

Brand Valuation: Myth or Reality

DR. PRAGNESH SHAH*

In the second half of the last decade, rise in service based economy and global competitive business environment has started explaining importance of knowledge, skill, ideas, social appearance, product features, customer's relations, innovations, business secrets, technical-know-how etc.. as all these identified important elements playing crucial role in the development and success of the business. They are grouped and identified as intangible assets in the name of patents, brands, human resources, trademarks, copyrights, industrial designs, trade-secrets and know-how etc.. These intangible assets have created direct impact on the existence and success of an organization by often leveraging the firms' earning and started influencing share prices and thereby cost of capital at a higher rate than the physical assets mix and even value of the firm in today's white collar service base economies. In 1980's non physical constituent of business worth having tremendous but hidden earning capacity forced to pay attention of business world and this fact accepted by the world as brand. Considering brand as dreadful and vital intangible assets, professionals started supporting and advocating an idea to put such an invisible asset on the balance sheet to reflect the fair value of business by the financial statement. This situation forced valuation and presentation of brand on the financial statement. This paper study the issues related to brand valuation.

Key Words: Intangible Assets, Valuation, Brand earnings and Brand Multiplier.

Introduction

In the second half of the last decade, rise in service based economy and global competitive business environment has forced business world to consider non physical assets in the decision making process. The economical and environmental shift started explaining importance of knowledge, skill, ideas, social appearance, product features, customer's relations, innovations, business secrets, technical-know-how etc.. In turn, these factors have put research, patents, brands, human resources, trademarks, copyrights, industrial designs, trade-secrets and know-how; etc. as the driving force for any growth seeking business for the development and betterment of business capabilities. All these assets are grouped in the name of intangible assets. In today's white collar service base economies, such intangible

assets have created direct impact on the existence and success of an organization by often leveraging the firms earning and even value of the firm. Hence intangible assets became major value drivers and started influencing share prices and thereby cost of capital at a higher rate than the physical assets mix. The business world recognized intangibles as an important factor in business this was reflected by the business purchase deals. In intangibles, Human Resources, Brand, Technical Know How, Intellectual property are attracting business and academic world at an amazing rate. In 1980's non physical constituent of business worth having tremendous but hidden earning capacity forced to pay attention of business world and this fact accepted by the world as brand.

*Associate Professor, Department of Accounting and Financial Management, Faculty of Commerce, The Maharaja Sayajirao University of Baroda, Vadodara

The situation is explained by number of business tycoons, John Stuart, Chairman of Quaker (ca. 1900) the statements like "If this business were split up, I would give you the land and bricks and mortar, and I would take the brands and trade marks, and I would fare better than you." This idea practically reflected in number of mergers and acquisitions took place in last three-four decades and have also set trends of payment for the strong brand image. Volkswagen purchased assets excluding right to use name of Rolls-Royce Automobiles for 780 million dollars. Subsequently Rolls-Royce brand name was sold to BMW for 65 million dollars. Philip Morris acquired Kraft for 12.9 billion dollars, four - times its book value. The amount in excess by four times than the book value of physical tangible assets by the Philip Morris, was explained by its CEO as "The future of consumer marketing belongs to the companies with the strongest brands" (Biggar, James and Sealme 1992). This trend was explained by number of businessman and professional as very important turn in the business cycle. J. Lindemann explains this situation like, the wave of brand acquisitions in the late 1980s resulted in large amounts of goodwill that most accounting standards could not deal with in an economically sensible way. Transactions that sparked the debate about accounting for goodwill on the balance sheet included Nestlé's purchase of Rowntree, United Biscuits' acquisition and later divestiture of Keebler, Grand Metropolitan acquiring Pillsbury and Danone buying Nabisco's European businesses. Thus practical acceptability of name or brand started wide recognition by the investors also and reflected in the share prices and thereby firm's value. Such calculated value of the firms were explaining firm's value at very higher amount than the net worth per books or book value of the assets of the firm. Thus number of cases of merger and acquisition as well as high firm value or market capitalisation forced academic world as well as accounting professionals to think on the line to recognise this invisible force influencing business values at large.

A study by Interbrand in association with JP Morgan concluded that on average brands account for more than one-third of shareholder value. (Jan Lindemann, 2004). The past 20 years have witnessed a dramatic shift in the sources of value creation from tangible assets (such as property, plant, equipment and inventory) to intangible assets (such as skilled employees, patents, business systems and brands). This is reflected in the growing divergence between the net asset value of companies and their market capitalisation (David Haigh). Brand value accounts for approximately 30 percent of the market capitalisation of the S & P 500 (Millward Brown Optimor, 2007). Statistics have shown that the book value of corporations has been constantly shrinking in relation to market value and the residual, which can be regarded as the capital markets view of the value of a corporation's intangible (intellectual) assets, was rising. (Joan A. Cezair). This practical manifestation without existence on financial statement resulted in annoyance of business world.

Accountants traditionally considers balance sheet as the statement or list of monetary value of assets and liabilities. They do not consider balance sheet as the statement of business worth. On the other hand higher amounts of the market capitalization in comparison to over the book value, several merger, acquisitions, takeover and also research reports on brand, forced people around the business world to think and discuss about putting brand at the balance sheet taking into consideration the importance of brand as one of the imperative factor which affects firm's value heavily. Considering brand as dreadful and vital intangible assets, professionals started supporting and advocating an idea to put such an invisible asset on the balance sheet to reflect the fair value of business by the financial statement.

Many business professionals explained brand as an important assets and non valuation and disclosure at

the financial statement expressed as the defect of financial statement and accounting system as a whole. Number of accounting professionals feels frustrated due to fact that financial statements do not reflect the "true value" of their companies as they ignore intangibles. Such views successfully established brand valuation as the call for and justified with the arguments like:

- Inclusion of brand in the assets would definitely bridge the gap between net worth shown in the balance sheet and value of the firm as reflected by share prices.
- Brand value appearing on the balance sheet may be dubious but value of many other assets like Land, old Vehicles etc., appearing in the balance sheet at the historical value are misleading also misleading.
- Inclusion of brand will increase the net worth and equity hence debt equity ratio and thereby borrowing capacity would increase.
- Incase of goodwill resultant of acquisition will reduce due to increase in value of assets.
- Putting value of the brand on the balance sheet increases the comparability of the business with the competitor's business.

The situation became very critical for accounting professional to find the ways out for the disclosures of this asset in the financial records and statements because of unavailability of systematic valuation techniques and reliable historical cost data. Sometime even such asset is generated without specific cost attached to it. Systematic accounting process was also not available for the internally generated brands. Under international accounting standards, the value of brands cannot be brought to book unless they have been acquired for a financial consideration. This means brand being one of the most valuable assets do not appear on its balance sheet. Here growing number of academics, consultants, and regulators started looking at the issue related to valuation and disclosure of intangible assets

in dearth in the Generally Accepted Accounting Principles (GAAP). This fact was reflected by number of accounting professionals were of the opinion that omission of many intangibles from the balance sheet has reduced the usefulness of the balancesheet and earning numbers.(M Kabir 2008).

The increased intensity of intangible investments has decreased the usefulness of traditional financial statement information to investors. (Pasi Karjalainen, May, 2007). Non consideration of such an asset reflects untrue assets related ratios as well as misleads the relationship of assets and profitability as well as book value and market capitalization of the firm. Measures of assets and investment efficiency relatives also exclude the value of intangible assets due to absence of the same on the balance sheet. Such views resulted in to serious deliberations on consideration of intangibles by predicting future importance of brand in competitive open world economy. The terms 'the new economy' and 'intangible assets' are closely linked. Intangible assets have become increasingly important to the continued growth of the modern economy and the welfare of its citizens.(Michael B. Cohen) As global competition becomes tougher and many competitive advantages, such as technology, become more short-lived, the brand's contribution to shareholder value will increase. The brand is one of the few assets that can provide long-term competitive advantage. (Interbrand, 2004)

The agony of business world about unavailable systematic approach to value intangibles and discloser practices of the same, pressure on accounting professionals to initiate measuring and disclosing intangible assets and also to pronounce what impact intangibles have on the financial performance of the business. In the late 1980s, professional bodies and standards started recognition of the value of acquired brands on the balance sheet, this gesture prompted for

similar recognition of internally generated brands as an asset in the financial records and statements.

The academics and practitioners who gathered at an MSI (1999) workshop on brand equity metrics summarized the following broad purposes for measuring brand equity:

1. to guide marketing strategy and tactical decisions,
2. to assess the extendibility of a brand,
3. to evaluate the effectiveness of marketing decisions,
4. to track the brand's health compared with that of competitors and over time, and
5. to assign a financial value to the brand in balance sheets and financial transactions.

They also developed the following list of desiderata for the ideal measure. It should be

- i. grounded in theory;
- ii. complete, that is, encompassing all facets of brand equity, yet distinct from other concepts;
- iii. diagnostic, that is, able to flag downturns or improvements in the brand's value and provide insights into the reasons for the change;
- iv. able to capture future potential in terms of future revenue stream and brand extendibility;
- v. objective, so that different people computing the measure would obtain the same value;
- vi. based on readily available data, so that the measure can be monitored on a regular basis for multiple brands in multiple product categories;
- vii. a single number, to enable easy tracking and communication;
- viii. intuitive and credible to senior management;
- ix. robust, reliable, and stable over time, yet able to reflect real changes in brand health; and
- x. validated against other equity measures and constructs that are theoretically associated with brand equity. (Ailawadi, D. Lehmann, & S Neslin, October 2003)

But still the question which is very much remained in discussion and almost answered in absence of commonly accepted factor which can be identified as the brand. Brand means what? What exactly brand includes? Or which are the factors make brand? In response to such questions, number of arguments made like brand means; Symbols or Logo used by the firm or trade mark of the product or visual elements or customer's preference or price premium or special rights or name of the firm or market share or reputation of the management or reputation of the firm or reputation of product name or services rendered by or higher rate of profit / additional profit than the normal profit by the industry. Researchers and Businessmen' argue that brand includes all these factors. Here it is also important to consider that how brand differs from the goodwill. Since the late 1980s, brand equity has been one of the most important marketing concepts in both academia and practice. Brand is discussed widely by the marketing people about what is brand? Factors creating brand, How to manage and expand brand equity? etc. but in last two decades, focus has been extended on how to value it?

While several different definitions of brand equity have been offered over the years, many of them are consistent with Farquhar's (1989) definition of brand equity as the value added by the brand to the product. (Keller 2003) (Keller, a summary of alternative definitions of brand equity, 2003, p. 43.) here brand is identified with the value added to the product and this can be identified with the market share and profitability of the particular product due to brand name. Hence, almost all the researchers working in the area of brand valuation, agree on the common definition of brand where Brand Equity is defined as "the marketing effects or outcomes that accrue if the same product did not have the brand name". (Aaker 1991; Dubin 1998;)

How to value?

As far as valuation and disclosure of concern, like other

intangibles, brand valuation is in discussion due to unavailable commonly accepted value measurement method. When valuation is discussed it has different treatments and also attitude of people dealing with it differs. This is because of two reasons: First, from a valuation perspective, an asset is anything that can be owned and has value. If the business enterprise owner/operator cannot own an economic phenomenon, then it is not an asset. If the economic phenomenon exists and can be owned, but it has no value, then it is not an asset. As for acquired assets are concern they pose no problem for valuation as the cost is committed actually. Accounting standards also recognise the same. However in case of brand to meet this first threshold test of existence (i.e. , in order for an intangible to be an asset), it should be subject to private ownership and have value. Naturally, brand generated in process and not acquired actually does not fully fit to these criteria. The second reason is, word "value" does not carry same meaning for all. The word value is dealt subjectively depending on the basis of difference in the significance, use and utility of the things. For businessman value is being difference between cost and price whereas for the customer value is created by difference between price paid and benefit or utility of the product. The basic disagreement is in considering the perspective for valuation. Whether to consider customers' perspective or owner's perspective for the valuation? In view of all these reasons, valuation of brand is always remained in debate and never carried generally accepted common valuation process. Hence, value of brand depends on the perception and satisfactory fulfillment of

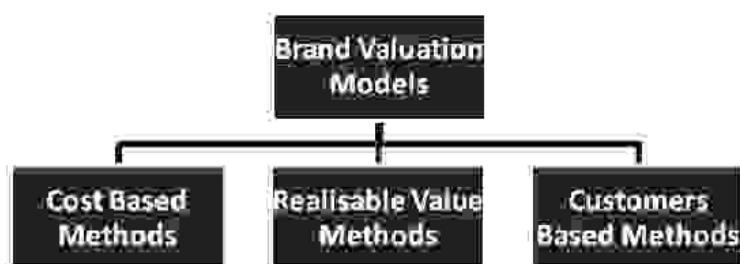
expectations in terms of profit for businessman and product utility for the customer and what is that possessed actually. Thus brand valuation process faces the basic questions like, (i)What to value? (ii) How to value? And (iii) Why to value?

Approaches of Valuation:

Brand valuation may become essential or required for the different reasons like for balance sheet reporting, tax planning, litigation, securitisation, licensing, mergers and acquisitions and investor relations etc. purposes. Valuations are broadly divided into two groups

- i. Technical valuation: Technical valuations are generally focus on the value of the brand at a given point in time.
- ii. Commercial valuations are used for the purposes of brand building, deciding market strategy and intangible assets / brand scorecards. Such valuations are based on a self-motivated statistical model considering the different factors influencing brand value with Different researchers and professionals have suggested different methods of valuing brand. Initially cost based valuation methods were suggested than on rejection of the same by the professionals and business world, valuation methods based on amount which brand can realize in market, customers choice and preference and effect of brand on operating results of an organisation suggested by the behavioral and social scientists. All such brand valuation models can be divided in three broad groups as under:

Figure : Classification of Brand Valuation Methods



Keller and Lehmann (2001) divide existing brand valuation methods in three categories.

1. Valuation on the basis of customers' mind set: under this category brand is the resultant value of assessment of customers based factors of brand. These factors are customer's awareness, attitude, preference, loyalty and attachment of customers etc. Practical application and assessment of factors for application of this method is not easy as these are the external factors and also differ from person to person and situation to situation. Above all, financial valuation is not possible as common parameters and scales for financial valuation of these factors are not available as well as not possible.
2. Product market or Price premium measure: under this category brand value is considered at the additional financial benefit generated in the market by the brand in comparison of non branded product.
3. Financial market measure Under this category brand value is calculated by considering brand as a financial asset. For brand valuation is done either on the basis of discounted cash flow from the licensing fees, royalty, etc or amount required to pay at the time of acquisition or purchase of brand. One most important merit of this approach is consideration of the future expected events, benefits and results. (Keller and Donald R. Lehmann (2001),

All such brand valuation methods are summarized as under

- i. Cost based valuation: After the emergence of the idea to identify, measure and incorporation of brand value as an asset to communicate as an item of financial statements, a lot of efforts have been made by several of researchers and professionals in this line. First marketing professionals argue to consider the customer based factors for valuation but when it came to accountants as a matter of their concern,

initially, they came out with an idea of valuing brand on the basis of historical cost method. Historical cost method considers actual amount or cost incurred to acquire the brand, which includes total cost incurred on the acquisition or creation of the brand that is the acquisition cost or cost of creation considering the conventional accounting treatment of asset valuation. But this idea was criticised and other cost based valuation methods like replacement cost method, standard cost method and opportunity cost method were suggested.

Any cost based method was not accepted by the business world on the argument that brand is not always the function of cost but it is may fetch value higher than costs and it also ignores future expected results, efficiency or return and even does not consider even future events or returns. Therefore, number of economist and researchers argued that brand can not cannot be valued at cost like other physical assets.

- ii. Valuation at the Market Realisable Value: Some researchers argued to value and disclose the brand at the market value that is realisable value of the brand. This method was not appreciated on the ground that no business creates or generates brand to sell it in the market and another important point is accounting principles as well as regulatory norms do not allow to disclose any asset at the market price.

Cost based as well as market realisable valuation methods were not accepted by the business and professional world because both these criterion of valuation do not consider the variables related to the future expected events, growth and profits. However the "value" is the outcome of three basic factors i.e. Profitability, Growth and Risk. Hence researchers, professionals and business world look

at the economic valuation criterions with the expectation of having generally acceptable method of brand valuation.

- iii. Value based on Premium Pricing: This model is suggested by Sander, Crimmins and Herp with an argument that brand generates additional benefits to the business due to higher preference given by customers to our brand and thereby our product. This approach consider brand as a factor creating additional value for the customer and due to brand they are willing to pay more. This situation generates more profit by increasing profitability due to customers' willingness to pay higher price then the competitor brand of the same product. This method has no commercial reality.
- iv. License Based Valuation Method: Consor proposed licensed based brand valuation method. This model favors valuation of brand by considering actual realisable value of the brand or special license possessed by the business.
- v. Customers' oriented brand valuation method: This model suggest value of the brand at the amount equal to the contribution margin generated by brand due to customers preference e for our brand.
- vi. Value based on Incremental Revenue Method: Herp favored brand valuation by considering all the incremental revenues earned by the business due brand.
- vii. Valuation based on discounting future potential earnings: This model is also known as "Kern's X-time's model." This model suggests valuation by considering the earning capacity of the brand and valuation done at the monetary value calculated by capitalizing the expected earnings.

- viii. Valuation based on the customers related factors like customers' choice - liking - recognition - esteem etc.

- ix. Generic Brand-Earnings-Multiple Model: Considering the drawbacks of different brand valuation models, leading international branding consultancy; Interbrand Group suggested new brand valuation model based on the actual profit figures which is known as earning multiplier system for valuing brand.

Under this approach, Value of the brand is the product of last three years weighted average profit multiplied by the brand multiplier or weight factor which is the strength or brand-earnings multiple. This is the function of the factors like leadership, stability, internationality, trend, support and protection etc.

- This model of valuation requires data about the cash flows generated by brand in last three years. For this purpose all other revenues generated by factors other than brand are eliminated and then the earnings or revenue which is resultant of brand would be considered for the calculations. Here to eliminate the impact of sporadic event on profit of the particular year, three years' weighted average profit is considered.
- This amount of earnings is adjusted to the present value by applying the multiplier or discount factor. Again from this amount eliminate the earnings equal to the remuneration of capital used for the purpose of generating or creating brand and the tax.
- The product of this calculation be multiplied by the brand earning factor also known as brand strength factor. Brand strength factor is calculated by considering weigh of number of factors like leadership, stability, market share, cross border

acceptability, trend etc. to calculate the value of brand.

- Brand valuation model based financial value of brand helps formalizing the process of valuation; consistency and authenticity in valuation process, explains the sources of brand equity, helps in finding out alternative strategies for enhancing brand equity etc..

In today's global service based economies, ideas, knowledge, innovation, patents, brands and related intangible assets are playing principal role and contributes at much higher rate than other physical assets like machinery, building etc. All these assets are grouped in the name of intangible assets. Higher market capitalisation of the companies is explained as the value of intangible assets possessed by the company. Monetary value of intangible assets are either at par or even higher than the tangible assets and valuation and disclosure of such assets helps to add to the impression of the company. Thus each business requires to formulate and implement an "intangible business strategy", with the aim of further growth and long term sustainability of the value of intangibles. It also demands systematise efforts to develop a methodology to measure value of intangible effectively. Yoshikuni Hirose explains importance of valuing and disclosing brand as, Particularly, brand is considered as the fifth major business resources after human resources, goods, money, and information. Therefore, adequate valuation of the brand and the public disclosure are both significant challenges in pursuing an "intangible business strategy", since they may help predict the firm's ability to generate future cash flows and thus enhance shareholder value. (Yoshikuni Hirose - 2001)

It is also considered as synergic exercise for an enterprise. Hence number of Indian companies are valuing Brand, Human Resources etc. As accounting standard do not permit value disclosure of created brand,

number of companies disclose value of these assets as other information to the shareholders or as additional information to the shareholders. For our study we have selected Infosys Technologies Limited, a dream of Mr. N. Narayan Murthy, incorporated on 2nd July 1981, is a young with the high growth, knowledge based, international market and wide employee base company having experienced drastic changes and also shown tremendous developments with heavy global competition. Infosys is the company of choice by the stock investors as one of the best-preferred companies and for the job seekers who want to develop their career themselves in the field of software and presently occupies the position of the second largest Indian software company. The company has also established itself as an inevitable software giant in the world software industry with a very impressive growth since 1995-96. The high growth, as reflected in its Turnover and Return, resulted in remarkable increase in the Turnover, Profits, Market Capitalisation and share prices. Hence we have selected Infosys Technologies for our case study to understand the brand valuation process.

Infosys started reporting brand valuation in the second half of the last decade of the twentieth century when it was not exactly a buzz even with the conventional consumer-focused marketing companies. The brand valuation exercise is done internally based on insights drawn from several internationally-acclaimed valuation models. In the process of brand valuation weighted average profit of three years including current year with immediately preceding two years is calculated and outcome is multiplied by brand multiplier. Present study considers variables related to the brand valuation as well as value of the firm. Hence, the study is carried out by analysing the behaviour of all the important variables from the Brand point of view. These variables are:

1. Turnover of the Business
2. Profit

3. Market Capitalisation
4. Value of Brand
5. Brand Multiplier

The Study covers the time period of 1996-97 to 20010-11, which is a very high growth period for the company. During this period company faced number of business challenges and achievements. Hence this period of 15 years covered for the study. For our study, we have collected data from the published source of annual reports of the company. Infosys presents these data in

the section Additional Information to the Shareholders and not as the part of regular balance sheet. This section studies the behaviour of individual variables over a period of time. The present analysis introduces all the variables under study and explains as to how Infosys reports these vital brand valuation related variables. There after, the index based time series behavioural analysis has been carried out to observe the movement of each of these variables. Following Table gives us idea about the individual variable over a period of 15 years covered under present study.

Table No. 1
Table showing Income, Profits and Brand value of Infosys Technologies Ltd.

Year	Income	Profit Before Interest and Tax (PBIT)	Brand earnings	Brand Value	Market Capitalisation	Net Worth
31-3-1997	143.81	39.54	13.09	172.83	731.04	113
31-3-1998	260.37	65.86	26.99	503.33	2963	173
31-3-1999	508.89	155.86	61.01	1726.9	9673	574
31-3-2000	882.32	325.65	109.3	5246	59338	833
31-3-2001	1900.56	696.03	242.38	5376	26926	1390
31-3-2002	2603.59	943.39	403.38	7256.8	24654	2080
31-3-2003	3623	1158.93	534.88	7488	26847	2861
31-3-2004	4761	1357.46	626.62	8185	32909	3253
31-3-2005	6860	2048.09	879.63	14153	61073	5242
31-3-2006	9028	2654	1238	22915	82154	6897
31-3-2007	12611	3877	1709	31617	115307	11162
31-3-2008	15051	5344	2069	31863	82362	13490
31-3-2009	20264	6907	3254	32345	75837	17809
31-3-2010	22742	7900	3687	36907	150110	22036
31-3-2011	27501	9313	4486	40509	186100	24501

Source: Annual Reports of the Company.

Above table speaks the growth story of the Infosys in the last fifteen years. Infosys experienced remarkable increase in profits, net worth and market capitalisation

of the business with increase in income and revenues over a period of fifteen years. The result of increase in turnover and profitability has positively affected the total

assets of the company. In the year 1997 company with the intention to present next millennium balance-sheet started valuing intangible assets i.e. Human Resource and Brand. From the year of inception of the intangible assets valuation practice, company has experienced growth in the value of intangibles at a highly remarkable rate. The growth of the turnover and profitability as well as new initiatives has been positively responded by the investors in the secondary market and Market Capitalisation has also been increased remarkably. To

expound the movement of each of the variables which are considered for the present study this section studies the movement of individual variables by applying index analysis. The values of all the individual variables have positively changed during the last fifteen years of the study. The index analysis has been carried out by constructing index number of all the variables with 1996-1997 as the base year for comparative analysis. Following table explains change in each variable with the index numbers.

Table No. 2

Table showing Index Analysis of different variables of Infosys Technologies Ltd.

Year	Income Index	Profit Before Interest and Tax (PBIT) Index	Brand earnings Index	Brand-Value	Market Capitalisation Index	Net Worth Index
1997	100.00	100.00	100.00	100.00	100.00	100.00
1998	181.05	166.57	206.19	291.23	405.31	153.10
1999	353.86	394.18	466.08	999.19	1323.18	507.96
2000	613.53	823.60	834.99	3035.35	8116.93	737.17
2001	1321.58	1760.32	1851.64	3110.57	3683.25	1230.09
2002	1810.44	2385.91	3081.59	4198.81	3372.46	1840.71
2003	2519.30	2931.03	4086.17	4332.58	3672.44	2531.86
2004	3310.62	3433.13	4787.01	4735.87	4501.67	2878.76
2005	4770.18	5179.79	6719.86	8188.97	8354.26	4638.94
2006	6277.73	6712.19	9457.60	13258.69	11237.96	6103.54
2007	8769.21	9805.26	13055.77	18293.70	15773.01	9877.88
2008	10465.89	13515.43	15805.96	18436.04	11266.41	11938.05
2009	14090.81	17468.39	24858.67	18714.92	10373.85	15760.18
2010	15813.92	19979.77	28166.54	21354.51	20533.76	19500.88
2011	19123.15	23553.36	34270.44	23438.64	25456.88	21682.30

Source: Annual Reports of the Company.

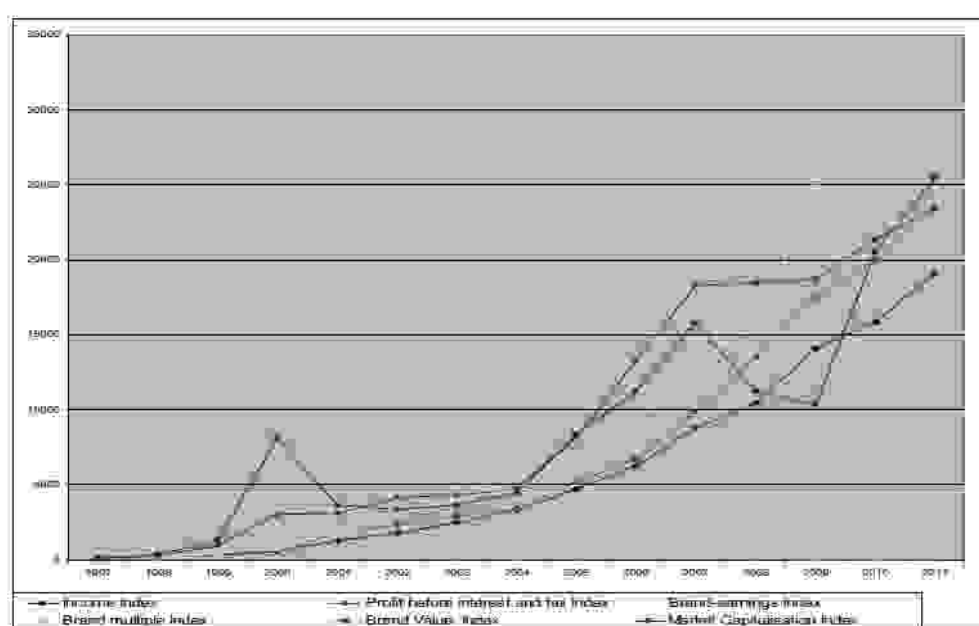
Above table explains that during the period of fifteen years, Income of the business increase by more than 191 times whereas Profit before Interest and Tax (PBIT) increase by more than 235 times. This indicates increase in profitability of the business. Again in the

period of last fifteen years, brand earnings as calculated by adjusting PBIT for the other incomes and tax liability, has been increased at a higher rate than income and PBIT. Brand earnings increased at a rate higher than 342 times. In last fifteen years, Net worth of the business

has also been increased by 216 times. Increase in the turnover, profit, profitability as well as net worth has been positively responded by the investors in the secondary market, as reflected by the increase in the market capitalisation. The market capitalisation has been increased more or less in the same line and it increased at a rate higher than 254 times. The figures of brand value demonstrate the growth story in the same

fashion as in case of other variables. Brand value has been increased by more than 234 times during last fifteen years. This represents the fact about increase in tangible as well as intangible assets. The following chart represents increase in each of the variables considered for the index number study by considering 1996-97 as the base year.

Figure : Figure reflecting the trend reflecting growth of important variables at Infosys Ltd.



The table no 2 as well as the above figure makes it clear that profitability has been increased at a remarkable rate and the intangible asset Brand, which is considered as an important one as an initiative to value intangibles, also show increase in line with the income as well as profitability. This explains the increase in tangible as

well as intangible asset and their leverage effect on profitability. To study the intensification took place in the interrelated variables like Income, PBIT, Brand Earnings, Brand Value, Market Capitalisation, Net Worth and Brand Multiple growth rate calculated. Results of the same are presented in the following table.

Table No. 3
Table showing Growth rate and Volatility Analysis of different variables at of
Infosys Technologies Ltd.

Particulars	SD	Average	Volatility		Growth
			SD/AVE	in %	
Income	8251.58	8329.63	0.99	99.06	283.47
Profit before interest and tax	2992.45	2861.08	1.05	104.59	83.30
Brand-earnings	1409.37	1296.85	1.09	108.68	30.16

Brand Value	14099.52	16272.71	0.87	86.65	752.88
Market Capitalisation	52730.17	61857.14	0.85	85.25	4357.91
Net Worth	8034.48	7528.03	1.07	106.73	219.88
Brand Multiple	9.33	17.64	0.53	52.93	24.96

Market Capitalisation, Brand Value, Income, Net Worth, Profit before interest and tax, Brand-earnings and Brand Multiple

Above table reveals that each of the selected variable has experienced remarkable growth with high degree of volatility during the period of our study. The growth of each variable speaks about the tremendous augmentation of Infosys Ltd. as whole in the last fifteen years. The Income of the business changed at a 99.06 percent with growth rate of 283.47 times. Profit before interest and tax has also been volatile at the rate 104.59 % with growth rate of 83.30 times. The notable thing is the growth of Brand multiple. Brand multiple is the variable, among the select variable, having lowest growth rate. Brand multiple is the result of present profit and future expected profit earnings. Present profits are good and increasing constantly at the same time growth rate also speaks about the expected continuation of the same triumph story. Above table describesreviles that Infosys experienced remarkable growth in Income, Profit before Interest and Tax, Net worth as well as Market capitalisation of the Infosys increased with remarkable growth rate but brand earnings and brand multiple shows comparatively lower growth rate. This explains that if brand multiple could show the growth rate in line of other variables like income, net worth and market capitalisation, brand value should also have shown growth rate remarkably higher than what it is at present.

The brand value is the result of multiparty impact. In the brand valuation process, immediately preceding three years weighted average brand earning is multiplied with the brand multiple. Hence brand value depends on brand earnings and brand multiple. Brand earning is the result of Income of the business thereby PBIT and brand related profits. Brand related profit is calculated by adjusting Profit Before Interest and Tax for the other incomes and tax. Thus brand value highly depends on two factors, brand earnings and brand multiple. Brand earning is the result of Income of the business thereby PBIT and brand earnings.

The aim of the present study is to identify the significance of relationship between all such variables with the brand value. Hence in the present study, the relationship of each variable, that are the pointer of present business profitability and impact of image on the business as well as factors influencing the brand value, with the brand value is premeditated with the help of a simple correlation study. The impact of Income, Profit Before Interest and Tax (PBIT), Brand-earnings, Brand multiple, Market Capitalisation and Net Worth on Brand Valuation is quantified by applying correlation technique. Therefore, let us consider brand value as the influential variable for the simple correlation study. Simple correlation study is carried out in the preferential series, from the highest to lowest amount of relationship. The following table summarises the correlation coefficients of selected variables as specified earlier individually with brand value:

Table No. 5
Table showing simple correlation of Brand value with other selected variables at Infosys Technologies Ltd.

Particulars	Income	PBIT	Brand Earnings	Brand Multiplier	Market Capitalisation	Net worth
Brand Value	0.971(**)	0.956(**)	0.941(**)	- 0.467	0.923(**)	0.958(**)
Sig. (2-tailed)	.000	.000	.000	.079	.000	.000

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

The above table makes it clear that Brand value is significantly explained by Income, PBIT, Brand Earnings, Market Capitalisation and Net Worth. The most remarkable outcome here is the insignificant relationship of Brand multiplier with the brand value. The brand value is the result of the brand profit multiplied by the brand multiple but here the result of correlation test speaks different. The details of the observations can be summaries as under:

- i. Brand value is positively related with income, PBIT, brand earnings, market capitalisation and net worth.
- ii. Brand value is negatively related with the brand multiplier.
- iii. The correlation coefficients with respect to all the

financial variables have turned out be quite high, signifying high degree of relationship between brand value and income, earnings as well as profitability at Infosys.

- iv. These results of correlation between brand value and Financial variables indicate that the increase in the value of brand positively influence by the efficiency and thereby the profitability of Infosys.
- v. The result of correlation test between brand value and the brand multiplier is negative with (-) 0.467 degree with high significance 0.079 indicates that these two variables have no significant relationship.

The simple correlation analysis as examined here above reveals the direction and numerical strength of

Table No. 6
Table Showing Results of Coefficients in Regression Analysis

Model	Variables	Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	2588.873	1328.941	
	Income	1.659	0.113	0.971
2	(Constant)	3574.098	1590.707	
	PBIT	4.503	0.385	0.956
3	(Constant)	4285.017	1799.547	
	Brand Earnings	9.410	0.942	0.941
4	(Constant)	29243.807	7574.659	
	Brand Multiple	-705.099	370.472	-0.467

a. Dependent Variable: Brand value

relationship but does not expound the relative importance of different variables forming congregate degree of relationship. Therefore let us now examine the impact of each of the variables on brand valuation by assuming the possibility of existence of (straight-line) linear relationship between them. This analysis enables us to find out the answer of the questions, how brand value responds to the movement in an individual variable. For this reason the ordinary least square [OLS] method has been used for the regression analysis.

In the brand valuation brand valuation Income, Profits and future expected profits due to present brand image are playing important role. Hence Income, Profit Before Interest and Tax (PBIT), Brand Earnings and Brand Multiple are the variables selected for the regression analysis study considering the brand value as dependent variable. The bi-variate simple regression analysis is used to carry out the study of impact of each of the independent variables viz. Income, Profit Before Interest and Tax (PBIT), Brand Earnings and Brand Multiple on the dependent variable brand value.

The results of the simple regression as presented in

the above table reveals that Income, PBIT and Brand earnings explain brand value with the standard error committed in explaining the dependent variable with comparatively less standard error whereas as the brand multiple, theoretically considered to be the main component in describing the brand value, commits large amount of standard error. The results are also in agreement to the earlier study of simple correlation as describe in table no. 5 above. Brand value is the function of brand earnings and brand multiple. Brand earnings are again function of Income and thereby PBIT. Thus brand value is expressed by all these variables simultaneously. Hence in the next section to examine the nature of relationship between all these variables viz. Income, PBIT, Brand Earnings and Brand Multiple with the brand as dependant variable multiple regression analysis is carried out.

Brand Value (y) = f (Income, Profit Before Interest and Tax (PBIT), Brand Earnings and Brand Multiple) i.e. brand value is expressed as a function of independent variables viz. Income, Profit Before Interest and Tax (PBIT), Brand Earnings and Brand Multiple.

Table 7
Regression Coefficients for Selected variables
Dependent Variable: Brand Value

Model	Variables	Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	-2051.268	2185.188	
	Income	4.109	0.892	2.405
	PBIT	0.053	3.796	0.011
	Brand Earnings	- 14.124	5.618	-1.412
	Brand Multiple	125.201	82.531	0.083

a. Dependent Variable: Brand Value

The following inferences may be derived from the above multiple regression results:

The regression results with respect to Income, PBIT, Brand multiple are positive but with less strength. Still

the increase in the values of these variables would enhance the Brand value at Infosys.

- i. It implies that a unit change in respective variables would lead to 2.405, 0.011 and 0.083 unit change in brand value, by eliminating other factors.
- ii. The negativity of standardised beta coefficient of brand earnings indicate diminishing trend in brand value per every unit of increase in brand earnings is significant indicator of adverse impact of these variables on brand value.

In the brand valuation process brand multiple and weighted average brand earnings are the factors considered and play an important role in deciding the brand value. But in the above discussion it is found that brand earnings as well as brand multiple both has minimal contribution in the brand value. Brand earnings are increasing every year remarkably in the same direction. This is the indicative factor for the expectation of positive movement in the brand value over years. Brand multiple is the factor indicating the brand strength to earn profits for the business in future. In the calculation for the brand valuation, brand multiple is the factor used as the multiplier with to the current period with two preceding years weighted average brand related profit. Higher brand multiple indicates

strong image of the business as well as higher expected present and future profitability. Brand multiple is used as the multiplier considering times the present profit earned in future due to present brand image. Higher brand multiple indicates stronger the brand of the business and thereby higher expected future profits. Hence higher brand multiple leads to higher the brand value.

Infosys initiated valuation of intangibles i.e. Human Resource Value and Brand in the year 1996-97 and the annual report of March 31, 1997 was reflecting brand value for the first time. Infosys Technologies Ltd. in its annual reports discloses brand value. Here brand multiple is always disclosed with the note that "Brand-strength multiple is a function of several factors such as leadership, stability, market, internationality, trend, support and protection. We have evaluated these factors on a scale of 1 to 100 internally, based on the information available." With the note in assumption after calculation, "The earnings multiple is based on our ranking against the industry average based on current parameters (exercise undertaken internally and based on available information)" The brand multiple used by Infosys as shown in the following table:

Table No. 8
Table showing Brand multiple applied over years in brand valuation
by Infosys Technologies Ltd.

Year (on 31st March)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Brand Multiple	13.2	18.65	28.3	48	22.18	17.99	14	13.06	16.09	18.51	18.5	15.4	9.94	10.01	9.03

Source: Annual Report of the Infosys Technologies Ltd.

Brand multiple has high degree of relationship and thereby impact on brand value. Following table gives idea about the brand multiple applied by the Infosys Technologies Ltd. over last fifteen years i.e. from the commencement of the practice of brand valuation by the Infosys.

From inception till date, i.e. in last fifteen years, Infosys has used brand multiple varying every year with inconsistency in the changing trend even after increasing income and profits constantly. In the first year of adoption of the brand valuation practice, brand multiple used by Infosys was 13.2 this was the period of Y2K

fear and roomers which was proved as factor forcing tremendous growth in the software and hardware business world over. Infosys also experienced growth in the business and hence brand multiple also increased considering increased brand strength with good future business prospects. Immediately after overcoming from the problem of Y2K i.e. after 2000, it started falling remarkably. On March 31, 2000 brand multiple used by Infosys was highest ever in the history of brand valuation by the Infosys but than after it started falling every year up to 2004 than in next three years, it started increasing but after 2007 it again started falling. During the period of remarkable decreasing trend in brand multiple, an important point to be noted is Incomes and

Profits shown increasing trend continuously. Therefore in this section of the study enumerate the relationship of brand multiple with the related variables. The impact of Income, Profit Before Interest and Tax (PBIT), Brand-earnings, Brand multiple, Market Capitalisation and Net Worth on Brand Valuation is quantified by applying correlation technique. Therefore, let us consider brand value as the influential variable for the simple correlation study. Simple correlation study is carried out in the preferential series, from the highest to lowest amount of relationship. The following table no. 9 summarises the correlation coefficients of selected variables as specified earlier individually with brand value:

Table No. 9

Table showing result of simple correlation of different variables at Infosys

Particulars	Income	Brand earnings	PBIT	Net Worth	Market Capitalisation
Brand Multiple	-0.53766197	-0.53486205	-0.53031711	-0.5227164	-0.29380933

The brand multiple does not have significant relationship with the variables explaining revenues and earnings. This fact is revealed by explained by the above table reflecting the results of the correlation test. Important variables namely Income, PBIT, Brand earnings, Market Capitalisation and Net worth do not explain brand multiple significantly. The most remarkable outcome here is the negativity in relationship of Brand multiplier all these variables. The brand multiple is the strength of image of the company. Strength here means the revenue generating and profit earning capacity of the image of the business. The details of the observations can be summaries as under:

- Brand multiple is negatively related with income, PBIT, brand earnings, market capitalisation and net worth.
- The correlation coefficients with respect to all the variables have turned out be quite low.
- These results of correlation between brand multiple and all these variables indicate that brand multiple

is negatively influence by the efficiency and thereby the profitability of Infosys.

- Brand multiple decreases by increase in the income, brand earnings, net worth and market capitalisation.
- The negative result of correlation test between the brand multiple and all these variables at (-)0.538 with income,(-)0.530 with PBIT,(-)0.535 with brand earnings,(-)0.294 with market capitalisation, and (-) 0.523 with net worth indicates haveing no significant relationship of brand multiple with these variables.

The simple correlation analysis as examined here above reveals the direction and numerical strength of relationship but does not expound the relative importance of different variables forming congregate degree of relationship. Therefore to examine the impact of each of the variables on brand valuation by assuming the possibility of existence of straight-line linear relationship between them, regression analysis is

carried out in the next section. This analysis enables us to find out the answer of the questions, how brand value responds to the movement in an individual variable. For this reason the ordinary least square [OLS] method

has been used for the regression analysis. The following table reflects the result of multiple regression study of Income and Brand earnings with the brand multiple as the dependent variable.

Table 10
Regression Coefficients for Selected variables Dependent Variable: Brand Multiple

Model	Variable	Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	23.326	3,580	
	Income	-0.001	0.002	-0.593
	Brand Earnings	0.000	0.053	0.053

a. Dependent Variable: Brand Multiple

The following inferences may be derived from the above multiple regression results:

- iii. The regression results with respect to Income and Brand Earnings with the dependant variable Brand multiple are positive but with extremely lower strength. Still the increase in the values of these variables would enhance the Brand value at Infosys but at very lower rate.
It implies that a unit change in brand earnings would lead to 0.053 unit change in brand multiple eliminating other factors.
- iv. The negativity of standardised beta coefficient of Income indicate diminishing trend in brand multiple per every unit of increase in income of the business is the significant indicator of adverse impact of increase in turnover on brand multiple.

The above correlation and regression analysis indicates that brand multiple is inconsistent and varying significantly without responding to the increasing trend of income and PBIT.

Quantifying the brand strength factor is highly subjective matter. Valuing any brand using this method seems highly subjective since parameters used; weights given and methodology of calculation are highly

subjective. However, analyzing the strength factors for brand enables comparisons to be made with other businesses and may also provide guidelines for identifying the brand's and company's main value driver, increasing the brand's strength and, therefore, its value.

Conclusion

In the journey of about thirty years from inception of idea of identification and valuation of brand, different valuation approaches are proposed considering different ideas and arguments. Number of professionals has worked on this issue as well as practice events of merger and acquisition have also played crucial roll in this area. But as valuation following any criteria other than historical cost is always remained debatable issue, here in case of brand valuation, practically accepted valuation model and method of disclosing the same at the balance sheet are not developed even after unarguably acceptance of existence of intangible assets and their role in business. This is the reason which makes brand away from the balance sheet. The main reasons for this situation can be summarised as under;

In brand valuation customers liking, choice and loyalty are ignored.

- ii. Future expected technological changes, change in

customers choice as well as future expected market changes like entry of new players or exit of present players etc are also ignored.

- iii. Identification of brand creation expenses, brand multiplier, etc is not possible.
- iv. Segregation of impacts of different factors on business profit is not possible.

Thus problems and unavailability of systematic valuation and accounting treatment brand remains away from the books of accounts and financial statements. All these facts have made balance sheet and financial reports as less reliable documents as far as decision making is concern as well as it also fails to disclose true value of an organisation.

Thus limitation in brand valuation practices, absence of valuation standards like other accounting standards and disclosure norms, the idea of brand valuation has not been widely accepted and put in to practice as regular feature or item of compulsory discloser. While many companies have strived to differentiate their annual reports and make them impressive and attractive, started valuing and disclosing brand as additional information.

References

- Aaker, David A. (1991), *Managing Brand Equity*. New York: The Free Press.
- Dubin, Jeffrey A. (1998), "The Demand For Branded And Unbranded Products: An Econometric Method For Valuing Intangible Assets," Chapter 4 In *Studies In Consumer Demand: Econometric Methods Applied To Market Data*. Norwell, MA: Kluwer Academic Publishers, 77-127.
- Biggar, James M. And Elnor Sealme, "Building Brand Assets," *Chief Executive* 78 , July - August 1992, P. 36-39
- David Haigh, *Brands In The Boardroom*, IAM Supplement No.1
- Interbrand, *A Report : Brand Valuation: The Financial Value Of Brands*, 2004
- Jan Lindemann, *Brand Valuation*, Interbrand, April 2004
- Joan A. Cezair , *Intellectual Capital, Hiding In Plain View*, *Journal Of Performance Management* P. 29-39.
- Keller And Donald R. Lehmann (2001) "The Brand Value Chain: Linking Strategic And Financial Performance," Working Paper, Tuck School Of Business, Dartmouth College.
- Lev, B and Zarowin, P, 1999, "The Boundaries of Financial Reporting and How to Extend Them", *Journal of Accounting Research*, 37 (No 2), p353-385.
- M Kabir, *Accounting For Intangibles*, *Chartered Accountants Journal*, August 2008, P. 63-66.
- Michael B. Cohen, *The Valuation Of Intangible Assets And Hedonic Pricing Models*,
- Pasi Karjalainen, *Dessertation Entitled; Valuation Of Intangible Assets In Different Financial Environments*, *Acta Universitatis Ouluensis, G O Economica*, Oulun Yliopisto, Oulu University Press, Oulu May, 2007.
- Yoshikuni Hirose, "Immediate Needs of Accounting for Brand Values on the Balance Sheets", *The Economist*, Special Extra Issue, Jul. 7, 2001, No.24,