

INTANGIBLE ASSETS WITH A HIGH DEGREE OF DIFFICULTY IN ESTIMATING THEIR VALUE

Cristina-Gabriela LELIUC COSMULESE

Stefan cel Mare University of Suceava, Romania,
c.gabrielacosmulese@gmail.com,

Veronica GROSU

Stefan cel Mare University of Suceava, Romania
veronicag@seap.usv.ro,

Elena HLACIUC

Stefan cel Mare University of Suceava, Romania
elenah@seap.usv.ro

Abstract

In the age of knowledge, intangible assets have a higher strategic importance than corporal assets. It was found that the market value of the entity is greater than its carrying amount, the difference being due to intangible items:

Market Value - Book Value = Intangible Assets

Intangible assets that are hard to recognize and evaluate are usually internally generated brands, customer lists, news headlines and magazines, trademarks, patents, trade secrets, goodwill, and so on. In fact, this type of asset cannot be found in companies' financial statements.

In this paper, we focused our attention on one of the elements listed above, namely the brand concept. In continuation are presented the most exhaustive ways to evaluate brands, the situations in which brand evaluation is useful, and the progress made in this field in Romania.

In terms of intangible assets, measuring them, though subject to many scientific studies, is quite controversial. Thus, any evaluation methodology may, in some respects, be challenged.

Key words: *specific intangible assets, brands, valuation methods, the market approach, the income approach, the cost approach, internally generated, international standards*

JEL Classification: *M 41*

I. INTRODUCTION

It is often difficult to assign a price to intangible assets. To complicate things, for assets that do not generate revenue, technology associated with the asset may be too new to properly assess how much money the owner can bring or what competitive advantages they can offer.

The accounting community encounters difficulties with intangible assets because they complicate things in terms of a fundamental accounting concept, namely the independence of the exercise, which implies the rigorous delimitation in time of the revenue and expenditure for the financial year for which the reporting is made, irrespective of the date of receipt of the amounts or payments, the basic requirement of the engagement accounting.

Valuating an entity's intangible assets is a very delicate issue that occurs when identifying them, especially those assets that are not recorded in the balance sheet.

II. SIGNIFICANCE OF BRAND

Today, it is universally accepted that a large part of the value generated by a business derives from the intangible assets, between which the brand occupies the primordial place. The importance of the brand in the value of a business differs from one industry to another, but can exceed 60% of consumer goods. A clear example of this is Coca-Cola, whose stock price was quoted at \$ 177 billion in mid-2016, even if its net asset value was only 23 billion US dollars. Much of the business value (\$ 154 billion) was due to intangible assets (the secret recipe of the beverage, global distributor network, brand name), and the company's ability to profitably manage it. We can figure out how important the name of the brand is if its value can reach \$ 70 billion, as is the case with Coca-Cola. (Jiboc, 2004, pp. 25-26).

Defined as the totality of features and experiences that make an object or set unique to the stakeholders - has become one of the defining aspects of how products, services, and institutions are being promoted to the contemporary consumer. Given that branding processes have a great flexibility and can be applied to a wide

range of objects, brand management has become one of the basic tools of contemporary marketing, untapped in sales and promotion processes (Tybout, and Calkins, 2005, p. 4).

III. THE NEED TO VALUATE BRANDS AS ASSETS - VIEWPOINTS

Until recently, financial analysts evaluated the performance of companies, relying heavily on tangible factors - production capacities, assets, investments and profits made. At present, we cannot speak of a proper assessment if it does not take into account those intangible factors, which in some cases decisively influence the value of the entity.

As a result, the introduction of a factor such as the value of the brands owned by the company, i.e. the assessment of intangible factors, together with tangible factors such as the company's revenue, meant recognition that much of the value of these companies is derived from the existence of these intangible values, brands. Moreover, a series of studies conducted in Western markets have shown that, in the vast majority of cases, brands are on average more than a third of the total value of the companies they own.

Even before these studies appeared, however, there were several situations in Western markets that showed that the markets in question admitted, at least informally, that there are a number of intangible factors, such as brands, which decisively influence the value company. It has become a practice in the case of many acquisitions made in the 1980s that the price paid for their purchase is higher than the market price, as was the case with Rowntree's acquisition by Nestle or the company Pillsbury by Grand Metropolitan. In each of these cases the price paid was higher than the value of the tangible assets held by the acquired companies, taking into account the potential to increase the brands owned by the respective companies or the actual value of the respective brands (Lindemann, 2004, p. 37).

The big problem with this procedure, called "accounting for goodwill," is that it does not provide a scientific basis for assessing the value of the intangible assets owned by that company. The buyer assesses the value of the purely arbitrary intangible assets of the company, relying on his knowledge of the business in which he intends to invest. This means that, almost invariably, one of the two parties will end up overestimating or, on the contrary, underestimating the value of the intangible assets in question. To avoid this problem, more and more companies have begun to look for ways to calculate their intangible assets and, obviously, to introduce their value in calculating the company's total value. Thus, in the mid-1980s, Reckitt & Colman, a company in England, introduced its Airwick brand in the company's balance sheet, taking advantage of the fact that the country's legislation allowed the inclusion of newly acquired brands as intangible assets that could be included in the company's balance sheet (Cheverson, 2004, p. 196).

The immediate response of professional accountants on dealing with brands as assets was to issue a "cease-and-desist" statement. This triggered the so-called brand debate, an intense argument for and against brands as assets. In essence, the compromise was to ban the practice of treating brands as assets, but goodwill should be recognized as an asset to be amortized for at most 20 years in the United Kingdom and 40 in the United States.

The report that resulted from the deliberations of the commission confirmed the British accounting profession's inclination that brand valuation was contrary to the respective accounting framework. Brands did not meet the definition of an asset and could not be measured reliably and it would not be possible to separate future economic benefits from those arising from other parts of the business. In 1998, the predecessor of International Accounting, the Standard Board developed IAS 38 Intangible Assets, which included most of these considerations. In 2001, the Financial Accounting Standard (SFAS) 141, followed by IFRS 3, Business Combinations and SFAS 142, Goodwill and other intangible assets, turned this attitude towards brands as a matter of their own.

In this way, the introduction of inalienable values into companies' financial results has gradually become a standard, something that is recognized by the legislation of many countries. Thus, in 1999, UK introduced FRS 10/11, and in 2002 the US introduced the FASB 141/142 financial standard, both designed to allow companies to introduce intangible values into their financial statements.

Currently, the value of brands is recorded only in the financial statements when they are acquired through a business combination or the acquisition of assets. If brands are internally generated, they fall under the International Accounting Standard IAS 38.

Recognition by law of the right of companies to evaluate their business based on the value of their brands has led to the diversification and development of various ways of valuing brands as well as the purposes for which this evaluation is used.

In the following we will present the most exhaustive ways to evaluate brands, the situations in which brand evaluation is useful, and the progress made in this field in Romania. But to evaluate the elements that make up intangible patrimony of a company is necessary, first, a correct definition and identification of these intangible elements (Mateş, Cosmulese, Anisie, 2016)

IV. UTILITY OF EVALUATING BRANDS BY ENTITIES

Introducing the value of the brands owned by companies in the calculation of their financial statements has determined the diversification of the purposes for which the valuation of brands is used. Thus, branding is generally used by companies for the following purposes:



Source: Irimieș C., Irimieș L., *Evaluarea brandului, măsură de bază în managementul modern al brandurilor*, Revista Transilvană de Științe ale Comunicării, Volume 3, Issue (14), 2011, pp. 34-44;

V. METHODS OF BRAND VALUE VALUATION

Branding models are based on classical and universally accepted financial and assessment techniques and on the expertise and skills of marketers, brand, market and consumer market research, financial audit and intellectual property. An appropriate and well-applied model provides the brand owner not only with monetary value but also lessons for further brand growth. The ultimate meaning of value must be financial, of value to stakeholders - primarily for shareholders, but also for consumers and the community in general (Ochea, 2011, p. 6).

While branding has emerged as a response to the need to put their value into the financial statements of companies, the most popular valuation methods are those based on different financial indicators. Thus, three main ways of valuing brands have been established:

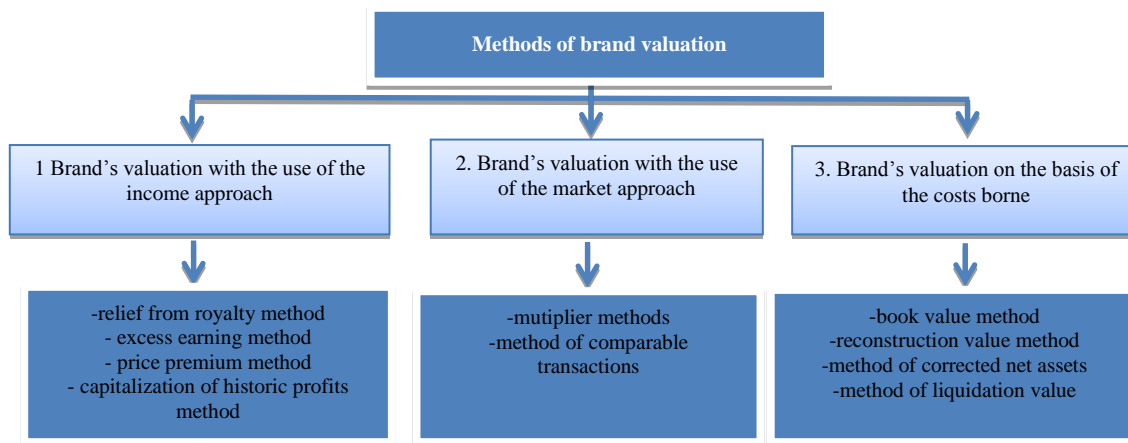


Figure 1 - The three classical approaches to valuing brands

Source: ANEVAR, 2015, pp. 133-138

However, practitioners and international organizations are constantly looking for new ways to improve. After an analysis of the different valuation methods and models, we appreciate that the most important are: Intangible Assets Monitor (Sveiby, 1989), Balanced Scorecard (Kaplan and Norton, 1996), Edvinsson's intellectual capital approach, and Malone and Scandia business navigator respectively (Edvinsson and Malone, 1997), IC Index (Roos and Ross., 1998).

The Real Choice Theory is a topic that has little to do with the Romanian literature. Though the foundations of this theory at the international level were more than 25 years ago, the subject has not been able to capture enough attention so far to Romanian authors and researchers. The importance of addressing real options in branding is justified by the current market context: uncertain, volatile and unpredictable (Ochea, 2011, p.2)

Should Romania be concerned with the value of brands?

In Romania, there is a problem in the assessment of brands, namely the low transparency of the financial statements of most companies. Given that Romanian legislation does not require the type of severe separation in the balance sheet of expenditures according to their current destination as shown in Western legislation, it is very difficult to carry out a brand assessment based on financial indicators. Only accounting and Western-based firms can do this, but their number in Romania is very low.

Thus, the level of brand evaluation projects in Romania is at the same level as the general market - particularly low. Increasing the number of projects of this kind will only be possible once certain conditions have been met. These include the resumption of economic growth, the only phenomenon capable of triggering the resumption of merger and acquisition activities, which are at the core of brand evaluation. At the same time, it is necessary to adapt and evolve the Romanian legislation in the financial field, so that the financial statements of the companies in our country are much more transparent and allow for financial projections and the discovery of the costs and investments that underlie the development of the brands of the respective companies (Irimies, 2011, pp. 34-44).

For example, a brand can be very successful on the market and if small amounts are invested in its development, in which case based on the creative cost method, we will undoubtedly underestimate the value of the brand (Chevron, 2000). There is also a variant where a brand not well positioned in the market has had very high development costs, in which case the brand will be overstated. The big issue of this brand valuation method is the lack of a direct link between the financial investment and the added value that it has. A significant

investment does not automatically guarantee a successful brand, which greatly reduces the effectiveness of this methods (Lynch, 2010).

Methods based on financial indicators are not the only ones used to evaluate brands. In particular, market research firms have proposed different branding models based on measuring consumer behavior and attitudes in relation to that brand. These models include a wide range of measures designed to measure consumer perceptions at different levels: brand specific attributes, relevance, popularity, etc. that provide a clearer picture of brand value.

Even if it does not provide a clear financial value to brand, brand evaluation through market research measures consumer attitudes have a direct impact on economic performance and definitely brand and provide relevant indicators for its position on the market (Salinas, 2009, p. 164). The question of market-based assessment methods is that it only gives a general and nonsensical picture of the value of the brand. By focusing exclusively on consumer perceptions, it does not provide any clear correlation between the market position of the brand and the investments made in that brand. Thus, a brand may have, according to the research, a good position on the market and hence a high value, but various financial factors not taken into account in research, such as the too high investments made in the brand, could actually lead to a reduced value of the brand (Perrier and Stobart, 1997).

VI. CONCLUSION

Evaluation of local and foreign brands operating in Romania is still in its infancy, work in this area is very low. We believe that the underlying causes of this are the small size of the Romanian market, both at the existing brands and at the low level of mergers and acquisitions in Romania. Some brands have been in existence for more than 100 years and are rooted as consumer icons (for example, Coca-Cola, Kellogg, Gillette). Others are more recent, but equally well established (e.g. Nike, Nestlé, Harley-Davidson). We think that it is impossible to estimate what it would cost to replace, if indeed any expense could contribute to increasing the distribution, reputation and preferences of the consumers that they have created.

Currently, the value of brands is recorded only when they are acquired through a business combination or asset purchase. If the brands (or brands) are internally generated, they fall under the International Accounting Standard IAS 38. The value of the brands is not currently recorded in the balance sheet or in the financial statements. It is left to the discretion of financial analysts, traders and economists. However, this is problematic for investors. What is found in the balance sheet does not manage to fairly present companies to the public. In hypothetical terms, a company may have the same assets as Apple, but without the same brand awareness in the marketplace. It is important for the accountancy profession to consider at least the implications of its current standards and to consider a change in the way brands are registered.

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