Trademark valuation: review in January 2004

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1. Introduction

Trademark valuation is an increasingly important element in the management of intellectual property. This paper reviews the area by addressing the concepts and context for trademark valuations; specific circumstances where valuations apply; processes and methods used to perform valuations; a review of the current practice, issues and developments in the area; and a path for further reading. It necessarily wanders into values of brands and intangibles in general. The audience is expected to have a general familiarity with commercial and legal concepts.

2. Context and concept of trademark valuations

Measuring and understanding the value of intangibles, such as "human capital", "intellectual capital", "cultural value" and "brand value" has become increasingly important in the "new economy"[1]. Brands, with trademarks as their "central core"[2], not only symbolise this new world[3], but are of fundamental importance and value to modern enterprises[4]. Correspondingly, trademarks are a foundation of success.

Unfortunately the view in 2000 was that "the valuation of … trademarks is relatively unresearched, and practice is hence quite meagre"[5], as the legal profession employed crude methods for calculation of remedies in litigation[6]; brand valuation "first rose to prominence in the late eighties"[7]; and accounting standards only recently required the reporting of intangible values on balance sheets[8]. There is also a marked lack of agreement on principles, standards and terminology.

There are a numerous reasons for analysing the value of intangibles[9], such as trademarks, for a variety of commercial activities, including financing securitisation and collateralisation; insurance; enterprise restructuring, such as insolvency, merges and acquisitions; litigation and dispute resolution; accounting for corporate balance sheets; transaction pricing and structuring, such as licensing and sales; management information and planning.

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[1] Charles Leadbeater, 'NEW MEASURES FOR THE NEW ECONOMY' (Paper presented at the OECD International Symposium on Measurement and Reporting Intellectual Capital, Amsterdam, June 1999) { "explores how policy-makers, accountants, managers and investors could respond to uncertainty over how intangibles should be valued" }.

[2] David Haigh, *Brand Valuation: Understanding, exploiting and communicating brand values* (1998) { studies the topic of brand value from a UK perspective }, 7; yet they 'are not an interchangeable term [as] a trademark is a badge of origin [and] a brand has wider components', 19.

[3] Naomi Klein, *NO LOGO* (2001).

[4] See n 2, 51; where in the 1980's, goodwill and intangibles accounted for 66 to 83% of the prices paid for the companies Rowntree, Pillbury, Trebor and Verkade – largely reflecting their brand values.

[5] Ernst & Young, *Management and evaluation of patents and trademarks: Consultants' analysis report, prepared by Ernst & Young for the Danish Patent and Trademark Office* (December 2000) { studies "valuation methods for use in industrial enterprises in order to focus on the strategic management of their patents and trademarks" }.

[6] See n 32.

[7] David Haigh, *Understanding the Financial Value of Brands* (June 1999) { reports on valuation methods, applications and case studies with focus on contribution by advertising agencies }, 5.

[8] See n 96.

[9] See n 13, 5.

Each of these situations requiring the valuation of a trademark has its unique perspectives, circumstances, issues and concerns, but valuations typically employ similar processes and methods. The valuation can result in more than just a raw number: it can offer a comprehensive audit and understanding of the properties concerned[10]. Legal issues are but one dimension, as valuations can involve numerous specialists and may be driven from the perspective of different fields[11].

Trademarks are not always valued per se, but often as part of another economic unit such as a brand that contains other properties including know-how, patents, design rights and copyrights. The valuation processes and methods involved are largely equivalent, and rely more upon the factual circumstances of the valuation than upon the particular intangible involved. For this reason, much of the material on the topic of valuation avoids prescriptive detail, and prefers to outline general approaches and issues. It seems that the detail is borne out of proprietary experience and practice.

Trends suggest that effective use of valuations offer economic advantages[12], such as more precise information, greater transparency, increased flexibility, better decision-making and thus more effective economic performance. Many enterprises understand this, but have yet to adopt the required practices. Although improvement is visible, further all-round progress is required from the valuation profession and enterprises alike. In all aspects of the area, there are relevant examples that can be drawn from to illustrate key points.

3. Application areas for trademark valuations

There are many situations where trademark valuations are relevant. These situations fall into a common set of categories[13], each of which has its particular perspectives, stakeholders and issues. The execution of a valuation, including the choices and parameters of constituent processes and methods, is always subordinate to, and shaped by, this context. The appraisal profession not only recognises this, but also specifies it in their standards[14]. Smith refers to “context, context, context” as the trademark valuation analogy to real estate’s “location, location, location”[15].

3.1. Financing securitisation and collateralisation

[10] Peter J Groves, *Intellectual property rights and their valuation: A handbook for bankers, companies and their advisors* (1997) { introduction to intellectual properties and their value in the context of financial securitisation }.

[11] Thomas Randes, ‘Valuation of Intellectual Property Assets: A legal perspective’ *Trademark World 127* { broadly describes valuation with specific focus on value factors from legal point of view }, 28.

[12] Derek L. Bosworth, *The Importance of Trade Marks to Capital Raising and Financial Performance – Lessons for SMEs* (March 2003) { relates issues of valuation, performance and strategic opportunities with data from studies in the UK market }.

[13] Roosma, Kerr & Reilly, ‘Intellectual Property Lost Profits and Economic Damages Analyses’, *Williamette Management Associates Insights Quarterly Journal,* Summer 2002 { concise overview of the process and methods, with worked examples, used to value IP in US litigation actions }, 5.

[14] See n 61, 4; BVS-I (II) “Appropriate definition of the assignment”, (B).

[15] See n 60, 1.

Trademarks are suitable candidates for financing as they are commodity with worth[16] and, like other intellectual property assets, they have legal rights that are "generally transferable" making them "capable of being licensed and charged as security"[17].

In 1993, Calvin Klein used its trademarks to obtain a $58m "7-year securitised loan [with] interest and principal payments funded from royalty receipts linked to sales of perfume products [where the] debt to service ratio is in the range 1.5 to 2"[18].

To be effective, security must be recoverable by the financier in the event of a default, so it is this recovery value of a trademark that is most important to the financier. The owner, desiring a high return on its assets, is interested in the current value and the loss value (should it have to default). To reduce the conflicts of interest that result from these different concerns, the valuation should be independent[19].

Internet domain names have fallen into the realm of securitisation, bringing their own valuation issues[20]. In 1999, the Industrial Bank of Korea offered loans using domain names as collateral, "of up to 30% of the assessed value", calculated by an "appraisal group … composed of businessman, domain operators, certified public accountants and lawyers"[21].

3.2. Insurance policy development and risk quantification

Insurance offers another means of protection for a trademark, and is often a required underpinning in securitisation, yet "determining … the value [of the property, such as a trademark]… can be complex and insurers can't gauge their exposure to a risk without a good idea of the amount at stake"[22]. These difficulties "have restricted the ability of insurers to meet the market's needs"[23] and without being able to quantify their potential exposure, they are not able to respond further to the opportunity.

In the case of brand values, the difficulty exists in measuring the insurable value and the change in value (or the assessment of loss[24]) in the event of a claim[25]. One insurer, Zurich International (UK), which offers Brand Value Insurance (BVI), found

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[16] "The Japanese banker who underwrote a successful bond issue floated by the Walt Disney Corporation in 1988 said that, 'Mickey Mouse is a better risk than the United States Government'", in n 2, 207.

[17] Watson, Farley & Williams, 'Using intellectual property to raise finance', *Intellectual property briefing*, November 2003 { overview of the applicability of intellectual property to financing }.

[18] From 111, 46; quoted in n 12, 15.

[19] Larry Roberts, 'United States: Using Intellectual Property to Obtain Financing', *American Venture Magazine*, March 2003 { addresses diligence issues in the financing process }, 1.

[20] Graham Wood, 'Domain Names as Security – A Solution', *The Journal of Proprietary Rights*, June 2000 { raises issues that lenders should be concerned with in using domain names as security }; and Bayo Odutola, 'What's in a (Domain) Name? Collateral!', *Trademark World*, April 1998 { raises issues in using domain names as security, including 'indicia of value' }.

[21] '"Mortgages" for domain names', *BBC News*, 23 November 1999 { describes the method used to raise money against domain names }.

[22] Deloitte & Touche, 'Insuring Intellectual Property', *Forethought – Forensic Thinking*, 2003 { briefly discusses a number of issues to be concerned with in the insurance of IP }.

[23] See n 22.

[24] Ernest Kay, 'Insuring Brands and Images', *Trademark World*, April 1997 { raises issues in the valuation and assessment of brands for insurance purposes }, 32.

[25] See n 2, 181.

that the accounting professions recommended approach of “Economic Risk” was “very similar to the concept of Dynamic Financial Analysis (DFA), a technique used in the US for valuing the assets and liabilities of insurance companies themselves”[26].

Zurich identified two general risks that impact the value of a brand in the context of insurance: (1) Earnings risk, where alterations in customer perception of the brand cause measurable impacts on future revenue streams; and (2) Crisis risk, where a particular or definable problem with a brand may cause the owners to need a defined sum of money immediately to rebuild and reposition the brand[27]. These risks, along with the value of the brand, form the basis of the insurance policy and a clearer understanding by the insurer of its own financial exposure to the policy.

In 1990, Perrier incurred a loss of brand value as a result of “contamination of bottled water with benzene during routine maintenance”, requiring “£84m for the repositioning of the product, plus £125m price reduction when the drinks division was sold off”[28]. The link from the brand’s value, including its trademarks, to these risks is absolutely necessary for the long-term effectiveness of these insurance products.

3.3. Enterprise re-organisation, including mergers, acquisition and liquidation

Enterprises are frequently re-organised through activities such as mergers, acquisitions and liquidations. Failing to understand the “value” elements in these activities can lead to undesirable outcomes, including giveaway sale prices and acquisitions at prices that do not return expected benefits.

Effective valuations can reveal unique factors that can be exploited, and thus alter the transaction’s nature or price. When Corsodyl was acquired by SmithKline Beecham (SKB), “a higher price was paid than might have been suggested by a normal valuation because Corsodyl was a unique brand”, yet it “integrated perfectly”, and “it was also possible to estimate the value of line extensions and favourable portfolio effects of other SKB oral hygiene brands”[29].

Trademarks associated with high quality goods and services may find their value diminished if transferred to an organisation that does not sustain these and related attributes. The acquirer may not be aware of these issues prior to acquisition, and may expect that the trademark will continue to provide the same pre-acquisition returns and benefits. For these reasons, valuations are a necessary part of the transaction’s due diligence.

Equivalent issues apply in liquidations, where frequent practice is to dispose of assets as quickly and effectively as possible. An understanding of the trademark’s unique value can open up other possibilities.

In 1998, the Pierre Victorie restaurants were put into receivership and the franchisees put together a bid price, with a valuation based on an analysis of “why the brand had ‘failed’”, and the “likely short term cost of reviving the brand and bringing management back to a reasonable standard”, followed by a calculation of the “loss that they would suffer in their own individual restaurants if the brand died”. The unique insight into their own strengths and weaknesses allowed them to make a

[26] See n 25, 184.

[27] See n 25, 185.

[28] See n 25, 183.

[29] See n 7, 57.

realistic and competitive bid against opponents seeking to “abort parts of it”, “treat it as a portfolio of properties”, or to “convert [it] to a competitive brand”[30].

3.4. Litigation and dispute resolution

The value of a trademark may be relevant in actions concerned with any of the other categories mentioned, such as a tax dispute over the transfer price of trademark, or a contractual dispute over the ownership rights to a trademark that involves no infringement or issues about the nature of the rights per se. In these cases, it is a matter for the experts and courts to agree upon and use acceptable methods of valuation as fits the particular dispute.

In a 2002 opinion on an appeal to the US Federal Court over a ruling in the US Tax Court on a dispute between the US Tax Office and DHL over the value of trademarks used in a taxable transfer to a foreign entity, it was agreed that the valuation method had its deficiencies (DHL’s “experts” used a different method to the US Tax Court), but “valuing an intangible asset” is an “imprecise art” and without any demonstration of “clear error” in “methodology” or “final result” the original decision could not be reversed[31].

In actions of unfair competition under EC Article 81 and 82 and corresponding national law, the relevant market must often be defined in assessing the ability of an undertaking to distort competition. Although no cases exist, it seems plausible that valuing a brand, and its constituent trademarks, may be a part of this activity. It is more certain that brand or trademark values would be a part of calculating base unit costs in an action on abusive pricing practices.

In the UK, financial remedies for the infringement of intellectual property rights can be determined by two methods[32]. The analysis of lost profits or reasonable royalty approaches[33] value the trademark in terms of its actual loss to the owner – including ancillary losses[34], whereas the account of profits approach[35] looks to the value accumulated by the infringer. It is possible to discover and choose between the two options[36]. Recent cases have confirmed that damages concepts developed relative to one right, e.g. patents, can be used with other rights such as trademarks[37].

In 2000, Thomas Cook Group sought damages in the European Court of First Instance against the European Commission for alleged infringement of its trademark

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[30] David Bond, ‘Valuing Intellectual Property’, *Trademark World* { a pragmatic case study in the use of valuation as part of a corporate receivership }.

[31] See n 98; and this case expanded in further detail in s 4.4.

[32] Mark Bezant, ‘What’s the damage? Financial remedies for infringement of IP rights’ (Presentation given at the Licensing Executives Society, 10 September 2003) { summarises the available financial remedies with detail }.

[33] *Gerber Garment Technology Inc v Lectra Systems Ltd* [1997] RPC 443.

[34] *SmithKine Beecham Plc v Apotex Europe Ltd* [2003] FSR. 31.

[35] *Celanese International Corp v BP Chemicals Ltd* [1999] RPC 203.

[36] *Island Records Ltd v Tring International Plc* [1995] FSR 560.

[37] *Reed Executive Plc v Reed Business Information Ltd (Costs)* [2002] EWHC 2772; referring to *General Tire v Firestone* [1976] RPC 197 with “although a patent case, the principles are equally application to trade mark infringement”, 23.

by the official euro symbol. It relied upon expert trademark valuation to assess the level of damages at EUR 25.5 million[38].

3.5. Accounting for corporate balance sheets

Company accounts must be prepared according to accounting standards. These increasingly require the inclusion of intangible assets, such as trademarks and their embodiment as brands. Despite a 1998 survey of UK investors and analysts that revealed a desire for more disclosure[39], the accounting profession was split on the changes – a position that has likely altered as a result of recent accounting scandals involving intangible assets.

It is argued that intangible valuations are impossibly inaccurate and change periodically, thus causing reporting volatility – even if this is already a problem with deprecation rates[40]. Yet failing to include them produces unreal accounts[41] and means that boardrooms are not able to "deliver value to … shareholders" if they do not understand how "intellectual property contributes to shareholder value"[42].

There are three relevant accounting standards that call for the value of intangible assets. The US standards are considered the most advanced, yet the International standards are catching up and are becoming the preferred option in the rest of the world: listed companies in the EU must use them as of January 2005. The UK standards are less relevant: they will be superseded by the International standards.

The US Federal Accounting Standard (FAS) 141 and 142 were issued in 2001, and apply to all forms of intangibles that establish legal or contractual rights. The impact of these standards is significant: Boeing's adoption of FAS 142 in 1Q 2002 required it to record a USD$2.4Bn charge.

- FAS 141 "accounting for business combinations" requires the use of "acquisition accounting", whereby an acquiring company must identify and "fair value" all assets acquired, including intangibles, irrespective of whether they appear in the target's financial statements: the prices paid must be disclosed, detailed and justified and the securities authorities may request material relating to the underlying valuations[43].
- FAS 142 "accounting for goodwill and other intangible assets" requires that the life of intangible assets are calculated – some of which may be indefinite such as with trademarks – and reviewed periodically or upon certain events – such as loss of key personnel or unanticipated competition – to account for

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[38] David Haigh, 'Brand Risk Management' (Paper presented at the InterRisk Conference, Tokyo, Japan, 27 November 2003) { attention given to valuation in role of identifying risk in brand management with a number of case studies }.

[39] See n 2, 159; where in a survey of 238 city analysts, 76% supported disclosure.

[40] See n 2, 126.

[41] See n 2, 126.

[42] Joff Wild 'Accounting for IP', *Financial Times (Inside Track)*, 21 June 2001 { refers to the after-effects of the introduction of new UK accounting rules for intangibles }, 22; attributed to Maggie Mullen, head of intellectual asset management services for Europe at PricewaterhouseCoopers.

[43] Caroline Woodward – PricewaterhouseCoopers, *Accounting for intellectual property* (2003) { briefly looks at existing accounting rules, and nature of new US accounting rules }, 2.

their impairment (lost value): any lost value must then be amortised (written off) over rest of its life[44].

The International Accounting Standards Committee's (IAS) International Accounting Standard 38 (IAS 38) "intangible assets" and 36 (IAS 36) "impairment of assets" were issued in 1998. These are increasingly similar to FAS 141 and FAS 142 respectively, with the following present differences: (1) only intangibles to which a company has a legal right are recognised, whereas any intangibles with economic rights are recognised by the FAS; (2) the concept of "fair value" is 'stand alone', whereas 'value in use' (i.e. to the existing owner) is used by the FAS; (3) numerous lesser differences in impairment tests and amortisation rules; and (4) the recognition of internally generated intangibles excludes trademarks.

The UK Accounting Standards Board's (ASB) Financial Reporting Standards 10 (FRS 10) "goodwill and intangible assets", and 11 (FRS 11) "impairment of fixed assets and goodwill" were issued in 1997-1998. FRS 10 requires capitalisation of acquired or internally generated intangible assets such as brands and trademarks only if they can be measured reliably, with the assumption they are to be amortised at 20 years or less unless a longer life can be demonstrated, in which case impairment reviews are required[45]. FRS 11 describes the use of impairments and the requirements for reviews and reporting, suggesting that if the assets "net realisable value … is less than its carrying value then a provision for impairment losses" must be recognised in the profit and loss account[46].

All of these standards require the use of valuations but they do not specify a methodology. At least one standardised valuation framework is available[47], and the draft of another effort aims to "establish standards and to provide guidance to valuation analysts … [in] the valuation of a business, an interest in a business, or an intangible asset"[48]. These leave considerable latitude for interpretation, and do not address trademarks specifically, which are only one of a very large number of possible intangibles owned by an enterprise.

3.6. Transfers and transactions including sales, licensing and franchising

As a property, trademarks can be transferred in full or in part through transactions such as purchases, sales, licensing, joint ventures, extensions or franchising – whether between or within enterprises, and with foreign and taxation considerations. These are the most frequent occasions where a "value" is required.

Licensing and payments constitute a considerable topic in itself, but valuation is a key part of establishing how such payments should work and what levels are justified. The licensor seeks a return to reflect the amount of investment, such as the historical costs of the trademark so far, and the opportunity cost of not exploiting the

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[44] See n 43, 3.

[45] Thayne Forbes, *The increasing importance of Intellectual Property in M&A* (September 2000) { overview, with worked examples, of brand value as an input to M&A consideration }.

[46] See n 45.

[47] See n 88.

[48] American Institute of Certified Public Accountants Inc, *Draft-Statement on Standards for Valuation Services No. 1* (2002) { specifies the lifecycle of a valuation from engagement to reporting }.

trademark themselves. The licensee seeks to understand how the value of the trademark will provide benefit, usually through increased returns on sales.

As a trademark is designed to enhance the sales of a product or service, the most common form of payment is a royalty rate on some percentage of sales. Typically, the royalty is based upon an "arm's length" value, which the hypothetical case of two unrelated parties with are not under compulsion to negotiate a deal[49].

Royalty rates are often based upon comparable market rates, with a variation depending upon the specific terms of the agreement and the premium that a high valued mark may be able to obtain. A rule of thumb rate, such as the 25% rule[50] can be used, but is woefully crude.

Transfer pricing refers to payments across jurisdictional borders, where tax issues frequently arise. The UK tax authorities, along with most others, as a result of work at the OECD, require the value of these transactions to be based upon the "arm's length" principle[51]. This has been a point of dispute, such as with the US Tax Office valuing DHL's trademarks at USD$600M, compared to DHL's USD$100M figure, in the context of a foreign transfer: the matter was resolved through the US Courts and reflects the sensitivity of the taxation authorities to enterprises that shift intellectual property to other jurisdictions for tax reduction purposes[52].

Joint ventures and other commercial vehicles may need to establish the value of a trademark. For instance, a frequent occurrence is an R&D joint venture that produces a new technology covered by various rights including trademarks: the JV is eventually wound up or sold, which requires an asset valuation and transfer. Franchises are another circumstance where trademarks, along with a bundle of other rights and know-how, are licensed and thus valued.

3.7. Management information and reporting

Trademarks, by themselves or as part of some other vehicle such as brands, were once of secondary concern, but are increasingly seen as valuable assets to be actively managed for strategic advantage[53].

It is an inherent part of modern enterprises that they have a marketing function, the purpose of which is to assemble, promote, fund and drive forward a product portfolio for strategic and financial returns. Understanding trademark and brand values is an implicit part of this process in helping identify the stars from the dogs, making allocation decisions, and assessing those decisions against future value.

When this information is made available to management and decision makers, then trademarks become first-class strategic tool in the enterprise, to be used for leveraging finance, communicating with shareholders, establishing foreign

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[49] See n 60.

[50] A rough and ready rule that calculates a royalty rate at 25% of the economic benefits that are expected to be derived from the exploitation of the intellectual property; See Davidson, Stack & Cole 'Reasonable royalty rates' *CA magazine* <http://www.camagazine.com/index.cfm/ci_id/5776> at January 2004 { describing "the '25% royalty rule' provides a useful framework for profit-sharing valuations – and for the presentation of expert evidence" }

[51] *Finance Act 2000* (UK) c 17.

[52] See n 98; and this case expanded in further detail in s 4.4.

[53] See n 7.

operations and allocating revenue to subsidiaries for tax purposes. Many of the other reasons for valuating trademarks, brands and intangibles result from these activities.

In 1998, Grand Metropolitan – prior to becoming Diageo – owned a portfolio of brands that included Smirnoff, Baileys, Haagen-Dazs and Burger King. It built a "brand equity monitor" to "place a historical value" on the brand, and to "give management an idea of the performance" of the brand, measuring such things as "economic, consumer and perceptual measures of performance" allowing it to track "financial brand value". As part of Diageo, this has continued in ever more mature forms, and "the fact that the vast majority of this data will never be included in the company accounts is irrelevant, it provides instead a degree of strategic and operational control over the group's most valuable assets"[54].

4. Methods and processes for trademark valuations

4.1. Introduction and perspective to the activity

The undertaking of a valuation involves two distinct parts: (1) the execution of a *method* to quantify and arrive at an actual 'value', which is contained within (2) an overall *process* corresponding to the purpose and context of the valuation. The parts are somewhat independent, yet they work together for the final outcome. In some approaches, it is not easy to draw the line between the process and the method.

In 1998, Volkswagen discovered the cost of poorly executed diligence in the overall process when it understood and accounted for trademark value, yet failed to verify the ownership of the trademarks. It had won a £430 million bidding war against BMW for the purchase of Rolls-Royce Motors, and thought that the Rolls-Royce and Bentley trademarks were part of the package. They weren't: a dispute and a less than ideal settlement followed, along with embarrassment and wasted money[55].

The valuation processes and methods can be applied to varying degrees of sophistication depending upon the circumstances at hand. They also have inter-relationships and dependencies, so for example, multiple methods are frequently used in tandem for validation or weighting. The level of standardisation is weak, which is an issue that professional bodies and business organisations would like addressed[56], so categorisations and terminology currently vary widely. Occasionally, a distinction is made between methods that are "qualitative" or "quantitative", yet this is incorrect as all of the methods in use take both aspects into consideration.

The resultant "value" is predominately expressed in financial terms. However, there are approaches that express "value" in a multi-dimensional form such as a scorecard

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[54] See n 7, 56.

[55] Adam Liberman – Freehills, *IP issues in mergers and acquisitions* (October 2003) { justifying the need for diligence, and providing examples of activities performed in the process }.

[56] International Chamber of Commerce, *Current and Emerging Intellectual Property Issues for Business* (April 2003) { regularly updated overview of current system, challenges and concerns }, 5; suggesting that "while valuation techniques have been developed, it would be desirable to ensure a degree of international coherence in this field".

or a set of weighted variables[57]. These may be more appropriate if the results are to be used in other multi-dimensional exercises such as a marketing SWOT analysis. Ultimately, trademarks are often owned for financial reasons, or the results are required for a financial activity, so normalisation to one dimension does at least provide a common language for comparison and interpretation[58].

4.2. Methods for valuing trademarks as a form of intangible property

The valuation methods employ computational or evaluative techniques to arrive at a "value". There are essentially three types of methods used to quantify the value of intangible property, including trademarks and domain names[59]: *cost-based*, which measures replacement value; *market-based*, using comparable properties; and *economic-based*, which assesses the current value of future economic benefits[60]. The latter incorporates *income-based* techniques.

Three standards go some way to defining these methods and their techniques including selection criteria, yet they leave much latitude for interpretation and concretisation and do not refer to trademark specific variables and issues.

The Business Valuation Standards (BVS) apply to "intangible assets" such as "trademarks"[61]. To be used in conjunction with the USPAP (described below), they detail "general requirements" (BVS-I), "asset-based approaches" (BVS-III), "income approaches" (BVS-IV) and "market approaches" (BVS-V). Selection and weighing of methods is allowed.

The International Valuation Standards (IVS) provide guidance on the "valuation of intangible assets" (GN 4) – with reference to IAS 38 – and suggest cost, income and market approaches[62].

The Statement on Standards for Valuation Services (SSVS) is at draft stage only[63]. It describes a number of methods, and although "the valuation analyst [is to] determine the appropriate … valuation approaches to be employed", they "should consider the income, asset-based or cost and market approaches". Other methods are allowed as long as their "rationale" is "set out" with "supporting empirical evidence"[64]. If "Rules of

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[57] Mario Ulmer – Universitat St.Gallen, *Latest research on the valuation of intellectual capital: Models, methods and their evaluation* (June 2003) { offers a very broad overview of advanced valuation techniques for the entire field of intellectual capital }.

[58] See n 1, 17; for a concise treatment of "the drawbacks of over-reliance upon purely financial measures".

[59] Weston Anson, 'Domain Names: Hidden Asset Values', *Trademark World*, October 1997 { outlines key issues in valuing domain names, and describes a range of methods }.

[60] Gordon V. Smith, *Trademark Valuation* (1997) { from a recognised leader in the valuation of intangibles, an extremely informative and pragmatic reference to all aspects of trademark valuations, with a slant towards their value as a commercial asset }.

[61] American Society of Appraisers, *Business Valuation Standards* (August 2002) < http://www.bvappraisers.org/standards/bvstandards.pdf> at January 2004 { specifies the framework for valuations including process, inputs, reporting, methods and terminology }.

[62] International Valuation Standards Committee, *International Valuation Standards* (2003) <http://ivsc.org/standards/> at January 2004 { entire suite of standards covering valuation in general sense }; specifically *Guidance Note No. 4: Valuation of Intangible Assets* { interprets the standard for specific issues to do with intangible assets }.

[63] See n 48.

[64] See n 48, 14.

thumb" are used, they "must be fully explained" and are often "use in conjunction with other methods instead of [as] standalone indications of value"[65].

4.2.1. Cost-based: measuring replacement value

A cost-based method assesses "the amount of money that would be required to replace the future service capability of the subject property" (also referred to as "cost of replacement")[66]. The "brand new" value is calculated and then deprecated by an analysis of physical, functional and economic obsolescence.

For example, "the automobile name [Dusenburg] still has recognition amongst many people in the United States. The cost to create an automobile name of similar strength could easily be tens of millions of dollars. Yet, current ownership of this name is not likely to contribute much in the way of profits. Indeed, the name could be a detriment: association with an old and discontinued product might not inspire consumers in sufficient numbers and justify the risk of attempting to revive such a trademark."[67]

The method has two steps. In some simple uses, the second step is not carried out. The first step involves an estimate of the cost to reproduce/replace the trademark, for which there are two techniques:

- Trending Historical Costs – costs used to develop the trademark are restated in current prices, including all-round expenditures (e.g. consulting expenses, package designs, advertising, etc), determined from actual or residual figures.
- Re-creation Costs – a direct estimate of efforts and costs necessary to create a new property, which may be required when there is insufficient historical material available to perform trending.

The second step involves quantifying the extent of economic obsolescence, using information about "the amount of future economic benefit that is associated with the property", "information about the trend of the economic benefits", "the duration over which the economic benefits will be enjoyed" and "the risks associated with receiving the expected economic benefits". This is subtracted from the figure in the first step.

It is suggested that this method can provide "a starting point", or "a check on … values derived from other approaches", yet it "has much potential for error", even if it may be the "only practical methodology" in some cases. If used, another approach should at least be used to support it. In practice, it is a rarely used method[68].

4.2.2. Market-based: measuring fair supply and demand value

A market-based method calculates a fair market value[69] based upon comparable market information such as similar transactions for similar properties. It is analogous to property valuation in the residential real estate market.

A number of elements are required for the method to work, each of which tends to pose specific difficulties for trademarks[70]:

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[65] See n 48, 26.

[66] See n 60, 21.

[67] See n 60, 131.

[68] See n 2.

[69] The acronym FMV seems to be referred to in a formal sense, so seems to have defined meaning with the courts and authorities.

- Active Market – a sufficient volume of property exchanges, which is often not present for trademark rights.
- Public Market – the exchange consideration must be known or discoverable, and not contain ancillary details (such as an inseparable bundle of other properties as trademarks are infrequently exchanged as independent assets), which is rare for business transactions for reasons of confidentiality and competitiveness.
- Adjustments for Comparability – the "comparable sales" are often not exactly comparable, so adjustments are required: with other types of property there are less nuances and standard measures (e.g. price per sq metre), yet this "exercise is nearly impossible with respect to trademarks".
- Adjustments for Time – the "comparable sales" may have occurred at a previous date, they need to be adjusted for changes over time, which can be hard to quantify for trademarks.

The method can be executed in five procedures[71]: sales/license transaction data is (1) obtained from sources such as trade association surveys and relevant periodicals[72], including known market license/royalty rates[73]; then (2) verified and adjusted for the particular circumstances of the valuation, including (3) analysis to determine the discrete units of comparison (up to ten are identified for IP); allowing (4) the trademark is be compared on these units; and (5) results reconciled into single or range values.

While the method is attractive, it often has little application to trademark valuations as a result of the lack of, and difficulties in obtaining, the essential elements[74]. It can have application for brand valuations where there is sufficient market activity, or where good data – such as market royalty rates – is maintained and available.

4.2.3. Economic-based: measuring value of future economic worth

An economic-based method assesses the present value of future worth of a property and often involves measuring its "income-producing capability". This is very relevant for commercial property, which is usually owned to earn a return on investment[75]. Technically, "income-based" is a subset of "economic-based", yet the terms are inconsistently used.

The value is expressed in net-present value (NPV) and arrived at by analysing (a) the amount and pattern of economic benefits to be received; (b) for an expected duration of the benefit; (c) adjusted for the risks associated with achieving the benefit[76]. Alternatively, the value is expressed as a model, and only reduced to financial terms when required.

There are several well-established techniques used to perform the analysis:

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[70] See n 60, 19-20.

[71] See n 60, 9-11.

[72] See n 60, 9-11.

[73] See n 55, 46.

[74] See n 60, 20.

[75] See n 60, 22.

[76] See n 60, 143-156.

- Residual – requires an understanding all related property values in the context or enterprise, including a total value, and assumes that the remaining value can be attributed to the trademark[77].
- Premium price (PP), or Earnings Split (ES) – assesses the additional income generated by comparing sales of the trademarked goods against sales of generic goods, adjusted for differences in bottom line costs. To eliminate the influence of the generic good's trademark on its prices, the pre or post-tax profits of the generic enterprise can be used in a "gross-profit-advantage" or "operating-profit-advantage" calculation and subtracted from the figures.
- Relief from Royalty (RR) – commonly used methodology that assumes that if a company owns a trademark, then it is relieved from paying a royalty, so that a phantom payment can be considered surrogate income or economic benefit. The estimated royalty is taken from the market using sales/license transaction data or known market license/royalty rates, which means that this technique is also categorised as market-based.
- Discounted Cash Flow (DCF) [78], or Capitalised Earnings Method (CEM) – quantifies the values and rates of return for all assets in the enterprise, and iteratively determines rates of return for unquantified assets including trademarks. With this complete and detailed model, all impacts related to the value of a trademark can be ascertained, such as investments required in ancillary assets that support the trademark. The model reflects a wide variety of conditions that impact upon the value of a trademark, and is easily adapted to represent multiple exploitation scenarios and probabilistic outcomes.
- Real Options Method (ROM)[79] – a generation beyond the DCF method, with the express inclusion of multiple exploitation scenarios and probabilistic outcomes. It is sometimes implemented using the well-known "Black-Scholes option-pricing model" found in the field of financial instruments.

These economic-based techniques are widely regarded as the most effective. The DCF approach – having gained momentum in the 1960's and 1970's – tends to be the most extensive and highly regarded technique, and is incorporated into the SSVS[80] and IVS[81]. The ROM – a generation beyond the DCF – is superior in nature, but remains new and cutting-edge.

Numerous variations of the techniques are also found, many of which differ in trivial details, such as the "Venture Capital Method", which is DCF in nature, but uses fixed

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[77] Expressed by the formula: `V(tm) = V(be) – V(m) – V(t) – V(ia)`, where `V(tm)` = value of trademarks, `V(be)` = value of business enterprise, `V(m)` = value of monetary assets, `V(t)` = value of tangible assets, and `V(ia)` = value of other intangible assets.

[78] For a brief history of DCF ("a second generation valuation technique") and overview of the process, albeit centred in real estate, see Professor Terry Boyd – QUT, *PROPERTY CASH FLOW STUDIES: FOCUSING ON MODEL CONSISTENCY AND DATA ACCURACY* (November 2002) { identifies factors causing cash-flow model errors, with history of cash flow techniques including DCF }.

[79] Susan Chaplinsky, *Methods of Valuation of Intellectual Property* (2002) { briefly "addresses the methods used in valuing intellectual property, with particular emphasis on valuing patents" }, 4.

[80] See n 48, 23.

[81] See n 62; specifically *Guidance Note No. 9: Discounted Cash Flow Analysis for Market & Non-Market Based Valuations* { describes how to apply the DCF method, and issues involved }.

non-market based discount rates[82] and is thus really DCF but with a few variables fixed for a particular area of use.

4.2.4. Synthesis: validations, perspectives and simulations

Valuations often use multiple methods, or variations of the same method, or different combinations of the elements of a method for the following reasons, some of which are documented in the applicable standards:

- Validation – weaker methods, such as a cost-based approach, can be used in a supporting role as a check on the reasonableness of a stronger method[83].
- Aggregation – multiple methods can be combined to represent a weighted value or a range of values, or some other statistical aggregation: but it is generally not appropriate to take a simple average[84]. The purpose and nature of the aggregation can depend upon the needs of the valuation, for example the weightings may reflect the quality of the inputs to each method.
- Scenarios – multiple future usage scenarios for a property can be reflected in single or multiple methods – preferably with the DCF or ROM methods[85] – by using particular costs and risks (e.g. represented as higher discount rates) associated with the scenario. This makes it possible, for example, to reflect the value of a trademark based upon the expected probabilities of additional licensing opportunities and different business scenarios.

These forms of synthesis can be performed easily by computer systems. For example, Petersona Patents recognises that "the conventional DCF method technique does not allow to adequately [sic] reflect managerial flexibility and uncertainty of future projects", so it has created the "Crystal Ball Real Options Analysis Toolkit" for Microsoft Excel, and the VALFACTOR and VALACTIV methods which are "based on the Monte-Carlo simulation and Real Options" and allow "changing the options" and "evaluating the future advantages and threats from client investments in new technologies, brand development and other projects" [86].

Another example is offered by PLXware[87] which features support for "industry standard valuation methodologies": DCF, "Licensing Comparables Method", "Black Scholes Options Pricing Method", "Relief-from-Royalty Method", "25% Rule", "Real Options/Decision Analysis" along with proprietary methods.

4.3. Processes for performing trademark valuations

The valuation process addresses the total lifecycle of the activity, in comparison to the methods that are a more focused quantitative task. The process must establish

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[82] See n 79, 5.

[83] See n 2, 37.

[84] See n 60, 14.

[85] The ROM method effectively builds in scenarios as a first-class consideration.

[86] Armins Petersons – AIPPI Estonia, 'Intellectual Property Valuation and Intellectual Property Commercialization Trends in Latvia' (Paper presented at the Baltic IP Conference 2003, 7 November 2003) { describes the problems with using various valuation methods in a developing economy }, 10.

[87] PLX systems, *PLXware IP Portfolio Management Software* <http://www.pl-x.com> at January 2004 { features of a software application designed to manage intellectual property }.

the scope and outcomes, and then harness skills and resources to achieve those outcomes, employing the most appropriate methods along the way.

There is standardisation at a very abstract level. The Appraisal Standards Board's (ASB) Unform Standards Of Professional Appraisal Practice (USPAP)[88] contains STANDARD 9 which "is directed toward the substantive aspects of developing a competent business or intangible asset appraisal". It effectively sets a framework for all types of valuation activity, leaving the details to specific circumstances of use such as balance sheet accounting. The BVS[89], IVS[90] and draft SSVS[91] also provide process guidance as either independent standards or a concretisation of USPAP.

The standards and surveyed processes all show a similar structure[92] in the steps that are performed:

- Establish the purpose of the valuation – by assessing the required outcomes, the stakeholders involved, the operating environment, and numerous other factors that bound the scope and focus of the activity. The purpose could correspond to those listed in Section 3, yet with many unique attributes.
- Establish the skills and resources required – because different competencies are required if the purpose is to convince tax authorities, or a judge and jury, such as "experts with different skills and know-how may be required in different situations, such as bankers, venture capitalists, entrepreneurs, economists, accountants, financial analysts, inventors, marketing people and IP counsel – general as well as with specific competence such as patent and trademark"[93].
- Identify the intellectual properties concerned – as there may be numerous formal and informal properties, such as domain names and goodwill, alongside the trademarks and brands that form the economic unit being valued. This could be a complex exercise if multiple countries are involved. The expertise of Intellectual Property specialists is relevant here, and a degree of diligence is required to correctly understand all details.
- Determine the appropriate method(s) – depending upon various issues including established practice, regulations or standards; the nature and quality of the available data; the nature of particular trademark, brand or property; and the stakeholders and desired outcomes. A method that produces low values would be preferred in taxation circumstances, yet one that produces high values would be preferred for calculating licensing value. The choices reflect commercial values and must work within legal and ethical constraints: tax reduction is legal, tax evasion is not.

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[88] Appraisal Standards Board, *Uniform Standards of Professional Appraisal Practice* (2003) { very high level framework for valuation activities }; especially 'STANDARD 9: BUSINESS APPRAISAL, DEVELOPMENT' <http://www.appraisalfoundation.org/html/USPAP2003/standard9.htm> at February 2004 { interpretation of the standard for intangible assets }.

[89] See n 61.

[90] See n 62.

[91] See n 48.

[92] The structure presented is very loosely derived from that in n 93, 29.

[93] See 11.

- Prepare the method(s) – as each has its own particular information and resource requirements. For example, a simple cost-based method might require the collection and analysis of historical data related to the trademark, followed by an adjustment given the current and expected future economic life of the trademark.
- Execute the method(s) – usually a computational task, increasingly performed by computer software.
- Synthesise the results – to meet the specific outcomes and to factor in other considerations. For example, the results from multiple methods may have been obtained, but one result is discarded for having yielded a large value in the circumstances that a low value is preferred.

These steps are not the only possible steps, and although they are largely performed in sequence, a degree of iteration is probable. For example, other relevant intellectual properties could be discovered while analysing related commercial assets and materials while executing a method: this would require a revision of earlier decisions, skills and resources required.

These activities can become complex when international or community rights are involved, including domain names, all of which must be assessed in the context of the economic behaviour of the organisation[94]. For example, failing to identify an anti-competitive term in a trademark license during the earlier steps will result in a value with a critical flaw, as the value does not account for the risk of action and fines. The extent of diligence in the process is likely to vary widely in practice.

The following examples illustrate two commercially deployed processes oriented towards brands:

Goldmarks plc, a US based specialist, uses a proprietary Brand License Valuation (BLV) method[95]. It focuses on "'brand fit' (reflecting category dynamics) and 'business fit' (reflecting licensee dynamics)" and employs five steps: (1) auditing the licensor's business; (2) conducting a market analysis; (3) assess the License Value Drivers (LVD); (4) determine license value; (5) create the license proposal. The market- and economic-based methods are present in steps 3 and 4.

Brand Finance plc, a UK based specialist, uses a variation of the DCF method[96]. The process begins with an analysis of existing data, such as financial forecasts, and interviews designed to establish key issues in the industry and the particular business. The results are used to calculate the value of the business and its constituent elements, including its trademarks, to provide an understanding of the total impact of the brand on the business. Discount rates are also determined from this data. The completed analysis offers a detailed understanding of the business earnings for all market segments. The "contribution a trademark makes to the wider value of the branded business" is determined by the relief-from-royalty and earnings-split methods by using market comparable and empirical licensing studies.

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[94] Neaher & Collins – White & Case LLP, *Intellectual Property Due Diligence in International Transactions* (August 2000) { notes a number of issues often overlooked in due diligence }.

[95] Kirk Martensen – Goldmarks, *Valuation of Brand Extension License Opportunities* (November 2003) { provides an overview of a proprietary valuation method used for brand licenses }.

[96] David Haigh & Tim Heberden, 'Doing the numbers: The value of brands and trademarks', *Trademark World #156*, April 2003, 37 { provides an overview of the approach used by Brand Finance to assess brand and trademark values }.

4.4. Selection of appropriate process and methods

The choice of process and method is dependant upon numerous factors[97], including the experience and skills of the those executing the valuation, relevant practice and regulations in the area, the quality and availability of materials and resources, and the preference for lower or higher valued results. It is not possible to be prescriptive, and there is really no single "right" way, yet there are "wrong ways". Two examples from US court activity illustrate the point.

In 1995, the US Tax Office issue a notice to DHL seeking USD$270M in deficiencies and penalties over the taxable value of a sale involve the "DHL" trademark in 1990-1992. DHL had valued the trademark at USD$100M, but the Tax Office valued it at USD$600M. In 1999, the Tax Court revised the figure to USD$100M (after some other adjustments at issue). In 2002, on appeal, the 9th circuit considered an issue on the valuation. The Tax Court used a residual value-based approach, yet DHL argued that it's experts had used the more superior "'income' approach". The 9th agreed with DHL that the residual approach had its deficiencies, but "nonetheless, these shortcomings are debatable and certainly do not warrant reversal in this case" because of a 1981 precedent had found that "the tax court has 'broad discretion in determining what method of valuation most fairly represents the market value of the stock in issue'", and a broad brush was "to be expected given the imprecise art of valuing an intangible asset", and "DHL may dispute the exact figures used by the tax court", yet it failed "to demonstrate clear error", either in "methodology, or in its final result". The 9th also stated that the "original USD$600M valuation of the 'DHL' trademark may have been 'arbitrary and unreasonable', but that issue was not under review[98].

In an action against Nestle Holdings Inc, the US Court of Appeal commented on the use of the relief from royalty method to value trademarks, stating that the method "necessarily undervalues trademarks" and although "royalty models are generally employed to estimate an infringer's profit from its misuse of a patent or trademark", its use "in the case of a sale is not appropriate because it is the fair market value of the trademark, not the cost of its use that is at issue". The method "fails to capture the value of all the rights of ownership", and the Commissioner "fundamentally misunderstands the nature of trademarks and the reasons why the law provides for exclusive rights of ownership in a mark". The US Tax Court was "instructed to examine alternate methods for determining the fair market value of the trademarks in question"[99].

The standards leave the choices to the valuation expert, providing some guidance on factors to take into account and requiring that the process and method is appropriate for the context of use, and can be justified by reasoning.

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[97] Gordon V. Smith & Russell L. Parr, *Valuation of Intellectual Property and Intangible Assets* (3rd ed, 2000) { encyclopaedic treatment of valuation from recognised experts in the field }.

[98] *DHL Corp. v. Commissioner*, 99-71580, 00-70008, 99-71592 (CA-9, 2001), 5491.

[99] David G Weiler – AUS Consultants, *Using Royalty Rates as Valuation Benchmarks* <http://www.royaltysource.com/urr2.html> at January 2004 { refers to the side-effects of using the "relief from royalty" technique }.

5. Factors affecting the value of a trademark

5.1. Overview, perspectives and themes

An inherent part of the valuation activity is that it considers the factors that impact upon the value of a trademark[100]. These factors are "both essential and elusive"[101]: they are not always present, and if present, to varying degrees – they change as a result of new technologies, social developments, environment effects and myriad of reasons that make it difficult to tie them down to anything but generalisations.

However in the age of viewpoints, it is possible to identify several perspectives to work from. From a subject-matter perspective, it is suggested that for intellectual property, these value "determinants" can be legal, contractual, judicial, physical, technological, functional, economic or analytical in nature, with trademarks primarily affected by contractual and economic factors[102].

The economic perspective, obsolescence is primary, either physical, which has no relevance to trademarks; functional, where trademarks can become old in form or style; or economic, which is at the heart of a trademark[103]. The latter can involve event obsolescence, for reductions due to transactions or events outside the course of normal activities; technological obsolescence, as a result of ever-increasing march of technology; product obsolescence, resulting from lack of use, importance or relevance; and cultural obsolescence, reflecting changes in society and values.

A utility-based perspective looks at prior use, current use, and future use – with the latter consisting of potential use and optional use.

The entity-relationship perspective centres on the epistemological construct of a trademark, in that it consists of a "right" for a "mark", associated with "products and goods" in a "market" as a badge of "origin", subject to "externalities".

Taking a viewpoint from one perspective involves the inter-related consideration of the other perspectives. This review chooses the entity-relationship perspective.

It is left to the various processes and methods to utilise the factors as part of determining "value": the simplest use of a cost-based approach does not consider them at all, whereas the ROM approach requires all of them to account for multiple probable future scenarios.

5.2. Factors arising from the right and the mark

A trademark can be susceptible to invalidity for not meeting the statutory criteria or for procedural faults. It may also have, or can, become generic, incorrectly assigned, or even unwittingly abandoned. The extent to which any of these have occurred will weaken the trademark's value.

Further complexity is introduced when the trademark has regional or international protection, or even when it does not. For example, a trademark may meet distinctiveness requirements in a local territory, yet may not in another because of

[100] See n 11, 30.

[101] See n 60, 81.

[102] See n 13, 9.

[103] See n 60, 109.

different absolute or relative issues. Hence, there exists a barrier to exploitation in that territory and the trademark's value would be reduced. However, other reasons may mean that the trademark is unlikely to be ever exploited there, in which case these barriers are of no consequence to the value.

If the trademark does, or can, have effect in a particular territory, its value can be eroded if there is an increased likelihood of infringement actions. This could occur if there is a real weakness in any part of the process of identifying, prosecuting or enforcing an action. These weaknesses could be for any number of reasons, such as ineffective border and customs controls that fail to help stem a tide of counterfeits, or differing evidential standards. Evidence of successful infringements, or any other mechanism that reduces the effect of the rights such as a legal loophole that allows for some circumvention of the rights, is useful data to help quantify the impact.

The effects of harmonisation, such as those resulting from activities by the WTO & EU, along with the ubiquity of information and related technologies through mediums such as the Internet, has made it easier to identify – and in some cases contain – these factors.

Quantifying these issues is a result of diligent legal analysis of the rights and their applicability to the trademark in question, in terms of the numerous territories where the right is currently, effectively or forseeably held. Inspection of the contractual agreements, or other legal instruments, surrounding the ownership and current use of the market may also reveal additional factors. Consideration is also required for the nature, trends and other current experiences in the various territories. Awareness of the bigger picture may indicate a direction that statutory or case law is moving, suggesting that the rights in certain applications are being weakened.

As value includes opportunity along with risk, then the expected future benefits from any exploitation scenarios will need to offset the legal costs, barriers and risks to secure rights in other territories.

The trademark itself may become obsolete in style, requiring the occasional cost of revitalising it, or obsolete in concept, such as a slogan referring to the benefits of unleaded petrol. Cultural changes may not only reduce its value, but also cause it to become a liability, perhaps when a phrase is used that becomes considered racially discriminatory, or when values change, such as with the acceptance of "fcuk".

The trademark may become generic or non-distinctive through use, as occurred for the product "aspirin" or the phrase "feed the man meat". Alternatively, it may become so distinctive as to be untouchable, such as with "McDonalds". A strong trademark lends itself to many possible opportunities, and thus commands a higher value. The specific opportunities available are sometimes immeasurable, yet this can be said of the negative risks. Recent evidence of successful use of a trademark, or of similar trademarks provides the strongest case for a return from the high value attached to it.

5.3. Factors arising from the goods and services

Trademarks are qualified to specific categories of goods and services as badges of origin. The trademark's value may be diminished by the fact that it only part contributes to the overall value of the combined product and brand. For example, a product may become distinctive more for its form and function than for its brand, name or origin, such as the Chesterfield lounge or the Wassily chair. In these cases, design and patent rights may contribute higher overall value.

Goods and services become obsolete in many ways, some of which can be predicted by understanding surrounding trends, developments in technology and culture. Technologically old goods may reflect badly on a brand or trademark value, and diminish it, yet this could also be an opportunity to reposition the goods and build on nostalgic interest.

Obsolescence is possible from multiple views: cultural, functional, quality, durability, technology, style and others. Some of these changes cannot be predicted, as the future is full of disruptive and unforeseeable changes: the far away destination is known, but the oncoming twists and turns are not. Examples include automatic transmissions, once something of distinctive note, yet now an everyday occurrence, or cigarettes, which are increasingly subject to health restrictions: the product may have value, but the transportability of the trademarks and brand to other products may never shake off the association with unhealthy items.

Understanding these issues requires intimate knowledge of product and its market, revealing its numerous strengths and weaknesses. The future worth of a trademark may be a function of the relative cost to leverage its existing worth into a new area. Recent examples include British Petroleum, with its new environmentally friendly future focus as BP, or Kentucky Fried Kitchen's connotation-free future as only KFC – both of these brands and trademarks are strong, yet the value of their goods and services is weakening. The value of the trademark would have continued to weaken unless it was repositioned in terms of its goods and services.

5.4. Factors arising from the markets

Counterpoint to the fact that goods that are associated with a trademark is the fact that these goods operate within particular markets.

Obsolescence may occur in markets: some of which are notoriously trendy such as children's cartoon characters, or eradicated as a result of technological change, such as dial up information services as a result of the Internet.

In a market with high barriers to entry, the value of an existing trademark is higher than one in a market with low barriers. Strength in particular, or multiple, markets will also yield stronger value. The nature of the market matters: while cigarettes may command impressive cash flows, the connotations of that market may mean that there is little possibility of extending the trademark elsewhere. Alternatively, in the luxury goods market, the trademark may command weak cash flow but strong premiums, with much value to be gained from increasing the scope of coverage. However, with luxury goods, too much scope can decrease value. Other markets are highly competitive or regulated, and although these conditions affect the value of the trademark, the nature of the impact is question of fact.

The relative maturity of the market is a consideration. Trademarks in online markets, with an example being Amazon in online bookstores, may command a high value for their ability to expand into other immature online markets where high growth potential exists, and low value for their ability to expand out into traditional bricks'n'morter markets.

The demand in a market is an important element. In a sale, any economic value calculated for a trademark may be outweighed by the leveraging ability of high demand. This was observed in the online access market, where established brands – such as AOL – commanded a high value as a result of the desire for other brands – such as Time Warner – to acquire an established and recognised presence.

5.5. Factors arising from the origin

Trademarks and brands are often – but not always – associated with an origin. Vegemite, for instance, is a strong brand and trademark associated with Australia, yet it is perhaps not as well known that its manufacturing origin recently changed to an American owned company. This change of ownership, while not affecting the product or the trademark per se, alters the perception that the brand is Australian owned, and diminishes the value of it being able to exploit opportunities based upon its high worth as a cultural icon because any such exploitation may be seen as deceptive (not in the legal sense). In this case, the efforts by Dick Smith to establish a "wholly Australian owned" brand can be said to have brought this value element into the public eye and have diminished the worth of other trademarks as a result.

The value of trademark is often relative to other factors specific to its origin. For example, production economics of scale or the ownership of a portfolio of products and markets may make a new trademark worth more to the acquirer than it currently is to the owner, yet not worth as much to another potential acquirer. The value to the acquirer is increased depending upon the ability the trademark has to provide cost benefit, greater market share, or lower cost of production.

A recent study suggests that the mere filing of a trademark action in an enterprise tends to diminish the value of brands associated with that enterprise, irrespective of whether it wins or loses the action[104]. Another study suggests that during a bankruptcy, the value of a trademark will fall by 90%-95%, yet "if the trademark is connected with a very successful brand, and that brand is about to be acquired, then the value of the trademark goes up quite substantially"[105].

5.6. Factors arising from externalities

Various other externalities always impact upon value. In the simplest case, the interest rates may affect decisions about levels of investment, which can affect whether a trademark's value can be maintained or improved. Political risks may work against the value of a trademark in a foreign territory, perhaps because of issues of market transparency and the ability to complete effectively. It can be envisaged that a value calculation will apply a discount derived from published reports that rank countries according to their transparency levels or their degree of legal maturity.

6. Current practice and trends in trademark valuations

It has become generally accepted that intangible properties have substantial economic importance, and effective use of their valuations is key to their management. The reality is that progress needs to be made on several fronts: fortunately it is occurring.

6.1. Valuation execution is maturing, yet standardisation is required

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[104] Bhagat & Umesh, 'Do Trademark Infringement Lawsuits Affect Brand Value: A Stock Market Perspective' (1997) *2 Journal of Market Focused Management 127-148* { quantitative analysis of stock market data to examine impact of lawsuits }, 144.

[105] Weston Anson, 'Trademark Valuation: The How, When and Why", *10 Thomson & Thomson Client Times 3, August 2003* { generally addresses the topic }.

The traditional cost-, market- and economic-based approaches are identified as "not working well for intangibles" so new approaches such as the "Balanced Scorecard" and the "European Quality Foundation Model" are being used[106]. This reflects a broader societal trend towards modelling and simulation, and is also exemplified by the increasingly popular ROM approach even though current consensus rests with the DCF approach[107]. The new generation of economic approaches capture the multivariate complexity of "value", and can be used for simulation, forecasting and planning activities, especially when assisted by computer systems.

Concern exists that the valuation approaches lack common agreement and standardisation[108]. In a 1997 survey of UK companies on the topic of trademark valuations, 52% agreed that generally accepted methodologies for valuation were required, yet 57% either agreed or were not sure whether they existed. However, the respective professions are making progress on these issues. In the US, standards for the valuation of intangible properties are being developed to address recent needs imposed by accounting standards[109], and in China, potential practicing trademark valuers and valuation institutes must pass standards and examinations set by the Chinese Trademark Office[110].

6.2. Valuations are being applied more effectively, but opportunity remains

In a 1997 survey of UK companies on the topic of trademark valuations, 57% of respondents did not value their intellectual property for internal management purposes, however 76% did in the context of transactions and only 26% did for raising finance[111]. A year later, a separate – more general – survey of 253 leading North American companies revealed that 63% felt that it was important to measure innovation, yet only 14% were measuring it, and only 10% were using the measures to develop strategy[112]. In 2001, "too many firms" had still "so far failed to grasp the opportunities", observed an experienced professional, stating that "too far few boards are taking responsibility for intellectual asset management", as "the job is usually handed down to a marketing manager or to an in-house lawyer"[113].

This situation has been improving though, as organisations are adopting Intellectual Capital Management (ICM) programmes and actively managing their intangible assets[114] and thus focusing on value. This trend is apparent across the economy, even in non-profits and charities, where for example the WWF made its trademarked

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[106] See n 1, 21.

[107] See n 2, 282.

[108] See n 56.

[109] See n 48.

[110] Mark Abel, 'Is China More Advanced than the West in its Approach to Brand Valuation', *Trademark World*, March 1997 { provides evidence of the advanced nature of recent Chinese trademark laws }.

[111] Bezant & Punt – Arthur Anderson, *The use of intellectual property as security for debt finance* (1997) { detailed study, including surveyed evidence from current UK companies, on the issues }, 50.

[112] From Nick Brontis, 'Asserting knowledge assets: a review of the models used to measure intellectual capital' (2001); quoted in n 57, 23.

[113] See n 42; attributed to Maggie Mullen.

[114] Dykema Gossett PLLC, 'Extracting Maximum Shareholder Value from an IP Portfolio', *Intellectual Property Developments*, Fall 2003 { outlines the use of Intellectual Capital Management (ICM) }, 3.

panda symbol the focus of a licensing scheme[115]. The reliability of valuations has opened up insurance opportunities, which in turn has strengthened the ability to leverage trademarks for other purposes. Enterprises are strategically seizing these opportunities for advantage. The trends are strongest with brands, which are the most common and lucrative vessel for trademarks[116].

Largely the driving force for valuations has been the requirements for taxation and accounting. Changes in the last decade that require more detailed accounting for intangibles[117] have elevated valuation practices and yet exposed their shortcomings. This increased level of necessary valuation activity is likely to spill over into greater use of valuations for other purposes within enterprises.

6.3. Valuation has gained high-level attention: it's part of the "new economy"

The topic of valuation has received high-level attention because of its importance to economic growth, especially in the "new economy".

The OECD pursued various issues concerned with intangibles, commencing with a 1992 workshop on measuring intangible investment. Since then, "there has been continuing interest in intangibles … at a high level – in government, the private sector and academic circles"[118]. The OECD workshops are an important source of material for topical issues and current directions in the area.

The International Chamber of Commerce (ICC) has valuation squarely on its 2003 intellectual property roadmap and it has been there since at least 2001[119].

In 1999, the Danish government set forth on an initiative to find "suitable valuation methods for use in industrial enterprises in order to focus on the strategic management of their patents and trademarks"[120]. In 2000, the UK Department of Trade and Industry (DTI) looked at business competitiveness and found a strong case for establishing a research programme into the measurement and valuation of intangible assets[121].

6.4. Technological and environmental changes bring challenges and benefits

Increasingly powerful and sophisticated computer software offers storage and complex modelling of valuations, which reduces the cost and effort of using

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[115] Jennifer Pierce – Charles Russell, *Intellectual Property for Charities: Exploiting Intellectual Property* (18 November 2003) { pitches the issues of identifying, valuing, offering and controlling exploitation as relates to charities }, 1.

[116] See n 2, 282.

[117] Not to mention the very public corporate failures that have resulted from manipulative uses of intangible assets.

[118] Organisation for Economic Co-operation and Development, *Amsterdam 1999: OECD Work on Measuring Intangible Investment* (1999) <http://www.oecd.org> at January 2004 { provides the background and all the papers for the workshop series }.

[119] See n 56; and also previous years.

[120] See n 5, 1.

[121] 'Final report of a feasibility study concerning: A Programme for research into the measurement and valuation of intangible assets' (Report prepared by the University of Manchester for the Department of Trade and Industry, April 2000); but study was not commissioned, though DTI point to a broader follow-on ESRC study on "the evolution of business knowledge" with a key theme to investigate "the measurement and management of intangible assets".

valuations to explore exploitation and other management scenarios[122]. Thus valuations become more timely and relevant, and the valuation activities move from a passive to an active role in decision-making processes. This trend is in keeping with similar trends involving the use of information technologies to manage and provide up-to-the-minute detail about an enterprises' state, and to harness that information for forward navigation[123].

The introduction of new technologies also has an impact on the factors that affect trademark values. The importance of domain names, and the expansive reach of the Internet bring their own weights. There are always new and unanticipated challenges that require adjustments to valuation uses, processes and methods.

7. Conclusion

There is no evidential doubt that trademarks have value either by themselves or as an inseparable part of the value of an economic vessel such as a brand. Quantifying this value, in all of its dimensions, is absolutely vital for the effective execution of a wide variety of business, financial and legal activities. An informal consensus exists over several valuation approaches, yet standardisation is sorely lacking. However, the circumstances are improving: there is much high-level focus on valuations, they play a higher-profile role in organisations, and the valuation profession is maturing. It will make for a better future if all parties can achieve a common international focus to develop a codified set of practice, yet it is clear that valuations are a central core of trademark professional practice.

8. Further reading

The footnotes provide the necessary tangents for individual detail. The next step to understanding trademark valuation in its entirety is to consult the comprehensive and encyclopaedic works of expert Gordon V. Smith (see notes 60 & 97) with case studies and worked examples (see note 124 for another). These must be balanced against contemporary and forward-looking issues resulting from the new economy and new approaches (see notes 1 & 57), along with the applicable standards (see notes 48, 61, 62 & 88). Trademark World offers occasional updates and relevant book reviews (see notes 11 & 30), with a rash of focus on topical issues such as domain names (see note 59) and changes to accounting rules (see note 96). Law firms are a good, though intermittent and low detail, source of updates (see notes 17 & 125) – presumably the detail is reserved for billable clients.

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[122] See n 86 & n 87.

[123] 'Survey: The Real-Time Economy', *The Economist*, 31 January 2002 { with articles discussing the use of information technology to create "real time enterprises" }.

[124] Tim Sawyer, *Trademark Valuation for Rolling Stone Magazine* (2003) <http://web.archive.org/web/20030611012005/http://cba.unomaha.edu/faculty/mohara/web/VoIPp3SawyerRollingStone.pdf> { provides a practically oriented worked example of a valuation }.

[125] Deloitte & Touche, 'Valuing Financial Institution Intangibles', *Valuation Update,* Spring 2002 { summaries the impacts resulting from the introduction of new US accounting rules }.