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Intangible assets as a source of competitiveness in the post-crisis economy. The role of brands

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Abstract. *The post-crisis economy brings changes in the functions of the brands. The aim of this paper is to evidence the functions of the brands as part of the intellectual property and of the intangible in the post-crisis economic frame and to offer an overview of the evolution of these functions before and after economic crisis.*
The economic crisis was and still is a real challenge for the companies that overrated their intangible assets or which kept in their balance the intangible assets with no correct estimated market value. Hereby, some companies were gaining from crisis because of the good management of intangible assets, but some were stand to lose. The new economy needs innovation, flexibility, and competitiveness in order to face the competition between brands.

Keywords: new economy; intangible assets; brands.

JEL Classification: F29, O19, O31.
REL Classification: 11C.

1. Introduction

The knowledge economy requires increasingly the intangible as the main trend especially in the current post-crisis economic frame. Intangible assets were immune against the crisis, while tangible assets have suffered from it.

In the new economy, what matters is the pattern of thinking adopted and the creation, which represents the key of competitiveness. The ownership of ideas and how to exploit their economic potential are the factors that influence more and more the future of the organizations and companies, and also it is the one that gives the competitive advantage in the market. The economic crisis has nothing for it but to emphasize the role of intangible assets.

The companies based on intensive knowledge exploit the new ideas that lead to innovation. In the new economy, a business can be built around a pattern of thinking rather than a model of products and services.

For an organization to be effective, must be efficient allocation of the resources and the transformation of the economic value of intangible assets, equally.

However, the investment in intangible assets (brand(1), know-how, human capital) leads to rapid and flexible adaptation of companies in the market. Ultimately, the theory of new economy shows that, excluding products and services, the market competition takes place in terms of intangible assets.

But this philosophy began to be accepted since the beginning of the 21st century, until then being accepted the strong influence of the ideas of Adam Smith, that the work should be divided so as to produce as much as possible in a short time. The new economy, the knowledge economy, imposed new perspectives. Being a vital element, the knowledge must be preserved by the companies that want a sustainable profit. Thus, considering the fact that, today, with only one click, the competition may immediately copy the product of a company, and even make it cheaper and more efficient, the company must have a new knowledge at higher level, being ready to bring out a new product immediately, more efficient and more competitive than the previous product.

2. The role of brands before and after the economic crisis

The tangible assets are the physical assets generated by a company. Often, it does not matter for the value added very much what investors invest in company. The rest of the company's value is generated by the intangible, i.e. intellectual property, research and development. Due to globalization manifested in the new economy, the intangible assets have replaced the tangible assets, becoming the largest source of value added and of innovation. Among intangible assets the brands are the most valuable. "Like other forms of intellectual property, the brands are created and developed by effort and attitude of the people" (Gordon et al., 1994, p.110).

The brand is an intangible asset with a very high percentage in the business of a company. The importance of the brand for the value added of companies consists of several aspects: the relevant products and services, ahead of the competition, protection of company's reputation and goodwill, consumer protection, the importance in company's transactions (acquisition, merger), the conquest of new markets (it refers to the extensibility of the brand), customers' loyalty, creating and maintaining a favorable image for the company by consumers or business partners.

A brand works on a market as cyclical process. The brands create value by the fact that generating demand and providing the earnings of companies in the future, they allow price increases to a certain volume of sales. But brands cannot survive in a passive medium, markets are dynamic and therefore their influences on them are constantly changing. Thus, brand strategies must distinguish and adapt to market, brand management being a constant process. The brands must be synchronized with the markets in which they operate.

Due to the global economic crisis, the subject of intangibles and, in particular, of brand is intensively discussed. Thus, some companies have benefited from the crisis following administration of intangible assets and others had lost from it. The credibility of this theory remains to be seen by studying the economic functions of the brands and their role in the market.

In the economic crisis, many consumers were forced to reduce their expenses and therefore were more aware of the choices they have made.

An Interbrand(2) report presents a ranking of the three remaining brands in consumer preferences in time of crisis: Apple, Sony and MAC Cosmetics. Even in the post-crisis period, Apple remains number one brand in specialty charts.

To survive the economic crisis, it was necessary that brands give consumers also emotional satisfaction, not only to meet their needs. Creating an emotional connection between the consumer and the brand saved the latter from economic collapse. The closer is a brand to the consumer, the more it becomes indispensable for him and, even if recession, will not give up to buy it. During the economic crisis, consumers have generated a significant value added to the brand which highlights in the post-crisis.

3. Monopolistic competition – copetition of the brands

It is important to note that makes sense the study of brands only within markets with imperfect competition, the monopolistics specifically. The monopolistic competition is the competition in a market that has "sufficiently many companies, so each of them to assume that their rivals will not change the price even if they decrease their price" (Stiglitz et al., 2005, p. 220). This type of competition implies two conditions. The product differentiation – the most important condition - means that a product of a company has different characteristics from the competition which makes it "unique producer" and commutes the monopolistic competition to a competition between products, finally. Here comes the role of brands that have become very important elements in the contemporary economy. Consumers can structure the supply due to brands. Only the brand is the one which "shapes" the value of companies.

The monopolistic competition has several features necessary to mention to understand the importance of studying brands within it:

1. the companies' size: the bigger they are, the lower is their number and vice versa;
2. the companies face restrictions due to brands;
3. there are necessary some additional expenses related to product differentiation;
4. the higher is the cost, the higher is the price.

On the monopolistic market, the companies set the price, and the competitive companies have the marginal revenue equal with the price. The price fixing is such as to take place a profit maximization. The demand curve is more inelastic, as the company will differentiate more products. In this case, the company can raise the prices without substantially lower sales.

The company sets the product level at that level where the marginal revenue will be equal with the marginal cost. The monopolistic market equilibrium can be described by the following aspects: the price exceeds the average cost at which economic goods can be produced, at a higher price produces a smaller amount of products (Stiglitz et al., 2005, p. 241) and individuals appreciate the diversity and therefore the producers are forced to diversify their brands. It is mentioned that the economy efficiency consists exactly in the "fight" between manufacturers of different brands.

According to a study by Brand Finance(3), the brands tend to change the supply curve at down due to the following elements: large volume of sales as a result of consumer loyalty, low cost of capital, economies of scale achieved through higher volumes.

Therefore, it turns out the importance of intellectual property in the new economy, especially in times of economic crisis. Brands are the ones that make the difference in a market with monopolistic competition.

4. Brands assessment methods relevant in post-crisis

In the new economy, it is noted a strong tendency to mergers and acquisitions, where the real stakes are the intangible assets, mainly brands. Old brands are huge sources of profit; additionally, the creation of a new brand today involves too high amounts, especially due to the outcomes of the economic crisis. The importance of assessing brands began to appear from the '80s, among with the wave of mergers and acquisitions at that time. Mergers and acquisitions are the most important applications of brand valuation in the context of economic globalization and the economic crisis. Thereby, it extends the global impact of the brand.

The brands are assessed by reference to the various elements that can be compared: the level sales, market share, cost of production, cost of sales, operating profit. In terms of assessment, the brand is a sustainable asset of the company, which can be very valuable because it is the result of investments to improve market position.

In the literature it is considered that "the value of brands is the consumer guarantee, so if manufacturers deceive consumers' expectations, they will respond by devaluing the brand" (Gordon et al., 1994, p. 111).

In terms of assessment as an intangible good, the brand is the result of investments in order to maintain the goods' quality. Value of brands includes all the benefits that will have the consumer who has purchased the economic good. It is considered that the most valuable brands for companies are those that are relevant to the buyer's decision to buy an economic good. When a company has captive customers, who buy because they have no choice, it is considered that the brand has very little value.

The elements that add value to the brand in the post-crisis economy are: position against the competition, the impact on consumers (with everything involving him: loyalty, recognition or rejection), development potential of the brand (which is associated in assessment methods with some indexes) and company's ability to exploit brand. But why is it necessary to assess the brands? The value of a brand can be perceived as useful in the balance sheet; but actually these are the applications of brand assessment: setting the position from competition, establishing the market strategies, securing the funds by identifying the intangible assets, mergers and acquisitions, value-monitoring over the years, investor relations, resource allocation within the company.

"There isn’t value, only values" (Puiu, 1996, p. 66); therefore, for the same brand assessment the results using different methods will be different.

"In turn, the brand has incorporated some assets" (Aaker, 2005, p. 50), and a full assessment of it must include its assets analysis.

1. *The loyalty* refers to levels of consumer loyalty in each market the brand activates and involves leverage tradings and time to respond to competitive threats. There are several levels of customer loyalty towards the brand: loyal consumer, satisfied consumer, possibly dissatisfied with possible changes of the brand, dissatisfied consumer who does not move to another brand, dissatisfied consumer for which the switch to another brand is not profitable, consumer easily switching to another brand, not having the loyalty towards the brand. The value of a loyal consumer is the impact that his purchases has on market, not their value. A common strategy today, but erroneous, is to attract new customers, while neglecting existing ones. This happens despite the fact that it is much cheaper to maintain the old customers than attracting new ones. The consumer loyalty is a barrier to new entry of competition in the market. On the one hand, it can be difficult to enter a market where consumers are loyal to existing brands, but, on the other hand, can be a real challenge. An important measure that can be taken is to create consumer loyalty costs shift to another brand.

2. *Recognition*, the second asset incorporated in the brand, involves the degree of recognition of the brand in against the competition; it relieves the brands that matter within the market and therefore can be considered for this attribute that it is interconnected with the economic "life" of the brand.

3. *Perceived quality* – the third asset incorporated in the brand – refers to the attributes that signal brand’s quality and how it can turn into a competitive advantage; in most cases, the price is an indicator of the asset. Perceived quality incorporates value through the following aspects: the reason behind the acquisition, product differentiation in the market, interest of distribution networks.

All assets listed above create value for the company. For example, they influence consumer preferences for a particular economic good and thus increase sales. In addition, strong brands represent competitive advantages in the markets they serve.

It further summarizes a number of methods to evaluate brands considered to be relevant to the topic of the paper, rather for post-crisis economic frame: Interbrand, BrandZ, developed under aegis of Millward Brown[(4)], and stock value method.

The Interbrand Method treats brands as some financial assets that create significant added value for companies. The evaluation by this method can be applied only for big companies and it is based on how much the brands are likely to earn in the future. Over 20 years, the company has evaluated over 5,000 brands worldwide. Interbrand studies goal is to demonstrate that the brands are very important assets for a business, in many cases the most valuable. John Murphy, founder of Interbrand, made a very interesting statement: "The tendency is to treat major brands as goods being bought, sold, stored, mortgaged, transmitted through a license, and so on, not as tiny particles like Scottish fog, which is everywhere, but can not be found again" (Cocos, 2003).

There are several conditions that a brand must fulfil in order to be evaluated by the Interbrand method: there must be public data on the financial situation of the company, at least one third of the brand's earnings must come from outside the country of origin, the value added must be positive; the brand portfolios and the airlines have to be excluded.

This method studies three aspects:

1. The financial performance of the branded products or services, in which data on revenue streams assigned to intangible assets is processed. Then is determined the revenue assigned to the brand by Brand Index. In the next stage of financial analysis, the revenue is discounted using a discount rate. Discount rate is the score that determines the strength of the mark. All financial analysis that the brand is subjected to is drawn using public financial data of the company.
2. The role of brand in the purchase decision process: analyze how the brand influences consumer buying decision applied to economic gainings leading to earnings of the brand. At this stage it is made out a forecast for the next five years of the earnings generated by the brand, depending on the values of the previous year (future cash flow capitalization method).
3. The strength of the brand: this is a reference parameter for the brand's ability to bring income and future benefits. The advantage of the strength of the brand is that two brands that can generate future income identical can have different values. Brand strength is actually a combination of seven factors; each factor receives a rating. Factors are weighted so that the total score is up to 100. Factors, in turn, are decomposed into sub 80-100 indicators, which vary from one area to another.

To approve the brand value obtained, it is made a legal analysis to verify that the brand belongs to the company.

Interbrand reports emphasizes the importance of brand capacity to create its own demand and sees it as an aim.

Specialists from Interbrand have developed another method: the future net profit update. This is done by providing a consistent link between past evolution in profit assigned to the brand (the last three years) and its future evolution (maximum five years). But there are not taken into account profits from franchising, or the ones obtained from expanding its product range.

The Millward Brown method is based on a strong correlation between perceived brand value and growth potential of the market share.

Unlike Interbrand method, which applies only to large companies, Millward Brown evaluation method works for both large companies and small ones, and includes three steps, described in the following.

1. Calculate current earnings of the company, based on public financial data. Then calculate the total revenue for each brand of the company (if it has many), for each geographical area or market. From this revenue there are deducted the operational costs, taxes, current income taxes. It is obtained an outline of the company's total intangible assets.
2. Apply Brand Contribution Index, which shows the level of origin of the company's revenue for the brand. This index can have values from 1 to 5, so the brands with index 5 are those that bring most of the company's revenue. This index is determined from the analysis of that country, that market and the studies on the brand made by the company Millward Brown.
3. Forecast the revenues provided by the brand, with a forecast growth or possible risks. Some forecasts are analyzed for the markets of the countries in which the brand is present and how it can influence future brand shares.

The result is expressed by an index called Brand Momentum, which can have values from 0 to 10. Value 10 marks with the highest potential. It also estimates the risks associated with these future income.

Brand value will be calculated by the formula(5):

$$\text{Brand\_value} = \text{Intangible\_revenue} \times \text{Brand\_Contribution} \times \text{Brand\_Multiple}$$

The method is one of the most appreciated by professionals and enables companies to evaluate the performance brand in competitive markets. Unlike other assessment methodologies, this method is also based on interviews with more than one million customers in 40 countries.

Below are exposed major changes that took place in BrandZ reports in the post-crisis period. Since 2010, the report also highlights the importance of social media within the relation between brands and consumers. Online communities created in the post-crisis emphasized how brands have loyal and aroused the interest of consumers. In addition, the online phenomenon is growing increasingly larger and is very vital for successful brands. Since 2011, BrandZ introduced two new indicators in the analysis. These indicators are closely connected with social media implication and post-recession period. TrustR is an indicator that refers to the combination of consumer confidence developed over time in the brand and recommendation on fulfil the promise. The second indicator is ValueD and represents a balance between consumer desire and the price they are willing to pay for that brand. The two indicators help brands optimize sales, profit and market positioning.

The crisis has revealed many questions about consumer behavior. Confidence in certain brands became increasingly enhanced among consumers. Another important aspect is that after the financial crisis consumers became more alert to the company's policy of environmental responsibility, therefore companies that add "green" value to their brands had won.

Since 2011 Millward Brown top brands has new entries from emerging markets such as China, India, Brazil, Russia. The 2012 Top even has new entry from Africa and from Australia. Also starting in 2012, one of the top five brands come from a developing economy.

The stock value method refers to the fact that the value of a brand can be understood as part of market capitalization, so that:

- If the percentage of market capitalization value is low, it means that in those businesses the largest share belongs to other types of assets.
- If the percentage of market capitalization brand value is high, it means that in the business the brand has a very important role. Therefore, investors should be cautious to brand value development as a crash can make them lose income.

The method is actually based on the theory of efficient markets, that available information about the future profitability of the enterprise are provided by data exchange (Feleaga et al., 2004, p. 166). The stock value method can be described as follows: the company's market value will decrease the replacement cost of tangible assets; from the obtained value, which represents the balance as intangible asset, brand value is extracted using statistical regression.

Given the above, the economic crisis has been and is still a challenge for companies which overstated intangible assets or kept in thier balance intangible assets without a fair market value appraisal. Thus, some companies have benefited from the crisis as a result of administration of intangible assets and others had lost.

Conclusions

In the new economy, brands play an extremely important role. At company level, the brand is the "engine" element to make it work on a highly competitive market.

A valuable brand brings many benefits to both producers and consumers in the post-crisis period. Of these, the most important would be outlining customer experience, optimize investment in mergers and acquisitions, insurance profits and protect market share.

In times of crisis, new opportunities for brands are created: the opportunity to show the strength on the market or increase their market share. An alternative to this could be the application of competition function by creating new products, possibly according to short-term consumer needs. Also, it is necessary for brands to be as transparent as possible in relation with the market in order to survive the crisis.

Paradoxically, the financial crisis revealed brands from emerging economies.

In the post-crisis, can no longer discuss about mainstream consumers in the same proportion as before the crisis. They are often making a choice of quality or a choice of price. Furthermore, the consumer decides, increases brand value by supporting through social media, promotion, while before the crisis the consumer has to be charmed by the brand. The brands that have managed to differentiate survived the crisis and more than that, they managed to gain a stronger position in the market.

Notes

(1) According to Oxford Dictionary:
Trademark = a symbol, word, or words legally registered or established by use as representing a company or product
Brand = a type of product manufactured by a particular company under a particular name: a particular identity or image regarded as an asset
Author's note: Trademark is the business' property and has to be registered in authorities as a legal property. This paper is about brands.
Legal protection given to a brand name is called trademark.
Read more: http://www.investopedia.com/terms/b/brand.asp#ixzz2CxR6OqZc

(2) Interbrand is one of the world's largest branding consultancy companies specialized in branding services including brand strategy, analysis, evaluation, management of brands and brand portfolios.

(3) Brand Finance is a consulting company to evaluate brands.

(4) Millward Brown is a company specialized in branding, media and communication.

(5) According to BrandZ Reports 2007-2012.

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