Setting the intangible agenda for the next decade

For those interested in the financing of IP and other intangibles, the next decade looks to be full of promise

In mid-January this year, the *Economist* ran with a front-cover story warning about the asset bubble that is currently being driven by cheap money available through low interest rates. In its lead article, the publication asserted that with a range of physical assets now dangerously over-heating, a dramatic collapse in physical values looks increasingly likely.

Whether or not this prediction turns out to be correct, there is no doubt that the events of the past two years (and their effect on the existing *status quo*) will inevitably drive a much more rigorous debate about what real corporate value means. It looks to be a good bet that intangibles will be a central part of this discussion, intensifying the need for rational and empirically grounded analysis of the building blocks of intangible asset value.

As a result, even more attention will be focused on the need for transparency in areas such as intangible asset valuation and royalty rates. For people to understand and have confidence in intangible assets, if they are not involved in this area on a day-to-day basis, there must be a far greater understanding of how much IP and other intangibles are worth – and why. At last year's IP Business Congress in Chicago there was sustained discussion around what value actually means in an IP context, as well as the significant challenges that stand in the way of establishing any standardised method for IP valuation.

The fact that IP value is so often dependent on specific context means that a patent, for example, can be worth very different sums with regard to, say, litigation or M&A situations. Actual ownership will also directly influence its value at any one time – after all, a patent in the hands of one person may have far more potential than if it is owned by someone else. A partial solution may be to make royalty rates more transparent. One suggestion is that all licensing deals agreed in the United States, for example, be publicly recorded at the US Patent and Trademark Office so that people can see the real sums involved. Clearly, this argument will run and run, but there is no question that we will be hearing much more about it at this year's IP Business Congress, taking pace in Munich in June.

Another prediction that can be made with some confidence is that we will be seeing many more organisations develop centralised chief intellectual (or intangible) property officer (CIPO) roles from now on. Tasked with overseeing and coordinating intangible asset strategy (ie, the acquisition, protection and exploitation of IP rights), these individuals will have a vital part to play in bringing intangibles into the mainstream asset class debate. Up to now, one of the main challenges facing the IP community has been its inability to communicate effectively with the wider world. The longer that C-suite executives, investors, the media and the public remain baffled by, indifferent or even hostile to IP, the harder it will be to establish it as the valuable asset it really is. There is no doubt that we are moving towards a CIPO consensus, with organisations such as Philips, AT&T, Microsoft and GE all trail-blazing in this area. More are bound to follow and the intensified focus on intangibles that we will be seeing in the coming year will accelerate this process. That this is more than hot air is not in doubt. Just recently, news emerged of what looks like being a significant development in the US – the launch by Chicago-Kent College of Law of a masters programme in IP management. This is a multi-disciplinary course that explores the subject from five different perspectives: business; computer science; design; engineering; and law. The focus is on understanding strategic IP issues and value creation – exactly the kind of training that will be needed if the CIPO position is to become more mainstream. Over in Europe, the Centre for Intellectual Property (CIP) in Gothenburg, Sweden, has been doing something similar for a number of years. It is likely that both Chicago-Kent and CIP will find their work being emulated in the coming years by other institutions as intangible asset value moves further into the mainstream.

Look out, too, for the emergence of a wider view of the intangibles space, with IP just one key feature of an overarching intangible asset mindset. An important side effect of the financial crisis has been an intensified focus on reputation – what it is worth and how to protect it. It is no accident that a recent New York Stock Exchange advertising campaign focused on the value of reputation. And across the board, this issue is moving front of house. In a June 2009 study, McKinsey urged organisations to step up their reputation management efforts, underlining how corporate reputation management – and all that encompasses – has become a primary business concern.

As Nir Kossovsky and the Intangible Asset Finance Society (IAFS) continue to argue, reputation has a significant economic value and is, beyond question, a product of intangible asset management. It is hard to disagree with Kossovsky when he states that, second to managing cash, managing corporate reputation is the key issue in boardrooms across the world. According to a 2009 Harris Interactive Poll, corporate reputation is at a 10-year low (and for banks, in particular, how much worse might it be as the great bonus witch-hunt gathers pace?). Further, 82% of risk managers surveyed by the Conference Board in 2009 said that assessing reputation risks was now the highest-ranked corporate challenge.

As a key intangible asset, IP will inevitably and rightly be incorporated into the reputation space – and as such, it will be the focus for much more boardroom scrutiny and action. This can only be good news for readers of this magazine. While it may not have been the ideal set of circumstances to have propelled IP centre-stage in the boardroom, there is no question that the financial crisis and its aftermath have done wonders for the profile of this core asset. ■