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Brand Accounting-A Recent Development In Accounting

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ABSTRACT

The success or failure of every business enterprise largely depends upon the marketability of its products and services. The marketability of products or services can be maintained and improved with the help of brand or trade names under which the products or services of the companies are marketed. Marketing specialists need information for brand management decisions. Using brand valuation information, managers can assess the effect of brand expenditures on attributes of brand equity rather than simply monitoring changes in market share. Accountants in particular can provide essential data. In companies in which a brand or brand portfolio is the key source of competitive advantage, it is especially crucial to collect and evaluate data to help with brand management. There are several numbers of companies which spend roughly 35 percent of its revenue on marketing and up to 30 million per year on a single brand. This significant level of expenditure highlights the importance of tailoring the capture and delivery of information to support brand management decisions. It is therefore, important to disclose the value of such brands or trade names and also their impact on the sales and profit achieved during the accounting period in the published financial statements of the companies.

Keywords : Brand accounting, intangible assets, brand names, trade names

INTRODUCTION
Brands are intangible assets which “is a resource (a) controlled by an enterprise as a result of past events; and (b) from which future economic benefits are expected to flow to the enterprise”. Brand accounting is basically concerned with providing basis for the valuation of brands and their reflection in the financial statements of an enterprise. The concept of brand accounting is quite new and the accounting profession has yet to evolve a scientific and realistic approach for the valuation of brands and their disclosure in the financial statements. Brand accounting was first published to the limelight in 1988. Despite many researches carried out and journals written by academic scholars on the subject, accounting remains a subject with many grey areas to be addressed. Accounting, on the other hand, is the information system that measures business activities, processes that information into reports, and communicates the results to decision makers . With the current trend in globalization and technological advances, it is believed that intangible assets like intellectual capital, knowledge systems, patents, registered designs, brand asset and trademark are going to be the key drivers to market capitalization in the recent era.

Valuation of Brands
Valuation of brands enables an organization to create a consistent, quantifiable value that is comparable across product lines, countries, and company units. Current brand expenditures expected to generate future benefits, such as promotions and advertising, can be reflected in the current value of the brand. Efficient and effective brand management requires coordination among many areas in the firm. A focus on the brand is essential from all areas, since marketing is not the only function concerned with increasing brand value. However, conveying the importance to employees of creating and maintaining brand value across the entire organization is often difficult.

The technique of brand valuation permits a company to deliver a consistent brand image. If the entire organization understands how brand value is computed, it will be easier to prevent actions that negate each other or interfere with the overall brand strategy. A promotional campaign that dilutes the image of the brand by confusing a key consumer segment’s perception of the brand’s major identity can be avoided. If the overall impact of the campaign is evaluated in terms of the comprehensive value of the brand, the negative effect on a key consumer can be determined. Similar analyses are possible without brand valuation, but valuations help quantify the long-term effects.

The valuation of brands generally helps managers in budget allocation and decision making. Marketing spending could be allocated according to the relative value of the brand in the portfolio. The process of determining the strength of the brand used in the valuation could also yield valuable information for this spending allocation. For example, the appraisal of brand strength might reveal particular areas of vulnerability for the brand that might warrant a focused marketing campaign and thus create additional implications for the allocation of the budget. This highlights how brand valuation might improve the process of determining how the marketing budget should be allocated in order to achieve the greatest return.

Methods of Brand Valuation
The various methods of brand valuation are:- (1) cost-based approaches; (2) market-based approaches; (3) income-based approaches; and (4) formulary approaches incorporating future benefits or comparative advantages.

Cost-based Approaches :It includes the costs incured in creating the brand through the stages of research and development of the product concept, market testing, continued promotion during commercialization, and product improvements over time. Historically based, this approach is the valuation technique that complies with standard accounting practice for valuating assets. It is also the most conservative method of valuation and provides little future-oriented information that is useful in the brand management process. Moreover, this technique fails to capture value-added through the application of effective strategic brand management activities and processes.

Market-based Approaches
This method mainly focused on an estimation of the amount for which a brand can be sold. This method requires being able to determine a market value. In the absence of an actual

market for most brands, this can be a difficult estimation challenge. To circumvent this problem, proxies are created based upon how the financial markets estimate the value associated with the brand.

Income-based Approaches
This approach involves determining future net revenues directly attributable to the brand and then discounting to the present value using an appropriate discount rate. Different methods may be used to determine net revenue. One method compares the brand's price premium to a generic product--one that exists in the marketplace without benefit of marketing investment and name ownership. A second method estimates the annual royalties associated with the brand, as in a licensing agreement.

Formula Approaches
Inter brand developed its formula approach in the context of external financial reporting, but indicates that the approach to valuation is also very suitable for internal management purposes. The Inter brand approach uses a three-year weighted average of profits after tax as an indicator of brand profitability. In calculating brand profitability, Inter-brand strives to consider only factors that relate directly to the brand's identity. This is often difficult because the company may not consider specific functions as separate from the brand. For example, much of a brand's success might be attributable to the distribution system, which supports the brand but is likely not a key element of its identity. Once brand profitability is determined, a multiplier is attached to the calculation. The multiplier is created from an evaluation of brand strength based on seven factors, which are weighted according to Inter brand's guidelines.

Leadership: This factor relates to the ability of the brand to function as a market leader and secure the benefits associated with holding a dominant market share.

Stability: Brands that retain their image and consumer loyalty over long periods of time are more valuable than brands without such stability.

Market: Brands in stable market environment are more valuable than brands in other markets because of their ability to generate greater sales volume in a more stable environment with greater barriers to entry from competitors. Internationality: Internationally accepted brands are more valuable than regional or national brands.

Trend: Trend is the ability of the brand to remain current in the perception of consumers.

Support: Consistently managed and supported brands by the organization over time are much more valuable than brands that have functioned without any organizational investment.

Protection: It relates to the legal issues associated with the brand. Brands that are protected by registered trademarks are more valuable in that the organization has the legal right to protect the brand.

Accounting Treatment
There are no specific international accounting standards available regarding the accounting treatment to be given to brands. However brands are intangible assets like goodwill and do not have physical identity. Therefore it is suggested to follow provisions of AS26. The application of this standard is mandatory for all companies operating in UK. The standard restricts capitalization only to acquired brands created by the companies themselves. The capitalized value of the brands can be shown as "intangible assets" and the corresponding value as revaluation reserve in the companies balance sheet. However brands or goodwill internally generated should not be recognized as assets in the firm's books.

CONCLUSION
In the end it can be said that the valuation of brands is quite subjective yet their importance in today's competitive business environment cannot be ignored. In today's competitive world the customer is primarily guided by the brand image of the product. Brand image leaves an lasting impression on the customer that he does not change his preference for his brands even when cheaper substitutes are available. A realization that the full value of brand owning companies is not explicitly shown in the accounts or reflected in stock market values led to a reappraisal of how brands should be valued and disclosed. There are currently three approaches to brand valuation – marketing approach, financial approach and economic use approach. The marketing approach views brand value from the consumer related aspects and the variables in this approach are generally qualitative in nature such as brand loyalty associations, preferences and satisfactions. The financial approach views brand value from quantitative variables like profit and cost and this approach is favored by accountants due to its reliability of measurement. Both the marketing and financial perspective adopts a tunnel vision approach in their methods of valuation. This gives rise to the economic use approach that combines the first two approaches into an integrated model and provides a financial value for brands in line with current corporate finance theory. The accountants all over the world are realizing this fact and there is growing need of quantifying the brands whether created or acquired and reflect them in the corporate financial statements. In India also a beginning has been made and it is hoped that in the years to

come the accountants all over the world would be in a position to evaluate brand and reflect them in the corporate financial statements.

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