detected and taken action against in order to prevent dilution of the respective marks which would impend if the proprietor tolerated conflicting marks on the market. Such tolerance would limit the distinctiveness of his marks and therefore their scope of protection. The impact on brand value would be correspondingly negative.

Furthermore, in order to prevent genericide,[823] the proprietor may be well advised to make sure that (he and) others always identify the respective trade mark(s) as such. Hence, a registered trade mark should always come with the ® sign, an unregistered trade mark should be earmarked with a ™ and a service mark with a ℠. In addition, it is advisable to constantly use the trade mark followed by the generic or dictionary name, e.g. "This Apple computer's latest features ..." instead of "This Apple's latest features ...".

Hence, the brand appraiser needs to assess whether the proprietor business has installed pre- and post-registration trade mark surveillance and genericide prevention schemes in order to ensure that the respective trade mark is neither infringing nor being infringed or at risk of becoming generic.

Such schemes do not only safeguard the legal trade mark freedom to operate of the respective brand(s). If applied consistently, the proprietor could save money in the long term by building a reputation of being a tough counterpart in prosecution and litigation, leading to a comparatively high quota of settlements (which helps avoid costly and lengthy litigation[824]).[825]

Hence, trade mark surveillance (coupled with according action[826]) and genericide prevention, if properly implemented, safeguard and enhance brand value. These items – unlike, for instance, proper trade mark registration – are no points which can 'make or break' brand value. Rather, they influence brand value to the positive if they exist and to the negative if they do not – both on a sliding scale which must be assessed on a case-by-case basis.

823 Former trade marks which are now generic include *escalator*, *thermos*, *cellophane* and *kerosene*, cf. *Murphy*, Brand Strategy, p. 138.

824 Cf. above at 5.10.2.

825 *von Graevenitz*, Which Reputations Does a Brand Owner Need? Evidence From Trade Mark Opposition, p. 1.

826 Otherwise, that is if the proprietor refrains from taking legal action despite his knowledge of a conflicting younger mark, his rights may be subject to forfeiture after a certain time span of acquiescence, cf. Art. 53 CTMR.

5.15 Summary

Even though legal issues might not be in the center of attention in the field of brand valuation, they are crucial in two aspects: firstly, trade mark protection provides legal scarcity, which is, in general, the foundation of the respective asset's value potential. Secondly, there are a number of such issues which constitute important value influencers, such as concrete distinctiveness, graphic representability, title, prosecution and litigation status of the mark and likelihood of confusion. Hence, if one wishes to achieve comprehensive brand valuation, one cannot afford to ignore trade mark protection matters.

While most points are amenable to rules of thumb, such as the more territories a trade mark is registered for the better, there cannot exist a pre-defined relationship between the degree of compliance with the respective legal issue and brand value. This connection is qualitative and contextual, which means it must be assessed on a case-by-case basis.[827] However, one can distinguish legal issues which can "make or break" brand value, such as trade mark registration, and those items which influence brand value on a sliding scale, such as the licencing status of the brand under valuation.

Although all important legal issues pertaining to brand value (and some beyond that) have been dealt with, this list is not exhaustive. It may be necessary in practice to add new issues, such as more relative grounds for refusal of trade mark protection or the existence of liens and other use- and exploitation rights, or to substitute existing points with one of these. The SIM can thus be flexibly adapted to new or changed circumstances.[828]

827 The SIM has been designed to remove subjectitvity out of this assessment process as much as possible by stipulating that a continual team of experts shall assess the four dimensions of value. This builds an unbeatable degree of experience and reliability, cf. above at 4.1.2.1.

828 Cf. 4.1.2.1 and 4.2.1.4.

Chapter 6

Summary and Perspectives

Intellectual property per se is a legal concept. However, legal protection of inventions or other products of the mind is not an end in itself. It usually serves one or several commercial purposes,[829] as IP rights are, for the most part, situated in a certain business context. Hence, IP does not merely constitute rights but rather assets which, in turn, need to be properly managed.

In this context, there are a number of strategic, future-related commercial activities which cannot be properly carried out without valuation of the asset in question. They include strategic and operative IP management and controlling, IP transactions and IP finance.

These valuation scenarios were grouped together as they have in common that future value needs to be estimated on the basis of presently available data. Hence, such valuation can by definition not be accurate but must result in a value spread instead of a fixed amount. Therefore, a differentiation between so-called 'forecasting' and 'reporting' valuation was carried out in order to work out and clarify the fundamental differences between these two groups of valuations. Reporting valuations, that is mainly past-related, documentation and compliance valuation scenarios, such as assessment of damages, accounting and tax, constitute a group separate and distinct from strategic, or forecasting, valuations which this work is concerned with.

One of the main foci of this work was put on the insight that thorough under-

829 As seen from the point of view of the proprietor, which is the focus of the work at hand. From a macroeconomic perspective, intellectual property protection serves other purposes such as rewarding originators and providing incentives for innovation and disclosure of information, thus ideally increasing welfare.

standing of intellectual property value and valuation demands examination of constitutive issues prior to dealing with details, working from general to specific.[830] Thus, the logical starting point of the IP value and valuation discussion was the elaboration of the fundamental framework affecting the value of any asset, tangible and intangible. It consists of the three factors scarcity, utility and title, of which every asset possesses a certain quantum. Generally speaking, the value of an asset rises with increasing scarcity, utility and strength of title. All these factors, therefore, need to be taken into account by any proper valuation technique. For instance, the Systematic Integrated Methodology deals with the issue of title in the legal dimension. As opposed to tangible assets, scarcity of intellectual property assets is usually created by the respective legal protection regimes, as such assets are almost impossible to be controlled factually. Hence, such assets are characterised by legal and not by factual scarcity (notwithstanding the option of secrecy). Therefore, the strength of the particular legal protection must be processed by every IP valuation technique.

More on the 'how' of valuation was discussed in chapters one (requirements a forecasting valuation technique must meet), three (the state of the art of brand valuation) and four (introduction of the Systematic Integrated Methodology). At first, it was elaborated that forecasting valuation instruments shall meet the requirements of conceptual and methodical soundness, widespread acceptance and manageable output. These requirements were later utilised to scrutinise both currently applied brand valuation techniques as well as the newly introduced SIM.

As no valuation can be properly executed without at least fundamental comprehension of the nature of the valuation object, this 'what' of valuation was addressed in chapter two. It is essential to realise that all IP assets feature certain value-related characteristics due to the fact that they are intangibles. These intangible-specific value drivers and detractors include network effects, nonrivalry, scalability, nontradability, partial excludability and spillovers as well as inherent risk.

With specific respect to trade marks and brands, it was found that, while

830 This may at first glance sound trivial yet such modus operandi is essential for a thorough and successful treatment of any complex issue. However, the author has experienced that it is all too often neglected with regard to value and valuation, which entails subsequent errors such as mere fragmentariness of the respective valuation technique.

both are intangibles, a clear-cut differentiation must be made as only trade marks belong to the group of intellectual property. Trade marks, as legal phenomena, serve the functions of signalling origin and differentiation. Trade marks which are being used in trade or commerce are always accompanied by marketing means combined with which they constitute brands.

Brands, in turn, can be defined as bundles of specific benefits which ensure that they – from the point of view of relevant target audiences – strongly differentiate from other such bundles meeting the same needs. They create communication channels between originator and target audience. A strong brand's main function is risk reduction. For instance, it enables the offeror to demand price premia as buyer behaviour is less volatile than in the case of a weak brand. This lowers the proprietor's sales and earnings risks, which leads to other positive effects such as comparatively good ratings and low cost of capital. From the customers' point of view, a strong brand, amongst others, significantly facilitates and accelerates the buying decision making process, which lowers transaction cost. It lowers various risks such as the risk of buying something unknown and the economic risk.

In view of other intellectual property rights, especially patents, it is important to note that well-managed brands augment benefits arising from such rights. This occurs, for instance, by marketing patented goods or goods produced utilising a patented process or by defending market share vis-à-vis competitors after patent (and possibly SPC[831]) protection have run out.

Brands are complex, personality-like phenomena featuring the interrelating components brand identity and brand image. Brand achievements, as components of brand identity, comprise the market-oriented signage some of which is protectable as trade marks. However, such trade mark protection is not a conditio sine qua non for the existence of a brand. Yet lacking trade mark protection is likely to impede the proprietor's freedom to operate in targeted markets, especially when the brand is still juvenile.

Generally speaking, value can be financial or non-monetary. However, for purposes of (amongst others) strategic forecasting valuations, it must be expressed in monetary terms. The value of a brand (or other asset) was therefore defined as the estimated quantity of financial assets for which an item changes hands "on the date of valuation between a willing buyer and a willing seller

831 Cf. fn. 423.

in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".[832] The fact that this definition refers to an ideal market situation which will almost never be attained in practice mirrors the circumstance that forecasting valuation is not an exact art – no matter which asset, tangible or intangible, is being valued. Hence, it is crucial not to, in general, subject the valuation of intangible assets to more demanding requirements than valuation of tangible assets. Every future-related valuation is an estimate.

This shall, however, not hide the fact that trade marks and brands are, like other intangibles, considerably harder to value than most tangible assets due to their uniqueness, nonrivalry, nontradability and other factors. This makes collection of comparable market data a difficult and sometimes impossible task, which has so far made creation of sufficiently transparent intangibles markets impossible. It is therefore much harder to approximate the above definition of value with respect to valuation of an intangible asset such as a brand than in the course of valuation of most tangible assets. However, the objective of every valuation process must be the systematic and comprehensive collection of as much relevant information on the valuation object as possible.

After the fundamentals of brand and intellectual property value had thus been presented, attention was turned to the current brand valuation landscape. It was elaborated that the present state of the art of strategic or forecasting brand valuation is characterised by an implememtation gap: Even though the need for brand valuation is widely recognised, merely around 40% of all German businesses with brands value these at all. This is mainly rooted in two interrelated circumstances.

Firstly, brands and other intangibles, including intellectual property, show characteristics which make them more difficult to be valued with conventional techniques than tangible assets. This is due to the facts that there are no functioning markets for these assets (and therefore little or no reliable market data which could serve as points of reference) and that intangibles are highly contextual, i.e. dependent on other assets and the overall business strategy, in their valuation and exploitation. Furthermore, such assets are characterised by relatively high risk and cost of capital. Return on investment is highly

832 *International Valuation Standards Committee*, International Valuation Standards, p. 27.

skewed. All these issues make valuation very complex.

Secondly, a major reason for abstinence from brand valuation is a perceived lack of quality of currently available valuation methodologies. The analysis of a number of such methods showed that this perception is actually justified, as there are, despite good efforts, no methods in application which meet all desired requirements. As shown earlier, the specific nature and value-related characteristics of brands and intellectual property should be comprehensively taken into account. Application of valuation methods adapted from valuation of tangible or financial assets must, alone, necessarily face serious difficulties. Even those techniques developed specifically for brands are generally not comprehensive enough.

These circumstances caused the author to develop the Systematic Integrated Methodology, or SIM, as a comprehensive brand and intellectual property valuation tool which can be deployed in any forecasting valuation setting. It is built upon lessons learned from constitutive valuation issues as well as from the analysis of the present state of the art of brand valuation.

It is, in essence, composed of a two-step process. Initially, the obligatory forecasting value spread is delimited by means of a financial income-based discounted cash flow and decision tree analysis. However, this step alone would not be able to satisfyingly reproduce the value of assets as multi-faceted and complex as brands and intellectual property. Therefore, it is being complemented with the so-called ‘prismatic evaluation’, the unique core of the SIM.

This second step enables the valuator to process all salient contextual value-influencing variables in a flexible holistic way. The so-called ‘four dimensions of value’ – legal, technical, business strategic and financial – were conceived for this purpose. Each dimension contains a certain number of fact statements which are evaluated in a point score system by an expert in the respective field. The selection of fact statements shall follow certain rules yet provides enough flexibility for the appraiser to adapt the system to new or changed circumstances.

The legal dimension of brand value was particularly focussed on. Even though legal aspects may commonly not be treated as of central importance for valuation of brands, which are mainly marketing tools, they must be included in every diligent valuation process: Legal issues both are important for processing the fundamental value framework of scarcity, utility and title and bring about other significant value determinants such as prosecution and litigation status or likelihood of confusion.

Legal issues influence brand value in various ways. Some, such as the geographic scope of protection, affect the existence of trade mark protection as a 'yes or no' factor. Others, for instance distinctiveness or likelihood of confusion, are linked to brand value on a sliding scale.

Like all other qualitative value influencers, legal points have in common that their link to brand value is situation dependent. Even though they are susceptible to rules of thumb, there cannot exist a fixed, pre-defined mathematical relation. Hence, they must be assessed on a case-by-case basis by an expert in the field.

However, what a number of issues the negation of which leads to failing trade mark protection have in common is that such negation would be a clear brand value detractor but would not necessarily entail complete loss of utility and value of the brand. There is no automatism reducing brand value to zero in case trade mark protection of the signage at issue fails, as the marketing tool brand is able to function without trade mark protection of its devices and may already have gained enough market penetration and reputation to secure the proprietor some freedom to operate. This, in turn, may already have led to the signage being protected as trade marks on the basis of acquired distinctiveness through use or as well-known marks.

Legal factors are not always of equal importance, depending on valuation object, cause and situation. For instance, licensing agreements will only have to be examined where they are actually in existence. Hence, the respective valuation method must be flexible enough to allow for different and/or changed circumstances case-by-case.

The SIM's valuation end result is obtained by merging the point scores from the prismatic evaluation with the financial value spread. The initially obtained financial spread is narrowed considerably, resulting in a most likely value and a limited spread expressed in monetary terms. This outcome is more reliable than those obtained by means of other IP valuation methods as it expresses the value of the respective asset in a highly comprehensive yet flexible way, making sure that no important value determinant is ignored.

Since the SIM does not only provide a reliable monetary valuation result but