



**Figure 4.5:** Using the two-point form of a linear equation to merge the scoring result from the prismatic evaluation with the value spread from the financial income-based analysis.

In the current example, the amount in Euros needs to be computed which corresponds to a 200 out of 288 point score, which is € 57,916.67 (rounded).<sup>583</sup>

As the point score outcome of the comparative evaluation stands for the most likely value, or expected value, instead of a fixed one (every future-related valuation is an estimate), so must this result, since it constitutes a transformation of the contextual scoring result into the corresponding monetary one. It follows that, in this example, € 57,916.67 is the expected value as valuation end result. It is the best approximation to the value of the asset in question as determinable by the SIM and much more reliable and useful than the initial value spread, as it reflects a thorough contextual and qualitative analysis incorporating value influencing factors from all decisive fields.

This contextual result can be scored against an industry benchmark in case a comparison with other assets, for instance other brands in the industry, is desired. In the course of the very first valuation, the mean will have to constitute the benchmark (i.e. 144 points in case of the above example), as no benchmarks will have been established from valuation yet. With every appraisal carried out, this benchmark will change and become more and more representative. Hence, the SIM will grow more accurate and even less subjective over time.

By containing both financial and qualitative analysis in this unique way, the SIM does not only provide a reliable future-related contextual value outcome expressed in monetary terms. In addition, it enables the appraiser to inform the client about important value determinants and background information collected on the basis of the comparative evaluation.

<sup>583</sup>  $v = 50,000 + \frac{10,000}{192} \cdot (200 - 48)$ .

### 4.1.2.3 Intermediate Findings

It is not until the prismatic evaluation, the core of the SIM, comes into play after the financial income-based analysis that contextual value influencing variables are operationalised. The process of doing so utilising the four dimensions of value constitutes a comprehensive yet flexible *modus operandi*.

The comparative evaluation ensures holistic treatment of legal, technical, business strategic and financial value determinants by way of a scoring model. Covering these four fields ensures that all significant factors are taken into account. This is particularly crucial with respect to highly unique intellectual property assets the utility and thus the value of which are strongly dependent on the context in which they stand (*vis-à-vis* other assets, within the respective company etc.).

The circumstance that the appraiser is, if required, free to choose the issues to be operationalised ensures the flexibility necessary to adapt to situations changing over time, different valuation objects and scenarios.

The monetary valuation end result produced by combining the point score with the value spread is the best possible, most likely expected value instead of a fixed one (a fixed result cannot be obtained in the course of future-related valuations as they are estimates). The value spread determined by the financial income-based analysis merely constitutes the outer limits of and a rough approximation to the asset's value. It is not until the application of the subsequent step, the prismatic evaluation, that a comprehensive, contextual and reliable valuation result is produced. Furthermore, the prismatic evaluation yields contextual information on the respective IP asset which relates to, amongst others, risks pertaining to the asset, elaborate information on which is an indispensable precondition for a thorough understanding of the asset's value and strategic utility.

### 4.1.3 Conclusions

The SIM, as a business tool, facilitates strategic decision making relating to intellectual property assets by providing a flexible and transparent process yielding an outcome in monetary terms, coupled with as much contextual information about the IP asset in question as possible. It therefore goes beyond the scope of a mere valuation technique in the customary sense as it

does not only provide a monetary value outcome. It can also be utilised to strategically manage the asset under valuation, integrating it into its broader context and significance within the business and beyond.

It needs to be stressed that the SIM as introduced here cannot and does not constitute a matured valuation system. To the contrary, providing the basic and fundamental thinking and systematics as it does, it needs to be fine-tuned in practice over time in order to realise its full potential. The more often it is applied, the more reliable the benchmark becomes and the more experience the experts collect in their assessment of the four dimensions of value, being able to provide even more reliable results in less time.

## 4.2 Satisfaction of Mandatory Requirements

Mandatory requirements to be met by a desired valuation technique have been worked out in chapter one.<sup>584</sup> As a logical consequence, they were used as benchmarks for current brand valuation tools in chapter three. Hence, the SIM also needs to be scrutinised whether it provides conceptual and methodical soundness, widespread acceptance and a manageable output.

### 4.2.1 Conceptual and Methodical Soundness

Every valuation technique is desired to be based on a sound and convincing methodical concept. With regard to strategic intellectual property valuation tools, in particular, it has been elaborated earlier that they shall be comprehensive, contextual, transparent, flexible, reliable, reduce asymmetry of information and risk and provide an appropriate degree of objectivity.<sup>585</sup>

In this connection, it is crucial to understand and draw the right conclusions from the fundamental valuation principles and coherences worked out in chapters one and two. Such insights form the conceptional basis underlying the SIM and the theoretical framework upon which it is built. The *modus operandi* of starting with general coherences and working out appropriate details on that foundation does not only constitute a logical train of thought but also avoids the danger of missing important valuation fundamentals.<sup>586</sup>

<sup>584</sup> At 1.4.

<sup>585</sup> *Supra*, 1.4.1.

#### 4.2.1.1 Comprehensiveness

By enabling the valuator to include as many issues in each dimension as he or she thinks fit (provided that, as a general rule, the number of issues is the same for each dimension), a comprehensive operationalisation of value influencers can be obtained, both with respect to quantity and to quality of these factors.

The comprehensiveness achieved does not only relate to the factors operationalised within the methodology but also to the applicability of the methodology itself. The four dimensions allow for all types of brands to be evaluated,<sup>587</sup> no matter, for example, whether the underlying trade mark is registered or not. Furthermore, the SIM can be utilised for all types of forecasting valuations, which means that its scope of application is very broad.

#### 4.2.1.2 Context

As mentioned throughout this work, the operationalisation of contextual issues is of utmost importance with respect to intellectual property rights as valuation objects. Unlike many other assets, mostly tangible ones, brands and IP assets are, in their utility, strength and value, relatively strongly dependent on the legal and factual contexts in which they stand, both within the respective company and vis-à-vis others.<sup>588</sup>

The prismatic evaluation enables the SIM to complement the financial income-based analysis with relevant contextual issues. These are not only financial and psychographic<sup>589</sup> but also legal and business strategic in order to ensure a holistic view on the asset under valuation.

#### 4.2.1.3 Transparency

A transparent valuation tool is desired in order to make it verifiable for both third parties and especially the client. This ensures both confidence in its quality and utilisation of the tool for evaluation purposes.<sup>590</sup> However, most

586 Cf. 1.1.1.1. and 3.3.2.

587 In fact, they are even applicable on all types of asset.

588 *Supra*, 1.4.1.2.

589 It has become clear in the course of the analysis carried out in chapter three that a large number of brand valuation methods merely take determinants from these two areas into account.

proprietary brand and IP valuation tools are left obscure to a relatively high degree, which impedes the possibility to understand, replicate and scrutinise them to a satisfactory extent.

By contrast, the concept of the SIM is fully disclosed in this work. Hence, the SIM does not constitute a so-called ‘black box’. Such a process uses the same pre-defined set of variables for every valuation (leaving the basis for the data deployed and/or the calculation process somewhat obscure) and yields a single monetary amount as result. It may therefore be quick and tempting to use. However, as elaborated above, it is not only intransparent but also inflexible and does not give proper consideration to the fact that future-related valuations, as estimates, cannot arrive at one single fixed sum as outcome.<sup>591</sup>

#### 4.2.1.4 Flexibility

A valuation methodology ideally needs to be able to be responsive to changes. For instance, market fluctuations or product safety problems can have immediate and strong implications on a brand’s value and therefore need to be operationalised as directly and as quickly as possible in order to obtain a realistic value outcome reflecting these facts. In case the respective dimension (of the ‘four dimensions of value’) does not yet include an according issue, for example with regard to product safety, it can be inserted, either in exchange for an existing point which is not regarded to be important enough to still be included or in addition to existing points.<sup>592</sup>

The SIM is thus not only able to be responsive to short-term changes. In addition, it can be fine-tuned in the long run, as issues initially regarded as crucial may have turned out to be of relative unimportance whereas other points may have become important enough to be included in one of the four dimensions.

#### 4.2.1.5 Reduction of Asymmetry of Information and of Risk

Intangible and therefore intellectual property assets are intrinsically riskier than tangible assets. Due to nontradability of the former, risk of total loss

590 Cf. 1.4.1.3.

591 Furthermore, it usually lacks the necessary degree of comprehensiveness.

592 Cf. 4.1.2.1.

is substantially higher than with respect to the latter. Furthermore, studies have proven that return on investment regarding innovation-based assets is highly skewed.<sup>593</sup> These issues are important value influencing factors.

Risk reduction must therefore be one major focus of an intellectual property evaluation tool. As nontradability is rooted in a substantial lack of information, gathering proper data and processing it appropriately is key. This can be achieved by comprehensively dealing with as many qualitative contextual variables as possible, thereby handling crucial value-related information. The more data is dealt with, the smaller given asymmetries of information<sup>594</sup> become and the more closely the above definition of value<sup>595</sup> can be put into practice.

The issue of successful risk reduction is therefore closely linked to how comprehensive the respective valuation tool is. On this note, the comparative evaluation within the Systematic Integrated Methodology as introduced above ensures operationalisation of all salient legal, technical, business strategic and financial value influencing factors. However, dealing with value influencers in a comprehensive way does not provide proper means for risk reduction unless the evaluation result itself provides all resulting information to the end user in a utilisable form. In respect of this fact, the SIM allows the appraiser to prepare all data collected from evaluation of the four dimensions for use by the client as desired.

#### 4.2.1.6 Reliability

As set forth above,<sup>596</sup> a decisive factor in the course of intellectual property evaluation which is often overlooked is the fact that it does not make sense to demand a higher degree of accuracy from strategic IP valuation than from such valuation of any other object. Despite accuracy is, in general, a valid objective in valuation, it can only be realised in the course of past-related assessments. Any future-oriented valuation is by its very nature an estimate which cannot result in exact value figures. Hence, it must result in a value spread, independently of whether a tangible or an intangible asset is the valuation object.<sup>597</sup> If, thus, the valuation end result cannot be accurate,

593 Cf. above at 2.1.1.3.4, 2.1.1.3.6 and 1.4.1.5.

594 For a definition see above at 1.4.1.5.

595 *Supra*, 2.2.2.1.

596 At 1.4.1.6.