1.1.1.4 Valuation and Evaluation

Valuation, be it financial or non-financial, gives the appraiser a particular, on-the-spot analysis of the asset's worth. However, it is usually not able to provide information on the asset's role within the business strategy of the proprietor. However, such information is very useful for a comprehensive IP assessment in a forecasting situation. Particularly, utility and value of intellectual property are, compared to those of tangible assets, especially dependent on the context in which these assets stand (such as existing or missing support by other assets) – both within the proprietor entity and beyond.[16]

In consequence, assessment of intellectual property for strategic, or forecasting, purposes should not amount to mere valuation but rather be complemented by evaluation in case a comprehensive contextual assessment is desired. Intellectual property evaluation denotes the process of tying valuation into the overall strategy of a company. With respect to brands, for example, this means that the effectiveness of marketing and brand management strategies can thus be controlled and managed.[17]

References as to how intellectual property can properly be evaluated will therefore be made throughout this work.

The statement that one can only manage what one can value has been a central incentive for writing this book. The author hopes to give interested brand managers, investors and other strategic decision makers thought-provoking impulses and tools to improve understanding of intellectual property valuation coherences as well as practical strategic decision making.

1.1.2 Structure

The structure of this study is dictated by its main objectives. These are, as stated above, to systematically discuss and analyse the fundamental issues of intellectual property and brand valuation and to improve tradability of brands and intellectual property as assets.

16 Cf. 1.4.1.2.
17 Cf. e.g. *Brand Finance*, Current Practice in Brand Valuation, p. 21 et seq. and *Esch/Geus*, Ansätze zur Messung des Markenwerts, p. 1269.

1.1.2.1 Provision of Essential Knowledge

As it is essential to deal with general and fundamental coherences prior to detailed issues, it is first of all necessary to understand why valuation is important and being carried out, what is being valued, and how – in short: the 'why, what and how' of valuation.

It is not until the interested person has accrued knowledge on this meta-level of valuation that he or she is ready to engage in detail, e.g. the examination of single valuation methods. For this reason, as well as for purposes of systematisation, this study is intended to provide the 'why, what and how' of valuation – by the example of trade marks and brands – in a methodical way before it introduces the reader to actual valuation instruments.

In consequence, all fundamental coherences as to the 'why' and the 'what' of valuation are provided in chapters one and two of this study, next to the first part of the 'how', the explanation of objectives a proper valuation methodology is supposed to meet.

1.1.2.2 Definition of the Desired Stage

Every thorough problem solving approach requires proper understanding and definition of the purpose to be achieved and the desired stage of affairs which is being aimed at.[18] Hence, it will be clearly stated in which situations brand valuation is needed, which requirements a desired brand and IP valuation method should meet and why.[19]

1.1.2.3 Examination of the Current Stage

Chapter three, as a logical next step, will provide an introduction and analysis of the basic brand valuation approaches and a number of popular brand valuation methods[20] presently in use. This part serves the purpose of both illuminating the current state of the art of brand valuation and analysing its positive and negative causes and features.

18 *Michalewicz/Fogel*, Modern Heuristics, p. 2 et seq.
19 See 1.4 and 2.3.
20 As to the difference between an approach and a method cf. 3.2.2.

1.1.2.4 Introduction of Means to Overcome this Gap

Insights gained from this analysis will then, coupled with valuation fundamentals discussed earlier, be used to introduce a systematic integrated valuation methodology in the following chapters four and five. This methodology serves as the author's contribution to the desired improvement of IP valuation quality (by mitigation of risks and information asymmetries) and thereby to increased tradability of such assets and reduction of cost of capital.

As the systematic integrated methodology is, in its essence, applicable to valuation of all intangible assets and intellectual property, it can, for instance, also be applied with respect to patents. The problems of lack of suitable valuation instruments, excess market intransparency and cost of capital exist regarding both patents, brands and other intangible assets.

Hence, not only the content-related but also the quantitative focus of this work lies on the fundamentals of IP valuation as well as on the methodology newly introduced in chapters four and five, especially its legal dimension. These issues will, for the most part, be illuminated and discussed on the basis of (trade marks and) brands.

1.2 Distinguishing Reporting from Forecasting Valuations

Ideally, instead of utililsing different valuation tools for different valuation occasions, one is able to elaborate at least one category of valuation scenarios which all show a sufficient degree of commonality in order for them to be covered by one single valuation tool. This would be conducive to both clarity of valuation processes, usefulness of the respective method and comparability of valuation outcomes.[21]

In this connection, it is important to realise that valuation for accounting and taxation purposes is to a certain extent regulated by existing legal frameworks and statutes, both on national, supranational and international levels. For instance, IP valuation in the accounting field is internationally regulated by the standards IFRS 3 and IAS 38.[22] These sets of rules prescribe certain valuation techniques, such as the cost method for initial valuation of intangible

21 Cf. 1.4.3.2.
22 More on valuation for accounting and taxation purposes below at 2.3.5.