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METHODS OF BRAND VALUE VALUATION

Introduction

A brand is the name which makes a given product or manufacturer individual from among those products or manufacturers which can all be the same or similar.[1]

A well-known brand guarantees that the goods will be recognized, sold quickly, and that less money will have to be spent on advertising. A brand guarantees that needs are fulfilled with the expected quality and for an acceptable price. One may know what to expect from the company without knowing its offer well.

A commercial brand, although it does not have any material form, it does have a value which can be expressed by means of money. It constitutes one of the most effective ways to obtain and strengthen a competitive advantage, which consists in obtaining a higher rate of return on the capital invested than in the case of the competitors. This in turn leads to the fulfillment of the basic goal of the company's activity: maximization of the value for the owners[2].

The literature frequently uses the following terms interchangeably: the brand and the trademark[3]. However, other terms are also connected with the brand, which can be considered to be types of brands. These can be the following: the commercial name, the certificate mark, collective brands, the utility model, the industrial model, the geographical designation[4].

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1 M. Marcinkowska: *Shaping of the Company's Value*, PWN Scientific Publishing House, Warsaw 2000, p. 136.

2 G. Urbanek: *Valuation of Brand, Accountancy No. 10/2004, p. 23.*

3 M. K. Witek-Hajduk*: Management of Brand*, Difin, Warsaw 2001, p. 24.

4 E. Radawiecka, M. Foremna-Pilarska*: Issues of Identification of Brand and Its Position in the Balance Shee*t, [in]: Accountancy in Theory and in Practice, Gabrusewicz W. (ed.), Publishing House of the Academy of Poznań, Poznań 2007, p. 287.

Sources of the value and methods of brand valuation

The brand's image has an influence on the position of a given entity on the market. From the marketing perspective, the way to read the position of the brand is not simple and it is difficult to apply one measure here. One of the ways is to conduct a valuation of the brand on the basis of ten criteria, which are as follows:

- price bonus,
- satisfaction (loyalty),
- quality perceived,
- leadership, popularity,
- value perceived,
- personality of the brand,
- organizational relationships,
- awareness of the brand,
- share in the market,
- market and distributional price.[5]

The proposals of measures as presented here serve to assess the brand's market force and prospects, which should translate into the company's financial result. However, most of these are qualitative parameters, which are important from the marketing point of view. What is important from the financial point of view, is the valuation of the brand's value, which can be activated in the balance sheet and can have an influence on the value of the company.

The valuation of the brand's value is especially important in the following situations:

- in the case of a merger with another entity, or one company being taken over by another,
- when a brand is licensed by an external entity,
- when capital is collected for the company which is the owner of the brand,
- in order to manage the brand; this means an allocation of the company's resources, planning of the brand's strategy or an assessment of the effectiveness of the activities pursued.[6]

There are also other reasons which stimulate the need to determine the brand's value. Most often, this applies to the measurement of the effectiveness of the expenditures related to the promotion of the brand, as well as the demands on the part of the owners (shareholders) to justify the costs of promotion of

[5] D. Aaker: Buidling Strong Brands, *The Free Press*, New York 1996, quoted M. Marcinkowska: *Shaping* … op. cit., p. 140.
[6] J. Kall: Strong Brand*: Idea and Creation*, PWE, Warsaw 2001, p. 312.

brands.[7] Therefore, two sources of the generation of the brand's value can be distinguished:

- acquired value,
- value internally generated.[8]

The valuation of the value of companies or individual assets is a very complex issue. There are a number of elements of a composite nature which make up the value of a given entity. They include both such components which can easily be measured (e.g. fixed assets) and such components whose measurement is difficult without suitable experience and skills (e.g. intangible items). Additionally, one should take into account the diversity of the organizational and legal solutions of enterprises, as well as the development of virtual entities, whose value is built solely on the basis of intangible elements.

Three types of the brand's value can be distinguished from the perspective of the purpose of the valuation:

- the value according to the current use: it is assumed that the brand will continue to be used in the same manner as at the present moment,
- the market value: the current market conditions are taken into account at the valuation, or it is valued as a fair value determined in another manner,
- the liquidation value: it is assumed at the valuation that the entity will not continue its activity and will be forced to conduct a faster (unfavourable) sale of its assets[9].

The brand valuation methods used in practice are based on the methods used for the valuation of the value of the company's assets. The methods used in practice are based mainly on four approaches:

- cost (property) approach,
- comparative (market) approach,
- income approach,
- combined approach.

Brand's valuation on the basis of the costs borne

The brand's valuation on the basis of the costs borne is based on historical or reconstructed data. Calculations are based on the records of economic information or potential costs that would have to be borne in order to create a brand being able to generate the same sale and profits.

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[7] H. Mruk*: Management of Brand*, Publishing House of Scientific Forum, Poznań 2002, p. 151.
[8] W. Sońta: *Review of Enterprise Valuation Methods*, Publishing House of the Technical University of Radom, Radom 2003, p. 12.
[9] M. Marcinkowska: *Shapin*g... op. cit. p. 142.

These methods define the value of the brand as a sum of the costs spent on its generation or strengthening (the costs of promotion, research, consulting, registration, salaries to the marketing department personnel, etc.). These can also be the costs which would have to be borne to create a brand with a similar potential to generate the sales and mark-up.

Nevertheless, it is often difficult to indicate a direct connection between those costs which have already been spent on the building of the brand, and its present ability to generate future profits for the owner. In the case of an unsuccessful advertising campaign, the costs borne may generate no profits. Therefore, it may prove that ascribing a high value to the brand, being the result of the high amounts invested in it, or as a result of an ineffective management or unfavourable market conditions, will result in its failure. Apart from it, the same values of costs borne by different companies may give totally different results in the form of different effects. Additionally, there are practical difficulties in relation to the application of this method connected wit the fact that in most enterprises, no special records are kept of the costs spent only on the creation of a given brand.

Brand’s valuation with the use of the market approach

The brand’s valuation with the use of the market approach is based on the present and generally accessible market conditions, which concern information about transactions with the participation of comparable brands. The parties which are interested in the transaction and are well informed, agree on the price of the brand, and this result can later become the reference point for the valuation of other brands on the same market. The advantage of the market method is the fact that the information concerning the previously concluded transaction is objective. Rational acting of their participants is assumed: both the seller and the purchaser were acting in their best interests. Unfortunately, the market method is not universal: this is mainly due to the small number of transactions made in relation to brands only.

Brand’s valuation with the use of the income approach

The brand’s valuation with the use of the income approach is done on the basis of the foreseen economic advantages connected with it, the pecuniary flows connected with it, as well as the period of the occurrence of these advantages, elements of risk being taken into account, as well. The factor which determines the use of this method in practice is the belief that the brand, similarly as the whole company, constitutes a good whose value depends of the financial benefits which it can create in future periods.

Within each of these approaches, one can distinguish many methods and manners of the brand’s value assessment, see Diagram 1.

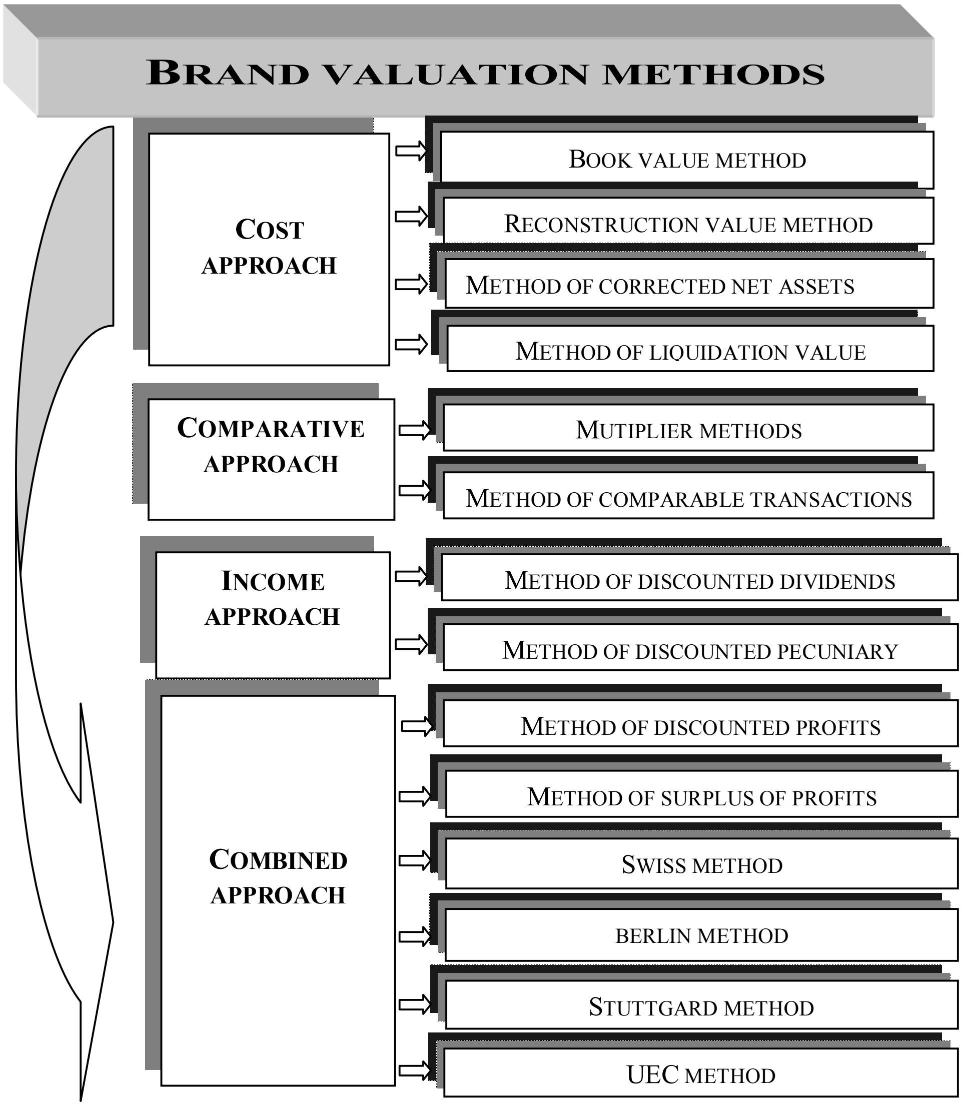

Diagram 1. Brand valuation methods

Source: *own study on the basis of D. Zarzecki: Enterprise Valuation Methods, Warsaw, p. 58.*

Brand's valuation for management

In practice, every method used bears a certain error being the result of the assumptions and assessments accepted, or of the need to use an analogy to similar market events, or being the result of the need to make forecasts which include a certain level of risk[10].

Brands are created in order to provide value to their owners in the form of increased sales, an increased financial result of the company, and enjoying benefits as a result of possessing a specific image or capital of reputation.

This value is assessed. It is the value of the brand which increasingly determines the market value of the largest concerns in the world.

The brand's value management is becoming a necessity, which is the effect of the world's globalization and a free flow of capital between countries. After the accession to the European Union, the domestic manufacturers had to challenge not only the market competition but also the capital competition. Those companies which want to endure strong competition have to develop, which requires the involvement of additional capitals.

The brand, through the mechanism of attracting of customers and investors, plays an increasing role as a factor of the building up of the company's value. The purpose of the brand's management is an increase of its value, i.e. the ability to generate pecuniary flows, which can be achieved through the following:

- an increase of the value of pecuniary flows in individual periods,
- a faster ability to generate pecuniary flows,
- an extended period of the ability to generate pecuniary flows,
- a decreased risk (an increased predictability) of generation of pecuniary flows[11].

The management of the brand's value requires adequate information concerning the results obtained, not only in the historical perspective but also in the future-oriented perspective.

The issue of the valuation of a brand or a trademark constitutes an opportunity of development for a company, while for the customer, this guarantees quality and gives a possibility to stand out. The brand's valuation may lead to the obtaining of additional cash for the company through savings on taxes, an increased borrowing power, also owing to the licensing of trademarks and franchising.

Such a development is possible owing to, among other things, an increase of the borrowing power, creation of savings on taxes, the company's management focus on the value management and an improvement of the allocation of the resources, and a creation of a platform of effective communication between the financial and marketing structures of the company.

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[10] See: A. Kamel-Sowińska*: Valuation of Enterprises and Their Property*, Higher School of Commerce and Accountancy in Poznań, Poznań 2006.

[11] J. Krall, R. Kłeczek, A. Sagan: *Management of Brand*, Publishing House of Economics, Kraków 2006, p. 253.

In today's world, the achievement of a success without the use of these possibilities is not feasible.

Conclusions

The basis for the effectiveness of the functioning on the market is an effective management of all the assets of the company. From the perspective of accounting, the brand constitutes an intangible asset which, when it is valued, is reflected in the company's balance sheet as an item of assets.

The benefits from the brand's valuation are the result of the various needs of the parties interested. The brand's valuation is applied in the following, among others[12]:

- financial reporting: when accounting regulations allow brands to be included in companies' balance sheets. This enables, among other things, an improvement of the evaluation of the financial situation;
- fiscal settlements: when tax regulations allow a depreciation of intangible and legal assets. This enables an increase of the effects of the tax shield;
- processes of mergers and acquisitions: both in the case of the purchase of whole companies, and also in the case of the purchases/acquisitions of specific trademarks or other intangible assets;
- processes connected with the brand's management;
- in the case of the sale of licensing agreements related to the use of specific rights to ideas, marks, etc.

Abstract

The brand is a component of intangible and legal assets, which is not as yet commonly identified and presented in the balance sheets of economic entities.

The problem is, however, lack of tradition and difficulties connected with the valuation of this intangible value. This constitutes a great challenge to managerial accountancy. At presents, methods are applied which are based on the cost, comparative and income approaches, which are connected with methods of valuation of the company's tangible assets.

Brand's management guarantees large and measurable benefits, which provide values to their owners in the form of increased sales, an increased company's financial result, and benefits from the possession of a specific image or capital of reputation.

[12] E. Radawiecka, M. Foremna-Pilarska, *Issues of Identification* … op. cit., p. 291.

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