Chapter 6
Evaluating the Brand With Radical Transparency

ABSTRACT

The justification of all the theoretical knowledge in this book is verified through the evaluation of the brand, which is analyzed in this chapter. Gradually, we fully complete the concept: from idea to evaluation of the brand. The valuation of the brand through radical transparency is elaborated through several variants: the brand equity as a measure of the value of the brand, financial approaches to valuation of brands, integration of finance and marketing through the "best practice" approach for brand evaluation and the brand value chain. Thus, we conclude the efforts for the understanding, application and assessment of the brand equity as a source of competitive advantage through the prism of radical transparency.

INTRODUCTION

The justification of all the theoretical knowledge in this book is verified through the evaluation of the brand, which is analyzed in this chapter. Gradually, we fully complete the concept: from idea to brand evaluation. The valuation of the brand through radical transparency is elaborated through several variants: the brand equity as a measure of the value of the brand, financial approaches to valuation of brands, integration of finance and marketing through the "best practice" approach for brand evaluation and the brand value chain. Thus, we conclude the efforts to understand, apply and assess the brand equity as a source of competitive advantage through the prism of radical transparency.

The brand is materialized in several ways. The most immediate and most obvious is through the sale of products / services to consumers. The combination of price, quantity and frequency of purchase creates the volume of sales of a business. This is the basis for the profits and, ultimately, the shareholders' value. The share price of the company moves depending on the expectations for the future ability of the company to generate revenue and to extract profit.

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The Brand as an Intangible Asset

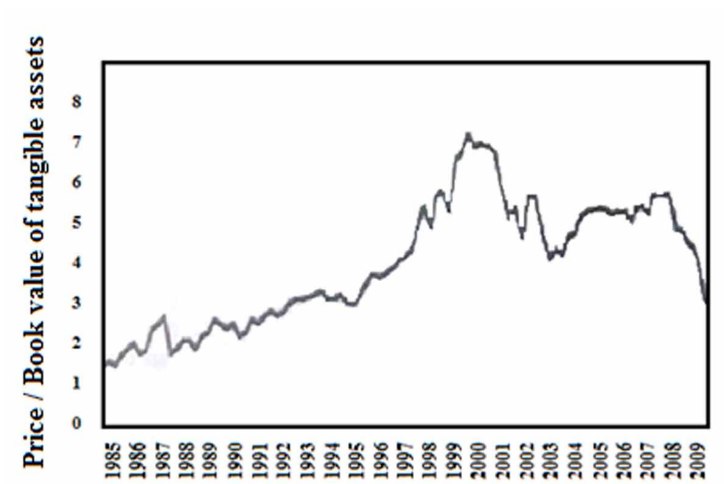
Intangible assets are turned into a key factor for the shareholders' value. In the past 25 years the average value of the index price / book value of tangible assets calculated for companies whose shares form the S & P 500 (weighted index which is calculated since 1957 from the prices of the 500 most liquid shares of companies with the largest market capitalization in the United States) is about 3.9, which means that investors evaluate these companies almost four times more than their net material assets (Figure 1).

In this context, it is important to note that the index S & P 500 includes a wide range of B2B companies as well as companies from the energy and industrial sectors that traditionally have high material assets in the balance sheets. The analyzed period also includes several business cycles and "bulls" and "bear" stages in the stock markets. The average value of the ratio price / book value of tangible assets of companies in the S & P 500 is gradually increased from an average of about 1.4 at the beginning of the 1980s to an average of about 3.1 in the mid-1990s. The index rose in the late 1990s and exceeded the value of 7 during the dotcom boom of the companies, and returned back to 2.7 in 2008/2009 during the stock market crash (Salinas, 2009).

The long-term value of the index price / book value of tangible assets in the amount of about 3.9 indicates that the material assets of the company represent about a quarter of the value that investors assigned to the company. The remaining three-quarters are related to: patents, business systems, distribution rights, brands, databases and quality of management and employees of the company. Although the book and market value are only partially comparable, share price reflects investors' expectations for future cash flows from the business, so, the ratio price / book value of tangible assets provides a clear indication that investors perceive the value of the company in its intangible assets.

Ultimately, brands represent the relationship between the company and its customers, which are the main generators of revenue. This is supported by the fact that in 2010 the US consumption associated with the brands represented 72% of the US gross domestic product (Quelch and Jocz, 2010). This means that almost two-thirds of the GDP of the world's largest economy is connected with the brands and their value generation.

Figure 1. Value of ratio price / book value of tangible assets of companies in the S&P 500



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