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Designing and Identifying the Variables of the Pricing Model for the Company's Brand Value in Merger and Acquisition Strategies

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Abstract. Strong brands bring numerous benefits for both the companies and their customers such as decreasing purchasing risk and searching cost and increasing the likelihood of repurchasing. It is not presented an applied model for determining the price of this asset in Iran, especially in terms of merger and acquisition. The purpose of this study is to develop a model for pricing brand value in Iran's capital supply companies in terms of marketing strategies of merger and acquisition. The current study is qualitative research which is done by conducting grounded theory in MAXQDA software. Needed data were gathered from interviews and panel sessions with all the 21 pricing experts in capital supply companies during the year 2018, and were analyzed to extract the variables of the model of brand pricing to Rial. After that, open codes were categorized into 5 main categories and 2 sub-categories titled as: communication and performance environmental factors, marketing, brand, performance (financial and non-financial), and corporate audit reports. Research findings; in addition, has developed an operational brand pricing model for Iran's semi-public economy that is unprecedented in other studies.

Keywords: Brand; Brand Value; Merger; Acquisition; Pricing

1. Introduction

Brand equity is the result of whatever people learn, feel, see, and hear about a brand over time. Since most of these issues are perceptual, they are strongly influenced by culture. For this reason, the factors affecting brand equity are not the same in different societies. (Crane et al., 2006, Pari Ahadi, 1392). Keller (1993) defined brand equity as the distinct impact of brand knowledge on consumer responses and consumer reaction to brand marketing (Keller, 1993: 2). Lassar et al. (1995) stated brand equity as the consumer's prioritization of a brand compared to other brands in a product class. In general, brand equity is the consumer perception of all the advantages of a brand compared to rival brands (Abdulhamid Ebrahimi, p. 159, 1388). On the other hand, Keller (2003) argued that there are two reasons for studying brand value: first is marketing which is used for improving the efficiency of strategic marketing decisions. Second is financial which forces the business to estimate brand value for accounting the purposes such as mergers and acquisitions. The studies introduced by various scholars on brand value (Azar Kafashpour, 1393) can be classified into three categories: customer-centric approach, financial approach, and hybrid approach (Kim & Kim, 2005). The present study aimed to identify and explain the effective variables and design the rial pricing model of brand value by investment companies especially in the marketing strategies of merger and acquisition. Investment companies are among the formal and licensed entities of the stock exchange organization to provide financial and marketing services like the merger and acquisition process, provide an expert price for all or part of the assets in a company including the intangible assets of a brand. The most essential questions of this study is: What is the price of a brand or the model of determining the rial price of brand value in a company? What models and methods are used by the official pricing experts and according to which indicators and variables, they determine the price of a brand? In Iran, merger and acquisition are conducted by investment companies are because of official licenses, expertise, and more access to a variety of information, while since startup companies are emerging in Iran, they have a short history of activity in merger and acquisition as well as brand valuation.

2. Literature review

The studies by various scholars on brand value (Azar Kafashpour, 1393) can be classified into three groups of customer-centered approach, financial approach, and hybrid approach (Kim & Kim, 2005). In a customer-centric approach, brand value is evaluated from the customer's point of view whether the customer is an individual or organization. They claimed that a brand should be valued by its customers. In this way, brand power lies in what customers have learned, felt, observed or heard over time and their experiences with the brand (Keller, 2003). In financial approach, the value of a brand can be defined as the difference in financial returns of a product being once with a brand and once without a brand. Undoubtedly, a product which comes with a particular brand is accompanied by an increase or decrease in value for the customer and financial results for the organization, which can be defined as the brand value of the financial dimension (Simon & Sullivan (1993)). In a hybrid approach, brand is considered in such a way that includes both former dimensions (customer-centric and financial). In fact, two marketing and financial attitudes are tied together. (Motameni and Shahrokhi, 1998). In the business world, there are a few activities which can compete with merges and acquisitions in terms of creating opportunities for change and potential for return and risk. Indeed, a successful merger or acquisition can provide the conditions necessary for the jump of a mid-tier company and make it one of the top-tier companies. Such a merger and acquisitions can lead to a change in the company and significant returns for companies, shareholders, employees and managers. In addition, the economics of scale from a merger and acquisition deal can increase the margin of profit and bring the company into the new area of activity and use of new technologies. On the other hand, if the merger fails before or after the transaction, its effect can be catastrophic and sometimes lead to a loss of credit, value and, sometimes the decline of the parties to the transaction. In fact, there are few activities which are related to mergers or acquisitions with a high probability of failure on the shareholder. Assuming the appropriateness of the statistical data available in the world, between 50% and 80% of mergers and acquisitions cannot achieve their goals (Khodarahmi, 1395: 25-9).

3. Method

This research an emphasis on the discovery and identification of the current model in the economy of Iran by the investment companies for the first time in Iran. In addition, this study presented the validation model of brand value in the marketing strategies of mergers and acquisitions in Iran. The present research was carried out from winter 2018 to spring 2019. In data collection, the questions were asked based on the experiences and activities of the firms during the past three years according to the ten-year activity history of the investment companies in Iran. Interviews started from the questions related to the field of expertise and personal experiences to the questions about the main variables in determining the brand value price, merger and acquisition, and finally by raising the general model used by that investment company. The population of the present study in the interview section included the managers and pricing experts of the brand value of the investment companies of Iran as described in Table 1, being responsible for the pricing processes of brand as well as mergers and acquisitions and having experience on the pricing of mergers and acquisitions. The sampling method was theoretical. According to the Securities and Exchange Organization, as the governing body of the Ministry of Economic Affairs and Finance, nine state-owned investment companies are officially working in Iran. In the present study, the number of samples selected for the interview is so much that obtaining new information from the extracted data from the interviews can be possible. In selecting this sample size, the factors such as time, availability of interviewees, and their level of cooperation were considered.

Table 1. Capital supply companies in Iran

No.	Company	Year Established	Registered Capital (Billion Rials)
1	Amin	2007	3000
2	Novin	2008	4000
3	Mellat Bank	2010	4000
4	Omid	2011	4900
5	Tamadon	2011	2000
6	Sepehr	2011	2000
7	Parsian	2011	3000
8	Kardan	2013	2300
9	Maskan Bank	2014	2000

Qualitative research is a study producing the findings which are not derived from statistical operations or other numerical methods (Strauss & Carbin, 1394). In open coding, first the meaningful units of data are labeled using a conceptual name, and then the concepts are grouped into categories that name these categories using more abstract names. This step of coding is called open coding because the researcher with open minds refers to naming concepts and does not limit the definition of codes. The goal of open coding is analyzing the collection of qualitative data into the smallest conceptual components. The results of coding the collected qualitative data through interviewing indicated that 62 open codes were identified among 135 concepts. In axial coding, separate categories are put in a significant framework, and the relationships between them, especially the relationships of the axial category to other categories, are determined. In this study, Strauss and Corbin's Paradigm was used for axial coding. It was observed that 62 open source codes were categorized into 5 main categories and 2 sub-categories are as follows: Relationships and environmental factors of performance, Marketing, Brand, Performance, Financial reporting.

Table 2. Axial coding

Main category	Sub category	Open codes	Codes No.
Communication and environmental factors	-	Stable relationship with material suppliers	1
		Negotiation with current and past auditors and inspectors and managers on both sides	1
		relationship with auditors	1
		Good and long term relationships with business partners	1
		Banks on the contract side	1
		Network of material suppliers – long-term contracts with them	2
		General condition of economy (economic downturn and boom)	2
Marketing	-	Having manufacturing complex in several states or only in one place	1
		Distribution network	3
		Advertising and marketing costs	8
		Geographical spread	1
		Research and development costs	3
Brand	-	Estimating the total cost of branding	2
		Official Brand Registration	8
		Brand age and history	3
Performance	Non-financial	Certified human resource	1
		Number of members of customers club	1
		Competitors opinions\ reports of industry about the company	4
		Expert and loyal forces	1
		Company's position in the industry	1
		competitive condition of the company	1
		company's situation: toddlers, mature, falling	4
		Industry type and its role in the country's whole economy	7
		Comparative indicators of industry\Company's position in industry	1
		Costs of purchasing new technologies	1
		Up to date and powerful technology	1
		Low stock inventory	2
		Activity record in the industry	1
		Total staff number and its comparison with the industry	1
		Legal background	1
		Company size: staff number	1
		Good reputation	1
		Presence on the Internet\website	3

Main category	Sub category	Open codes	Codes No.
	Financial	Open lawsuits	1
		auditor and inspector confirmation	1
		inventory turnover compared with competitors	1
		Amount of facilities	1
		Productivity rate	1
		Export incomes	4
		Market share	3
		Operational income	8
		Estimation of future incomes	1
		Precious price in the stock market block	1
		Precious price in the capital market in similar transactions	1
		Cash flows of main operations	1
		Company size: turnover	1
Financial report	-	Amount of suspicious demands	1
		Debt ratio	2
		Net assets of the company	2
		Sources of major cash flows	1
		Auditor's comments	4
		Inventory turnover	4
		Company’s liquidity and profit quality	4
		Net assets of the balance sheet	1
		Financial statements	1

4. Findings

The severity of the effect of relationships on brand value was calculated to be 0.283and the probability test statistic was also 9.555, being greater than the critical value t at the error level of 5%, i.e., 1.96, indicating that the observed effect was significant. Therefore, relationships had a significant positive effect on brand value at 95% confidence level. The severity of the effect of marketing on brand value was calculated to be 0.294and the probability test statistic was also 11.051, being greater than the critical value t at the error level of 5%, i.e., 1.96, indicating that the observed effect was significant. Therefore, marketing had a significant positive significant effect on brand value at 95% confidence level. The severity of the effect of brand on brand value was calculated to be 0.330 and the probability test statistic was also 11.830, being greater than the critical value t at the error level of 5%, i.e., 1.96, indicating that the observed effect was significant. Therefore, brand had a significant positive significant effect on brand value at 95% confidence level. The severity of the effect of brand on brand value was calculated to be 0.311 and the probability test statistic was also 10.436, being greater than the critical value t at the error level of 5%, i.e., 1.96, indicating that the observed effect was significant. Therefore, financial reporting had a significant positive significant effect on brand value at 95% confidence level. The severity of the effect of performance on brand value was calculated to be 0.398 and the probability test statistic was also 11.844, being greater than the critical value t at the error level of 5%, i.e., 1.96, indicating that the observed effect was significant. Therefore, performance had a significant positive significant effect on brand value at 95% confidence level. It was observed that a significance value for the total effect of non-financial performance on brand value was 10. 972, being greater than the critical value t at the error level of 5%, i.e., 1.96, indicating that the observed effect was significant. Variables can be ranked based on their effect on dependent variable. Normalized ranking results and the effect of variables is show in Table (3).

Table 3. Ranking the affecting factors of brand value

Variables	Effect	Normal weight	Rank
Communication	0.283	0.175	5
Marketing	0.294	0.182	4
Company's performance	0.398	0.246	1
Brand	0.330	0.204	2
Financial report	0.311	0.192	3

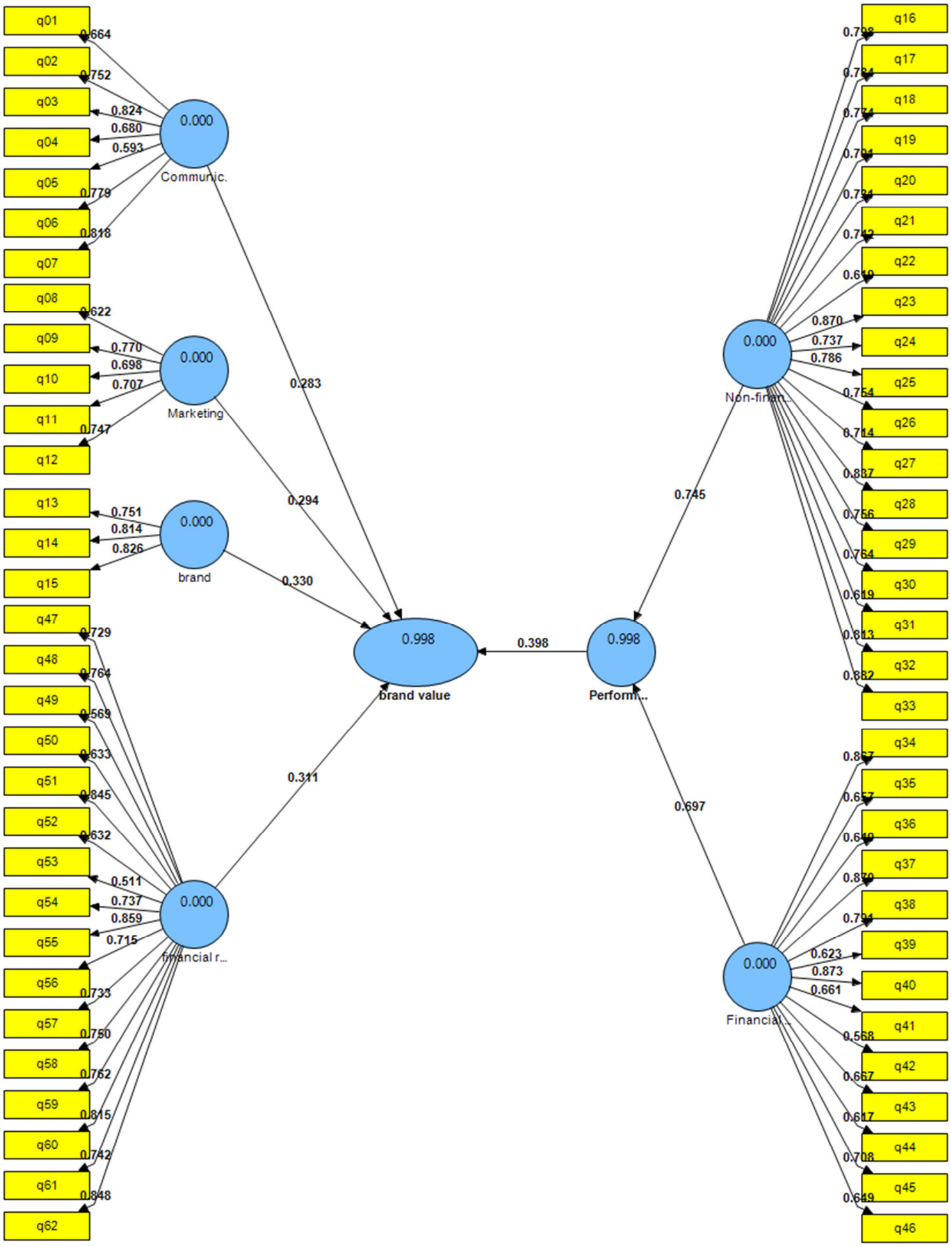

Fig. 1. The output of partial least squares for the research general model

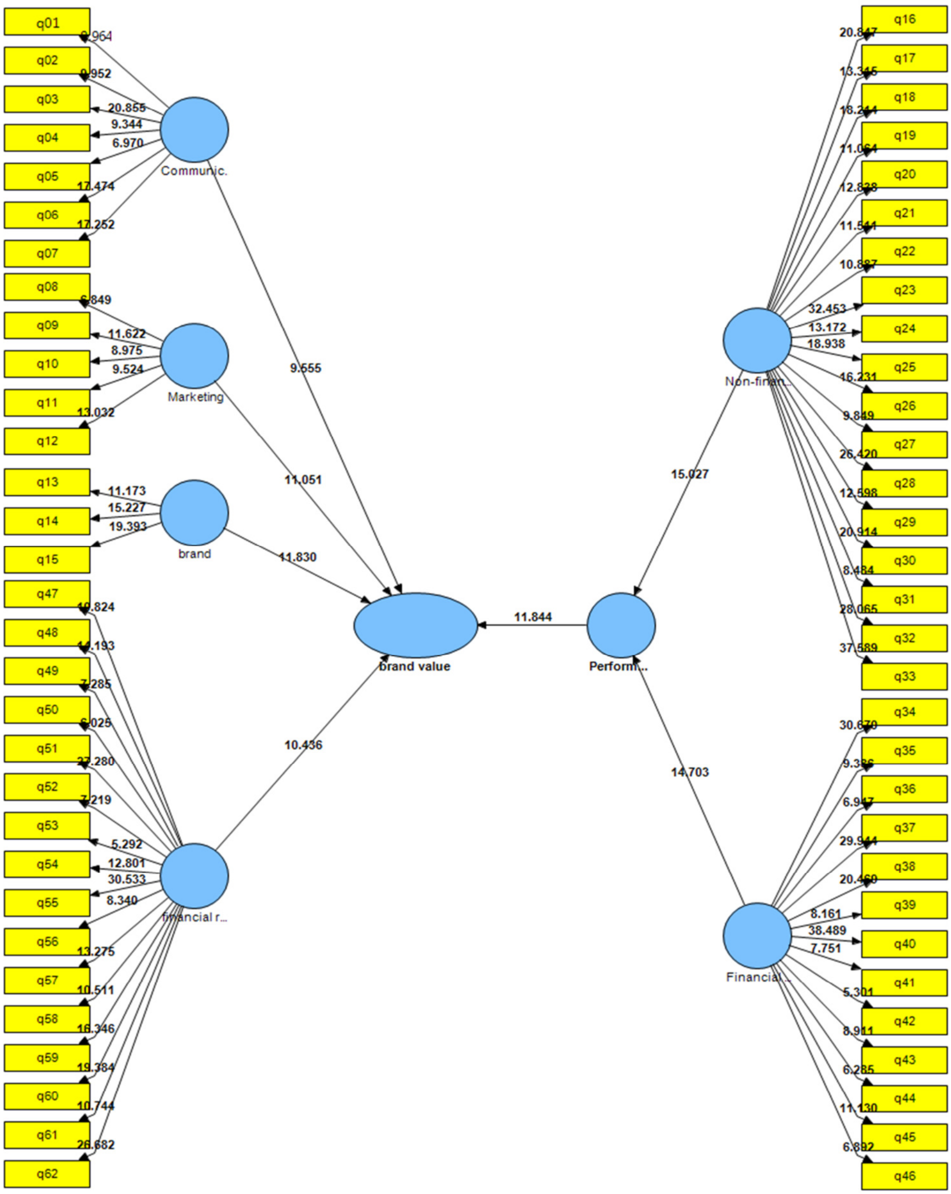

Fig. 2. T-statistic of the research general model by bootstrapping technique

5. Discussion and Conclusions

The positive image of the country of origin of the companies, expert human resources, and special technologies are significant about the essential variables such as commercial and commercial performance and the expansion of international markets compared to the past, so that the future competitive advantage of organizations depends on the effective and appropriate use of intangible assets. With the introduction of the knowledge economy, the role of intangible assets such as brands, it is obvious that creating strong brands and its competitive advantages at an international level is costly and time consuming. When a brand clearly is belonged to to the intangible asset of an organization, its distribution and economic significance are quite real and tangible. One of the main differences between the present study and other researches is that in the present study, the variables of determining the rial price of the brand value of a company are identified and provided in the marketing strategies of mergers and acquisitions by Iranian investment companies. Due to the specific features of the Iranian economy, the constraints of the semi-state economy in Iran, the variables explained by the operational indicators used by the capital supply companies with regard to the specialization and formalities in the area of pricing can be used as a model for determining the value of a brand.

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