

VIEWPOINT

Brands on the balance sheet: one small step

New legislation requires the value of intangible assets, such as brands, acquired since March 31 2004 to be listed on companies' balance sheets. Stuart Whitwell, joint managing director of Intangible Business, an independent brand valuation, strategy and development consultancy discusses the implications of the new laws for brand owners...

Ben Sherman, Glenmorangie, Jacobs Cream Crackers, Pennine Spring Water, Thai Bites, The Fragrance Shop, Travel Inn, Twiglets - hardly a day goes by without brands being exchanged for wads of cash. There are two major similarities between the brands on this list; they have all been bought since March 2004 and the new owners must therefore report the value of the brands on their balance sheets.

This is no technical accounting detail but a significant change that has considerable strategic implications for brands and their guardians. From 2005, International Financial Reporting Standards (IFRS) will require all European listed companies to report the value of intangible assets, such as brands, acquired since March 31 2004, on their balance sheets.

The idea behind this new legislation is to bring greater transparency to acquisition accounting. Previously, the value of all acquired intangible assets was reported as one homogenous group under goodwill. But with this goodwill accounting for 79% of Philip Morris's, 89% of Procter & Gamble's and 99% Yahoo!'s company value it was not much use to anyone. With all measurable and identifiable intangible assets, such as brands, copyrights and patents, now being valued separately there will be a much greater appreciation of brands and those responsible for them.

Accountability will be a big issue. Each year, brands on the balance sheet have to be valued for impairment, to see if value has been lost or gained. If the brand valuation reveals the brand has increased in value it's great news for the marketing director but unfortunately, due to fears of the potential for creative accounting, this brand value can not be added to the balance sheet. If a brand has lost value, however, this amount is reported. This is an effective strategy to monitor the performance of brands and useful analysis to influence strategy. Valuing brands for IFRS can also be an effective benchmark of ROI, assisting marketing directors in the strategic allocation of resource.

Communicating the results of a brand valuation to a company's stakeholders can be an effective strategy to improve shareholder relationships, boost positive PR by briefing journalists, increase internal confidence in the brands and their values by talking to employees, and strengthen the brand in the eyes of the consumer – all of which can have a positive effect on share price and sales.

The barriers between marketing and finance are merging. Accountants want more control over brands as they will now be recognised as a company's largest asset. And marketing directors need to be involved in the brand valuation process to maintain control. This, however, is only the first step to full recognition as the legislation only applies to acquired brands. While internally generated brands can be valued, the value may not be put on the balance sheets. In time, necessary changes such as allowing increases in brand value to be recognised and all brands being allowed on the balance sheet, will I am sure be made. However, as it stands, this new legislation is one small step, but one giant leap for brands and their kind.

