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BRAND EQUITY MANAGEMENT: INTERBRAND METHOD

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Abstract: *Today, the brand is considered to be the most important element of the intangible assets of the company. Thus brand and value within a brand is one of the most important concepts in marketing. The brand equity is the term that represents the added value of products and services, and this value is reflected in everything that consumers think, feel and make in relation to the brand. Recipients of the added value can be consumers or companies. In the global economy, effective brand equity management is of crucial importance in identifying consumer needs and preferences, and satisfying them to overcome consumer expectations, thereby increasing the value of the brand, and thus the value of the company, ensuring market survival and establishing the basis for further growth and development. Strong brands affect business results primarily through the impact on three key stakeholder groups: consumers, employees and investors. The Interbrand method for brand valuation was designed to take into account all three groups of stakeholders. The basics of the model are the following components: the analysis of the financial results of branded products or services, the analysis of the brand's role in purchasing decisions and the competitor's brand strength. The goal of this paper is to identify the elements that most influence the creation and maintenance of brand equity, and analyze the positioning and value of the most successful globally traded brands based on the Interbrand methodology.*

Key words: *brand, brand equity, Interbrand, market*

INTRODUCTION

Nowadays, the most important backbone of the concept of marketing is brand building. The great significance of branding arises from the fact that there are growing pressures from the environment to the companies and their management, especially due to increased foreign competition due to globalization and the strong influence of information and communication technologies. The survival of the company depends on the success of using marketing tools and branding strategies. Many brands have enormous value for a large number of companies and often their value goes beyond the accumulated value of the company's tangible assets. Bearing in mind all the above, the issue of effective brand management is logical. If the brand has a greater value, it is more familiar to consumers and has strong, preferred and unique brand associations. Strong, preferred and unique associations are essential sources of brand value, and they are driven and shaped by consumer behaviour. Marketing advantages arising from the differential effects of the brand include enhancing perceptions of product performance, greater customer loyalty, less vulnerability to competitive marketing, greater margins, more elastic (inelastic) customer responses to price reduction, the ability to negotiate lower costs of distribution, increased efficiency of marketing communications and the expansion of brand growth opportunities based on brand extension strategies and licensing arrangements.

The brand equity is conceptually different from the brand's valuation in that it does not represent a purely financial measure. It is more dependent on the reputation and credibility that a successful brand builds in the minds of consumers. This is the overall measure of the brand's strength, including the value of the brand in a financial sense. In other words, it is an aggregate measure of the vitality and strength of the brand that can be used for the strategic purposes of the company. Although brand equity does not appear in the financial statements, it should be the primary goal of companies to strengthen and maintain the brand equity of individual brands and/or brand portfolios. Familiarity of the brand, strong, preferred and unique associations, perceived quality, loyalty, brand awareness of consumers, perceived differences compared to competition and their effects on buying behaviour are at the core of the brand equity. Consequently, it is unambiguous that brands influence the purchasing choice and create loyalty, attract, retain and motivate customers, but also reduce the cost of financing. The impact of the brand on current and potential customers is a particularly important factor of economic value. By shaping perceptions of customers, brands influence buying behaviour by making products and services less substitutable. In this way, brands create demand by generating greater profits for owners, but also creating economic value and growth by providing greater return on investment.

The purpose of this paper is to identify, understand and present the methodology of Interbrand in valuation and value aspects of the brand. The goal accomplished is to recognize the limitations of methods and methodological problems in determining the brand's value, all in order to create usefulness for consumers and the company.

Research hypotheses:

H1: Adequate management of elements of brand equity increases the added value of the company which positively influences the business of the whole company.

H2: The value of the brand based on the Interbrand methodology is positively related to the value of the brand based on the consumer.

The research methods used in the paper are: analysis, synthesis, induction, deduction, generalization, abstraction and concretization.

1. THE CONCEPT OF BRAND VALUE

One of the most popular and perhaps the most important marketing concept that emerged in the 1980s is the concept of brand value. Debates on how to define this concept have been constant since its emergence in theory, but also in practice. There are two reasons for studying, measuring, and trying to manage the brand value. The first reason is a financial motivation to accurately assess the brand value for accounting purposes (in terms of valuing balance sheet assets) or in the case of merging and purchasing a company or part of a company into liquidation. The second reason is the tendency to improve marketing productivity.

Leuthesser (1988) offers a broader definition of the brand value as a set of associations and behaviour on the part of consumers, members of the channel and which allows companies to achieve a higher margin than in the case of a business without a (brand name) brand. According to Keller (2013, 243), the brand value from a consumer perspective is a differential effect that brand knowledge has on the consumer's response to the brand's marketing. Farquar (1990, 8) defines the brand value as an added value for the company and consumers. Literature, especially in English, abounds in works dealing with this subject. However, there is a misunderstanding about the definition of brand equity because the concepts of brand equity and brand value are often intertwined and interpreted as the same concept. An additional aggravating circumstance is the absence of the appropriate word in our language for the English term *equity*. Thus, the most commonly used term is the brand value as a universal translation for both *brand equity* and *brand value*. According to some authors, brand equity is also translated as brand property or market value of the brand. Interpretation of these terms and their translation requires caution for several reasons (Starčević, 2014, 68):

- Brand equity and brand value are two different concepts between which there is a cause-and-effect relationship. Brand equity is an intrapersonal construct that mediates the impact of marketing activities on the results achieved. On the other hand, the value of the brand represents financial brand value, and the outcome of managing the "equity" of a particular brand at the same time.
- Translations of the term (brand equity = brand value) would create confusion with the use of foreign sources due to the lack of appropriate terms in our language, especially given the fact that domestic literature is very scarce when it comes to this topic, thus one should avoid using inappropriate terms.
- The *brand property* translation for *brand equity* is the closest to the real meaning of the term. Such a translation defines *brand equity* as a set of assets (or commitments) associated with a brand name and a symbol that adds (or subtracts) the value of a product or service to

a company or consumer. The definition implies that the brand equity can be seen from three different perspectives: from the perspective of the company, sales and consumers. From a company's point of view, it stands for a cash flow that is generated from the use of the brand name. From the sales perspective, this is a means of impact through distribution. For the consumer, the brand is something that is connected to the value. The term "equity" refers to the perception and set of thoughts, but also the emotions of consumers in order to figuratively mark the value added or subtracted by the brand name of a particular product and / or service.

As it will be shown below, the literature provides sufficient evidence in relation to the interpretation of the concept of *brand equity*, so in order to eliminate mistakes and avoid confusion, in the continuation of this paper we choose to use the term brand equity.

The approaches to brand values in literature can be categorized into three different groups: financial, behavioural and combined-oriented models (Zimmermann, 2001, 20). The first type of model originated in the 1980s. Financially-oriented models attribute money to brands value which is necessary to increase leverage in acquisitions and mergers, as well as brands (cobranding arrangements) that have become more and more widespread. Despite their contribution, these models did not meet the needs of companies. Defining the brand value from a consumer perspective implies observing the concept of a brand from a cognitive and psychological aspect. The brand equity based on the consumer is a dominant approach in marketing research (Gluhović, 2019, 21). The main reason lies in the next fact: if the brand has no meaning or value for the consumer, it is of no importance to the investors, manufacturers or sellers as well.

2. METHODOLOGY OF BRAND VALUE - INTERBRAND

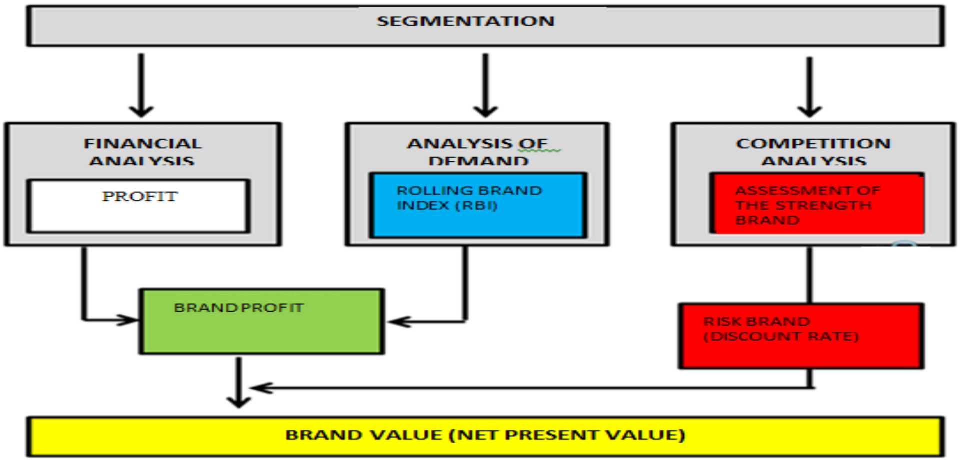
Interbrand is an English consulting agency founded in 1974, specialized in the field of branding, corporate design, digital brand management, product packaging design and it has 21 representative offices in 17 countries. Compared to the time when Interbrand developed its brand valuation methodology, in the 1980s, companies widely accepted the importance and value of strong brands and the significant role they can play in improving business performance. Strong brands affect business results primarily through the impact on three key stakeholder groups: consumers, employees and investors.

According to the Interbrand methodology the brand value is determined in the concrete comparison of different indicators of brand value, such as brand value development, which includes four stages of analysis of key brand value indicators: brand strength, degree of familiarity and brand image, brand satisfaction and trust and brand loyalty. In addition, Interbrand defines the financial value of the brand as the net present value of the earnings that the brand expects to generate in the future. More precisely, the financial value of the brand is the net present value of the expected earnings of the brand discounted at the discount rate for the brand. The earnings of the brand is calculated by multiplying the intangible earnings with the brand's role, which is done by identifying different demand drivers, and then by determining the extent to which the brand directly affects each of them.

In order to calculate the discount rate for the brand, the Interbrand consulting company estimates the brand's strength profile and determines the likelihood of achieving the expected return. This step relies on competitive benchmarking and a structured evaluation of seven factors: the brand's market, stability, leadership position, growth trend, support, geographic distribution and legal protection. For each segment, Interbrand applies the financial value of the brand to determine the risk premium for the brand. The analysts of this consulting house are making a total discount rate for the brand by adding risk to the brand premium at a low margin, represented by government bond revenue. The discount rate for a brand applied to the expected brand earnings gives the net present value of the brand's earnings.

The stronger the brand, the lower the discount rate and vice versa. Interbrand defines the strength of the brand as a brand's ability to provide a constant demand for customers (customer loyalty) and thus maintain future earnings, transforming revenue into a net present value. The basis of the method are the following components: an analysis of the financial results of branded products or services, an analysis of the brand's role in purchasing decisions and the competitor's brand strength. Everything is preceded by a market segmentation decision and at the end of the evaluation process, the three factors are integrated in order to determine the financial value of the brand (Gluhović, 2014, 263).

Figure 1 Scheme of the methodological process of brand valuation according to the Interbrand method



Source: customized according to: *http://interbrand.com/wp-content/uploads/2015/10/Interbrand-Financial-Applications-for-Brand-Valuations.pdf (accessed 22.03.2019)*

Financial analysis. The financial analysis looks at the financial return of an investor that is considered to be an economic gain and which has similarities to the concept of economic added value, indicating the company's ability to generate returns that exceed the cost of capital utilization. In order to determine the economic gains from gross operating profit, the taxes and capital costs that are used to generate earnings or income from the inside are deducted. Financial results are foreseen for a period of five years and the residual value of the item is also determined.

The role of the brand. An analysis of the brand's role is crucial to understanding purchasing behaviour by assessing the brand's impact on factors that drive demand and choice.

The brand's role demonstrates to what extent the purchase decision is motivated by the brand in relation to other factors or purchasing factors such as price, convenience or product features. The economic gain is multiplied by the role of a brand that is indexed to determine the profit from the brand.

Brand strength. Brand strength measures the brand's ability to generate expected future earnings. Strength is measured on a scale from 0 to 100 and is based on an evaluation of ten factors or dimensions.

Within these factors, two groups differ: internal and external. Internal factors include the attitude and behaviour of management and other employees in the company in relation to the brand and those include: clarity, commitment to the brand, protection and brand responsiveness. External factors represent the perception of consumers and other stakeholders and include: authenticity, relevance, differentiation, consistency, presence and brand awareness. In the financial valuation of the company it is common to examine the ratio of the price and the earnings of the brand (P/E). This relationship connects the company's market capitalization with its net profit. A high ratio is a signal of strong investor confidence and optimism in the growth of future profits (Kapfferer, J-N., 2008, 519). We earlier pointed out that the strength of the brand is reversely proportional to the discount rate. This rate is used to discount future earnings to the present value, based on the likelihood that the brand will be able to withstand the challenges and deliver the expected return.

On the other hand, this approach also has disadvantages. The Interbrand method does not take into account a brand's potential for extensions to other product categories. Investing in promotion does not always have to be an effective strategy for building a brand. Although necessary, brand protection does not necessarily affect the brand value.

Determining the brand strength index (BSI) only is to a large extent subjective. The brand strength index (BSI) plays a major role in the process of dividing the winnings from the brand from the second part of that profit, which was created on the basis of the other components of the intangible assets of the company.

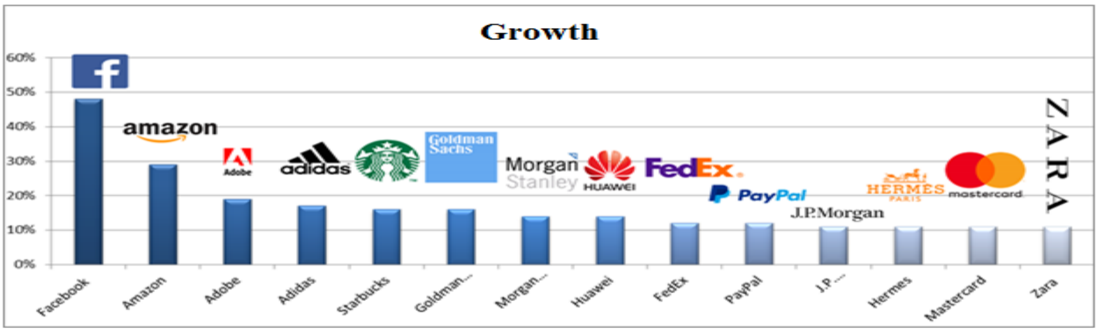
Within this model, the lack of objectivity is reflected in the fact that the determination of the index is based on the opinions of the experts and their experience as well as the previous knowledge.

3. ANALYSIS OF THE MOST IMPORTANT BRANDS ACCORDING TO THE METHOD OF INTERBRENDA - TECHNOLOGICAL BRANDS

According to the Interbrand methodology, the year 2017 could be characterized as surprising for most brands from the list of 100 most successful brands. From the development of new products to the integration of state-of-the-art technologies, brands have produced results through unique business formulas and have met customer expectations in all categories. Consequently, certain brands have reached unimaginable values over a period of one year. The ten most successful brands in 2017 make up 42% of the total value of all the 100 most successful brands. The title of the most successful brand and brand with the highest value for the fifth consecutive year was the American multinational tech giant Apple. Followed by Google and Microsoft. Like Apple, Google holds the second position for the fifth consecutive year. In the past year, their values continued the trend of growth. While the value of Apple's brand grew by 3%, Google achieved a 6% increase over the previous year. Reaching the two-digit growth rate of 10% for one position, Microsoft has progressed since it was the fourth most valuable brand in the world in two previous years. The brands that round the list of the ten most successful are Cola-Cola, Amazon, Samsung, Toyota, Facebook, which is among the top ten brands with an incredible growth rate of 48%, and Mercedes-Benz and IBM.

On the list of hundreds of the most successful brands, taking into account the country of origin, most come from the United States, as many as 53, followed by Europe with 36, Pacific-Asian regions with 11 brands. The total value over the past 10 years has increased by 54%.

Figure 2 Brands with the highest growth rate of values 2017



Source: customized according to: *https://www.interbrand.com/best-brands/best-global-brands/2017/ranking/* *(accessed 15.03.2019)*

More than half of the most successful brands come from 4 sectors: cars (16), technological (15), financial services (12), consumer goods (9). Others come from different sectors: luxury goods (8), alcoholic beverages (7), media (4), electronics (4), refreshing drinks (4), restaurants (3), retail (3), logistics (3) fashion and clothing (2), sports products (2), business services (2), energy sector (1). With 675.239 billion dollars, which is 36.1% of the total value of all brands, the technological sector is the most valuable. The sector has achieved a growth rate of 8.4% and maintains a growth trend from previous years (8.3% in 2016 and 8.5% in 2015.) It is not surprising that the technological sector is rapidly and steadily increasing from year to year (table No. 1).

Table 1. Values of the best brands by sectors in the period 2014-2017

	The value of the sector (in billions of dollars)			
SECTOR	2014	2015	2016	2017
Technology	493,218	575,285	623,190	675,239
Car industry	211,920	234,439	256,604	266,829
Financial services	81,387	111,241	114,549	121,145
Refreshing drinks	112,734	115,667	111,032	107,727
Retail	59,721	68,429	81,308	96,429
Luxury goods	66,87	68,401	75,490	74,477
Consumer goods	90,525	101,829	75,492	95,702
Sport	27,253	29,881	32,919	36,237

Source: www.interbrand.com/best-brands/best-global-brands/ (accessed 12.03.2019)

Half of the 10 most successful brands from 2016 come from the technology sector. Connectivity, networking and synergy can create additional value for brands like Facebook and Salesforce. Relying on innovation, technology leaders continue to diversify their portfolio while creating new partnerships within the sector with the common goal of simplifying today's digital consumer life. The main reasons for the dominance of the technology sector are reflected in several facts:

• The major advantage of the major technological brands is the size of their target markets;

• Also, these brands have significant benefits from low barriers to entry, especially in comparison with sectors such as car or luxury products;

• Technological brands not only benefit from a large number of markets they are represented on, but also have the inherent ability to develop faster than other brands. The resources that top-level technology brands have acquired, along with the relative lack of regulation in the sector (compared to health or car sectors), makes it easier to create and innovate products.

The success of the companies owned by these brands as well as the strength of these brands go beyond the technology sphere. Brands in all sectors accept technology brands as business partners. Today, financial and retail brands rely heavily on mobile payment systems (Apple Pay, Android Pay, Samsung Pay) while car manufacturers enrich technology available to customers in the form of related services such as Apple CarPlay or Android Auto. The three brands of ten with the fastest growth from 2017 illustrate the speed of technology development: Facebook grew by 48%, Adobe by 19% and Huawei by 14%. It is unlikely that brands from other spheres can realize and follow such a pace of development. The combination of reach, culture and integration along with the role of "messenger" of what is coming will result in maintaining the leading position of technological brands in the future.

4. ANALYSIS OF THE BEST OF BRANDS BY INTERBRANE METHOD - CAR BRANDS

According to the Interbrand methodology, the car sector is second in value and it holds 14.5% or 266.882 billion of the total value of the most successful brands, which represents an increase of almost 4% compared to 2016. Since the recession in 2009 and 2010, most car brands, however, recorded a growth in value due to the growth in sales. In 2017, 12 out of 16 brands recorded a rise in value. The five most successful brands on the Interbrand list for 2017 are: Toyota (total) in 7th place, dropped by 6%, Mercedes in 9th place with 10% growth, BMW in 13th place with unchanged value, Honda in the 20th place with 3% growth and Ford in 33rd place with a growth of 5% (Table 2). What enables Toyota to retain the position of the most successful car range for a number of years is the global level of business along with the wide range and quality of services on markets around the world. Although it is always among the pioneers in investing in technology and perceiving that product is key to future growth, on the other hand, the brand Toyota is also well known for its longevity, reliability and quality of its products. These are the basic attributes of car brands and customers around the world are familiar with it. Mercedes-Benz, of all car brands, had the greatest growth. At the same time, BMW competed and became the best-selling car brand in the luxury car category, investing heavily in product development with the intent to invest more than $2 billion in new products and services. The importance of internal factors, philosophy and (organizational) culture and achievements of employees are not to be overlooked in the company's overall success.

The car sector continues to grow, at a rate of 4% compared to 2016. In 2017 sales of passenger cars and light commercial vehicles increased by 2.4%. The number of cars sold in 2017 reached 86 million, which is approximately 2 million more than in 2016. China remains the largest single market with 25.8 million (new) cars sold despite the slightest growth rate in the last decade. Sales in Europe grew by 3.5% to reach 21 million sales, including the largest growth market in Germany, where sales increased by 3%. Sales in the US fell by 1.5% with 20.9 million units sold. Selling in the Pacific-Asian region is characterized by a strong growth. Markets in Japan and South Korea grew at a rate of 5% while India had an increase of 14%. We think that India could pass Germany and become the fourth largest car market in the world next year. South America as the most dynamic market comes back from the crisis, with sales growth of 14.6%, mostly due to growth in Brazil (9%), Argentina (26%) and Chile (22%).

Toyota, as mentioned above, has retained the position of the most successful car range not only for its value but also for selling 1.2 million more cars than Volkswagen. Ford, Hyundai and KIA are the only car brands on the list of the most successful, which recorded a decline in sales. Honda gained significant growth, primarily because of the huge growth in sales in China of 18.5%. Mercedes remains the first in the category of luxury cars and has only achieved double-entry sales growth of 13%.

Table 2. Table 2. Sales and growth of cars brands in 2017

MANUFACTURER	SALE	GROWTH
TOYOTA	7.843.423	+5
	6.639.250	+3
Ford	5.953.122	-2
HONDA	4.967.689	+7
NISSAN	4.834.694.	+5
HYUNDAI	3.951.176.	-9
Mercedes-Benz	2.534.181.	+13
KIA	2.511.293	-10
BMW	2.030.311	+5
AUDI	1.847.613	+1

Source: *[http://carsalesbase.com/global-car-sales-2017/ (accessed 12.03.2019)](http://carsalesbase.com/global-car-sales-2017/)*

Taking into account that car manufacturers are increasingly focusing on the needs of individuals, the car sector faces two challenges: differentiation and relevance. Car brands were usually heavily differentiated, but today's customers are increasingly interested in individual models and how they fit into their lives.

Because of the enormous amount of information available that “overflows” consumers, brand awareness is not enough, and companies are forced not only to innovate their products more progressively, but also to create a truly differentiated experience.

The ever-increasing integration of technology in the automotive industry and the focus on electric vehicles segregates the concept of a car from its fundamental purpose as a vehicle and functional necessity to something that could be called a technological extension of personality, a prestige factor or even a source of entertainment. The car industry will undoubtedly continue its growth, and how certain brands within it will do business will depend solely on their ability to adapt to change through the alterations in the organizational culture.

The strongest European car brands show that their success will greatly depend on the ability to integrate technology into innovation processes. Partnerships between traditional large companies and new companies have become frequent and represent proactive business strategies that combine resources with the talent and creativity of employees, providing benefits for both parties.

Every brand, regardless of sector or origin, should be guided by a clear purpose that is nothing more than a mere reason for the existence of a business. Brands built on this basis define a clear strategy that, together with an excellent design, is able to offer a unique experience. In an era marked by constant changes, leading brands must be flexible and agile, always ready to go over and keep up with consumers and markets.

CONCLUSION

The brand equity differs from brand valuation in that it does not represent a purely financial measure. The concept of brand equity is mainly based on the effective and efficient brand positioning in consumer awareness. This is the overall measure of the brand's strength, including the value of the brand in a financial sense. In other words, this is the aggregate value of the vitality and brand strength that can be used for the strategic goals of the company.

Although brand equity does not appear in the financial statements, it should be the primary goal of company management to empower and maintain the value of individual brands and / or brand portfolios. Finally, consumers and their choice of purchasing are what determines the success or failure of the company's business, so the brand equity is a measure of consumer affinity for the company through a brand or portfolio of brands.

Familiarity of brands, associations, perceived quality, loyalty, brand awareness of consumers, perceived differences in comparison with competition and their effects on buying behaviour are at the centre of the brand equity. From the above mentioned one concludes and confirms the main hypothesis of the paper: the adequate management of elements of the brand equity of the brand increases the value and thus creates additional benefits for the company and influences the positive business of the company.

Contrary to the brand equity or brand value based on the consumer, the financial brand-based value is concentrated on the quantification of the financial value that the brand values provide for the company. As already explained in the paper, this value is actually in cash flows that are the result of a branding strategy, and are greater than the cash flows that would be generated from an unbranded product. The imperfect and asymmetric nature of the market brings insecurity into the minds of consumers. Investigating the financial value of the brand is based on the perspective of the information economy and the value of the brand is an optimal means of reducing uncertainty and information asymmetry.

As already demonstrated and proven, there is a significant correlation between the financial brand value and consumer brand attitudes on the issue of consumer value-based impact on the profit margins of the company. From a psychological point of view, the emotional connection between a person and a particular object is called affection or attachment.

Affection varies in strength and intensity to the limits where consumers feel passionate, enthusiastic, friendly and calm. Stronger emotional attachment leads to deeper dedication to the brand and greater loyalty, resulting in positive value and growing income results.

When a company brand reflects the consumer's feeling and self-esteem, and when consumers feel more personally attached to the brand, the company will enjoy a more competitive position. In other words, the power of emotional attachment is an indicator of the cash flow intensity that a company can expect from consumers and is an intangible property revenue generator. This proves the hypothesis no. 2 which reads: the brand value based on the Interbrand methodology is positively associated with the brand value based on the consumer.

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SUMMARY

At a time when the demand exceeded the offer, high quality products were the main word in the market. What happened was the evolution of the market. As the products of high quality existed standardized, and the offer began to surpass the demand for consumer decision making has become more complex. Under these conditions, brands were slowly gaining power as they became the main moderators of consumer decision making in a rather saturated market. Faced with uncertainty and risk of buying, consumers rely on brands as key indicators that deliver added value in order to simplify consumer decision making. The high value of the brand based on the consumer results in the creation of a strong brand, and a strong brand exists when the brand's familiarity with its image is at a high level. As the brand value has already been highlighted, it is in the consumer's mind, and the firm beliefs of this strong, preferred and unique association must be part of the branding strategy in

order to permanently occupy the minds of consumers. This leaves an appropriate consumer impression that can be further enhanced by logo, packaging, product-related services, guarantees, *etc*. What follows is creating emotional consumer connectivity and responsiveness at emotional level through positive responses and establishing a long, sustainable and healthy consumer relationship with the brand. A classic example of such brands are Google and Apple, which have become synonyms for a consumer product category. As seen on the basis of the Interbrand methodology, the list of the most successful brands, technology and innovation provide a strong backbone for technology brands as well as for brands in the sector where technology is an important factor in functioning and production processes. However, being innovative is often not enough. Many companies with the ability to create advanced technologies often lack the clear vision where and how they want to be positioned on the market and consumer awareness. In this case, companies with already-established brands have strong advantages. They have already built up the internal structure and ability of the employees. Their brands are powerful and recognizable. Technology and brand are inseparably interwoven. Consumers create an opinion about many brands solely through their own experience with the brand. Consumers want to try out new products that work well, and when these products allow for stronger connectivity or a positive feel, they connect to the brand that has delivered such experience. This must be the goal of any brand that wants to grow and develop, and technology should be able to achieve that goal, stronger than any other asset. Brands that succeed and continuously have a successful "story" are those who recognize and understand new consumers who have demands for their favourite brands, consumers who demand individual, one-to-one relationship, transparency, relevance, and resolve brand-related issues.