Feature

By **Alexander Hagen**

Capturing the intangible

Most businesses know that trademarks are valuable assets; the challenge comes in quantifying that value and using it as a springboard for growth. Trademark valuations supported by regular IP auditing could be the answer

Brand recognition is now widely accepted as an important measure of company success and value. From boardroom directors to end consumers, we have come to understand that the ubiquity and success of a major brand – whether it be Apple or Google, Coca-Cola or Nespresso – go hand in hand with brand distinctiveness, goodwill and reputation. Often this is the case even if we do not always know what it is about that brand that makes it quite so special or successful – its design, perhaps; its use of colour; the messaging in its slogans; the state of mind it seeks to epitomise; or a combination of all these and more.

Although brand value has risen on the agenda of company directors and their stakeholders, the legal system that supports the way in which a brand is built, captured, expanded and protected is less readily understood, recognised or appreciated. Yet without adequate trademark (and design) protection, there is arguably no brand value at all – or at least, no value that a company can truly capture and call its own.

Out of sight, out of mind

Trademarks and associated forms of intellectual property are the one constant in brand creation. A product's name, the design and colour of its packaging and the corporate logo are not just marketing tools – they are legal rights which can bring great benefits and growth when nurtured and used properly.

Unfortunately, trademarks are not quite as exciting to the layperson as they are to IP professionals and are often just considered a box-ticking exercise before the real fun can begin. As such, trademarks are the unsung heroes of brand success, not least because many business heads only really notice their importance when they are not working as they should. It is little wonder, then, that even the more brand-focused companies can sometimes forget to consider intellectual property fully when expanding into new markets, product ranges or geographies.

Part of this is due to the difficulty of accurately capturing the value of a trademark or portfolio of trademarks to a business. After all, if you are unable to put a figure on the financial value that you derive from that asset, then how can you convince colleagues elsewhere in the company to prioritise intellectual property in their business or product strategies? It is the difficulty of truly capturing that added value that has led many organisations to consider trademarks to be a cost centre, rather than an asset that drives value and profit to the bottom line. This is despite the fact that it is possible to turn the cost of IP acquisition into a profit by realising the value of the resultant intellectual property on the balance sheet.

The challenges of trademark valuation

However, unlike many forms of intangible assets, IP rights are generally worth more than the simple sum of their parts and the costs of acquisition and maintenance are rarely relevant during valuation exercises. Similarly, there are obvious benefits in deciding, for instance, that as brand value is so dependent on the trademark rights that protect it, the value of that trademark accounts for a percentage of each product's revenue. Yet this too is only part of the story. When it comes to trademark value, it is not just the actual revenue that is important, but also the potential that the trademark offers in terms of brand expansion and reputation building.

Most brand valuation experts prefer to assess value from the perspective of relief from royalty. In other words, if I were to license this brand into my business, what might I expect to pay? The idea is that, because it owns the trademark, a company is relieved of the need to pay another party a royalty for its use. Thus, the value to its business is the amount that it is deemed to have saved.

Such IP-driven royalty payments are generally based on a percentage of product sales as negotiated between the two parties – although that percentage may vary depending on the trademark's perceived strength and visibility, as well as the market opportunities that the company is targeting.

Nonetheless, this question of strength and visibility is often skipped over during valuation exercises. Value is taken to represent what that company would be willing to pay to use the brand name. But what if it later emerges that the assets on which that brand name is based are not quite as robust as the company assumed (eg, if they are successfully challenged or overturned by another party)? Does this not make a mockery of the original estimates?

Do you own what you think you own?

As the first step towards any trademark valuation exercise, at Novagraaf we focus on identifying possible weaknesses that may expose a company or undermine its brand value – which are of equal

importance when it comes to capturing market worth and potential.

Typically, these weaknesses arise where a company's IP strategy has not kept up with its wider business or product strategies. However, often it is just a result of the way in which businesses evolve naturally. Trademarks can conceivably go on for ever (or at least for as long as they are properly renewed and maintained). Meanwhile, companies, employees and brand management strategies ebb and flow, new management styles come in and companies change the ways in which they capture, acquire, manage and prioritise intellectual property.

A typical global company, for example, may have switched back and forth between centralised and localised approaches to IP registration and management – or it might have merged or acquired new portfolios, sold off unwanted brand portfolios or sacrificed rights to cut costs or avoid disputes. The importance of updating records and registering new assets or existing assets in new iterations or geographies can frequently be overlooked in the rush of change. But what if a right that is important today was not looked after properly yesterday?

It may sound obvious, but trademark rights need to be properly registered and maintained if they are to have a real, rather than perceived, theoretical value. Thus, the first step in any valuation exercise should be to look in detail at what it is that a company actually owns, the strength of that registration and what it offers the business in terms of market share and future expansion. This is the principle that we use when we begin the valuation process for our clients and also for the work that we undertake with our partner Brand Finance to provide trademark valuations for the brands that feature in its annual Brand League Tables.

The five 'Ws' of valuation

Our assessment of the strength of a trademark's value takes the form of a top-level trademark audit, in which we consider the brand's defined market and product strategy (in terms of what is evident in the market as well as its own plans) and that of its competitors. We then contrast this with the company's existing IP assets and its wider IP registration and enforcement strategy (eg, by screening relevant registries in relevant markets). The end goal is to analyse whether the company's trademark housekeeping matches up to its strategy and market activity. Analysis of peer activity also provides valuable benchmarking insight.

Our methodology employs a five-stage process to assess the extent to which a company's specified brands are strategically protected by trademark registrations in key markets and territories, as well as the comparable strength of those registrations. It does so by targeting what we have termed the five 'Ws' of trademark value: who, what, what for, where and why?

- Who owns the trademark rights (ie, is the appropriate legal ownership in place; are the records correct)?
- What kinds of trademarks are registered (ie, word marks, device marks, word/device marks, black and white, colour, lay-out, trade dress, shapes, slogans, corporate brands or product brands)?
- What are the trademarks registered for (ie, goods/services, standard/broad/limited specification, relevance for present and/or future activities, for own goods/services or also for pre-emptive goods/services – for example, goods in industries which are not identical, but are to a certain extent related, to the company's sector, or the goods/services of competitors)?
- Where are the trademarks registered (ie, which territories, countries of primary (A), secondary (B) and tertiary (C) interest, relevant now and/or in the future)?
- Why is the company approaching IP management in that way (ie, how does its IP strategy compare to its overall business strategy?)?

Using this structure as a guide, our analysis covers such factors as scope of coverage, effective use of trademark registration systems, ownership and portfolio consistency, with the results used to inform further study of the relevant company's overall strategic approach to its trademark assets.

The findings are also used to compare the company against the industry benchmark to identify how the business ranks in its specific marketplace and against its peers. For the specific purposes of the Brand Finance League Tables, for instance, we give the company a score based on how compliant it is in comparison to industry best practice, so that Brand Finance can weight its overall brand value score accordingly.

These top-level valuation audits tend to focus on core brand rights, so as to provide companies with an immediate health check of their key trademark assets. However, the principle can be applied across a business to include all types of IP asset, both registered and unregistered.

Digging deeper

Understanding the strategic value of intellectual property is the first step towards an effective IP (and business) strategy, and conducting a trademark valuation represents an important bridge towards this goal. It is a compact, quick and valuable step to undertake when a company wants to dig into its assets and provides valuable insight in terms of portfolio weaknesses and competitor benchmarking. However, it is often only the tip of the iceberg.

Once a company begins to understand the actual value of its own brand in trademark terms, how that compares to its peers and the possibility of building additional value in the future (or diverting the implications of identified weaknesses), the logical next step is to dig deeper into its brand positioning and overall IP strategy. This can be achieved by undertaking a full value-based IP portfolio audit.

A portfolio audit is the total screening of a company's IP assets. Its focus is driven by the company's business aims and future plans, and its finding should drive the creation of an IP strategy that translates business goals into a complementary strategy for managing and investing in intellectual property.

To achieve this, we audit the company's entire IP portfolio to see what is there already (and what is missing), what supports the defined business goals (and what does not) and where the existing portfolio diverges from the end goal. This is an important exercise, not only for making sure that rights are captured and fully understood, but also as a means of deriving additional value for a company.

Trademarks are an important and constant piece of the portfolio, and a major factor in any valuation exercise. However, they do not function in isolation. From a detailed audit perspective, trademarks should ideally be assessed in accordance with a company's wider IP portfolio. This will include not only other brands (not just the key company or product names), but also all other forms of intellectual property, including designs, patents and unregistered rights, and other forms of intangible assets, such as copyright, goodwill, trade secrets and know-how.

The audit also holds major strategic benefits in terms of building a roadmap for future product launches and company growth. Clearly, an IP portfolio needs to grow and evolve as a business does. However, with the focus often on acquiring trademark, patent, design or domain name rights, few companies have the time to step back and fully evaluate the efficiency of their older IP rights or their

IP portfolio as a whole. An IP audit enables them to undertake a detailed health check of their IP portfolio in light of usage/coverage, budget, company strategy and future plans. A thorough, well-performed IP audit also forms an often underestimated, frequently forgotten, but crucial part of due diligence for M&A projects.

Stepping back to step forward

As a business changes, it may naturally move away from heritage products or services, changing brand names or product designs, licensing out rights to valuable assets that are no longer being used or taking goods into markets where protection may not actually exist. Similarly, portfolio sales, M&A activity, changes of business address or ownership and licensing or franchising agreements all have a major impact on the validity and value of IP rights. This is why it is important to undertake regular portfolio audits to ensure data accuracy, and to identify unused rights and gaps in protection.

Companies should expect the unexpected when undertaking any audit exercise. When you dig back through a portfolio, it is not unusual to come across a few hidden gems, as well as the odd problem or two. However, an IP audit should not be considered a legal burden, but instead a means of using intellectual property as a building block and facilitator for growth.

During audit exercises, we typically find that the average IP portfolio includes:

- rights that are no longer active (eg, that were acquired for products that have been discontinued, renamed or redesigned, often during merger or acquisition);
- oversights which leave the company vulnerable (eg, where IP acquisition has not kept up with business activity, core rights are isolated or left unmonitored, or rights are simply out of date or incorrect); and
- duplicate registrations that could be consolidated to save money.

An audit will identify these and address key business concerns, such as the following:

- Does the company own what it thinks it owns?
- Is it paying to maintain rights that it no longer needs?
- Are its core rights appropriately protected, maintained and enforced?
- Are there gaps in coverage that may leave it vulnerable?
- Are there deficiencies in the records that may undermine the validity of its rights?
- Is it missing out on IP licensing royalties (or is it in breach of in-licensing terms)?
- Does it have the information at its fingertips if its needs to react to infringement or infringement actions against it?
- Does the IP portfolio reflect the state of, and future plans, for the business?

There can be cost-saving benefits too. In some cases, we find that auditing and alignment exercises can result in savings of up to 30% of a company's yearly cost of IP ownership. This is due to the proliferation of duplicate registrations which could be merged, as well as unexploited rights and the opportunity to save money spent on non-core assets. Taking the global perspective also enables companies to leverage the cross-border effectiveness of enforcement and litigation strategies, which can reduce and rationalise costs drastically.

Addressing vulnerabilities

Most importantly, however, by digging into the IP portfolio, the audit enables companies to identify and address vulnerabilities, and thereby build and secure trademark value.

Typically, these vulnerabilities tend to be:

- market-based (eg, key territories where a company is not protected/its rights are due to expire);
- oversights in protection (eg, assets that have not been, but should be, protected – such as important design features on product packaging);
- oversights in record management (eg, rights that are inaccurate because they have not been properly transferred or updated);
- important rights that may be exposed (eg, unused/isolated trademarks, trademarks that have been registered but are not being monitored, trademarks that have been registered without prior trademark searches and competitor/infringement activity that has been left unchallenged);
- licensing/joint ownership contracts where rights have not been appropriately maintained, contracts are not being enforced or royalties have not been claimed; or
- manufacturing/distribution contracts (eg, ensuring safeguard of trade secrets and adherence to licensing terms).

For smaller businesses, the audit can be undertaken relatively rapidly. For larger, multinational corporations, the process will generally be longer and more complicated. Here, a prioritisation exercise will be necessary, so that companies can begin with their more important (or core) rights and move through the rest of the portfolio in order of importance, from core rights that deserve the highest levels of protection/investment (eg, company name/key products) through to non-core rights (eg, those that are nice to have, but not essential).

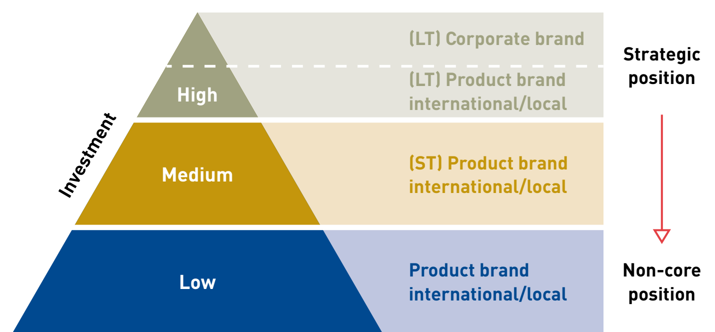
What is core?

Of course, core trademark rights from a legal perspective are not simply the names or signs linked to a company's most successful products. They are also those rights that are most affected by the ways in which a business manufactures, trades and moves its goods. The best way to identify them is by plotting assets against a business (including its heritage, existing and future launches), and looking at the countries in which products are made, sold or transported, as well as those areas of greatest risk – whether that be from counterfeiting/grey-market trade or competitor activity.

This insight enables companies to design an informed strategic approach. In other words:

- corporate objectives inform brand architecture, which informs brand strategy;

Figure 1. **Brand architecture**



[Key: LT = long term; ST = short term]

- brand and business strategy translates into IP strategy; and
- the resulting IP strategy is driven by prioritisation (long term/short term) of corporate/product brands and international/local brands – the latter may require different levels of investment in accordance with IP policy.

Building trademark value

A detailed portfolio audit gives companies greater certainty over the value of their assets, and enables them to increase and secure that value – for example, by shoring up holes in protection, correcting errors in records or using unwanted or unused assets to drive additional revenue through licensing or sales. It is also an important tool for companies preparing for due diligence or negotiations as part of a sale, merger or initial public offering (IPO).

For this reason, we recommend conducting regular (ideally annual) IP audit health checks to ensure that IP portfolios and planning evolve as a company does, and additional *ad hoc* audits where required. M&A projects, IPOs, changes in the company and strategic changes in whatever form should be prompts for legal and business heads to review their IP strategies to ensure that they are aligned with future activities. Instituting annual audits – for example, as part of budgetary and business planning meetings – will also ensure that a business continues to focus on intellectual property, both as a means of protection and as a method for generating revenue through licensing, financing or as part of a merger or business sale.

Ultimately, brand value is an attractive and easily understood concept against which companies can measure success and strive for improvement. However, companies should not overlook the IP assets that support it. The ability to measure and understand the value of IP rights is crucial to the economic success of any modern business. Properly maintained, trademark assets can be used not only to protect and enforce brand rights, but also as a mechanism for future growth and profit. But before they can build on those assets, companies first need to know what it is that they own, the strengths and weaknesses in their portfolios and the opportunities for future expansion. It is here that trademark valuations supported by regular IP auditing can make a real difference. WTR

Alexander Hagen is managing director, global clients in the Amsterdam headquarters of IP consultancy Novagraaf
a.hagen@novagraaf.com