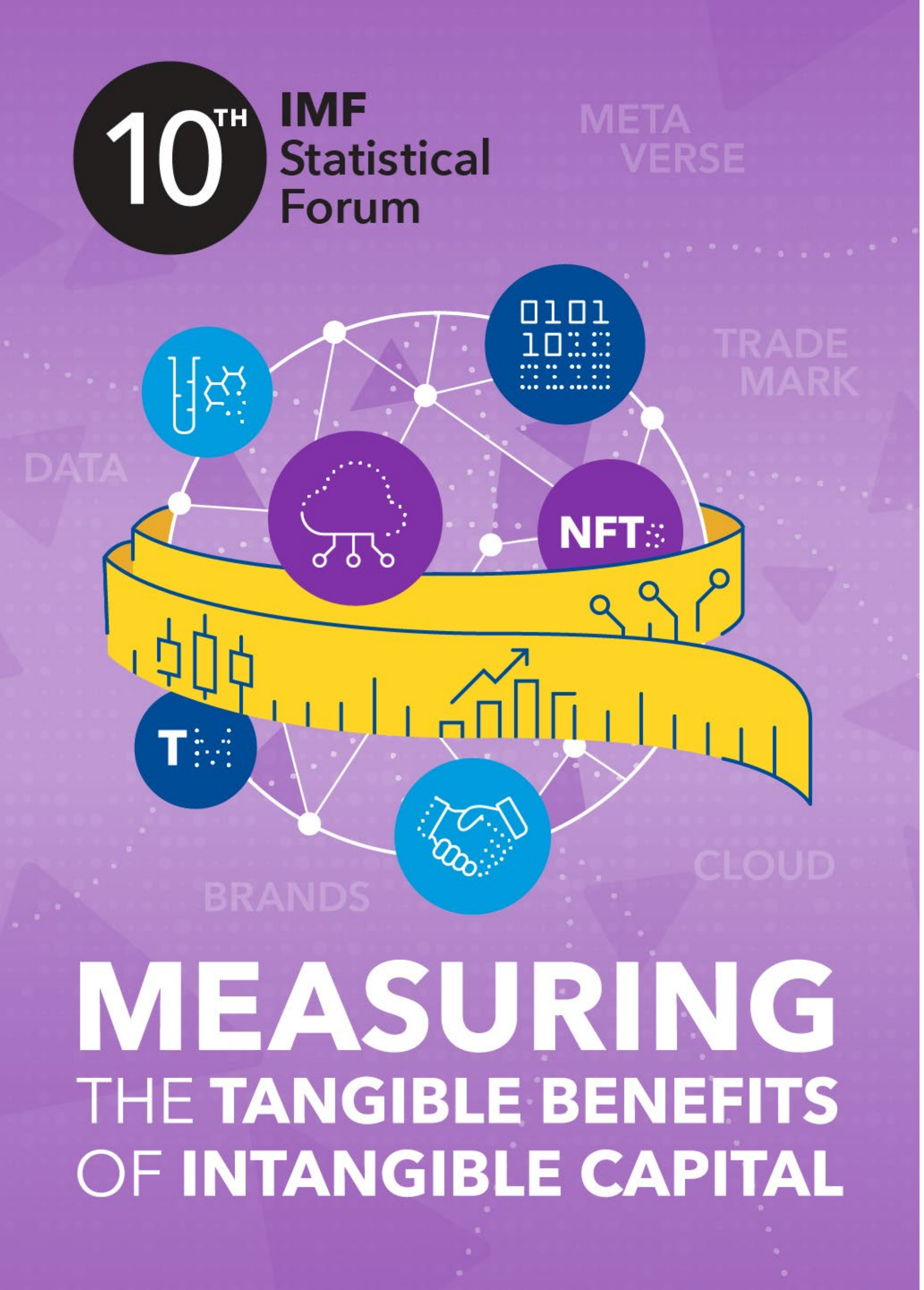

Delivering Tangible Estimates of non-SNA Intangible Assets

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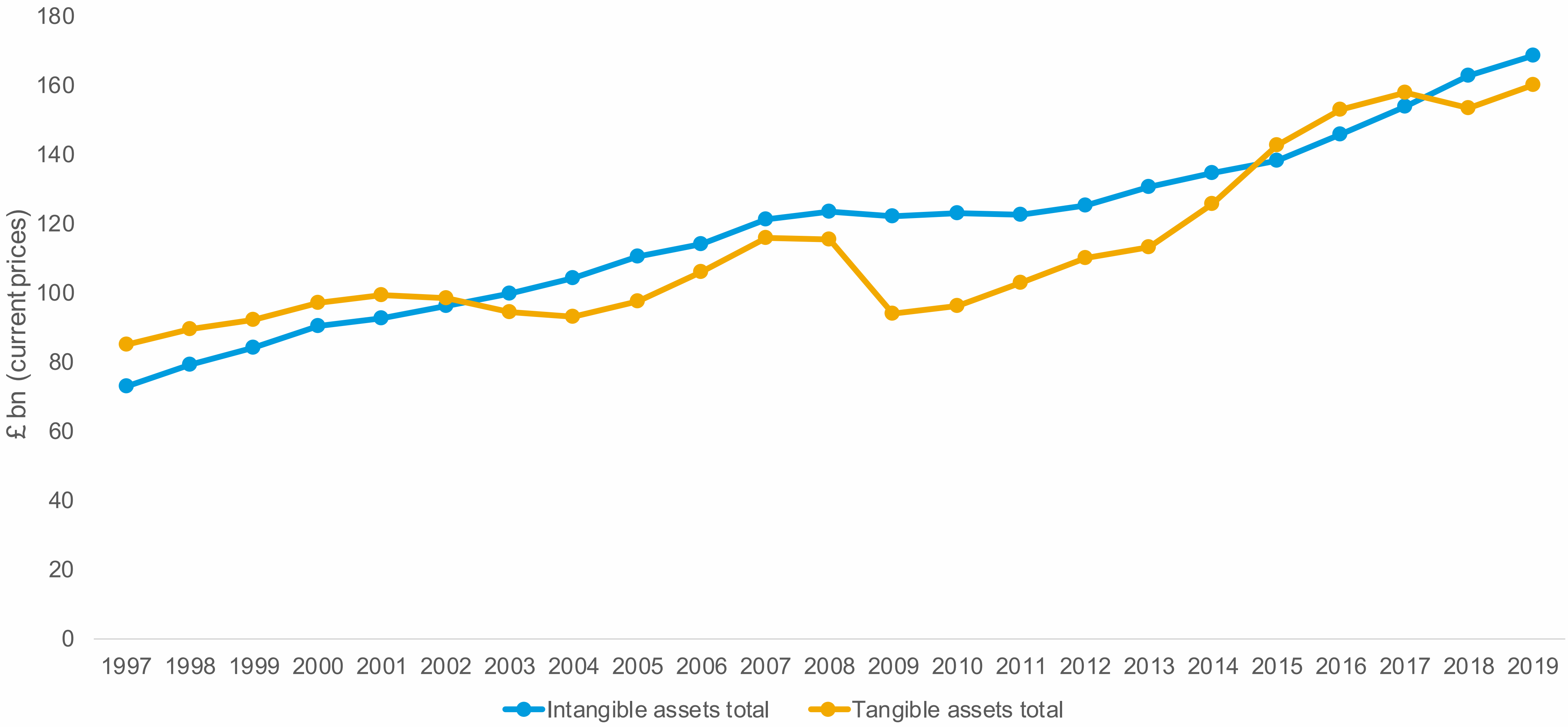
Views expressed are those of the authors and not necessarily of the ONS

Presentation outline

- Investment in intangible assets
- Case study: Marketing assets
- Challenges
- Future developments

Total investment in intangible assets (market sector and own production) and tangible assets in the UK



Background

Experimental statistics publications by the ONS:

- 7 publications: datasets, methodology papers and bulletins
- Covering the period 1992-2019 at 2-digit Standard Industrial Classification (SIC) level

Rationale for approach

- Suite of intangibles→ **data driven approach**, needs of the modern economy (intangibles overcoming tangibles)
- Methodology → **consistency** over time and across UK government departments, developed in partnership with academics

Investment in intangible assets measured by the UK

IPP in National Accounts
Literary and artistic originals
Mineral exploration
Computer databases and software
Research and Development (R&D)

+

Potential IPP (not included in SNA)	Estimation method
Architectural and engineering design	Purchased component based predominantly on Supply and Use expenditure data (Intermediate Consumption and GFCF). Own-account component uses sum of costs approach, modelled using Annual Survey of Hours and Earnings (ASHE) data.
Branding	Based predominantly on Supply and Use expenditure data (Intermediate Consumption and GFCF).
Firm-specific training	National Employer Skills Survey, extended using Supply and Use data.
Organisational capital	Purchased component based predominantly on data from the Management Consultancy Association. Own-account component uses sum of costs approach, modelled using ASHE data.
Financial product innovation	Sum of costs approach, modelled using ASHE data.

Why marketing assets?

- Joint Globalisation Task Force Team (GZTT), IMF, OECD, UN reviewing the treatment of marketing assets.
- SNA 2008: marketing assets should continue to be classified as non produced assets.
- Acknowledged reason for not treating marketing assets as produced is due to the *difficulty of measuring their value*. UK started exploring this in 2018.

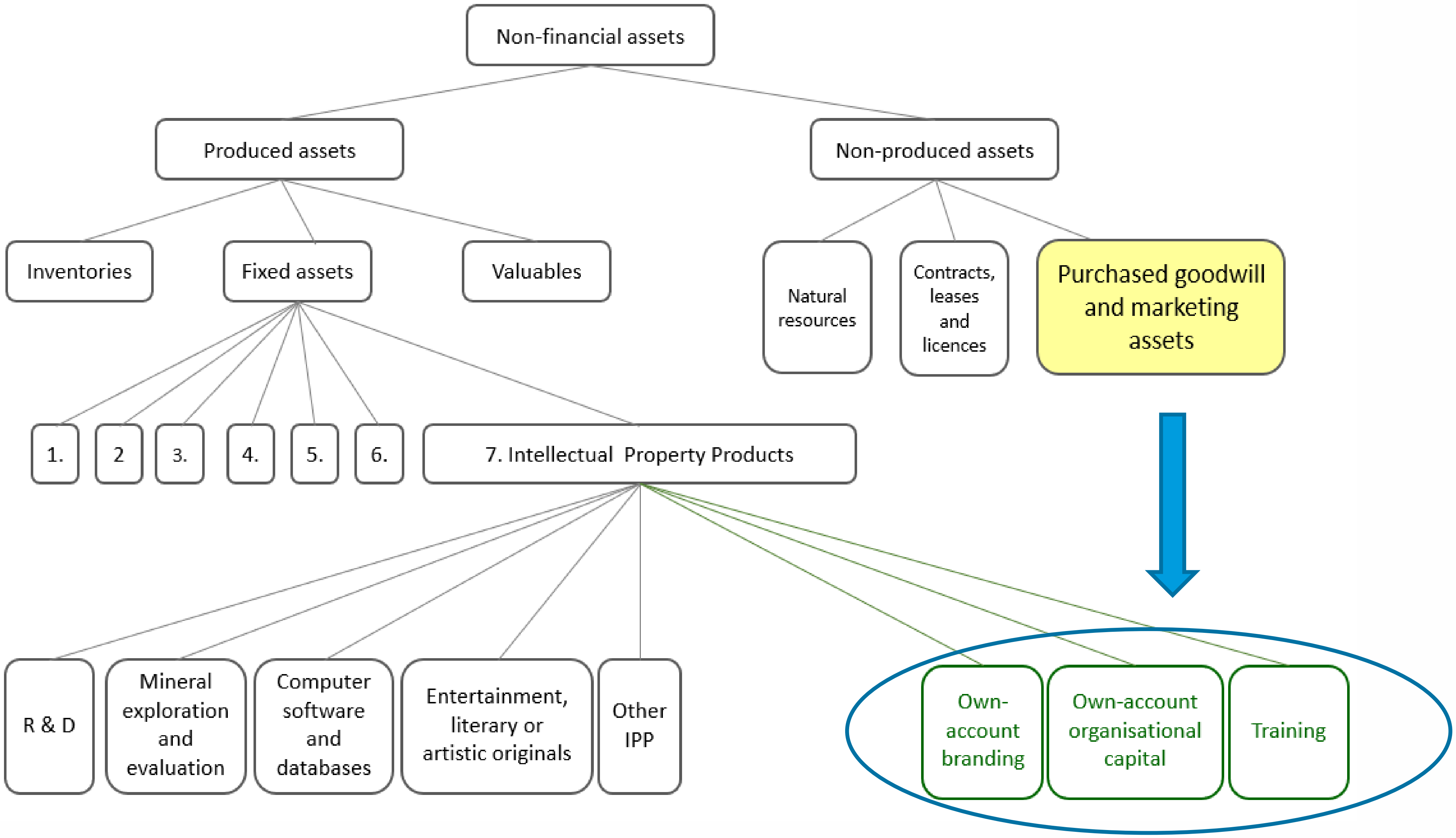
Purchased Goodwill and Marketing Assets:

It covers both the value of brand equity (goodwill) and branding assets (marketing assets). A firm having a strong performance is likely to provide an increase to its brand value regardless of the 'actual' value of its investments.

However, the SNA stipulates that these should only be recorded **on evidence of a sale**:

1. It is particularly uncommon for branding assets to be sold in isolation and, more importantly, as these cases are very rare it would likely to *lead to statistical disclosure issues*.
2. It would also be difficult to obtain accurate price valuations as we would need explicit information on the price paid and the balance sheet value, and of course the former to exceed the latter, for this to be recognised as an asset.

Why marketing assets?



Why marketing assets?

Marketing assets currently consist of items such as brand names, mastheads, trademarks, logos, and domain names

(BPM6 para 13.17, 2008 SNA paragraph 10.198)

Non-financial **produced assets**

New subcategory within IPP

Impact on transactions recorded in:

National Accounts

Balance of Payments

Own-account branding

COMPONENTS

Sum of costs approach for expenditure on own-account branding using a method parallel to that recommended for own-account software by the OECD and Eurostat:

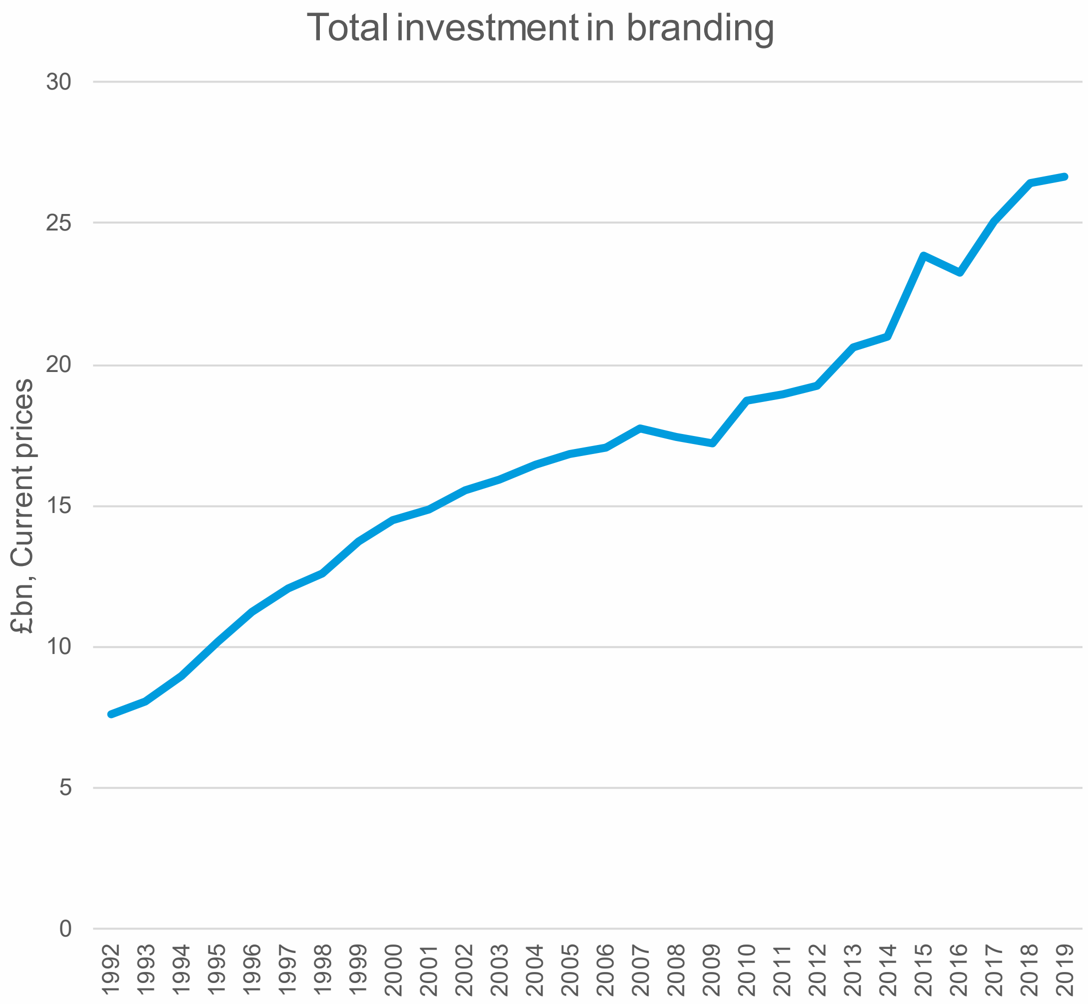
- expenditure on own-account branding
- wages and salaries of relevant workers
- scale-up factor for non-wage labour costs
- scale-up factor for non-labour costs
- scale-down factor for time on non-investment activities
- scale adjustment factor for those industries that produce the relevant good for sale, to avoid double-counting, with 'purchased' investments

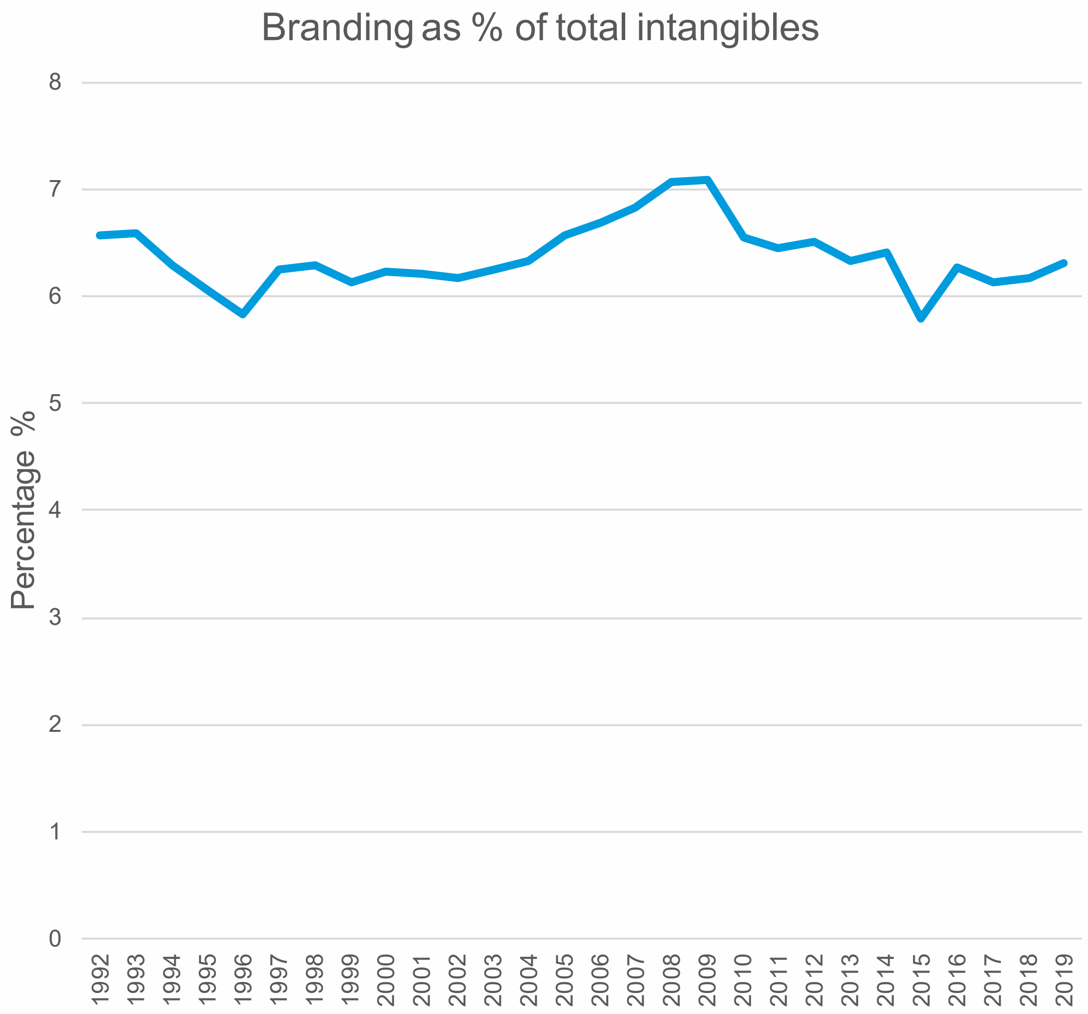
VARIABLES FROM DATA

Standard Occupational Classification (SOC) codes from the Annual Survey of Hours and Earnings (ASHE) as relevant and estimates the following, for each of six SOC codes:

- the **proportion of employees** that work on branding
- the fraction of **time spent** on branding by these employees
- the proportion of branding work that should be counted as '**investment**'
- the fraction of branding work done by specialist advertising and market research organisations that is **own**-account → Division 73 in the SIC (2007)

UK findings on branding





Occupation Categories

1. Marketing and sales directors
2. Advertising and public relations directors
3. Advertising accounts managers and creative directors
4. Graphic designers
5. Marketing associate professionals
6. Sales accounts and business development managers

Challenges

- Proportion of time that the relevant workers spend **on own-account branding as opposed to branding for outside organisations**: proportion of those that work in branding are rather wide ranges (e.g. 15-30%)

- The **fraction of time spent on branding by employees:** assumption that time-factors cannot exceed 70% following the OECD recommendation of only a 50% time-factor for software professionals, in both cases for employees who appear to spend their time solely on own-account work.

- The fraction of branding work done **by specialist advertising and market research** organisations that is own-account: 95% of the branding produced by division 73 in the SIC (2007) is excluded since it will sell most of what it produces.

- The proportion of branding work that should **be counted as 'investment':** that in-house staff are usually more involved in short-lived advertising work, thus assuming 30% of in-house advertising work as investment, and the proportions of purchased Advertising and Market Research that are long-lived as 60% and 80% respectively.

- **Double-counting:** overlap between some branding activities, advertising, computer software and R&D (market research for instance)

- Marketing in the private sector vs **marketing in the public and NPISH sectors.** What is branding and what is information for the public good?

Future developments

- Revisiting and re-assessing the assumptions on time spend on branding activities

- More research on asset lives: marketing/ branding products are conditional on behavioural nudging and can lead to the creation of many short-lived assets

  Current guidance: "*Intellectual property products are not subject to wear and tear, but they can be subject to amendment and augmentation. Substantial, planned improvements should be recorded as gross fixed capital formation, while minor, unplanned improvements are better recorded as intermediate consumption".*

- Goodwill

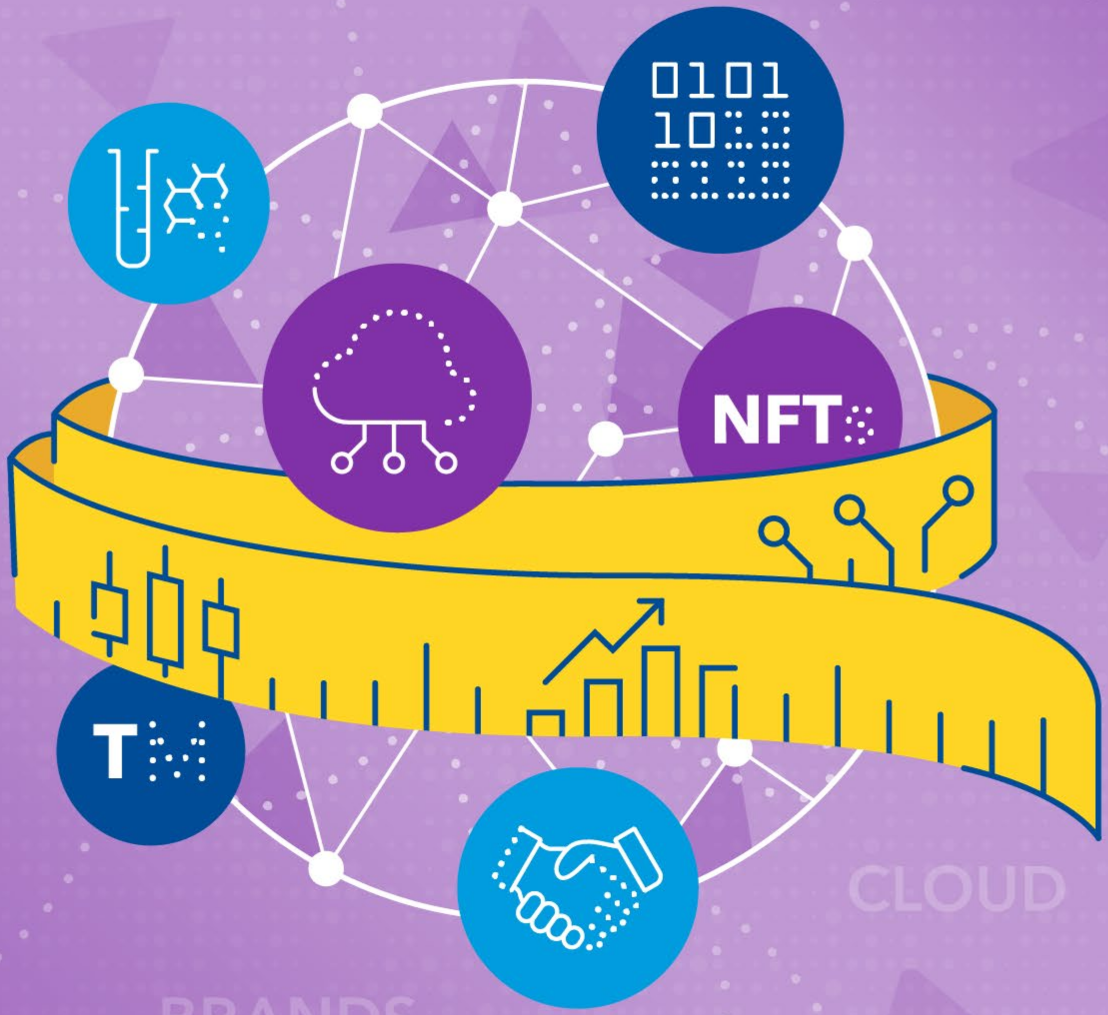
- Updated intangible asset estimates planned for December 2022

- Appropriate deflators in progress at industry level

Thank you

10TH **IMF Statistical Forum**

MEASURING
THE **TANGIBLE BENEFITS**
OF **INTANGIBLE CAPITAL**



Appendix

Appendix

4 options

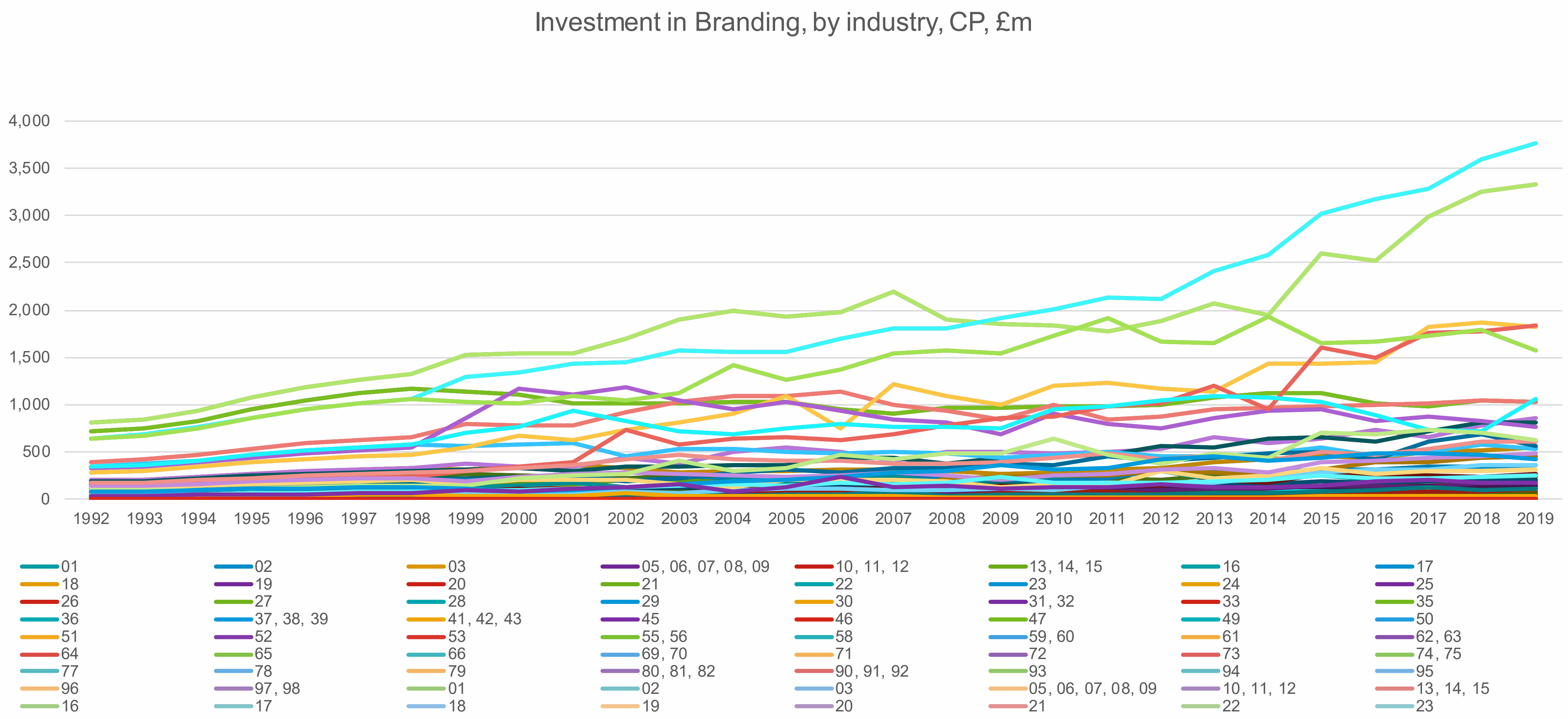
Payments for the use of a marketing asset (**franchise fee)**, without a transfer of economic ownership of the underlying asset → the franchisee is given the right to use a marketing asset under set conditions

Outright acquisition/sale of a marketing asset, with a transfer of economic ownership of the underlying asset

Payments to sub-license a marketing asset, as a license to reproduce, and may qualify as an asset if it satisfies the asset requirements

Creation of a marketing asset, if considered produced → the creation needs to be recorded in the capital account as gross fixed capital formation (GFCF)

Investment by industry



Appendix

NIESR Paper (Page R19 – R20)

“Using data from WARC (World Advertising Research Centre) and the Internet Advertising Bureau on advertising spending by medium, it is possible to estimate the share that is long-lived (figure 2).

If all advertising media except online search, classified adverts, and direct mail are classified as long-lived, the investment share falls slowly from around 65 per cent to 55 per cent of total advertising spending in the UK between 2000 and 2017.

Using similar data from Nielsen, and making the same categorisation into the two channels, Binet and Field (2013) report a 60:40 split between brand-building and activation in the US, and promote this as the most efficient marketing strategy.

On this basis, the previous assumption that 60 per cent of branding expenditures are long-lived is made.