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Cost-Based Brand Management

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Abstract: The present study is concerned with the issues of contemporary branding. It shows the position and role of brands as intangible assets in the business system. It is a study on the virtues and shortcomings of the modern methods for the brand cost valuation implemented by Russian and foreign companies to solve different tasks. The areas requiring brand cost valuation are defined. The role of the cost-based approach as a criterion for the success of company's activities in brand management has been determined.

Key words: Brand, branding, brand cost, methods of brand cost valuation, brand management

INTRODUCTION

A modern company has to operate under harsh competitive conditions. Competition within a dynamically developing environment forces managers to distribute resources with maximum efficiency in order to get access to additional investment. Possessing a unique competitive advantage is, in most cases, the only opportunity to make long-term economic profit. One of such essential competitive advantages is brand owning (Ianenko, 2015).

Organization of branding is one of the key tasks for a successful company. Today, brands account for a significant part of the consumer goods and services market; thus, having a successful brand is the most important thing for a developing and profitable company. The main task of branding is to provide a set of activities that would make the brand popular with consumers and, consequently, would promote the increase in the company's profit.

As we discuss the position of branding within the modern marketing concept we should note that, depending on the field and specifics of the company's operation, one could name the following points of view:

- Branding can be treated as one of the instruments for marketing communications which provides their integration into a single system
- Branding is a concept of the company management, whereas the marketing instruments are used for its implementation (Aaker, 2003a)

Branding is interpreted by the modern marketing theory and practice as following:

- Brand is one of the most important subjects to management
- Brands influence the market structure
- Brand creates additional benefits for both offerors and consumers
- Brand provides a competitive advantage and a unique competence
- Brands are considered to be funds
- A successful brand helps to create and maintain strong relationships with the consumers which makes the company longeval and potentially immortal

Thus, brands are considered by the modern marketing theory and practice to be the most valuable intangible assets of many companies as they form a significant proportion of their market value. Brand cost, tightly connected to the return of investment and the market share, is one of essential subjects to the company management.

The financial technologies of the brand cost assessment are currently underdeveloped in Russia which precludes the owning company from fully availing of the advantages it creates. This situation determines the topicality of studying, theoretical interpretation and generalization of the accumulated scientific knowledge and the practical experience of foreign and Russian specialists in brand monetary estimate and brand plough-back.

MATERIALS AND METHODS

Brand cost in the system of modern business: Brand financial value assessment should solve such tasks as:

- Separation of the revenue provided by the brand employment
- Assessment of the future brand revenues
- The requirement to discount the brand revenues

Over the last year, different methods of trademark value assessment have been widely implemented in such fields as financial accounting, mergers and acquisitions, investor relations, corporate management, licensing and franchising, borrowing capacity justification, legal arguments, tax planning.

At the same time, there is a dispute among marketing specialists over the necessity of brand cost assessment (Nikulina, 2012). All the arguments against the brand cost assessment can be reduced to the following:

- Each brand cost assessment method is highly subjective
- The assessment results will vary depending on background data, methods and the personality of the appraiser
- It is almost impossible to determine the income produced by the brand and to separate it from the income generated by other tangible and intangible assets of the company

The typical arguments for the brand cost assessment are as follows:

- The companies can rightfully consider the brands to be their assets
- In the face of the modern economic conditions, certain circumstances cause the brand cost assessment to be not an option but a demand of the business environment

Brand cost is an important tool for financiers; it gives an opportunity to determine a fair price in case of intragroup transactions to administrate budgets in an optimal way, to develop more relevant approaches to the tracking of variable and semi-fixed expenditures related to the brand promotion.

Brand cost assessment is also one of the most important activities for marketing specialists. Brand cost helps to reason the efficiency of current expenditures in terms of both short-term and long-term results, to reveal possible negative and positive consequences of strategic decisions in a timely fashion, to make effective decisions in the planning and administration of budgets considering long-term results.

More accurate brand cost assessment allows administrating the company budget more efficiently and predicting the source of the greatest profit. The cost assessment for each brand is extremely important to control the brand portfolio, to assign the promotion budget to certain brands and to administrate the budget of regional representative offices. Certainly, every brand manager has different ways to control the development of the brand in his custody but the most important criterion of the assessment is the monetary value.

Brand cost valuation methods: The studies of well-known researchers such as David A. Aaker, Peter Doyle, Scott M. Davis, Don E. Schultz, F. Heidi and others are concerned with the creation of methods for financial and marketing brand assessment. The creation of such methods by marketing specialists allows companies to perform the assessment of their brands on their own, to determine the market position, the brand promotion methods, to increase the customer's loyalty to the brand. By the end of the 1980s, recording the value of acquired brands in balance sheets has become common, leading to a new trend to consider the company brands as valuable financial assets that are important within the organization (Aaker, 2003b).

In 1989, the London Stock Exchange approved the concept of brand assessment and gave permission to recognize the cost of intangible assets when valuing the state of companies offered for merging. It promoted a large-scale trend to include the brand cost in the balance sheet reports of the companies making branded products. Despite the considerable interest of Russian and foreign researchers in this field we should note that the problem of brand cost assessment has not been solved yet. Even now, neither Western nor Russian sources provide clear classification of the assessment methods.

Different ways to classify the methods for brand cost financial valuation are described in academic literature. For instance, three main approaches are distinguished according to the IFRS: income, cost and market approaches. The cost approach is based on the cost of brand creation, development, promotion, advertising and protection. The income approach is most commonly used for the brand cost valuation. It is based on the prospective income that can be generated by the brand in future and it includes the methods used to compare the brand to an unbranded equivalent product. The methods of the market approach are based on the concept of market value the most probable disposal value that reflects exhaustive information on the asset sold. Just like in case of a business cost valuation, the value can be derived from the analysis of historical sales, comparison of transactions and the employment of synthetic multiplicators (Puzynya, 2012). Table 1 represents several methods according to the classification.

Table 1: Brand valuation methods

Method name	Method essence
Premium profit	The main principle of this method is that a branded product can be sold at a higher price. The price differential is multiplied by the forecasted sales of the branded product over the product life cycle span
The relief from royalty method	The brand cost equals the sum of products of annual sales and royalty rates normalized to the today's prices
Earnings basis	The proportion of the company income generated by its intangible assets is calculated. This value is multiplied by the P/E-ratio (the ratio of a company share market price to the earnings per share)
Expert valuation	Experts examine such indices as brand market share, market indicators stability of the brand and the product category in general and other factors
Activity based costing	The brand is valued according to the cost of its creation and maintenance
Market transactions	The amounts of market transactions are equated to the values of the brands that are sold or bought
Discounted cash flows	The brand is valuated through the cash flows generated by an unbranded equivalent product minus the brand maintenance expenses
The market price minus assets method	The brand value is equated with the market price of a company minus its assets
Excess earnings	This approach makes it possible to evaluate the increase in the company's earnings provided the brand maintenance proceeding, taking into account mean life cycle span of the products

The brand valuation approaches provided by well-known analytical companies deserve serious attention. Interbrand which annually publishes the list of 100 most expensive brands in the world, is one of the leading agencies in the field of brand cost valuation (Puzynya, 2012).

Global operation and sufficient information are the criteria for including a company in the list. Its brand must be represented at the major markets of the global economy. These criteria are measurable and can be expressed as a set of requirements: at least 30% of earnings must come from the territories other than the brand home region; the brand must be represented at the three main continents and have a considerable geographical coverage of the emerging markets; there must be enough public information on the brand financial operations; the long-term expected profit must be positive; there must be open-access information and wide awareness about the brand outside the national market.

The model of interbrand (Brand valuation) is aimed to provide a monetary assessment of the brand cost that can be disclosed in the balance sheet. The Interbrand evaluation methodology provides means for defining the brand share in the company's business result. It integrates the market, the brand, the competition and the financial data into a single structure, in terms of which the brand productivity can be evaluated. According to this method, the brand cost is equated to the current net profit value generated by the brand in future (Bagiev, 2015).

The Interbrand method has a distinct advantage as it allows defining the brand strength in monetary terms. The fact that this method is concerned with the previous and current income and expenditures of a company elicits frequent criticism to this approach as the brand cost is supposed to be an assessment of the future. This drawback results in significant annual variation in brand evaluation (Bagiev, 2015).

Brand finance provides another approach to brand cost valuation (Reilly and Schweihs, 1998), they use the Royalty Relief method to determine the brand value based on the calculation of the discounted potential royalties. Thus, we come to certain conclusions based on the analysis of actual theoretical and practical approaches to brand valuation:

- The absence of a unified method for brand cost valuation is in the first place, connected to the unique character of such an intangible asset as a brand
- The models based on the comparative approach are the most expensive due to the difficulties of finding a comparable company
- The models based on the income approach include the potential for the development of the brand
- The results of brand cost valuation can be used to assess the brand management efficiency

Each company implies the method they consider the most relevant to the company's operations. This brings up the question; how should one compare, for instance, the brand valuations of two different companies operating in the same segment but using different valuation methods to calculate their brand cost? This problem, like many others concerning the brand cost valuation methods are to be solved by marketing specialists in the very near future as the most successful companies currently use the cost-based approach to brand management.

RESULTS AND DISCUSSION

Brand valuation in brand management: The cost-based approach has a distinct advantage: cost is a measurable parameter. Using cost as a criterion for successful brand-management of a company provides some other benefits:

- This parameter can be described in financial terms and is explicit
- The cost can be freely calculated for any brand of any field
- This parameter has no temporal limits. Any brand can face the situation when further expansion of, for instance, the market share is virtually impossible. However, it can never happen to the cost. There are always options to increase the brand cost
- This parameter is focused on the future

The principles of the cost-based approach have been formulated >100 years ago in the studies of the economists of the "marginalist school". The reasons for the increased focus on the cost management issues over the last decades are objective: irreversible changes are taking place within the global economy. Firstly, the pace of innovation and the volatility of the environment are dramatically increasing. Secondly, the competition within the global economy is getting universal, comprising not only the consumer market but the resource, the information, the talent, the labor, the capital markets as well. The cost-based approach allows esteeming the rewards and the expenses of any decision concerning the brand management taken by a company through the cumulative parameter of cost and provides an opportunity to achieve the best possible balance of rewards and expenses.

The brand cost does not emerge by itself: it is created over time through the progressive development of the brand which makes it relevant to the consumers' needs and desires. When a customer becomes psychologically attached to a certain brand this person is also less sensitive to the price and to the advertising of its rivals. Therefore, to increase the brand cost, a company should establish an efficient brand management system regarded as the brand investment management.

In order to define the principles, the methods and the means for brand management efficiency evaluation we should examine the interrelation between two fundamental economic categories the effect and the efficiency applied to a brand. We should equate the very existence of a brand as a result of the brand management, to the effect of brand management at the strategic level. We can also suppose the price premium provided by a customer willing to use the brand and the augmentative sales of the branded product to be the effect at the operational level.

The brand management efficiency is defined as the ratio of the result (effect) to the expenses necessary to achieve this result. It is a relative indicator of the effectiveness of the brand development, management, coordination and promotion. This approach aims at the maximization of the unique character of the image created by the brand and perceived by the target groups. While establishing their growth aspirations, successful companies set the cost of the brand or the brand portfolio as their target. They use their best endeavors to elicit the opportunities to create the additional value of their brand in the course of the strategy development.

We can define four key management principles for a brand-owning company to obtain both income and economic profit, resulting in the added value creation: Setting proper goals. The companies with a serious approach to the transformation of the increase in the brand income to the increase in its cost try to use a differentiated and deliberate approach to the goal setting. Search for differentiating strategic opportunities. The brands leading in cost creation have provided new insights into strategy formation. They have made efforts not only to be distinct from their rivals (which is also necessary) but also to become more profitable. Selective resource administration. A brand-owning company should be looking for the ways to preserve its resources, in other words, to invest minimal amounts of resources without sacrificing the final result. Increase in value for both shareholders and consumers.

CONCLUSION

Brands organize relations and as a consequence, consumer behavior. Strong brands create consistency of demand, providing expected earning power. Brands create economic merit, generate higher profits and promote the company growth. The methods of different approaches to the brand cost financial assessment have different benefits, drawbacks, primary tasks and fields of application. There is no generally accepted approach to the brand cost valuation (different methods can be used to evaluate the same brand in actual practice) which makes the comparing of the brands owned by the companies of the same market segment challenging for the business projects implementation. The successful strategy of the brand cost growth can be performed only by means of disciplined marketing management which implies proper goal setting, search for differentiating strategic opportunities, selective resource administration and quest for a compromise between customers and shareholders.

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