



Kimon Lycos is founder of Mihell & Lycos, helping companies to sell technology and innovation to other companies. You can contact Kimon via kimon@mihellandlycos.com.au or visit www.mihellandlycos.com.au.

B2B STRAIGHT UP

Hey buddy, how much for the brand?

To companies selling technology and innovation to other companies, **Kimon Lycos** offers some useful advice.

Exactly how much can you sell a brand that represents technology, innovation or engineering for? In the world of B2B, there are untold riches within a small accounting term: goodwill.

Goodwill is something that kicks into gear when a company is sold – shareholders want money not just for assets and profit performance, but also anything intangible (all the stuff not nailed down). This is the very nature of goodwill and normally is applied to the perceived loyalty of a company's customers. It is with this loyalty, that the link and case can be made for selling the brand as you would with any other asset.

A B2B brand is built using a variety of different methods, media, creative ideas and customer experiences. Each of these things on their own carries different values and contributes in different ways. When used together and orchestrated, you can generate significant value in monetary terms for the brand to be valued as an asset.

Companies, products or services that are enhanced beyond functional purposes, with a brand built and managed correctly, will generate an experience and add a layer of desire. It is this layer of desire that is the reason why customers are prepared to pay a premium for one industrial brand over another.

For those creating, managing and living with B2B brands, the key question is, if the business was placed on the open market, how much would someone pay for the logo, the name, the trademarks and everything else you have used to build the brand?

Managing directors tend to go a bit green

“Grand Metropolitan arrived at an assessment totalling an eye-popping £565 million for its brands, such as Smirnoff Vodka, which it had acquired.”

when they think of this because it occurs to them that during years of existence they have placed little emphasis on the branding. Rather, they have been serving a market and not building anything extra into the customer relationship that can eventually be a valuable asset and sold.

All that time and opportunity has been squandered because the business could be swallowed up and no one would care. Certainly the buyer won't pay for something that has no market value. It is indeed a sobering thought.

LOOK AT IT FROM A BUYER'S PERSPECTIVE

Imagine you are the head of a venture capital firm and decide that you want to buy IBM, GE, Siemens or CISCO. Having done all the due diligence, would you just walk away from the brand? Hardly! If you didn't have the right to use the brand you'd dramatically devalue the purchase and future viability of the company to generate a handsome return.

Now think about your company and give serious consideration to how desperate would a buyer be to use your brand – therefore multiply the EBIT (earnings before interest and taxes) evaluation, to secure the rights to the brand. Goodwill extends beyond loyalty to include other intangibles, which enable a com-

pany to earn super profits – you know, the fun type, allowing earnings over and above what could be expected from tangible assets.

Accepting the concept of goodwill as an asset is to confirm that here is something an organisation controls to provide future benefits. And if goodwill can be sold with the company, then as an asset goodwill can be assessed at any time. Typical intangible assets can include people (key staff), special company procedures (ISO 9000 or other quality systems), distribution agreements (which keep the product in and the competition out) and patents (which give a product protection over a finite number of years).

All these intangible assets have a value. Sadly, what is often missing is the brand because little is understood about the subject in engineering, science, technology and innovation companies – it is not core business. As you are about to discover, a lot of money has been missed out on by B2B organisations.

CAPITALISING BRANDS – LESSONS LEARNED

Those smarty pants in the B2C world caught on how to generate significant wealth for companies by capitalising their brands. Essentially this means that they had separate valuations made for their brands. This

enabled these brands to be taken out of goodwill and labelled as an identifiable asset on the balance sheet. The key to this was demonstrating on the balance sheet the performance of brands, in terms of sales, market penetration and ability to command a higher price than competitors.

This approach made it easy to identify performing brands and then treat them as something that could be removed from the company and sold separately to a new owner, who in turn would have a core component for a profitable business.

Grand Metropolitan was one of the first companies to recognise this potential in 1988. It arrived at an assessment totalling an eye-popping £565 million for its brands, such as Smirnoff Vodka, which it had acquired.

Then in November of that same year, Rank Hovis McDougall capitalised its internally created brands, Bisto, Hovis and Mr Kipling, placing a value on them of £678 million. Here's the fun part – the company's net assets at the time were valued at only £300 million.

Now out of the world of breakfast cereals and shampoo, what about B2B? It really isn't difficult to understand that if you spend the resources to create ownership of a perception, which directly leads to strengthening the business performance of the company, that perception (brand) is worth something.

Conversely, not investing will mean you gain nothing. **M**



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