

## Cost Estimation Methods of the Company Brand

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**Abstract.** Brand value is necessary for management of any company as it allows to distribute the resources of an enterprise effectively. Relationships at the level of brands help market players to save time for establishing direct partnership, formation of the developed communications network contributing to "transparent" business relations and it will allow to see a clear picture of the market. The article highlights the factors that affect the cost of the brand and compares modern models of brand valuation. It is shown that against the background of the growth of the brand value of foreign oil companies there is a steady decline in the brand value of domestic oil and gas companies over the past few years. In this connection, the authors identified the drivers of growth of the brand value of the oil company.

### 1. Introduction

Cost estimation of the brand is a difficult theoretical and methodological process. The brand belongs to the category of the most difficult estimated intangible assets, also in many countries including in Russia, a developed market of intellectual property sale and intangible assets has not yet developed.

The understanding of a widely accepted brand essence is not reached now and, respectively, there is no established understanding of a brand management system at the enterprise. The concept of a brand-oriented company is represented as the most perspective one, which, in particular, is said in the works of D. Aaker [1]. A brand-oriented company is a company which is actively engaged in brand formation as the most important source of the existing advantages in competition. This concept allows to maximize the economic potential of the brand.

According to the American Marketing Association (AMA) the brand is "the name, word, design decision or their combination in order to identify goods and services of a specific seller or a group of sellers to distinguish them from competitors" [2]. 2 functions of a brand can be singled out from this definition: identification of goods and its manufacturer; distinguishability of goods in the competitive environment.

**2. Problem statement**

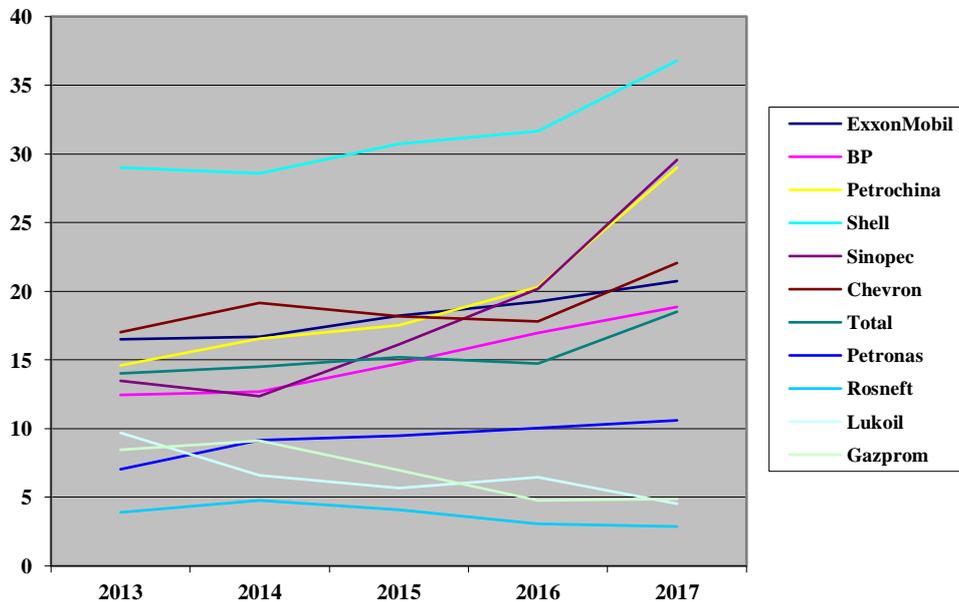
A brand-oriented company must consider a brand as the basis of all business. A brand management system at this enterprise covers all components – the structure of the business, organizational structure of the enterprise, management, production, quality management, pricing, sales and logistics, promotion, control of efficiency, etc. The management aimed at brand orientation of such processes is a brand management system.

One of the components of the brand management system is brand cost estimation.

The trademark value for its owner is that its existence creates additional cash flows in comparison with unbranded products or services. The added value provided by a trademark represents the brand-name capital (capital of the brand). Maximization of the brand-name capital acts as the purpose of management of a trademark. Therefore, measuring the cost of a trademark or the brand-name capital, the efficiency of business activity of the company and effective trademark management is defined.

Since the beginning of the brand cost estimation many approaches and methods have been developed, which sometimes delivered strikingly different results. In this regard, in 2010 the International Organization for Standardization has issued the new standard - ISO 10668 which provides sequential, reliable procedures and methods for brand cost measurement, including all financial, behavioral and legal aspects.

Today Russia is considered only as a supplier of raw materials resources on the world stage, but it isn't enough for the country claiming to be in a number leaders of world economy [3]. The Russian oil and gas companies comparable by reserves lag behind significantly the foreign ones in terms of capitalization, that is fall behind in the amount of intangible assets [4]. Russia yet has nothing to offer to a foreign consumer who accustomed to buy not goods, but the known brand long time ago. Compared to foreign oil companies there has been a steady decline in the brand value of domestic oil and gas companies over the past few years (figure 1). The problem of a choice of a cost estimation method of the brand is urgent.



**Figure 1.** Dynamics of brand cost, in billions of dollars.

**3. Comparison of approaches to brand cost**

When using some ways, the brand cost is expressed by means of quantitative indicators, namely the monetary size of the brand cost is considered. The brand cost at the same time represents the money amount characterizing future income. When using other ways of estimation considering quality

indicators the possibility of obtaining additional benefit for the company possessing a strong brand is analyzed. There is a set of approaches for measurement of the brand cost. At the same time some estimate a brand from positions of a separate company, others – from a product position, but there are also those which estimate a brand from the consumer positions. The brand value for the enterprise-owner arises directly from the brand cost for consumers. On the table 1 brand cost factors for the consumer and the manufacturer are presented, their interrelations and influence on growth of the market cost of the company are defined that has allowed to create an approach to brand cost management of the company.

**Table 1.** Factors of the brand cost.

|                   |                                       |   |
|-------------------|---------------------------------------|---|
| For consumers     | Key factors                           | Economic factors  |
|                   | Products quality<br>(works, services) | Sales growth  |
|                   | Price-quality ratio                   | Increase in profitability of production<br>Expenditure decrease for promotion of new products into the market |
| For manufacturers | Factors of branding                   | Image factors   |
|                   | Trademark                             | Improvement of competitive advantages   |
|                   | Distribution                          | Increase of investment attractiveness   |
|                   | Package                               |   |
|                   | Advertising                           |   |

At the moment, both in domestic, and in foreign practice, there is no common procedure of the brand cost estimation and there is a set of models which can be divided into three groups: research, financial and mixed (including elements of the first two groups).

The first group is research models (based on sociological researches of a number of criteria). It is possible to carry to this group, for example, the BrandAsset Valuator model of the Young and Rubicam Company. It assumes the allocation of four main characteristics of a brand corresponding to stages of its formation: difference, relevance, respect and knowledge. The combination of data on the first two characteristics gives an indicator of "the brand force", on two others – an indicator of "the brand position". On the basis of the cumulative analysis of these indicators the conclusion about the potential brand value is drawn. The other known research technique is the BrandDynamics model of the Millward Brown Company. This model uses the concepts of the levels of brand development – there are five of them in number (presence, relevance, execution, advantage, communication). The analysis of levels of various brands allows to draw conclusions on the brand value.

The brand value also helps to measure the BrandZ model by means of research approaches. The brand force is determined on this model by depth of friendly relations and loyalty of consumers to a brand.

The second group of models of brand management is based on financial techniques. Here it is possible to allocate:

- a cost method (determines the brand cost as a complex of all historically costs incurred which needed to result a brand in a current state: costs of development, marketing, advertising, etc.);
- a comparative method (comparison of the prices of own branded goods with the prices of similar branded goods of competitors is made);
- a method of the premium price (comparison of the prices of branded goods with the prices of similar unbranded goods is made).

In recent years the mixed models (uniting elements of research and financial ones) were widely adopted. The mixed model of management of the brand capital is actively used, for example, by the Interbrand Company in its work. It is possible to assume that brand cost estimation develops in this direction. The role of financial elements will raise eventually and be reduced a role of research ones. Formalization of research elements, i.e. development of branch mechanisms of their unification will be observed at the same time.

In April, 2017 the Brand Finance consulting company which is engaged in estimation of brands has published lists of the most expensive and most recognizable brands both in Russia and around the world. In Top-10 of the most recognizable Russian brands have appeared: Rosneft, Beeline, Lukoil, Megafon, VTB, Gazprom and MTS. Among the oil companies the special attention is deserved by the Lukoil company. The most part of the Russian leading brands treat oil and gas production. The Lukoil brand has been included in the rating of Interbrand in 2006 for the first time and has at once entered in Top-10, then it has taken the fourth place of rating. The brand cost of this oil and gas company was 21,075 billion rubles. At that time the brand cost of Gazprom concern was only 5,409 billion rubles and took the 18th place. The attention of experts to a brand of Lukoil has been caused at the period by the target corporate program realized by the company since 2005 for strengthening of a trademark within which the logo has been updated and the uniform corporate style has been created. The company pays special attention to the policy of trademark management in recent years, considering a corporate brand as one of the strategic intangible assets impacting on business. According to experts, timely updating of symbolics of the company in modern graphic execution with preservation of a strong communication with values of consumers and manufacturers and in general the brand management system including both legal security and accurate positioning of a brand for all target groups of an environment of the company have considerably increased the brand force in the competitive environment.

#### **4. Methodical recommendations for determining brand strength**

For management of the brand cost of the company it is necessary to allocate key drivers of growth of brand cost which for each sphere of business have a unique character [1, 4, 6]. The analysis of successful practice allowed to allocate the following drivers of growth of the brand cost of the oil company:

4.1. Network of refueling (gas stations) - an integral part of any leading company. Networks of gas stations as the systems of providing with oil products serve for implementation of motor fuels to end users, thereby increasing sales volumes.

4.2. Sales geography - an ability of a brand to overcome geographical boundaries.

4.3. Gas stations design - a modern corporate style allows to increase sales, makes the positive and memorable impression, helps to distinguish gas stations profitably from the existing ones to attract a large number of consumers.

4.4. The quality of a product – a very important factor as the consumer, having faced low-quality goods that can result in engine malfunction of the car, most likely won't use services of this gas station anymore and this fact will inform all familiar owners of motor transport. Thereby, having once sold not qualitative fuel, you lose a large number of buyers.

4.5. Innovations and product range - it is necessary to use joint research practices, and focus only on the tasks of improving operational activities, which is observed in most Russian industrial holdings due to the low level of trust between the companies [7].

4.6. Advertising is one of the most important factors of cost as the more company will be able to attract consumers, the bigger volume of sales it will obtain in a year.

4.7. The price of a product is a powerful argument in favor of the choice of gas stations.

4.8. Increase in a client base – this factor allows increasing sales.

4.9. Sales promotion – by use of the diverse means of the stimulating influence designed to accelerate market response.

4.10. Other services - in the territory of gas stations can be located on the separate areas of the building and constructions of production assignment for service of vehicles (posts of technical maintenance and a car wash). Enter into structure of the objects providing technical maintenance of vehicles:

- points of technical maintenance (intended for performance of running a repair of vehicles);
- facilities for accumulator works;
- units for washing for vehicles;
- fuel-dispensing area;
- oil stock;
- facilities (areas) for the parking of the vehicles which are in daily operation;
- facilities (areas) for the parking of mobile maintenance means;
- a point of inflation of tires and objects of water, heat and electricity supply;
- accommodation premises.

## 5. Discussion

In conditions when the brand becomes a strategic asset of the company, estimation of efficiency of branding actions acquires more and more relevant character. Estimation of branding efficiency gives a chance to the company to make decisions in the future, based on facts, and to optimize the process of their acceptance. Development of a technique of the brand cost management of the company will allow:

1. To improve brand management. Annual brand cost estimation allows owners and management of the company to control the brands systemically and purposefully at all stages of value creation.
2. To use results in corporate reporting: practice of provision of the so called "Reports on an intellectual capital" is quickly extended by shareholders. Preconditions for more exact reasons for cost of the company in attracting investment, securities issue, mergers, etc. are created.
3. To create the leverage on trade partners: under other conditions being equal, it is profitable for the last ones to cooperate with a strong (increasing in cost) brand.
5. To increase liquidity of brands as a separate asset of the company.
6. To increase cost. In and of itself, participation in listing encourages the popularization of brands and increase in their cost.

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