

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 in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion”.<sup>220</sup>

The fact that this definition reflects an ideal market situation which will almost never be attained in practice mirrors the circumstance that valuation is not an exact art (except for those cases in which one deals with fixed, historic data only, e.g. in accounting situations). The economic concept of value refers to the price most likely to be agreed on by the respective parties to a transaction. Hence, instead of being a fact, future-related value is by definition an estimate.

This conclusion is valid for all types of asset, tangible and intangible. Therefore, as a basic rule, one should not subject the valuation of intangible assets to more demanding requirements than valuation of tangible assets. The (future-related) valuation of a house and of a brand are both, in essence, estimates, the major difference being that there will generally be more objectified market information available with respect to the house than the brand. This is due to the nontradable nature of brands and other intangible assets.<sup>221</sup> There are no markets for trade marks or brands which show an acceptable degree of minimum transparency.

However, this does not mean that the definition of value becomes futile or invalid. Rather, the logical consequence is that the diligent valuator will have to find a way to collect as much information as possible about the respective brand in order to fill information gaps existing compared to relatively frequently traded tangible or financial assets such as cars or company shares.

Hence, a valuation methodology suitable for future-related valuations should be capable of collecting such information in a systematic way, thereby enabling the valuator to carry out the value estimate as reliably as possible.<sup>222</sup>

The financial world, for the most part, sees brand value as the profit which can be attributed to the brand and which the brand owner could not attain without the brand.<sup>223</sup> In other words, a brand’s value is said to be mirrored

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

221 Cf. 2.1.1.3.4, *supra*.

222 Cf. above, 1.4.1.6.

223 *Amirkhizi*, “Suche nach der Weltformel”.

by the net present value of all future income surplus which the proprietor is able to derive from the brand.<sup>224</sup> This definition is not able to comprehend all items influencing the value of an IP right or a brand. However, it can be used as part of a future-related monetary brand valuation tool, since the ability to generate cash flows is one of the main utilities of a brand and would therefore strongly influence a possible market value. However, in order to gather as much salient information on the respective brand in order to approximate a market situation as realistically as possible, it is essential to realise that the value of all IP assets and especially brands can only be fully understood and operationalised in light of the context in which the respective asset stands. Such context includes, for example, integration of the proprietor company's brand and IP strategy, the characteristics of the brand portfolio, interrelations with other assets, market information and so forth.<sup>225</sup>

### 2.2.2.2 Sources of Brand Value

As just explained, one central origin of brand value is their potential to generate cash flows. A strong brand is able to leave a positive image in customers' minds which, combined with positive experiences during and after initial purchase, encourages the consumer to purchase the same product or service again. Hence, by providing security of demand, it assures positive cash-flows for the proprietor company while reducing several types of risk for proprietor, customer and intermediary, as set forth above.<sup>226</sup> This security of demand means a security of future brand earnings, which is a major component of brand value. From a financial viewpoint, the value of brands lies therefore mainly in their function to on the one hand accelerate and extend future cash-flows of a company and on the other hand reduce the risk of future cash-flows.<sup>227</sup>

As elaborated above, these are not the only risks mitigated by well-managed brands. However, ultimately, risks such as functional and social ones are reflected in buyer behaviour and sales volume. Hence, they are linked to the cash-flow risk.

224 *Esch/Geus*, *Ansätze zur Messung des Markenwerts*, p. 1265.

225 A deeper discussion of this would divert too strongly from the examination of brand value at this point. The issue how brands should best be valued will be discussed in detail in chapters three and four.

226 At 2.1.2.2.3.

227 *Srivastava/Shervani/Fahey*, 62 *Journal of Marketing*, iss. 1, 2, 10-14 (Jan. 1998).