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The Value of Brand Equity

Camelia Budac[a]*, Lia Baltador[a]

[a] *Faculty of Economic Sciences, "Lucian Blaga" University, Sibiu, Romania*

Abstract

This paper aims to be a brief presentation of brand equity as a provider of strategic advantages for companies that own brands. Successful management of a brand must be focused on values capitalization so that these attributes could represent a natural extension of general perception. The stated goal of any brand manager is to strengthen the brand values so that they may be easily recognizable and identifiable to the public.

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Keywords: brand; brand equity; brand valuation; best brands; performance indicators.

1. Introduction

Branding is designing and managing brands to increase their net value. This activity is also called brand management; either of these two definitions name basically the same thing stated above. In his book "Brand Simple", Allen P. Adamson (2009) defines branding as "the execution and management of things that determine how people perceive the brand."

Like any other asset, brand management is very important for the success of the company in the market. "If launched and supported effectively, the brand is a major corporate resource - sometimes the most valuable financial asset of an organization. The brand, as finance, investment, human resources, research and development, marketing, information technology and other corporate resources, needs authority, rules, proper funding, commitment and management. If thus supported the brand-resource will be as effective as any other resource, if not, the resource is exhausted."(Olins 2009)

*Corresponding author.
E-mail address: camelia.budac@ulbsibiu.ro

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Brand design, launch and management involve both human and financial resources and the cooperation of several professionals from different disciplines such as design, marketing, human resources, finance and management. The brand consulting agency has the role of management and coordination in the process of branding and the general manager is the main responsible within the company. Branding involves a well organized process, with clear stages, whose complexity varies only for reasons related to the size of the organization starting such a project. This process, together with its component stages, each stage specificities and deliverables that can be obtained at the end of each stage will be dealt with below. It is an accurate methodology that requires a mix of investigation capabilities, strategic thinking, and excellence in design as well as project management.

David Aaker defines brand as "a distinctive name or symbol intended to identify the goods as belonging to a certain producer and to differentiate them from the competition. Besides brands there are also consumer brands (goods) which have no personality, no life. "(2006)

2. Understanding brand equity

Branding decisions are often made under pressure to achieve short-term performance. This can be achieved by exploiting the brand, leading consequently to its erosion, because the brand is extended to such an extent that its basic associations get weaker and weaker in their effect. When the construction of brands is worn down, the loyalty decreases and prices become priority.

The first step to understand the value of brand equity is to understand what contributes to its creation. Brand equity is considered by the authors a set of assets and liabilities linked to a brand, its name and symbol that add something to the value provided by it.

Assets and liabilities can be grouped into five categories: brand loyalty, name recognition, perceived quality, brand associations and other brand assets such as patents, trademarks, relationships within distribution channels.

Brand loyalty of a basic group of customers is the core of brand's value. If people buy a brand even comparing it to other competing products with superior features, price and amenities, then there is a substantial value of the brand.

Recognition of a brand (brand recognition) requires a minimum level of brand awareness (brand awareness). Spontaneous recall is more difficult than recognition and it is associated with a stronger brand position. A good slogan or jingle can help a brand to be noticed and remembered (kept in customer's mind).

Perceived quality is based on product features such as reliability and performance and it is an intangible feeling about a brand. Positioning is closely related to concepts such as association and image and its benchmark competition.

An association to a brand is any link to a brand in the buyer's memory and it will be stronger if it is based on more experience and exposure to communication.

Brand equity brings higher profit margin, enabling premium pricing and reduced promotions; it also offers business growth through brand extensions and it gets privileged position on the shelf and enjoys various marketing programs.

Cost / efficiency oriented companies are careful to improve procurement, product design, production, promotions and logistics. For many businesses, however, the brand name and what it represents is the most important asset, the competitive advantage.

Brand valuation is no longer an unusual occupation today. Since the second half of the '80s, when the first brand assessments were made, thousands of companies around the world have turned to specialized consultants to assess their brands. Brand valuation models are based on traditional evaluation and financial techniques which are universally accepted and on the experience and skills of specialists in marketing, brand, market and consumer research, financial and intellectual property as well. An appropriate and a well applied model provide brand owners not only financial value but also lessons for the further growth of the brand.

Interbrand, the consultancy company who "invented" brand valuation two decades ago, showed how a value that was predicted long before can be measured.

Reputation has always been perceived as an important factor in business and the accounting has been using for hundreds of years the term of goodwill to designate added value that cannot be attributed to tangible assets and which is included as an amorphous mass of intangible assets. In the second half of the last century, mergers and acquisitions, and capital market development (through transactions at values higher than tangible assets) have shown that a business should be evaluated beyond its tangible assets ("factories") and that intangible assets can generate a great value to a company. The brand has stood out in recent decades as a massive generator of value in many industries and thus the identification has become necessary and also its "exclusion" from goodwill range (including as well patents, copyrights, know-how, and so on). The brand is sometimes called "hidden value" because in most cases it does not appear in the financial statements of companies.

3. Models used in brand valuation

A thorough approach to brand valuation techniques implies widely accepted financial techniques as well as future discounted cash flows (Discounted Cash Flow). To reach these cash flows related to the brand there are used two main approaches. One of them is apparently simple: it applies a royalty rate on total sales forecast upon the theory that if you did not have your own brand, you should have a license for the brand from a third party and pay a fee. In other words, by having your own brand, you "save" the fee for each product sold. The difficulty is to find relevant rates, especially where there is a no history and a critical amount of transactions (for example the case of the Romanian market).

A second approach, more complex is the one used by Interbrand (Best Global Brands 2012) and it implies a "dissecting" of the profit of business until the brand contribution is identified. In both approaches the measurement of the force / stability of the brand is necessary in order to prove first, that it exists and to place it on a certain scale of risk involved.

The most recent analysis released by Interbrand (2012) shows that the most valuable brand remains Coca-Cola (77.84 billion dollars), while Apple (76.568 billion dollars) goes on second place. Facebook (5.4 billion dollars) first enters the ranking and Google ($ 70 billion) surpasses Microsoft (58 billion dollars) for the first time.

Coca-Cola, Apple and IBM are the best three brands in the world and Facebook first enters Interbrand ranking, on the 69th place, after the highest initial public offer in history. Google's value has increased by 26%, surpassing Microsoft competitor, which this year is placed on the 5th position.

In order to identify the first 100 most valuable brands in the world, Interbrand has taken into consideration three aspects: financial performance in goods and services provided by the brand, the role of the brand that plays in influencing consumer's choice and the extent to which the brand may require premium (higher) prices or may increase permanently the company's revenue.

Among the brands with higher value in 2012 compared to last year there is Apple, a company whose value increased by 129% in the last year, thus registering the highest growth in the ranking of most valuable brands developed by Interbrand.

The best positions in the Interbrand rankings have the brands from technology, given that five of the ten top positions are occupied by Apple, Google, Microsoft, Intel and Samsung.

The table 1 shows the top of 25 brands according to the classification developed by Interbrand as well as the current value and the evolution or involution in relation to the previous year.

Table 1. The Top 25 Brands

Rank	Brand	Region/Country	Sector	Brand value ($ m)	Change in Brand value
1	COCA-COLA	United States	Beverages	77,839	+8%
2	APPLE	United States	Electronics	76,568	+129%
3	IBM	United States	Business Services	75,532	+8%
4	GOOGLE	United States	Internet Services	69,726	+26%
5	MICROSOFT	United States	Computer Software	57,853	-2%
6	GE	United States	Diversified	43,682	+2%
7	MCDONALD`S	United States	Restaurants	40,062	+13%

8	INTEL	United States	Electronics	39,385	+12%
9	SAMSUNG	South Korea	Electronics	32,893	+40%
10	TOYOTA	Japan	Automotive	30,280	+9%
11	MERCEDES-BENZ	Germany	Automotive	30,097	+10%
12	BMW	Germany	Automotive	29,052	+18%
13	DISNEY	United States	Media	27,438	-5%
14	CISCO	United States	Business Services	27,197	+7%
15	HP	United States	Electronics	26,087	-8%
16	GILLETTE	United States	FMCG	24,898	+4%
17	LOUIS VUITTON	France	Luxury	23,577	+2%
18	ORACLE	United States	Business Services	22,126	+28%
19	NOKIA	Finland	Electronics	21,009	-16%
20	AMAZON	United States	Internet Services	18,625	+46%
21	HONDA	Japan	Automotive	17,280	-11%
22	PEPSI	United States	Beverages	16,594	+14%
23	H&M	Sweden	Apparel	16,571	+1%
24	AMERICAN EXPRESS	United States	Financial Services	15,702	+8%
25	SAP	Germany	Business Services	15,641	+8%

Source: http://www.interbrand.com/en/best-global-brands/2012/Best-Global-Brands-2012.aspx

Although there are many statistics in this regard, it is known that the Business-to-business, IT or pharmaceuticals, for example, the brand share is lower than other assets. In contrast, in the category of consumer brand, in most cases, the brand is the main asset, with a share that may exceed 50%, making it larger than all other assets combined. According to experts, an industry membership does not automatically mean that your brand is worth a certain percentage. If we return our lands, most companies from consumer goods category (an industry favorable for branding) have not developed brand or they have developed "spontaneous" brands without loyal customers and thus with very low value. There is indeed a shortage of specific skills, but the focus on short term goals and lack of strategy are visible. Brand evaluation made for internal audiences (management, shareholders) has the role to show this unused potential.

4. Establishing performance indicators (KPIs) and evaluation results

In branding, the key performance indicators are the four indicators used by the BAV (Brand Asset Value) tool developed by Young & Roubicam agency, namely: differentiation, relevance, reputation, knowledge (in the narrow sense of the word). The way these factors are perceived by the public will determine the strength of each feature and the relations between the features determines the current position of the brand.

For a more detailed tracking of the indicators and establishing the correct strategies resulting from the evaluation, the four indicators are in two groups as follows: brand strength consists of differentiation and brand relevance and brand status consists of reputation and knowledge. The brand strength is made up of the indicators of a vanguard and brand status consists of the tracking indicators, the first two indicators are those that determine the appearance of the other two.

Each of the four pillars indicates an important element, as follows:

- differentiation is the engine of positioning the brand in the consumer’s mind;
- relevance creates the market penetration force;
- reputation reflects the popularity and perceived quality;
- knowledge determines consumer’s privacy and understanding in relation to the brand.

Relationships between the four indicators determine the conclusions of their analysis, thus resulting four main scenarios, two positive and desirable and two less desirable. When the difference is greater than relevance, we have a desirable scenario, this relationship telling us that the brand has high growth potential; when the ratio is reversed and brand uniqueness disappeared then the brand becomes a product of high category and the price is the main differentiator.

The other desirable scenario occurs when reputation is significantly higher than knowledge being practically a proof of the consumer's desire to learn more about the brand. If we reverse the case, it is the undesirable report when the consumer tells us that he/she knows more about the brand than he/she likes it.

5. Conclusions

In essence, the brand is a relationship (such as a silent agreement) between the brand owner and the consumer. A brand can afford a higher price or secure a higher market share as long as it reduces the risk associated with a sale and meets certain emotional needs of the consumer (status, sense of belonging to a group and so on).

Interbrand has shown, in fact, that the evaluation of a brand, even if it requires special skills must be approached as any tangible asset evaluation where the evaluator uses traditional financial methods, complemented by technical experts' view. It is essential to quantify and show the brand's ability to produce future income. Thus, for a brand evaluation model to ensure legitimacy and support for recording the balance of brands, it must use generally accepted financial methods (such as Discounted Cash Flow, CAPM). This must also ponder with market and consumer brand research in order to identify the role and strength of the brand in that category. Without the latter ones, the evaluation is only a "what if ..." assessment exercise on paper. In the end, the result is the value that distinguishes the brand evaluation from psychographic or behavioral patterns with non-value. (egg. Brand awareness).

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