The Impact of Value of Trade Mark on the Value of Company

Bozo Vukoja
Universiti Vitez, Travnik, Bosnia & Herzegovina
Antonio Vukoja
UHY REVIDENT MOSTAR, Mostar, Bosnia & Herzegovina

The value of the brand is extremely important for strategic decisions and issues to be taken under management. A number of decisions are based on data related to equity and in particular: decisions about investments in the company, performance of measurement of return, decisions regarding licensing, managing a portfolio, and investing in a brand on different markets. Evaluation of the value of the enterprise may be performed in many ways but there are two basic divisions: methods based on property and methods based on earnings, and the fundamental basis of this method is earning. The brand of product, in the sense of the name, primarily of the product as well as the company, service, and other forms has been in use for a long time. We can say that brand has been existing since the beginning of market. There are different definitions of brand. The most widely used one in literature is the one given by the AMA (American Association of Marketing): Brand is a name, term, symbol, shape, or the combination of these, the purpose of which is to identify the products or services of one or a group of sellers, and to differentiate them from competitors (their products and services) (Keller, 2003, p. 11). In fact, the value of brand is extremely important for strategic decisions and issues in the management. A whole series of decisions are based on data related to brand value, and particularly: decisions about investments in the company, measurement of return on investment in a certain brand, decisions relating to licenses, managing a portfolio of brands in different markets, converting the marketing sector from the cost one to a the profit one, decisions on withdrawing a particular brand from portfolio of brands, and so on.

Keywords: brand, product, consumer, strategic tool, brand value, company value

Introduction

In modern business branding is extremely tedious and time-consuming task that is almost unthinkable and impossible without all the management activities and strategic marketing advantages. The basic condition is that the brand reflects the quality of the product. Also, the brand has to carry a distinctive message. The brand has to be taken seriously—it is created but when put on the market it begins to live its own life in the minds of consumers and it creates a new value itself. It is not possible to manage the brand quickly and easily, on the contrary it is a long process that requires a lot of money, time, effort, and a lot of knowledge to create a successful brand, and on the other hand, it could be ruined in only one day. It all depends on all the marketing activities and permanent quality, design, rational manufacturing, technological knowledge, appropriate
incentives, and in some cases on legislation.

To clearly, consistently, and scientifically explain the theoretical properties of this structure and operation of such works, it is necessary to present the issues in a number of related thematic units, namely: (1) concept and definition of the brand, (2) importance and role of brands, (3) value associated with brand.

The Concept and Definition of Brand

The brand can occur in the form of brand products (brands), service brands, and corporate brands, but in practice it is increasingly occurring, and therefore subject to study, so-called private, i.e., a trademark, along with the unavoidable observation of the image of the country of origin (Đorđević & Veljković, 2009, p. 9). It is possible to say that the brand has been existing since the beginning of the market.

Today, the brand is most often perceived through the trademark assigned to company’s products, services, concepts, procedures, etc. As the basic feature, brand is most often perceived as a guarantee of constant quality that is recognizable on the market. They may consist of several elements and the basic characteristics are symbol and name. Brand can be seen as part of the added value that enables differentiation from “non-marked” (non-branded) property, which significantly affects the overall perception of the features of the property taking into account (usually) the meeting of basic needs.

There are different definitions of brand. Brand is a name or sign, which indicates the manufacturer or when it is launched to the market (Pjanić, 1975). “Brand is a name, term, sign, symbol, design or a combination aimed at the identification of goods or services of one or a group of producers and their differentiation from competitors’ goods or services” (Kotler, 1989, p. 495). One of the most widely accepted in the literature is the one made by the American Marketing Association (AMA): “A brand is a name, term, sign, symbol or shape, or a combination thereof, with the goal to identify products or services of one or a group of sellers and to differentiate them from competitors (products and services)” (Keller, 2003, p. 33).

Based on the a few definitions of brands, the following conclusions can be made: (1) that it is always a verbally or symbolically expressed term; (2) that it determines the identity of the same product or product line in a trade organization; (3) that the brand name differentiates a product or a production program or item from the competitor’s ones and; (4) that it tends to achieve consumer preferences, brand loyalty, and reputation of the company.

The Importance and Role of Brand

The importance of brands is reflected in the changed markets. The truth is that they are created in large corporations and that they require significant investments, complicated processes of research, planning, budgets, and all that because of the projected goals. On the other side there is no doubt that consumers are actually controllers of their life spans. Depending on the degree of acceptance by users of brands they record the results regardless of the fact whether they are positive or not. Olins (2008, pp. 15-28) believes that the world of competition, which is a reasonable choice, becomes almost impossible; brands represent clarity, new safety, consistency, status membership, all that allows people to determine themselves. New strategies of brands have shaken to the core of the classical approach to marketing. They have especially impacted the processes of their own generating. If trends added the major political and economic changes in Europe and wider, than it understands entering the importance of brand into modern business and life as a whole.

Value Associated With the Brand

The brand is primarily intangible assets, a key element at the disposal of companies, which, if used in the right way, has the force on the market to show businesses, products, or services, attract and retain market, and
generate such large inflows that can be converted into a significant value of the company that owns the brand
and thus guarantee an advantage in market competition, which will be timed sustainable (Predović, 2007, p. 7).
Brands have their own value in the market, but few companies know the value of its brands because it is
difficult to calculate the exact value of brand.1

A more known method of measuring brand equity is a measure of substitutability developed by Longman &
Moran. According to this model, a key indicator of brand equity is the rate of repeat purchases, along with a
market share of course. This rate indicates how many consumers who have bought a particular brand will do it
next time.

Qualitative value of the brand is represented by: quality perceptions, satisfaction, or dissatisfaction of
consumers/customers, their loyalty, competitive advantage of products or services. According to David A.
Aaker, brand elements can be grouped into five categories that represent the core values of the brand: loyalty of
brands, awareness of the name, perceived quality, associations related to the brand in relation to the perceived
quality and other protected values (elements) of the brand.

If the brand is not managed properly, its value is decreasing. Also, if not selected in the right way same
thing happens, and it causes decrease of value for the consumer.

**Defining and Building of the Brands’ Value**

Brand evaluation involves the assessment of the overall financial value of brands. When it comes to
famous brands, equity generally exceeds 50% of the total market capitalization of the company (Kotler &
Keller, 2003, p. 290). Some companies base their growth and development on the takeover of and the building
of brands. The evaluation and measurement of the brand as a key factor of “intangible” capital become a
priority. Evaluation of brand management involves primarily assessing the real value of the brand. In principle
brand cannot be viewed as an expense, rather as a direct marketing creator of profit.

The value of a brand is a function of the power of the brand and of various factors (e.g. sales income),
which are caused by the ability of the company to exploit the strength of the brand. Therefore brand power does
not necessarily mean greater equity.

The strength of the brand is the differential contribution that gives insights on how consumers will react to
the marketing strategy of the product or service. Premium prices, increased loyalty, increased perception of
product’s performance, increased effectiveness of communication are just some of the dimensions of brand
power (Chernev, 2014, p. 110).

Targeted, special attention and a lot of space are devoted to the topic “Defining and Building Brand Value”
gooding to which the whole issue is presented in five thematic units, namely: (1) equity, (2) creating brand
equity, (3) brand as an intangible property, (4) MRS 38—Intangible Assets, (5) methodology of calculating the
value of the brand.

**Value of Brand**

Value of the brand highlights the perception of the brand marks by the clients, as well as their sense of
loyalty to the brands.2 The brand includes the core product or service, all the additional products and services,
as well as all relations which are in some way related to the brand.

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1 Slobodna enciklopedija. http://hr.wikipedia.org/wiki/Brand (access on 08.05.2012).
2 https://docs.google.com/viewer?a=v&q=cache:kJnZdUe71J:100megsfree.com/memo/market/ (access 22.05.2019).
The importance of brand equity consists of a number of benefits for companies that own brands. Brand equity is positively related to brand loyalty. More precisely, the value of the brand increases the probability of choosing brand, which leads to loyalty to respective brands (Pitta & Katsanis, 1995). Possibility of extending the brand to other product categories is also one of the benefits it provides.

The value of strong marks is reflected in how the brand contributes to total income which can be seen as the brand capitalization in the market. Key factors that affect the value of the brand are (Predović, 2007, p. 157): introduction of new products, problems with the functionality of the product and not fulfilling the expectations given through optimistic promises that drew attention to the products, changes in top management, competitors’ activities (processes of globalization and uneven development of markets), and legal activities and procedures of checking legality.

Brand value is not changed markedly in the short term, but the deviations are very small, except in the cases of large and easily identifiable market disorders.

Creating Value of the Brand

The value of a brand is a testimony of the influence of the brand to achieving market success of the brand owner, it can be observed through the added value of a product or service achieved due to the fact that it is owned by the brand. The value of the brand is a long-term endeavor, and brand management by complexity goes beyond the product or service.

The overall brand equity is determined by the current and past market success rendered by the ratio of profit and sale, the future expected market successfulness presented through the expected relationship between profits and sales and relationship between customer and brand expressed through their perception i.e. the brand image in the market.

The long-term observed successful brands contribute to the growth of its value, as well as the value of companies which are their owners. Although the importance of a good brand is very high for enterprises and for consumers, problems arise when we want to accurately “measure” or quantify the value of a certain brand. That is primarily the fact that the brand is basically of immaterial nature, and that it is necessary to not only capture the past and present state, but also to assess future trends and prospects of development of a particular brand.

Brand as Intangible Property

Value of equipment, facilities, stock, and revolving capital of the company holds only a small part of the true value of the company. It is believed that 50% to 80% of the value contained in intangible property, but it is only contained in the books. What it consists of is items such as the brand, employees, suppliers, and intellectual property.

In the last decade, special attention was drawn to the prospect of observing with special care of observing the organization as a combination of tangible (material), intangible (intangible), and financial resources. In business today, intangible assets are getting a more and more important role, because its participation in the total value of the company in relation to material value is very big. Intangible property is regulated by the International Accounting Standard (IAS) 38.

IAS 38—Intangible Assets

The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not specifically addressed in other international accounting standards. This Standard requires an entity to recognize an intangible asset only if certain criteria are met. The standard also specifies how to measure the accounting
value of intangible assets and requires certain disclosures about intangible assets. Intangible assets are non-monetary assets without physical substance that can be identified.3

The definition of an intangible asset requires an intangible asset to be identifiable in order to clearly distinguish it from goodwill. Goodwill recognized in a business combination is an asset representing the future economic benefits from other assets acquired in a business combination that is not individually identified and separately recognized. The accounting comprehension of intangible assets is based on the useful lifespan of it. The subject will assess whether intangible assets have a finite or indefinite lifespan and, if finite, the length of the useful lifespan or the number of products or similar units constituting that span. The deadline of intangible assets, based on an analysis of all relevant factors, it is not possible to predict the subject will treat as assets with an indefinite useful life. The future economic benefits flowing from an intangible asset may include revenue from the sale of products or services, cost savings or other benefits arising from the use of the asset.

**Methodology for Calculating Brand Value**

It is possible to determine the brand value based on assumptions about the earnings from licensing the brand. Basically there are several models for measuring brand equity, and they can be classified in several groups (Predović, 2007, p. 170): models are based on the cost; models based on discounting future costs; models based on a comparison with a company with no brand; models based on an estimate of residual income and combined models, mainly applied by the consultants.

Developed are a lot of methodologies that are based on the financial value and most of these models are based on several fundamental new bases in terms of evaluation techniques: performed is prediction of future revenue of the brand; deducted are then operating costs related to the specific brand name; determined is the extent of the profit earnings of the (concrete) brand, and discounted is the value of the profits to their present value using a discount rate that is based on the uncertainty and risk of future profits.

**Effect of the Value of Brand to the Value of the Firm**

The value of a brand is a very important and significant asset, strategic weapon, and it need have to be managed from a position of supreme management. It is necessary to ensure that actions to enhance the value of one brand do not have negative effects on the value of other brands; all activities of brands, which are related to a certain brand, should result in the increased portfolio of the brands. Firms may have legal ownership of the brand and may dispose of them as well as of other property.

**Importance of Brand in a Modern Business Environment**

Creating brand (brand) in the modern business is highly demanding, complex, and time-consuming task that is almost impossible to perform without all strategic marketing management activities, and commitments to this vision of the highest management structures in the company.4 The basic requirement is that the brand reflects the quality of the product: no product of poor quality has made a success in the market, no matter the brand. In addition, the brand needs to have a story and a clearly recognizable message.

**Influence of Brand on Market Position of the Firm**

When considering the impact on the brand to the value of a company, especially those listed on the stock market, it should be taken into account that part of the achieved market value is speculative, and the price is

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3 http://srr-fbih.org/MSFI_MRS/26_MRS_38.htm (access 22.05.2012).

4 www.poslovniforum.hr/novosti/upravljanje-markama/poglavlje02.pdf (access 22.05.2012).
formed under the influence of supply and demand for the shares of the company, which is under the influence of a large number of factors.

Positioning is the key process of successful brand management. Brand must be directed towards the right consumers in the right way. Therefore, the positioning is considered to be a process of creating a supply for the company and a corresponding image, which will occupy a special and preferred place in the minds of the target consumer. In the contemporary market conditions the choice of goods, in the final instance, is reduced to choice of the brand. Success is defined by the company’s access to market positioning. Brand influences the company’s overall trade position and defines its relationship to competition.

Enhancing Brand Value

Brand management strategy is based on an analysis of market opportunities, competitor analysis, and the current position of the company. The building of the real equity takes years, decades. The development of strategy is aimed at positioning the brand, including strategies of segmentation and differentiation.

Corporate marketing strategists use technique of enhancing the value of a brand usually by adding new features, special promotions, or by entering into an alliance with another brand in order to differentiate their products and services from the competition; however, in a time of recession, some things have changed.

Brand and Competitors’ Benefits

Brand equity is affected by dimensions: brand awareness, brand loyalty, perceived quality (brand and products and services that are owned by the brand), associations related to the brand, and other benefits arising from the ownership of the brand (patent, trademark, relations with distribution channels). For the market value it is necessary to take into account the competitive relationships expressed through positioning in the market and the perception of target customer segments.

In order to build a successful and strong brand it is necessary to be familiar with the competition, and accordingly design and implement a well-positioned brand. By offering brand, the company offers consumers a promise to supply the specific combination of features, benefits, and services, which is a guarantee of quality for the consumer. Firms must carefully choose how to be different and stand out from the competition. It’s the kind of media manipulation.

Estimate of Brand Value

The importance of evaluating the brand over time is increasingly important as consumers buy products with that brand with which they are connected, that is, on which they have a positive opinion. The brand is an intangible asset, the realization of its assessment is harder than of tangible assets. If one wants to estimate the value of a brand company, he/she takes into account the company’s sales for any product that carries the brand. Primarily it is referred to the degree of recognition associated with the brand, for example, a company with a strong brand, a brand that is known as a good and positive for customers, can launch a product that will be accepted by the consumers before the same product of another brand. Brand directly affects sales. “Brand equity is reduced, if wrongly chosen or it is not managed properly, thereby reducing the value of the product or service that you have for the consumer/user.”

“Brand value of the company is kind of assessment that aids the company in determining what kind of name is associated with the brands, and how this type of intangible assets is used in ongoing success of the business. The idea behind this type of assessment is that the idea of how

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5 http://wikipedia.org/wiki/Brand.
consumers are closely associated with the brand. Higher value means that the name provides a significant benefit to the business in terms of revenue generation and public acceptance. If a brand valuation is a little low, it tells the company that the brand is doing very little to improve the company’s reputation.\textsuperscript{6}

“Evaluation of brand evaluation often requires research into what people think about a particular brand…”\textsuperscript{7}

\textbf{Evaluation of Company’s Value}

Sometimes, the company value has to be determined. The reason for the estimate does not have to be exclusively for the sale, it may be due to fusion, granting loans, inheritance, etc. Company evaluation is the process of determining the present value of a company based on past and estimated future business results in order to obtain a more realistic current value of the evaluated item. The assessment procedures use complex mathematical and statistical evaluations of empirical methods, where they come to the most realistic current enterprise value.

Realistic assessment of the company is extremely important to our partners in investing in the expansion of the business, so that the new investment would contribute to the long-term stability of the main company as well as the management, thus bringing profit to shareholders and to customers who want to invest in the company. The assessment of the company is determined by the present value of companies based on past and estimated future results to obtain an objective value of the enterprise.

\textbf{Valuation by Using Financial Statements}

The analysis of financial management tends to look in the future of business. These indicators are related to the composition and method of fund assets, efficiency, liquidity, and profitability. Its task is to identify weaknesses and good qualities of the analyzed company. We distinguish several groups of the analysis of financial transactions: indicators of security of business, and this indicator is divided into liquidity indicator and debt indicator, activity indicators, and success indicators. From these parameters we can get a clearer picture of the business. Assessment of the company is determined by assessing its earnings in the future.

\textbf{Reasons for Assessment of Companies}

There are various reasons for which the assessment of companies is made. Reason for estimates does not always include buying or selling. Estimates are most often made for the purchase of businesses, selling of businesses, mergers and investments in companies, but there are other reasons. The reasons for the valuation of enterprises are: buying companies, sale of companies, fusion (merger), investing in the company, approving credit, success of the company, and dividing the inheritance.

\textbf{Methods for Estimating Companies}

In the world there are many methods of assessing companies. We distinguish two main divisions which are based on two possible grounds: The method of valuation of assets, it is based on the property and estimation method based on earnings, and the fundamental basis for this method is earning.

Small businesses are the production and market highly flexible and elastic, easier is the assessment of their values, their financial planning and restructuring is easier and more reliable, lower are their receivership costs and receivership consequences i.e. financial cost of receivership, etc.

\textsuperscript{6} http://financija.nutiti.com/sto-je-brand-vrednovanje.html.
\textsuperscript{7} http://financija.nutiti.com/sto-je-brand-vrednovanje.html.
In theory and practice, generally, all valuation methods of estimating the value of companies are divided into three groups (Kumalić, 2004, p. 440): statistical methods, dynamic methods, and combined methods.

Sales Value of Companies

Selling price is a result of the decisions of buyers and sellers in the purchase and sales of companies. The value of the company, which is obtained as a result of valuation must be considered separately. It does not mean that the company is sold based on the assessment, the decision is on the seller and potential buyer. It is understood that the assessment substantially affects the price, affects the negotiations. In the process of assessing the estimated enterprise value is subject to argumentation.

To determine the value of the company it is necessary to have a broader theoretical and practical knowledge of appraisers, it is a very demanding and complex task that carries great responsibility. In assessing it is necessary that the appraisers adhere to the rules of the profession. It is possible to distinguish the valuations based on assets, and company valuation based on earnings. Methods based on the property are the valuation of the company based on historical accounting data.

Conclusion

The brand has become an important marketing tool with the help of which value is created for consumers in the market. Created value allows companies to improve the competitive position in the short term, gaining competitive advantage in the medium and long term and it makes possible for growth and development of companies along with improvement of financial performances. The very brand in the market creates a certain position which is necessary to analyze and adjust it with the positioning of the company as a whole. Brand value is one of the key factors for determining the position of the company in today’s turbulent market and for its survival. The concept of brand marketing and business management in recent years has significantly changed over a period of twenty years or more. Brand makes it possible for the creation of maximum value for consumers. The growth reflects the value created to increase sales, improves the competitive position of the company, and contributes to the improvement of financial performance.

Observation of brand by focusing on the impact on consumers and companies (the impact on the growth of tangible and intangible values) in the medium and long term is the basis for the modern understanding of the role of brands in the market. Brand is a contemporary dimension to the company’s strategy (whether trading or manufacturing). As an element of the portfolio a trade company becomes a modern characteristic of marketing. In managing the portfolio a value and reputation of the brand play a crucial role. In the modern market conditions the choice of goods in the final selection of the brand is reduced. It gains in importance as a means of differentiation from the competition, which means carrying out the strategy of market positioning. The study has confirmed the hypotheses: the brand value is one of the key factors for determining the position of the company in today’s turbulent market and for its survival, the brand ensures market identity, the brand is a contemporary source of market competitiveness, and the real value of a brand is a direct function of market competitiveness.

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