

What is brand?

Kirill Dortsev

New Economic School

kdortsev@nes.ru

November 22, 2023

1 Brand: introduction

- Etymology and history of "brand"

2 Academic definition of "brand"

- Why so complicated to define "brand" correctly?
- Different spheres - different definitions

3 "Brand" in finance

- Brand equity
- How brand equity generates value?
- Brand valuation models
- Further research

"While your mission and vision guide where it is you want to go, your BRAND is where you stand today and reflects the history of your event and organization and what it means to your stakeholders." [S. King 1970]

There is no simple or unique way to identify, what brand is and how it can be valued. However, there are some literature, which could help to built a correct destination, how to define brand.

Etymology and history of "brand"

- It was first found in the Germanic languages (Old Norse) that evolved into Anglo-Saxon language
- It appeared as a noun (ca. 1000) in the epic poem Beowulf [Heaney 2002]
- It appeared as a verb (ca. 1400) in Wycliffe's religious tract "An Apology for Lollard Doctrines" [Todd 1842]
- The word could be even older, dating from at least the late fifth century A.D., when the events in Beowulf took place [Klaeber 1950]
- It entered marketing in 1922, when it appeared in the compound brand name ["Brand Names on Menus?" 1922, Oxford English Dictionary 2004:11.9], defined as a trade or proprietary name

Academic definition of "brand"

There is no unique definition of "brand" in academic journals. Scholars analyzed hundreds of journals and public researches to form main areas of "brand" as a term [Chernatony and Riley 2010]. Nevertheless, in this short overview there will be a try to highlight main definitions from academic area.

Why so complicated to define "brand" correctly

- The term is too old to be defined in easy way [Barbara B. Stern 2006]
- There are different components, which construct brand [Keller 1993]
- Brand is not just a **logo**, it includes **history**, **aims** and **capital**
- Defining your brand means you have to get into the nitty gritty of who you are and what your business is all about (as well as what it's not)¹.

¹<https://www.forbes.com/sites/piasilva/2021/02/05/beyond-the-logo-why-branding-is-hard-and-why-youll-likely-make-these-3-mistakes/?sh=30bd3cbd78d8>

Different spheres - different definitions

As it was mentioned above, "brand" is not just a logo. It could be interpreted in various ways. There are twelve definitions of "brand", according some scholars [e.g. Maurya et. al 2012; de Chernatony and Francesca Dall'Olmo Riley 2010]. Here are presented three² of them.

²"Added value" is not included in this list

Different spheres - different definitions

Brand as a company

"Brand as a company" stands for favorable corporate identity, and it gives company some advantages on the market. It is built by corporate name and that is why some product lines become extension of corporate identity.

Brand as a risk reducer

"Brand" is a psychological factor in some cases. It is generally accept, that consumers spend their money, based on some behavioral features. Scholars suppose, if a company can estimate the perceived risk, this fact can gain consumers' confidence [Assael 1995]

Brand as relationship

"Brand as relationship" is the expression of relationship between consumer and product. A successful brand can be characterized as having strong relationship between customer and the company.

"Brand" in finance

"A brand for a company is like a reputation for a person. You earn reputation by trying to do hard things well." - Jeff Bezos

- Two general motivations for studying brand equity: **1) financial valuation, 2) strategy and marketing productivity.**
- Feldwick (1996) suggests a classification of the different meanings of "brand equity" as:
 - the total value of a brand as a separable asset - when it is sold, or included on a balance sheet
 - a measure of the strength of consumers' attachment to a brand
 - a description of the associations and beliefs the consumer has about the brand
- An attempt to clarify the relationship between customers and brands produced the term "brand equity" [Wood 2000]

Feldwick (1996) illustrates "brand equity", using three components:

- Brand description
- Brand strength
- Brand value

These three meanings of Brand Equity are distinct concepts which require separate discussion.

How brand equity generates value?

"Added value" is another definition of a "brand". The main question is how brand creates additional value to the company or to customers? The answer may vary, because of the main purpose.

How brand equity generates value?

Aaker (1992) presents fundamental approach, how brand equity generates value. Five components of adding value by brand equity:

- Brand loyalty
- Brand awareness
- Perceived quality
- Brand associations
- Other proprietary brand assets

There are several directions of models, which are used in practice to evaluate a brand:

- BAV - analysis of the brand's contribution to consumer
- Valuation and financial forecasts - analysis of the brand's contribution to balance sheet

The standard scale everyone uses for brand valuation is called the brand equity scale. The data set is called **brand asset valuator (BAV)**, it's done by Young and Rubicam.

The Y&R BAV model is based on the premise that brand is a multidimensional construct that can be assessed through customer perception measurements.

- BAV model estimates the universal characteristics of a brand, such as **perceived quality** and **distinctiveness**
- The first implementation consisted of **four** pillars [Agres and Dubitsky 1996]
- BAV is a leading model in brand research³
- The most actual model has **five** central brand attributes [Fudge 2005; Gerzema, Lebar, and Sussman 2005]

³<https://www.bavgroup.com/about-bav-group>

<i>BAV Pillar</i>	<i>Underlying Perceptual Metrics</i>	<i>Survey Scale</i>	<i>BAV Data</i>	<i>Meaning and Role of the Pillar^a</i>
Differentiation	1. Unique 2. Distinctive	Yes/no Yes/no	% responding "yes" % responding "yes"	Perceived distinctiveness of the brand. Defines the brand and reflects its ability to stand out from competition. Is the "engine of the brand train;... if the engine stops, so will the train."
Relevance	1. Relevant to me	1-7 scale	Average score	Personal relevance and appropriateness and perceived importance of the brand. Drives market penetration and is a source of brand's staying power.
Esteem	1. Personal regard 2. Leader 3. High quality 4. Reliable	1-7 scale Yes/no Yes/no Yes/no	Average score % responding "yes" % responding "yes" % responding "yes"	Level of regard consumers hold for the brand and valence of consumer attitude. Reflects how well the brand fulfills its promises.
Knowledge	1. Familiarity with the brand	1-7 scale	Average score	Awareness and understanding of the brand identity. Captures consumer intimacy with the brand. Results from brand-related (marketing) communications and personal experiences with the brand.
Energy (new pillar)	1. Innovative 2. Dynamic	Yes/no Yes/no	% responding "yes" % responding "yes"	Brand's ability to meet consumers' needs in the future and to adapt and respond to changing tastes and needs. Indicates future orientation and capabilities of the brand.

Figure: Summary of the modified BAV framework: five pillars of the brand asset [Mizik and Jacobson 2008]

Reports from the industry⁴ tells, that there are a lot of valuation methods, which are used in practice.

- **Cost based brand valuations** are rarely used, as the cost of creating a brand tends to have little similarity to its current value
- **Market based comparisons** are unsatisfactory, because comparative data is scarce and brands are unique
- **Royalty relief method** is more suitable

⁴Brand Finance report 2008

Royalty relief method

- A more commonly used approach is the royalty relief method
- The royalty relief method involves estimating likely future sales
- Applying an appropriate royalty rate to arrive at the income attributable to brand royalties in future years
- DCF-method is used

Royalty relief method

This method is useful for financial aims, but does not explain the real value of a brand.

- It provides little understanding of how and where the brand is creating value
- An appropriate method of valuing a brand for balance sheet or tax purposes
- Limited use to a marketing director wishing to leverage the value of a brand

Another brand valuation method with quantitative indicators under the asset perspective is **Interbrand method** [Fu 1999]. It is necessary to assess brand value on the basis of the company's future earnings through financial analysis, market analysis and brand analysis.

- Analysis to evaluate the residual earnings of a product or a business, which refers to the balance of the future income from the product or business minus the revenue from the tangible assets
- Clear the impact of brand on the industry of the product or service through market analysis, thus determining how many percentages of residual earnings are created by the brand, so as to calculate the brand's future earnings

Analysis from ten areas to determine the coefficient of brand strength

Core dimensions	Evaluation factors
Brand loyalty	Price advantage Satisfaction/loyalty
Brand perception	Perceived quality Leading brand/popularity
Brand association	Perceived value Brand personality Organization association
Brand awareness	Brand awareness
Brand market situation	Market prices and distribution channels Market share

Figure: Brand equity ten elements [Huang 2015]

- Convert the brand strength coefficient to the discount rate of brand's future earnings through an S-shaped curve [Fu 1999]
- According to this idea, brand value is calculated as:

$$\text{brand value} = \text{future earnings of brand} \times \text{brand strength}$$

- Add and research new models
- Incorporate BAV pillars into stock returns [Mizik and Jacobson 2008]
- Use results from Dzyabura and Peres (2021)