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### Brand Valuation of Lien Viet Post Bank in the Period of 2018 – 2019

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#### Abstract

The content of the article presents the application of the Interbrand model to valuating for Lien Viet Post Bank. Brand valuation that takes into account the brand value in the customer's mind as well as considers other intangible factors such as the level of risk is considered a new point in

brand valuation. The results of the article present the brand value of Lien Viet Post Bank in the period of 2018 - 2019 along with recommendations to improve the value of Lien Viet Post Bank.

**Keywords:** Brand valuation, Lien Viet Post Bank, Interbrand, Brand value

#### 1. Context

Lien Viet Post Bank (LienVietPostBank – LPB) is one of 31 joint stock commercial banks in Vietnam and holds the 87th position out of 500 largest joint stock companies in the country. As of December 31, 2018, LPB's total assets reached VND 106 trillion, charter capital of VND 6,460 billion, an outstanding network of more than 10,000 post offices and post offices across the country.

The question is, with that achievement, how many points has the LPB brand gained in the hearts of consumers? If you want to know the answer, you need to determine the brand value. Compared to the most valuable brand in the Vietnamese banking industry, VietinBank, what percentage does LPB achieve. Knowing where the bank is can help map out long-term steps for the future. That is why it is important to value the LPB brand.

#### 2. Choosing valuation method

Interbrand (The most famous brand valuation organization in the world) considered as a pioneering car on the road of "resonance" brand quantification. Despite its many advantages, the Interbrand model (modeled in Figure 1) also encountered many barriers when reaching out to other regions. To be able to Vietnam seize the Interbrand model is not a simple matter, it needs serious investment. Above all, we need pioneers who dare to be strong and exploitable.

This article applies Interbrand's brand valuation model to the brand valuation of Lien Viet Post Bank. The valuation process consists of 4 steps: Step 1: Market segmentation, Step 2: Cash flow analysis, Step 3: Brand control model and Step 4: Brand risk model; as follows.

Step 1: Market Segmentation: Before performing the valuation, it is necessary to define the market segment through the analysis of survey results.

Step 2: Cash Flow Analysis; This step is essentially through financial valuation to determine the value of the business.

Step 3: Brand control model combines the above market segmentation and cash flow analysis to determine the Brand Role Index; This is a combination of marketing and finance.

Step 4: Brand Risk Model involves determining Brand Strength and Brand Discount Rate.

While doing the calculations in the process, values like Brand Cash Flow, Brand Discount Rate and Business Value will contribute to the business value adjustment, thereby contributing to improving the brand value of Lien Viet Post Bank.

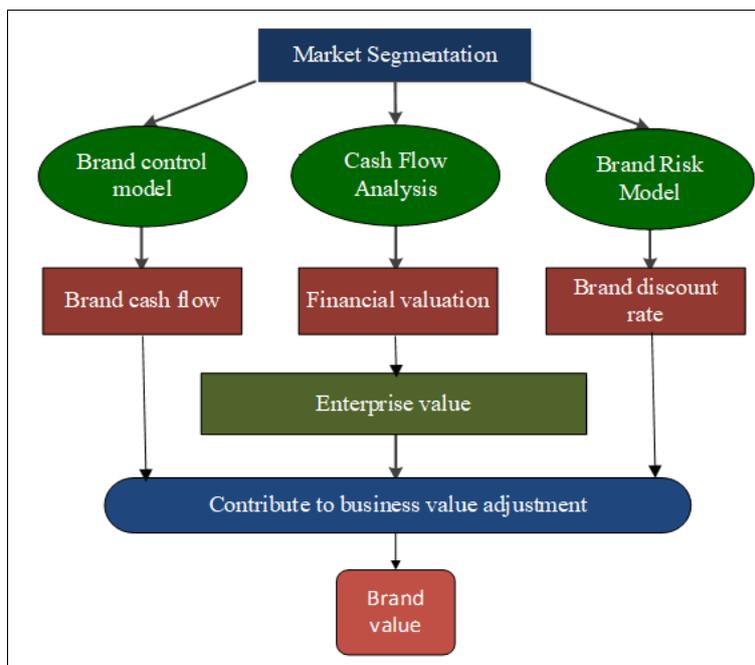


Fig 1: Brand valuation process of Lien Viet Post Bank

**3. Brand valuation of Lien Viet Post Bank**

**Market Segmentation:** Surveying over 100 people of different ages, regardless of gender, and localized in public places. Detailed questionnaires are not presented in this paper.

**Survey results:**

- Statistics by sex, the proportion of men and women participating in the survey is 41% and 59%, respectively.
- Statistics by age, the proportion of age groups of 18-25, 26-35, 36-45 and over 45 years old participating in the survey is 6.36%, 67.2%, 21.15% and 5.29% respectively.
- Statistics on the number of people who know the brand, the rate of people who know the brand is 94%, or 188/200 participating in the survey.

In general, all customers participating in the survey are very sympathetic to LPB. In which, young customers are the most satisfied with this brand. Men are quite neutral in opinion; their evaluation is always average. There is a contrast between the views of women and customers over 35 on the Social Contribution criterion, which means that girls before the age of 36 feel that LPB has contributed a lot to society while middle-aged men and women alike consistently believe that the brand has little contribution to the overall development of the country. However, brand sentiment is equally good. Particularly, the bank identity system is rated as average by most of the customers. Thus, in order to create a brand mark and enhance its position in the industry, LPB needs to focus on developing an identity system and change its perspective on its social contributions to customers over 35 years old.

**3.1 Cash flow analysis**

The purpose of cash flow analysis is through financial valuation to determine the business value by formula. According to Interbrand's model, in order to calculate the value of a business, it is necessary to first determine the

value of Free cash flow to the firm (FCFF) and weighted average cost of capital (WACC). As a result, the value of LPB bank as of 2015 is 12485386.4 million VND equivalent to 558.6 million USD.

**3.2 Brand control model**

The brand control model is established through the Brand Role Index, which helps us quantify the market's demand. The brand role index is calculated by summing the influence of each criterion under consideration. In which, the influence of each criterion will depend on the average score (based on survey results by gender) and the weight (based on survey results by age) of that criterion. Calculating the steps according to the model, the results of the brand role index are presented in Table 1.

**Table 1:** Brand Role Index of Lien Viet Post Bank in the period of 2018 – 2019

| Criteria                           | Medium score | Weight | Level of influence |
|------------------------------------|--------------|--------|--------------------|
| Identity system                    | 3.1          | 33.9   | 1.05               |
| Social Contribution                | 3.3          | 27     | 0.89               |
| Sympathy                           | 3.7          | 39.1   | 1.44               |
| Brand Role Index (Total Influence) |              |        | 3.38               |

From there, it can be concluded that the brand identity system, social contributions and goodwill of customers for LPB affect 3.38% of the total revenue from intangible assets.

**3.3 Net income generated by the brand**

After determining the LPB's Brand Role Index of 3.38%, the next step in the brand valuation process is to calculate the Brand Net Income by taking the product between Net Income of Intangibles (R<sub>IA</sub>) and the Brand Role Index. In which, R<sub>IA</sub> is determined through criteria such as: Earnings before interest and taxes (EBIT), Stockhold's equity (VCSH), Weighted average cost of capital (WACC), Return on Tangible Assets (RTA). The total net income of the brand is 10,323,162 million VND.

### 3.4 Brand risk model

To determine brand risk, it is necessary to calculate Brand Strength and Brand Discount Rate. Brand strength is expressed through the following 7 factors.

**Factor 1 - Leadership:** The maximum score for this factor is 25 points. Applying the model, the score of this factor is 23.5 points.

**Factor 2 - Stability:** Maximum score 15. Considering 15 criteria that create stability: credit balance increases year by year, loan sales growth, credit turnover, debt ratio bad decreases year by year, stock price increases. LPB criteria achieved will be counted as 1 point, otherwise 0 points. So, the LPB Stability score is 10.

**Factor 3 - Market:** Maximum score of 10. The brand role index and the maximum score specified by the model will determine the final score for the market factor. It's easy to calculate the LPB's market score of 0.338.

**Factor 4 - Geography:** Maximum score 25. Bank operating in any region will receive the corresponding score according to the convention presented in Table 2. Looking up the table, LPB falls on a scale of 5.

**Table 2:** Scale of brands by geographical restrictions

| Area               | Score level |
|--------------------|-------------|
| World              | 25          |
| 3 Great Continents | 20          |
| Asia               | 15          |
| ASEAN              | 10          |
| Vietnam            | 5           |

**Factor 5 - Brand trends:** Maximum score 10. Brand trends are determined based on the competitiveness of enterprises. LPB is a joint-stock commercial bank contributed capital by Vietnam Post Corporation, so it belongs to group 3 - Associate enterprises, with a scale of 6 to less than 8. In terms of establishment time so far, less than 10 years, so, a score of 6 is an appropriate score for the competitiveness of this brand.

**Factor 6 - Support activities:** Maximum score 10. This factor depends on the percentage of the cost of support activities, so the score for this factor 6 is 0.067.

**Factor 7 - Brand protection:** Maximum score 5. For each factor achieved by LPB in the items of the Trademark Protection System such as Copyright Registration, National Award, International Award, there will be specific score. The total score achieved is the Score of the 7th factor. Thus, LPB achieved 4.5 points in the brand protection factor.

Based on the above analysis and calculation results through 7 factors affecting the brand strength score of LPB. Brand discount rate is determined by using a formula involving Brand Discount Rate (R), Risk Free Rate of Return ( $R_f$ ), Brand Risk Factor ( $\beta$ ), Market Rate of Return ( $R_M$ ). The brand discount rate of LPB is 16.85% calculated.

### 3.5 Brand value

Finally, using the values calculated in the above sections, it is determined that as of December 31, 2018, LPB owns the brand with a value of VND 1,739,453 million equivalent to USD 77.8 million.

### 4. Analysis of brand valuation results in 2016

Do a simple division calculation to find out the percentage of LPB brand value compared to the total business value. Of the entire value of LPB, brand value accounts for 13.9%. A

rather modest number. This number tells a lot of characteristics.

- Firstly, LPB has not focused on brand development investment. The cost of advertising and marketing communication support accounts for less than 1% of the total cost.
- Second, tangible assets determine the survival of LPB. If LPB suffers a loss in the value of tangible assets, it will lead to the loss of the whole bank because there is no brand foundation and these losses are not supported by customers (brands with a ratio of brand value to total business value  $\geq 30\%$  are considered businesses capable of quickly recovering their position and preserving customers when they can compensate for the loss of tangible assets after the incident).

### 5. Compare LPB's brand value

#### 5.1 Compare LPB brand with other banks at the same time of establishment

In terms of establishment time, banks that can be weighed together with LPB include: Tien Phong, Bao Viet, VietBank. Here are some comparison indicators between these 4 banks.

#### Comparison of financial situation

In terms of total assets: As of 2018, LPB ranked 14th in terms of total assets in 31 joint stock commercial banks. Particularly in terms of total assets, LPB has far surpassed other banks established at the same time such as Bao Viet and TPBank. Among the 5 banks compared with LPB, there is also no bank with more total assets than LPB as of 2018. In the second quarter of 2018 Cafef continued to release a new statistic on the charter capital of joint-stock commercial banks. LPB ranked 16th out of 36 banks.

#### Comparison of brand promotion

On July 6, 2019, Vietnam Report Joint Stock Company (Vietnam Report) officially announced the Top 10 prestigious Vietnamese commercial banks in 2019. Although having a better business situation than other banks at the same time, in terms of investment and promotion, LPB is still slower than its competitors. SaigonBank and TPBank, although limited in capital, are quite sensitive to market trends, so they quickly entered the brand reputation rankings.

#### 5.2 Compare LPB brand with big domestic banks

##### Comparison of business situation

After 2 years, LPB has jumped to 12th place in the asset rankings. With these statistics, LPB is only ranked after 8 big banks, surpassing Eximbank - the 6th largest bank in our country. Although appearing 15 years later than big banks, with its efforts, LPB has shortened the gap with "seniors" spectacularly. With this growth momentum, it won't be long before LPB will be able to step into the position that many banks aspire to.

##### Comparison of brand value

LPB has a brand value of USD 77.8 Million. Meanwhile, the two leading banks, BIDV and VietinBank, were valued at \$255 million and \$249 million by Brand Finance, respectively. Although LPB's business situation in 2019 is "bright", even surpassing some of the leading banks in the industry, but in terms of brand value, LPB is still far behind

major competitors. This is a weakness that needs to be quickly overcome to close the gap and improve competitiveness in the industry.

## 6. Solutions to enhance LPB's brand value

Considering the formula for determining brand value, the internal factors that can be adjusted belong to the factor Net income from intangible assets. So, the first factor affecting brand value is Earnings before interest and taxes. Considering Net income from tangible assets, the second factor affecting brand value is Stockhold's equity. Considering the Weighted average cost of capital, we see that the average cost of capital depends on 5 factors: Debt (D), Equity (E), Cost of common equity (re), After-tax cost of debt (rd), Corporate income tax rate (t). In which, the tax rate is a factor that is beyond the management capacity of the enterprise. The two factors Equity and Debt are both proportional and inverse, so in this cluster of factors we only consider the remaining two factors that are proportional to the weighted average cost of capital, which are Cost of common equity and After-tax cost of debt.

The third factor affecting brand value is the Dividend price. And the fourth factor affecting the brand value is the Retained dividend yield. Summarizing from the above analysis, the brand value depends mainly on 4 internal factors: Earnings before interest and taxes, Equity, Dividend price and Retained dividend yield. Because Dividend price is inversely proportional to the brand value, it is not possible to reduce the dividend price (against the development of the bank), so this factor is excluded from the influencing factors. Similarly, the factor of retained earnings ratio is inversely proportional to the dividend payout ratio, so this factor is also excluded. For Earnings before interest and taxes, there are two ways to increase earnings. One is to increase revenue and the second is to reduce costs. Which method to choose depends on the decision and strategy of the LPB. In summary, to enhance the brand value of LPB, it is necessary to: Cut costs, increase revenue and increase equity.

Considering the formula for determining brand value, the Brand Role Index is determined through market surveys, completely depending on the customer, this is an external factor that affects the brand value of LPB. Customer perception and evaluation are factors that can be managed through marketing strategies and brand image promotion. These measures include: Developing a brand identity system, including: logo, slogan, staff uniform. Another solution is to build a brand personality set: prestige - dedication - closeness. The next measure is to make brand commitments, such as: commitment to service quality, commitment to service style, commitment to interest rates, commitment to safety. Building a unique corporate culture only at LPB. Public relations, press communication, event organization, co-branding, program sponsorship and many other social activities. All these activities are aimed at disseminating the brand image, improving the brand awareness rate and most importantly, changing the perception of customers about LPB's contributions to society.

## 7. Conclusion

Thus, to know if a bank is strong or not, it is necessary to consider the brand value of that bank. Like the valuation of the LPB brand throughout the past sections, it is both a

process of affirming the brand's position and a process of finding a way to "enlighten" the bank's capacity.

LPB's branding strategy should achieve the following objectives:

- Identify the core values and position the brand of LPB in the market.
- Building and protecting the brand identity system, most importantly, that identity system represents the core values of the bank.
- Consistency in operational strategy.
- Create a foundation for effective management of the bank's brand at all levels in the banking system. To achieve this goal, the bank's business strategy must ensure:
  - First, ensure that the bank's profit grows steadily.
  - Second, increase the number of daily customers.
  - Third, new products and services that are first introduced to the market will be accompanied by marketing activities to gain support from customers.
  - Fourth, in order to give effective branding orientations, banks need to:
    - Conduct customer surveys and internal surveys to position the current brand in the market.
    - Compare the bank's customer group with the bank's market and the bank's competitiveness to select and develop the brand in the most appropriate way to the customer's expectations, meeting the customer's expectations goods have a chance to exist.
    - Branding must be distinctive, which means creating a difference between a bank's brand and other banks with the same customer base.
    - Regular brand valuation to monitor the growth or weakness of the brand to take timely corrective measures.

In summary, it is very necessary to give orientation to building a brand in the banking sector today, the Vietnamese banking industry can only have a prestigious brand in the international arena when many banks in the banking system build a good brand for themselves.

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