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Impact of brand value on Market capitalization a study of banking sector

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ABSTRACT

The biggest challenge for the banking industry is to tangibilize the intangible banking experience. One way of overcoming this challenge is creation of strong brands. In a highly competitive marketing environment, brands are regarded as an important source of capital. The contribution of brands has been appreciated in enhancing the market value of firms and hence this necessitates valuing them. The market value of firm can be determined by its market capitalization. Market Capitalization (Market Cap) quantifies business value on the basis of share price and number of shares outstanding. It generally reflects the market's view of a firm’s stock value. The current study examined the relationship between brand value and market performance of banks by using the market capitalization of global bank brands to test whether strong brands outperform the market. A bank is considered a brand if it is included in the annually published Brand finance Top 100 Brands ranking list. The sampling frame constituted the 100 best global bank brands listed by Brand Finance, a leading brand valuation agency. The data of Brand value and market capitalization was collected from the report of Brand Finance Banking 500 published in 2013. Correlation and Regression analysis was applied to analyze the relationship between branding and market capitalization. It is concluded that Brand value has significant impact on market capitalization of banks. Market Cap is indispensable in banking business because it is an effective measure to transmit information to the investors about the stock volatility.

Introduction

In a highly competitive global scenario, brands are considered as an indispensable source of capital, Shoki (2012). The contribution of brands has been appreciated in enhancing the market value of firms and hence this necessitates valuing them. Brand valuation is necessary as it puts significant impact on the firm’s profitability. It is argued that brand is central to firm’s ability to earn super profits and exerts an influence on the resources and capabilities that are directly responsible for a firm’s success. No other intangible has the same linear link between the market which is the source of a company’s revenues, and the wealth the company creates for its shareholders, Sinclair (2009).

The need for brand valuation arose in 1980s when the wave of brand acquisitions resulted in large amount of goodwill. There is no accounting criterion to deal with the increased value of intangible assets. As a result, companies were penalized for such value enhancing acquisitions. They either had to write off the amount to reserves or to suffer huge amortization charges which resulted in lower asset base than before the acquisition. The countries like UK, France, Australia and New Zealand recognized the value of acquired brands as intangible assets and reflect these on the balance sheet of the acquiring company. In the mid-1980s, Reckitt & Colman, a UK-based company, placed a value on its balance sheet for the Airwick brand that it had recently bought; Grand Metropolitan did the same with the Smirnoff brand. Therefore brand valuation has gaining importance from 1980’s but still it is in infancy stage. Brand valuation is now required under IFRS 3 (International Financial Reporting Standards). Brands are one type of intangible asset, which are frequently claimed to have indefinite useful economic lives. Where acquired brands are recognized on the balance sheet post-acquisition it will be important to establish a robust and supportable valuation model using best practice valuation techniques that can be consistently applied at each annual impairment review (IFRS 3).It also demands that brands and other intangible assets are valued by a company independent of the business and auditors.

The power of a commercial brand is reflected by its brand value. A brand is something which generates money. Earlier the brands are product centric but now days, service branding has become more apparent. Service Branding is relatively a new phenomenon in the service sector which can enhance the corporate brand value. When we talk about service sector, banking sector is the most influential segment. Banks can leverage their brand value through focusing on market performance which can be determined by their market capitalization. Market capitalization (or market cap) is the total value of the issued shares of a publicly traded company; it is equal to the share price times the number of shares outstanding. As outstanding stock is bought and sold in public markets, capitalization could be used as a proxy for the public opinion of a company's net worth and is a determining factor in stock valuation. The size of firm is determined by its market capitalization. In the form of mega cap, large cap, mid cap, small cap, micro cap, nano cap etc. It reflects the stock value of the company. A common misconception is that the higher the stock price, the larger the company’s profitability. A share price is the price of a single share of a number of saleable stocks of a company, derivative or other financial asset. In layman's terms, the stock price or the value of a company is the present value of its future cash flows. Stock price, however, may misrepresent a company's actual worth. Taking the case of two fairly large companies, IBM and Microsoft. On February

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15, 2013 their stock prices were reported at $199.98 and $28.05 respectively. Although IBM's stock price was higher, but MSFT's market cap of $234.6 billion was actually larger than IBM's $225.1 billion. If we compared the two companies by solely looking at their stock prices, we would not be comparing their true values, which are affected by the number of outstanding shares each company has. So market capitalization is a better measure to analyze the market performance. Market capitalization also allows investors to gauge the growth versus risk potential. Historically, large caps have experienced slower growth with lower risk. Meanwhile, small caps have experienced higher growth potential, but with higher risk. Understanding the market cap is an important issue for stock market investors, mutual fund investors etc. as this gives the middle ground of the fund's equity investments, letting investors know if the fund primarily invests in large-, mid- or small-cap stocks.

Most of the companies determine their brand value as a percentage of market cap in order to determine where the risk and stock growth opportunities lie. The size of the stock put significant impact on firm' brand value, Madden (2002). Hence the impact of branding on market cap is studied in the current research.

Several brand consulting agencies are calculating the brand values of most preferred brands (Interbrand, Brand finance, Brandz, Intangible business etc) by adopting different methodologies. Relief from Royalty is the preferred methodology of most valuation professionals. Brand finance is the leading consultancy agency which provides brand values on the basis of aforesaid approach. Therefore, in the current study, data of brand values are taken from the Brand finance banking report 2013.

The current study examines the relationship between brand value and market performance of banks by using the market capitalization of global brands to test whether strong brands outperform the market. A bank is considered a brand if it is included in the annually published Brand finance Top 100 Brands ranking list. Several studies on brand valuation (Kerin et al., 1998; Kallapur and Kwan, 2004) indicated that the values allocated to brands by independent brand agencies are dependable. This research investigates whether numeric brand values have an effect on the market capitalization of banks. Market capitalization is used as a proxy for bank's market value in the current study.

Objective Of The Study

The main objective of the study is to analyze the impact of brand value on market capitalization of top100 banks around the world.

Need Of The Study

There is growing recognition that intangible assets are important determinants of Firm value. Examples of intangible assets include brands, technology, customer loyalty, human capital and commitment of employees. A corporate brand is regarded as most important intangible asset because it has direct impact on firm's market value. The relation between Brand value and firm value has been examined extensively in the finance literature by taking share prices, book value, return on assets, and return on investments etc. as an indicator of firm value Doyle(2001),Madden (2002),Verbeeten & Vijin (2006),Angulo (2007), Madikizela (2007), Kim (2008), Ohnemus (2009), Rego (2009), Stahl(2011). But none of the study has examined the relationship between brand value and market capitalization. Though Market capitalization is regarded as the true measure of firm market value and the brand's contribution to the market capitalization is also appreciated. The direct relationship between Market capitalization and Brand valuation is reflected in the theoretical framework but none of the study has estimated this theory empirically. There seems a research gap. Therefore the present study has focused on the direct relationship between brand value and market capitalization of the banks. The top 100 banks were selected on the basis of the best global brands of the world. (Brand Finance, 2013). The study tests the hypothesis whether the numeric brand value attached to the world's best global brands has any impact on their market value. Market cap is taken as dependent variable because the size of a firm/company/organization is determined through its market capitalization. The Big Five banks (*a name colloquially given to the five largest banks that dominate the banking industry of Canada)*,listed in order of market capitalization on the Toronto Stock Exchange as of December 31, 2011, with their current corporate brand names and corporate profiles according to their latest annual report. Therefore, Market capitalization is an important determinant of business value and hence the impact of branding on market capitalization is determined in the study.

Hypothesis

The benefit of a strong brand to firm performance is widely recognized in the marketing literature. Capraro and Srivastava (1997) studied the market-to-book ratios of Fortune 500 companies, with results suggesting that more than 70% of the market value of these companies lies in intangible assets. Lane and Jacobson (1995) suggested that intangible assets such as brands allow firms to create earnings beyond those generated by tangible assets alone. The brand equity models provide reasonable evidence that branding creates tangible financial outcomes that should have a positive effect on a company's market value. Madden et al. (2002) has revealed that the companies in the Best Global Brands (BGBS) accounted, on average, for approximately one quarter of the monthly market capitalization and also outperformed the market.

H1: There is positive impact of brand value on market capitalization of banks.

Research Methodology

A firm's brand is an intangible asset that cannot expressed on its balance sheet. The aim of this paper is to investigate the impact of brands on market value of banks. The study utilized secondary quantitative data. The top 100 global brands were selected from the annual survey of the brand finance in 2013.The data of Brand value and market capitalization was collected from the report of 100 Best Global Brands published by Brand finance 2013.Market capitalization is considered as a proxy of firm value. Firm value (FV) is an economic measure reflecting the market value of a whole business .A Firm's value can be calculated by its market capitalization. The market cap is found by multiplying the per-share price times the total number of outstanding shares. This number gives the total value of the company or stated another way; it would cost to buy the whole company on the open market. Due to this reason, market capitalization is stated as an indicator of firm's value. This study tests hypotheses relating to whether brand values estimated and published by well-respected intangible asset valuation consultancy reflect relevant information and are sufficiently reliable and timely to be reflected in firm value. Correlation and Regression Analysis was applied inorder to analyze the direct link between the brand value and market capitalization of global banking industry

Literature Review

Author/Year	Research objectives	Sample size	Variables	Techniques used/applied	Findings
Madden et al. (2002)	To structure a link between brand building investments and shareholder value. The basic approach deals with the comparison of the stock market performance of companies included in the Interbrand list of the "Best Global Brands" to companies not appearing on that list.	The sample contained 1,11 companies with 13,409 stocks	Monthly return, Market capitalization, Ratio of advertisement expenditures to sales as a proxy for brand building investments	Fama French regression was applied.	The findings revealed that the companies in the Best Global Brands(BGBS) advertised more than other companies,. BGBS companies accounted, on average, for approximately one quarter of the monthly market capitalization and also outperformed the matched set of companies on all of profitability ratios. The BGBS companies had a greater return on equity (a measure of returns to common shareholders) than the matched sets of companies.
Verbeeten and Vijn(2006)	To investigate the relation between Brand Asset TM Valuator and financial performance measures by associating the pillars of the BrandAsset TM Valuator model	86 firms or business units in the Netherlands for three different time horizons 1997, 2000 and 2003.	Brand Vitality and Brand Stature with the accounting performance measures such as return on investment, return on sales and sales over total assets.	The statistical tests used for the analysis were correlation, regression analysis and Mann Whitney test.	Brand Vitality is positively and significantly associated with financial performance, while Brand Stature does not appear to have a direct relation with financial performance. The study found some evidence that the relation between brand value and financial performance is non-linear; high Brand Equity companies display superior financial performance.
Angulo (2007)	To study the impact of marketing efficiency, Brand equity and customer satisfaction on firm's performance.	A sample of 15 US largest companies published in fortune (2005) was selected.	Firm performance was measured on short term and long term profitability of the firm. Short term profits were assessed by revenues, operating profits, ROI whereas Long term profits were assessed by market value, book value, earnings per share and Tobin's Q. Marketing activities included Advertising and Marketing assets included Brand equity and customer satisfaction as variables used for the study.	Multiple regression analysis was applied.	The results showed that significant relationship was found among advertising, customer satisfaction, brand value and revenues.
Madikizela (2007)	To examine the relationship between brand equity and shareholder returns.	21 brands were selected from various sectors i.e. banking, insurance, grocery and convenience stores, fast food restaurants, furniture stores, telecom in South Africa.	Brand equity was represented by Markinor brand relationship score(BRS) and shareholder returns were calculated by headline earning per share(HEPS).	Data analysis methods used for the analysis were Linear regression, correlation and One way Annova.	The results of banking sector indicated that there is moderate to strong positive correlation between the BRS and HEPS for American Bankers Service Alliance, First National Bank and Ned bank and a negative correlation for Standard Bank and African Bank; grocery and convenience store category resulted a strong positive correlation, fast food restaurant category showed no relationship, insurance sector indicated negative relationship , telecommunication sector provided mixed results
Kim H et al (2008)	The basic purpose of the study was to examine the relationship between consumer based brand equity and financial performance of the hotel industry.	Data was collected with the help of structured questionnaires. 513 valid questionnaires were used for the analysis	Brand equity components i.e. brand loyalty, brand awareness, perceived quality and brand image and Financial performance measure i.e. Revenue per available rooms	Independent T test. Factor analysis and Non parametric correlation	The results showed that high performance category showed higher brand awareness and high perceived quality. Brand image appeared significantly to affect the difference between high and low financial performances. Factor analysis extracted those factors which affect brand equity and the results implied that three dimensions except brand awareness, was found to be significant, out of which perceived quality is most

					significant. The results showed that brand awareness, brand image and brand loyalty share a positive relationship with the firm's performance.
Ohnemus(2008)	To establish a link between brand thrust and financial performance	A sample of 10,300 corporations listed on US and European stock exchanges were taken into account.	Brand thrust consisted. Overheads, Distribution element and Client system. Market to Book Value and Return on Assets for non financial firms and Market to Book Value and Return on Equity for financial firms	Correlation and panel regression.	The results revealed that companies with a balanced corporate brand thrust or brand expenditure, compared to their competitors, on average bring up to a 3-percentage point higher return to their shareholders.
ohnemus (2009)	To analyze the link between the branding and financial performance from a shareholder perspective. This paper focused on situations in which shareholder wealth is created and destroyed.	The sample frame is the 847 listed banks of Europe.	Shareholder wealth is measured by using return on assets or market to book value as a performance benchmark	Regression analysis.	Regression analysis indicated that there were different strategic branding phases and there was correlation between branding and shareholder value. Each phrase has its own strategic implications for shareholders, with value either being created or destroyed.
Rego et al.(2009)	To examine the impact of consumer-based brand equity (CBBE) on firm risk.	The sample consisted of 252 firms from EquiTrend, COMPUSTAT, and the Center for Research in Security Prices over the 2000–2006 period.	Brand equity was calculated by using individual level consumer variables i.e. familiarity, perceived quality, purchase consideration and distinctiveness. Whereas firm risk measures were examined by using indicators i.e. Credit Ratings and Total Equity Risk. Control variables were also be taken i.e. firm size, leverage, ROA, ROA variability, market to book ratio and diversification.	Logistic and Multiple regressions were applied.	The results indicated that CBBE has a stronger negative impact on unsystematic than systematic risk. CBBE significantly reduces both upside and downside systematic and unsystematic risk. CBBE is strongly related to the firm's unsystematic equity risk. The CBBE effect on unsystematic risk is even greater than its effect on overall systematic risk.
Verbeeten F. et al (2010)	To examine the association between Brand equity measures and business unit financial performance	267 firms from various industries. Industry classification is based on the Dutch BIK industry codes, which are similar to the Standard Industrial Classification industry codes in the United States.	Brand equity dimensions such as differentiation, relevance, esteem and knowledge, were obtained from the young and rubicam (Y & R) brand asset valuator. BRANDINDEX refers to the brand index measure, GLOBALBRSTR (global brand strategy,return on investment (EBIT/Total Assets),operational cash flow return on investment (Operational Cash Flows/Total Assets) ,the Log of Sales in year.	Correlation and Multiple regression.	The results indicated that the relation between brand-equity elements and financial performance generally is positive and significant. In addition, all financial performance measures are highly correlated. Size is positively associated with brand index, relevance, and knowledge. There also appears to be a negative relation between brand-equity measures and pursuing a global brand strategy.
Stahl et al.(2011)	To examine the impact of brand equity on the components of Customer Lifetime Value – customer acquisition, customer retention, and profit margin.	Data were obtained for 39 different automobile brands in the U.S. between 1999 and 2008.	The four pillars of brand equity, i.e. Knowledge, Relevance, Esteem, and Differentiation were obtained from the young and rubicam (Y & R) brand asset valuator. CLV was calculated by using the Markov migration model and the customer (*gross*) profit margin was taken as the difference between a brand's average wholesale price and its variable production costs, i.e. its costs of goods sold(COGS).	Multiple regressions were applied.	The results showed that differentiation was negatively related to acquisition and retention. Knowledge was positively related to acquisition and retention. Esteem was positively related to customer retention but not acquisition. Relevance has positive impact on acquisition but no significant impact was found on retention. The findings also revealed that that three of the four equity measures relate significantly to profit Margin except esteem.

Results and discussion

Correlation Analysis

In order to understand the relationships between brand value and market capitalization, the Pearson correlation technique was used in the study. Numerical value of the correlation coefficients reflects the degree of association between the variables. From the table 1, correlation results show that there is a strong correlation between brand value and market capitalization (r = 0.812) at 1% significance level.

Table 1 Correlations

		BE	MC
BE	Pearson Correlation	1	.812**
	Sig. (2-tailed)		.000
	N	100	100
MC	Pearson Correlation	.812**	1
	Sig. (2-tailed)	.000	
	N	100	100
**. Correlation is significant at the 0.01 level (2-tailed).			

Regression Analysis

Regression Analysis was applied to analyze the relationship between brand value and market capitalization. Market cap is treated as dependent variable and Brand value is taken as independent variable. The results of regression is depicted in Table 2.Overall R^2 for the estimated regression model was 0.659 i.e. 66% of variance in the market capitalization is determined by brand value.

Table 2 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.812[a]	.659	.655	25920.29932
a. Predictors: (Constant), BE				

As reflected in table 3, the value of the test for our data is F(1,98)=189.02. This table shows that F- Value is significant (p<.001).As the F is large, we determine that the predictor Brand value is related to market capitalization.

Table 3 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.270E11	1	1.270E11	189.021	.000[a]
	Residual	6.584E10	98	6.719E8		
	Total	1.928E11	99			
a. Predictors: (Constant), BE						
b. Dependent Variable: MC						

From the table 4, it is evident that brand value emerged as the strong predictor of market capitalization. Hence, it can be concluded that the higher the value of the brand, higher the market capitalization of banks.

Table 4 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5058.700	3913.931		1.292	.199
	BE	5.990	.436	.812	13.748	.000
a.Dependent Variable: MC						

Conclusion

The findings of the study established a strong relationship between brand value and market capitalization in the banking sector. Higher the brand value, higher the market capitalization and thus it enhances the overall market value of banks. Hence it can be concluded that banks need to conduct brand valuation so that they understand where their brands are valued relative to the competition. They also need to know whether their brand investments create any value and whether this value appreciates or depreciates over time. The findings revealed a strong positive relationship between brand value and market capitalization. Banks need to ensure that this relationship remains positive.

Implications of the Study

The current research has the following implications

- Banks can establish that whether their brands have equity or not, what their strengths and weaknesses are and what needs to be done to build or maintain the equity.
- Banks will be more focused towards brand valuation methods inorder to enhance their market position as reflected in the study.
- As the study reflected the relationship between brand value and market capitalization so the banks could analyze the impact of brand value with other financial indicators.
- Finally, marketers will familiarize themselves with the financial aspects of business, so as to able to bridge the gap that exists between marketing and finance.

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