



# Intangible Assets

The modern balance sheet is a lie! It omits the company's most important assets. Probably 80 percent of a company's value lies in its intangible assets; but they are not on the books. The value of a company's plant, equipment, inventory, and working capital hardly reflects a true value of a company.

For example, where is Coca-Cola's *brand value* on the company's balance sheet? Coca-Cola's brand value is estimated at \$70 billion. Where is the *value of its customer base*? It's the satisfied customers who repeatedly purchase from the firm who constitute a major asset. Where is *employee value*? Having better employees than the competition will spell the difference between having superior profits and average profits. Where is *partners value*? Loyal suppliers and distributors can make a company, and disloyal ones can break a company. Where is *knowledge and intellectual capital value*? Patents, copyrights, trademarks, and licenses can be one of the company's major assets.

No wonder there is often a huge gap between a company's market capitalization and its book value. The gap reflects the value of the intangibles. For example, AmericaOnline's book value in 1999 was only 3.3 percent of its market capitalization. Thus 97 percent of AOL's value was not on the balance sheet.

Companies would be wise if they start identifying and assessing all their marketing assets such as their brands, customer relationships, employee relationships, channel relationships, supplier relationships, and intellectual capital. The company should choose marketing activities that build the value of their market-based assets.

Should your company even consider owning physical assets? Owning physical property can be a liability. All a company needs is *access* to physical assets. To operate as a lean company may call for *decapitalizing*—outsourcing activities and shrinking working capital. The Sara Lee Corporation, for one, thinks that it is better to own brands (Champion, Coach, Hanes, Playtex, Hillshire Farm, and others) than factories.



## International Marketing

A company that masters only its domestic market will eventually lose it. Strong foreign competitors will inevitably come in and challenge your company. It is now business without borders.

One of the best growth paths for a business is to go regional or global. But most companies hesitate to go abroad. They see obstacles and risks stemming from tariffs, language differences, cultural differences, devaluation and exchange control risk, and bribery.

But there are also gains. By going abroad, companies actually diversify their risks by not depending on only one country's market.