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BRAND VALUATION PRACTICES OF SMALL AND MEDIUM-SIZED ENTERPRISES IN THE CZECH REPUBLIC

Abstract:

A brand (respectively trademark) can become a valuable intangible asset of a company, if built and managed correctly. From a customer perspective, the brand grants a guarantee of quality and simultaneously, it represents a strong competitive advantage for a producer or a service provider due to the differentiation of their products and services. The primary objective of this paper is to clarify the valuation practices of small and medium enterprises (SME) in the Czech Republic, based on several case studies. The secondary objective of the article is to point out the valuation differences which arise when using different valuation methods.

Keywords:

Brand, Brand equity, Brand management, Brand value, Methods for brand valuation

JEL Classification: M31

1 Introduction

Brands are more than just names and symbols. Brands represent the way by which consumers perceive products and their attributes and what they feel to them. Therefore, the real value of strong brand is based on its ability to get a consumer and his loyalty (Kotler, 2007, p. 635). American Marketing Association defines brand as "name, term, sign, symbol, design or a combination of them, which identify goods and services of one seller or groups of sellers and which differentiate them from competitors' goods and services" (Kotler, Keller, 2007). A brand, if is properly constructed and managed, can become a significant asset of a company in terms of an intangible property, which could be used as a non-monetary contribution to the share capital. It also improves the competitive position of the trademark, can be a subject of sales and besides them it allows a dissemination of business activities under the same brand (Smolkova, Starchon, 2013, p.50).

Companies often try to support and foster all their brands. Unfortunately, this approach often reduces the possibility to create or keep alive a really strong brand. Instead, they spend their financial resources on problematic brands (Aaker, 2003).

"Basic industrial-legal form of a protection through designation is a trademark" (Svacina, 2010, p. 39). The current legislation of the Czech Republic (Act No. 441/2003 Coll. and decree No. 97/2004) allows entrance to register a designation capable of graphical representation, particularly words with personal names, colours, drawings, letters, numbers, a shape of goods or their covers, if the designation is capable to differentiate products or services of one person by products and services of another person (Cada, 2009, p. 26).

To the valuation of intangible assets, using of several methodologies is possible. These are revenue, market or cost approaches (Marik, 2003). Specific methods for valuing brands on the Czech market will be discussed in the next chapter.

2 Research Problem

Brand management is a strategic process that "involves the design and implementation of marketing programs and activities that serve to build, measure and manage brand value" (Keller, 2007, p. 72). The process of strategic brand management "is defined in four steps:

- identification and determination of positioning and brand values,
- planning and implementation of brand marketing programs,
- measurement and interpretation of brand performance,
- improving and maintaining of brand value "(Keller 2007, p. 72).

For determination of the value of intangible assets, three approaches are usually used: revenue, cost and market approach. In present, the **market approach** cannot be

applied for the trademark valuation due to the lack of data on market transactions with intangible assets on the Czech market.

Conversely, the **revenue approach** is the most widely used approach for valuation of intangible assets. Among its basic variants belong: the license analogy revenue method; the increase rates of profit; the expected loss of income; the residual revenue method (Cada, 2009).

From all the revenue methods, the **licence analogy revenue method** is most often used. It is „based on the consideration that valued intangible asset would be sold through contract for pecuniary interest to third person, or would be granted an exclusive right to use such a solution. Fees would be paid for it for the duration of the contract, respectively until the end of usable life in case of the solution of a technical nature“ (Cada, 2009, p. 45).

The method of **increase rates of profit** is not easy to use in practice. It can be applied only in cases „when can be demonstrated that products based on intangible property have counted higher profit in the selling price than similar competitive product“ (Cada, 2009, p. 45).

The method of **expected loss of income** „is based on a scenario that the owner of intangible asset would lose the right of using this solution. The result is a reduction of current profit or the extinction of profit“ (Cada, 2009, p. 45).

The last method of revenue approach is the **residual revenue method**. The method „is based on the assumption that from the total revenue, determined from the overall business, the revenue associated with tangible assets is subtracted. The calculated amount represents a revenue which is attributable to intangible assets“ (Cada, 2009, p. 45).

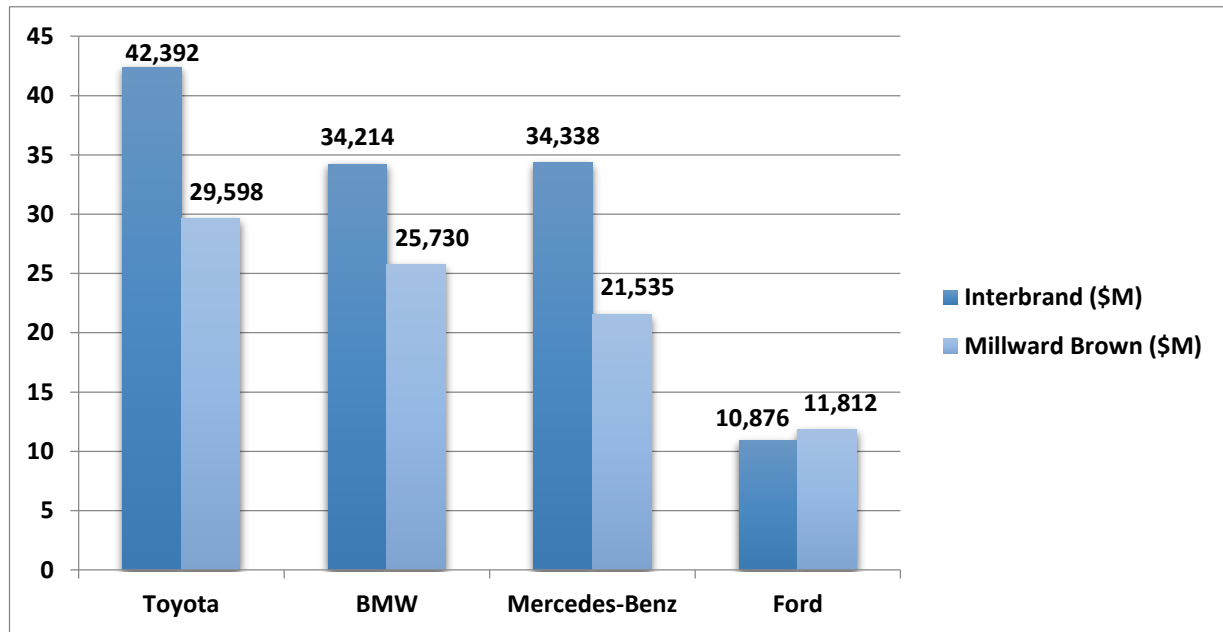
The final approach used in the Czech market is **cost approach**. However, this is not so often used method. "It is suitable for relatively young trademarks, which have not created a special position on market yet. Furthermore, it is suitable when all costs incurred to creating, industrial-legal protection and prospective advertising of trademark are available and when it is possible to declare them at the appropriate price level at the time of valuation“ (Cada, 2009, p. 45).

It is also important to note that "the valuation of brands, respectively trademarks by methods mentioned above (market, revenue, cost) is an activity that is not specific for particular parts of business and also not depend on the size of economic entities“ (Harantova, Heskova, 2014, p. 29).

Since the current valuation practice is rich in methods that can be used to brand (trademark) valuation, it is logical that the results obtained by these methods will vary, and sometimes quite radically. As an example, the international valuation standards by companies Interbrand and Millward Brown can also serve. These international

companies evaluated the same brands of international companies many times and their results often differ. Different valuations of several automotive companies are shown as an example (**Figure 1**).

Figure 1: Brand values of automotive companies according to the international valuation rankings for 2014



Source: Adapted from Interbrand, Millward Brown (2015).

According to **Figure 1**, resultant brand valuations of particular companies significantly differ by using methods for valuation of Interbrand and Millward Brown companies. On average, the resultant valuation differs by 36 %. Other differences in valuation, depending on the used methodology, will be explained via case studies in the next section of this paper.

3 Marketing Research of the Methods for Brand Valuation of Small and Medium-Sized Enterprises (SME)

The marketing research itself focuses on using various valuation methods for brand (trademark) valuation in the Czech Republic. The marketing research was performed by detailed examination and comparison of three case studies (with using bachelor and diploma theses – see Literature), which dealt with the brand (trademark) valuation in Czech market. All case studies are based on the academic literature and apply the most commonly used methods for brand valuation.

A brand (trademark) valuation is highly complex and also financially demanding affair. A company often must hire an external expert which specializes on the valuation of intangible assets. Such a valuation is available only for large companies which can afford it from their budget. However, small and medium-sized enterprises (SMEs), with

limited financial resources, cannot afford to give additional finances to valuation of their intangible assets – brands. That's why it is suitable for these companies to draw up such a valuation method – including a detailed procedure – to be able to determine an approximate brand (trademark) value on their own within the enterprise – without the need for hiring external experts in valuation. This would enable SMEs to better build, manage and capitalize their brand for future.

Table 1 summarizes the final brand (trademark) valuation of selected companies using several most common valuation methods in the Czech Republic through three case studies.

Table 1: Final brand valuation using particular valuation methods (in CZK)

Case study	Market approach	Cost approach	License analogy method (Income approach)	Residual revenue method (Income approach)
1		111.341.527	393.271.458	
2			14.889.000	23.166.000
3		207.226	180.514	

Source: Own processing

In the Czech Republic, the most frequently used valuation methods are, according to the literature, the cost and income approaches – the license analogy method. As can be seen in **Table 1**, also there they were the most represented methods for brand valuation. Simultaneously, it was confirmed that the market approach for brand valuation in the Czech Republic is difficult to apply and therefore this method was used in none of the case studies.

Table 1 shows that the resulting brand values significantly differ by using various valuation methods. Therefore, the appropriateness of using the particular methods in three case studies will be discussed. In the case study no. 1, the license analogy method and the cost approach were used for valuation. Using of the cost approach wasn't appropriate, as the valuation of the company which exists in the market for a long time and its brand is thus already established in the customer minds. The valuation by using the cost approach was used only for comparison. It was expected that the final valuation will be significantly higher by using a revenue approach (the licence analogy method). This was confirmed in the study.

The case study no. 2 was focused on application of two revenue approaches – the license analogy method and the residual revenue method. Both are appropriate for an already established company in the market – which was met in this case. The case study provides a good example of difference in valuation using various valuation

methods. The resulting valuation with using a residual revenue method was higher by 8.277.000 CZK, respectively by 55.5 % than it was in case of using the license analogy method.

The last case study no. 3 aimed at a small company which does not exist in the market for a long time. Therefore, a cost approach was selected appropriately for the brand valuation and the license analogy method was used as a control method. This is the first case study where no huge valuation difference was identified. A valuation through the cost approach was higher by 26.712 CZK, respectively by 14.8 % than in case of using the license analogy method.

Based on the case studies, a suitability of using the cost approach for newly established enterprises or companies which only exist in the market for a short time was confirmed. On the contrary, for already established enterprises which have built a specific position in consumer minds, using the revenue approach seems appropriate, specifically the license analogy revenue method. For this reason, the next part of the marketing research within the IGA F6/57/2015 project will be focused on SMEs from South Bohemia region of the Czech Republic. Enterprises' attitudes to valuation practice will be examined – using, registration and valuation of brands.

4 Conclusion

The marketing research shows that the using of methods for the trademark valuation is difficult and hiring of an external expert for valuation of intangible assets is frequently necessary. Simultaneously, using of various valuation methods generates various final brand values. For these reasons, creating of a methodology which would summarize recommendations of available academic resources and create a detailed procedure for valuation for SMEs' use for brand valuation within the company without the hiring of expensive external experts would be useful. A valuation within company would enable SMEs to better build, manage and valorise their brand in the future. Creating of a stable and strong brand can help SMEs to build a better competitive position in the market and also to secure their long-term existence.

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