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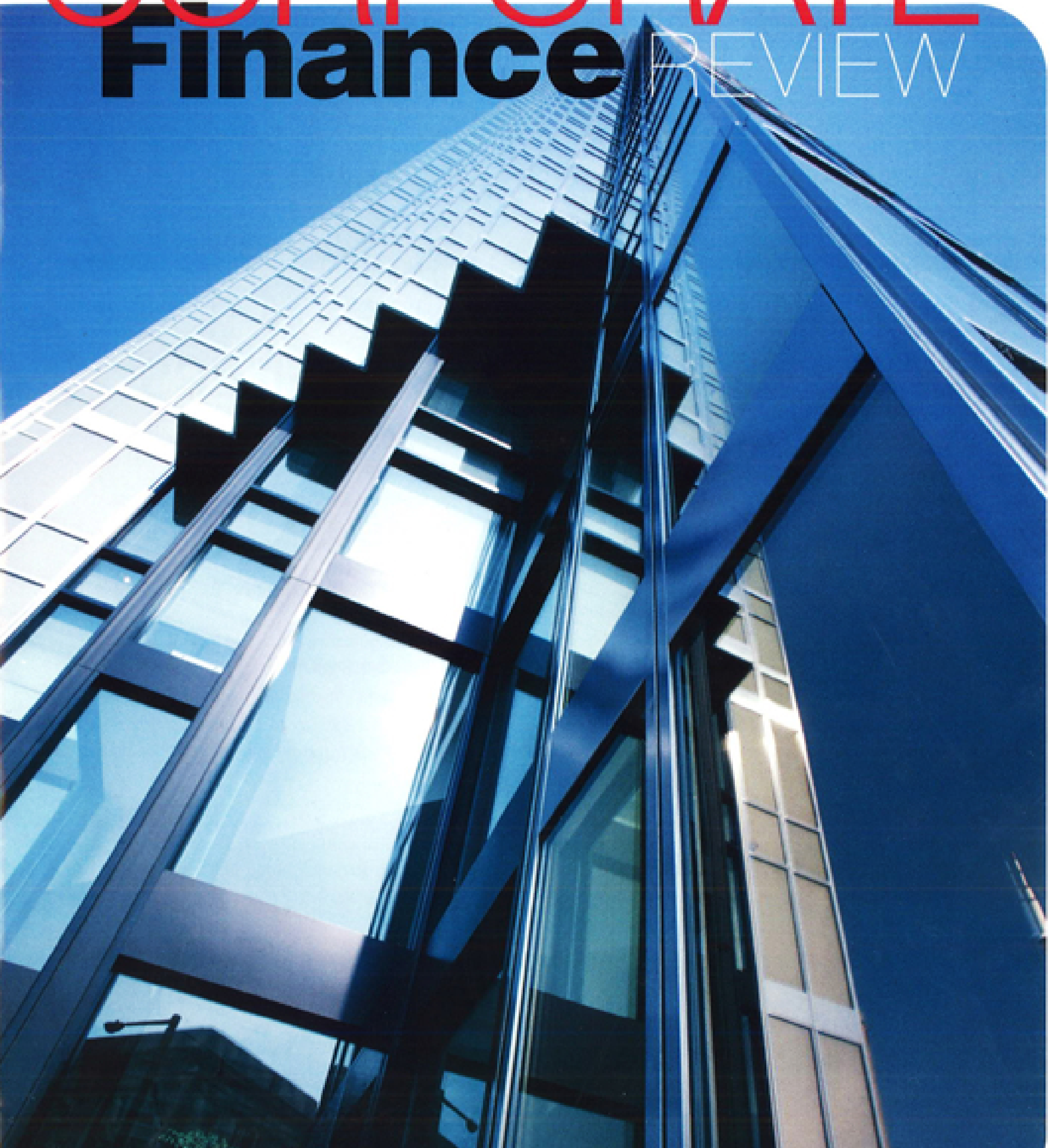
CORPORATE Finance REVIEW



ing activities. For reasons stated above, rather than entering the fair value of marketing assets on the balance sheet, MASB is proposing that disclosure be made in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of the firm's annual report. The MD&A seems to be a solid first step in encouraging development of disclosure of marketing expenditures and results as seen through the eyes of management.

Examples. The following note is an example of a suggested MD&A disclosure for product brand values:

> As of June 30, 2012, the senior management of Gadget Corporation values the Widget Brand at $2.9B, up 7 percent from a year ago and 20 percent over the past three years. We estimate this value using the methodology provided by ValuePack LLC, a MASB qualified Brand Valuator.

The following note is an example of a proposed MD&A disclosure for corporate brand values:

> We, the senior management of Alpha Corporation, believe the value of our corporate brand, as of December 31, 2011, is $26.4 billion, up 2.7 percent from a year ago and down 3.8 percent over the past three years. We estimate this brand value using the methodology provided by BrandTop, LLC, a MASB qualified Brand Valuator.

VALUATION STANDARDS FOR INTANGIBLE ASSETS SUCH AS BRANDS NEED TO BE RECOGNIZED TO FINALLY GET MARKETING AND FINANCE ON THE SAME PAGE.

Both examples utilize continuous quantitative research study models based on how investments in the product or corporate brand impact future cash flows.

The simple inclusion of these notes, either separately or together, in the MD&A section of the annual report will have profound impact on the practice of marketing and not cause any disruption to current accounting practice for external users. This single change will make marketing more accountable and unite finance and marketing toward creating a common goal — increasing enterprise value.

Additional benefits include the consistent diagnostic evaluation of the long-term financial health of the company. It will provide a dashboard measure by which the company management, investors, and employees alike would be able to determine if the investments being made in marketing were wise and provided the company with an effective return.

Marketing activities can be highly efficient for value creation, but not when accounting standards obstruct reasonable requests. Valuation standards for intangible assets such as brands need to be recognized to finally get marketing and finance on the same page.

What's in it for the CFO?

It depends on whether individual CFOs approach their role as providing accounting reports or approach it as providing financial leadership. Although intangible assets have grown in value, there is less understanding than ever of what drives that value. There is no doubt that accounting standards for intangible assets will eventually be changing worldwide. CFOs who see their role from the accounting perspective will wait until IASB standards for valuing intangibles are updated and distributed sometime in the distant future. But from the financial leadership perspective, CFOs will embrace and encourage forward-thinking ideas about what drives the value of intangible assets. Those CFOs who lead the charge will be providing better acceptance of company value and future value estimates by investors, analysts, employees, and management. CFOs will be at the forefront of helping marketing and finance to work together toward common goals with clear ROI measures in place.

Conclusion

We believe the establishment of brand valuation standards will help companies make better investment decisions, meet organic growth targets more often, improve performance as measured by customer, market, and financial outcomes, build strong brands more profitably and consistently, and will serve as the primary forward-looking marketing KPI in Corporate Scorecards and in MD&A discussions.

We seek to have CFOs, CPAs, and the world of finance join MASB to achieve consistent, comparable, credible, and actionable brand valuations for both externally and internally developed corporate and product brands. MASB is establishing "generally accepted brand investment and valuation standards" using metrics that are simple, transparent, relevant, and calibrated across categories, cultures, and conditions. The ultimate goal is to reliably tie marketing actions to customer impact, to market outcomes, and to financial returns both short term and over time. ■

NOTES

[1] FASB ASC 157, *Fair Value Measurements* (2006) and IFRS 13, *Fair Value Measurement* (2011).

[2] Chasan, E., Asset valuations trip up audits, *Wall Street Journal*, May 22, 2012.