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COUNTRIES WITH THE MOST VALUABLE BRANDS THAT MAKES THEM THE MOST INTANGIBLE COUNTRIES

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Abstract
The purpose of this article is to show how important intangible assets are and how much they can change these "invisible" the way assets, organizations, cities and countries are valued. Starting from the issue of the cross-border transfer of intangible assets and implicitly by brands, we aim to show how brands influence the economic evolution of the companies and which were the most important purchases of internally generated brands or brands that have plunged some countries into the most intangible countries in the world.

Key words: *intangible assets, merger and acquisition, internally generated, IAS 38, national brands*

JEL Classification: F23, F63, M41

I. Introduction

The effect of a country's national image on the brands based there and the economy as a whole is now widely acknowledged. In a global market, the national brand is one of the most important assets of any state, encouraging domestic investment, adding value to exports and attracting qualified tourists and migrants. However, no matter how important these intangible assets are, many executives, analysts, investors and other stakeholders do not have a proper understanding of how brands and other intangible assets influence the value of businesses.

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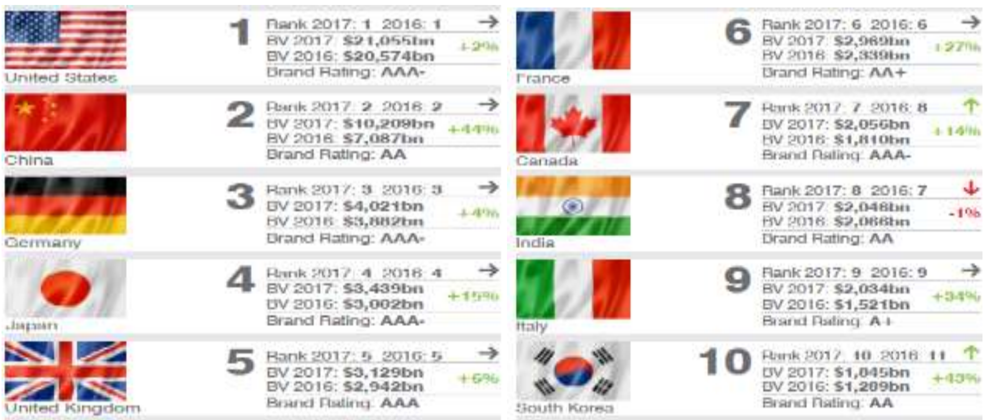
According to Brand Finance Top 10 most valuable national brands in the world are the following countries:

Figure no. 1 – The most valuable national brands in the world

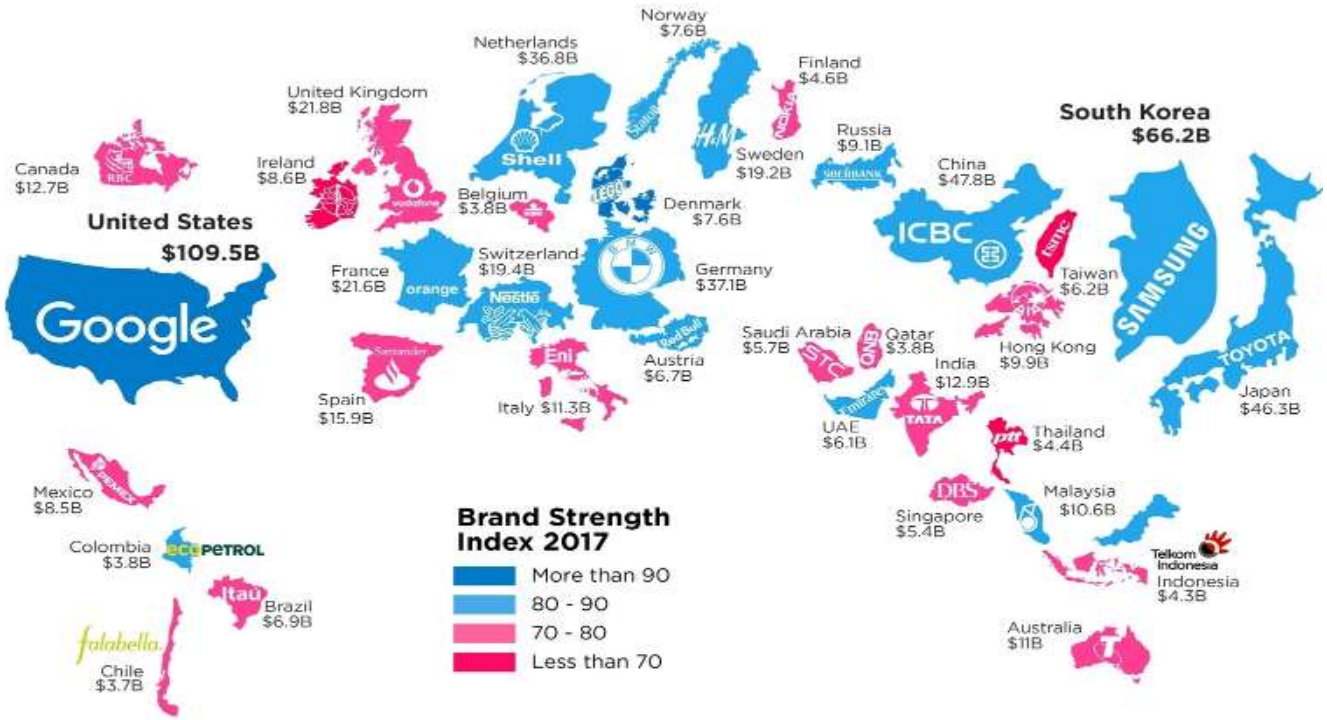


Source: Brand Finance –National Brands 2017

Compared to 2016 when due to the VW scandal, Germany's national brand declined by 7 percent, according to the 2017 ranking increased by 4 percent, remaining on the third position. In relative terms, Chinese nation's brand value grew by 44% a year, or at a rate 20 times faster than the United States. "However, at $ 10.2 trillion, the Chinese nation's brand value is in continuing only half of America's, and sustainable growth will be the key to narrowing the gap. Singapore has not only maintained its strongest national brand position this year, but with a 92.9-Brand Strength Index, it's the only one to gain more than 90 points. The Government's SkillsFuture Movement, which allows every 25-year-old and more Singaporean to get $ 500 for professional development, helps maximize the nation's potential. The state's desire to invest in the development of its people demonstrates a cultivation element that many other nations have not yet adopted. Romania's brand strength has fallen by 5%, from A + to A, with the country dropping two places up to position 49 ($ 175M) in the clasament Brand Finance 2017.

In the recognition of the growing influence of national image on the success of corporate or product brands, Brand Finance has rated the most valuable 100 nation brands in 2017.

Figure no. 2 – The most valuable brands in 2017



Source: https://howmuch.net/articles/most-valuable-brands-2017, accessed on 12.05.2017

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Probably, anyone can list the names of several dozen countries around the world. But can you name each of the biggest brands in these countries? Probably not. And yet, many of these brands are more valuable and powerful than most countries. Based on the data provided by Brand Finance, the map below shows the largest brand of selected countries. Each brand is the largest company in the country. Each country reflects the global value of its largest brand (the largest is, of course, the most valuable).

Google is the most valuable brand in the world at 109.5 billion dollars - and is closely watched by other US brands such as Apple ($ 107.1B) or Amazon ($ 106.4B). However, there are only two non-US brands in the top 10, such as Samsung's South Korean conglomerate ($ 66.2B) and the ICBC Chinese Bank ($ 47.8B).

As the dark blue color indicates, Google, the world's bigest brand, is even stronger than any other on this map. Numerous other brands, colored in blue, fall into the second category (80-90), including Shell, BMW and Samsung. Less inspired by confidence is the category highlighted by pink color (70-80), which includes Eni, Santander and Vodafone. Only a few leading market brands have a "strength index" less than 70, which would translate into a trusted crisis, namely Taiwan Semiconductor and PTT in Thailand.

II. Relevant history of brand accounting

This practice of valuation brands and their addition as asset to balance sheet appeared in the 1980s, when there was a spate of high-value takeovers of companies that owned brands. The accounting convention at that time was to incorporate the goodwill acquired in shareholders' equity. The problem arose when a company made a bid for another at a price that would have all but decimated shareholder wealth, the CEO took another route. He asked his graphic design company, Interbrand, if he could create a model to value brands separately (see Sinclar, 2017, pp.1-15).

In the mid-1980s, Reckitt & Colman, a company in England, introduced its Airwick brand on the company's balance sheet, taking advantage of the fact that the country's legislation allowed the inclusion of newly purchased brands as intangible assets that could be included in the company's balance sheet. This trend continued in the years to come, when the intaglible values held by the different companies have come to play an increasing role in their evolution on the market.

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For nearly twenty years, Rank Hovis McDougal (RHM), a UK food production company, placed the value of its portfolio of brand on its balance sheet as a defense strategy against a hostile takeover bid from an Australian competitor, Goodman Fielder Wattie. RHM has successfully convinced its shareholders not to accept the Australian offer, explaining that this offer did not take into account the company's intangible assets - that is, the brands in the company's portfolio. Moreover, in 1988 after rejecting this offer, RHM introduced the value of all its brands in its balance sheet, being the first time a company introduced in its balance sheet both the newly acquired brands and the company's own brands, internally generated. Although the practice was quite controversial at the time because there was not a sufficiently standardized method for calculating brand values, in 1989 the London Stock Exchange accepted the introduction of intangible values in the proposed share price, thus accepting the practice proposed by RHM one year before (see Irimieş C. & Irimieș L., 2011. p .36).

However, this new practice was not well received by the accounting profession that issued a ”cease-and-desist” instruction, setting up a commission to examine the feasibility of adding brands to the balance sheet. The Commission was led by Patrick Barwise, marketing professor at London Business School (LBS). After three months of deliberation, the Barwise Commission concluded that the accountancy profession was right and that "brand valuation was contrary to the accounting framework" (Sinclair, 2002). As a result, in most jurisdictions, brands can no longer be considered assets under internal purchase or internal development.

Accounting for business combinations has changed dramatically since 2000. Development began in the US, when the FASB issued in 2001 the two SFAS standards no. 141 - Business combinations and SFAS no. 142 Goodwill and other intangible assets. IASB also wanted to harmonize accounting standards in Europe and, since 2005, IFRS was the official accounting principles for all listed companies in the European Union. The merger and acquisition accounting method is one of the most relevant areas of innovation in the current IFRS (see Busacca, G. A. & Maccarrone, 2007, p. 307). Therefore, international standards (IFRS 3, FAS 141) have resulted in a sharp rise in intangible assets, including brands, among listed companies. These special sets of standards addressing business combinations or mergers and acquisitions contain a requirement for the accounting treatment of goodwill and acquired intangible assets that have the potential to suppress important information that investors should know (see Sinclar R., 2017, pp. 1-15).

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Standards contain a line that is unclear about how internally generated brands should be dealt with in the annual financial reports: expenditure on internally generated brands cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognized as intangible assets. (see Sinclair and Keller, 2014, p. 288)

It is important to distinguish between internally generated and purchased intangible assets. IAS 38 allows, after acquisition, the brands of the acquiree (and other intangible assets separately identifiable) to be recognized and placed in the financial statements.

Intangible assets that can be recognized in a balance sheet in accordance with IAS 38 are usually only a fraction of the total intangible asset of an enterprise and the remaining amount is still classified as a "goodwill". This results in the unusual situation in which brands internally generated by the acquiree can be recognized in the acquirer's balance sheet, but its own internally generated brands of the acquirer can not be recognized in the balance sheet. For this reason, many researchers believe there is a strong case for including domestically generated marks in the balance sheet (see Brooke Wasserman, 2015, p. 18)

When a merger or acquisition occurs and a premium on the net asset value is paid, the premium may no longer be fully allocated to goodwill. The acquiring company must examine the purchase price and allocate the premium for identifiable intangible assets. Typically, these were customer-related intangible assets, such as customer relationships and trademarks. Acquired brands with finite lives are amortized over the rest of the years. Brands with undetermined life are added to balance sheet assets, not amortized but tested annually for impairment.

III. The importance of brands as intangible assets in the company portfolio

Today, it is universally accepted that a large part of the value generated by a business derives from the intangible assets, between which the brand occupies the primordial place (Cosmulese & Grosu, 2017). A brand is the intangible reputation a company holds among its clients. Brands help customers know what they will get when they buy a branded product or service. A brand helps customers to create expectations about the quality of a company. A simple image of the trademark, such as golden arches or an apple with a bite in it, should provide customers with a good starting point to create expectations for any associated service or products. Brand power often takes place alongside the success of a company, giving the latter a certain personality. An understanding of brands in the business world is relevant to figure out why the accountancy profession should begin to consider them.

In a 2007 study by Brand Finance, a global company specializing in brand ratings, shows that of a total of 250 companies, 115 US companies, or 45%, managed to create brands to ensure leadership in the global market. The ranking is followed by 99 European brands representing 37% of the global BF250 table, and the remaining 36 brands come from around the world with a small percentage in emerging markets. In Europe, the UK, with 26 recommended brands, rises above France, which has 24 brands. Germany has 17 brands - including six world-wide automobile brands, namely Mercedes Benz, BMW, Chrysler, VW, Porsche and Audi.. All brands of the BF250 are registered as beeing from the country where the holder brand is listed, in this case although the Chrysler brand, which has American origin, belongs to the German company DaimlerChrysler whose primary listing is in Frankfurt (Brand Finance250, 2007, p. 10)

This illustrates in a growing global market how intangible assets and, implicitly, the brands are moving between countries and the effect they have on having the value of global intangible assets. Increased brand value gives long-term competitive advantages to companies that own or are acquire them later.

If the regulatory conditions permit this, it seems inevitable that emerging markets brands to become targets for some strong brands. We also expect to see the strongest emerging brands that generate sufficient purchasing power to acquire developed market brands, as was the case with Lenovo's acquisition of IBM's PC division in 2004 for 1.75 billion USD..

It is important to note that not only is cross-cultural property becoming more common but also consumers are increasingly striving to identify the nationality or origin of a brand, whether due to market longevity such as Heinz or deliberate product placement. For example, Nando's restaurant chain was positioned as Portuguese, when it originated in South Africa. The country of origin is increasingly used to differentiate brands and this will become more evident in the next few years. For example, Evian of France and Audi in Germany have used the home country to strengthen the premium price and exclusivity.

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To illustrate the impact of these conflicting accounting standards, we employ a single example of a company: Proctor & Gamble (P & G), and a brand: Gillette. Gillette's acquisition by P & G in 2005 is interesting because, besides the status of the acquiring company and the acquired brand who is a leading market leader, according to post-acquisition accounts, the transaction accounted for almost 100% made up of intangible assets and goodwill (Sinclair & Keller, 2014, p.291).

For more than 10 years, studies suggest that the portion of the purchase price allocated to goodwill and intangibles is regularly over 50% and often exceeds 70%. Recent examples indicate that this trend will continue. AB InBevs originally offered $ 106 billion for SAB Miller plc, which had at that time net assets of $ 19.95 billion. Therefore, the first offered to acquire the business was about $ 86 billion (81%). In February 2015, Facebook bought "WhatsApp" for 19 billion dollars. According to a subsequent submission by Facebook to the SEC, the acquired company had assets of only $ 45 million at the end of 2013, so the acquisition price was close to 100% on intangibles. Dell's initial offer to buy EMC was $ 67 billion. EMC's net assets balance at that time was $ 21.9. Therefore, the former would have been USD 45.1 (67.3%).

In 2015, Berkshire Hathaway and 3G Capital completed the merger of Kraft Foods and H.J. Heinz. The acquisition amount of $ 55 billion included a recognition of an unprecedented amount of intangible assets and more specifically trademarks. These included some of the most famous food brands such as Kraft, Oscar Mayer and "Planters nuts". Kraft Foods' prior purchase price assignment included 45 billion trademarks of indefinite duration and $ 1.7 billion, or more than 80% of the assets purchased were reported as intangible assets. The combined entity used surplus revenue and exemption from royalty methods to value all acquired trademarks.

IV. The impact of brand growth / decline on a company's economic evolution

Reputation is very important in the business world for both individuals and companies. The most successful companies in history have been the ones with the strongest reputation and brands.

According to the Brand Finance rating of 2016, the national brand "Made in Germany" suffered a 7 percent drop in the ranking, the reason being the VW scandal. "Made in Germany" should be a trustworthy quality brand whose value is worth investing

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money and trust. If this image becomes one of manipulation and deception, then it is only a matter of time before the impact is felt on the German economy. Many companies lose their goodwill, along with cash and inventory, as one of their many assets of real value. As businessman and American philanthropist Warren Buffett said, "It takes 20 years to build a reputation and five minutes to ruin it."

An eloquent example of this statement is that of Toyota, which faced a difficult decision in 2009-2010 on a possible recall of a potential brake system failure. Leaving aside the cost of recall and eventual repair of the system, in an effort to save its reputation and future sales, Toyota has recourse to a recall of all affected customers. After that scandal, Toyota no longer lists any goodwill in its balance sheet, which could make sense because of its recall history.

The Volkswagen Group has admitted allegations by the US Environmental Protection Agency (EPA), namely that it has installed special electronic systems on some diesel cars to avoid federal emissions standards in the US, exposing US citizens to pollutant gases. The company tries to settle the scandal caused by a fraudulent action, the blow to the net value of the german manufacturer could be even higher, because the scandal will certainly affect one of Volkswagen's biggest assets: goodwill. According to Brand Finance, Germany has been moved as the most powerful brand by Singapore - which now has the reputation of being "modern, innovative and working, coming from outside" and overcoming neighbors like Malaysia. Consumers' high expectations, given the reputation of the country for an unimaginable love of the rules, have accentuated even more the disappointment of consumers / the public, and this is also one reason for the decline of the brand. So the VW scandal pulls down the German brand.

V. Conclusions

Our appeal is not to those who set the accounting standards (although we hope they find interesting our ideas), but to many companies that are or have been involved in mergers and acquisitions and who are out of balance with morbid brands. Our exhortation for companies to be more informed about their brands is shared by the SEC's management.SEC also asks the company's management to be closer to the M & A section of their annual reports, providing more information of material importance for investors' decision-making (Securities and Exchange Commission, 2003).

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For a company like AB InBevs or any business that relies on brands for survival, the value of the business depends on the management of these cash-generating assets. An investor would like to know what proportion of the firm's value reprezentă main brands in the portfolio and how they protect and build these resources.

Many authors have suggested that brand values should be dealt with in the narrative part of the annual report or in the Discussion and Analysis of Management section (Mizik and Nissim, 2011; Gregory and Moore, 2013). I believe that this could serve as a provisional measure until the corrections mentioned in this article are dealt with. But the ultimate goal is to have a number in the balance sheet of the asset section that provides investors with information about the intangible assets that they have developed and acquired and how they contribute to the enterprise's wealth.

It is true that not all companies involved in business combinations transactions will have significant intangible value, as many of the heavy industry companies, of the mining industry do not attract large premiums on the net asset value. Exactly this distinction emphasizes the competitive advantages that companies acquire over time when developing intangible assets such as trademarks.

Brands tend to not lose value. Good marketing would ensurethey gain in value. Eight years after P & G bought Gillette, the mark remains in P & G's balance sheet at the instant value after the transaction. This is totally unrealistic and we propose that the brands be tested for depreciation, but also for growth.

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