

given information asymmetries is decisive for quality and usability of both the respective valuation tool and the valuation end result.

The issue of information asymmetry is linked to risk reduction. As will be elaborated in more detail below,<sup>42</sup> investment in intangible assets is considerably riskier than investment in tangibles. This risk of total loss bears on, amongst others, the general nontradability<sup>43</sup> of intangibles and is comparatively rare with regard to tangible and financial assets. In addition, return on investment in intangibles, including intellectual property, has been proven to be highly skewed.<sup>44</sup> Since these issues are crucial value determinants, risk assessment must and risk reduction should be central characteristics of a proper valuation tool.

As nontradability results from substantial lack of information or asymmetry of information respectively, mitigating information asymmetry by systematically collecting and processing as much information about the asset under valuation as possible contributes substantially to lowering nontradability and thus the abovementioned risks and their implications (such as excess cost of capital).

#### 1.4.1.6 Reliability vs. Accuracy

A decisive factor in the course of intellectual property valuation which is at times being overlooked is the fact that it does not make sense to demand a higher degree of accuracy from IP valuation than from any other valuation, e.g. of real estate. Expressing the value of a patent or a brand in an exact Euro and Cent amount is only possible in a reporting (accounting and tax) context. Even a forecasting valuation of tangible assets traded in relatively transparent markets, such as cars or real estate, can by definition not be accurate. This is due to the fact that any future-oriented valuation is by its very nature an estimation. Hence, it cannot result in an exact value figure.<sup>45</sup> This does not mean that accuracy is, in general, no legitimate valuation objective. Rather, it is an expedient goal which is by definition impossible to

42 At 2.1.1.3.6.

43 Cf. 2.1.1.3.4.

44 *Scherer/Harhoff/Kukies*, 10 *Journal of Evolutionary Economics*, 175 (2000); *MP Marketing Partner AG*, Studie: Rentabilität von Marken oft fraglich – Unternehmen im Zugzwang.

45 Q.v. e.g. above at 1.2.

reach in the course of future oriented strategic valuations.

If forecasting valuations cannot be accurate, they should at least be reliable. One's attention therefore needs to be directed to the question how well a forecasting valuation technique is able to reliably define and narrow down the inevitable value spread (this approximates accuracy as closely as possible). The quality of the manner in which this issue is addressed is an important benchmark for overall quality of a valuation tool.<sup>46</sup>

In this connection, reliability means providing a reproducible process which, *ceteris paribus*, yields comparable end results whenever a valuation of the same asset is repeated. This means, for instance, that the valuation process must be trustworthy enough to yield a result reflecting only the time difference in case the same asset is valued, *ceteris paribus*, at different points in time.

#### 1.4.1.7 An Appropriate Degree of Objectivity

Objectivity per se is a valid goal and requirement to meet for good valuation techniques. It ensures that possible arbitrariness resulting from human handling of the valuation process is reduced to a minimum. Not surprisingly, a study has shown that it belongs to the three brand valuation requirements which are perceived to be the most important ones.<sup>47</sup>

However, every forecasting valuation necessarily involves subjectivity. There is no such thing as a completely objective estimate, as each appraiser will assess certain conditions slightly differently. Hence, as absolute objectivity cannot be reached, the manner in which the respective valuation methodology balances the inevitably occurring subjectivity with the pursuit of objectivity is an important quality indicator of that tool. In other words, a good valuation method provides for as little subjectivity as necessary and as much objectivity as possible.

46 A study carried out in 1999, surveying German companies, has shown that respondents perceived reliability as the most important requirement for brand valuation methods, cf. *Günther/Kriegbaum-Kling*, *Schmalenbach Business Review* 2001, 263, 284.

47 Out of 13 requirements; *Günther/Kriegbaum-Kling*, *Schmalenbach Business Review* 2001, 263, 284. Objectivity was ranked second, together with transparency.