4.3 Summary

The Systematic Integrated Methodology, or SIM, is a business process oriented brand and intellectual property (e)valuation tool. As such, it is based on both fundamental issues pertaining to intangible asset and intellectual property valuation and on findings from the above analysis of current brand valuation methods. It uses the widely accepted income approach, coupled with DCF and decision tree analysis, as a starting point to compute a financial value spread which constitutes the outer limits of and a rough approximation to the asset's value. In the second step, the prismatic evaluation, operationalisation of all necessary contextual value determinants is carried out. Results from these two steps are then merged which yields a monetary end result consisting of an expected value, backed by systematically and holistically collected contextual information about the valued asset.

The SIM thereby serves to obtain a comprehensive financial value outcome which enables full tradeability and manageability of the respective brand or IP right as an asset. As far as it can be stated today, it meets all mandatory requirements a proper intellectual property valuation methodology is supposed to meet.

Thus, an uncertain future can be reflected flexibly and systematically on a comprehensively understood present.[603]

603 Instead of reflecting an uncertain future on a fragmentarily understood present, as most currently applied brand valuation techniques do, cf. 3.3.1.

Chapter 5

The Legal Dimension

5.1 Introduction

In most industry branches in developed economies, companies have become increasingly brand-focussed.[604] It is therefore not surprising that trade mark protection has become an indispensable element of brand strategies. Correspondingly, the number of trade mark registrations is soaring in order to safeguard the legal side of brand-related freedom to operate. For instance, WIPO received the record number of 39,975 international trade mark filings in 2007.[605] The number of trade marks registered with the German Patent and Trade Mark Office (DPMA) also shows a stable upward trend,[606] which in recent years has been mainly ascribed to the services sector.[607]

Generally speaking, trade mark law gives the proprietor an exclusive affirmative right to use the respective mark and a negative right to exclude others from using the same or – in case of likelihood of confusion – a similar sign. Prerequisite for both cases is that a third person uses the conflicting mark in trade or commerce. Once it has been effectively laid down that the title holder's trade mark rights have been violated, he or she is in the position to claim remedies such as damages, cease and desist, destruction of goods illegitimately marked with the infringing sign(s) and – as an auxiliary right in

604 Cf. 2.2.1.

605 Cf. *World Intellectual Property Organization (WIPO)*, Record Number of International Trademark Filings in 2007.

606 Cf. 2.2.1. On how to obtain a trade mark registration on the national (German), European and international levels see below at 5.6.

607 *Göbel*, markenartikel 11/2008, 93, 93.

order to realise the above claims – disclosure of all necessary information.[608]

The manner in which legal aspects are dealt with in the course of brand valuation methods and publications is non-uniform. Some make allowance for legal aspects. However, the main focus of current publications lies on the financial valuation of brands – in most cases based on the income approach – with some marketing issues taken into account.[609] Legal aspects play, if at all, a secondary role. Some brand valuation methods deal with legal aspects under the heading "brand protection status"[610] or "competitor analysis"[611] and deal with issues such as whether and where there exists a registered trade mark.[612]

This chapter uses this situation as an opportunity to comprehensively analyse the link between trade mark law and brand value, supposing there exists one. It will be assessed which legal issues can have an impact on brand value, why this is the case and, if possible, to what degree and in which situations this impact can be felt. Hereby, European law will be mainly dealt with, with some references made to German law.

As set forth in chapter two,[613] it is not until intellectual achievements are protected as intellectual property that they become scarce and therefore potentially valuable. Brands and other products of the mind are per se free: a certain sign or a specific idea which is neither kept secret nor protected

608 Cf. e.g. Art. 9 CTMR; §§ 14, 16-19 MarkenG. In order to facilitate smooth reading of this document, only the respective CTMR articles will be cited, unless the provisions of CTMR and CTMD differ contentwise. As far as provisions of CTMR and CTMD correspond, their interpretation by CFI and ECJ, even if it originally deals with the CTMR, is also valid as regards the CTMD and thereby for the harmonised national laws.

609 For example, two important recent German publications scrutinising current brand valuation methods do not mention legal aspects at all but are completely written from a financial perspective: *Frahm*, Markenbewertung. Ein empirischer Vergleich von Bewertungsmethoden und Markenwertindikatoren (Frankfurt am Main 2004) and *Bentele/Buchele/Hoepfner/Liebert*, Markenwert und Markenwertermittlung (Wiesbaden 2003).

610 *Spannagl/Biesalski*, Brand Rating-Modell, p. 98 et seq.

611 *Stucky*, Interbrand-Modell, p. 117 et seq.

612 This focus on financial issues is on the one hand understandable, because a financial valuation outcome is desired (therefore a financial method is needed as opposed to a merely psychographic one) (for more information regarding differences between financial and psychographic methods cf. 3.1.2) and marketing is the discipline to wich brands are central both in theory and in practice (hence, marketing aspects must constitute an indispensable part of any brand valuation method). On the other hand, as explained above, there are more aspects than financial and marketing-related ones which affect brand value (cf. 1.3, 2.1.1.4, 2.1.3 and 3.3.2.). These include legal ones.

613 At 2.1.1.3.7.

by law can be used simultaneously by an infinite number of persons, which means that it is not scarce. As a consequence, it will not be exchanged for money or other consideration and therefore attain no market value. Apart from secrecy (which is not an option for trade marks due to their nature as communicative signs but for other IP such as patents), it is not until the law steps in and awards protection to intellectual achievements – thereby turning them into intellectual property – that they are allocated to one or a few specific proprietor(s) and thus become scarce. This normatively imposed scarcity prevents everyone but the proprietor(s) from using the IP at their free discretion. The respective IP can thus be exploited or otherwise utilised, which means it is able to develop a value. This means that the legal framework protecting intellectual achievements as subjective rights constitutes the basis of all brand and IP value. Hence, legal aspects cannot be ignored but are important factors of trade mark value and thereby – since trade marks generally constitute important parts of brands[614] – also of brand value. This makes a detailed analysis of a multitude of partly complex legal issues essential for an authoritative brand valuation.

In contrast to patent and other IP valuation, there are circumstances unique to brands the valuator needs to be aware of: the fact that only the trade mark(s) and not the respective brand is protected by trade mark law and the interplay between trade marks and brands.

The fact that a trade mark is duly registered and therefore contains a potential to be exploited as an asset (licencing, franchising etc.) and used as part of a brand for marketing purposes constitutes a value per se, even though not a high one. In juvenile status, a brand does not consist of much more than the trade mark itself, because the intrinsic elements of the brand such as image and identity[615] have not yet had the time to develop on the market and be recognised by the target audiences. This shows that the legal protection of a registered trade mark is especially important in the initial phase of the life of a brand,[616] i.e. in a phase in which the intrinsic elements of a brand other than the trade mark are still juvenile and not very strong – neither internally nor on the market.

614 Cf. 2.1.2.

615 For an explanation of these terms, see above at 2.1.2.2.1.

616 Solely registered trade marks are mentioned in this context because, in early life of a brand, the respective trade mark will not be used or well-known enough in order to be protected outside the scope of a formal registration.

Later in the life of a brand – once it has attained a certain degree of market penetration and awareness – failing trade mark protection alone may not necessarily endanger the life of the corresponding brand. Even if the trade mark protection as such ceased to exist, the device, i.e. the signage, and all other elements of a brand would still be in place.[617] These elements would have developed a certain degree of strength and recognition over time. Therefore, it is not an automatism that failing or lost legal (trade mark) protection necessarily means that the respective brand ceases to exist, becomes useless and valueless. Depending on the circumstances of each case, it would be possible that the proprietor was still in a position to successfully market his goods or services. Even though competitors would be free to use the same or similar sign(s) for the same or similar goods or services according to trade mark law, the proprietor may already have achieved a degree of market share, market penetration, marketing channels and product quality which would be factually difficult to attack. Furthermore, he may receive protection by means of other legal regimes such as competition law.[618] Hence, whether competitors succeeded with their endeavours would be a question of strength of the former trade mark proprietor's branding, marketing and other activities coupled with legal regimes other than trade mark law.

In addition, the device may have become so strong that, even though the mark as such is or has become descriptive/generic or non-distinctive, it does in fact attain legal protection, for instance based on acquired distinctiveness through use or as a well-known mark.

Apart from the central and basic function of value creation through legal scarcity, there are a number of specific aspects of trade mark protection, such as the degree of distinctiveness of the sign, which can have an influence on brand value. These issues will now be discussed in detail.

Although this discussion is carried out in light of practical application in the course of the SIM, all issues which could be important will be introduced in a manner detailed enough to understand their possible relation (or non-

617 This is an expression of the abovementioned fundamental difference between patents (and other IP) and brands. If legal patent protection fails, the whole patent ceases to exist. It completely loses its value. On the other hand, in case of failing trade mark protection, the rest of the brand is still in place. This shows how important it is to be exactly aware of the nature of the valuation object.

618 Competition law regimes are always important to be considered in intellectual property cases. However, dealing with such aspects in this work would go beyond its scope.