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Measurement of Brand Values of Private Commercial Banks of Bangladesh

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Abstract- Brand is the name, associated with one or more items in the product line, which is used to identify the source of character of the item(s). It is important that organizations work hard to create strong brands and nurture them carefully. There are multiple competitive advantages associated with strong brands. So, brands should be valued like any other assets of the company. There are several methods for valuing brands currently in force that range from the simplistic to the sublime. Top-down Approaches, Bottom-up Approaches, Combination Approaches, Economic Value Approach, Formulary Approaches, and Economic Value Added Approaches are some popular methods of brand valuation. The brand values of 28 private commercial banks of Bangladesh and their ranks according to their brand values are discussed in this paper. All the data of this report are secondary data and they have been collected from the Annual Reports of the sample banks.

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MEASUREMENTOFBRANDVALUESOFPRIVATECOMMERCIALBANKSOFBANGLADESH

Strictly as per the compliance and regulations of:

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I. Introduction

Brand plays a strategic role in the success of any business. Relative brand values can be significant in determining the acquisition values. Brands increase consumer willingness to take the risk of buying even premium products if they are convinced that it is from a credible source and they trust the company. Along with a brand name a logo or symbol also help people to recognize the product. It is for this reason that the brand is often registered. Once registered it becomes the property of the company. The trade mark is a very valuable asset of a company and companies spend valuable resources in legal fights to protect themselves when competitors create confusing symbols and trademarks. Consumer decision making is made simpler when the consumer is familiar with the brand because the consumer develops confidence and faith in such brands.

The importance of branding is brought into sharper focus by the fact that in terms of services that banks offer, there is no much scope for differentiation. So the key to acquiring and retaining customers in order to maintain long term profitability and competitive edge lies in creating and maintaining a favorable brand image in the minds of the target customers.

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II. Objectives of the Research

This research is conducted for the following reasons which will contribute to banking business in Bangladesh:

- To find out the variables which affect the brand value of bank.
- To measure brand value of different banks.
- To identify the problems faced by banks in establishing brand.
- To offer some guidelines to extend branding in banking business of Bangladesh

III. Methodology

a) Secondary Source

The data and findings presented in this project paper are mostly taken from secondary sources. The information was gathered from the magazines, literature, books, reports and also journals. In order to update the information for the findings, the Internet was used as an important source.

b) Sampling and Data Collection

30 private commercial banks including Islami banks of Bangladesh were selected as sample of the research. Among the 30 Private commercial banks, ICB Islami Bank and Bangladesh Commerce Bank were deducted due to unavailability of information.

c) Tools for Analysis

The following methods will be used in the research:

Economic Value Added Method: is used to measure the brand value of the banks.

Brand Value = (Profit per the Income Statement - Capital Charge) x "Branding Index" x Implied Multiplier.

d) Spearman's Rank Correlation

Spearman's rank correlation coefficient allows identifying easily the strength of correlation within a data set of two variables, and whether the correlation is positive or negative (whether the slope of the corresponding line is positive or negative). It is calculated by the following formula:

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$$r_{ranks} = 1 - \frac{6\Sigma D^2}{n(n^2 - 1)}$$

It ranges from -1 to +1, i.e., -1 indicates that there is perfectly negative correlation and +1 indicates that there is perfectly positive correlation.

IV. Literature Review

The central concern of brand building literature experienced a dramatic shift in the last decade. Branding and the role of brands, as traditionally understood, were subject to constant review and redefinition. A traditional definition of a brand was: "the name, associated with one or more items in the product line, which is used to identify the source of character of the item(s)" (Kotler 2000). Before the shift in focus towards brands and the brand building process, brands were just another step in the whole process of marketing to sell products. "For a long time, the brand has been treated in an off-hand fashion as a part of the product" (Urde 1999, p. 119). Kotler (2000) mentions branding as "a major issue in product strategy" (p. 404). As the brand was only part of the product, the communication strategy worked towards exposing the brand and creating brand image. Aaker and Joachimsthaler (2000) mention that within the traditional branding model the goal was to build brand image; a tactical element that drives short-term results. Kapferer (1997) mentioned that "the brand is a sign - therefore external- whose function is to disclose the hidden qualities of the product which are inaccessible to contact" (p. 28). The brand served to identify a product and to distinguish it from the competition. "The challenge today is to create a strong and distinctive image" (Kohli and Thakor 1997).

Literature gives several definitions of the term brand. The common themes are that a brand is more than just a combination of a name, a design, a symbol or other features that differentiate a good or a service from others. (Dibb 1997). It is a unique set of tangible and intangible added values that are perceived and valued by the customer. The American Marketing Association (AMA) definition of a brand is "a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competitors". Within this view, as Keller (2003a) says, "technically speaking, then, whenever a marketer creates a new name, logo, or symbol for a new product, he or she has created a brand". He recognizes, however, that brands today are much more than that. As can be seen, according to these definitions brands had a simple and clear function as identifiers.

Kapferer (1997) mentions that before the 1980's there was a different approach towards brands. "Companies wished to buy a producer of chocolate or pasta: after 1980, they wanted to buy KitKat or Buitoni. This distinction is very important; in the first case firms wish to buy production capacity and in the second they want to buy a place in the mind of the consumer" (p. 23). In other words, the shift in focus towards brands began when it was understood that they were something more than mere identifiers. Brands, according to Kapferer (1997) serve eight functions shown in Table 1.1: the first two are mechanical and concern the essence of the brand: "to function as a recognized symbol in order to facilitate choice and to gain time" (p. 29); the next three are for reducing the perceived risk; and the final three concern the pleasure side of a brand. He adds that brands perform an economic function in the mind of the consumer, "the value of the brand comes from its ability to gain an exclusive, positive and prominent meaning in the minds of a large number of consumers" (p. 25). Therefore branding and brand building should focus on developing brand value.

Kapferer's view of brand value is monetary, and includes intangible assets. "Brands fail to achieve their value-creating potential where managers pursue strategies that are not orientated to maximizing the shareholder value" (Doyle 2001a, p. 267). Four factors combine in the mind of the consumer to determine the perceived value of the brand: brand awareness; the level of perceived quality compared to competitors; the level of confidence, of significance, of empathy, of liking; and the richness and attractiveness of the images conjured up by the brand.

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Concerning the brand management process as related to the function of a brand as an identifier, Aaker and Joachmisthaler (2000) discuss the traditional branding model where a brand management team was responsible for creating and coordinating the brand's management program. In this situation, the brand manager was not high in the company's hierarchy; his focus was the short-term financial results of single brands and single products in single markets. The basic objective was the coordination with the manufacturing and sales departments in order to solve any problem concerning sales and market share. With this strategy the responsibility of the brand was solely the concern of the marketing department (Davis 2002). In general, most companies thought that focusing on the latest and greatest advertising campaign meant focusing on the brand (Davis and Dunn 2002). The model itself was tactical and reactive rather than strategic and visionary (Aaker and Joachimsthaler 2000). The brand was always referred to as a series of tactics and never like strategy (Davis and Dunn 2002).

Kotler.P in his book Marketing Management said, brands identify the maker, simplify product handling, organize accounting, offer legal protection, signify quality, create barriers to entry, serve as a competitive advantage, and secure price premium

Since the late 1990s, the need to establish dollar valuations for Intellectual Capital Assets has driven the development of a handful of valuation methods. These methods are nearing formal recognition by the Financial Accounting Standards Board (FASB), and are headed toward inclusion in the standard repertoire of the Generally Accepted Accounting Principles (GAAP).

Essentially, there are four approaches to valuing a Brand, and one or more of them may be applicable in any individual instance. The (4) four approaches are, Cost Approaches, Market Approaches, Income Approaches, Brand Strength Assessment Approaches. Which method or methods are the right method(s) to use depends greatly upon the individual situation and the perspective from which the valuation is to be addressed. Invariably, Brands must be looked at from all approaches.

Initial research into the valuation of brands originated from two areas: marketing measurement of brand equity, and the financial treatment of brands. The first was pioneered by Keller (1993), and included subsequent studies by Lasar (1995) on the measure of brand strength, by Park and Srinivasan (1994) on evaluating the equity of brand extension, Kamakura and Russell (1993) on single-source scanner panel data to estimate brand equity, and Aaker (1996) and Montameni and Shahrokhi (1998) on the issue of valuing brand equity across local and global markets.

The financial treatment of brands has traditionally stemmed from the recognition of brands on the balance sheet (Barwise et.al. 1989, Oldroyd, 1994, 1998), which presents problems to the accounting profession due to the uncertainty of dealing with the future nature of the benefits associated with brands, and hence the reliability of the information presented. Tollington (1989) has debated the distinction between goodwill and intangible brand assets. Further studies investigated the impact on the stock price of customer perceptions of perceived quality, a component of brand equity (Aaker and Jacobson 1994), and on the linkage between shareholder value and the financial value of a company's brands (Kerin and Sethuraman, 1998).

Simon and Sullivan (1993) developed a technique for measuring brand equity, based on the financial market estimates of profits attributable to brands. The co-dependency of the marketing and accounting professions in providing joint assessments of the valuation of brands has been recognized by Calderon et al (1997) and Cravens and Guilding (1999). They provide useful alternatives to the traditional marketing perspectives of brands (Aaker, 1991; Kapferer, 1997; Keller, 1998; Aaker&Joachimsthaler, 2000).

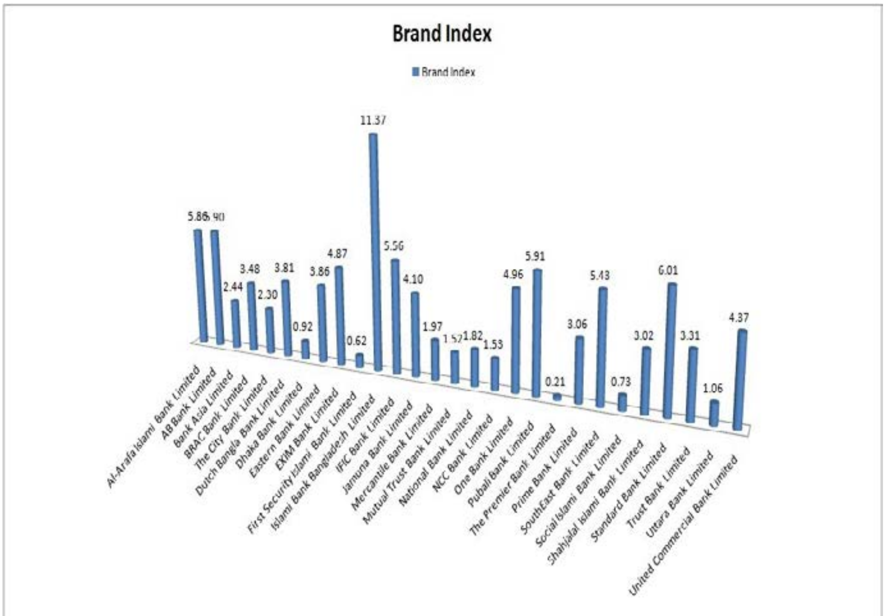
The debate over the appropriate method of valuation continues in the literature (Perrier 1997) and in the commercial world. The commercial valuation of brands has been led by Interbrand, a UK-based firm specializing in valuing brands, Financial World, a magazine which has provided annual estimates of brand equity since 1992, and Brand Finance Limited, a British consulting organization. These organizations utilize formulae approaches, and highlight the importance of brand valuation in the business environment.

V. Data Analysis

For calculating the brand value all the financial data are of year 2010. Most of the information is collected from annual reports of 28 banks.

Brand index is an important variable for estimating brand value. The spearman's rank correlation value between brand index and brand value is 0.69, which means there is a strong positive correlation between these two variables. Banks which have higher total revenue have higher brand index. For example, Islami Bank Bangladesh Limited had highest revenue BDT 64850.80 million in 2010 and it had highest brand index 11.37 and The Premier Bank Limited had lowest revenue BDT1185.37 million and brand index is 0.21.

The Following chart shows the brand index of all the banks:



Implied multiplier is another important variable for calculating brand value. But it has less impact on brand value as the values of implied multiplier are very close of all banks.

Net income after tax is also an important variable for determining brand value. The spearman's rank correlation value between net income after tax and brand value is 0.69, which means there is a strong positive correlation between these two variables. For example, IBBL had highest net income after tax BDT 4485.48 million and First Security Islami Bank had lowest net income after tax BDT 548.60 million. The spearman's rank correlation value calculation between net income after tax and brand value is shown in Appendix F.

After calculating the brand values of all the private commercial banks of Bangladesh, it is found that Islami Bank Bangladesh Limited has the highest brand value, which is BDT 33916.52 million. AB Bank Limited and Southeast Bank limited have 2nd and 3rd highest brand values of BDT 14573.25 million and BDT 9515.08 million respectively. On the other hand, The Premier Bank Limited has the lowest brand value of BDT 38.22 million. Social Islami Bank Limited has the 2nd lowest brand value of BDT 50.56 million. Brand value calculation is shown in Appendix.

After calculating the brand value, 28 banks are ranked according to their brand values. It is shown in the following table:

Name of the bank	Brand value (million)	Rank
Islami Bank Bangladesh Limited	33916.52	1
AB Bank Limited	14573.25	2
SouthEast Bank Limited	9515.08	3
EXIM Bank Limited	7907.67	4
National Bank Limited	6935.70	5
Prime Bank Limited	6563.81	6
BRAC Bank Limited	5726.87	7
Al-ArafaIslami Bank Limited	4918.61	8
Standard Bank Limited	4263.59	9
Dutch Bangla Bank Limited	4038.92	10
Eastern Bank Limited	3990.46	11
Pubali Bank Limited	3523.88	12
IFIC Bank Limited	3507.34	13
ShahjalalIslami Bank Limited	3261.60	14
Jamuna Bank Limited	2287.30	15
NCC Bank Limited	2112.99	16
Trust Bank Limited	1928.92	17
Bank Asia Limited	1520.00	18
Mercantile Bank Limited	1261.17	19

Mutual Trust Bank Limited	895.45	20
One Bank Limited	785.87	21
Dhaka Bank Limited	771.39	22
United Commercial Bank Limited	515.48	23
First Security Islami Bank Limited	285.79	24
Uttara Bank Limited	167.48	25
The City Bank Limited	75.27	26
Social Islami Bank Limited	50.56	27
The Premier Bank Limited	38.22	28

There is a large difference from the brand value of Islami Bank Bangladesh Limited to AB Bank Limited. The brand value of AB Bank Limited is 42.97% of the brand value of Islami Bank Limited. The brand value of The Premier Bank Limited is 11.27% of the brand value of Islami Bank Limited.

VI. Recommendation & Conclusion

a) Recommendation

Customers by nature are cognitive misers. They do not want to do a lot of research and find an out which bank is the best and which one is best suited for their needs. Incredible as it might seem, the choice of banker decision often follows no rational criteria. In such a scenario, any bank will do well to build a strong and highly identifiable brand for it in order to angle the decision making of the consumers in its favor. A strong brand is like an imaginary suggestion in the head of a person who is in need of any type of banking service and simplifies the decision making process for the customer.

There are ways to improve a brand from advertising such as viral campaign (more trustworthy), online ads, print ads and commercials. Another way is to improve a product or services that will reinforce the brand. This is a good way to promote a brand by always being in the cutting edge or "customer's first image".

The qualities of a products and services will reinforce the brand. Advertise as much as possible to spread that message and make it into a picking brand. Branding doesn't only benefit the business but a customer as well. The brand a customer chooses reflects who he is and expresses himself on what he likes to do and be able to join the community of like-minded people. Branding is a win: win situation for both the businesses and the loyal customers. So, all the banks should try to increase their brand values.

b) Conclusion

The discount rate, growth rate are often the most neglected issues in brand valuation, yet they play an important role in the ultimate valuation of the brand. Most models make use of the discount rate and the growth rate in order to determine an appropriate multiplier that needs to be applied to the estimated annual value of brand earnings.

It is relatively easy to manipulate the results of measuring brand equity in order to deliver any value that management wishes. The only way to prevent this abuse is to understand the objective of the valuation and to use the appropriate assumptions in order to derive a fair value. No single model will give all the answers to a correct valuation.

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