

INTERNALLY GENERATED INTANGIBLE ASSETS

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There are ten types of generally accepted intellectually generated intangible assets:

1. Software for in-house use
2. Software to be sold
3. Distribution Network
4. Customer Relationships
5. Franchise Rights
6. Assembled Workforce
7. Business Names, Trademarks and Copyrights
8. Patents
9. Corporate Procedures
10. Trade Secrets

Software for In-House Use

- Offering: Inventory control, Payroll, General Ledger, Pension Benefit, Accounts Payable, Accounts Receivable, Debt Payments, Fixed Asset Records, etc.
- Cost approach is generally favoured; this involves estimating the cost of:
 1. Finding and engaging various computer programming contractors to the task of re-creating the existing software including:
 - Project coordination
 - Selection of operating system and languages
 - Design of Specific Programs
 - Writing Specific Program Codes
 - Program Testing
 - Installation and Debugging
 - Preparation of Operating Manuals
 2. Freeing up in-house personnel required to assist the outside contractor in the installation, and debugging of the system.

Software to be Sold

- Examples are for: Word processing, Spreadsheets, Database Games, Educational.
- Income approach is generally favoured if revenues, costs, growth potential and investment risks can be quantified.

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- Market approach for product software is recommended based on revenue multiples for single product quoted entities.

Customer Relationships

- Customers with contracts, purchase orders and detailed documentation
- Those that are mainly entries in a sales ledger

Distribution Network

- Sales representatives and distributors deliver products to end users, to avoid manufacturers having to establish warehouses and sales centers around the world. It also saves them from having to develop customer relationships with all end users.
- Cost approach is preferred. This involves determining the costs to re-create the established network of sales representatives distributors, including:
 - Identification of candidates for distributorships
 - Analysis of their financial condition
 - Analysis of their reputations
 - Interviews with candidates covering travel costs as well as salary and benefits of Company personnel involved
 - Selection of distributors and costs to train their sales staff about the Company's products to be added to their offerings

Franchise Rights

- The rights involved (trademark, reputation, and business procedures) are created or purchased by the franchisee.
- A portion of the bundle of rights relating to a particular geographic area are granted for a specific period to each franchise are given up in exchange for franchise fees (up-front payment plus a royalty on sales).
- The value of a franchise can be looked on as the difference of the present values of future Cash Flows over the purchased prices between the Company and a non-franchising identical entity.
- Franchise Value equals
 - Present value of cash flows for franchised firm after payment of running royalties and a lump-sum initial franchise fee less present value of cash flows for non-franchised firm.

Assembled Workforce

- A well trained group of workers adds to the value of a Company. The Cost approach is favoured for valuing assembled work force including:
 - Recruitment fees

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- Advertising expenses
- Salaries & benefits associated with interviewers
- Travel and lodging for candidates
- Relocation expenses
- Salaries & benefits for new employees over their learning curve
- Signing bonuses required as incentives to hire professionals.

Business Names, Trademarks and Copyrights

- Income Approach is appropriate for business names, trademarks and copyrights.
- Brands that include all are often measured by the present value of their after tax contribution to Cash Flow.
- Relief from Royalty method is often suitable.
- Subtract an allowance for expenses associated with administration, agent, accounting and legal fees, and expenses. For copyrights, agent fees alone can range up to 15% of the royalty income.

Patents

- Product
- Process
- Design

Corporate Procedures

- Corporate practices and procedures which represent how things are done including:
 - Inventory control processes
 - Purchasing methods
 - Quality control standards
 - Cash flow controls
 - Management organization
 - Budget and planning procedures
 - Government regulation compliance procedures
 - Hiring policies
 - Employment termination practices
 - Employee benefits standards
 - Insurance buying methods
 - Safety/Security programs
 - Public relations policies
- Cost approach is the preferred method including:
 - Salaries and benefits for the time that employees spend creating the various practices and procedures

Internally Generated Intangible Assets

- Outside consultants
- Local & state tax
- Design of forms
- Creation of software

Trade Secrets

- Process parameters
- Formulas and recipes