % based on this consideration.

Overall, the findings support the idea that there are few sectors of activity where the brand awareness goes hand in hand with the financial indicators, investments in intangible assets and create brand value. Energy, Health Care, Hotels, Restaurants & Leisure, Food, Beverages & Tobacco, Motor Vehicles & Parts are examples where the brand value is at a similar level or above the financial indicators. As Forbes suggested for this type of sectors of activity, the brand is more important compared with Chemicals, Materials and Industrials.

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