METHODOLOGY OF VALUATION OF CITIES' BRANDS

Dr.sc. Marko Paliaga, Juraj Dobrila University Pula

Prof. dr.sc. Zoran Franjić, Juraj Dobrila University Pula

Mr.sc. Željko Strunje, Zagreb

Summary

A growing number of articles and literature in Croatia and worldwide deals with the issue of applying marketing and branding concepts to cities and countries or places in a wider sense (a city denoting an urbanized, organized and functionally shaped place with all belonging contents and functions). From the perspective of physical planning and urban development, literature is focused on macro perspective of a place, on efficient social and economic functioning of an area in conformity with objectives set by a particular social and political community. From the perspective of marketing and branding theory, literature is more focused on marketing and branding nations and less on the segment of cities and small towns. This particularly refers to Croatian and foreign literature and scientific works in terms of modelling the methodology for the valuation of city brand. There are but a few concrete researches in this particular field, and hence this paper examines and researches reasons for branding cities and tries to set the theoretical framework for measuring – valuating the city brand. Financially, it is very important to be able to assess the extent to which marketing, budget and economic efforts invested in the creation of the brand have contributed to the newly created value of the city.

Key words: city branding, brand valuation, development of local economy

1. Why brand a city and what are the functions of branding?

The American Marketing Association (AMA) defines brand as a name, term, symbol or design, or their combination, with the intention of identifying merchandise or services of a sole vendor or a group of vendors and differentiating them from those of competitors (AMA, 2009), which is also the most frequent view of the notion of brand or trademark. Brand may also be defined as a name that makes it possible for any given product or producer to be unique among similar or same products or producers (Radawiecka, 2009). Brands have become the main communicators in the market. A strong brand simplifies consumer's behaviour and decision-making and reduces the risk inherent in choosing or buying; it

establishes quality and high expectations. Strong brands also create strong thoughts and emotions in the customer's awareness (Kuhn and Alpert, 2009.) Brand is a product, service or organization considered in relation to its name, identity and reputation (Anholt, 2007). Branding is the process of creating, planning and communicating the name and identity aimed at managing one's own image and reputation (Anholt, 2007.) The identity of a trademark or brand is the main concept of a product, service or city. Commercially, the first aspects we notice of an identity are the logo, colours, slogans, packaging and design. Brand image is the perception of trademark/brand in the customer's consciousness or reputation of a city, product and service in the customer's consciousness. A lot depends on the image of the trademark. City branding was the main topic of authors such as Cheratony, Levy, Munson, McWiliam and Spivey (Andia, 2005.). Most authors study city branding from the standpoint of identity and functionality (Andia, 2005), which is the key of branding. Branding for purposes of mere change of visual identity, promotion of mere slogan and presentation of logotype is not a branding process and creation of city brand.

Why has city branding become increasingly popular and important? According to authors Cheratony and Virgo (2006), branding helps cities attract tourists, funds or residents in the increasingly competitive environment. Furthermore, authors are convinced that a strong city brand shall have less difficulty in overcoming hard times such as economic crisis. The main premise of city branding is creating added value for an organization - city with a brand through adequate brand management (Tschirhart, 2009). According to the author Qingjun Wu (2008), city brand for the city of Rizhao in China has become the biggest intangible asset of the city. Anholt (2007) maintains that people evaluate cities and places, choose them, like or dislike them based on stereotypes and clichés. If you do not have time to read a book, you judge it by its cover. It is very difficult for a city or a country to convince their prospect visitors or investors that their perceptions are unfounded. And this is the fundamental task of city branding. Therefore, it has become more obvious that today's countries and cities increasingly compete with other cities worldwide in terms of investments, attracting larger numbers of tourists and the best possible placement of their export products. Their greatest concern is to attract as many as possible suitable investors, to secure the best possible image to secure long-term local and national development of economy. The process of branding cities and countries is not simple and it takes quite a long time. Such long duration is the result of the need to change the image of the city or country by constructing infrastructure projects and creating attractions - recognizable features and forms. Country or city branding is

not a promotional campaign. Results become visible only after a couple of years, and only after ten or fifteen years may it be stated and concluded whether the process has been successful. Branding and creating a city brand is a prolonged part of strategy of city marketing. Marketing or urban marketing has to teach city administration how to listen to its stakeholders, how to recognize its wishes and needs and wishes and needs of all its stakeholders and how to behave as competitors. City branding is an addition to the process. Branding has to secure loyalty of stakeholders and attractiveness, recognition of a branded city. Cities have a certain truth to themselves. The truth is actually the core that accumulates all marketing and branding efforts.

Functions of city branding are considered based on the aspect of communication, perception, creation of personality and new value. From the aspect of communication, brands are continued communicators (Hankison, 2004). This is very important for cities and for the city branding process. The role of city brand as communicator is to secure a continued process geared at constant construction of one's own brand identity and its communication to the public. A city brand will make the overall city identity measurable, tangible and communicating (Aronczyk, 2009). As subjects of perception, brands affect customers' feelings, emotions and requests. For this reason, the image of the brand is defined as images, notions or feelings the customer has acquired or keeps acquiring about a product, while the identity of a brand is something an organization or a mayor would want his/her citizens to think about his/her city-brand. Identity is something we want to communicate, and perception or images are impressions the buyers have acquired about us. Finally, city branding constructs city's personality and uniqueness. In such a manner, we create interdependent relationships with customers. These relationships are particularly connected with customers' attempt to create their own image through wearing, consuming or using somebody else's particular image. The relationship is constructed through a positive experience a customer-visitor when contacting a city brand.

2. City brand as generator of new value and financial benefits

After a series of mergers of renowned companies in the 1970s and 1980s, brands started to be perceived as part of corporate assets that have to be maintained and invested in. This concept later led to the creation of the notion of brand equity. From the perspective of financiers and accountants, brand equity is exclusively considered as financial asset. From the marketers'

standpoint, brand equity is considered an indicator of future business activities through brand loyalty, distribution and recognition of the brand in the following years. Such standpoints have produced a need to develop brand management that will manage a trademark, particularly its identity (brand identity). Moreover, brands also contribute to the creation of added value for customers. There is a positive correlation between the brand and customer loyalty. For the customer, the brand acts as risk reducer in terms of quality, design and other values. The more customers trust a brand and the more loyal they are, it reduces the risk of purchasing in terms of all features of the product, because they know exactly what they get from a brand. Valuation of the brand of a company is particularly important in acquisitions or mergers, when one company is taken over by another, or when two companies merge, when the brand is licensed to a third company or when a company collects or wants to collect capital in the market and in terms of total brand management. For some companies, brands are actually their most important company assets. Brands like Google, Coca Cola or Mercedes Benz are almost sole guarantees of business success. These brands are worth more than total tangible company assets. Philip Morris spent 12.9 billion dollars in 1989 on the brand Kraft, 6 times the total company assets. Successful brands have loyal customers, guaranteed sales and foreseeable growth, which directly reflects on overall company income, its book and market value. Similar is true for cities. Successful city brands are magnets for tourists, new residents or prospect investors. Suddenly everyone wants to be a part of a successful city. Cities like Sidney, Barcelona or Manchester that mainly owe their new identity to large sports manifestations have actually increased their value by constructing their overall worldwide recognition, which made them famous, desirable and trendy. With the Winter Olympic Games, Turin attracted a large number of investors and renowned brands. These cities witnessed a surge in the prices of real estate, they became more interesting for both investors and tourists. These cities, having branded themselves, have created prerequisites for future city revenues after a particular event or manifestation. The following section presents and studies a possible model of valuation of city brand and its influence on the local economy and budget.

3. Development of measurable indicators as proofs of positive or negative influence of branding on the development and assets of city brand

Value of each property, be it tangible or intangible, may be assessed. From stakeholders' perspective, brand value equals the financial return, or the profit it generates over a particular

period of time, and the shareholders may divide it in the form of dividend. From the perspective of cities, it is not possible to apply such an exact approach. However, generally looking, the value of a city brand should reflect on the total development and progress of a community, a larger number of tourists, strengthening of local economy, growth of GDP, growth of foreign investments, growth of employment and similar. In short, a city brand should initially increase the value of the assets of all stakeholders' over a particular period of time and increase prospects of their business activities. Brand valuation is defined as the calculation of future incomes from the brand over a particular period of time – lifespan converted to present value (Forbes, 2006.)

Methodology of valorisation of trademarks is based on the premise that brands are actually long-term assets and that they will generate future income for their owners-companies over a particular economic life. The stronger the connection between customers and the brand, the more probable is a longer period of generating future income. In other words, brand valuation in companies can be performed using the following methods.

There are numerous methods used in the estimate and calculation of brand value in companies (Laboy 2009; Radawiecka 2009; Antić and Pancić 2008). The following are some of the most widely used brand valuation methods:

a) *Method of calculation of net present value* –the method that refers to presupposed life of brand through discounting net cash flow and discount factor and it is one of the widely used methods. It is based on the estimate of future income and net profit from a brand and on their conversion to present value using a chosen discount factor.

$$NCV = \sum(\text{Annual income from brand n – Annual expense from brand n})/(1+p/100)^n - (\text{Initially invested amount in the development of brand})$$

Brand is successful and cost-efficient and it generates newly created value for a company if $NCV > 0$, it borders cost-efficiency when $NCV = 0$, and it is unprofitable – unsuccessful when $NCV < 0$

b) *Book value versus market value*- method that tries to provide brand valuation by subtracting book value from market value. Book value comprises the value of overall assets minus company liabilities and intangible assets. Market value of a company is estimated

based on market capitalization or value of all shares. There is a series of problems related to this method, and one of the most evident is the difficulty to estimate the brand of a given product in relation to the brand of the company. In other words, it is difficult to calculate the value of detergent Tide for the company Proctor & Gamble when we know that the market trades only with shares of the company, and not with shares of Tide. This method may be expressed in the following way:

$$Bv = M_{(market\ value)} - B_{(book\ value)}$$

where Bv = brand value, m stands for market value and b denotes book value.

c) *Premium price*– for some products, it is possible to provide brand valuation using this method. It is calculated provided that increased value of a branded product is actually the difference between its price and the average price of similar non-branded products multiplied by the number of sold units over a particular lifespan-period. The principal shortcoming of this method is the difficulty to find comparable generic products that are not brands whose quality and properties resemble those of branded products. This calculation is expressed in the following way:

$$Bv = (P_{brand} - N_{generic}) \times S_{sales}$$

where Bv means brand value, p is the price of branded product, n being the average price of similar non-branded products, and S stands for average number of sold products in the past year. (Note: a more extensive analysis is available in the work of Fernandez, 2001., Damodaran model)

d) *Relief from Royalty* – this method is based on the premise that particular companies, if they do not have their own brand or a similar brand, may produce on the basis of a licence granted by another producer. Companies pay royalty for the licence, or a commission expressed as percentage from sales or total income. To obtain brand valuation, it is necessary, as in the case of net present value, to estimate sales in an expected period of time-lifespan of a brand, to calculate royalty from total amounts over a particular period and to discount and convert them to present value.

e) *Present value of performed investments and estimate of necessary investments in advertising to realize the current level of brand recognition* (Fernandez, 2001) - are methods based on the estimate and calculation of performed investments in overall marketing efforts geared at achieving the present level of brand recognition. These methods are based on past available book values and amounts, so that the value of a brand can be estimated in relation to the book value of company assets based on performed investments.

Naturally, there is a series of other methods used in assessing the value and influence of a brand on the value of company assets (Anholt city brand index 2007 βrandβeta® indeks, Safron European brand barometer). However, when using any of these methods, we must be aware of the risk and the role they have in assessing future income and market trends considering the fact that they are predominantly based on projections and estimates of future trends of particular market flows and sales. When assessing the value and influence of a brand on company assets, it is always advisable to take into consideration several methods so that their combination will produce middle indicators.

Undoubtedly, the influence of brand and marketing concepts on cities is much more complex than with companies where incomes are clearly defined. In the first place, a city brand comprises a much wider range of services and incomes some of which are quite cost-driven (such as culture and social sensitivity), so that they cannot be considered in the majority of the above listed methods. As opposed to these methods, one of the most renowned world experts in country and city branding, Simon Anholt (2003;2009), the author of the research "City Brands Index", provides the annual valuation of city-brands based on a particular methodology. Index and overall methodology proceed from research and analysis of the manner in which people react to city brands. The basic premise is that people react to such brands in the absolutely same manner in which they react to all other trademarks (*www.nationbrandindex.com*). Research of city brands has been carried out on the large sample of 17,502 persons and it includes valuations for 60 cities, based on 6 dimensions, export, city administration management, cultural and historical heritage of a city and its preservation, kindness of citizens, tourism and attracting new citizens, or desirability to live in a city. In fact, this methodology is not based on the model of expenses, but on the model of satisfaction and valuation by users of services-citizens or by all stakeholders in contact with the city. A similar method and identical parameters of valuation have also been used in assessing the value of nations (Anholt, 2005.) This method is rather demanding and complex.

Together with the above listed methods, Roger Sinclair (2004) presented the result of his five-year research in his work dealing with the elaboration of methodology of calculating the value of brand for nations using the example of South Africa. Like the model proposed herein, his model is partially based on financial premises (income), tourism and export, or the premise that export incomes of a country actually mostly depend on recognizability, image or brand of a country. Further estimates in the model are performed by means of the Delphi Method and other estimates of future trends aimed at constructing future estimated incomes based on present conditions, and they are converted to present value by means of discount factor. Using data available in international statistics, Sinclair (2004.) basically proves that the existing data may be used in the estimate of brand recognition of each country in the world economy, and the resulting number may be used in the valuation of marketing efforts invested in construction of the brand. Nevertheless, the objective of this work is to apply one of the cost approach methods of city brand valuation, which has been insufficiently researched both in Croatia and abroad (estimate of value based on measurable influences without researching the above mentioned stakeholders' opinion). For this reason, we have tried to introduce a combination and the premise that growth of local development of city economy through three measurable components, namely export, foreign investments and tourism, contributes to recognition and increase of value of total assets of a city and its stakeholders. The more visited and known the city, the more expensive it becomes. The value of real estate grows for the simple reason that a large number of visitors generate a larger demand for scarce assets available for sale. Foreign investors, because of their employees, financial possibilities of a city, its openness for collaboration and marketing concept, may and want to invest and encourage investments in the growth and development of a successful city. Everybody wants to be a part of success. When we create a city as a brand, we create a successful story. Success and recognition create extra newly created value for all the citizens of a city brand, a new value of overall local development.

To be able to use one of the above explained methodologies for estimating brand value, we have tried to provide basic premises for the estimate and financial calculation of selected incomes generated by a city as a result of its branding. This means that we have to be able to estimate the particular share of income the city acquires thanks to the application of a given methodology. This income is considered a part of new city value expressed financially that has a positive effect on the development of local economy and the consequent growth and development of a city, its assets and GDP. Income the city generates that is mostly related to

its image and perception and the communication of trademark is undoubtedly income from city exports, annual amount of foreign investments and annual income from tourism. In Croatia, the city of Rovinj is known for its tobacco industry, export potential of the city and its famous slogan "Greetings from Rovinj", and it is also renowned as a tourist destination with a beautiful old town. Similar is true for the cities of Dubrovnik and Varaždin. The city of Varaždin is known in Croatia as the city of culture and baroque and for some trade export brands that increase its recognition and value through its export potential, namely textile brands Varteks, Di Caprio and Levis. The following model and valuation could serve as a starting point and framework for the beginning of research. It is presented in the below table and in the proposal of calculation.

Table 1-Available income of city economy for city brand valuation

CITY INCOME IN THE PAST PERIOD	year n-3	year n-2	year n-1	year n	average for n years
1. INCOME FROM TOURISM IN THE CITY					
Estimate of total tourist turnover of the city					
2. INCOME FROM FOREIGN INVESTMENTS					
Estimate of direct cash flow from foreign investments in the city					
3. TOTAL EXPORT					
total city export (expressed in HRK)					
A = TOTAL INCOME FROM CITY BRAND (1+2+3)					
BUDGET EXPENSES OF THE CITY IN THE PAST PERIOD					
City communal expense directly related to tourism and city arrangement					
Total import of goods and services in the city					
Total investments of domestic companies out of administrative city borders					
B = TOTAL EXPENSES RELATED TO CITY BRANDING					
NET INCOME FROM BRAND = A – B					

Source: authors

The above data and valuations and calculations proposed herein based on past and available data should be used in the valuation of future income and expenses and discounted, converted to their present value using the net present value method with the choice of a particular discount factor. Discount factor should be within the range of interest given on city securities

in Croatia or within the range of average interest on received city credits for the construction of infrastructure facilities or institutions (such as city sports hall, theatre or similar). All above listed data or table requirements have to be independently calculated and estimated for every city. Tourist turnover data for Croatian cities may be acquired from the city tourist board, and average expenses can be obtained from the Croatian Institute for Tourism or through polls/estimates of tourist companies in the city area. Direct foreign investments can be estimated using the data of tax authorities competent for the city area. The same is true for export data. These data are also statistically updated at the tax administration. A simple comparison and eventual subtraction should produce the amount we can claim to be directly related to the creation of a city brand. Consequently, "net income" from the brand is inserted in the following formula:

$$\text{NCV} = \sum(\text{Expected annual income from city brand n} - \text{Expected annual expenses from city brand n})/(1+p/100)^n - (\text{Initial invested amount in the development of city brand, if available})$$

The resulting value or net present value converted to present value of money will represent finances the city as total entity generates from selected criteria we have defined as parts of city brand. The calculation can simply be made using table calculators type Excel. The selected income is basic positive engine of overall development of local economy and we can correlate it to existence or inexistence of city brand.

In the future, we wish to test the model based on indicators presented herein on several Croatian cities, which will lead to conclusions about its representative quality and its usefulness.

4. Final considerations

Brands are part of our everyday life, created as a consequence of growing competitiveness and globalisation. City brand represents and comprises all its cultural, social, economic, tourist and town planning assets. In today's economy marked by crammed markets, fast marketing, "media jam" and deluge of information, brands have become the principal and the most important distinguishing features of particular products, services, organizations, as well as recognition of particular countries and regions.

City branding process refers to managerial processes that endow any given city with a unique identity and image, presents cities with a possibility of being clearly and positively identified and thus different and recognizable from competitors. Compared to classical products and services, branding geographical areas and tourist destinations (cities, regions, countries, etc) is a process whereby a region actively creates its identity with the objective of as quality as possible positioning in the domestic and international market as desirable destinations for tourism, trade, investments, and similar. Naturally, stakeholders choose both with their emotions, their hearts, but also with their minds.

The preliminary model presented herein is aimed at presenting one possible valuation and calculation of city brand value using net present value or discounted cash flow. Income for cash flow and expenses have been chosen based on authors' experience and the availability of data. All required entry data for proposed model may be gathered from city administrative and tax authorities at the local level. Our wish was to indicate possible calculations of the value of city brand through a unique methodology applied from business marketing and business branding, considering that a study of existing literature indicated a lack of any elaborate methodology or proposal of elaboration of methodology used in city brand valuation. The only serious approach was given in the article by Roger Sinclair. However, it refers to methodology of valuation of country brand based on a wider research of competitiveness of nations and their comparison. The methodology we have presented based on its simplicity already indicates in this work a direct connection of particular parts of city income and city brand and their possible influence in the future period either as fall or increase depending on the success of city branding process. Further authors' research is necessary in order to prove whether our hypotheses and measurements and calculations we have proposed are representative and useful and to prove their positive influence on the local development and growth of the city.

5. **Literature:**
   1. "Brand Valuation", Interbrand , 2004, www.marketingritson.com, *16.09.2009*
   2. *Andia Alfredo "Branding the Generic City" Monu-Magazine on urbanism, number 7,* www.monu.org/monu7/**Branding**.pdf*, 20.09.2001*
   3. American Marketing Association brand definition,
      http://marketing.about.com/cs/brandmktg/a/whatisbranding.htm
   4. Anholt Simon*, http://www.simonanholt.com/, 16.09.2009*
   5. Anholt, Simon: "Branding places and nations", *Brands and Branding*, Profile Books, London, pp.213-26. , 2003

6. Anholt, Simon: "How does the world see America", Anholt GMI Nation Brands Index, 2005, www.**nationbrandindex**.com, *19.09.2009*

7. Cheratony Leslie, Ben Virgo: "Delphic brand visioning to align stakeholder buy in to the City of Birmingham Brand", Palgrave Macmilian, Brand management, vol. 13, no 16, 2006

8. Partly according to: Aronczyk Melissa: "How to do things with brands: uses of national identity", Canadian Journal of Communication, vol. 34, 2009., pp. 291-296.

9. Fernandez Pablo: "Valuation of brands and intellectual capita", IESE Business School, 2001, www.stern.nyu.edu, *17.09.2009*

10. Forbes Thayne: "Brand Valuation, an ROI measurement tool", ADmap, World advertising research, number 3, 2006

11. Hankison, Graham: "Relational work on brands: towards a conceptual model of place brands", Henry Stuart Publications, Journal of Vacation marketing, vol. 10, No. 2, 2004, pp 109-121.

12. Kuhn Kerry, Alpert Frank: "Applying Kellers Brand equity model and B2B context-limitations and empirical test", Griffith University, 2009

13. Laboy Pedro:" The Importance of Measuring Brand Value and Brand Equity", COO, Tocquigny , www.tocquigny.com, *16.09.2009*

14. Radawiecka, Ewa: "METHODS OF BRAND VALUE VALUATION", Zeszyty naukowe, Instytutu Ekonomii i zarazadzania, www.ieiz.tu.koszalin.pl, *17.09.2009*

15. Sinclair Roger: "A brand valuation methodology for nations", Henry Stuart Publications, Place branding, vol. 1, pp. 74-79, 2004

16. Safron European City Brand Barometer, www.**city**mayors.com, *08.08.2009*

17. Tatjana Antić, Ladislav Antić, Mladen Pancić: "Brand Valuation", Faculty of Economics in Osijek, Interdisciplinary Management Research IV, 2008., pp. 198-216.

18. The Anholt city brand index, "How the world views its cities", 2007, www.business.nsw.gov.au/.../**anholt_citybrand**index2007_general.pdf, 16.09.2009

19. Tschirhart, Mary: "Identity management and the branding of cities", Campbell Public Affairs Institute, Syracuse University, 2009

20. Wu Qingjun: "The scheme of Rizhao city brand", Operation and Management College, International Business Research, vol 1, number 3, 2008., www.ccsnet.org/journal.html, 17.09.2009

21. βrandβeta® indeks, "Adding brand value", http://www.brandfinance.com, 17.09.2009