

MBA

**BRAND SPONSORING AND VALUATION
EFFECTS ON BRAND EQUITY**

**Case Study:
Renault Sponsorship in Formula One
and the Impact on Brand Equity**

Graduating Project

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ABSTRACT

Brands have become a major player in modern society. They are everywhere and we can find them in all spheres of our life: economic, social, cultural, sports. Since brands are now recognized as a part of the company's capital as intangible assets, it is important to acknowledge the added benefits for the business. A brand has value if it can translate itself into profit, achieved through consumption of a product or service, given its meaning by marketing and advertising. One way to make the brand well-known is to sponsor in sports events. Brand sponsoring in sports events is a worldwide phenomenon, yet it is poorly understood about how it works in reality. There is a gap between how marketing strategy works for sponsoring purposes and the financial aspect, e.g. how do we secure maximum profits and how to value the success of the marketing/brand strategy in financial terms. The impact of communicating brands through sponsoring is clearly visible for marketing purposes and therefore lead to whether the brand has more value by placing it in such events. However, the valuation behind the sponsoring activities itself may not be obvious, even more, the company's strategy to put their brands in the sports events. However, the trend for brand sponsoring becomes an essential part of the business nowadays, especially in sports, which sponsoring should help the business in generating revenue and re-enforcing the sense of brand identity and belonging.

The first chapter provides a background about brand sponsoring, the trends in brand sponsoring, identifying the relationship of brand sponsoring with the financing aspect, i.e. the valuation of brand sponsoring in sports events, and also the relationship with the marketing aspects, i.e. the perceived quality of the brand through sponsoring. It also includes the background of Renault, the outline of the framework of the research and the objective established by the researcher, and also constraints that might be encountered further in the case study. The hypothesis is set in this chapter and the emphasis will be made to answer the key questions through the research and generating expected results.

The second chapter will formalize the data coming from different sources and literature review. This can be obtained from primary resources such as interviews, graphs, statistics, or original documents as well as secondary resources such as websites, reports, academic journals, marketing and finance textbooks, etc. This chapter also includes the history of sponsoring and the origins of Formula One to give guidelines for the research.

The third chapter provides the experimental details and theoretical framework, to describe the drivers that maximize the value of brand sponsoring, what are the standards of valuation as to make it a success both for the company who possess the brand and for the sports event by putting it as means of promotion. To assess the quality of data obtained, a comparison with theories would be appropriate to provide a scientific base. In this chapter it also mentioned that some assumptions have to be set in order to simplify the process and methods used for the case study.

The fourth chapter provides the results of the research, with tables, graphs, and calculations to support the research. It also includes the discussion about the research, which lays out the assessment for the quality of the data obtained and to obtain the justifications of the qualitative research through focus group discussion.

The fifth chapter is the conclusion and summary about the research, whether the objectives stated in the research has been achieved. This chapter also explains limitations encountered in the research, the managerial implications, the opportunity for further research and also recommendations.

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CHAPTER 1: THE BACKGROUND OF THE THESIS

1.1 Brands and Their Existence in Business

Brands have become a major player in modern society. They are everywhere and we can find them in all spheres of our life: economic, social, cultural, sports. Since brands are now recognized as a part of the company's capital as intangible assets, it is important to acknowledge the added benefits for the business. A brand has value if it can translate itself into profit, achieved through consumption of a product or service, given its meaning by marketing and advertising.

Brands have become a part of our lives without even realizing it. It is very interesting to see the development of brands in the 20th century as they continue to stimulate interest. In a company, brands are often set aside and they usually end up only as a number or value in the company's balance sheet, intangible assets section. However, companies often forget how their brands are actually strategic assets that can provide them with long-lasting competitive advantage. Brands are one of these potential strategic assets, along with R&D, a consumer orientation, an efficiency cost culture, employee involvement and the capacity to change and react rapidly¹. Brands are the most important assets a business can own, therefore sufficient investment must be made in marketing (advertising) and also in new product development.

Brands are always in the core of a company's success but they are not always explicitly valued, and in financial statements, their value is included in the overall asset value. The brand is a special intangible that in some businesses it is considered as the most important asset because of the economic impact that brands have. Brands can influence the choices of customers, employees, investors, and government authorities. Such influence is important for commercial success which leads to an increasing shareholder value. Even non-profit organizations use brands to obtain donations, sponsorships and volunteers. Some brands have also showed amazing durability. The world's most valuable brand, Coca-Cola (according to Interbrand's Global Brand Survey), is more than 118 years old, and in fact the majority of the world's most valuable brands have been around for more than 60 years. Several studies have tried to estimate the brand contribution to the shareholder value. A study by Interbrand in association with JP Morgan concluded that on average, brands account for more than one-third of shareholder value. So based on this study, it can be said

¹Kapferer, Jean-Noel, *The New Strategic Brand Management: Creating and Sustaining Brand Equity Long Term*, Kogan Page Ltd., 2004.

that brands create significant value either as consumer or corporate brands or as a combination of both.

The explosion of branding takes place during the last 30 years. One way to make the brand well-known is to do brand sponsoring in sports events. Sponsoring sports events is a worldwide phenomenon, yet it is poorly understood about how it works in reality. There is a gap between how marketing strategy works for the brand and the financial aspect, e.g. how do we secure maximum profits and how to value the success of the marketing/brand strategy in financial terms. One of the characteristics of 2006 is marked by the concentration on two big sports events: the Olympic Games and the Football World Cup. Both of them are sports events but each of them has different characteristics that are important to discover more about the methods of sponsoring. Most of the brands that sponsor sports events are usually global brands such as Coca-Cola, McDonald's, Panasonic, Hyundai, Budweiser, Fiat, MasterCard, Samsung, Visa, Philips, Adidas, Nike, etc. These companies pay around 800 million euros for the rights of sponsoring in sports events. In the last decade, sponsorship marketing has gained in average about 10% of the market share per year.

There are certain tendencies in the market of North America and Europe for sponsoring brands in sports events. The "sponsorship marketing" in North America is the most considered investment in marketing and communication and most companies have set aside a budget for sponsoring activities mostly in sports. In fact, the three top brands according to Interbrand's survey for 2006 are American brands, because of the free political, economical and social systems. However, the knowledge is widely spread and applied around the world. In Europe, the tendency towards sponsorship marketing evolved later than those in North America, but the trend is increasing, particularly in sports (see Figure 1.1). As an illustration, nowadays in Europe, banks are becoming sponsors in sports events and based on estimations², the budget set aside for sponsoring activities particularly in sports events represent 8% of their communication expenses. Since the last two years, companies have increased their budget for sponsorship. BNP Paribas, for example, spent a budget of approximately 20 million euros per year to sponsor tennis events. The interesting question behind the trend in sponsorship marketing is to understand how the "partnership" works to help the company achieve its objective and also to allow marketing communication tools to work at its best for the acknowledgement of the company's brand nationwide or worldwide.

² RB Revue Banque Hors Serie Juillet-Aout 2006, page 5

BANKS	COUNTRY	SPORTS EVENTS	PRINCIPAL SPONSORING RIGHTS
DEUTSCHE BANK	Germany	Golf, Arts	DB PGA Tournament, Frieze Art
ALLIANZ GROUP	Germany	Formula One, Sailing	Williams F1, BMW Oracle
FORTIS	Belgium/The Netherlands	Football, basketball	Anderlich, Feyenoord
DEXIA	Belgium/France	Arts	Festival d'Avignon
GRUPO SANTANDER	Spain	Sailing	Coupe de l'America
UNICREDITO	Italy	Arts	Scala de Milan, Arènes de Verone
ING	The Netherlands	Athletics	The New York Marathon
ABN AMRO	The Netherlands	Sailing, football	2 bateaux, Ajax Amsterdam
RABOBANK	The Netherlands	Cycling	Cycling teams
NATWEST	UK	Cricket	ECB
RBS	UK	Rugby, F1, arts	6 Nations, Williams F1, Royal Shakespeare Company
HSBC	UK	Golf	World Matchplay Championship
NATIONWIDE	UK	Football, music	National English Team
UBS	Switzerland	Sailing, golf, music	Defi Suisse
CREDIT SUISSE	Switzerland	Football	The Swiss National Team

Source: M-SMG Research (Sponsorship Marketing Global 2005)

TABLE 1.1
PRINCIPAL EUROPEAN BANKS SPONSORING SPORTS AND OTHER EVENTS

As marketing management evolved, managers have rediscovered that the best kind of loyalty is brand loyalty, as opposed to price loyalty or bargain loyalty. It is the new concept of strategic brand management. Brands with big names have greater market penetration rate for its products and also a high purchase frequency per buyer. Growth will necessarily take both routes. In our materialistic societies, people not only buy products just to consume. People want to give a meaning to their consumption. Brands provide people with the value-added on the product, and brands can also tell a story about its buyers. So the value of the brand is actually the brand's power to capture customer preference and loyalty, but the degree varies between one brand and another in the market.

In the 1980s the concept of brands changed. Management realized that a principal asset of a company is in fact its brands. Businesses who own strong brands can increase the business value itself. Brands that keep loyal buyers enhance their customer loyalty. One benefit that comes from customer loyalty is an easier forecast on the trends in the future, and in financial terms the benefit is expressed in a more predictable cash flow. The emphasis was made through the discovery of "brand equity" or the financial value of the

brand. Therefore it will be easier to plan and manage the development of the business. For decades the value of a company was measured in terms of fixed assets such as buildings, land, machinery, etc. Financiers and accountants now realize the value of brands. Brands can actually secure income, working through various ways, so brands can be classified as productive assets as any traditional assets in a business (e.g. cash, inventory, buildings). In financial statements, according to accounting standards, brands are reported as intangible assets, posted in the balance sheet in the same category as patents, licenses, copyrights, etc. These assets are also called conditional assets. An asset is an element that is able to produce benefits over a long period of time. Brands, and other intangible assets, are conditional because in order to deliver the benefits, the financial value, they need to work in conjunction with other material assets such as production facilities. And if there is no benefit, there is no brand value. Now companies realize that the real value lies not only in the physical aspects of the assets but also in brands, which are intangible assets. The asset value of brands is now widely recognized, not only by the brand owners but also by investors. Brands that generate high-quality earnings can directly affect the overall performance of the business as well as influencing the share price; which comprehends to one of the objectives of basic corporate finance: to maximize the shareholder's value.

A special case in brand marketing is brands that are involved in the sports and entertainment industry. Nowadays sports marketing uses a combination of advertising packages, promotions, sponsorships, and other means of communication to build the awareness, loyalty and image. By building awareness, sports franchises are able to meet ticket sales targets regardless of what their team's actual performance might turn out to be. Brand symbols and logos in particular have become an important financial contributor to professional sports through licensing agreements. In this thesis, I will focus more on the sponsoring of sports events.

The thesis will take view of the management's perspective to contribute some understanding about the financial aspects in sponsoring, which is focused on sports events. In such events like the Olympic Games, the F1 races, the Football World Cup, etc., the impact of brand sponsoring is clearly visible for marketing purposes and therefore lead to whether the brand has more value by being involved in such events. However, the valuation behind the brand sponsoring itself may not be obvious, even more, the company's strategy to put their brands in the sports events. Even though, brand sponsoring is an essential part of the business of sport both producing revenue and re-enforcing the sense of fan identity and belonging. Brand sponsoring has become one of the most powerful contemporary forms of marketing and brand extension available to brand owners today and it is being used in ever increasingly sophisticated ways.

Sponsoring may be one of the brand management strategies to increase Return On Investment (ROI). Sponsoring is said to be "one of the communications platform in the 21st century"³ and nowadays It has reached to a point where sponsoring becomes a fundamental part of the marketing mix. For owners of strong brands, sports sponsorship has played a crucial part in their marketing communication campaign. One of the reasons to sponsor sports events is based on its universal properties, eliminating the barriers of language, culture, class and continents. The most obvious manifestation of the power of sport is the Olympic Games, and not to forget that the event is the biggest sponsored sports event in the world. However, sports sponsorship, being a "new" way of brand communication, is still a relatively new compared to advertising or direct marketing. Modern brand communication focuses on the customer or consumer attention, and it is mostly about customer and consumer behaviour. Sports sponsorship, when managed properly, can be a very powerful platform that influences behaviour, from a brand acquisition and brand protection point of view. Sport is unique and it is generally known worldwide, so as a brand communication platform, it is capable of reaching all of these diverse audiences. Sport can even breathe life into non-sporting brands, such as Coca Cola, McDonald's, Microsoft, IBM, or Vodafone. The popularity of sport is also the "life" for global sports brands. For example, Nike and Adidas built their brands as a direct result of their involvement in sports sponsorship.

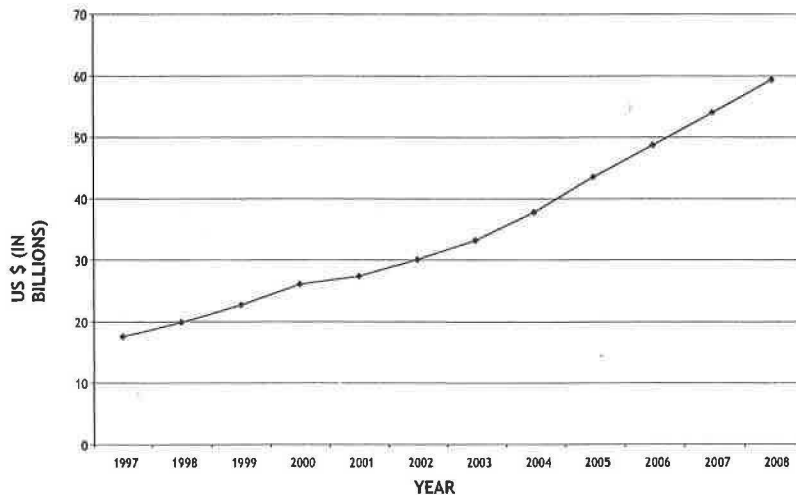
The global market trend for sponsorship marketing has been increasing for the past decade and is expected to increase even more in the next few years. Figure 1.1 describes the global market trend for sponsorship from banks. Although it is not specified in the sports or general trend, it gives an idea of where the trend is going in the industry. As an illustration, in the UK, the sponsorship industry continues to increase in value and the total expenditure on sponsorship is worth £900 million in 1999⁴, caused by growing influence in the media, confident UK economy and the recognition of sponsorship value. According to Sponsorclick, a global sponsorship marketing consulting company, 54% of Fortune 500 companies state that sponsorship is nowadays becoming an integrated part of the marketing mix" by being the fastest growing communication channels with a total spending growth of \$43.1 billion in 2005 and predicted to be around \$48 billion in 2006. In sports, the trend for sponsorship became more concentrated on popular sports that attract a large audience and also receiving a large share of media coverage. Motorsport, especially Formula One, and football, are leaders in this respect. However, sponsors are still attracted to sponsor other sports because the sports event may have a relationship with their marketing strategy and the target market they are aiming for. According to a study in the UK, the market

³ http://findarticles.com/p/articles/mi_m3012/is_6_185/ai_n16071194

⁴ *ibid.*

forecast for sponsorship will increase around 6-8% over the next five years, despite some bans, e.g. tobacco sponsoring, forcing major sports to look for new sponsors. Nowadays, financial services such as banks are beginning to fill in the space, as well as high-tech companies (computers, telecommunications).

Given the background of sponsoring activities and the brand equity involved in the activity, it could help to answer the general questions in more detail by breaking down into more specific questions: Is there a direct correlation between sponsorship, perceived quality and brand/company value? Does sport sponsorship increase brand equity? To understand this, I use a step-by-step approach to explain it further.



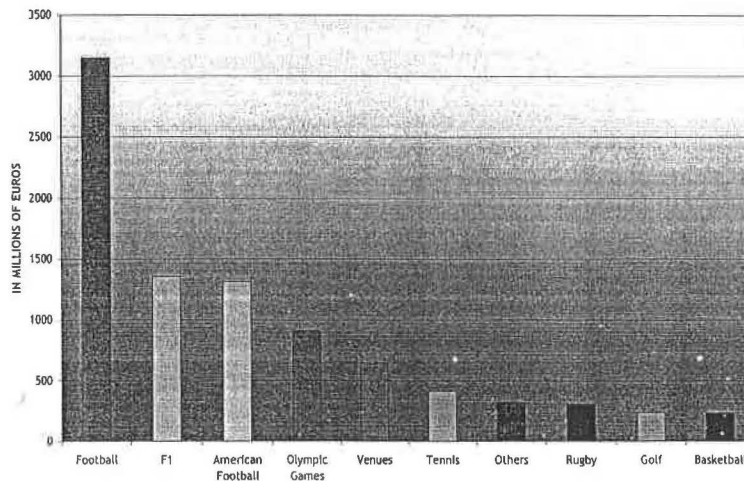
Source: *Marche du Sponsorship Marketing : Une Vision du Marketing Bancaire en France et a l'étranger*, RB Revue Banque Juillet-Aout 2006, page 8

FIGURE 1.1
THE GLOBAL MARKET TREND IN SPONSORSHIP MARKETING BY BANKS

The methodology is organized as follows: the first step I want to focus is the term "brand equity". What exactly is brand equity and why is it important in the valuation of brands? There are definitions that need to be pointed out clearly, which is the difference between sponsorship and advertising. From this I can move on to several ideas: focus on one certain brand sponsorship in sports events, e.g. Renault sponsoring F1. Other options

include: focusing on several brand sponsorships to find out how brand sponsorships can improve the value of the company, or focus on comparisons: positive and negative points of brand sponsorship. For my thesis I will limit the scope into the first option which focuses on Renault sponsoring F1 to see if the sponsorship marketing really increases the value of the company. So it should answer to a more specific question: Is there a direct correlation between Formula One and Renault? Does sponsorship in the F1 increases Renault's brand equity? There are several constraints for this option. For the financial part, the value, in all cases, is limited to its expected value. As the focus is for the medium and long-term, when we try to calculate the return of an investment, there are also risks to be considered depending on the timeline. The longer the time span, the more risks included, so in this case I can not provide an exact value for the outcome of companies sponsoring sports events. In addition, I will focus more on the medium to long-term value; it is more difficult to define the value for the short term due to time constraints. The objective of this thesis is to fill the gap between the marketing and financial aspects so that investors and shareholders have a clear idea about the valuation of the brand, which in turn will increase the value of the company itself. The specific financial method used to calculate the value of the Renault brand in sponsoring the F1 championships is by Discounted Cash Flow (DCF) method to find the Net Present Value (NPV) of the company, which includes the brand. Due to limited information and time, I will make an assumption that Renault, as a company, represents the brand. For the marketing part, I will conduct a small market research, which is a qualitative measure, to get people's opinion about Renault and its involvement in Formula One. Due to limited time constraint and the sample size, it may not be an exact measure to describe the perceived quality of Renault; it will only provide a general idea based on the facts obtained.

THE MOST SPONSORED SPORTS EVENTS IN 2005



Source: *Marche du Sponsorship Marketing : Une Vision du Marketing Bancaire en France et a l'étranger, RB Revue Banque*, Juillet-Aout 2006

FIGURE 1.2

THE MOST SPONSORED SPORTS EVENTS BY BANKS IN 2005

1.2 The Background on Renault

The Renault corporation, known as Renault, S.A., is a French vehicle manufacturer producing cars, vans, buses, tractors and trucks. Renault was founded in 1898 as Société Renault Frères by Louis Renault, his brothers Marcel and Fernand, and his friend Thomas Evert. The first Renault car produced was Renault Voiturette 1CV and the brothers were quick to realize that publicity could be obtained by participating in motor racing and Renault had made itself known in France through participating and achieving success in city-to-city races which brought a good result for the company's expansion. Renault AK 90Cv was the first model to win the first Grand Prix motor racing event in 1906. Innovation has started even in Renault's early years by launching the first production of sedan cars and also patenting the first turbocharger. Renault also produced other types of vehicles such as taxis, buses, commercial cargo vehicles during World War I and expanded into manufacturing ammunition, military airplanes and also the revolutionary Renault FT-17

tank. At that period, Renault became the leading manufacturer of airplane engines and by the end of the war, it was the number one private manufacturer in France. A turning point began after World War II. During the war, Renault's factories worked for Nazi Germany, and Louis Renault was arrested for treason during the liberation of France. His factories and assets were seized by the provisional government of France and the Renault factories became a public industry known as "Régle Nationale des Usines Renault" under the leadership of Pierre Lefaucheux. Despite the change of ownership, Renault continues to use motor racing events to promote their innovation and new cars, for example, Renault won both the Le Mans 24 Hours and Monte Carlo rally. During the "modern era" of 1970-1980, Renault increased its involvement in motor sport, by applying turbochargers in their Formula One cars. Renault's road car designs were also revolutionary changing, building its reputation, however, at the same time Renault also suffered of poor product quality that impacted the image of the brand as one of the many problems faced in the 1980s. Although Renault was producing successful cars on the road and track, it was losing a billion francs a month and reported a deficit of 12.5 billion in 1984. Government Intervention installed Georges Besse as the CEO to cut costs dramatically through selling off Renault's non-operating assets, withdrawing from motor sports and laying off employees. Georges Besse was replaced by Raymond Levy and he continued the same strategy until the company was financially stable by the end of 1987. The revitalization period began in the 1990s with Renault's successful launching of new cars such as Clio, Espace, Twingo, and Laguna. In 1998, Renault launched Mégane Scenic and also at this period Renault made a comeback to the racetracks by winning the Formula One championships in 1992, 1993, 1996 and 1997 by collaborating with Williams, 1994 and 1995 with Benetton, and finally 2005 and 2006 as Renault F1 itself.

The privatization period during 1996-1998 contributed to Renault's growth. One important event in Renault's history is the Renault-Nissan alliance signed on March 27, 1999 which is the first alliance in automotive industries linked through cross-shareholding, combining both a Japanese and a French company, yet both companies still hold its corporate culture and brand identity. Renault has a stake of 44.4% in Nissan and Nissan owns a 15% stake (non-voting) in Renault. Together they represent more than 9.8% of the world market (5.74% for Nissan and 4.04% for Renault). Valued at 1.52 billion euros, the Renault brand has achieved the sales of 2,5 million cars in 2004, with increasing sales margins, and also putting themselves into the third place in the European car manufacturer since Carlos Ghosn took over the position as the company's CEO. The objective of Renault in the following years is to increase annual sales to 4 million units of cars until 2010, and to achieve a worldwide known brand as a leader in middle class vehicles. One of Renault's strategies is to launch Logan, a low cost vehicle targeted at the Eastern Europe emerging market countries, and also to Iran, Brazil and India. The idea is to build a brand image of

comfortable, safe and low cost automobiles in these countries, and eventually expanding the market with the entrance of high quality cars once Renault has gained a market share through the brand recognition in these countries. To make the brand even more known worldwide, Renault has been actively sponsoring Formula One championships. In 2006 they have won the FIA world constructors title and Fernando Alonso is the new F1 drivers world champion, the youngest in F1 history. The Renault F1 team has repeated its 2005 double twice in a row after a highly spectacular season. Renault has also succeeded in keeping costs under control while simultaneously leveraged its involvement in Formula One, which is aimed at improving quality, reliability, profitability, growth and performance. The Formula One made an impact on Renault's international acknowledgement that attracts a large amount of spectators, and the achievement of double championship generates commercial benefits, especially in the plan of expansion. A survey in November 2005 revealed that Renault has gained broader recognition and technical excellence.

As a part of the medium and long-term strategy, Renault addresses the shareholders in its strategic plan for the future, which is called *Renault Commitment 2009*, a growth plan based on three major commitments: a commitment to quality for customers; a commitment to profitability (generate operating profit of 6% in 2009); and a commitment to growth, with 800,000 additional vehicles sold in 2009 compared with 2005. Shareholders will benefit fully from the plan's success since every year the Board of Directors will propose an increase in the Renault dividend to the AGM. The dividend will rise to €4.50 in 2009, a 2.5 increase in four years⁵. Renault's shares benefit from the company's brand image, based on innovation and inventiveness of vehicles such as Twingo, Espace and Scénic. Renault's success in Formula One also generates excitement and pride and adds value to the brand as well. Moreover, Renault is a flagship of French industry, which has developed from a nationalized company into a highly successful global group. Therefore, shareholders identify the company under the above considerations and buy into the values that Renault represents.

1.3 The History of Formula One⁶

In 1950, the Federation Internationale de l'Automobile (FIA) creates the Formula One World Championship. Half a century later, Formula One has achieved global recognition, its popularity and media coverage now rivaling the Olympic Games and the Soccer World Cup. After the great days of Juan Manuel Fangio's reign in the 1950s, Formula One took its first major step into the modern world with TV broadcasting of Formula One races, a new form of coverage that attracted the world's biggest car manufacturers. From

⁵ www.renault.com

⁶ *F1 History and Renault F1 History 1950-2005*

that point, Formula One was no longer just a sporting challenge but at the same time becoming a technical, technological and commercial competition. The 1970s saw the "revolutions" in Formula One: the first was the turbocharged engines and the exploitation of the ground effect. The 1980s and the 1990s transformed the Formula One with the arrival of new technologies. The past decade has been dominated by Michael Schumacher with 7 world titles and 84 Grand Prix wins and has become the most successful driver in the history of Formula One. In 2005, Fernando Alonso and Renault F1 team shifted the balance of power by winning both categories for Drivers' and Constructors' F1 World titles. The Spanish driver and the French team offer new perspectives to Formula One.

Renault's Formula One history began since one of its founders, Louis Renault, understood the connection between racing cars and production cars, as well as the effect of race wins on sales. Since its first real win during the Paris-Vienna race in 1902, Renault has added to the list with Formula One World Championship wins, World Rally Championship wins and the Le Mans 24-hour Race. The success in motorsports are completed by victories in Africa's legendary Paris-Dakar rally and a more unusual world land speed record in 1956 with the Etoile Filante, another symbol of Renault's advanced technology and the quality of its research activities. Due to Renault's prestigious past in motorsports, it continues to seek new sporting challenges for the future.

1.4 The Outline of Research Methodology and Data Analysis

I have chosen for the topic of the thesis to research the importance of brands as intangible investments in modern companies and the growth that a brand could generate. In the research, there will be a combination of strategies in finance and marketing focused on the valuation of brand sponsorship in sports events.

The objective of the thesis research is based on a major hypothesis: *does sport sponsoring especially in Formula One (F1) increase Renault's brand equity?*

Then the hypothesis can be break down into more detailed questions such as:
How to determine the expected value of brands through sponsoring a sports event?

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?

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

The breakdown of the main questions will be a step-by-step approach which will be answered by more specific questions to be answered in this thesis, and provide the thesis outline:

- The starting point is defining brand equity.
- Point out the difference between sponsorship vs. advertising. Although both are promotional activities, it doesn't mean that they have the same impact on the company's value.
- How can brand sponsoring in sports events be valued in financial terms?
- Can brand sponsoring in sports events give a competitive advantage to the company who owns the brand?

The thesis will be a case study research, with a relational study to describe the facts: what is going on, what already exists, measuring or observing the interdisciplinary relationship between marketing and finance. An inductive or a bottom-up approach will be used as the methodology to conduct the research, starting from specific observations and measures, detecting patterns and regularities, formulating and developing general conclusions or theories. However, the research will also involve a combination of both inductive and deductive approach in some time within the research.

The methods used in the thesis consist of valuation methods for the financial part and qualitative methods for the market research. The valuation method is based on the research which will require subsequent numerical data (e.g. brand equity, the monetary value of brands, net present value, cash flow calculations, discounted cash flow, return on investment and equations). The qualitative methods in the market research is used to determine the perceived quality and brand awareness as components of brand equity by Renault customers through focus group discussions.

There are many valuation methods, consequently, there are also more than one value for the brand because valuation methods depend on the objective of the valuation. Brand valuation methods can be based on the valuation by historical costs, replacement costs, market costs, royalties, future earnings and present earnings⁷. For the purpose of this research, and to concentrate on one valuation method, the objective is to calculate the brand value by its present earnings. As most business plans are a forecast and always a risk factor included in the uncertainty of the future, it will be more appropriate to use the present value method to assess the brand value as it reflects more to the reality and also I will use the discounting cash flow (DCF) method to measure the ROI of the brand.

⁷ Kapferer, Jean-Noel, *The New Strategic Brand Management: Creating and Sustaining Brand Equity Long Term*, Kogan Page Ltd., 2004, pages 452-459

The qualitative factors in brand value exists because assessing the preferences for a brand is not simply measuring the product or service attributes but also measuring the satisfaction generated from the perception of the brand as an intangible and emotional dimension. Therefore a combination of valuation and qualitative methods used in the research will provide a better explanation to answering the objective of the thesis.

Key words: brand equity, sponsorship, perceived quality, brand awareness, Formula One, Net Present Value (NPV), Discounted Cash Flow (DCF).

1.5 The Organization of the Thesis

The first chapter provides a background about brand sponsoring, the trends in brand sponsoring, identifying the relationship of brand sponsoring with the financing aspect, i.e. the valuation of brand sponsoring in sports events, and also the relationship with the marketing aspects, i.e. the perceived quality of the brand through sponsoring. It also includes the background of Renault, the outline of the framework of the research and the objective established by the researcher, and also constraints that might be encountered further in the case study. The hypothesis is set in this chapter and the emphasis will be made to answer the key questions through the research and generating expected results.

The second chapter will formalize the data coming from different sources and literature review. This can be obtained from primary resources such as interviews, graphs, statistics, or original documents as well as secondary resources such as websites, reports, academic journals, marketing and finance textbooks, etc. This chapter also includes the history of sponsoring and the origins of Formula One to give guidelines for the research.

The third chapter provides the experimental details and theoretical framework, to describe the drivers that maximize the value of brand sponsoring, what are the standards of valuation as to make it a success both for the company who possess the brand and for the sports event by putting it as means of promotion. To assess the quality of data obtained, a comparison with theories would be appropriate to provide a scientific base. In this chapter it also mentioned that some assumptions have to be set in order to simplify the process and methods used for the case study.

The fourth chapter provides the results of the research, with tables, graphs, and calculations to support the research. It also includes the discussion about the research,

which lays out the assessment for the quality of the data obtained and to obtain the justifications of the qualitative research through focus group discussion.

The fifth chapter is the conclusion and summary about the research, whether the objectives stated in the research has been achieved. This chapter also explains limitations encountered in the research, the managerial implications, the opportunity for further research and also the recommendations.

The organization of the thesis can be summarized as follows:

TITLE PAGE

ABSTRACT

CHAPTER 1: THE BACKGROUND OF THE THESIS

- 1.1 Brands and Their Existence in Business
- 1.2 The Background on Renault
- 1.3 The History of Formula One
- 1.4 The Outline of Research Methodology and Data Analysis
- 1.5 The Organization of the Thesis

CHAPTER 2: LITERATURE REVIEW

- 2.1 Brand Equity, Sponsorship vs. Advertising
- 2.2 Strategic Brand Management
- 2.3 Brand Communications
- 2.4 How Sponsoring Works In Practice
- 2.5 The Valuation Methods of Brand Sponsoring

CHAPTER 3: THEORETICAL ANALYSIS AND EXPERIMENTAL DETAILS

- 3.1 Research Activities
- 3.2 Frameworks for Valuation
- 3.3 Drivers Determining the Success of Brand Sponsoring in Sports Events
- 3.4 Data Assessment and Constraints

CHAPTER 4: RESULTS AND DISCUSSION

- 4.1 Company Background
- 4.2 Sales Performance
- 4.3 Overall Company Strategy
- 4.4 Cost of Capital
- 4.5 Capital Markets

- 4.6 Capital Structure
 - 4.6.1 Equity
 - 4.6.2 Debt
- 4.7 Discounted Cash Flow (DCF) and Net Present Value (NPV)

CHAPTER 5: CONCLUSION AND SUMMARY

- 5.1 Interpreting the Results and Discussion of the Model
- 5.2 Managerial Implications and Limitations
- 5.3 Recommendations

REFERENCES

APPENDIX