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THE BEATLES

“BRAND NAMES”
“GOLDEN” TRADE MARKS

Conceptual Issues & Valuation Methods

"BRAND NAMES"

"GOLDEN" TRADE MARKS

"A product is something that is made in a factory;

A brand is something that is bought by a customer.

A product can be copied by a competitor; a brand is unique.

A product can be quickly outdated; a successful brand is timeless."

Stephen King, WPP Group, London.

Building a brand name, which refers mainly to a product or service, and maintaining such at the top is a very crucial and challenging process in the financial sector and also in the broader business market. Using only a few words (1 to 3), together with imagination but also simplicity, the brand name becomes a trademark, the "feature" that follows a company endlessly during its journey through time. In an era characterized by fierce competition globally, where mergers and acquisitions are a common business practice, brand names gain additional value; correspond to the most powerful commercial growth driver of a company, categorized in intangible assets and translated to capital. This is the very essence of brand name valuation, which is vital for any business plan.

Brand Name: A Conceptual Approach

The functional role of a brand is to distinguish the products of one manufacturer from those of another, by providing consumers with the freedom of choice. According to Ted Levitt (PROFESSOR THEODORE LEVITT, LEGENDARY MARKETING SCHOLAR AND FORMER HARVARD BUSINESS REVIEW EDITOR), brand names add new dimensions to products, differentiating such by some manner from other products that were designed to satisfy the same needs. Such differences may be functional, material or may even be more symbolic and intangible. In fact, what distinguishes a brand from a product is the overall sum of consumer opinions and impressions regarding the product's characteristics, the name of the brand and what is represents for the company that created the brand.

Origin of the Brand Name Definition

A brand name operates, categorically, as a bridge between what has occurred in the past and what may occur in the future. What is commonly referred to as a "brand", is something that has been around for many centuries as a method that aims at distinguishing between the different products of producers. Conceptually, the word "brand" has its origin from the Scandinavian word "brandr", which means "mark made by burning", as brands were and still are the means used by owners of livestock to mark their animals. According to another approach by Professor Torsten H. Nilson, the word brand arises from the Scandinavian word "branna", which is used to express burning, whereas fire is the meaning of "brand". Whatever conceptual approach is followed, the word brand implies the marking of one's ownership or assets, produced by such.

Why Are Brands Valuable

Brands are particularly important to their owners for two quite different reasons. First of all, brands focus on the dedication of consumers and thus evolve into active capital for the business, which ensures future demand and therefore future income. In this perspective, brands provide stability to companies; they prevent expansive competition and contribute to investment and planning. At the same time, a brand name "captures" promotional investment, which is hidden behind the brand. Large brand names, such as Marlboro, Pepsi etc, still benefit from the significant investments in brand building even today. The latter are brand names that were designed by their owners in the 1950's and 1960's when advertising means, in contrast to today, were cheaper.

A second feature of the brand name is its strategic importance. The manner in which each brand name operates has been described as a process where the manufacturer directly approaches the consumer and not indirectly by involving the retailer.

According to the above, brand names secure demand for their manufacturers, together with a more powerful negotiation position in agreements with retailers, while they also constitute a mean to influence consumer behavior. Finally, brand names also provide the company with legal protection concerning the product's unique characteristics.

However, brands are also of particular importance for consumers themselves. A brand name constitutes an agreement between the manufacturer and the consumer and as such, branding is not a cynical activity imposed on the unwary consumer without his/her will. On the contrary, one can argue that brands allow consumers to realize their purchases with great confidence and convenience as the brand name itself offers a reliable guarantee for the product's quality, value and satisfaction.

Why Brands Are Valued

Although public perceptions of brand valuation are often focused on balance sheet valuations, the reality is that the majority of valuations are now actually carried out to assist with brand management and strategy. Companies are increasingly recognizing the importance of brand guardianship and management as key to the successful running of any business.

The values are associated with the product or service communicated through the brand to the consumer. Consumers no longer want just a service or product but a relationship based on trust and familiarity. In return businesses will enjoy an earnings stream secured by loyalty of customers who have "bought into" the brand.

Some of the most significant scopes of brand valuation are as follows:

Applications of brand valuation
- Brand management and development
- Improvement of communication management
- Benchmarking of competition
- Monitoring value year on year
- Creating a brand-centric culture
- External licensing, brand control and tax planning
- Mergers and acquisitions
- Joint-venture agreements
- Expert Witness – evaluating the economic damage of trade mark infringement
- Financing and insolvency – securing funds through identification of value of intangible assets
- Balance sheet

How Are Brands Valued

There are two critical questions to answer in brand valuation. The first is exactly what is being valued. Are we valuing the trademarks, the brand or the branded business? The second important question is the purpose of the valuation. An important distinction can be made between technical and commercial valuations.

Technical valuations are generally conducted for balance sheet reporting, tax planning, litigation, securitisation, licensing, mergers and acquisitions and investor relations purposes. They focus on giving a point in time valuation that represents the value of the trademarks or of the brand as defined above.

There are a number of recognized methods for valuing trademarks or brands. Initially, the valuation can be based either on historic costs or on implied costs. Both cost methods are subjective, however either one is usually followed with consistency as the relevant parties want to know what a brand might cost to create.

One may also use market value as a reference, though frequently there is no market value for intangibles, particularly for trademarks or brands. Generally speaking, therefore, the most efficient – from several perspectives - approach to brand valuation is to employ a valuation method, which results in a monetary value.

In summary, we mention the price premium or gross margin approach that considers price premiums or superior margins versus a generic business as the metric for quantifying the value that the brand contributes.

Economic substitution analysis is another approach - if we didn't have that trademark or brand what would the financial performance of the branded business be? The problem with this approach is that it relies on subjective judgments as to what the alternative substitute might be.

On the other hand, the two most useful approaches for brand valuation consist of the earnings split and "relief-from-royalty" methods.

According to the "relief-from-royalty" method, the value of a brand name / trademark is defined by the present value of future cash flows that would arise if the royalties for the use of the brand name / trade mark were "rented" by another company. The concept of this valuation method refers to the general definition of opportunity cost. Specifically, the value is defined as the royalty rate on the future sales or profit that would result from the use of the specific trade mark. At a later stage, the result is discounted to present value, after deducting the corresponding tax. The royalty rate that is applied in this method is defined according to real agreements for the use of brand names / trademarks that have been made in the respective sector. The discount rate used in this method is usually higher than the company's weighted average cost of capital (WACC), in order to reflect the higher risk related to the return of an intangible asset.

Conclusion

It is important for the business community to comprehend that brand names constitute a large and significant asset, which notably exceeds fixed assets and other investments, as a brand is essentially formed from a continuous business activity. Those businessmen who appreciate the benefits of brand building invest significant amounts in the process and thus set the base for reaching a future target. This fundamental target is linked to the strengthening and broad recognition of the brand name in the market, a profitable factor for any company. Therefore, investing in brand names, as well as the appropriate valuation of the brand itself each time, are key elements to establishing a company in its sector and to its viability through time.

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SOURCES:

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