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Beyond the Balance Sheet: Reassessing the Theory and Practice of Brand Valuation

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Abstract
Brand value has become a critical intangible asset in the contemporary corporate landscape, prompting extensive research into its quantification, particularly since the rise of mergers and acquisitions in the 1980s. This paper provides a comprehensive review of the strategic importance of brands and the principal methodologies used for their valuation. It begins by establishing the fundamental role of a strong brand in cultivating consumer trust, creating a competitive advantage, facilitating financial stability, and commanding premium pricing. The analysis then examines the key factors that constitute brand value, including perceived quality, awareness, association, and loyalty.

Keywords: Brand Valuation, Valuation Approach, Brand Equity

1. Introduction
The concept of brand value has gained significant prominence within the contemporary corporate landscape, evolving into a critical component of strategic management and financial assessment (Keller & Lehmann, 2006) [3]. This ascent was particularly stimulated during the 1980s, a period characterised by a substantial wave of mergers and acquisitions which necessitated the financial quantification of these valuable yet intangible assets (Simon & Sullivan, 1993) [4]. Consequently, this demand captured the attention of both the business community and academics, leading to extensive research focused on establishing valuation methods grounded in principles of objectivity, reliability, and measurability. Nevertheless, the inherent complexity of translating brand perception into a monetary figure has led to a diversity of scholarly approaches; researchers often interpret brand value from distinct perspectives, such as finance, marketing, or consumer behaviour, resulting in the proposal of varied evaluation models. Given this multifaceted environment, this article aims to provide a comprehensive review of the principal brand valuation methodologies that are commonly employed in current practice.

2. The Role of Brands for Businesses
First, the primary function of a strong brand is to cultivate consumer trust and confidence in a company's products. In a competitive marketplace, customers face numerous choices and a degree of uncertainty about the quality and reliability of unfamiliar goods. A well-established brand effectively mitigates this perceived risk by serving as a familiar signal of quality and consistency. When a product has developed significant brand equity, it means it has a proven history of meeting or exceeding consumer expectations. This positive track record creates a powerful perception that the product is a dependable choice. Essentially, the brand acts as a promise to the customer, an assurance that the product will deliver a specific level of performance and satisfaction, which is a crucial factor in both initial purchasing decisions and the development of long-term customer loyalty.

Second, a strong brand significantly facilitates the acquisition of new customers by leveraging its established reputation and encouraging organic marketing. When a product achieves a high level of brand awareness, it gains a distinct advantage in the market because consumers are naturally more inclined to consider familiar options. This visibility, combined with the trust built among existing users, creates a powerful form of social proof. In their decision-making process, prospective customers frequently seek validation from their social circles, and a product with a strong brand is more likely to be the subject of positive endorsements. Satisfied customers effectively become brand advocates, sharing their positive experiences through word-of-mouth marketing. This type of recommendation is often perceived as more authentic and influential than traditional advertising, creating a credible and cost-effective channel for attracting new clientele who are looking for a reliable solution to their needs.

Third, branding is a fundamental strategy for establishing a significant competitive advantage and securing a stable market position. In a saturated marketplace where consumers are faced with numerous similar options, a strong brand identity is crucial for effective differentiation. It allows a company to elevate its product beyond a simple commodity, giving it a unique character that customers can easily recognise and connect with. This clarity not only simplifies the consumer's decision-making process but also makes it easier for satisfied customers to recommend the product to others, amplifying its reach. Furthermore, a well-defined brand serves as a vital defence mechanism that protects a company's brand integrity. As customers become loyal to a brand, they grow familiar with its specific attributes, quality standards, and overall presentation. This accumulated knowledge makes them more adept at identifying counterfeit or imitation products, as even minor differences can alert them to a lack of authenticity. By building a discerning customer base, a strong brand creates a natural barrier against fraudulent competitors, which is essential for protecting revenue streams and maintaining the product's reputation for quality, thereby ensuring its long-term viability and survival in the market.

Fourth, when the brand of the enterprise is affirmed, it will create conditions for the business to expand its scale, ensuring production stability. When customer demand is constantly increasing, it is inevitable to expand production scale or change technology, but if it can be done, it is necessary to have investment capital, in case enterprises do not have enough capital to expand production scale and innovate technology, it is necessary to have investment capital from outside. When the products of the business are known by many consumers, it will help external investors feel secure in investing. Or in market economic conditions, as long as we have an advantage over competitors on a certain issue, we can also win, sometimes in times of low prices of raw materials, companies with financial conditions will seize this opportunity and buy from there, the cost of a unit of products is lower than that of competitors, having a strong brand creates favorable conditions for businesses when borrowing capital, thereby businesses will gain a lot of profits, strengthen product management and thereby create conditions for long-term development.

Fifth, the brand helps businesses set a higher selling price than competitors. When a new product is put on the market, businesses must have a strategy on how to attract customers when their products are known and used by many customers, which means that the advantages of the product are already known to customers. With the development of the market economy, consumers not only pay for the value of the product but also pay for their satisfaction when buying products with famous brands and understanding the origin of the product, so the increase in product prices is easy to be accepted by customers.

3. Brand Valuation Approaches

Based on previous research, brand value can be determined from three different approaches. First, brand value has a close relationship with the finances of the business, it reflects the value in the value of the business. According to Esteban-Bravo and Lado, brand value is the added value of a brand in a business's finances. Therefore, brand value is the cash flow that a brand brings to a business's products or services. On this basis, similar to other assets, brand value reflects the present value of the entire future equity. Therefore, brand value can be understood as the financial benefits of the business created by the brand as an asset.

The second approach to brand value comes from the customer's side. Brand value is determined based on whether customers continue to purchase products or services of this brand; This means that brand values have a very close relationship with customer brand loyalty. Brand value is a unique commitment to customers created by that brand. Accordingly, brand value can be understood from the customer's point of view, the stronger the relationship between customers and brands, the higher the brand value.

Third, some researchers have defined brand value from a holistic perspective that includes both assets and customers. Brand values are the factors when customers are exposed to the brand image, to some extent, it impacts the positive and negative values of the customers, and these factors have significant economic value. Zhang and his colleagues believe that brand value comes from asset value as well as customer value. From the above analysis, the evaluation of brand value can be carried out based on three perspectives: an asset-based perspective, a customer-based perspective, and a combination of asset and customer perspectives.

4. Factors that Affect Brand Value

Perceived quality. Perceived quality is a fundamental element of brand value (Farquhar, 1989) [2]. This is the customer's perception of the overall quality of the product, the difference between the total value received by the customer and the value they expect from a product (Zeithaml, 1988) [5]. The high quality perception provides customers with a reason to buy the brand; allowing the brand to distinguish itself from its competitors; is a solid basis for expanding market share by using the same brand for a wide range of products.

Brand awareness. Brand awareness is a critical component of brand value. It refers to a customer's ability to recognize or remember a brand as a constituent element of a given product (Aaker, 1991) [1]. Brand awareness helps customers become familiar with the brand and keeps them interested in it at the time of purchase. Buyers often choose to buy brands that they already know well because they feel more secure and safe. Usually, a well-known brand is more reliable and of higher quality.

Brand association. Brand association is anything that "associates" in a customer's memory of a brand (Aaker, 1991) [1]. These are direct or indirect stores in the customer's memory and are associated with brands or brand owners. Customers will immediately relate to one or a few characteristics of a certain brand when this brand is mentioned. Brand association creates value for the company and its customers by: providing information; create positive attitudes and emotions; provide a reason for purchasing the product; brand differentiation and positioning.

Brand loyalty. Brand loyalty is at the core of brand values (Aaker, 1991) [1]. Brand loyalty is a measure of customer engagement with the brand. Once brand loyalty is high, customers are less likely to switch to another brand just because of the price, and loyal customers also buy more often. The existence of loyal customers reduces opportunities for competitors, making competitors discouraged from finding ways to entice customers because of the high cost and low efficiency. In addition, loyal customers give the company a huge benefit through their recommendation of its products to other customers.

5. Brand appraisal methods

Brand valuation based on asset perspective

Brand equity value is the foundation of brand valuation. Specifically, it is the quantification of the value of brand assets from the perspective of corporate finance, which means that brand value is reflected in the financial benefits that companies derive from the brand. Based on this, market share, excess profits, brand protection, market trends and characteristics, and internationalization of brands are factors that brand valuation must take into account. Therefore, when appraising brand prices, one of the biggest difficulties is to distinguish the benefits of brand assets from those of other intangible assets of the business.

There are many brand valuation methods with quantitative indicators from the perspective of assets, in which the Interbrand method and the expert method show the greatest impact. The Interbrand method has a basic assumption: brand value is reflected to ensure that the brand owner can obtain a more stable income in the future. Therefore, it is necessary to evaluate the brand value on the basis of the company's future earnings through financial analysis, market analysis, and brand analysis. First, using financial analysis to evaluate the residual income of a product or a business, refers to the surplus of future income from the product or business minus the revenue from tangible assets. Secondly, clearly define the impact of the brand on the product or service through market analysis, thus determining what percentage of the remaining income is generated by the brand, in order to calculate the future income of the brand. Third, perform analysis from ten areas including authenticity, clarity, brand commitment, brand protection, adaptability, consistency, diversity, visibility, relevance, and understandability to determine the brand strength factor, and then convert the brand strength factor into a future income discount rate through the S-shaped curve (the discount rate is used when discounting a brand's future earnings to the current yield). According to this idea, brand value is calculated as: brand value = future income of the brand × brand strength. On the basis of inheriting the advantages of the Interbrand method, the expert method develops its own characteristics with the expert evaluating the market activity of the brand to obtain data on the brand's income. The first review is built on the company's sales. The expert evaluates the average profit margin of the industry according to his experience and calculates the company's operating profit, thereby excluding non-brand-related profits to obtain data on pure profits generated by the brand. Next, calculate the brand strength coefficient using the Interbrand method. Finally, let's calculate brand value with the formula as follows: brand value = brand net profit × brand strength.

Brand valuation based on the customer's perspective

Brand valuation from the perspective of customers, is to measure the position of the brand in their hearts from their familiarity with the brand, perception of brand quality and brand association... Customers are the foundation of brand values and that brand values are "the customer's differentiated response to a business's marketing activities across cognitive, emotional, behavioral, and intent dimensions." On this basis, customer-based brand valuation must consider three factors: brand loyalty, perceived quality, and brand image. Besides the general act of brand loyalty and brand awareness, brand valuation needs to consider the effect of whether customers make a purchase on the true value of the brand. Studies from the perspective of the customer provide the basis for the quantitative evaluation of brand value. The brand valuation method is based on the customer's perspective with quantitative indicators including the compensation method and the loyalty factor method. The principle of the compensation method is to calculate the additional price that a customer is willing to pay when purchasing a particular brand of product or service to determine the size of the brand value. It consists of the following three steps. First of all, through market research to confirm the overprice, namely the extra price that customers are willing to pay to purchase a branded good or service compared to buying an unbranded product or service. And then calculate the excess profit by multiplying the price by the current sales of the branded product or service. Finally, take the brand value by excess profit divided by the average industry profit margin of the branded product or service, which is calculated as follows: brand value = premium × revenue / average profit margin. On the basis of considering the compensation as well as sales of a branded product or service, researchers added an element of customer loyalty to further improve the brand pricing methodology. They believe that brand value is reflected in the fact that the brand can increase the company's interests in the future, which depends on the broad loyalty of customers. To achieve this goal, they used the "loyalty factor" to represent the percentage of customers who decided to start buying or acquiring a branded product in the future for all target customers, with the help of customer brand loyalty and brand appeal to gauge brand value. The calculation formula is: brand value = theoretical target customer base × the loyalty factor × the purchase cycle × (product unit price - non-branded product unit price) × the number of cycles in the term.

Brand valuation based on a holistic perspective

Brand valuation is based on a holistic perspective that represents establishing a link between brand assets and customers, and considers the value that the brand brings to the business and customers. Therefore, customer-based brand equity value can be measured through three dimensions including brand loyalty, perceived quality, and brand awareness/association. Researchers developed a brand equity valuation scale from the customer's point of view. In addition, the evaluation of brand value can be carried out according to three seven-dimensional factors, of which these three factors are the common factor, the basic common factor, and the special factor. The common element consists of four dimensions: brand loyalty, brand image, entrepreneurial image, and brand advocacy. The basic common element consists of two dimensions: brand innovation and brand durability, and the special element consists of one dimension that reflects the industry. In short, these results enrich the study of brand valuation methodology from a holistic perspective. More well-known brand valuation methods based on a holistic perspective include the ten-factor model of brand value and the customer-based brand value model. According to Aaker, brand value is "a group of assets and liabilities associated with a brand's name and logo, which can increase or decrease the value to a company or customer caused by a product or service" and that there are five specific 10 indicators (i.e., ten factors) for valuing a brand. Brand value according to this model is calculated as: brand value = (price advantage + satisfaction / loyalty) + (perceived quality + top brand / popularity) + (perceived value + brand personality + affiliation) + brand awareness + (market price and distribution channel + market share). During the same period when Aaker proposed the ten-factor model of brand value, Keller also came up with another influential brand valuation methodology. At the core of this approach is a way of measuring brand equity value from the customer level, known as the CBBE model. Among them, importance means the level of difficulty and frequency with which the brand can be identified by customers in a variety of situations. Performance and visuals are used to measure how much customers perceive the brand content from a specific (functional) and abstract perspective, respectively. Reviews and perceptions measure how much customers respond to a brand, the former refers to the customer's view of the brand, and the latter is the customer's perceived behavior towards the brand, such as enthusiasm and self-esteem. Resonance is a measure of the strength of the relationship between customers and brands. Therefore, brand value according to the CBBE model is calculated as: brand value = brand meaning + (brand effectiveness + brand image) + (brand evaluation + brand perception) + brand resonance.

6. Conclusion

Brand valuation from the customer's perspective helps businesses get more factual data on brand value, and there is no need to separate value. However, brand valuation must consider the case of the brand creating value in the future. Businesses evaluate brand value through the customer's point of view, the resulting data from that to a large extent only reflects the value of the brand at this stage. The loyalty factor method attempts to look at future brand profitability cases using the "Loyalty Factor", but due to the uncertainty between purchase intent and actual purchasing behavior, as well as the dissimilarities and quantities of purchases by different customers. This method also only receives data on current brand value. Finally, the brand valuation methodology from an aggregate perspective, like the ten-factor model of brand equity, obtains comprehensive and realistic results when evaluating brand value. It needs these factors to take into account both the level of brand equity, such as the brand's market share, and the customer level, such as customer satisfaction or loyalty to the brand. However, since it involves too many measurement indicators, thus increasing the difficulty of using it in practice. In a comprehensive analysis, the government should get involved as little as possible or even withdraw from the field of brand pricing, so that it can be implemented according to market mechanisms. Meanwhile, when valuing brands, Chinese businesses should choose a more suitable method to obtain objective and accurate evaluation results according to the characteristics of their industry.

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