STRATEGIC MANAGEMENT, Vol. 21 (2016), No. 4, pp. 037-044

UDC 005:003.65

Received: February 03, 2016
Accepted: September 12, 2016

Brand Valuation and Marketing Assets Assessment – Theoretical Background vs. Contemporary Managerial Issues

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Abstract
This scientific paper aims to elaborate the nature of relationship between marketing assets and marketing equity, especially brand equity, and the materialization of their effects as one of greatest managerial challenges in a process of marketing performance assessment. Theoretical elaboration and research findings serve as evidence that there is an increasing trend of brand valuation and measuring the brand equity and marketing assets worldwide, but incorporating the value of brand equity and/or marketing equity in formal financial statements continues to be one of the greatest challenges for companies worldwide, especially if observed from a standpoint of financial and accounting specialists.
This paper will focus both on theoretical and managerial issues related to the brand valuation and marketing assets assessment, especially brand equity assessment and formal evidence in companies. The results of a study, conducted on a sample of Macedonian companies will be presented as well, in order to support the theoretical elaborations with recent research data, and to draw conclusions. How applicable is it, what are the world's best practices and does the overall external marketing and managerial environment in Macedonia offer significant preconditions for implementation of such a sophisticated managerial concept in practice?

Keywords
Brand valuation, marketing assets, brand equity.

Introduction

In marketing theory, the term "marketing assets" is in direct correlation with marketing equity, which perfectly reflects the essential difference between sales and marketing concepts. The marketing concepts' ultimate goal is to evoke immediate purchasing of the product/service, aiming to contribute to revenues increase in the income statement. Marketing concept is oriented towards investment of resources in a certain period of time, but the sales effects are not expected immediately, but a certain period of time is allowed. According to the eminent British author Tim Ambler (Ambler, 2003), one of the greatest challenges in the process of marketing performance assessment is that evaluation and assessment is oriented towards instantly visible effects assessment, but, unfortunately, methods for assessment of latent effects of marketing investments (effects before sales) are not advanced to the level required, which leads to many confusions related to marketing activities, especially marketing communications activities.

The trend of measuring the brand equity, its valuation and formal inclusion in company's financial statements started in 1980's in the USA, and nowadays it is an increasingly important trend worldwide. (Salinas, 2009) Normally, the market prices of companies that are subject of acquisition, merger, re-branding etc. are significantly higher than the actual figures in the financial and accounting statements in the companies. Goodwill, as a synonym for intangible assets of companies, covers a whole palette of intangible assets, such as brands, royalties, patents, know-how, distribution contracts, customer loyalties etc. The assets of companies nowadays are increasingly represented by the amount of intangible assets that a company possesses, and the price-earnings ratios are significantly higher, as a result of formal inclusion of intangible assets, including the brand value in the formal financial statements. (Contractor, 2001)

Existence of strong brands creates added value for companies in the real sense of the word. Despite the traditional value creation concepts considering that only tangible assets create value for companies, in contemporary environment the most important type of capital are companies' brands, intangible and immaterial, and in above mentioned context of acquisitions, even companies that face losses are capable of attaining high price-earning ratios, as a result of famous and well known brands they possess, and a good reputation of their brands, which is purely intangible. The brand value is created independently from the company's net value, and it is possible to be "hidden" in the unfavorable financial performance of that company (Kapferer, 2007).

In accounting and finance, goodwill represents the difference between the price paid, and the accounting value of that company. (Salamovska Mojsovska & Vitanova, 2011) This difference is caused as a result of a ***psychological goodwill***, i.e. favorable attitudes and assumptions of consumers, customers, distributors, and all other members of the distribution channels and value channels. And thus, the financial analysis and a marketing analysis are interrelated and interdependent (Kapferer, 2007). Accounting goodwill represents the monetary value of the psychological goodwill that is created by the brand over time, as well as creating the brand reputation. The brand itself is treated as a company's asset, because its economic effects are significantly higher than the effects of product purchasing could indicate. The strong brand is a generator of profitability and growth of company, and a goodwill creator, so brand valuation studies are conducted with a purpose of improving the brand management, and to design and implement effective branding strategies.

The following picture represents the most valuable brands for 2015 and their position compared to 2014. The first five brands kept their positions and in the meantime some brands strengthened their positions and some are on the downfall and should take immediate actions in order to stay on the top. But actions depend on information and the lack of information and tools for brand valuation and assessment could make a difference between success and destruction.

Rank					Brand Value (USD $ Millions)	
2015	2014	Logo	Name	Country	2015	2014
1	1		Apple		128,303	104,680
2	2		Samsung Group		81,716	78,752
3	3		Google		76,683	68,620
4	4		Microsoft		67,060	62,783
5	5		Verizon		59,843	53,466
6	7		AT&T		58,820	45,410
7	8		Amazon.com		56,124	45,147
8	6		GE		48,019	52,533
9	13		China Mobile		47,916	31,845
10	9		Walmart		56,705	44,779

Picture 1 The most valuable brands of 2015
Source: BrandFinance, 2015

The brand equity asset comprises various market segments' memories of the brand. The most important segments are usually the end users, the immediate trade buyers (or franchisees or branch managers in retail) and the employees. To appraise brand equity, the executive committee first has to decide the relative importance of each segment and then identify the brand metrics, or key indicators, relative to competition, for each segment that matters. A metric, for example, is the percent of customers who intend to buy the brand in the next month. A company with only one brand, like McDonalds, has a simpler job than Unilever. Aggregating metrics across brands and markets and segments (BMS) loses too much detail. The trick is to single out the brand-market-segments that account for most shareholder value and appraise those. Appraisal probably needs between 10 and 25 metrics per BMS, some financial (sales, marketing investment and profit) and some non-financial measures from the marketplace (e.g. relative satisfaction and perceived quality). (Ambler, 2000) According to Cravens and Guilding (2000), market orientation is positively correlated with profit performance and these companies are more likely to conduct brand valuations.

The measurement of brand equity in organizations is not an activity that is an ultimate goal per se, but its goal is to contribute towards improving the quality of decision making processes of higher managerial levels. In larger companies with formalized planning systems, the frequency of measurements is determined by the cycles of planning and submitting reports. The basic principle in marketing decision making is that not only the profit, but also brand equity as a category must be taken into consideration. Planning cycles could be a major barrier in this context, due to the fact that the measurement and assessment of brand equity is an extremely sensitive issue, and it could not be conducted very frequently, but it is very risky if conducted rarely. The vast majority of companies conduct measurement in a time interval shorter than a year, but longer than three months. Optimum period for measurement and assessment of brand equity is 6 months. In smaller companies, that have no developed systems of planning, the marketing performance audit and brand equity assessment are conducted annually.

Methodology

This paper is divided into two parts: literature analysis of the modern tools applied for measuring brand equity and marketing assets and a research on a sample of 50 companies of the Republic of Macedonia.

The goal of the literature analysis of the modern tools is to clarify some of the widely used tools, to point out that some of them are simple and applicable even for small and medium sized companies. The goal of the research that was conducted with a structure questionnaire is to give a better understanding of the current situation in the field of brand valuation and brand analysis in Macedonian companies, to identify their marketing approach in terms of adequate position of the marketing sector in the organizational structure and adequate personnel that performs the marketing activities, the frequency of measurement and the types of measures they use. Also the companies of the sample responded about their familiarity and application of the modern tools for brand assessment and brand measurement and their openness for further collaboration with the academic community in this field in order to develop new tools that should be adequate to their market position and resources.

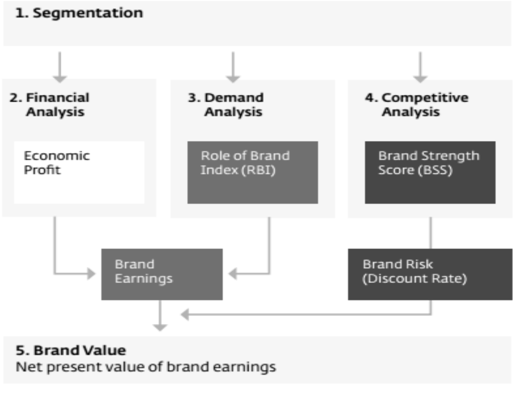
1. Modern tools for measuring brand equity and marketing assets

In practice there are various tools that are used to measure brand equity and in the following part we will make a review of the most influential methodologies that are widely used.

1.1. Interbrand's brand valuation methodology

The pioneer in brand valuation is Interbrand and there are three key components in all of their valuations: an analysis of the financial performance of the branded products or services, of the role the brand plays in the purchase decision, and of the competitive strength of the brand. (Davis, 2010) These are preceded by a decision on segmentation and at the end of the process are brought together to enable the financial value of the brand to be calculated. (Rocha, 2000)

- Segmentation – segments are typically defined by geography, business unit, product, service or customer group. Segmentation is important because a robust valuation requires a separate analysis of the individual parts (or segments) of a business to ensure that differences between those segments in terms of the three key components of the brand valuation (financial performance, Role of Brand and Brand Strength) can be taken into consideration.
- Financial Analysis – it measures the overall financial return to an organization's investors, or its 'economic profit.' Economic profit is the after-tax operating profit of the brand minus a charge for the capital used to generate the brand's revenues and margins. A brand can only exist and, therefore, create value, if it has a platform on which to do so. Depending on the brand, this platform may include, for example, manufacturing facilities, distribution channels, and working capital.



Picture 2 Interbrand's brand valuation methodology
Source: Rocha, 2000, p. 2

- Role of Brand – it measures the portion of the purchase decision that is attributable to the brand, relative to other factors (for example, purchase drivers like price, convenience, or product features). The Role of Brand Index ('RBI') quantifies this as a percentage. RBI findings are cross-checked against historical roles of brand for companies in the same industry. Finally, RBI is multiplied by the economic profit of the branded products or services to determine the earnings attributable to the brand (‘brand earnings’) that contribute to the valuation total.

- Brand strength – measures the ability of the brand to create loyalty and, therefore, to keep generating demand and profit into the future. Brand Strength is scored on a 0-100 scale, based on an evaluation across ten key factors that Interbrand believes make a strong brand. Performance on these factors is judged relative to other brands in the industry and relative to other world-class brands.
- Brand value – the brand-specific discount rate is used to discount brand earnings back to a present value, reflecting the likelihood that the brand will be able to withstand challenges and deliver the expected earnings into the future. This is equal to brand value.

1.2. Brand Asset Valuator

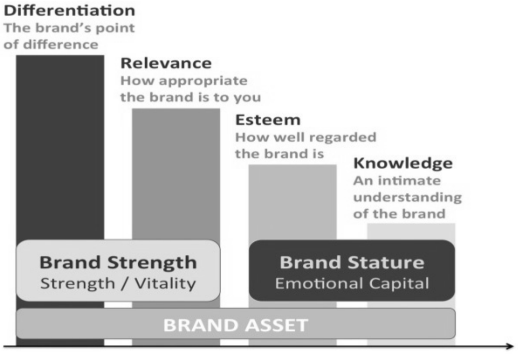
Young and Rubicam’s **Brand Asset Valuator** model is also a widely applied approach and it was originally created twenty years ago by top academics and practitioners, and in the years since no other model of brand development and valuation has BAV's ability to show direct and indirect impacts of brands on business metrics like pricing, loyalty and P/E ratios. BAV directly measures brand contribution to firm price and financial return.

The most valuable asset of this tool is its database. In the two decades since BAV was founded, they have collected seventy-eight metrics on 50,000 brands in fifty-one countries. Annual studies are conducted in seventeen countries comprising 78% of global GDP. In the U.S. alone, they interview 17,000 people each quarter, to collect data on more than 3,500 brands. This database allows them to continually reconfirm and evolve the model itself, as well as provide deep insights to brands around the world – where they currently stand, how they perform compared to competitors, and the ways they can follow other icon brands to positions of greater value.

Brand Asset Valuator demonstrates that brands are built in a very specific progression of four consumer perceptions: Differentiation, Relevance, Esteem and Knowledge. (Franzen & Moriarty, 2009). More than 350,000 consumer interviews conducted across the globe, measuring more than 55 different consumer perceptions with regard to over 20,000 brands, have shown these four measures — the Four Pillars of Brand Asset Valuator — to be consistently linked to a brand’s ability to deliver revenue and profit for its owner — no matter the category, no matter the country, no matter the age of the brand. These Pillars measure a brand’s strength and stature — its value as an asset capable of creating wealth.

Differentiation is critical to brand success. BAV illustrates clearly that differentiation is critical in the successful development and maintenance of a brand. The Differentiation metric has three components: Different, Unique and Distinctive. Different captures the ability of an offering to stand out from its competition. Difference can either be positive or negative, liked or disliked. Uniqueness tends to reflect a brand’s essence, beliefs, and personality. Uniqueness is highly correlated to a brand’s originality and authenticity. Distinctiveness is about a brand’s prestige and its pricing power. Distinctiveness captures the brand’s ability to command a premium price.

The second pillar in brand development is Relevance. If a brand is not relevant, or personally appropriate to consumers, it is not going to attract or retain them. Relevance would seem to come first in a brand’s progression; if it’s not relevant, why would consumers bother with it in the first place? However, BAV shows that Differentiation is what catches the eye – if a brand doesn’t stand out, you can’t judge its Relevance. Without Differentiation, a brand just gets lost in the crowd. But once Differentiation has been achieved, Relevance is the source of a brand’s staying power.



Picture 3 Brand Asset Valuator
Source: Young & Rubicam, 2003, p. 3

The third key measure identified by Brand Asset Valuator is Esteem — the extent to which consumers like a brand and hold it in high regard.

Esteem relates to how well a brand fulfils its implied or overtly stated consumer promise. It does not occur without Differentiation and Relevance, but it can outlive those by many years. Brands that show high Esteem even after losing ground on Differentiation and Relevance. Esteem is influenced by two factors: perceptions of Quality and Popularity.

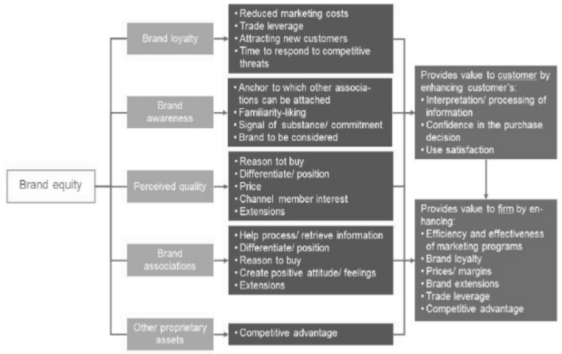
If a brand has established its Relevant Differentiation and consumers come to hold it in high Esteem, brand Knowledge will follow. High Knowledge means consumers understand and have internalized what the brand stands for. High Knowledge cannot be attained only by higher levels of media support spending. It has to be achieved, and it generally takes time. Knowledge is the end result of all of the marketing and communications efforts and experiences consumers have had with a brand.

2. Aaker's Brand Equity Model

Another model that is widely used to measure the brand equity is the model developed by David Aaker. Aaker's Brand Equity Model contains the five following brand equity components (Aaker, 1991):

1. Brand loyalty – that shows the extent to which people are loyal to a brand and it is expressed in the following factors:
   - Reduced marketing costs (keeping loyal customers is cheaper than attracting new)
   - Trade leverage (loyal customers represent a stable source of revenue for the distributive trade)
   - Attracting new customers (current customers can help boost name awareness and bring new customers)
   - Time to respond to competitive threats (loyal customers that are not quick to switch brands give a company more time to respond to competitive threats.

2. Brand awareness – it shows the extent to which a brand is known among the public, which can be measured using these parameters: anchor to which associations can be attached, familiarity and liking, signal of substance/commitment to a brand and brand to be considered during the purchasing process.



Picture 4 Aaker's Brand Equity Model
Source: Aaker, 1991, p. 1

3. Perceived quality – it demonstrates the extent to which a brand is considered to provide good quality products and it is measured through the following criteria:
   - The quality offered by the product/brand is a reason to buy it
   - Level of differentiation/position in relation to competing brands
   - Price
   - Availability in different sales channels (consumers have a higher quality perception of brands that are widely available)
   - The number of line/brand extensions (this shows to the consumer that the brand stands for a certain quality guarantee that is applicable on a wide scale)

4. Brand associations that can be assessed through the following indicators:
   - The extent to which a brand name is able to retrieve associations from the consumers brain
   - The extent to which associations contribute to brand differentiation in relation to the competition
   - The extent to which brand associations play a role in the buying process
   - The extent to which brand associations create positive attitude/feelings
   - The number of brand extensions in the market (the bigger is this number, the opportunity to add brand associations is higher)

5. Other proprietary assets: patents, intellectual property rights, relations with trade partners.

3. Application of brand valuation tools and methods in companies in republic of Macedonia

Recent studies of brands and brand equity have shown that Macedonian companies have developed and own strong brands and some of them are in the top ten brands of the Balkan region. Many of the companies possess very good brands that have high growth potential but they require investment in order to develop a stronger position and benefits from the brand. Like Ambler said measurement is necessary in order to have good management of the brand equity, a study on a sample of 50 companies of Republic of Macedonia was conducted with the purpose of identification of the challenges that these companies face in the brand valuation and measurement process. These challenges refer to organizational inadequacy and lack of marketing educated human resources that affect the measurement process, its frequency and accuracy.

As literature and data from the research show bigger companies (in terms of number of employees) have a marketing sector and therefore the person responsible for conducting marketing activities and appropriate measurement is a marketing manager.

A big issue in Macedonian companies is that in many of them especially the smaller ones and many of the medium sized companies the general manager is responsible for marketing and brand management but often he can't have the time or the knowledge to complete all the tasks. As the table below shows in those companies where the marketing manager is responsible for the measurement process the main focus is brand equity and brand performance, whereas in those companies where the general manager is responsible for the measurement process the company measures a big variety of measures as it was declared by the respondents but the application of the findings and the data credibility is questionable because it depends on the knowledge and time available for this process. Another problem that Macedonian companies face is that the person responsible for measurement is the finance manager or another person, usually the administrator, because these people at the end of the work must show the numbers and usually they must put everything in the statements and brands and brand equity are intangible assets that must be measured and assessed with appropriate measures and not randomly and in favor of the financial statements.

Table 1 Type of measurement in the companies depending on the person responsible for the measurement process

Who is responsible for measuring?	What Do You Measure				Total
	brand equity and brand performance	customer satisfaction	customer lifetime value	other indicators	
Marketing manager	11	1	0	0	12
Financial manager	3	0	0	0	3
General manager	10	9	4	4	27
Other person	4	3	0	1	8
Total	28	13	4	5	50

Source: Authos

In order for the measurement to be effective it must be performed with appropriate frequency so that it can affect the decisions. As it was discussed above often in Macedonian companies the measurement process is performed along with the annual planning and this can be confirmed with the data from the research sample. That contains a big danger since these numbers must coincide with the financial metrics shown in the annual reports. In terms of brand equity measurement half of the companies that measure this metric do it in intervals that are smaller than six months that is considered as optimal for brand valuation and that shows that they show proactiveness towards their brands in order to take fast corrective measures if necessary.

Table 2 Frequency of measurement depending on the types of metrics that are measured

What do you measure?	Frequency of measurement				Total
	once a month	every three months	every six months	once a year	
brand equity and brand performance	2	11	4	11	28
customer satisfaction	1	1	2	9	13
customer lifetime value	0	0	0	4	4
other indicators	0	0	1	4	5
Total	3	12	7	28	50

Source: Authos

In order to see whether there is a connection between the size of the company (in terms of number of employees and the frequency of measurement a correlation analysis was performed on the data and the correlation coefficient is 0.697 which shows positive correlation which means the bigger the company is in terms of number of employees the measurement process is performed more frequently, which can enable better data findings application and better decision making in the area of brand management.

Table 3 Correlation analysis between the size of the company and the frequency of measurement

Correlation			
		Size (nb employees)	Frequency of measurement
Size(NbEmployees)	Pearson Correlation	1	(,697)**
	Sig. (2-tailed)		,001
	N	50	50
Frequency of measurement	Pearson Correlation	(,697)**	1
	Sig. (2-tailed)	,001	
	N	50	50

Source: Authos

Additionally a correlation analysis was performed between the frequency of measurement and the presence of a marketing sector in the organizational structure of the company. The results show positive correlation of 0.792 which means that in companies where there is a marketing sector the probability of frequent measurement is high. Frequent measurement is necessary for fast actions on the market in terms of actions connected with the brands owned by the company and companies should work on providing the organizational space and position in the structure for a marketing sector that will solve all the issues in the marketing area.

Table 4 Correlation analysis between the presence of a marketing sector and the frequency of measurement

		Marketing Sector	Frequency of measurement
Marketing Sector	Pearson Correlation	1	,792**
	Sig. (2-tailed)		,005
	N	50	50
Frequency of measurement	Pearson Correlation	,792**	1
	Sig. (2-tailed)	,005	
	N	50	50

Source: Authos

Also the companies were interviewed about the approach they use in the brand valuation process and most of them were familiar with the Aaker's methodology and they responded that they measured the metrics of it through quarterly questionnaires in different parts of the market. Also the number of companies that were familiar with Brand Asset Valuator was big and none of the respondents responded that they use or are familiar with Interbrand's methodology. Some of the companies responded that are in process of development of metrics that will enable them to have a better brand valuation process and all of them were open for collaboration with the academic community to work on this process.

Conclusion

Brand valuation is an integral part of the brand management process and appropriate measurement processes have a crucial role in it. In literature and in practice there are various approaches and methodologies that can be applied in practice but most of the time companies in Republic of Macedonia that were surveyed for the purposes of this study lack knowledge and adequate work force to have better brand valuation and brand management processes. Most of them have certain familiarity with the modern tools applied in this area and use them partially mostly depending on their complexity and price for conduction, but they are open for further research and work in this field in collaboration with the academic community. With more dedication in this field some of the main problems such as lack of educated personnel and frequency of measurement of the brand metrics can be overcome so that brand valuation can become a more important area of the work of the company and a distinctive part of the annual planning process. The potential of this area is big since today's era is the era of brands and companies must invest time and resources in order to have a better understanding and management of this subject in their every day work. SM

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