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THE MAIN FACTORS FOR STRATEGIC BUILDING OF THE BRAND VALUE AND METHODS FOR BRAND VALUATION AT THE CZECH REPUBLIC MARKET

Abstract:

Currently there is a variety of approaches dealing with a brand or trademark valuation. The International Valuation Standards (IVS) and the Valuation under Act No. 151/1997 Coll. on property valuation in relation to trademarks in the territory of Czech Republic can be classified among them. The main goal of this paper is to determine the factors which participate most in strategic building of brand value. These factors could be used as a basis for the proposal of a new method for the valuation trademarks in the Czech Republic. So far, these methods have taken into account only the financial aspects (economic profit, return of investment). The other factors which create a brand value (brand awareness, brand loyalty, emotional association) have not been implemented yet. For this reason, the methodology of International Valuation Rankings, which takes into account valuation based on other previously mentioned components, is also analysed in the article.

Keywords:

Brand, Brand management, Brand value, Brand equity, Brand attitude, Methods for brand valuation, International valuation standards

JEL Classification: M31

1. Introduction

An increasing number of companies are aware of the fact that strategic brand management is a powerful competitive tool in current turbulent environment. Brand simplifies customer's decision-making, reduces a risk of wrong choices and creates expectations associated with brand.

Brand is used not only for differentiating from the competition. Consumers can see it also as a guarantee of quality which they have connected with their last experience. When the purchase is repeated, we can start talking about brand loyalty. Brand loyalty not only provides the predictability and certainty of demand, but also builds a barrier to prevent other organisations from coming to the market (Kotler and Keller, 2012, p. 242). Brand is company's immensely valuable legal asset which not only affects consumer behaviour, but also can be sold or bought.

Nowadays, a number of approaches is used for the brand or trademark valuation. The most famous is the valuation through the International Valuation Rankings by Interbrand and Millward Brown, or the valuation by the International Valuation Standards (IVS) together with the valuation under Act No. 151/1997 Coll. on property valuation in relation to trademarks in the territory of Czech Republic.

This article will be divided as follows: in section 2, our research problem will be defined. In section 3, the different valuation methods will be demonstrated on specific companies. In section 4, various valuation methods for brands will be described and finally, section 5 describes the expected outcomes and conclusions.

2. Research Problem

In this paper, we focus on a description and analysis of different methods for the brand valuation in the Czech Republic, including a description of methodologies for the brand valuation by international companies Interbrand and Millward Brown. The goal is to find advantages and possible drawbacks of each method, which would provide a basis for further research.

There are many definitions of a brand. Among the most famous definitions, the definition of the American Marketing Association can be classified. It defines a brand as „a name, term, sign, symbol, or design, or a combination of them, intended to

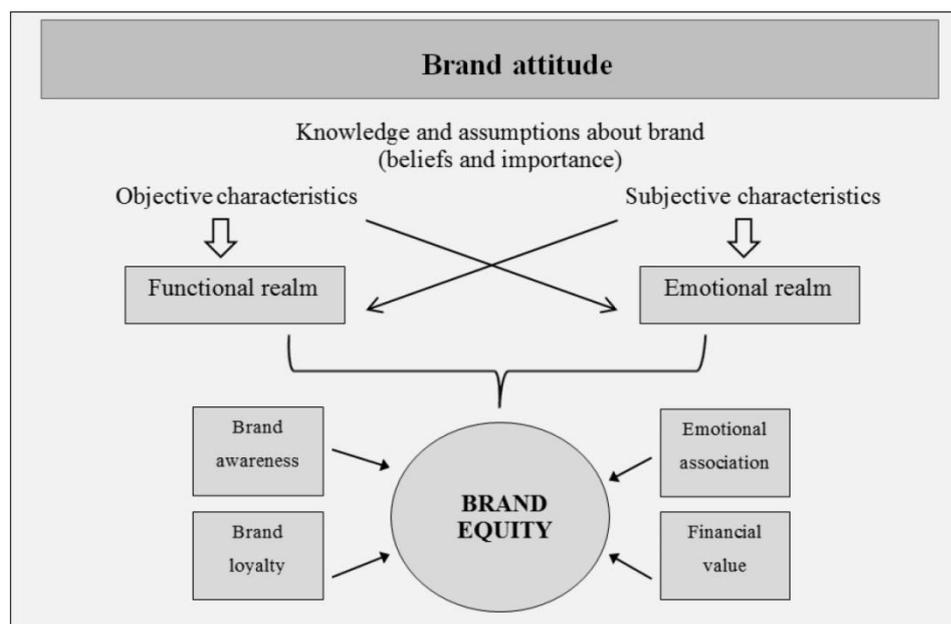
identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors” (Kotler and Keller, 2012, p. 241).

Brand provides a competitive advantage, justifies a higher price and also offers a certain protection in case of crises or economic turbulences.

Brand equity is the value which the brand adds to products and services (Kotler and Keller, 2012, p. 243). Consumers have the branded product or service associated with higher value added and are also, they willing to pay more for the brand. For this reason, in the future, marketers should focus primarily on building strong brands.

Brand value is well described by Richard Elliott and Larry Percy (2007, p. 94-95), where they introduced the Model of Brand Equity Synthesis. The model illustrates the importance of attitude to the brand which is displayed in the model as an umbrella. The umbrella covers all other aspects of the brand. The most important aspects are shown in the upper part of the model, and the less important are in the lower part of the model. The upper part shows the difference between objective and subjective characteristics which affect functional and emotional realms of brand. Other classified components are: brand awareness, brand loyalty, emotional association, and financial value. The model provides an overview of key indicators that affect the final value of brand.

Figure 1: Brand attitude



Source: Elliot and Percy Model of Brand Equity Synthesis (Elliot and Percy, 2007, p. 95)

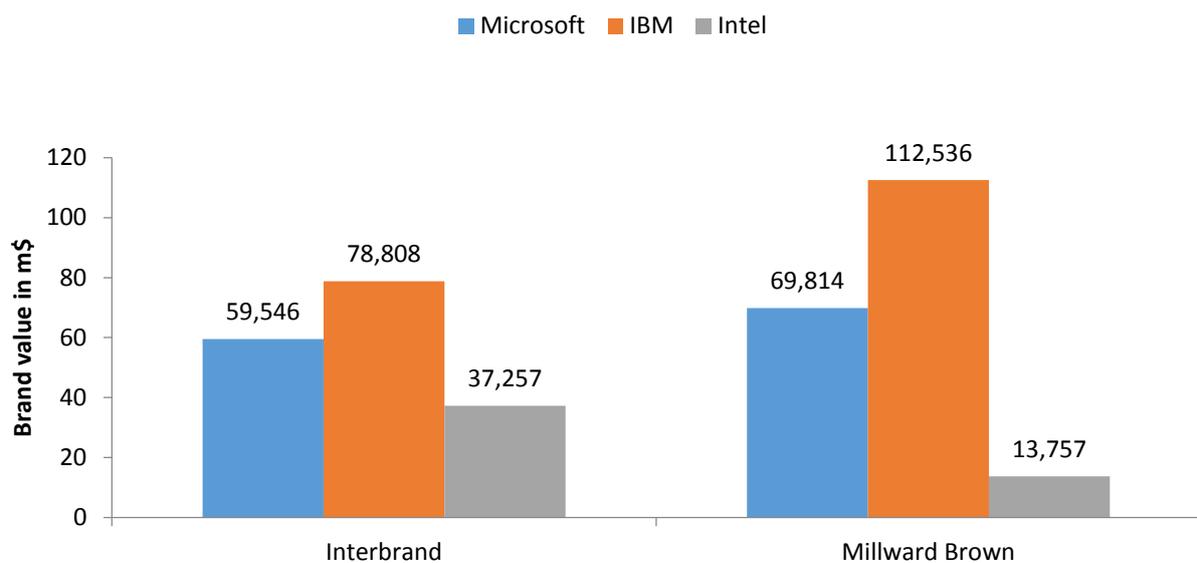
3. State of the Art

Brand management and brand valuation are still relatively new disciplines. There are many approaches for the valuation of brands (trademarks), but the final valuations are very different – depending on selected approach. For this reason, the objective of this paper is to compare these different methods, identify their strengths or weaknesses and propose the general methodology that would eliminate these shortcomings.

The methods of valuation will be discussed in more detail in the next chapter. In this section, differences among resultant values of brands by the international valuation rankings will be described. These are frequently discussed in both scientific and unscientific articles where the discussion is dedicated to the brand values. The major international companies, which the valuation of brands and building rankings deal with, are Interbrand with its “Best Global Brands” or Millward Brown with “BrandZ Top 100 Most Valuable Global Brands”.

Each of these companies has its own methodology for global brand valuation. It is understandable that the final valuations of a specific brand by Interbrand and Millward Brown will be different because of using different methodologies for calculating. Differences in determining the brand value are shown in results of the individual rankings of companies such as Microsoft, IBM and Intel in 2013.

Figure 2: The value of trademarks of Microsoft, IBM and Intel in 2013



Source: *Interbrand and Millward Brown, 2014a*

Figure 2 shows that the calculations of brand values are significantly different. For example, the Interbrand determined the value of Microsoft by 10,268 m\$ less than Millward Brown. According to Interbrand, IBM has the value by 33,728 m\$ less than the valuation by Millward Brown. On the other hand, by Interbrand, Intel has the brand value higher by 23,500 m\$ in comparison to the valuation by Millward Brown. Due to high differences between the valuations by Interbrand and Millward Brown, the paper discusses particular methodologies of these companies, but also the methodologies currently used in the Czech Republic for the valuation of brands or trademarks.

4. Methodology

Nowadays, a number of approaches is used for the brand or trademark valuation. The most famous is the valuation through the International Valuation Rankings by Interbrand and Millward Brown, or the valuation by the International Valuation Standards (IVS) together with the valuation under Act No. 151/1997 Coll. on property valuation in relation to trademarks in the territory of Czech Republic. Particular methods are described in the following chapter.

4.1 International Valuation Standards (IVS)

According to International Valuation Standards there are three basic methods for market valuation of intangible assets: cost approach; income capitalisation approach; and market (sales comparison) approach.

Cost approach (Jurecka, 2007, p.36) is a method based on sum of all costs that would be needed to replace a valued property. When this method is used, all expenditures on a creation of substitute property is assessed (e. g. a fee for graphic design of a trademark, costs of its registering with Industrial Property Office, fees for legal services and also an advertisement or propagation associated with the trademark). The Cost approach is suitable method for value calculation of newly established brand or a brand which exists on market very short time and is not implemented in minds of potential customers yet.

Income Capitalisation Approach is based on the valuation of intangible assets of the present value of expected benefits. It is used mainly for the valuation of industrial rights, even for the other intellectual property. The basic variants are: the licence analogy revenue method, increase rates of profit, the expected loss of income, the

residual revenue method (Marik, 2003, p. 355). Among these methods, the licence analogy revenue method is used most often.

Market Approach cannot be applied to current Czech market because there are not comparable brands to use this approach on. This valuation approach is specific for each brand and the trademarks are very heterogeneous. Thus, finding a similar brand on which basis could be performed the calculation of trademark value through the Market Approach is nearly impossible.

4.2 Valuation under the Act No. 151/1997 Coll.

A trademark valuation follows the § 17 Act No. 151/1997 Coll. on property valuation. For the purposes of the Czech valuation standards, the Income Capitalisation Approach is used for the calculation of trademark value. If it is impossible to determine a trademark value by Income Capitalisation Approach because of the trademark has not been used yet or results of the valuation by Income Capitalisation Approach are disproportionately higher or lower, the usual price is used (Act No. 151/1997 Coll. on property valuation).

Valuation under the Act No. 151/1997 Coll. is used for valuation purposes in the context of the Act on Bankruptcy and Settlement, the Act on Court Fees, the Act on Inheritance Tax, the Act on Gift Tax, the Act on Real Estate Transfer Tax, the Act on Administrative Fees, the Act on Income Tax and the Act on Value Added Tax (Cada, 2007, p. 60).

4.3 Interbrand's Brand Valuation Methodology

Interbrand helps companies create, manage and measure their brands and values. The company is based on three key components that form the final brand valuation: financial analysis of performance of branded products or services, the role of brand in purchasing decisions and the competitive strength of the brand. The financial analysis is based primarily on financial return of investment or economic profit (Interbrand, 2014b).

From a consumer perspective, a brand performs the following roles: identification of the source of product; determination of producer responsibility; reduction of risk; reduction of costs associated with product selection; a promise, commitment or agreement with the manufacturer symbol; a signal of quality. From the producer

perspective a brand performs following roles: an identification of instrument to simplify trading or searching firm; an instrument of legal protection of unique features; a signal of quality level for satisfied customers; a platform for the unique association which will enrich the product; a source of competitive advantages and financial return (Keller, 2007, p. 39).

Interbrand uses the Role of Brand Index (RBI) for an expression of a brand role in percentage. RBI is based on primary research, existing research or qualitative assessment built on discussions and past experience. The last key component is the strength of brand which measures a brand loyalty. A loyalty is important for companies, mainly for maintaining demand and for future profits. Interbrand evaluates loyalty on a scale of 0-100 based on 10 key factors. Key factors are divided into 4 internal and 6 external factors. The internal factors are: clarity, commitment, protection, responsiveness. The external factors are: authenticity, relevance, differentiation, consistency, presence, and understanding (Interbrand, 2014b).

4.4 Millward Brown's Brand Valuation Methodology

The BrandZ methodology for brand valuation by Millward Brown combines extensive researches among consumers and financial analysis. Millward Brown applies the research on 2 million consumers and more than 10 thousand various brands from more than 30 countries. To calculate a brand value, a financial value must be determined first. In this section, it is important the fact that some companies own only one brand which ensures all the production (revenues) of the company. Otherwise, if the company owns several brands, we talk about the brand portfolio. Therefore, it is very important to determine the appropriate part of corporate profits which belongs to the brand. Millward Brown defines the "Attribution Rate" (Millward Brown, 2014b).

The next part of the final financial value determination is "Brand Multiple". What happened today or has happened in past is less important than the prospect of future revenues. To obtain future revenues, the current revenues must be multiplied by "Brand Multiple". The determination of multiplier (Brand Multiple) is based on data from Bloomberg agency. Furthermore, the Brand Contribution must be determined according to BrandZ methodology. To be able to determine it, the financial value of brand must be adjusted by the factors which affect the brand value, such as convenience, price, distribution and availability. According to the fact a brand exists in

customers' minds, it is necessary to create a desire for the brand, build and maintain the loyalty. Thus, the Brand Contribution is obtained. The last step according to this methodology is Calculating Brand Value by multiplying the financial value and Brand Contribution which is determined as a percentage of the financial value (Millward Brown, 2014b).

5. Recommendations and Further Research

On the basis of described findings, a qualitative research in 2015 will follow. The qualitative research will be conducted through several case studies in small and medium-sized companies in the Czech Republic. The reason for the conduction of this research is an assumption that small and medium-sized companies have not put emphasis on brand management, brand registration at the Industrial Property Office of the Czech Republic, and brand evaluation as an intangible asset of the company so far. This assumption was verified by pilot study, which was conducted by interviews in several small and medium-sized companies.

The case study focuses on one or a few cases. It is expected that by thorough examination of one case we can better understand other similar cases (Hendl, 2005, p. 104).

From the collected data and information, "general methodology" for small and medium businesses will be deduced. This methodology can help small and medium enterprises to better manage their brands and their valuation inside the company.

6. Conclusion

Currently, there is a number of methodologies for valuation of trademarks. In the Czech Republic, the cost method and licensing analogy are used most often. Procedures for all methods are complicated and very unclear for companies. For this reason, companies must hire external experts who are engaged in the valuation of intangible assets. Most small and medium-sized businesses do not have enough money to afford hiring these professionals. It would be appropriate to create a method that would summarize all above-mentioned methods for valuation. This "general methodology" could eliminate valuation differences arising from the using of different methods for the valuation of trademarks.

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