Brands – the most valuable assets!

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WORLD BRAND DAY 2024

On the occasion of **World Brand Day on May 10**, it is appropriate to examine the profound impact brands have on the economy, society and the entire business landscape from the European point of view.

Brands are likely the most valuable and still the least understood intangible assets, creating economic value and sustainability.

Many companies and policymakers are still not aware of the immense economic potential that can be unleashed through brands.

Brands are essential economic factors.

A brand is not just a logo or a sign or symbol but an identity that sets a company and its products apart in the market and from the competition. It is the public image of a company and/or its products and services as well as a collection of perceptions, including its employees, assets, products, services, and behaviors.

There is strong reason to believe that economic changes are inevitable, implying significant growth potential in the intangible economy. The share of intangibles in GDPs has long exceeded the material value and is increasing.

Brands represent a substantial amount of a company's value and are contributing to economies.

The important role of brands and intellectual property (IP) according to the EU and OECD.

As brands and intellectual property (IP) play an increasingly important role in corporate strategy, the precise valuation of brands and intellectual property remains a major obstacle to its development as a tradable asset class.

Despite their fundamental importance, the understanding of intellectual property and intellectual property rights varies greatly among large and small companies.

The importance of brands and intellectual property rights for society and the economy has become increasingly clear in recent years. According to EU studies, they directly or indirectly support 35% of jobs, almost 39% of EU GDP, and 90% of external trade.

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The OECD assumes that an increasing proportion of the assets held by SMEs are non-physical or "intangible." While these intangible assets are rarely reported in corporate financial statements, they contribute significantly to company value.

Studies show that companies with brands and IP rights perform better than those without. They generate higher revenue per employee, have more employees, and pay their employees higher salaries.

Higher company valuations through valuable brands.

For the valuation of a company, the performance and earnings as well as the financing costs of the company are crucial.

We conducted an analysis of the past 10 years, testing the impact of brand value creation on the performance and financing costs of a company, as well as on other balance sheet items.

Our results support the hypothesis that an increase in brand value reduces the financing costs of a company. Brand value correlates positively with several key performance indicators such as revenue, profit, net income, return on equity, stock price, company value, and other financial metrics.

The positive impact of brands on debt and financing costs is interesting, as strong brands have been shown to enable better equity financing and also better and cheaper debt financing.

Since most European companies are mainly financed by debt, a reduction in external financing costs would have significant positive effects on the long-term creditworthiness of the entire economy.

Sustainability strengthens Brand Value

To analyze the sustainable impact of brand value creation, we examined the long-term effect of brand value on ESG pillar scores. Our results show that brand value correlates positively with the social pillar score of the aggregated ESG score, as well as with the environmental and governance pillar scores. We find evidence of a positive short-term effect between brand value and all three ESG pillars, while a long-term effect is only apparent in the social pillar score.

This means that brand value is enhanced by a company's socially responsible behavior towards society and its stakeholders in general.

Sustainability-oriented brands (Sustainable Brands) promote investment, deliver higher long-term returns, reduce loss risk, are less volatile, and generally perform better in the capital market, making them a good choice for long-term oriented investors and financiers.

Our analysis clearly shows that investments in sustainable brands create growth and secure prosperity of economies.

Enjoy World Brand Day 2024 & keep on branding!
Dr. Gerhard Hrebicek

Disclaimer

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