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The impact of brand equity on company economic indicators in selected sectors in the Czech Republic

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Abstract

There is a considerable amount of literature covering the impact of brand on the enterprise. It is a general convention to search for the influence of intangible values as the brand, firm reputation, customer satisfaction on revenues, margins or future growth. But there is some evidence that these assets could also influence the risk of the company business so the capital costs should be also adjusted. The aim of this article is to examine the mentioned relations, especially the relation between the brand and the company business risk in some sectors in the Czech Republic.

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Keywords: brand, brand value; customer satisfaction; risk; return on assets; banking brands; insurance brands; fuel distribution brands

1. Introduction

There is growing evidence that intangible assets play a significant role within company exploited assets (Damodaran, 2006). Some researchers (e.g. Larkin, 2013) point out the growing differences between market values of public companies and their book asset values and ascribe these differences to the increasing importance of non-reported intangible assets. One of these intangible assets is the brand.

There is a consensus that the value of the brand is an expression of the enterprise's ability to influence consumer behavior (Keller, 2003). Less agreement, however, is on its manifestations in the company economic indicators. Furthermore, there is no common method of its financial evaluation, neither a unanimously accepted view what the brand exactly is and how to measure it in financial terms (Salinas, 2009). The value of a brand is mainly seen in the

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possible creation of a monopolistic competition market structure that is manifested by customers' lower price sensitivity, barriers of entry, higher profit margins and in some cases the possible cross-selling. There are also works that draw attention to the fact that the brand can influence not only the above mentioned parameters, but also the company business risk and its capital structure. The ability of the brand to influence these values is important for its valuation.

The aim of this paper is to determine the validity of these general assumptions about the effects of the brand on its user and especially to verify the conclusions regarding its impact on the company business risk and the company capital structure in the case of companies and their brands operating in the Czech Republic.

A new approach to the empirical verification of the relationship is the brand view as a relative quantity to its direct competitors. The verification is carried out only in comparison to other brands within the same business field (not as in the further mentioned studies across unrelated business sectors).

However, the ability to verify the validity of these assumptions in the Czech Republic is constrained by limited data on brand value development, its parameters and in some cases limited data on economic performance of individual companies as well. The verification of brand effects on company economic indicators was carried out in the fields of banking, insurance, and fuel distribution characterized by concentrated market structures.

2. Theoretical background

According to the American Marketing Association (2015), a brand is a "*Name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers*". Its importance is seen in the fact that customers can identify the origin of a product or service and it influences their decisions (Keller, 2003). According to Zimmerman et. al. (2001), brands were recognized as valuable assets and play an important role for customers in the sense of communication and identification. According to Kotler and Armstrong (2013), highly valuable brands provide their companies with a certain degree of protection in fierce price competition. The main sources of the brand value are often considered brand awareness, perceived quality, image, and brand loyalty (Aaker, 1996). The brand is frequently represented by the name of the producer or the distributor and this designation can be traded (Sedláček, & Skalický, 2015).

Many works have attempted to capture the process how the brand influences especially financial results, market share growth, but also the business risk of its owner. It should be noted, however, that when it comes to specific terms (and measurement) what the brand is and what it consists of, there is little consensus about it. While some authors (e.g. Chen, & Zhang, 2013) considered the company reputation as part of the brand, others (e.g. Himme, & Fischer, 2014) regarded reputation along with customer satisfaction as a separate category. The widespread view of the brand value (and its value measurement) uses the combination of *Knowledge* (how well the customers know the brand) and *Esteem* (how much regard and loyalty customers have towards the brand) (Aaker, 1996; Keller, 2003).

Branded products are associated with higher profit margins, growth opportunities, less customer price sensitivity (e.g. Hoeffler, & Keller, 2003; Simon, 1979). The methods of brand financial evaluations therefore deal with the impact of the brand on price premiums, changes in demand, increases in cash flow, etc. (Salinas, 2009). But there are also papers that draw attention to the fact that the brand could also affect the company capital structure (Chen, & Zhang, 2013), it can affect the cost of equity (Rego, Billett, & Morgan, 2011), the cost of foreign capital (Himme, & Fischer, 2014) or volatility of future cash flows (Larkin, 2013). It should have the consequences for brand valuation methods. The reasons for this supposed association between the brand and the volatility of future cash-flow can be seen in customer loyalty (Larkin, 2013; Bharadwaj, Tuli & Bonfred, 2011) and marketing expenses behind creating a brand and a future earnings volatility reduction (Shrinivasan & Hanssens, 2009). The aim of this paper is to investigate whether these relationships can also be observed when dealing only with the competitors operating within the same industry.

3. Data, methodology and research design

The biggest pitfall for verifying the relation between the brand and the company performance in the Czech Republic is the lack of data regarding the brands. In particular, there is a lack of data concerning their mutual relation (e.g. order), whether it is their customer award, customer knowledge, customer loyalty, attitude or satisfaction. Brand data are often fragmented, incomplete or unreliable. Trying to verify some relation between the brand and its company