Adapting Intellectual Property Evaluation Methods to the Region Brand Evaluation

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Abstract: Article is devoted to topical issue of determination of value of the territory through estimation of cost of its brand. The branding role as most important competitive advantage of the region in formation of a steady position of the last in the Common Economic Space is designated. On the basis of research of existing approaches to an assessment of intangible assets and objects of intellectual property authors ranging of approaches to estimation of cost of a brand of the region is offered. Recommendations about updating of existing methodical provisions of an assessment of intangible assets at their use for diagnostics of cost of a regional brand are stated.

Key words: Regional brand • Competitiveness of the territory • Approaches to estimation of cost of a regional brand • The cost of a regional brand

INTRODUCTION

The success of a region image firstly depends on how successfully a region image consciously shaped by an individual, meets both the objective characteristics of this region and the consumers’ needs and expectations. In this case, the consumers are tourists, investors and migrants.

A region competitive capacity is conditioned by the extent to which the region brand is promoted, so the region brand is the most influential category of the market economy as a whole. The target audience of such brand is mainly represented by external individuals. The brand must correspond to the strategic issues of the region development and attract organizations, human and other resources, as well as orders, which could be relevant and necessary for the region and profitable for its development. Along with the brand outward effect, the brand inward effect should also be emphasized. This effect can be used to promote civil social and economic relations among the region residents, as well as to reinforce their feelings, such as unity, responsibility and patriotism towards the home region [1].

The region branding aims at providing an integrated and coordinated communications campaign of the region brand, ensuring the brand awareness, making the region influential, providing inward financial resources and outward translation of the regional initiative decisions.

The region branding is based on the principles of the business branding. This analogy brings us to the conclusion that the essence of the region brand consists in its power to identify a component of the Federation inside and outside the country and this identification must be favorable for the region. The region brand must be built on the basis of a well-defined positive image of the region and constitutes an apogee of consumers’ emotional preferences, being both the most important factor of the competitive advantages and the regional economy asset [2].

The region brand evaluation is essential to effectively manage the region brand as an asset. Nowadays there are various methods to evaluate the region brand. However, most of them are based upon sociological methods and expert estimations (for instance, Interbrand rating or such methods as Brand Equity), which cannot be considered as reliable and exhaustive methods designed to evaluate the region brand and carry out the brand value analysis.

Our research focuses upon the possibility to evaluate the region brand by means of three fundamental asset evaluation approaches, namely, income, comparative and hang-the-expense approaches.

Before being evaluated, an asset should be classified. This is a key factor, which conditions the methodology selection. We classify the region brand as intellectual property (IP), namely, as a means of individualization.

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Table 1: Recommended approaches to evaluation of intangible assets and intellectual property

<table>
<thead>
<tr>
<th>Intangible assets and IP</th>
<th>The most recommended approach</th>
<th>Less recommended approach</th>
<th>The least recommended approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patents and technologies</td>
<td>Income</td>
<td>Comparative (market)</td>
<td>Hang-the-expense</td>
</tr>
<tr>
<td>Trade marks</td>
<td>Income</td>
<td>Comparative (market)</td>
<td>Hang-the-expense</td>
</tr>
<tr>
<td>Copyrightable matters</td>
<td>Income</td>
<td>Comparative (market)</td>
<td>Hang-the-expense</td>
</tr>
<tr>
<td>Highly skilled labour</td>
<td>Hang-the-expense</td>
<td>Income</td>
<td>Comparative (market)</td>
</tr>
<tr>
<td>Management software</td>
<td>Hang-the-expense</td>
<td>Comparative (market)</td>
<td>Income</td>
</tr>
<tr>
<td>Software products</td>
<td>Income</td>
<td>Comparative (market)</td>
<td>Hang-the-expense</td>
</tr>
<tr>
<td>Distributive networks</td>
<td>Hang-the-expense</td>
<td>Income</td>
<td>Comparative (market)</td>
</tr>
<tr>
<td>Base deposits</td>
<td>Income</td>
<td>Comparative (market)</td>
<td>Hang-the-expense</td>
</tr>
<tr>
<td>Franchising rules</td>
<td>Income</td>
<td>Comparative (market)</td>
<td>Hang-the-expense</td>
</tr>
<tr>
<td>Corporate practice and procedures</td>
<td>Hang-the-expense</td>
<td>Income</td>
<td>Market</td>
</tr>
</tbody>
</table>

Table 2: Approaches to the region brand evaluation

<table>
<thead>
<tr>
<th>Order of priority for approaches</th>
<th>Approach</th>
<th>Application features</th>
</tr>
</thead>
<tbody>
<tr>
<td>The most recommended approach</td>
<td>Income</td>
<td>• comprehensive cash-flow analysis is necessary to reveal factors influencing the cash flow formation (for example, a decrease in tourist turnover may be connected to a general slump in demand for these services due to the economic crisis and not to the reduced financing of the specific-purpose programmes);</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• problems with the quantitative assessment of the predictive effectiveness for most of the specific-purpose programmes;</td>
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<td></td>
<td></td>
<td>• problems with the determination of the riskless income rate during the discounting rate valuation.</td>
</tr>
<tr>
<td>Less recommended approach</td>
<td>Hang-the-expense</td>
<td>• problems with the assessment of re-branding expenses;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• problems with the assessment of the target object depreciation in regard to a new analogue.</td>
</tr>
<tr>
<td>The least recommended approach</td>
<td>Comparative (market)</td>
<td>• contradiction to the principle of the brand uniqueness;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• lack of analogous objects;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• null information about values of the analogous regions, as the brands of the Russian regions have not been evaluated yet.</td>
</tr>
</tbody>
</table>

The following methods are used to calculate the discounting rate [5]:

- the capital asset pricing method;
- the market extraction method;
- the method of composite cost of capital;
- the build up method.

B. B. Leontyev’s methodological recommendations can be used to select methods in order to determine intangible asset market value (Table 1) [3].

In case of the region brand, the comparative approach is considered to be inapplicable for two reasons. First, the brand uniqueness is its integral feature implying the lack of analogues. Second, there is no information about analogous region brand values. That can be explained, in its turn, by the lack of a standardized methodology for the region brand evaluation. The comparative approach is likely to become applicable, when the market of the branded regions in Russia develops enough and an objective methodology of the region brand evaluation is implemented everywhere.

The hang-the-expense approach is mostly applicable to evaluate a new brand, in other words, a brand entering the market for the first time. However, in case of a region, we should most often speak about re-branding, rather than about constructing an absolutely new image. Thus, the application of the hang-the-expense approach to the region brand evaluation is limited.

The region branding can be considered as an investment project, which must eventually result in drawing both direct and indirect incomes. Direct income is represented by investment and profits provided by the tourist industry, while indirect income consists in attracting highly skilled labour into the target region. Therefore, the region brand evaluation should base upon the income approach to intellectual property evaluation [4].

The sum of the abovementioned reasons brings us to the order of priority for the approaches to the region brand evaluation (Table 2).

In the context of the income approach, we consider the most effective the application of one of the following methods: capitalization or discounting. The discounting method is assumed to be more objective, due to the fact that the potential regional income is uneven and cannot be forecasted exactly.

It is important to note that the main difficulty consists in determining the discounting rate, taking into account the specific character appropriate to the market of the region brands:
The capital asset pricing method is inapplicable due to the lack of the stock market development. The market extraction method is practically inapplicable due to the lack of analogues, which is the main branding condition. The method of composite cost of capital does not meet all the requirements either. Therefore, in accordance with the purposes of our research, the preference should be given to the build up method.

As we recommend the region brand evaluation to be carried out by means of methodologies for an investment project evaluation (IP investment), the discounting rate must be calculated in the same way as the business evaluation is performed [6]:

\[ i = R + \sum_{j=1}^{J} g_j, \]  

(1)

where \( i \) means a discounting rate;  
\( R \) means a riskless rate;  
\( j = 1, \ldots, J \) means the number of unsystematic risk factors taken into account in the investment project;  
\( g_j \) means a premium on a specific unsystematic risk referred to risk factor ‘\( j \)’.

In this case, a riskless rate is represented by an alternative project aimed at the region development with minimal risks (for example, an infrastructure development programme) or other financial instrument rates. The alternative project should focus on a possibility of expenditure savings or implementing national social programmes, rather than on drawing direct income, which is an indispensable condition for an investment project.

Basing upon various approaches to evaluation, we can list the following specific risks threatening the region branding [7]:

- Insufficient financing of the actions aimed at the region brand construction and promotion (small-budget advertising campaigns may induce a reverse reaction of the target audience and build a poor region image);
- Political changes accompanying a shift in administrative bodies (for example, reelection of the governor, etc.);
- Failure of the branding commission (hyperbolizing factors, which are insignificant or exert a negative influence over the region reputation; for example, emphasizing natural resources, while the region is constantly and invariably perceived as a donor);
- Possible breaks of the IP rules (risk of the region brand imitation by another region, ‘black PR’);
- Risks connected to the implementation and promotion of the brand constructed (wrong communication channel) and others.

This list is open and can be corrected and detailed for each specific case.

While assessing a risk, it is rather difficult to avoid using Delphi method; meanwhile it is possible to decompose each risk into components, which are risk-inducing and risk-minimizing factors. It is also possible to define the factors available, assess each factor in percentage terms and calculate an aggregate risk. For example, providing an effective work of the commission requires a thorough selection of experts, which implies such personal traits as competence, creativity, responsibility, analytical skills, broad mind, enthusiasm, team spirit and self-criticism) [8].

Another important element of an investment project evaluation is the period of its realization. If we continue to draw analogies, we shall reveal yet another problem connected to the fact that predicting the brand lifespan is rather complicated; the project can fail at the implementation stage or successfully function for decades. Taking into account the precondition that the regional marketing strategy should base on the general strategy of the region, we can suppose that the period of the region branding project realization would contemporize with the period of the general regional development strategy realization [9]. A particular case is the construction of the region brand based on the positive image of a leader and his/her team, which is the key element of the marketing strategy. In this case, the brand lifespan will be connected to the period of the effective work performed by the leader and his/her team. This perfectly shows that such branding method is inefficient.

The most problematic and disputable question connected to the application of this approach is calculating the cash flow to be discounted. It roots not only in a significant body of economic data to collect and process, but also in understanding the direct effect of the region brand investment.
We suppose that in this case the premium profit method should be used. When applied to business, this method means that an IP owner has the possibility to get additional income in comparison with the companies, which do not possess such property. This evaluation method can be applied when the premium profit can be calculated with a sufficient approximation. The premium profit is defined as the amount of additional income, which can be received due to the intellectual property owned and the owner’s possibility to use it in his/her economic activity. The premium profit can be determined through comparison with an analogue and considered as additional income (after taxes) drawn from each unit by means of intellectual property [10].

Adapting this method to the region brand evaluation requires the following adjustments:

- In this case, a specific regional branding action (such as an advertising campaign, conference or exhibition) should be considered as intellectual property;
- Each region being unique, analogous regions cannot be analyzed and comparison must be based on the region returns over the financial and base periods;
- In each specific case, the financial and base periods are separated by the implementation period of the action or the date of its completion; the main criterion is the answer to the question how an action can bear income: during its implementation (for example, a current branding of the regional leader’s image) or on the action completion (for instance, start of a business incubator and modernization of educational institutions);
- Cash flow (earnings, profit or other efficiency index) formed during the action taken, is defined as a difference between these efficiency indices in the financial and base years.

In the context of the income approach used along with the premium profit method, the region brand will be evaluated through the following algorithm:

- Calculating an annual cash flow for a specific action aimed at the region brand construction;
- Determining an earning period of the project (action), in other words, an action yield period;
- Determining a discounting rate for the project (action) by means of the build up method;
- Calculating the sum of the project (action) initial investments. In case of their temporal distribution, the investments must be discounted, according to the calculated discounting rate (see point 3);
- Calculating a net cash flow of the project (action);
- Making the abovementioned operations for other projects (actions) aimed at the realization of the brand construction and implementation strategy.
- Calculating the sum of net cash flows coming from the implemented projects (actions), which represents the region brand value [11].

Therefore, we can make a conclusion that the region brand value, if considered as «a product portfolio», constitutes the total of discounting effects.

REFERENCES


