Brand Value : Nexus with Profitability and Value Relevance — Indian Evidence

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Abstract

The paper studied the association between brand value and financial profitability metrics, value relevance, and excess market returns. The study used the dollar value data of BrandZ 'Top Indian Brands' as the proxy for brand value and used 221 firm years for a sample of 72 companies that owned the top brands for 5 years, from 2014 – 2018. The study deployed the fixed effects model to find the association between profitability, firm value, and brand value and the Fama – French four-factor model for the risk-return performance of high-brand value stocks. The findings indicated a strong association between the brand values of firms and profitability and firm value. The portfolio returns of high-brand value companies produced higher risk-adjusted returns over market returns offered by BSE 100 stocks. This is India's first and most comprehensive study to provide empirical evidence on the nexus between brand value, profitability, and value relevance. The results gave a concrete conclusion that building brand value offers both customer satisfaction as well as shareholder value creation.

Keywords : **brand management, brand equity, Tobin *Q*, Fama – French four-factor model**

JEL Classification Codes : M37, G32,G24

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A brand and its financial value have drawn significant attention from academia and industry since the seminal work of Aaker (1991). Several researchers have established brands as a valuable intangible asset class leading to tangible outcomes. Brands induce differentiation among buyer categories; it is a market-based asset and a source of competitive advantage. It is one of the firm's most valuable assets. A strong brand derives several benefits, such as higher customer loyalty and better margins. It forms an essential strategy imperative for companies to achieve product differentiation, positioning, and segmenting. Given the increasing recognition of the importance of brand guardianship, many companies try to estimate the valuation of brands. Various methodologies have evolved for measuring brand equity, such as cost-based methods, brand-sale-transaction multiples, and mixed methods. Over the past three decades, several brand consulting firms have been publishing the value of the world's top brands.

The paper studies brand value and the association of profitability, firm value, and value relevance in the Indian context. The latest published work on this theme by Kumar et al. (2021) analyzed if the brand value was associated with profitability by taking the data published by Interbrand. There are specific characteristics of brands in India that make a new setting. India is multi-cultural and multi-linguistic; hence, marketers need to gain knowledge of each region's ubiquitous and unique value to succeed in brand building (Torres & Tribó, 2011). From the early 90s, after the liberalization of the economy, the Indian market became competitive with the inundation of local and

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multinational brands, each trying to get the pie of the ever-increasing market space (Kaul, 2015). The brand-building strategies should, therefore, be different for India (Sidhu, 2015). Bagna et al. (2017) investigated the value relevance of brand value for several countries, including India, and found no evidence of the relationship between brand and firm value.

I, however, found that it is essential to measure the firm value concerning the firm's book value and evaluate the company's share return performance to get the overall perspective. This paper increases the scope of the previous studies by looking at the following aspects: the valuation between foreign and domestic brands; the association between profitability, firm value, and brand value; and the portfolio returns of the stocks of high-brand value. The paper attempts to address the following questions : (a) Is there a significant difference between the brand value of domestic and multinational brands in India? (b) Is there empirical evidence that brand value contributes to profitability and market value? (c) Does brand value contribute to higher profitability? (d) Does a portfolio set up with the high brand value stocks yield a better risk-adjusted return than the overall equity market returns?

The paper uses brand value published by BrandZ against the Interbrand used by similar Indian-based studies. BrandZ is a renowned brand equity database that comes up with the dollar value of the top brands of several countries, including India. BrandZ started releasing the brand valuation in India in the financial year 2014. The list contained the top 50 brands till 2017 and the top 75 from 2018, thus giving 275 data points over 5 years. The paper deploys the fixed effects regression model using EBITDA to measure profitability and Tobin'Q for firm value, and the Fama – French four-factor model to estimate the effects of brand value on the stock returns.

The paper contributes to the literature as one of the first comprehensive studies in India to investigate the profitability, firm value, and excess return of the stocks that feature in the high brand value (HBV). This paper provides empirical evidence on the cost-benefit analysis of the efforts of brand-building exercises for marketers.

Theoretical Framework and Hypothesis Development

This section discusses the literature on brand valuation, brand equity, and its association with profitability, firm value, and stock returns.

A brand is a symbol, design, logo, or name associated with a promise relating to the corporate image it delivers to the customers. The brand thus communicates differentiation from competitors (Iglesias et al., 2017). Brand equity has become an essential measurement of the companies' marketing efforts and emphasizes the long-term focus with brand management initiatives for the companies (Anselmsson et al., 2014). Brand value has become an essential tool for management to indicate corporate performance. Companies use various opportunities, such as CSR activities, to improve brand loyalty and consumer trust, thus enhancing brand equity (Manimalar & Sudha, 2016). Taping the benefit of brand valuation is helpful for organizations to benchmark with the competition, create a brand-centric culture within the firm, and secure funds for growth opportunities (Ubgade & Joshi, 2022). The increasing relevance of brand as an asset has resulted in numerous brand valuation methods over the years. While such brand values have inconsistencies and controversies, many global publications have ranked top brands, and companies are also using consulting firms for their brand valuations (Martin Roll, 2015).

Researchers have shown evidence that consumers tend to prefer international brands, particularly from those countries of reputation, and generalize the attributes of products. Consumers have a stereotyped opinion of the brand attributes while evaluating domestic versus international brands (Balachander & Stock, 2009). The perception is particularly relevant in emerging markets that try to match Western consumption practices and lifestyles and consider the products of foreign origin would mean higher esteem and status (Grewal et al., 2010). Several studies explored customers' preferences for domestic versus international brands. According to the definition, global brands are found in many countries with similar products and positioning strategies. Such brands have the inherent advantage of economy of scale and bring a higher perception of quality among consumers (Winit et al., 2014).

Several survey-based studies on the perception of consumers on foreign brands, particularly in emerging economies, found that customers have a high preference for international brands (Al Adwan, 2019). In the Indian context, a study by Kinra (2006) found that consumers were conscious of the country of origin of the brands, and the recognition decreased with a more extended history of localization of the brands. Sharma (2011) found that Indian consumers evaluated foreign brands higher on technology and attributed quality and esteem. This leads to the first hypothesis:

- **H_1:** There is a significant difference between the brand valuation of domestic and international brands.

Brand and Firm Profitability

Extensive finance and marketing literature has established the role of brands as an intangible asset that maximizes the firm's profit and shareholders' wealth (Balachander & Stock, 2009; Huang & Sarigöllü, 2014). Brands have become core assets in the company's inorganic growth strategy, resulting in mergers and acquisitions (Sinclair & Keller, 2017). The buyer company pays a substantial premium on the target company's assets due to the brand value of the target company. Investors prefer to invest in companies that wisely deploy resources and increase the return on investments (Keller & Brexendorf, 2019).

Brand equity stems from four dimensions of brand attributes: brand awareness, brand associations, perceived quality, and brand loyalty (Aaker, 1991). The buyer behavior of brand loyalty would bring in higher revenue and result in positive word of mouth and repeat purchases and hence is considered to be closely linked to the financial performance of the companies. There is an increasing need to investigate the link between marketing actions and economic outcomes. Yeung and Ramasamy (2008) used various profitability measures, such as return on assets and gross and net profit margin, and found a positive association with brand value. Customers are willing to pay the price premium for branded products (Palmeira & Thomas, 2011). Defining the framework of brand orientation, Gromark and Melin (2011) found that high-value brands produced profitability measures twice higher than the less brand-value counterparts. All these lead to the second hypothesis of the study, which is :

- **H_2 :** High-brand value companies achieve higher profitability.

Brands and Firm Value

The ultimate objective of any business is to create long-term value; thus, several studies focused on whether or not the brand increases the firm's value. One of the main factors associated with the firm value is the ability of the firm to generate cash flows, and the customers of the business figure prominently in this sphere. It is vital for the firm to inquest how the customers buy the products and how repeatedly the customers purchase the product might help companies to achieve cash flow to the business (Bashir & Verma, 2017). Hence, the brand significantly generates cash flow (Schulze et al., 2012). Brands create economic value and get converted to shareholders' wealth (Dutordoir et al., 2015). Oliveira et al. (2010) explored the relationship between brand value and market-to-book ratio for consumer companies in the United States. They found that stocks of companies with a higher brand value were traded higher in the market. Kinra (2006) created a framework that linked customer loyalty and switching costs to higher net present value and lower volatility in stock returns, hence suggesting that it was easier for companies to create excess shareholders by enhancing the brand value.

Previous studies used the market-to-book ratio, total shareholder's return, and earnings per share to measure firm value (Suhadak et al., 2019). Tobin's *Q* is one of the widely used measures for firm value. Several studies connected branding initiatives, such as brand portfolio, diversity, and size, with the *Q* ratio of the firm (Al-Slehat, 2020; Al-Sartawi, 2020; Bris et al., 2010). This reasoning leads us to the third hypothesis :

↳ **H_3 :** There is a positive association between brand value and firm value.

Brand Value and Risk-Adjusted Return

Literature provides evidence of a positive relationship between brand portfolio size and the market value multiples (Morgan & Rego, 2009). Prior studies used stock market return as a measure of shareholder wealth and total return on the shares. Investors would want to manage the idiosyncratic risk associated with the stock returns. It is essential to assess if the brand value results in the risk and return payoff (Gyrd-Jones & Kornum, 2013). Intangible assets such as brands were empirically proved to have a positive and significant association with stock returns (Chehab et al., 2016).

However, evidence suggests that due to the non-disclosure of intangibles' value, the market often undervalues companies holding high-value brands (Da Silveira et al., 2013). Edmans (2011) found that intangibles would positively impact the stock prices in the stock market only when such assets translate into a tangible outcome and hence are unsure of a positive relationship all the time. Johansson et al. (2012) concluded that the companies with higher brand value withered the 2008 global crisis better than the other counterparts, indicating that high-value brands generate higher returns than the overall market.

There was also debate on the market response to the independently assessed brand valuation, which is often arbitrary (Hsu et al., 2013). In the Indian context, Sadalia and Marlina (2018) found that the capital market is reasonably matured, and the share prices reflect the intrinsic value of the intangibles of the companies, and the study frames the fourth hypothesis as follows :

↳ **H_4 :** The portfolio of high-brand value companies earns a higher risk-adjusted return.

Research Design and Methodology

Proxy for Brand Value

The study aims to find the economic and value relevance of brand equity. Several studies have indicated that independent brand agencies' values assigned to brands are reliable (Voss & Mohan, 2016). The study uses the annual list of reports published by BrandZ as the proxy for brand value. Brand Finance and Interbrand are the other two data sources for sourcing brand values in India. However, they suffer from limited firm coverage and data availability across all periods. Millward Brown publishes the BrandZ list of top Indian brands and their dollar value from 2014 using a unique methodology of combining customer perception and financial analysis to estimate brand value. The valuation process consists of three steps : (a) calculation of financial value, (b) estimating the brand contribution, and (c) calculating the brand value (please refer to the Note given at the end of the paper).

Data and Sample

Our sample consists of the companies owning the Top Brands from 2014 – 2018. With the top 50 brands till 2017 and the top 75 in the year 2018, 275 brands in total were figured in the BrandZ report. I identified the companies which own the brands and, in the case of multiple brands from the same company, added all the value per the additivity principle of brand value (Bagna et al., 2017). It resulted in a total of 221 firm-year observations spanning 14 industries.

Panel A of Table 1 summarizes the year-wise details of the companies and the total brand value, and Panel B, the industry-wide distribution of companies in the list. The study classifies the companies for domestic and multinational brands based on the ownership code of the CMIE Prowess database for the first hypothesis.

Table 1. ***Sample Data Panel A : Year-Wise Details on the Companies in the BrandZ Report***

Year	No. of Companies	Total Brand Value (in USD million)
2014	39	69,585
2015	40	92,220
2016	40	90,524
2017	41	109,305
2018	61	215,762

Panel B : Industry-Wide Distribution of Brands in BrandZ India List

Sl. No.	Industry	No. of Companies in the Industry	Name of the Companies
1	BFSI	57	Bank of India ; HDFC; ICICI ; IDBI ; IndusInd ; Kotak ; SBI ; Canara Bank ; BoB
2	Auto Sector	39	Bajaj Auto ; Castrol ; Hero MotoCorp ; Mahindra & Mahindra ; Maruti Suzuki ; Tata Motors ; Bajaj Auto ; Eicher Motors ; MRF ; TVS Motors
3	Food & Personal Care	33	Britannia ; Unilever ; Dabur ; Gillet ; Colgate Palmolive ; Marico ; Nestle ; Jubilant Food Works
4	Refinery	20	Bharat Petroleum ; Hindustan Petroleum ; Indian Oil ; Reliance Industries
5	Breweries & Tobacco	15	United Spirits ; United Breweries ; Pernard Ricard ; ITC
6	Telecommunication Services	12	Vodafone ; BSNL ; Bharati Airtel
7	Paints & Varnishes	11	Asian Paints ; Nerolac ; Berger
8	Air Transport Services	9	Interglobe Aviation ; Air India ; Jet Airways
9	Computer Software	6	TCS ; HCL ; Infosys ; TechMahindra ; Wipro
10	Fast Moving Consumer Durable	5	Whirlpool ; Havells ; Crompton Greaves
11	Gems & Jewellery	5	Titan
12	Media & Broadcasting	4	Dish TV ; Sun TV ; Zee
13	Transport Logistics Services	3	MakeMyTrip ; Blue Dart
14	Retail Trading	2	Avenue Supermarket

Other Variables

The study's variables (other than brand value) are sourced from the CMIE Prowess database. To test the second hypothesis, the study uses earnings before interest tax and depreciation (EBITDA) as the proxy for profitability. Our rationale is that brand value is expected to increase the revenue and the EBITDA as other profit metrics include several other factors of the company, such as capex plans, debt structure, effective tax rate, and so. The study separated financial (banking, insurance, and non-banking financial institutions) and non-financial services companies using the industry code of ProwessIQ. The natural logarithm of the brand value (LnBV) is used and controlled for the size denoted by the natural logarithm of assets (LnA), industry dummy, and multinational dummy.

For the third hypothesis, I used Tobin's Q ratio to measure firm value. Tobin's Q is estimated as market capitalization, the book value of a stock, and long-term debt scaled by the book value of total assets, as done in several other studies (Balsam et al., 2011; Dhaliwal et al., 2011). The control variables of the study are leverage (LEV), profitability (ROA) and size, and the natural logarithm of total sales (LnS) as found in the literature.

To test the fourth hypothesis, the study creates a portfolio of stocks consisting of high brand value (HBV) and uses the variables of the Fama – French four-factor model. The four factors are market risk premium ($R_{im} - R_{ft}$), size premium (SMB), value premium (HML), and momentum factor (WML). The data for the Indian market were sourced from Agarwalla et al. (2013).

Methodology

For the first hypothesis, I used ANOVA to analyze the difference between the brand value of domestic and international brands. The fixed effects panel data model is appropriately used with control variables as required for the second and third hypotheses. Several alternative regression models can be considered for the data set, notable among these being the OLS regression models, the fixed effects model, and the random-effects model. Unlike in OLS regression, we need to consider firm-specific intercept terms called fixed effects. Given the nature of our panel data (where several companies consistently feature in the top brand list every year), we have a reason to believe that a fixed-effects model is more appropriate than random effects. Both fixed and random effects models were run, and the study used the Hausman specification test to choose the suitable model.

To test the fourth hypothesis, which relates to the excess return of the portfolio of HBV stocks, the study creates three portfolios, the full market (BSE 100), high brand value (the stocks that own the top brands), and reduced market (that is BSE 100 stocks minus the HBV stocks). The study set up a portfolio of higher brand value and reduced market using the weights of the market capitalization of the individual stocks. Finance literature has established that returns should always be adjusted for risk. The stock has two types of risk: company-specific (unsystematic or idiosyncratic) and market risk (systematic). A well-diversified portfolio of stocks mitigates the unsystematic risk. The portfolio managers can create excess return if they can identify the mispriced risk in a subsect of the market. Our rationale is that if the portfolio contains a set of stocks with a specific advantage (brand value in this case), this portfolio should give a better risk-adjusted return than the overall market.

The study uses the Fama – French four-factor model (which derives the relationship between the stock's expected return and its risk) to assess the portfolio's performance. The portfolio's excess return over the risk-free rate is the dependent variable in the regression line. The independent variables are the four factors of market risk premium, size premium, value premium, and momentum factors. The study uses two parameters of the regression, the alpha intercept, which denotes the excess return of the portfolio over the benchmark (the positive and higher is the better), and beta, which is the slope of the regression line, which indicates the risk of the portfolio (the lower, the better). A positive alpha, the intercept of the regression line, is the portfolio's excess return.

Models

The following three models are used in the study :

(1) $EBITDA_{it} = \beta_0 + \beta_1 \text{Ln}BV_{it} + \beta_2 Industry\ dummy + \beta_3 MNC dummy + \beta_4 \text{Ln}A_{it} + \varepsilon_{it}$

(2) $Tobin'Q_{it} = \text{Ln}BV_{it} + Industry\ dummy + MNC\ dummy + \text{Ln}S_{it} + Lev_{it} + ROA_{it} + \varepsilon_{it}$

(3) $R_{it} - R_{Ft} = \alpha_{it} + \beta_{im}(R_{im} - R_{ft}) + \beta_{ismb} SMB_t + \beta_{ihml} HML_t + \beta_{iwml} WML + \varepsilon_{it}$

where,

$R_{it} - R_{Ft}$ is the excess return of the portfolio return over the risk-free return,

$R_{im} - R_{ft}$ is the market risk premium,

SMB (Small minus Big - the difference between portfolio return of small-cap stocks and large-cap stocks),

HML (High minus low value factor, the difference between portfolio return of value stock and growth stocks), *WML* (Winner minus Loser - measured by the average return difference between the winner stock and loser stocks in a month).

Empirical Analysis and Results

Out of 221 firm-year data, the data consisted of 72 companies, of which 28 appeared in the top brand report for all 5 years, and 67 companies are listed in the stock market; 15% of the firm-year data belonged to the multinational firms, and the rest are domestic companies; 25% of the firm-year consisted of companies in the banking and financial institutions (BFSI) sector and the rest from non-financial sectors. Panel A of Table 2 summarizes the descriptive statistics of the sample.

From Panel A of Table 2, it can be noted that the average brand value is around USD 2,600 million, and the range of brand value is quite vast, with a swing from USD 219 million to USD 35,776 million. Companies like Hindustan Unilever, Airtel, Asian Paints, and HDFC Bank consistently top the chart in brand value for the entire study period of 5 years. The average brand value of the companies was USD 2,612 million, while the average size of the assets (including BFSI) was USD 32,000 million. Excluding the BFSI companies (whose assets are always marked to market), the brand value constituted about 30% of the companies' assets, which is substantial, reinforcing the importance of internally generated intangible assets. Tobin's *Q* ratio also varied significantly, primarily for those companies with shorter listing histories.

Panel B of Table 2 contains the results of correlation analysis which indicate a positive and significant correlation between the brand value and Tobin's *Q* ratio; brand value and EBITDA at 5% and 10%, respectively. The variables: asset size and sales do not have a significant correlation, indicating that the firm's size does not matter for the brand value; instead, it is the product innovation that commands the brand valuation (Fast Company, 2020). To understand if there is a significant difference in the brand value of domestic and multinational companies, the study performed an ANOVA test, and the results are shown in Table 3.

Table 2. ***Descriptive Statistics & Correlation Matrix***

Panel A : Descriptive Statistics

Variables	No. of Observations	Mean	*SD*	Min	Max
BV (million USD)	221	2,612	3,852	219	35,776
PBDITA (million USD)	219	25	50	–583	90
Leverage (Times)	219	3.7	4.1	0	42
Assets (million USD)	219	32,033	77,675	6	5,56,193
Q ratio (Times)	221	3.6	3.9	0	18.3

Panel B : Correlation Matrix

	BV	*Assets*	*PBDITA*	*Q ratio*	*Sales*	*Lev*
BV	1					
Assets	0.0546	1				
PBDITA	–0.0022	0.3403*	1			
Tobin's Q	0.1528*	–0.3308*	–0.1025	1		
Sales	–0.0453	0.4272*	0.0287	–0.3288*	1	
Lev	–0.0402	–0.0145	–0.0065	0.0371	–0.0192	1

Note. * denotes significant at 5%.

Table 3. ***Results of ANOVA Brand Value Between Domestic and MNC***

Source	SS	*df*	MS	*F*	Prob > *F*
Between groups	30654370.9	1	30654370.9	2.08	0.1511
Within groups	3234200000	219	14768082.9		
Total	3264900000	220	14840293.3		

Note. Bartlett's test for equal variances : $chi^2(1) = 33.8409$; $Prob>chi^2 = 0.000$.

Table 4. ***Fixed Effects Model 1 – Brand Value and Profitability***

DV EBITDA	Coefficient	SE	*p*-value
Ln*BV*	0.756834*	0.3925248	0.056
Ln*A*	1.930169	1.253647	0.126
Cons	5.503176	10.0354	0.584
sigma_u	79.6789		
sigma_e	2.960944		
Rho	0.998621		
R - squared (overall)	45%		
Hausman	0.000		

Note. *DV* : dependent variable ; * denotes significance at the 10% level.

Table 5. ***Fixed Effects Model 2 – Brand Value and Firm Value***

DV Tobin's *Q*	Coefficient	SE	*p* - value
Ln*BV*	0.437	0.175	0.014
Ln*S*	0.374	0.850	0.661
Lev	0.070	0.039	0.074
ROA	0.093***	0.026	0.000
sigma_u	4.550		
sigma_e	1.355		
Rho	.9184		
R - squared(overall)	13%		
Hausman	0.000		

Note. *DV* : dependent variable ; *** denotes significance at the 1% level.

The results of ANOVA show the *F* - value of 2.08 with a probability of 0.151, which means there is no significant difference between the brand value of domestic and international brands. Thus, H_1 is rejected. It is also found that 23 out of 28 companies featured in the top brand list for all 5 years belong to domestic brands. The results of the regression of Model 1 are tabulated in Table 4.

The Hausman results show significance at 1%, indicating that the fixed effects model is suitable. The coefficient is positive and significant, which implies that brand value has a substantial effect on the EBITDA, thus supporting H_2, and the size of the firms does not have an association with brand values, as mentioned in the previous section. The model's dummy variables (industry and MNC) are omitted due to their time-invariant nature. The results of Model 2 are presented in Table 5.

Table 6. ***Fama – French Regression on the Return of the Portfolio***

	Branded Portfolio			Reduced Market Portfolio			Full Market Portfolio		
	Coefficient	***t*-stat**	***p*-value**	**Coefficient**	***t*-stat**	***p*-value**	**Coefficient**	***t*-stat**	***p*-value**
Alpha	1.379	2.704	0.010**	–0.540	0.011	0.000**	0.034	1.766	0.078*
SMB %	0.038	0.291	0.772	–0.010	0.003	0.001**	0.006	0.195	0.845
HML %	0.478	5.508	0.000**	0.006	0.002	0.003**	0.472	25.41	0.000***
WML %	0.054	0.434	0.667	0.002	0.003	0.377	0.109	3.992	0.000***
R^2		0.3862			0.342			0.2769	
F (*p*-value)		6.29615 (0.001)			11.0244(0.000)			8.6138(0.000)	

Note. ** and *** indicate significance at 5% and 10% levels, respectively.

The Hausman test shows a significant value at 5%, making the fixed effects model suitable. Hence, it is clear that H_3 is supported as LnBV is significantly related to Tobin's *Q*, indicating that the firm value is higher for companies owning the top brands. It is also found that size (LnS) does not have a significant value, while profitability (ROA) also impacts Tobin's *Q* ratio. The robustness of Models 1 and 2 is checked by taking the lag value of the brand with the accounting variables, and the results do not vary significantly. As another dimension of the association between brand value and shareholders' value, the results of the Fama – French four-factor regression results of the returns of the three portfolios (high brand value, reduced market, and full market) are presented in Table 6.

Over the 5 years of the sample, it is found that the excess return of the HBV portfolio is positive and significant ($\alpha = 1.31, p < 0.05$), and the portfolio return of the reduced market is negative and significant ($\alpha = –0.540, p<0.05$), which means that the stocks without the high brand value stocks underperform the market. The data can further validate the results. Thus, H_4 is also accepted. The high-brand companies contain some of the most dependable and highly value-creating stocks, such as Asian Paints, HDFC Bank, Indian Oil, and Maruti Suzuki, to name a few (Mudgill, 2017).

Discussion

The study shows no significant difference in the brand value of Indian and domestic brands, contrary to the findings (Elena Villar et al., 2012; Winit et al., 2014), where Indian customers rated foreign brands very high on technology and quality parameters. The results also do not support the theory that multinational brands have an advantage over local brands due to market imperfections. The methodology of brand valuation could be attributed to the inconsistency in the results; the previous literature looked only at customer perceptions using survey data. Still, the brand value method used in the current study analyzes the future cash flow associated with brand value. The primary goal of a firm is to create shareholder value. To meet this goal, the firm must deploy all the resources to generate high returns with minimum risk. This study is an earnest attempt to understand brand values and is comprehensive in analyzing the impact of brand value on profitability, firm value, and stock returns. It is also found that there is a positive association between brand value and profitability, supporting the findings by Yeung and Ramasamy (2008). The analysis results still hold good despite a few companies in the top brand list eventually going out of business (e.g., Jet Airways). The debacle was primarily due to financial mismanagement rather than poor brand perception.

The findings on the firm value being high for HBV companies are consistent with the results of Pahud de Mortanges and van Riel (2003), who found that brand strength resulted in a higher market-to-book value of the firm. Higher brand strength would give an excess brand contribution, thus increasing brand equity. The finding

supports the argument that perceived brand differences provide additional information to the accounting numbers to explain the stock valuation (Belo et al., 2014). The study further finds evidence to support that the high-value brand also has a better firm value consistent with the studies (Bagna et al., 2017), meaning the market already factors the intangibles in stock valuation, which goes beyond the book value numbers.

Implications

The implications of the study can be analyzed at least from three perspectives. The brand owners get insights on the causal link between the brand value (that stems from brand perception and the associated future cash flow), profits, and revenue. It also helps financial analysts and investors in the creation of stock portfolios. The panel data model of our study captures the change in the valuation over time, providing solid evidence of the usefulness of the efforts to create a brand reputation. The study also opens up further analysis in the academic community to explore the interrelationship of marketing and finance literature.

Conclusion

There is no doubt that corporate houses should allocate adequate resources for their brand-building exercises. Through this study, we can assert that brand equity building offers customer satisfaction and shareholder value creation. This study highlights the importance of brand value for a firm and could be used as one of the performance measurement metrics for top management in their efforts to enhance shareholder value.

Limitations of the Study and Scope for Further Research

The limitations of the study related to secondary data apply. The study is based on the analysis of brand value data provided by BrandZ, and the robustness of this model can be checked by using the values published by Interbrand and Brand Finance.

Author's Contribution

Dr. Latha Ramesh conceived the idea and developed the research design for the empirical study. A prior version of this paper was presented at MARKCON 2020 at Indus Business Academy.

Conflict of Interest

The author certifies that she has no affiliations with or involvement in any organization or entity with any financial interest or non-financial interest in the subject matter or materials discussed in this manuscript.

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Note

BrandZ methodology is unique to the similar valuation numbers published by other players as this is the only methodology that combines customer perception and financial analysis. With a global reach of more than 3.6

million consumers, the value in the method estimates how much the brand alone contributes to corporate value. The valuation consists of three steps, (a) calculation of financial value, (b) estimating the brand contribution, and (c) calculating the brand value.

The first step of arriving at the financial value is done in two parts; Part A consists of separating the value of a particular brand from the company's other brands, as may be the case, through a process called attribution analysis which involves scanning through the annual reports and other disclosures of the company to arrive at attribution rate. In Part B of the first step, the future earnings prospects are estimated and represented as a brand multiple. The financial analysis is calculated by multiplying brand numerous with branded earnings. The second step is to evaluate the brand contribution from the financial value, which involves peeling away the layers such as price, logistics, and distribution to arrive at the brand value. In the third and final step, financial value and brand contribution are multiplied to get the brand value expressed in millions of USD.

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