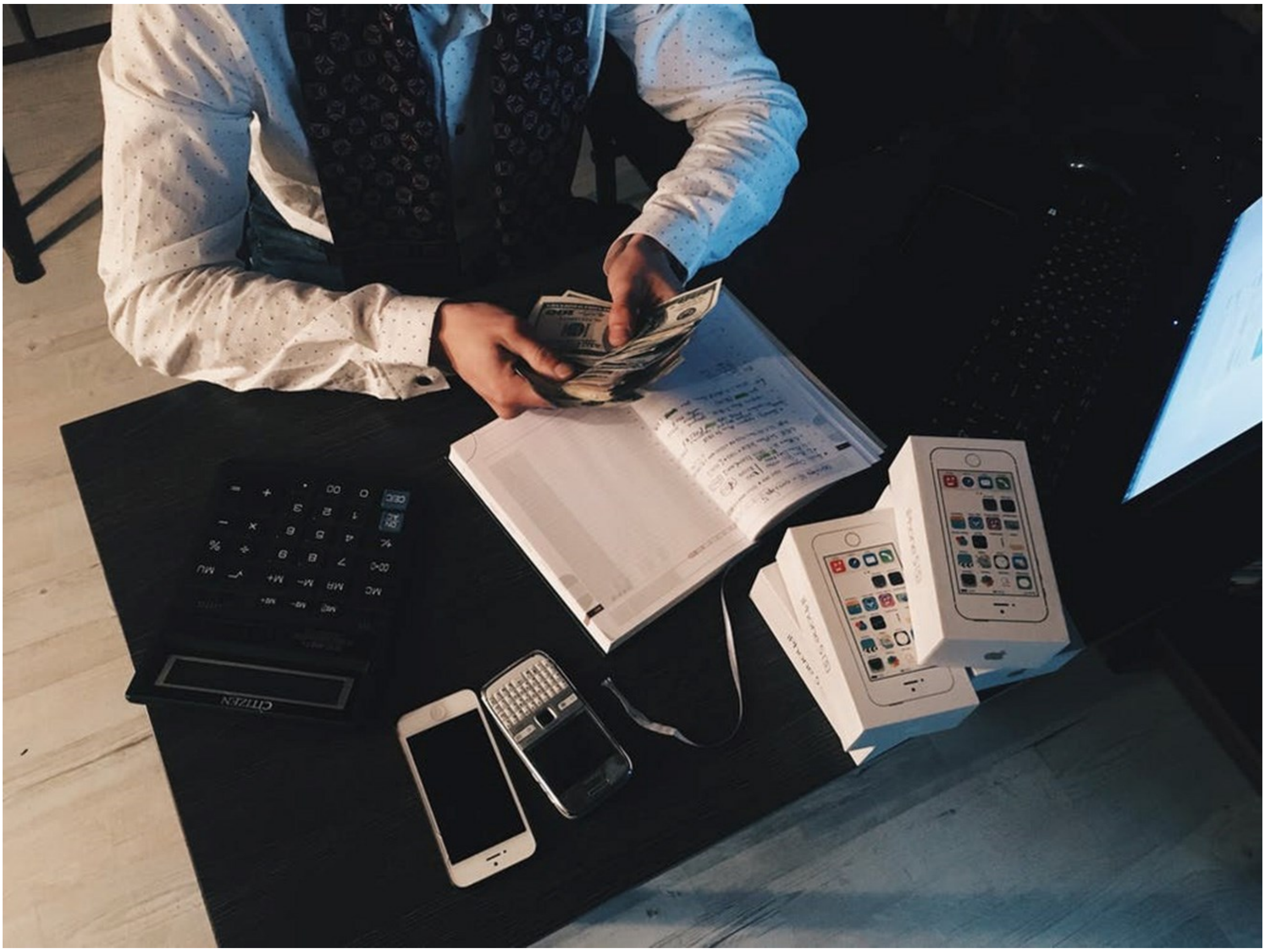
Intangible Assets: Are Companies Valuing Them Enough?



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In today's market environment, it is interesting to note that the financial worth for many of the world's largest companies are based on intangible assets (IA) such as brand, content, customer relationships and data, instead of fixed physical assets.

According to Brand Finance's 2019 ranking of companies based on intangible value, the top five most valuable companies – Microsoft, Amazon, Apple, Alphabet and Facebook, had a combined enterprise value of 4.1 trillion USD. Of this amount, a whopping 3.3 trillion USD or more than 80 percent was made up of IA.

What's more, this figure is not just representative of one small trending portion of the market. Based on a study by Ocean Tomo on Intangible Asset Market Value, the percentage of total market value of the S&P 500 in 2020 was 90 per cent IA versus 10 per cent tangible assets. This is certainly a marked shift from 1975, when the ratio was in favour of tangible assets – 83 per cent to 17 per cent.

The Real Value in IA

Despite the difficulties and risks that come with IA, there is enormous value waiting to be harnessed. Unlike a decade ago, when patents and trademarks were treated by most companies only as defensive weapons, IA, today, has a much greater potential to be used for strategic offensive purposes – to become an important profit centre for the organisation.

Already, we've seen the value of IA, most prominently in the area of company valuations. Instagram, for example, was sold to Facebook for 1 billion USD at a time when it had zero revenue, 12 staff and just 250,000 USD in assets. Contrast this with New Zealand logistics company, Mainfreight Limited, which on the same day that Instagram was sold, boasted a revenue of 1 billion USD, 6,200 staff, and around 2 billion USD in assets. It, too, had a market capitalisation of 1 billion USD.

One other advantage of IA is its scalability. Unlike physical assets which can only be sold once, or used one at a time, IA such as content or software codes can be licensed and used to generate income repeatedly and simultaneously. Moreover, unlike physical assets which devalue over time, the more you utilise your IA, the more value you get out of it. This is especially true for assets such as customer relationships and brand equity.

What's Holding Companies Back?

This raises the question: with there being so much potential value in IA, are companies allocating the right amount of attention towards protecting and leveraging these resources? At least on paper, it doesn't seem so. IA still doesn't have its own place in company registers, and is often mingled within the fixed asset register or represented as part of the risk register. This is

largely due to a legacy accounting system which was built to track physical assets and inventories.

Another big reason that many companies are not taking full advantage of their IA is because of the inherent difficulty of tracking and measuring such assets. Indeed, as the value of IA is not as easily presented as traditional assets, and with risks such as theft of intellectual property, many leaders feel reluctant to take bold steps towards restructuring their companies systems and processes to better leverage and reflect their IA.

Utilising IA in the Right Way

Moving forward, it is probably good to consider if your company's key intangible assets have already been identified, and if there are strategies developed towards protecting, managing and exploiting them.

Remember that IA is not just something for technology companies. Some examples of non-tech firms with a high value based on IA include pharmaceutical companies like Johnson & Johnson, and Novartis which rely heavily on patents and trademarks.

Even Amazon, which is one of today's top ranked IA companies, had its breakthrough success by expanding from an online book retailer into a technology company that now encompasses membership subscriptions, cloud services and digital media.

As you get started on your IA journey, some key considerations would be to ensure that innovation projects are not assigned to just one department or individual. It is a multi-department endeavour which requires the entire company working together to implement successful models. By encouraging cross-departmental collaboration, you will also be able to create a healthy workplace culture where everyone has a sense of ownership.

Finally, work out a common language for IA. What the CEO and strategy department calls “competitive advantage” is really the same thing as what the accounting department calls “goodwill” and the legal calls “intellectual property”. By simply standardising terminology, you will be able to build a coherent business strategy.

This COVID-19 period is a great time to start your journey as you may yet discover new revenue opportunities that can help build your company's resilience. Many of the companies that have been able to weather the storm brought about by this pandemic are those that are strong in technology and are able to leverage on their strong customer relationships.