Why is ‘Brand’ Missing from Boardroom Discussions?

Despite brands being central to business success, their health is infrequently discussed in the boardroom. Why? Simply put, brands are not treated in the same way as other assets on corporate financial statements.

BRANDS ON FINANCIAL STATEMENTS

Illogically, the treatment of brands on financial statements varies depending on how they came to be owned:

- **Acquired brand** – A brand that is acquired from an external entity may, and often does, have its value placed on the balance sheet at the time of the transaction. However, as soon as it is placed on the balance sheet it becomes “moribund;” its value is periodically checked but only changed if it falls.

- **Internally developed brand** – A brand which a company has built over time is not recognized as an intangible asset and therefore does not have a separate value on the balance sheet. In effect, the value of the brand is hidden from sight within the value of the company itself.

  International Accounting Standards puts it this way:

  \[
  \text{Internally generated brands...shall not be recognised as intangible assets.}
  \]

  \[
  \text{Expenditure on internally generated brands...cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognised as intangible assets. IAS 38 paragraphs 63-64}
  \]

THE PROBLEM WITH MORIBUND BRAND VALUES

While the ‘silence’ within financials for internally generated brands can lead to governance issues, the problem for acquired brands is even greater. Specifically, the restriction on raising an acquired brand’s book value sends a misleading signal to the market as to its state. A healthy, rapidly improving brand is reported in the financials the same as a stagnant brand generating no growth.

Take for example the purchase of the Gillette Company by Proctor & Gamble. In 2005, the Gillette brand was valued at $24 billion. For the next decade it continued being reported at exactly that number despite movement in P&G’s market capitalization of over $30 billion. This moribund status for acquired brands sends the board an implicit, inappropriate message that brands do not contribute to financial performance.

IMPROVING FINANCIAL REPORTING

As a first step towards improving the way brands are treated in financial reporting and thus discussed in the Boardroom, MASB has created and validated a Brand Investment & Valuation Model that can be applied across brands, externally or internally developed.

The BIV model uses readily accessible consumer, marketplace and financial metrics to calculate a brand’s future operating cash flows. This means that brand owners can now systematically monitor and report the value of their brands regardless of whether they were internally developed or externally acquired.

While not mandated for external reporting yet, the model provides a means for marketing teams to interact with the Board in the language of business – cash flow.

For more information on the BIV Project and other MASB initiatives, please visit theMASB.org.