Study of brand and brand valuation methods

Business, Company

Introduction

A company's brand image (Goodwill) or brand valuation plays a vital role in the modern business world. This has lead to the valuation of brands, which was quite unheard of in previous decades. In this dissertation I attempt to analyse and understand various brand valuation methods, its merits and the way it's represented using the different accounting policies and / or methods across the various accounting bodies worldwide. The main objective of the dissertation is to understand various valuation model that will abide the various accounting bodies as well as satisfy the individual country's rules and regulations.

The roots of branding is evident in ancient civilisations and some study shows even before Birth of Christ and this is evident from archaeological excavations in which we can find certain symbols or markings in pottery, coins and Arts. It was not until the 12th century trademarks were used to identify each manufacturer's goods as well as measure their quality. In other words in the early times, brand names were not only used to distinguish between different goods which are similar but also distinguish their quality (Sudharshan, 1995).

The value of a brand is indicated by how muchmoneya company pays in order to acquire them. These may vary from brand to brand, however companies are prepared to pay a good price for top notch brands. For an example Procter and Gamble paid 2. 6 times Richardson-Vicks' book value, Nabisco sold for 3. 2 times book value, and General Foods sold for 3. 5 times book value (Business Week, 1995).

This report will discuss the existing brand valuation methodologies and it’s significance in a company’s decision and require a sound marketing and financial view. Generally the marketing and financial approaches in this matter differ largely and today’s competitive marketenvironmenthas made these two professions to work together in this regard. Brands are widely viewed as performance measures and important element decision making process.

Many large corporate companies’ demands royalties from subsidiaries for using their brand name and this has made authorities such as tax and financial regulators to standardise the process of brand valuation. Brand valuation will be an important criterion to evaluate corporate performances in this century. Investors increasingly demand for greater disclosure of brand valuation and it’s the financial manager’s duty to ensure that such information’s are adequately provided with the investors. This has brought to adopt a standard brand valuation technique / method in company accounts.

Organisation Background

This dissertation is not about a specific organisation brand valuation. It aims to cover many blue chip organisations accounting treatments in Brand Valuing. Mainly this study will involve understanding the accounting treatment of accounting bodies and accounting standards etc. The dominant model of branding in the twentieth century was the manufacturer as mega-advertiser. McKinsey (1994) believes that the traditional model of branding is no longer the only way, nor can it dominate in the future. According to Murphy (1990), brand is a complex phenomenon: “ not only it is the actual product, but it is also the unique property of a specific owner and has been developed over time so as to embrace a set of values and attributes – both tangible and intangible – which meaningfully and appropriately differentiate products which are otherwise very similar.” These changes have prompted today’s business world to put a value into branding and thereby has the created the concept ofBrand Equity or Goodwillof a company.

Rationale for the Chosen Topic

In realisation of various valuation methods and different accounting bodies treat the Brand values in the Balance Sheet differently at large. This dissertation will answer“ How companies calculate and disclose brand value in financial statements”. Weather researcher will able to identify and develop a proper Brand Valuation formula in this dissertation?

Statement of the Problem in Valuing Brands

Since the late 1980’s, it has become essential that a company recognises a brand as an intangible assent and as a result include them in their financial statements. The main reason for this was a wave of acquisitions that took place in that era that helped exposes the hidden value in highly-branded companies. Examples include, Nestle buying Rowntree, Danone purchasing Nabisco’s European business and Grand Metropolitan buying Pillsbury.

However, accounting bodies throughout the world differ over how brand valuation should be done. The professional bodies have appeared uncertain as how to resolve the issue of brand valuation. It happens because of the lack of understanding and guidance over accounting treatment of brands. Much of the uncertainty associated with brands is regarding the relationship with goodwill and other intangible assets. There is real confusion about the distinction between brands and other assets such as goodwill or trademark. This difficulty leads to further problems when deciding how to measure and report them in financial statements.

Research Questions

In order to compile a report on Brand Valuation Methods I intent to find answers to the following research questions:

What constitute Brand and Brand Equity

What are the problems in valuing a Brand

What are the available Brand Valuation methods

How does USA, UK and Indian Chartered Accounting Bodies value Brand

What is an acceptable and harmonized Brand Valuation model

Objectives of the Dissertation

To understand the significance of Brands and how they have developed from time to time.

To understand the Brand Equity Concept & Different Valuation Methods in Valuing a Brand.

To understand the Marketing andFinanceperspectives of brand equity and how it will be presented and integrated, and their interrelationships in an Organisation.

To analyse 4 financial accounts of large Blue Chip companies and their treatment as Intangible assets in the Accounts

Literature Review

What Is A Brand?

“ If this business were to be split up, I would be glad to take the brands, trademarks and goodwill and you could have all the bricks and mortar – and I would fare better than you”

(John Stuart, Former Chairman of Quaker Oats Ltd)

This statement of John Stuart emphasise the importance of the brand. In other words a “ name, term, sign, symbol, or design, or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competition” is categorised as a Brand. Furthermore, a Brand also helps to create awareness, reputation, prominence, and more in the marketplace.

What is Goodwill?

Goodwill in financial statements arises when a company is purchased for more than the fair value of the identifiable assets of the company. The difference between the purchase price and the sum of the fair value of the net assets is by definition the value of the “ goodwill” of the purchased company. The acquiring company must recognize goodwill as an asset in its financial statements and present it as a separate line item on the balance sheet, according to the current purchase accounting method. In this sense, goodwill serves as the balancing sum that allows one firm to provide accounting information regarding its purchase of another firm for a price substantially different from its book value. Goodwill can be negative, arising where the net assets at the date of acquisition, fairly valued, exceed the cost of acquisition. Negative goodwill is recognized as a liability. For example, a software company may have net assets (consisting primarily of miscellaneous equipment, and assuming no debt) valued at $1 million, but the company's overall value (including brand, customers, intellectual capital) is valued at $10 million. Anybody buying that company would book $10 million in total assets acquired, comprising $1 million physical assets, and $9 million in goodwill. Goodwill has no predetermined value prior to the acquisition; its magnitude depends on the two other variables by definition.

What is Brand Equity?

The goal of the brandleadershippoint is to create strong brands – but what is a strong brandIn Managing Brand Equity, brand equity is defined as the brand assets (or liabilities) linked to a brand's name and symbol that add to (or subtract from) a product or service. These assets can be grouped into four dimensions: brand awareness, perceived quality, brand associations, and brandloyalty. These four dimensions guide brand development management and measurement.

Brands are a key element, along with other intangibles such as intellectual property and staff skills and commitment. Often 40-75% of a company's assets may be attributed to brands [Goodchild and Callow, 2001] Despite the above facts the Chartered Institute of Marketing 2003 state " Brands are emotive and you can't measure emotion."

" The financial value of a brand is not interesting on its own; it's what we can do to grow it that makes it interesting. The process of benchmarking a brand's value involves understanding where that brand value comes from and supporting those areas to grow the strength of the brand.” [Shailendra Kumar, Future Brand, 2001]

The Development of Brand Valuation:

The technical knowledge of Chartered Accountants and accounting firms in valuing business valuations and applying discount rate, depreciation rates, appropriate tax rates etc was not developed in valuing a company Brand by accounting profession until recent time. This was mainly due to the fact that financial professionals lack commercial experience and to fully appreciate and understand how brands operate from the perspective of consumers and markets and retail distribution in a competitive context. This was an essential part in valuing a brand and without understanding the real valuation process any future predictions of the same will be no use because this valuation process will be carried out only by assumptions. And as a direct consequences provide no genuine benefit to business or investors alike.

Despite the above fact, brand valuation methodologies have been developed and adopted in valuing brands recently and are now viewed as important business tool. Only now, brand valuation and intangible asset valuation are given it’s importance after being taken seriously mostly due to USA financial reporting standards requiring acquired intangibles which can be separately identified and have separate economic lives to be valued and put on the balance sheet. International accounting standards will require UK (and other countries adopting IAS’s) public companies to do the same and this will be effective from January’2005. Additionally these intangibles require annual impairment testing to make sure their values have not been diminished. If they diminish in value then a write off to the profit and loss account is required. For example under new accounting standards AOL Time warner has written off $54 billion dollars. (AOL 2007 Annual Accounts)

In the UK and Australia, accounting rules require companies to write off the goodwill obtained through acquisitions. The rules have often resulted in sizeable losses for acquiring companies in the year of acquisition. This happened because under these rules, the money paid in an acquisition over and above the fair value of identifiable assets is viewed as money lost without a compensating asset being acquired. However, this principle drew protests from a lot of UK companies. Those companies protested by capitalizing their acquired brands and arguing that they were not goodwill but identifiable assets. Some of the companies have gone further by capitalizing not only “ acquired” brands but also the “ home-grown” brands such as Cadbury.

Brand Valuation Methods

There are three methods for charging price premium on a branded product

a)Cost Method – On this method, the current value for historical expenses when creating a brand.

b)Market Method – This approach looks into the transactions of brand.

c)Income Method – In this approach, two methods are used to calculate the premium value:

Discounted Cash Flow model

Excess Earnings method.

Research Methodology, Data Collection Methods and Data Analysis

In order to compile this dissertation, aCase Study/Desk Research based methodology has been used. Various company financial accounts have been verified with particular attent

Primary datawill consist information interviews, questionnaires etc. An in depthinterviewwith a Brand Consultant is planned and interview will be conducted with Financial and Marketing Consultants of an Organisation.

Secondary datawill include data collection from annual reports, books, journals, articles and websites which give us an insight of how the companies have evolved from time to time and how did the company manage to build the brand and what strategies have they used in valuing a brand. Both quantitative and qualitative data will be using in this research.

Case studiesthe case studies will consist of a detailed study about various companies Brand Valuation Methods and the company from its beginning stage to the stage which it has attained now from the Desk Research.

Analysis: The various valuation methods will be explore and critically analysed in order to understand the advantages and disadvantages of each methods. Further how a Brand valued during Economy Boom had valuation done in Economy Recession period especially weather the Brand has been devalued to reflect the true picture. Apart from it this section also emphasizes on how the company attained this stage and about the competitive advantage and core competencies have bought them to this level. These analyses are undertaken with the help of the secondary and primary data.

Desk Research

Desk Research is the name given to finding published information which can include company Annual Reports, Financial details, Experts reports, Research Reports, Market statistics or comments and information about the issues in a marketplace. (Wikipedia 15. 03. 2011). With the widespread adoption of the Internet, use of published information (desk research) to scope a market is becoming increasingly common as a means of carrying out Market Researches. Traditionally using desk research to find information about potential customers, competitors and intermediaries in markets has been a time intensive process, often carried out on an on-going basis to cope with the slow delivery of paper-based material. With the Internet, vast seas of information have opened up electronically making desk research a practical tool for research, particularly in dynamic markets where data is quickly out of date.

In this report the internet will play a vital part especially theGooglesearch engine and the various sources of electronic journals since this published report stand as a verification source to the researchers Primary Research and various in-depth knowledge about the subject were explored. This is one of the major disadvantages of Desktop Research. Too much of information can easily distract and deviate the Research Objectives

ETHICAL CONSIDERATIONS:

Research ethics relates to questions about how we formulate and clarify our research topic, the data collection and processing method and how we report our research findings in a moral and responsible way. The appropriateness of a researcher's behaviour in relation to the rights of those who become subject of their work or are affected by their work is referred to as research ethics (Saunders et al, 2007). Although all research methods have specific ethical issues associated with them, qualitative research is likely to have a greater range of ethical concerns compared to quantitative research. Most of the data that will be used in conducting this research will be quantitative data. The quantitative information's are readily and publicly available without any form of moral or ethical intrusion.

Time Scale

TIMETABLE OF WORK

Week 1 – 2 Discussion with Supervisor about the direction and obtaining guidance

Week 3 – 5 : Desk Top Research on Brand Valuation Models

Week 6 – 8 Literature review on Branding and Study on IAS – Brand / Goodwill

Week 9 – 11: Collecting Financial Data of 4 Blue Chip Company and its treatment on Balance sheet.

Week 12 – 14: Organising interview with Financial controller of Large blue company’s view on Brand Valuation method.

Week 15 – 16: Analyse the Collection of data and interview notes.

Week 17 – 18 : Develop a Brand Value Model

Week 19 – 21 : Finalising the Report

Week 22 : Binding and Submission of Report

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