VALUING AN INTANGIBLE ASSET. VALUATION OF A BRAND NAME. ZARA’S BRAND AS AN EXAMPLE.

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ABSTRACT

The crisis has provoked an increase of company investments in intangible assets as the result of reaching new forms of growth. Consequently, firm’s value relies decisively on the valuation of these assets, which constitute an even greater appreciation combined to other production agents. However, traditional models and understanding of enterprise value undermines these assets that usually are left without being taken into account. The objective of this paper is to establish a clear path to study intangible assets, focusing on the different methodologies employed to assess the value of firm brand names. Further, it will summarize the main ways to analyze an intangible asset with a focus on valuing brand names of firms, centering later on the valuation of Zara’s brand as an example. Lastly a model is proposed to evaluate the value of Zara as a brand name.
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INTRODUCTION
The crescent focus of the corporate industry in valuing companies by their cash flow generation has left the valuation of intangible assets aside not only from the valuation point of view but also from an accounting perspective.

Nevertheless, companies as well as countries have searched for alternative ways to attain growth, thus making investing in intangible assets a way to quickly accomplish this source of growth. The recent economic crisis has led corporate leaders to turn their own focus into growth by means of such assets, for instance by achieving new records in research and development. Moreover, companies’ growth in the OECD (Nolan 2011) is driven progressively by their investment in intangible assets, also known as knowledge-based capital or KBC. Therefore, firms have increasingly transformed their policies into a long-term economic investment that will bring future revenues with less volatility, by changing and enforcing their business models and executive management headed for a focus on intangibles. Pfizer, Inc. can be considered as an example of how investing in technology as well as in research, unlike the traditional investment in factories or equipment, has benefitted in the long run (Blair and Wallman 2000). Likewise, economies are specializing in the direction of providing services. While services are cooperating to a major efficiency and development, they are tedious to quantify since intangibles are a source of uncertainty inputs for society.

In consequence, the way in which the whole financial world is evolving must also be represented in the way in which enterprise value is obtained. For this reason, this paper will give both a definition and expose the different ways of valuing an intangible, aiming attention at the brand name precisely as the intangible being focused comprehensively. To accomplish this purpose it will start with the definition of an intangible asset and follow with defining the different typologies of intangibles registered, moving on to the different methodologies to value intangibles. Finally the inconveniences and difficulties that arouse of recognizing and valuing intangibles are summarized. In addition, there will be a more thorough analysis regarding the brand name intangibles, stating the different accounting practices that are internationally recognized as well as to how professional teams value brands worldwide.

Furthermore, the brand name object of study will be Zara and as a result its engagement and functioning in relation to its parent company, Inditex, will then be described. Its success and peculiarities will be examined as to supply a detail explanation regarding the management of the intangibles amongst the company. Besides, a precise model will be provided to assess the value of the brand name Zara, proposing an assessment and comparing it to the financial worth specialized consultants have considered.

A final conclusion will then be presented addressing a final overview of the proposed subject, covering the actual perception of intangibles and the problems originated by not having standardized these assets. A further examination of the brand name breakdown will then befall along with the conclusions of the methods used to value the mentioned brand.
DEFINITION OF INTANGIBLE
Intangible as a concept is arduous term to define: what may be considered as intangible will depend on the point of view of the orator rather than on international standards. For instance, they are defined by Blair and Wallman (2000) as “nonphysical factors that contribute to, or are used in, the production of goods or the provision of services or that are expected to generate future productive benefits to the individuals or firms that control their use”. On the other hand, the OECD (Nolan 2011) describes intangible assets as “assets that do not have a physical or financial embodiment”. The International Accounting Standard (International Accounting Standard 38 2010) defines an intangible asset as “an identifiable non-monetary asset without physical substance”. To further understand this, Damodaran (Damodaran, Dealing with intangibles: Valuing brand names, flexibility and patents. 2007) applies a wider definition: intangible assets are those that we can neither see nor feel. As an example we can find assets such as research and development, brand names or even corporate know-how.

TYPES OF INTANGIBLES
Both accounting procedures have different methodologies to assess and describe intangible assets. However, while IAS 38 focuses on identification and accounting procedures, IFRS gives detail explanation towards the different kinds that can be found.

The Financial Accounting Standards Board (FASB) differentiates between the following kinds of intangible assets (Financial Accounting Standards Board 2007):

Marketing-related intangible assets. These kind of assets would be considered to be the ones which are dedicated to offer different services related to selling any kind of products. As can be found in the FAS141 Intangible Asset Categories index, examples can be trademarks, collective marks, trade dress (such as a specific color or a particular shape), internet domains or even non-competition agreements.

Customer-related intangible assets. In essence, it refers to those assets which won’t be able to materialize over a buying process and involve customer of the company being bought. Assets that fall under this category are those done either in a contractual or a non-contractual way. This has a certain importance when valuing goodwill because most of the contracts won’t be attached to an acquisition of a customer list process, as they are not fixed under the circumstances, thus having to be separated. Other examples would be order or production backlogs.

Artistic-related intangible assets. The assets under this category are those in which any creative stimulation is involved. For instance: ownership rights, ballets, books, photographs or audiovisual material.

Contract-related intangible assets. This category includes all agreements done by at least two sides which want to benefit from each other. For this reason, we can find in these category franchise accords, license to construct or the most common employee contract.
Technology-related intangible assets. The assets under this category are connected to the new developments and advances in technology. Patents can be considered as an example. Examples are patented technology and trade secrets. Its main characteristic is to have property rights and to give any short of advantage to the firm or individual using them against its competitors. Other examples can be copyrights or the know-how of a company.

Further, Damodaran (Damodaran, The Value of Intangibles 2008) has proposed different categories of intangibles based upon their cash-flow generation supply:

- **Independent and Cash flow generating intangibles**: Their value is mainly calculated by discounting the cash flows generated. Examples would be copyrights or trademarks.

- **Not independent and cash flow generating to the firm**: Their value would be calculated by comparing the firm with and without asset, comparing it afterwards with comparable firms and the market. Brand names, technological expertise, corporate reputation.

- **No cash flows now but potential for cash flows in future**: The valuation methodology would be to assimilate the asset to an option, thus having different option types depending on the potential underlying product. These are undeveloped patents or new product to be lunched at the market.

**INTANGIBLE ASSET VALUATION APPROACHES**

Even though valuation of intangibles has costly and subjective procedures, a craving to know in-depth both the inner workings of a firm and new ways to attain favorable opportunities to create further value. To this extent, Karl-Erik Sveiby (Jan 2001) defines four approaches in order to group the intangible assets:

**Direct Intellectual Capital methods (DIC)**. Using this method you should divide the intangibles in different elements and assess its value by determining what the dollar value of each one is. Then a coefficient will be applied once the value is obtained, having the possibility of studying the components by themselves of in group.

**Market Capitalization Methods (MCM)**. This is based in calculating the difference between the equity market value and the stockholders` equity, and applying that as the value of the intangible assets.

**Return on Assets methods (ROA)**. It is the relative average pre-tax earnings of a company for a period of time over the average tangible assets of the company. This coefficient is the ROA, which is finally compared with the average of the industry. By obtaining the difference between the company’s ROA and the industry. The difference is used to obtain an average annual earnings from the intangibles by applying it over the average tangible assets of the firm. Dividing the above-average earnings by the company's average cost of capital or an interest rate, one can derive an estimate of the value of its intangible assets or intellectual capital.
**Scorecard Methods (SC).** This method makes use of the scorecards as a graphic representation of indices developed of the different elements that form the intangible assets. The balance

For the purpose of covering the valuation of intangible, Sveiby proposes 42 different methods for measuring intangibles, 21 of which are summarized below:

1. The ICU Report by Sanchez (2009). It is destined to universities, so they can administer the intangible assets generated through their investigation procedures.
2. The Regional Intellectual Capital Index (RICI) by Schiuma, Lerro, Carlucci (2008). The purpose of this paper is to analyze the importance of the Intellectual Capital as a source of value creation in the companies.
3. The Dynamic monetary model by Milost (2007). The paper aims to create an original monetary model that is able to value the employees of the company, which is normally not disclosed in the balance sheet of the company.
4. The SICAP Described in Ramirez Y. (2010). It aims to create a model for efficiently managing public administrations and public services. For this, it uses a general IC model that identifies three components of IC: public human capital, public structural capital and public relational capital.
5. The Intellectus model by Sanchez-Canizares (2007). The paper tries to analyze the relation that exist between intellectual capital and the business culture of the company.
6. The FiMIAM by Rodov & Leliaert (2002). The model tries to determine the IC identify the relevant components intellectual capital, justify the coefficients, assign values and finally set the value of IC.
7. The IC Rating by Edvinsson (2002). It makes use of an alternative approach to provide management of intangible by developing sustainable goals, improving tasks and giving a general vision of the company’s assets that create value.
8. The Value Chain Scoreboar by Lev B. (2002). It consists on creating a simple matrix with the different types of classifications depending on where you are situated in the business cycle.
10. The Knowledge Audit Cycle by Schiuma & Marr (2001). It is a paper that describes a method for measuring intangible value, by covering the existing methods and establish a link between the strategy a firm and the knowledge asset by means of a an asset map and dashboard.
11. The Value Creation Index (VCI) by Baum, Ittner, Larcker, Low, Siesfeld, and Malone (2000). It is an attempt to try and explain the different factors that affect the market value of companies, making a difference between the industries and weighting what issues move markets.
12. The Knowledge Capital Earnings by Lev (1999). After obtaining the recurrent earnings, this method calculates the part of the earnings that belongs to knowledge capital.

13. Inclusive Valuation Methodology (IVM) by McPherson (1998) consists in using combined weighted indicators and aims at focusing on relative values, more than in absolute ones. The Combined Value Added must be the same that the Monetary Value Added plus Intangible Value.

14. Accounting for the Future (AFTF) by Nash H. (1998) is a method that gives broader importance to the accounting. It consists in projecting discounted cash-flows and determining that the difference between the end of the period and the beginning is the value added during the period.

15. Calculated Intangible Value by Stewart (1997). Economic Value Added tries to measure the financial performance of a company based on the adjustments on the firm’s profit with intangible related charges. Through looking at changes in EVA, it is possible seeing indications of whether the firm’s intellectual capital is being productive or not. This method is owned by the consulting firm Sternstewart and it is widely used.

16. Value Added Intellectual Coefficient by Stahle (2011) is a method that shows the efficiency of labor and capital investments of a company. Conceptual confusions arise from this model as it has nothing to do with the intellectual capital, and it is considered as an invalid method if we want to measure the intellectual capital, as overlapping variable methods are used, added to other problems such as validity problems.

17. Dow Chemical (1996) uses the Citation Weighted Patents arrives to a tech-factor based on the patents that are developed by a firm. The way of measuring the Intellectual Capital in this method takes into account for example the number of patents or the cost of patents to sales turnover.

18. Intangible Asset Monitor by Sveiby (1997) is a method which uses some strategic goals that the management of the firm select.

19. Balanced by Kaplan and Norton (1992) is a well-known method to asses the performance of a company through four different perspectives: Financial, Customers, Internal Process and learning. It is very useful for aligning the business or day by day activities with the whole vision and general strategy of the firm.

20. Invisible Balance Sheet, Sveiby (1998) highlight the difference of the stock market value of a company and the net book value. This difference is related to three groups of Capital, which are: Human, Organizational and Customer.

21. Tobin’s q by the Nobel laureate in economics from Yale University James Tobin is a ratio that supposes that the market value of all the companies in the stock market, should be more or less the same than their replacement costs. Measuring the changes in this q give us some hits about the effective performance of the intellectual capital.

As the establisher of international standards for valuation, the International Valuation Standards Council, or IVSC, is the organism in charge of developing and maintaining standards on the way in which to address valuations. The aforementioned institution has
established three main methodologies (International Valuation Standards Council 2011) to assess the value of an intangible asset.

In the IVS Framework, all three methodologies exposed can be used to value intangible assets, while they do require the expected life of the asset to be applied.

The different methodologies exposed can in consequence result in a value for the intangible assets. To accomplish this, a certain life of the asset should be obtained in advance. This life can be foreseeable or non-foreseeable, being the first a finite amount and the second and infinite amount. It depends on the type of asset and its usefulness for future endeavors. For example a specific pattern of ten years can be used for that amount of time, although if another firm produces an enhancement of the asset (such an improvement of efficiency) in two years this may cause the pattern to be useful only the two years passed. The life of the pattern would consequently be reduced.

**Market Approach**
The market approach is a method that links the relationship between market activities and the price of the asset. By analyzing prior comparable transactions, it may assess the value of intangible assets. Nevertheless, it is widely used in the real estate industry, as value of an asset can be determined by comparing the specific qualities the asset has with those of its comparables.

In the case of an intangible, it is an arduous task to find a comparable asset to determine the price. Moreover, market transactions may be inefficient as it is difficult to find a similar intangible being traded in the market. It would be difficult to find the same exact asset or a transaction done. Moreover, even if finding a similar asset there won’t be enough results to assess an objective value.

Another possibility is to use a multiple approach (by using several ratios related to earnings or similar financial assignment) of past transactions regarding that asset in another company. The analyst should assess value by adjusting these methods and studying which value represents more the asset’s price.

**Income Approach**
The Income Approach method uses the future incomes of an asset to determine its value. Either income, cash flows or the benefits that asset is giving the company are used to estimate the value. This method derives in three principal methodologies:

- Relief-from-royalty method (sometimes referred to as royalty savings method).
- Premium profits method (or incremental income method).
- Excess earnings method.

All of the methods describe above use the expected cash flows generated by a specific asset and the capitalization of each cash flow. If enough information is available, a multiple may be used if the cash flows are recurrent.
Relief-from-Royalty Method
It determines the value of an intangible asset directly by relating it to its future royalty payments, which are discounted to present value. You can hereby obtain the value by calculating the implicit rent of the right wages.

There are two different methods to calculate the royalty rate, either to use a comparable method or lending the rights to use the intangible assets (such as a brand) in exchange of the payment of the future profits that will be paid in the long term.

The royalty method is not perfectly precise, therefore we can find significant variations for similar assets. In this case it would be advisable to benchmark the theoretical input from the royalty in order to calculate the operating margin required from the sales related with the royalty.

Premium Profits Method
This method compares the future business’ profits or cash flows taking into account the amount that is attributable to the intangible asset. It is used when the information available from the royalties is insufficient or uncertain.

Once we have the difference between the profits that will be generated we apply a discount rate in order to convert the forecasted incremental periodic profits to present value. One of the advantages of this method is the possibility to value the intangible assets that save cost as well as the ones that boost profits.

Excess Earnings Method
It uses the value of excess earnings coming from cash flows of all assets and subtracting the portion that concerns to tangible assets. It is basically a multiplication of the market value of the studied assets by a factor that takes into account the nature of the assets in order to obtain the recurrent earnings derivable from the intangible assets. After applying the factor, the difference between the figure with the yield applied and the total earnings is therefore the value that can be attributable to the intangible asset.

It is a perfect method to apply to those intangible assets that will provide future expected cash flows that can be estimated in a certain way, such as contracts with a client or research and development. As these assets normally deliver earnings over a great amount of timer, several periods of excess earnings are used, while if the deal was made punctually only one would be analyzed.

Finally, further restraining coefficients may be applied in order to overcome future difficulties and homogenize the recurrent future incomes.

Tax Amortization Benefit
It is the capitalization of the different incomes resulted from tax shields or tax shavings, in general obtained by deduction generated with the depreciation and amortization. This results in a tax benefit that is accounted as a positive income. It affects especially the income
approach method that would have to be adjusted so as to absorb the impact of the benefits from taxes deductions.

**Cost Approach**
Under this approach what is taken into account is the expenses in which an enterprise would incur whenever a replacement of an asset is done. Thus, the kind of valuation seek is to determine the value of the asset as the cost to replace that asset for a new or similar one. This is fundamentally applied to the technology the firm has developed for its own use (such as software or websites).

**Multiple Approaches**
Due to intangibles being so assorted, they have to be valued by considering several different approaches. This way a clear idea can be given about the value of the asset and the range in which it can vary.

Finally, Damodaran describes the following methods to value intangible assets:

- **Capital Invested.** The company’s investments in an asset can provide a way to value that asset, by determining the amount that company has invested in that same asset. For example the amount of merchandising and marketing a business does to consolidate its brand would be valued by the capital invested method.

- **Discounted Cash Flow Valuation.** This method implies the use of a rate to discount the future estimated cash flows which should be recurrent and sustainable over time.

- **Relative Valuation.** There is a possibility to value an intangible by the use of market comparables, thus obtaining a relative value of the asset by analyzing recent and similar transactions within the same industry. In addition, the difference between the market price and the value of the asset can also be explained by the added value of the intangibles it possesses.

- **Valuing an intangible as an option.** If the case were that the only owner where to study the value of its asset, a value of this asset as an option would be the right thing to do. This method has three different means of arriving to the asset’s value: value for every share (adjusting the shares), by determining the cost of obtaining the option divided by the shares and lastly to value the option as of today and assess the time effect, then dividing by the number of shares.

On the other hand, Pablo Fernández (2007) explains different methods to address the difficulties of valuing an intangible in a summarized approach, which are the following:

1. Value of the company. Debt and shares value.
2. Difference between market value and accounting value.
4. Difference between market value and shares value minus the management capacity of the executive team.
5. The cost of replacement of the brand, being this the value of investment in marketing and advertising, and the estimation of the investment to achieve nowadays recognition.

6. Difference between the value of the company with the brand and another that do not possess a well-known brand (Damodaran’s approach).

7. The free cash flow of the company minus the assets used multiplied by the required interest that investors demand.

8. The value of the option to sell at a major price and/or a bigger volume by opening new distribution channels, new markets, new products or different formats due to the existence and consequently reliance on the brand.

PROBLEMS ARISING FROM INTANGIBLE ASSET VALUATION

Even though many valuation methodologies may assess the value of intangibles is currently being developed under the enterprises operation schedule, there are many conflictive points in to what value should the intangibles of a firm be (Schaeffer and Robins 2007).

As oppose to tangibles, which are depreciated over time, intangibles don’t have the same universally-recognized methodology. In addition, there may be different places of the same company that use the intangible assets, which makes it even harder to assess a value for them. Furthermore, at the moment of the merge or acquisition this situation worsens: the life of the assets in the hands of the new company has to be established and later appraised. The trouble of valuing the asset comes from the multitude of valuation methods focused on the value or cost the intangible provokes to the firm. However, the methods seen above are based on having comparable data of similar companies, as well as even though there is a great variety of methodologies the way intangibles are managed is unique in every firm. Moreover, self-created intangibles won’t appear in the company’s balance sheet, thus making intangibles unrecognizable in the financial statements.

For this purpose FASB 141 requires companies to evaluate the fair value of acquired intangibles. These must be categorized in two groups: those with identifiable useful lives (which are to be amortized over such useful lives) and those with indefinite useful lives, all of which are categorized as goodwill. With the implementation of FASB 142 in 2001, enterprises test such goodwill once a year in order to be certain of any impairment in the asset. If there is impairment, it must be accounted for as a writedown of the asset and a charge against income; but if there is no impairment, no action is taken.

Essentially, the lack of international standards has caused reports not to be unified by the same rules, and many companies to be unaware of the influence of intangible assets in their own statements. Additionally, not being able of depreciating some assets can led to a distorted value in the future of such asset, as well as not enabling a positive revaluation incorrectly shows a possible investment recovery (such as in the case of construction).
BRAND AS INTANGIBLE

Intangible assets are an essential part of the business, making the enterprise work and one of the principal assets to contribute to earnings (Smith and Parr, 1994). Brands, as part of these assets, can have a potential indefinite lifetime and are therefore one of the assets that provide more value to the firms. The significance value a brand provides amongst the company comes from not only its reputation in the market, but also of the expectations that will implement in the future. In addition, loyalty is another variable that must be taken into account when describing the working of a brand, as consumers are moved by the known service or quality a particular brand grants. Further, consumers associate many brands with a specific kind of attributes (Wasserman 2015).

A brand is defined as “the name given to a particular product by the company that makes it”. However, many issues related to the clarification of a definition of a brand has arisen in the last century mainly because of the lack of the properties intangible brand not included in the main definition. The American Marketing Association (AMA) established its definition in 1960 as: “Name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers”. Furthermore, other approaches have appeared that proposed other variables to take into account in the definition. For instance, Chernatony and Dall’Olmo Riley (1998) considered brands as the components that they encompass. The components that should be included in a brand has, nevertheless, generated another point of conflict (Stern et al. 2001), essentially due to the potential components the brand may be comprised of. The complexity has only risen as Kapferer (2004) makes the statement that “each expert comes up with his or her own definition of brand or nuances of definition”.

Nevertheless it has changed for this reason the definition in the past decade, adding “any other feature” in 1995. Upendra Kumar Maurya (2002) defines twelve themes as to the definition of brand, which include:

- Brand as a logo: this identifies brands as means to differentiate one firm from its competitors. From this point of view, branding is not something focused on customers but rather something they do things with (Meadows, 1983).
- Brand as an image in consumer’s mind: the brand image is the perception consumers have of a particular brand, what their associate with that brand. Nevertheless, limitations rise once we question ourselves where the limit resides on the quality and quantity of this idea.
- Brand as value system: the value consumers find associated with the brand. Sheth et al. (1991) define brands as value systems, being brand choice decisions influenced by five consumption values: functional value (utility of the product), social value (the willingness to please others), emotional value (choices made upon feelings), epistemic value (the degree of innovation and freshness) and conditional value (the circumstances that surrounds certain product). However this definition would only seize consumer’s point of view.
• Brand as an Identity system: as an identity which captures aspects of culture, personality, self-projection, physique, reflection and relationship. It becomes therefore as more important than just the sum of its parts. The public image is the result of this definition, which may be more important than the technical facts about the product. Its flaws would be the emphasis on desired positioning while less focus on perceived image.

In addition brand can be understood as a company (corporate identity that gives competitive advantages seeing providing the brands with the corporate name), as a shorthand (regarding the concept that individuals will reach before the names they already know and recognize), as a risk reducer (perceived risk enables marketers to present their brands to instill consumer confidence) or as a personality (differentiating through focusing on psychological values, using creative communication and packaging).

This trend of focusing on the brand of firms may have come from the mergers and acquisitions that had very high valuation on the brand as intangible asset (Maurya and Mishra, What is a brand? A Perspective on Brand Meaning n.d.). While multiple standards may be used to assess the definition of brand, the different interpretations made by experts differ, as the concept of identity. While the concept may change subjectively, it is considered as a noteworthy asset that provides value to a company in all stakeholder levels. The concept is mostly adaptable to the environment and firm’s situation: the cultural, political, economic and geographic circumstances and perceptions that are being made about it by the stakeholders. Further, it develops not only by the management but also by its customers, its context and the relation with the stakeholders.

For the purpose of this paper, however, we will continue with the traditional and plane definition of a brand as “the name given to a particular product by the company that makes it”.

BRAND VALUATION

Brand valuation is considered to be the assessment of the value of a brand by financial analysts, and is made mainly by well-known companies that value and promote ratings of the most consolidated brands. For instance they produce annual rankings regarding the Top Best Global Brands. In addition, brands by industries are also sent every year, such as Football, Beers, Cosmetics; as well as a different ranking for every country is provided. The companies more important to take care of this valuation are: Interbrand, Brand Finance and BrandZ.

To construct the final value of a brand, brand equity and brand value is used. As perceived by consumers, the total collective value is called Brand Equity, the amount consumers are willing to pay over the market price a certain product has. On the other hand, brand value is what the brand means to the company. Brand equity must be reinforced and managed in order to continue its growth and expansion as well as the perception consumers have. In consequence, in order for a brand equity to continue to contribute with benefits it must be supplied with two sources: brand image and awareness (Aleksandra Zaleśna).
Interbrand was settled in 1974 and is now a leader corporation in the brand valuing business, having 40 offices in Asia, America, Europe and Africa. It is the biggest professional company dedicated to assess the brands of its clients by associating strategy and technology. It distributes annually the Best Global Brands ranking (Interbrand¹).

The BrandZ study, overseen by Millward Brown, produces the BrandZ provides a unique piece of perception by incorporating financial data to its wide database of valuation mad. Over the past 11 years Millward Brown has collected data of more than 3 million consumers which accounts for more than 100,000 brands. This data is treated and added to financial data so as to produce the Top Global rankings (BrandZ²).

Finally, Brand Finance was founded on 1996 and “is the world’s leading independent brand valuation and strategy consultancy”. It is present in over 20 countries and has established their headquarters in the City of London, reaching an amount of over 3500 brands valued every year. In addition to technical valuations of intangible assets, they determine the way different brands contribute to add value to business and evaluate their impact on their effectiveness. Brand Finance Institute runs seminars and lectures to build up best practice on brand valuation and evaluation, as well as organizing forums worldwide each year as a knowledge sharing platform and showcase of best practice for clients (BrandFinance³).

BRAND VALUATION METHODOLOGIES

Interbrand Methods and Practices
The Interbrand brand valuation methodology was the first one which met the international standard for monetary requirements, ISO 10668 in 2010.

The valuation method of Interbrand makes use of the Brand strength framework based on the management of the brand internally and externally, determining both the past performance and probable future accomplishments. So as to make an appearance in the Best Global Brands the following aspects should be accomplished: “to be global, visible, and relatively transparent in financial results”. To be included in this valuation it is necessary that firms meet the following requirements (Interbrand 2015 report):

- 30% of revenues must be obtained from outside the brand’s home region; the brand has a public profile recognized beyond its own market.
- It must have a significant presence in Asia, Europe, and North America, as well as broad geographic coverage in emerging markets. In these markets, firms have to make public information available so much as to give enough information of the brand being valued.

¹ http://interbrand.com/
² http://www.millwardbrown.com/brandz
³ http://brandfinance.com/
- Economic profit must be expected to be positive over the longer term, delivering a return above the brand’s cost of capital.

Even though brands are sometimes property of big multinationals, the lack of information available may impede the valuation of the brand. There are three main concepts used, the financial performance of the brand, whether the brand is taken into account by the consumer, perceiving it as a better option and lastly the strength it has when competing with its peers.

Interbrand uses three main concepts when assessing the value of a brand:

**Financial Analysis.** It is a system to value that investors will receive. It is measured as the difference between the profit without taxes and margin of the operational profits.

**Role of Brand.** The factors for which we choose the brand are taken into account in this approach. In essence, these are the convenience of the product for a consumer or any kind of differential between the product and the competence (like price). Interbrand measures the role of the brand by quantifying it through the Role of Brand Index which applies a research done for that specific brand, history of comparable brands or expert analysis.

**Brand Strength.** Interbrand describes the brand strength as the ability of a certain brand to create followers and loyal clients that keep buying their product and feel attached to it over the competitors. To assess this factor, Interbrand evaluates products using 10 factors and finally it makes a photo of the brand’s market position, determining its weaknesses and strengths and estimating its position relative to the industry.

**BrandZ Methods and Practices**

In BrandZ’s point of view, strong brands share three characteristics: brands can be meaningful, so as to be the perfect brand to either customers that like the design or those that search for a relatively good quality product; there are brands recognized as having a competitive advantage over their peers and finally there are brands easily recognizable.

BrandZ bases its value on three main calculation steps: calculating first the financial value, then the brand contribution and finishing with the calculation of the brand value (2016 BrandZ Report).

The financial value is calculated from the corporate earnings of a company. After obtaining the part of the recurrent earnings that pertains to each brand, they make use of the attribution rate (obtained by sources such as Kantar Retail). Later the attribution rate is multiplied by the corporate earnings and so the branded earnings are obtained. In essence, it is a product of the corporate earnings and the factor obtained by using the research means at their disposition. The brand multiple is then applied in relation to the forecasted future performance of the firm, managing Bloomberg’s information in order to obtain the aforementioned multiple.

The next step is the calculation of the brand contribution. For this purpose, BrandZ does an extensive price premium investigation as to whether the brand itself is becoming meaningful for the consumers. They obtain the consumers viewpoint to achieve a conclusion in a global
scale, covering over 3 million consumers and more than 100,000 different brands in over 50 markets.

Moving on to calculating the Brand Value, it is expressed as a percentage of Financial Value and measures the quantity of the value attributable to the brand, expressed as the total dollars that a brand is providing the complete enterprise.

**Brand Finance Methods and Practices**
Brand Finance helped to craft the internationally recognized standard on Brand Valuation, ISO 10668. In terms of the standard, a brand is recognized as an intangible connected to marketing which includes names, symbols, signs or designs amongst others, even a combination that can either create an association within the customers of separate assets or consolidated assets.

Brand Finance refers to both Brand Contribution and Brand Strength. The first uses the total benefits the brand is responsible for, which can be either a higher price due to a larger demand of the brand to saving expenses because of the size of the firm. On the other hand Brand Strength is part of the analysis made directly influenced by the management of the brand: it is an analysis made that measures the impact of marketing, brand equity and business performance. Brand Finance gives a score out of 100 to every brand, and related to this score a rating from AAA+ to D grade (Brand Finance 2016 Global 500 Report).

The steps followed to calculate Brand Value are the following:

First the Brand Strength is calculated, attributing a number from 0 to 100 to every firm analyzed. Next the royalty rate is determined, by reviewing comparable licensing agreements (from internal database). The royalty rate is then calculated and applied to the strength score. After this, specific revenues for the analyzed brand are calculated, forecasting afterwards based on historical performance and equity analysis. Then the royalty rate is applied to the predicted revenues and finally the brand revenues are discounted post tax, thus arriving to a net present value recognized as brand value.

**BRAND VALUATION: ZARA’S MODEL**

**Inditex, S.A.**
Inditex is a fashion retail group born in 1963 as a small clothing factory but has expanded and nowadays accounts for more than 7000 stores established in five continents. In 2015 they had sales for 20,900 million euros, and 152,854 employees. Having operated for over 40 years, the evolution of the company has accomplished great heights and reached its fundamental objective of providing the fashion tendencies their clients demanded. This has been possible by using one of the most efficient logistic systems in the world, which enables them to provide the offer in a flexible way and with low leading times, thus attaining high levels of customer satisfaction (Galin Zhelyazkov, 2011).
In their road to becoming the biggest fashion group in the world, different stores were open along the way. The first to open its doors was Zara in 1975, followed by the group’s expansion in the 90s by the appearance of new brands such as Massimo Dutti, Pull&Bear, Stradivarius, Uterqüe and Zara Home (https://www.inditex.com).

**Zara**

Headquartered in Arteixo (Galicia), Zara was founded in 1975 by Amancio Ortega and Rosalía Mera. At first it started by being a retail store of A Coruña, while it quickly became famous for selling high quality designed products at inexpensive prices. In the 1980s, the manufacturing process was changed as well as new locations were chosen in strategic places in order for its successful expansion to take place (http://www.inditex.com/). Nowadays it is considered to be the flagship of Inditex, using different market entry strategies to access new countries: company-owned stores, joint ventures, and franchises (Amalia Paola Palladino, 2010).

Further, this expansion continued until reaching nowadays over 2100 stores across 88 countries. Its business model centers on supplying information to its professionals about what is working with the customers, their needs and tastes, and processing this information as feedback. Indeed, Zara’s model covers all processes of production (design, manufacture, logistics and distribution). Moreover, the information obtained from their stores is a key element to adapt the offer to what customers demand in the shortest time possible.

Amalia Paola Palladino (2010) studies its successful career development across its history and business model, and establishes the following reasons:

**Vertical Integration**

The vertically integrated supply and demand chain, being able to control all activities taking place in the business being operated. The reduction of stock has made possible greater flexibility by producing and releasing products in number or in few stores, and studying their evolution and the demand of those products. In addition, the firm is focused only on product design and quality, while it lets the brand image in a secondary plane. This has led them to efficiently manage their distribution and manufacture, which takes place from the central site in Spain. In essence, it is the control of the overall process that makes this system work effectively, by making all pieces work together as an engine to produce the things most demanded, receive that information and continue the production of more as well as change the design of those products that aren’t working as much. Additionally, most of the products of Europe are sent to Asia, where the trends are not as constantly changing and customers tend to buy the latest European product.

**Short Lead Time**

The short times to deliver, change and access the markets is another factor to take into account in Zara’s Business Model. Zara can move from identifying a trend to having clothes in its store within 30 days. That means that Zara can quickly identify and catch a winning fashion trend, while its competitors are struggling, transforming this strength into economic terms, as it will clearly bring out better margins with more sales happening at full prices and
fewer discounts. On the other hand, most retailers try to forecast what and how much its customers might buy many months in the future, while Zara moves in step with its customers (pull system). For this reasons, Zara chooses speed over cost in terms of the manufacture it hires, consequently having multiple input around both opportunities and losses that has led to shipping twice in a week and to invest a great deal of resources in technology and logistics. Likewise, working capital is reduced for the same reason, as inventory rotation is high, and their flexibility permits them control the forecasting errors impact.

Information Technology
Amalia Paola Palladino speaks about four key areas that give Zara its speed:

- Collection information on consumer needs: the head office receives information daily that is stored into a database, which is treated to create new lines and modify existing ones.
- Zara quickly and accurately prepares new designs due to a lack of complex definitions, which simplifies the process to prepare new designs with clear manufacturing instructions.
- Product information and inventory management: Zara is able to change the existing designs with available stock, with the advantage to diminish the time that otherwise would be necessary to receive the material.
- Distribution management: the optical reading devices enables Zara to manage a great quantity of information quickly and efficiently.

Lower Quantities and More Styles
The system mentioned above implies that Zara reduces its exposure to a single design, but rather diversifies its production by creating many designs and manufacturing less quantity of each. This way, they have the advantage to see what trend is currently working in the market. In addition, they study the location of every store they open.

However, only about 18% of their products are discounted, a fact shadowed by the fact that they produce fewer quantities but far more styles throughout the year. The wider variety to choose from gives them an advantage over its competitors.

Target Pricing
A drawback of having established the supply chain in Spain has implied an increase in Zara’s prices overseas. This way, it has been marked on average 40% higher in Northern European countries, 70% higher in the Americas and 100% higher in Japan than those in Spain. Consequently, even if most of the population could afford to buy in their stores in Spain, this situation didn’t extrapolate to other countries, particularly on North America or Japan. Therefore, Zara positioned differently in these countries. An example would be Mexico, in which only 14 million out of 100 million people are targeted, coinciding this targets to be able to afford buying in Europe and the United States, and being familiar with fashion. In terms of promotion and advertising, they have assumed the same as in Europe, and varied internationally very little.
Target Market
Zara’s broad sense of their target customer has enabled them to reach a great variety of people for the reason they do not point out the age at which they are sending a specific product. In essence, this market consist of young and educated people, sensible to fashion trends. The globalization that has appeared in the market of fashion has allowed Zara to take advantage by standardizing its products, adopting a balance between standardization and customization.

Zara’s Brand
Recently, not only has Amancio Ortega (funder of Inditex) has been recognized as the 2nd Billionaire of the World, with a fortune estimated at $71.6 Billion (http://www.forbes.com/), but also the brand Zara has been valued for 10.7 Billion $, thus achieving the 53rd position in The World’s Most Valuable Brands of Forbes (http://www.forbes.com/).

As mentioned previously, brand valuations ranking lists made by the most important valuation companies rank Zara as one of the best in the world:

- Interbrand places Zara as the 30th Best Brand in its Best Global Brands of 215 ranking with a value of $14,031 million.
- BrandZ (by Millward Brown) positions Zara in the 42nd position in its BrandZ Top 100 Most Valuable Global Brands with a value of $22,036 million.
- Zara is placed number 53rd in Forbe’s The World’s Most Valuable Brands with a value of $15.9 billion.
- Zara is ranked 119th in the Brand Finance Global 500 2016, by Brand Finance.

It is therefore proved the relevance that Zara is gaining as a brand name, both as an industry leader and one of the most valuable brands of the world. In consequence, in order to estate the value of its brand name, two methodologies will be used:

- Discounted Cash Flow: it represents the value of a firm or particular asset as the expected cash flows that will be made over its life. These cash flows are then discounted at discount rate (weighted average cost of capital or wacc). Finally, the valuation returns the sum of equity and debt, so to obtain the value there only remains to take out the debt from the value of the enterprise or asset. This final value is called equity value. For the brand value, the difference between the equity market value and the predicted DCF value of the equity will return the value of the brand, in essence: the value added of the brand name in relation to the firm. To sum up, this way the value of the name would be obtained by the difference between the expected equity value and the market equity value, employing market deficiencies as a way to value the brand’s name.

In the case of valuing brands, one particular problem resides in estimating the life of the name (R Abratt, G Bick, 2003). In addition, there is no further empirical evidence in any model which calculates the brand’s value as well as a huge variety of different ones that cause an even more profound confusion when assessing the value. The increase importance in this short of value around M&A processes, has led to a recognition in the balance sheet of the
trademark, but there are those against these practices implying a capital raise against the asset. To accomplish the purpose of valuating a brand, Brand Equity is the approach mostly used aggregating all marketing costs as the final value. However, there is a more profound discussion regarding what can be considered a marketing cost. In consequence another methodology will be used to obtain the brand value:

- Damodaran assesses the brand name value of a well-known branch as the value of the increase in price its products have against the same product pertaining to a generic product, times the sales the company is doing of that same product. This way the value of any known branch may be established, if several conditions are met, such as being well-established and able to raise its prices against their competitors.

- Furthermore, as seen above the difference between the book value and the market equity is the intangible part of the company. In this case an assumption has been made regarding the part that corresponds to the brand name. As to solve this issue, an average has been made regarding the brand’s value to enterprise value, from data available on Pablo Fernandez’s 2007 paper “Valoración de Marcas e Intangibles” in which he determines Interbrand’s ratios. Accordingly, a 35% has been used as coefficient to estimate the corresponding part of the brand’s name.

- Finally, a last model has been implemented to determine Zara’s brand name value. This would be to assume its value as the marketing and advertising cost the brand has demanded. Due to the low investment in marketing the group makes on publicity, an assumption has been made to address the value of the brand as the investment in property that the group makes opposite to that made upon advertising.

The reasons to choose the proposed two valuation methodologies, while disregarding the previous studied ones, is mainly by the simplicity these two models engage:

Firstly, the DCF model will permit to study the results while managing a series of hypothesis and a range of different proposed forecasts and situations, being able to choose different situations depending and deliver therefore the value in each event. In essence, no further information is needed to assess the value of the firm’s brand as well as no database nor prior experience will be implemented. While these factors can be of great use to firms able to use a large database of previous analyzed companies or even compare different companies of the same industry, the DCF validity extends throughout the world and for every kind of industry and enterprise. In addition, the sensitivity analysis provided by the model can help us understand the way different inputs are affecting the final value, and the volatility in which they incise upon the final output. As stated by Florian Steiger (2008), the DCF combined with other different methods of valuation is able to deliver a reliable value with which determine a range of price of the firm or asset analyzed: “This combination technique is indeed the method that most companies and investment banks use today. When using several valuation techniques, their individual shortfalls are eliminated and the ultimate goal in the field of company valuation can be reached: determining a fair and valid company value.” For the reason that obtaining comparable firm brands is quite tedious, as the brand’s value can
vary from one day to another in a great amount, another methodology will be used in order to reach a final conclusion, thus using it as comparison with the DCF model.

Secondly, the way Damodaran’s approach returns the value of the firm’s brand name can be considered of great usefulness to effectively achieve a final value of the brand name: it not only is an understandable method useful once the market is known, but also it succeeds in valuing efficiently the brand name by comparing the sales done in one company with the sales done by other groups of the same industry. Consequently, the final value can be obtained by a simple model that establishes these differences, even if the sales a firm makes are not as simple to obtain or other difficulties may arise during the process.

Furthermore, the third and fourth valuation takes into consideration several hypotheses that comply with the group’s investment policy. In this regard, as stated before several methodologies have been simplified in order to apply them to Zara’s company so as to have different points of view of the company towards the huge range of methodologies that exist. Consequently, the last two methodologies chosen are the difference from book value to equity value and to apply a coefficient over the result, as well as to assess the price by looking at the investment done in order to make the brand well-known internationally.

On the other hand, many intangible valuation methodologies can be discarded either because of the industry or the way the company works compared to the competitors, such as the use of intangible assets in the balance sheet or the cost of replacing the brand. The first can’t be used totally as the intangible price of the brand name as the know-how the company possesses would influence most of this accounting entry. The second can be dismissed due to the nature of Zara: the processes that it uses are totally integrated already throughout the company, so consequently the brand name won’t be of as much importance to selling as the continuous know-how it has acquired along its path of growth and internationalization.

Nevertheless, it would be an important matter to establish the final value by comparing as many methodologies as possible, employing common sense and seeing that those methods may be applied to the company being analyzed.

**ZARA VALUATION HYPOTHESIS**

To establish the range in which Zara’s Brand value will be determined, some hypothesis have been assumed so as to clarify certain points of the brand’s sales as well as the model final value:

- Inditex has had a growth in sales of an average 10% over the past 4 years. Accordingly, a more conservative on the 9.44% annualized growth has been used to predict the sales growth over the next 5 years.
To predict Zara’s sales, the following tables have been used from the financial statements in order to have an idea of the amount that correspond to Zara oppose to the ones given by the rest of Inditex branches, arriving to an assumption of a 65% of the total shares being provided by Zara. It has been predicted that Zara will maintain this growth the next years, focusing in growing in Asia’s market. The increasing importance of its customers of online stores positions the company as one of the more searched, with 1.3 million visitors expected to be visiting its online stores. This has been extrapolated to the cash flow pertaining to the aforementioned group:

Table 1 Inditex Stores by Brand

<table>
<thead>
<tr>
<th></th>
<th>EUROPE markets</th>
<th>EUROPE stores</th>
<th>ASIA AND OTHERS markets</th>
<th>ASIA AND OTHERS stores</th>
<th>AMERICA markets</th>
<th>AMERICA stores</th>
<th>TOTAL markets</th>
<th>TOTAL stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zara</td>
<td>43</td>
<td>1,307</td>
<td>26</td>
<td>450</td>
<td>18</td>
<td>234</td>
<td>87</td>
<td>1,991</td>
</tr>
<tr>
<td>Pull&amp;Bear</td>
<td>35</td>
<td>638</td>
<td>18</td>
<td>153</td>
<td>10</td>
<td>62</td>
<td>63</td>
<td>853</td>
</tr>
<tr>
<td>Massimo Dutti</td>
<td>34</td>
<td>495</td>
<td>19</td>
<td>123</td>
<td>10</td>
<td>47</td>
<td>63</td>
<td>665</td>
</tr>
<tr>
<td>Bershka</td>
<td>36</td>
<td>706</td>
<td>20</td>
<td>165</td>
<td>10</td>
<td>83</td>
<td>66</td>
<td>954</td>
</tr>
<tr>
<td>Stradivarius</td>
<td>30</td>
<td>669</td>
<td>17</td>
<td>158</td>
<td>9</td>
<td>31</td>
<td>56</td>
<td>858</td>
</tr>
<tr>
<td>Oysho</td>
<td>21</td>
<td>414</td>
<td>12</td>
<td>89</td>
<td>6</td>
<td>46</td>
<td>39</td>
<td>549</td>
</tr>
<tr>
<td>Zara Home</td>
<td>18</td>
<td>309</td>
<td>16</td>
<td>50</td>
<td>11</td>
<td>35</td>
<td>45</td>
<td>394</td>
</tr>
<tr>
<td>Uterqile</td>
<td>6</td>
<td>51</td>
<td>8</td>
<td>15</td>
<td>1</td>
<td>10</td>
<td>15</td>
<td>76</td>
</tr>
</tbody>
</table>

Source: Company’s Reports
Due to the nature of Zara’s business, cash flows are recurrent and usually do not contain particularities in parties. For instance, in every country they are willing to make an entry, stores at high-profiled situations are searched and usually the store is bought by the group, proceeding to enter its balance as property and equipment. Moreover, the group has almost no investment in marketing or publicity, being its expense for advertising around 0.3% of sales revenue (Jessica Vincent et al., 2013).

In addition to the fact mentioned above, Zara has almost no debt issued. Therefore it is clear that its accounts are healthy and relatively stable, increasing a better performance towards generating consistent and sustainable cash flows.

The tendency obtained in the past years has been the one used to calculate the subsequent years. An assumption has been made in this regard taking into account a continuation of both the tendency and the investments made in order to maintain the growth rate of the past and project it to the future.

A comparison to its competitor Hennes & Mauritz (H&M) has been made in order to obtain the difference in sales and therefore the value of Zara’s brand. H&M is positioned higher in its brand value, being valued on Forbes The World's Most Valuable Brands with being the 33rd biggest brand worldwide and occupying position number 21 on Interbrand’s Ranking Best Global Brands. H&M works slightly different from Zara in terms of strategies, but comparisons between both of them are more than justified in terms of market share and consumer target.

ZARA’S VALUATION MODEL

Two methodologies have been employed to analyze Zara’s brand: a DCF model which will show the evolution of Zara as well as address further light upon the factors that modify its value and the reliability of the model; and a methodology implying further knowledge of the market, that aims to deliver the brand’s value by calculating the value added the brand is distributing the whole firm.

The DCF Model

To value Zara’s brand using the DCF model, cash flows have been forecasted for the next 5 years. To do so, firstly sales were forecasting by following the trend analysts as well as the own company have predicted.

This led to a forecast of the balance sheet, which grew mostly with sales nearly in constant terms over the years. This way, sustainable predictions of growth in terms of balance enabled the model to assess the future cash flows.
It must be noted in this regard that the working capital the company has is negative. Indeed, Zara is actively financing itself through the long payment to providers and the low inventory available. This way of financing is only possible because of the highly sophisticated system the company uses to produce its sales.

![Image of Inditex Capex and Working Capital](source)

**Figure 3 Inditex Capex and Working Capital Forecast**  
*Source: Compiled by Author*

A 25% of taxes have been used to determine the taxes paid, while the investment in capex has been extrapolated by applying an increase relative to the trend being followed by the company throughout the past. This has been engaged to the hypothesis of the growth in property and equipment as well as in the rest of assets.

Finally, recurrent free cash flows to the firm are calculated so as to discount them in order to obtain the enterprise value. These cash flows have the property of increasing in a rate similar to that of the company. In addition, as no debt exists and the company is in no situation to get indebted in the next few years, the enterprise value and the equity value have almost no difference, being this difference insignificant. Once obtained, a terminal value was extrapolated, using a growth rate of 3% for the years to come.

To study the value of the firm’s brand, the net present value of the cash flow has been used. To accomplish this, the discount rate was obtained using the WACC method. It uses equity and debt to weight the amounts that the company has, provided a capital structure analyzed beforehand. However, as mentioned before the debt in the company is nonexistent and for this reason the weight falls solely in the equity the company has, being the cost of capital higher than the situation in which it was combined. Cost of equity is in consequence the final figure used to discount the cash flows.
To calculate the cost of equity, we have used the capital asset pricing model (CAPM). It delivers the return that investors require to deposit money in the shares of the company opposed to having that money invested in a government’s debt, which is considered to be the risk free rate. For this purpose, a beta is calculated (obtained through Bloomberg) using a linear regression analysis and explains how the company has performed in comparison to the market throughout history and the intrinsic risk its shares embrace.

The final value is obtained by seeing the difference in value between Zara’s brand and a competitor that doesn’t possess the brand name. Thus, we obtain the following value comparing Zara to its market value:
Table 2 Zara DCF Results

<table>
<thead>
<tr>
<th>% Zara relative to Inditex</th>
<th>64%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zara's EV</td>
<td>72,497.57 M€</td>
</tr>
<tr>
<td>Zara's Brand Equity Value</td>
<td>14,846.65 M€</td>
</tr>
</tbody>
</table>

Source: Compiled by Author

The final value obtained would be in consequence of 14,847 M€ using a DCF approach. Certainty of adopting this model will be tested afterwards in a sensitivity analysis so as to prove the sustainability of this method.

**Brand Value by Comparison to H&M**

Essentially this method uses the association of the brand’s value to the sales achieved. As explained above, the formula to apply is simple to understand, while the variables to include can be arduous to obtain regarding the scarce data available to analyze in depth. To give an example, Damodaran explicitly explains that the difference of having a generic product and a named one strives in the difference in sales that the named one provides multiplied by the difference in price that the brand is contributing to those sales:

\[
\text{Value of brand name} = (\frac{V}{S})_b - (\frac{V}{S})_g \times \text{Sales}
\]

\( (\frac{V}{S})_b \) = Value of Firm/Sales ratio with the benefit of the brand name

\( (\frac{V}{S})_g \) = Value of Firm/Sales ratio of the firm with the generic product

**Zara's Expected Sales to Value/Sales**

![Graph of Zara's Expected Sales to Value/Sales](Source: Compiled by Author)

**Figure 6 Expected Sales vs Value/Sales**

Source: Compiled by Author
Nevertheless, in the case of Zara it is not competing directly against generics, but against products of other brands which have the same market target. In the clothing industry, it is common to compete to other brands, which differentiate themselves mainly in the name but slightly on the quality or design. Therefore a strength of Zara versus its competitors is the agility with which it changes its designs to adequate them to the available demand. Hence, H&M has been used as a comparable so as to address the value of the brand.

### Table 3 Zara’s Forecast Price

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
<th>Value/Sales</th>
<th>Increase in sales due to Zara’s Brand</th>
<th>Price of brand estimated</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>10,205</td>
<td>7.1</td>
<td>1.2</td>
<td>14,406</td>
</tr>
<tr>
<td>2014</td>
<td>10,703</td>
<td>6.8</td>
<td>1.1</td>
<td>14,221</td>
</tr>
<tr>
<td>2015</td>
<td>11,594</td>
<td>6.3</td>
<td>1.2</td>
<td>17,040</td>
</tr>
<tr>
<td>2016</td>
<td>13,376</td>
<td>5.4</td>
<td>1.2</td>
<td>19,722</td>
</tr>
<tr>
<td>2017</td>
<td>14,638</td>
<td>5.0</td>
<td>1.3</td>
<td>22,725</td>
</tr>
<tr>
<td>2018</td>
<td>16,020</td>
<td>4.5</td>
<td>1.3</td>
<td>24,704</td>
</tr>
<tr>
<td>2019</td>
<td>17,532</td>
<td>4.1</td>
<td>1.3</td>
<td>27,016</td>
</tr>
<tr>
<td>2020</td>
<td>19,186</td>
<td>3.8</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>20,997</td>
<td>3.5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Source: Compiled by Author |

### Table 4 H&M’s Forecast Price

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
<th>Value/Sales</th>
<th>Increase in sales due to Zara’s Brand</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>128,562</td>
<td>5.6</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>151,419</td>
<td>4.8</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>180,861</td>
<td>4.0</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>207,990</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>239,189</td>
<td>3.0</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>275,067</td>
<td>2.6</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>316,327</td>
<td>2.3</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>363,776</td>
<td>2.0</td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>418,342</td>
<td>1.7</td>
<td></td>
</tr>
</tbody>
</table>

| Source: Compiled by Author |

### Figure 7 Zara and H&M Forecast Evolution

In this case, the minimum is the most reliable value of the firm, being a valuation done mostly for today’s inputs and having distorted the extremes of the timetable. Thus, even though the
mean is 17,040 million €, the value adopted through this method would be of **14,221 million €**.

![Zara's Brand Value](source)

**Figure 8 Zara's Brand Value**

**Book Value Valuation**

The third valuation considers the difference between the book value and the equity market value, to which we will apply a coefficient of 30% pertaining to Zara’s brand name. The 35% is considered to be the average Interbrand states for 2006:

![Table 5 Zara's Book Value Results](source)

**Table 5 Zara's Book Value Results**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zara's Equity</td>
<td>57,651 M€</td>
</tr>
<tr>
<td>Book Value</td>
<td>10,500 M€</td>
</tr>
<tr>
<td>Difference</td>
<td>47,151 M€</td>
</tr>
<tr>
<td>Attributed to the Brand</td>
<td>16,503 M€</td>
</tr>
</tbody>
</table>

**Replacement Cost**

For the final valuation, an assumption of the investment in tangible assets has been done. For this purpose the investments in property over the last years have been taken into account, as well as the percentage estimated to be invested in advertising and marketing by Inditex. To establish the final considerations, the percentage of total stores opened in the last years of Zara has been determined and applied to this number to obtain the final value:
Table 6 Replacement Cost Results

<table>
<thead>
<tr>
<th>Zara (thousand €)</th>
<th>Total</th>
<th>% of Zara</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014 Assets</td>
<td>11,453,301</td>
<td>15,377,000</td>
</tr>
<tr>
<td>2013 Assets</td>
<td>10,243,434</td>
<td>13,756,261</td>
</tr>
</tbody>
</table>

Inditex investment in marketing 3%
Value of marketing (2016) 627 M€
Zara's investment over assets 467 M€

Total Zara Value 11,920 M€

Source: Compiled by Author

This way the result would be of 11,920 M€ for the case of Zara’s brand name regarding the total investment made on placement and assets so as to consolidate Zara in the market.

COMPARISON OF VALUATION METHODOLOGIES
The different methodologies proposed to obtain Zara’s brand name value have addressed different values. While each value has a different meaning and there is no value more precise or relevant than the other, an average has been obtained and will be treated as the most accurate, as it is a recollection of all the aforementioned. The following table is a summary of all the values obtained (in m€):

Table 7 Results Comparison

<table>
<thead>
<tr>
<th>Method</th>
<th>Value (m€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DCF MODEL VALUATION</td>
<td>14,847</td>
</tr>
<tr>
<td>BOOK VALUE VALUATION</td>
<td>16,503</td>
</tr>
<tr>
<td>COMPARISON TO H&amp;M</td>
<td>14,221</td>
</tr>
<tr>
<td>REPLACEMENT COST</td>
<td>11,920</td>
</tr>
</tbody>
</table>

Source: Compiled by Author

Indeed, Zara’s value has been forecasted to be valued in the range from 11,920 M€ to 16,503 M€. The discrepancy in value amounts to a 38.4% change from the maximum to the minimum amount. The average is determined to be 14,373 M€ while the median results to be 14,534 M€. Relative to the analysis made by the different professional consulting firms, the difference with BrandZ is noticeable (valued in 25,221 M$) while Forbes estates that Zara’s value is of 10.7 B$. The value obtained using the proposed model accounts for an average of 15,931 M$, deviating a 12.74% from the average from both values of the companies.
In order to study further the value of the brand, a graphic analysis is provided below to comprehend the difference in values using the methods previously described:

We can consistently observe that the book value valuation method has provided a major brand value, while the replacement has delivered the minimum. The reasons for this may be that the replacement of the brand diminishes the value consumers assign or the strength it has acquired in the market due to its quality and agility. Besides, the maximum value may be associated with the consideration of having a relatively high difference between the market value and book value or the consideration of the coefficient used and should consequently be judged as a ceiling to take into account contrary to an actual fair value of the brand.

In addition, the graph below represents the range in which the value of Zara is established:
Furthermore a sensitivity analysis has been considered in order to study whether the previous methods had a certain sensible component and to locate its responsiveness to the different stimulus as well as the quality of the predicted value.

### Table 8 Enterprise Value Sensitivity

<table>
<thead>
<tr>
<th>GROWTH</th>
<th>ZARA'S ENTERPRISE VALUE</th>
<th>WACC</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>3.9%</td>
</tr>
<tr>
<td>1.50%</td>
<td>71,589 M€</td>
<td>53,678 M€</td>
</tr>
<tr>
<td>2.00%</td>
<td>87,879 M€</td>
<td>61,358 M€</td>
</tr>
<tr>
<td>2.50%</td>
<td>115,545 M€</td>
<td>72,195 M€</td>
</tr>
<tr>
<td>3.00%</td>
<td>172,898 M€</td>
<td>88,641 M€</td>
</tr>
<tr>
<td>3.50%</td>
<td>363,036 M€</td>
<td>116,573 M€</td>
</tr>
</tbody>
</table>

Source: Compiled by Author
Table 9 Zara’s Sensitivity as Part of Inditex

ZARA’S BRAND EQUITY TO BOOK VALUE

<table>
<thead>
<tr>
<th>% ATtributable To Zara</th>
<th>26%</th>
<th>29%</th>
<th>32%</th>
<th>35%</th>
<th>38%</th>
<th>41%</th>
<th>44%</th>
</tr>
</thead>
</table>

Source: Compiled by Author

While we can observe clear difference in the values performing the sensitivity analysis, the range to describe the value would be from 22 B€ to 11 B€. Not only determining a brand value able to represent perfectly the perception of the brand is an arduous task which entangles many unrecognizable variables and agents, but also unperceived factors should be taken into account so as to attain a value that embodies the brand name’s value as the value perceived by investors may vary abruptly depending on their discernment of the brand.

Moreover, the huge variety of procedures make the preceding ones used a small portion to observe the value of the trademark. In addition to the methods followed above, other models may be considered so as to have a more concise range, brands are usually studied taking into account the perceptiveness the consumers have towards them, thus the sensitivity the clients have concerning purchasing one product of that particular brand as opposed to the competence.

CONCLUSION

Setting an intangible valuation can turn to be a challenging task to achieve. As a result of not having fixed processes used internationally to determine the value of an intangible asset, many different methodologies have been created for every particular case. However, three approaches stand out towards valuing intangible assets from an accounting perspective: the income approach, the cost approach and the market approach are the most widely spread. Nevertheless, there are as many types of intangible assets as there are companies, and each one defines its intangibles from their own standpoint as to attend their particular necessities.

In the case of brand valuation, the problem extends to both the definition of what can be considered the brand of a company as well as to its extent. The brand value may be based on the logo design (for example the Apple logo with a bite), the name of a certain product the market has taken as official (for instance Fairy in Spain even if the product is called otherwise) or something as ephemeral as the perception the market has of a certain product. Depending on the marketing strategy every company has invested and transformed its brand name one way or another into what the consumer nowadays perceive from that brand.
However, the different ways to add value through the brand name makes the task of valuing the trademark even more laborious, as no generic method can be applied to determine what a trademark values. Accordingly, most of the specialized companies that evaluate brands does so by investigating every market and assigning to all the relevant factors a ranking so as to study the position of a certain brand relative to the whole market.

In this regard, Inditex is a company that doesn’t invest as much as its peers on advertising, so the usual methodologies have to be changed in order to obtain the brand’s value of one of its branches. In this paper Zara’s brand name has been analyzed by using different methodologies, reaching a value that is consistent and sustainable by applying conservative hypothesis to address the subsequent year’s forecasts.

To finalize, even though many diverse methodologies can be followed and therefore a huge range of values may be obtained from every model, it is the task of the analysts to discern if a result delivered by any of the methods followed is sustainable or on the contrary they have to be discarded. Further, one of the fundamental points found out during the analysis has been to discern the value of a brand by using every method applicable so as to have a bigger pool of appraisals to choose from, as well as investigating the market in-depth. This would open new ways to value a brand name because the most representative elements would come up during the examination. Lastly a database can be built with the different companies of the same market being analyzed, thus creating a base to value every type of company by using both comparable marketing profiles and industries.
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