

What's the real worth of your Brand?

This article aims to describe the impact of IFRS adoption in India, due in 2011, on the significance of brands and their management. While the implications of IFRS are multiple and span across domains, this paper focuses on the urgent need for Indian companies to gain control of brands and work on increasing their valuation on an ongoing basis.

What is IFRS?

International Financial Reporting Standards (IFRS) is a set of accounting standards, developed by the International Accounting Standards Board (IASB) that is becoming the global standard for the preparation of public company financial statements.

It is observed that many major economies in the world are under way to adopt IFRS, thus replacing GAAP. Nearly 100 countries have adapted their local accounting standards to conform to IFRS, including those in the European Union and parts of Asia and Latin America. More than 7,000 companies are on board in Europe alone.

Implementation of IFRS for Indian Companies

The Council of the Institute of Chartered Accountants of India, at its 269th meeting, decided to fully converge with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board from the accounting periods commencing on or after 1st April, 2011.

Like in other countries such as Australia, New Zealand and countries in the European Union, the IFRS is to be adopted for the listed entities and other public interest entities such as banks, insurance companies and large-sized entities.

It implies that an entity, which follows financial year as its accounting year, will have to draw its financial statements under IFRS for the accounting year 2011-2012. International Accounting Standards (IAS) 1 mandates that the financial statements have to be presented with one year comparative, which means that the reporting entity would need to present its 2010-2011 figures also under IFRS (in addition to the one under Indian GAAP). The date of transition to IFRS, therefore, would be April 1, 2010.

Implications of IFRS for Brands and their management for Indian Companies

For the correct implementation and timely interventions needed as a part of this regulation, it is very important to understand the different aspects of IFRS. But one of the most impactful results of this financial adoption is going to be on the way brands are understood and managed by Indian companies, and more importantly, the opportunities they present. It is not an understatement to say that brands and their role in a company's success would be achieving unprecedented significance in the wake of IFRS.

IFRS standard 3 relates to branding and customer base and it states that all goodwill accounting will be abolished. Instead, goodwill has to be broken into components recognized separately: marketing related (trade marks, brands, trade names, Internet domain names, etc.); those coming from customer relationships (customer lists, customer contracts and related relationships, etc.); contractual (ad contracts, licensing and royalty agreements, franchise agreements, etc.); technology related; or art related (magazines, newspaper, films, theatre, etc.).

And it doesn't end there, the company will need to annually check impairment (or erosion) to the value of brand and intangible assets and, if any reduction has happened, reflect this in the balance sheet or subtract it from profits for the year.

With intangible assets such as brands generally accounting for the majority of a company's market value: 70% for Disney, 76% for Nike, 85% for Heinz and 98% for Microsoft, this throws up a huge opportunity as well as challenge for companies to build up their brands and their value.

Opportunities for Indian Companies

With a clear assessment of brands post IFRS adoption, brands are expected to act as necessary and strong vehicles to explore many opportunities. Some of them are identified below.

- **Diversification and globalization** – Entry to new markets and categories will be facilitated by a healthy and sustained brand value
- **Premiums** can be charged on the company's products or services with the strong brand value translating into increased customer confidence
- Communicating the results of the brand valuation to stakeholders can act as an effective strategy to impact the **stakeholder confidence** and share prices
- **Attracting investments** can be much easier through an increased valuation and the resulting confidence
- Brand valuations for IFRS will also assist in the **strategic management of internal and external licensing programs**. Global companies such as Nestlé, which licenses its brands centrally from Switzerland, often license their brands to subsidiaries in different territories. With a value given to the brand, the licensees will have a huge opportunity to both appreciate and develop the brand value more comprehensively as well as enabling the parent company to measure profit contributions
- Another business aspect which is going to be hugely impacted by this intense focus on creating and managing brand value is the domain of **Mergers and Acquisitions** as companies would have to do much more due diligence before acquiring companies and brands. For companies looking for acquisitions or companies seeking to be acquired, a strong brand value will act as a crucial factor in terms of valuation
- For companies planning **IPOs**, their brands can serve as a differentiator between a successful IPO and an unsuccessful one

Conclusion

In a fundamental sense, IFRS is expected to impart a greater financial visibility to brands, thus increasing the significance of brand management, and the people who are capable of doing it correctly.

While the opportunities presented by this development are more and beyond those listed earlier in this paper, they need to be grabbed.

It is time for companies to gain control of their brands more strongly, understand and assess what their brands stand for, and work continuously towards making sure their brands stand for the right things. The importance of brands as a central pillar of any business has to be understood. The time has come for Brands to be integrated in the DNA of a business, and to be seen as measurable assets, which can define the future of a business.

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