

CHAPTER 5: CONCLUSION AND SUMMARY

5.1 Interpreting the Results

The final step includes interpreting the results according to the calculations in which we have to consider the possibilities of errors and a good understanding of the forces driving the valuation. Since uncertainty and risk are always involved in business decisions, the value in one particular scenario should reflect the uncertainty factor. Decisions based in one scenario, as the case in this thesis, will generally be obvious. The conclusion taken include considerations of margins of errors, so assessing the changes in some assumptions may be important to the scenario, e.g. what is the impact and likelihood of change in the underlying assumptions, the competitive structure of the industry and the company's internal capabilities to achieve the results predicted in the scenario.

The following are questions stated in Chapter 1 as the guideline for the thesis and the conclusion from research and observation in Chapter 4:

1. How to determine the expected value of brands through sponsoring a sports event?

Determining the expected value of brands through sponsoring a sports event can be done in various ways. The method used in the thesis is a financial measure by estimating the NPV (Net Present Value) using the Discounted Cash Flow (DCF) method. Based on the calculations in Chapter 4, the Net Present Value (NPV) is positive, means that Renault's value is favorable. If the company wants to sell the brand to external parties, then it is estimated at €45,170 million. In the assumptions made before, stating that the company represents the brand, then Renault is doing well in terms of the company's operations and the brand. Brand valuation will help Renault refocus the business on strategic brand management, using brand valuation as a tool to help branding and/or investment decisions. Although there are many brand measures, only a few brand measurements link the brand to the long-term financial value creation. The calculation in Chapter 4 only gives a broad and general summary of one way to measure brands financially using a method widely known especially for valuing a company in mergers and acquisitions. Another constraint is the lack of information for financial numbers concerning brands. Most often brands are stated in the balance sheet as intangible assets and explanations usually exist in the notes to financial statements about the breakdown of intangible assets.

However, in most cases, the intangible assets are only stated as "goodwill" and no other information is provided. So it is difficult to measure the performance of the company's most important asset, i.e. the brand, especially for brand-owning

companies. According to Jeremy Bullmore of WPP⁴⁷, everyone agrees that brands are a valuable asset; however there is no consensus on how to value them and the only time you can be sure of the value is when you have sold the brand, for example in cases of mergers and acquisitions or leverage buy-outs. In conclusion, there is no such thing as a static measure for brand valuation. Brand values are based on a number of dynamic variables, i.e. competitive set, category strength, differentiation, relevance, management ability, corporate strategy and existing intangible/tangible assets. These variables may change regularly, but each change depends on the requirements of the business. Brand valuation, therefore, is a relative measure and furthermore, brands are valued more by their audiences.

2. What is the impact of Renault's involvement in Formula One on the ROI and the shareholder's value in the medium to long run?

Both the Return on Equity (ROE) and Return on Investment (ROI) of Renault seen in Appendix 3 in the Excel file is increasing during the year 2001-2005. So in terms of the company and the brand, Renault is doing well for the shareholder's value, expressed in the ROE, and also for the asset value, expressed in the ROI. Ideally, the ROI should improve profitability by increasing both sales and brand equity but ROI does not necessarily give a complete picture of the brand or company value.

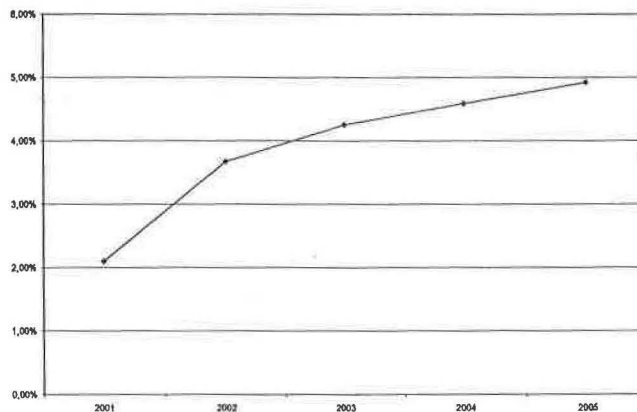


FIGURE 5.1
RENAULT'S EVOLUTION OF RETURN ON INVESTMENT (ROI) 2001-2005

⁴⁷ Kotler, Philip, et al., *Principles of Marketing*, 4th European edition, Prentice-Hall Pearson Education Ltd., 2005, page 557.

Companies finance their business through debt and equity. Both types of financing are used to provide funds for the operations. The ROI figure gives a description about how effectively the company generates income through the use of its investment, in this case, assets. As a benchmark, the higher the ROI, the better, it means the company can generate more earnings with less investment. The managerial implication in managing the ROI focuses more on the effective allocation of resources. Of course it could provide a better insight to compare the ROI with other companies in the same industry (cross-sectional analysis). According to Fortune Global 500, the ROI for the automotive industry in average is 3.5%. As Renault is beyond the industry average (4.92%), we can conclude that in terms of ROI, Renault is doing well.

There is a slight decline in the ROE for 2005 by 0.75% compared to ROE in 2004, meaning that there may be a decrease in the profit generated from the shareholders investment in the company. Even though, compared to other automotive industries, such as GM (ROE 2005 = 1.4%) and Ford (ROE 2005 = 5.1%)⁴⁸ then Renault is doing well in providing shareholder value with an ROE of 17.13% in 2005. The big jump for Renault's ROE was during 2001-2002, and it might be due to the results of the strategic alliance with Nissan.

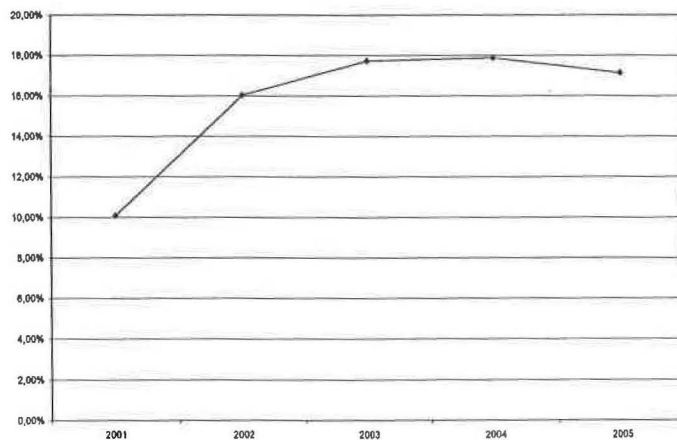


FIGURE 5.2
RENAULT'S EVOLUTION OF RETURN ON EQUITY (ROE) 2001-2005

⁴⁸ www.businessweekonline.com

In a changing business environment, in order to survive, any brand that seeks success and increased value in the future need to think like a leader: at the basic levels, product or service distinction; in the emotional level, creativity, values and social responsibility. These are the key success factors to maintain the brand value and the company's value.

3. Will Renault's sponsorship in Formula One increase its brand equity?

To some extent, Renault's involvement in Formula One may increase customer awareness, but not necessarily increase sales and perceived quality. From the focus group discussion, most of the participants answer that Renault's involvement in the Formula One may be good for innovation and promotional activities, but they explained that everyday cars have different specifications from F1 cars, so the Renault's involvement in F1 might not always motivate a customer for purchase. When asked if participants are planning to buy a car in the future, most of them answered yes but they would not consider Renault. Participants are more likely to buy or prefer more prestigious cars such as BMW and Mercedes as considerations for purchase, and some participants focus more on the reliability of the car for their specific uses, e.g. traveling, shopping, family car, need a car that is reliable for country living, and also the value for money. Overall, participants prefer cars that can meet their needs and Renault certainly does not meet their specifications when choosing a car. The Formula One has a positive image, even though it does not have a significant impact on Renault's sales and market share. The evolution of sales and market share is not increasing so much, in fact it appears to remain stable.

Surveys from a recent WSJ article about Michelin and Bridgestone, who also sponsor the Formula One, said that for both tire manufacturers, the Formula One helps them sell more regular tires. The numbers claim that Michelin and Bridgestone spend around \$70 million and \$100 million per year respectively, to sponsor Formula One. It is not clear if the company as a whole achieved anything besides increasing the sales of tires as there is no evidence directly on the sales or profits. According from the market survey, brands with more exposure to advertising and already strong in their image gets more perceived quality in the minds of consumers. Sponsoring does not necessarily increase the sales or market share. As seen in figures 4.1 and 4.2, the sales and market share evolution from 2001-2005 are stable and did not have a significant increase. In conclusion, Renault's involvement in Formula One does have an impact on brand awareness, but not in perceived quality, which both are components of brand equity. Overall, even when Renault has been involved in the Formula One since a long time, it

does not necessarily increase the brand equity, even though at the moment it is gaining an advantage as Renault is winning. It may be interesting to discover more if Renault has officially published the Annual Report of 2006 which will give more insight to the correlation between Renault's wins, sales and brand equity. Unfortunately, due to time limits, it is not possible to wait until the Annual Report of 2006 is published. However, it will provide a possibility for further research.

5.2 Managerial Implications and Limitations

According to Interbrand, there are 10 key business issues that make organizations make strategic moves concerning brands and also their corresponding strategic response for improvements. In most cases, it involves more than one business issue that impacts the brand management. As a guideline, the 10 key business issues may be appropriate to summarize at least general problems that an organization faces every day.

The business drivers or "catalysts" are⁴⁹:

1. New offering, new promise
2. Strong, nimble competition
3. Sophisticated, savvy and demanding customers
4. Price and margin pressures
5. Sales and market share pressures
6. Combinations and divestitures
7. Organic growth
8. New revenue streams
9. Share price performance
10. Employee attraction, retention and productivity

From the Renault case, the managerial implications are more to:

- a. price and margin pressures
- b. sales and market share pressures, and
- c. share price performance

Price and margin pressure is the most obvious force concerning brand management, especially if the company decides to differentiate. Differentiation means adding more value to the product or service, e.g. strong brands are used to communicate a premium offering with associated benefits. At Interbrand, the most effective way of product or service differentiation is whether the product or service is currently becoming a commodity. We

⁴⁹ Jeffrey Swystun, *The Catalysts for Branding: Business Drivers and Brand Responses*, Interbrand, May 2003

can see that some brands that are in the list of Interbrand's global top brands are commodities, but they are able to differentiate themselves in the way that they are recognized as leading valuable brands that offer a premium, and that is why they can minimize the pressure on pricing, which in turn, affects the margin. Renault should consider these opportunities to build their brand strength, as cars are pretty much becoming a commodity or near-commodity nowadays. Sponsoring the F1 is one way for brand communications, but still, as a near-commodity, Renault needs to refocus the overall strategy to build the brand strength.

There is also sales and market share pressures in the Renault case on getting the appropriate customer. A brand is closely related to attributes and values that customers expect. So the strategy for the brand should consider these pressures. Even though Renault may be competing in a crowded market, if they can focus to the appropriate customer, the brand may be doing well in terms of gaining sales and market share. The strategy to counterattack the sales and market share pressure is to create a relevant market so they cannot be easily displaced. Logically it should begin in the French market; then they could apply the strategy internationally by communicating reliability for the brand to get a clear relevant message in the customer's minds.

Another important issue (Riezebos, 2003) concerning the managerial implications on brand valuation is the brand value can decide how much the company or brand is worth in merger and acquisition (M&A) cases, or even leverage buy-outs (LBO) cases. The amount paid during takeovers can be higher than the calculated financial value as the brand strengthens the position of the acquiring company, especially when the brand matches the core competencies, core value or core activity of the acquiring company.

Focus group discussions also have limitations. In this case, there is a lack of generalization to the target population as each participant has his or her different opinions and feelings. Results may not be necessarily representative of what should be found in the population. There is also a risk of ambiguity as the data might not be reliable due to the small sample size and the unstructured nature of the data. However, it is used strictly for insights into the reality of the consumer perspective and to suggest a possibility for further research; it will be interesting to know about what will happen next if given longer time limit.

5.3 Recommendations

The company/brand value of Renault can be calculated so Renault has an approximation of its value. In financial terms, the value is interesting as it generates a positive Net Present Value (NPV). So in the long-term Renault is still able to stay in business and to generate positive cash flows. On the other hand, in marketing terms, Renault is not doing well because the Renault Image does not have a significant impact even for automobile consumers in France. The focus group discussion reveals that non-Renault owners did not consider Renault as their choice of cars they would consider when they want to buy a car in the future. Even Renault owners do not have the brand loyalty associated with the cars.

According to the results of the focus group discussion, brand awareness exists. Most participants can answer the names of the car brands involved in Formula One racing, even though they think that Formula One is not interesting. The discussion also suggested that Renault does not have a good image in consumers' minds, despite Renault's effort in Formula One. However, in contrast to the criticism, most participants agreed that Renault should carry on with the Formula One. Formula One may serve as a branding strategy for the world (i.e. to increase worldwide sales and market share), but it certainly does not do anything significant especially in France. Some participants consider the Formula One as a waste of money because the investment for Formula One is after all, expensive. It roughly costs \$400 million for the 2006 season. However, since Renault is winning for 2006 for both the drivers' and constructors' category, participants agreed that Renault should continue sponsoring Formula One because they thought Renault would be better off than NOT joining Formula One at all. For both Renault and non-Renault owners, they agreed that Renault should improve the design of the cars to help even the family cars to be marketable and should be able to transfer the "passion" which they have done through the Formula One. So Renault should start thinking about the branding strategy in the future to increase their brand equity. Renault already has a market and they should be able to use the positive image in Formula One to enhance the car brand, especially in terms of customer loyalty, brand awareness and perceived quality.

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