IA/12
14 July 2006

UNITED NATIONS
DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS
STATISTICS DIVISION

Seminar
Creation, Recognition and Valuation
of
Intellectual Assets

New York, 13 – 14 July 2006
United Nations, Conference room 6

Enhanced business reporting

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AssetEconomics Inc.

A Proposed Framework for Enhanced Business Reporting

Presentation to the United Nations Seminar "Creation, Recognition and Valuation of Intellectual Assets"

New York, NY
July 15, 2006

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Preface

The SEER Managing for Value Methodology described in these discussion notes represents copyrighted material developed by AssetEconomics, Inc. TRS Mapping, a component of the SEER Methodology for 'Managing for Value', has been jointly developed by AssetEconomics, Inc. and Accenture LLP and has a patent pending.

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Introducing the EBR Framework

1. Backdrop and View
2. Proposed EBR Framework
3. Concepts
4. R&D and other Intellectual Capital
5. eBay: More Evidence
6. Conclusions for EBR

Backdrop (1)

- **The structure of the U.S. economy has changed radically over the last two decades**
- **The value chain business model logic is no longer pervasive amongst the largest companies in the U.S.**
- **Increasingly, the most important companies in the U.S. are represented by the value network (the other business model form is the value shop)**
- **We can add to this that the predominant e-commerce business models globally are ALL domiciled in the U.S. [e.g., eBay, Amazon, Yahoo!, Google, Monster, Orbitz, Travelocity, Expedia, Priceline, Charles Schwab] and that many have global reach and application**

Backdrop (2)

- Business Reporting is about providing information to users
- The embedded assumption of financial reporting is that it also provides insight into the business model of the reporting entity
- This assumption holds for traditional value chain businesses … those that have broadly represented the industrial economy
- That assumption is less and less useful as (i) other business models are increasingly represented amongst our most important companies (e.g., the S&P 500) and (ii) the application of these business models become the basis for national competitive advantage
- As a complement to financial reporting, operational reporting (including intellectual capital reporting) is a fundamental next step for enterprise valuation – so that (i) an appropriate share price is established and (ii) share price volatility is reduced

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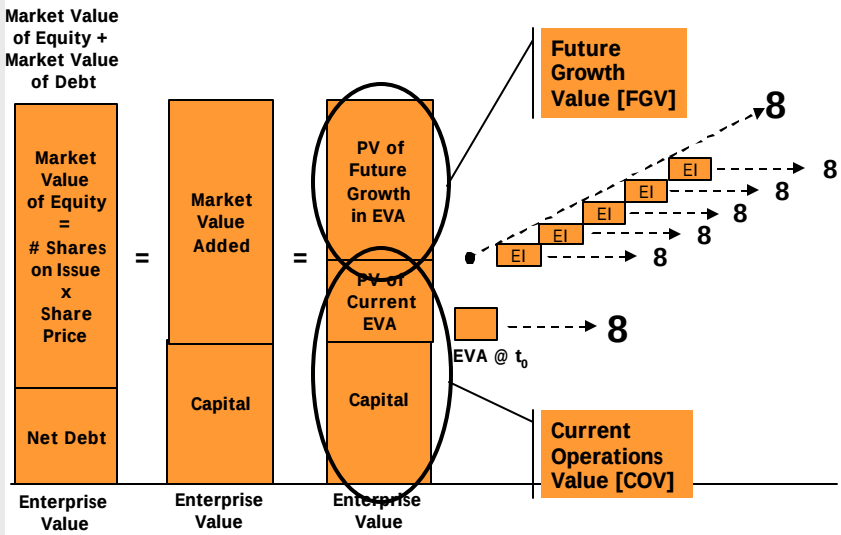
The Components of Enterprise Value - Firm



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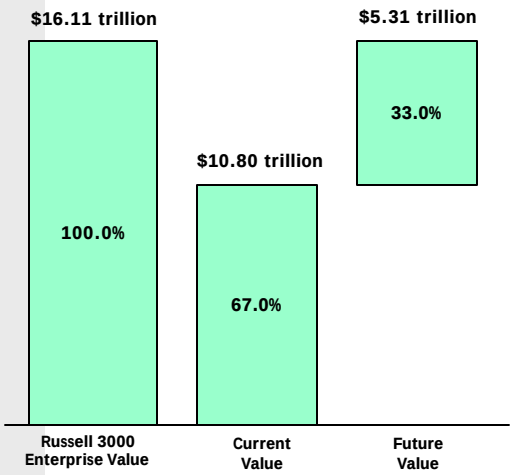
The Components of Enterprise Value – Market Values at 31 December 2004 [Russell 3000]



Notes:

1. Analysis does not include the Standard & Poor's GICS industry group - real estate [4040].
2. Current Value is defined as NOPAT / WACC and represents the Present Value of current operations in perpetuity.
3. Future Value is defined as Enterprise Value minus Current Value and represents the Present Value of the future incremental value the market expects the company to create in addition to the value to be delivered from current operations into perpetuity.
4. The Current Value and therefore the Future Growth calculations are sensitive to the market premium chosen (in this case 4.5%) - a higher market premium would see a higher WACC which would see a lower Current Value and an even higher Future Value.

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Future Growth Value as a percentage of Enterprise Value – Russell 3000 as at 31 December 2004

Industry Group	GICS Code	No. of Cos.	Current Value [$ million]	Future Value [$ million]	Total Enterprise Value [$ million]	Future Value as % of Enterprise Value
Energy	1010	127	1,420,795	(108,996)	1,311,799	(8.3%)
Materials	1510	124	552,143	164,666	716,809	23.0%
Capital Goods	2010	185	792,565	527,630	1,320,194	40.0%
Commercial Services & Supplies	2020	84	160,080	86,902	246,982	35.2%
Transportation	2030	55	209,961	204,731	414,692	49.4%
Automobile & Components	2510	34	235,362	24,537	259,899	9.4%
Consumer Durables & Apparel	2520	103	288,321	35,186	323,507	10.9%
Hotel Restaurants & Leisure	2530	89	204,086	156,772	360,857	43.4%
Media	2540	79	288,262	524,305	812,567	64.5%
Retailing	2550	143	465,736	322,574	788,310	40.9%
Food & Staples Retailing	3010	28	364,539	140,782	505,321	27.9%
Food, Beverage & Tobacco	3020	52	696,755	59,116	755,871	7.8%
Household & Personal Products	3030	23	228,262	126,224	354,486	35.6%
Health Care	3510	188	462,780	326,536	789,316	41.4%
Pharmaceuticals	3520	142	626,760	438,279	1,065,039	41.2%
Banks	4010	274	878,202	100,080	978,283	10.2%
Diversified Financials	4020	78	699,326	283,220	982,546	28.8%
Insurance	4030	96	572,642	(7,110)	565,532	(1.3%)
Software	4510	189	206,471	482,149	688,620	70.0%
Technology	4520	163	198,123	672,675	870,799	77.2%
Semiconductors	4530	99	71,916	286,233	358,149	79.9%
Telecommunications	5010	43	350,545	314,096	664,642	47.3%
Utilities	5510	93	822,592	153,277	975,870	15.7%
Totals		2,491	10,796,225	5,313,865	16,110,090	33.0%

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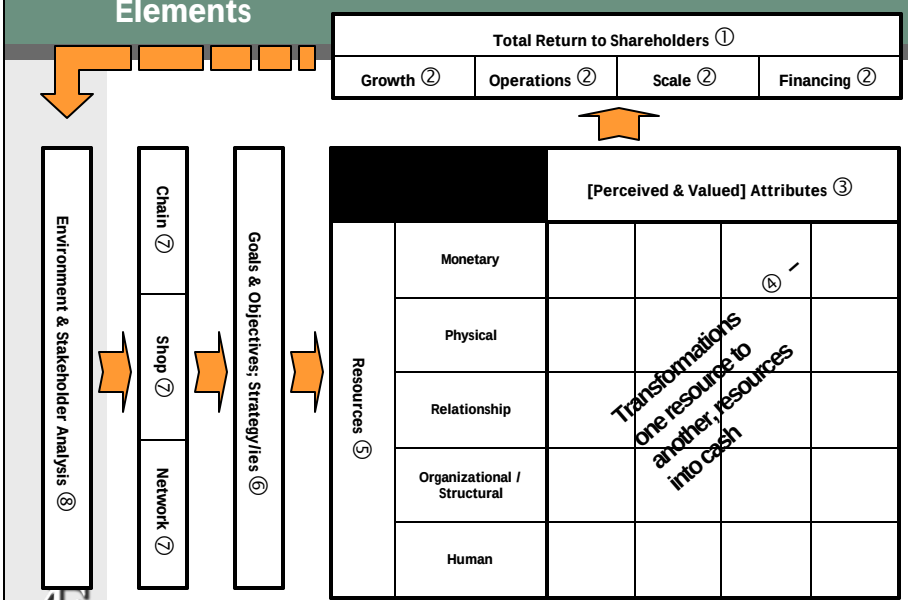
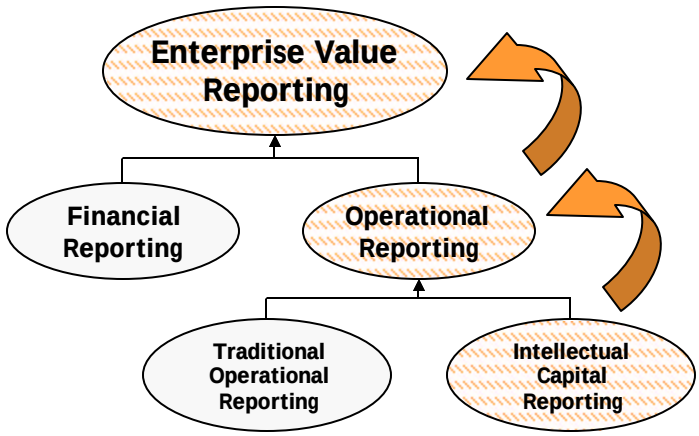
SEER's MFV Model = An EBR Framework with 8 Elements



Reporting Needs to Move Toward Having Operational Reporting as a Complement to Financial Reporting



EBR Framework 8 Elements Terminology – TRS & TRS Elements

1. Total Return to Shareholders [TRS] is a percentage return of an investment in a particular stock (or index) defined as the annualized percent change in a share price between time t and t+n after taking into account the reinvestment of dividends received during the time interval over which TRS is being measured back into the stock. Typical time-frames for the measurement of TRS are 3, 5, 7 and 10 years.

2. TRS Components are growth, operations, scale and financing. These components are identified through a methodology known as TRS Mapping[1]. This methodology links the company's market TRS performance to its economic financial performance. The TRS components are the market analogs of economic financial performance – top line growth, cost control, asset utilization and financial balance sheet management.

1. Patent pending – AssetEconomics, Inc. and Accenture LLP

EBR Framework 8 Elements Terminology - Attributes

3. Attributes are the perceived and valued characterizations or descriptors of a company that are believed by company stakeholders (primarily investors, buy-side and sell-side analysts and business writers but in reality any group that can impact the share price) to represent or influence its market value and TRS results. Attributes are the perceptual (often summary) outcome characterizations or descriptors of the company's resources and activities that result in attribute perceptions. Company managements 'manage to' attributes by managing resources and activities. Examples of attributes are those used in the Fortune Magazine's 'Most Admired'[1] survey as evaluative criteria - the quality of management, the quality of products and services, innovation, ability to attract, develop and keep talented people, social responsibility, and use of corporate assets.

1. This survey was in its 23rd year in 2006.

EBR Framework 8 Elements Terminology – Activities & Resources

4. Activities are the (trans) actions and processes undertaken by the company that (i) attract resources, (ii) change one resource state into another or (iii) convert a resource into cash. Activities are enactments on resources. Attributes are the outcomes of resources transformed by activities.

5. Resources are assets (things that the company has) or capabilities (things the company can do). Assets can be tangible or intangible, and can be either of a traditional economic or intellectual capital form. To be identified as a resource, it has to be definable and to be measurable (either directly or by proxy).

EBR Framework 8 Elements Terminology – Goals & Objectives; and Strategy

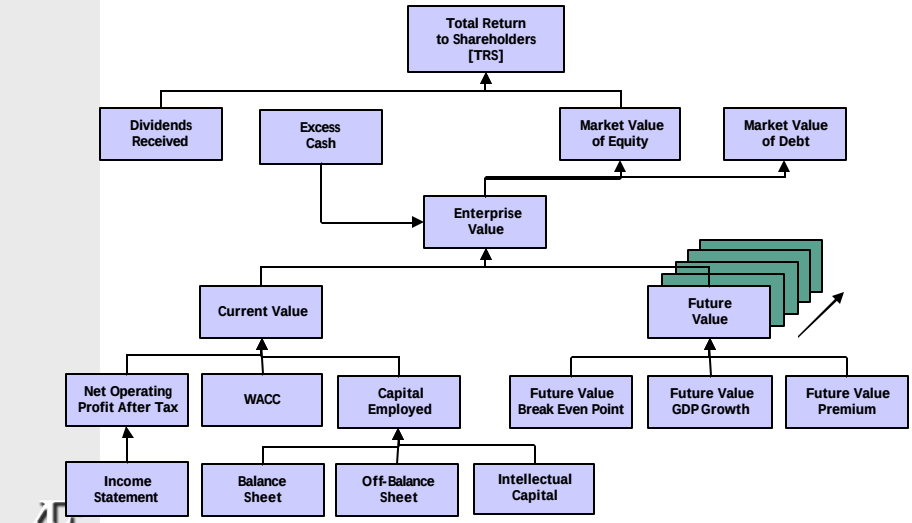
6. Goals and Objectives; and Strategy/ies signify what the company intends to achieve and how it is going to go about achieving what it intends to achieve. Goals and objectives, and strategy/ies will necessarily reflect the company's operating environment and its predominant business model. Goals are desired states that are judged to be achievable within a planning period. Objectives are desired states that are judged not to be achievable within a planning period but are approachable within it (i.e., progress cab be made) An ideal is a desired state that is approachable without limit.

EBR Framework 8 Elements Terminology – Business Models & Environment

7. Business Models have three archetypes – the value chain, value shop or value network. The value chain creates value by transforming inputs into products, the value shop creates value by mobilizing resources to create individual solutions to customer problems or exploit market opportunities, and the value network creates value by mediating exchanges between their customers. These business model archetypes leverage different resources to create value – the value chain primarily leverages monetary and physical capital, the value shop leverages human capital and the value network leverages relationship and organizational or structural capital.

8. Environment represents the operating context for the company and will represent a traditional stakeholder analysis view with its industry structure, competitive, technological, labor, legal & regulatory, political / social and investor stakeholders.

1. Total Returns to Shareholders [TRS] - TRS Mapping



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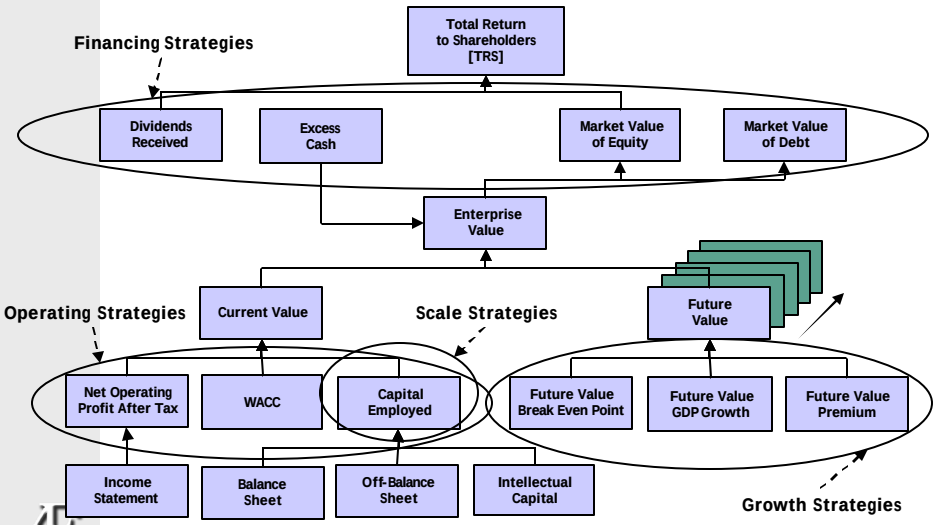
2. TRS Decomposed - Growth, Operations, Scale & Financing Strategy Outcomes



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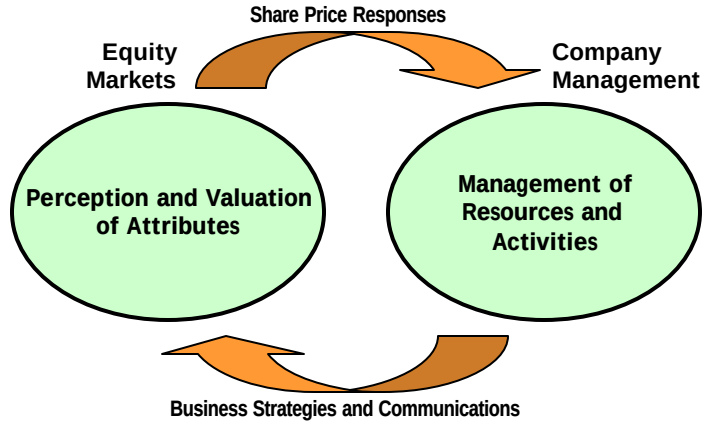
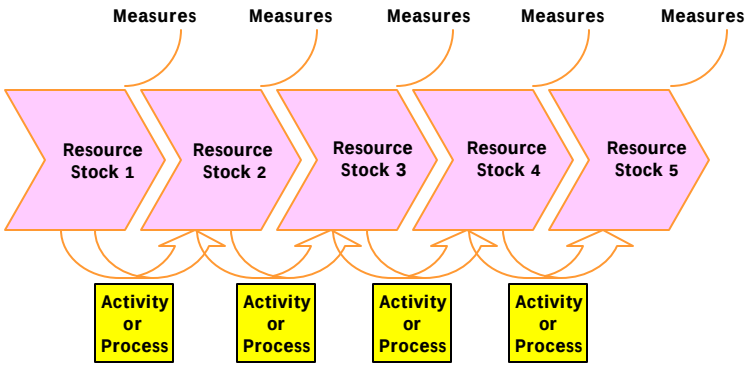
3. Attributes – NOT 'Managed' by Companies but 'Managed To' by Companies



Companies <u>cannot</u> manage valued attributes. They manage <u>to</u> valued attributes. The drivers of value are the (transformation) activities enacted on resources and the decisions (embedded in activity policies and processes) that impact the company's enterprise value.

4. Activities Occur within End-to-End Mega Processes and Result in the Transformation of One Resource to Another



5. Resource Classification Matrix

		Resource Form				
		Traditional Economic Capital		Intellectual Capital		
		Monetary Capital	Physical Capital	Relationship Capital	Organizational Capital	Human Capital
Resource Recognizability	Tangible					
	Intangible					

5. Why these classifications? Because intellectual capital resources have different characteristics to traditional capital resources

	Traditional Accounting Assets		Intellectual Capital Assets		
	Monetary	Physical	Relational	Organizational	Human
	(i.e., cash & investments)	(i.e., property, plant & equipment)	(i.e., key relationships with customers & suppliers)	(i.e., documented processes, software, IP)	(i.e., skilled, experienced employees)
Ownership Is the asset owned by the firm?	Yes	Yes	No	Yes	No
Usage Does usage deplete the asset stock?	Yes	Yes	No	No	No, will often increase
Economic Return What type of economic return is applicable?	Diminishing marginal returns	Diminishing marginal returns	Increasing returns to scale	Increasing returns to scale	Diminishing marginal returns
Network Economics Are network economics applicable?	No	Possibly	Possibly	Possibly	Possibly

Intellectual capital resources are not necessarily the same as intangibles … though they may be.

Resource Recognizability	Resource Form: (Traditional) Economic Resources – Monetary	Resource Form: (Traditional) Economic Resources – Physical	Resource Form: Intellectual Capital Resources – Relational	Resource Form: Intellectual Capital Resources – Organizational	Resource Form: Intellectual Capital Resources – Human
Tangible	▪ Cash ▪ Investments ▪ Receivables / Debtors ▪ Payables / Creditors	▪ Property ▪ Plant ▪ Equipment ▪ Inventory • Finished Goods • WIP • Parts / Raw Materials	• Customer Contracts • Formal Alliances, JVs, Supply Agreements	• Systems • Formalized Processes • Codified Knowledge • Patents • Brands • Mastheads	• Management Contracts • Documented Accessible • Skills Inventories
Intangible	• Credit Ratings • Undrawn Facilities • Borrowing Capacity (relative to like companies - based on character) • Borrowing Covenant Slack • Receivables Certainty • Accruals Convertibility	• Plant Modernity • Infrastructure Surrounding Plants • Stranded Assets? • Tradability of Assets? • Access Rights • Balance Sheet Strength • Inventory (Good and Usable, Obsolete, Redundant)	• Customer Loyalty • Behavioral • Attitudinal • Quality of Supply Contracts • Right to Tender, Right to Compete, Right to Design • Strength of Stakeholders Support (including opinion leaders) • Networks • Regulatory Imposts	• Structural Appropriateness • Informal Processes • Organizational Reputation • Brand Meaning (strength, stature) • Productivity of R&D Process • Quality of Corporate Governance • Know How, Show How • Tacit Knowledge • Maturity HC Development	• Top Mgmt Quality • Top Mgmt Experience • Ability to Execute on Strategy • Leadership Capabilities • Problem Solving Ability • Employee Loyalty • Behavioral • Attitudinal • Personnel Reputation • Workforce Adaptability • Employee Engagement

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7. Three Business Model Archetypes and their Value Logics

- **Value Chains create value by transforming inputs into products.**
- **Value Shops create value by mobilizing resources to create individual solutions to customer problems or exploit market opportunities.**
- **Value Networks create value by mediating exchanges between their customers.**

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7. Business Model Archetypes and Fixed Asset Intensity

		Business Model Value Logic		
		Chain	Shop	Network
Fixed Physical Asset Intensity	Lite			
	Heavy			

7. Different Business Models Described

	Value Chain (Production)	Value Shop (Problem Solving)	Value Network (Mediation)
Key Capabilities	Chains must master all the key aspects of making products, moving them through distribution channels and marketing them to customers	Shops must be good at matching and mobilizing the right mix of resources (people, financial, knowledge) needed to solve a specific problem	Networks must excel at monitoring customer behaviors, clustering customers together, mediating exchanges between them and multiplying these exchanges by finding and exploiting new connections
Result	The ultimate result of the chain process is the product	The ultimate measure of the success of the shop process is the outcome that results from implementing a solution	The end result generated by value networks are value-creating connections between customers
Best Way to Price	It is essential for chains to understand their true costs and to make sure that how they price products realistically reflects these costs	Customers of shops pay for solutions to their problems and are typically prepared to pay based on the value of the solution and expertise received rather than the cost	The rights of usage or connection between customers is the best way for value networks to price their services
Source of New Value	Chains generate new value by optimizing the cost, time and quality of processes	Shops generate new value by capturing and exploiting knowledgeabout problems and their solutions	Networks generate new value by identifying new clusters of customers or customer usage patterns that enable them to multiply exchanges between customers
Key Question	For chains the key question is how: (for example) • To find customers for products? • To make the process more efficient? • To make the chain more responsive to changes in supply or demand?	For shops the key question is what: (for example) • Is the problem/opportunity and how can it be solved or exploited? • Resources are needed and how can they be mobilized? • Knowledge of the problem or opportunity do we have?	For networks the key question is who: (for example) • Do we need to bring into the network (or kick out)? • Are the good users of the network? • Can we sell excess capacity to?

7.

Fixed Physical Asset Intensity	Business Model Value Logic: Chain	Shop	Network
Lite	Accenture BearingPoint IBM Infosys Technologies Coca Cola Company Wipro Technologies Marsh & McLennan (Mercer) TCS (TeleCommunication Systems) Avon Products Yum Brands EDS	Pixar Animation Trump International Apache Corp. Intuit Goldman Sachs (M&A) Cardinal Health Saatchi & Saatchi (Publicis Groupe) Macquarie Bank Global Marine BEA Systems	eBay Marriott Hotels Apple Computer (Music Store) Reuters Microsoft American Express (Card Division) Amazon (2nd hand books) Charles Schwab EMI Monster Worldwide McDonald's (franchise system) Atlas Worldwide London Stock Exchange
Heavy	Toyota Motor Amazon (new books) Dow Chemical Motorola Merck Nike Sara Lee Best Buy McDonald's (owned Stores) Bank of America (retail)	Boeing Company Apple Computer (iPod) Harrah's Entertainment Corning Glass Amgen Convergys MGM Mirage Walt Disney Company Schlumberger Lend Lease (Bovis Lend Lease)	FedExKinkos (FedEx) Southwest Airlines Dubai World Ports New York Times Starwood Hotels J.B. Hunt Transport AT&T Time Warner Publicis Groupe Club Meditterranee

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7. The basis for competitive advantage and value creation are different for each business model archetype!

Asset Form	Chain	Shop	Network
Monetary 	Primary Basis for Competitive Advantage		
Physical 	Primary Basis for Competitive Advantage		Secondary Basis for Competitive Advantage
Relational 	Secondary Basis for Competitive Advantage	Secondary Basis for Competitive Advantage	Primary Basis for Competitive Advantage
Organizational 	Secondary Basis for Competitive Advantage	Secondary Basis for Competitive Advantage	Primary Basis for Competitive Advantage
Human 		Primary Basis for Competitive Advantage	

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R&D, Intellectual Property & Patents Today - Case Example Companies

Company	AT&T	Coke	eBay	IBM	Infosys	Intuit	Merck	Disney
Financial Year	2005	2005	2005	2005	2006	2005	2005	2005
Balance Date	Dec. 31	Dec. 31	Dec. 31	Dec. 31	Mar. 31	Jul. 31	Dec. 31	Oct. 1
Ticker	T	KO	EBAY	IBM	INFY	INTU	MRK	DIS
Market Data in $ billions:								
Market Capitalization	$107.85	$101.72	$37.54	$118.48	$21.06	$4.99	$80.69	$65.47
P/E ttm	18.26	20.67	34.89	14.92	38.41	12.88	16.97	22.63
Income Statement Financial Data in $ millions:								
Sales Revenue	$43,862	$23,104	$4,552	$91,134	$2,152	$2,038	$22,091	$31,944
Net Income	$4,786	$4,872	$1,082	$7,934	$555	$382	$4,631	$2,533
IP Income & Custom Develop.	-	-	-	$948	-	-	-	-
Licensing Fees	-	-	-	-	-	-	-	-
Operating Expenses	$37,694	$8,824	$2,293	$12,226	$1,404	$1,131	$7,364	$27,837
R&D Expenses	-	-	-	$5,842	-	$305	$3,848	-
Product Development Exp.	-	-	$329	-	$1,137	-	-	-
R&D & PD as Percent of Rev.	-	-	7.2%	6.4%	52.8%	15.0%	17.4%	-
Amort. of Acquired Intan.	$271	$37	$129	-	-	$16	$164	$11

Company	AT&T	Coke	eBay	IBM	Infosys	Intuit	Merck	Disney
Financial Year	2005	2005	2005	2005	2006	2005	2005	2005
Balance Date	Dec. 31	Dec. 31	Dec. 31	Dec. 31	Mar. 31	Jul. 31	Dec. 31	Oct. 1
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P/E ttm	18.26	20.67	34.89	14.92	38.41	12.88	16.97	22.63
Balance Sheet Financial Data in $ millions:								
Goodwill	$14,055	$1,047	$6,120	$9,441	$8	$509	$1,087	$16,974
Intangible Assets - Definite Life								
Customer Lists & Relationships	$3,430	$314				$200		
Customer Lists & User Base			$527					
Trade Marks & Trade Names			$444			$17		
Developed Technologies			$102					
Capitalized Software				$1,805				
Client related				$910				
Completed Technology				$383				
Strategic Alliances				$104				
Patents & Trade Marks				$32				
Brand Value					$5			
Human Resources					$11			
Technology						$130		
Covenants (Non-Compete)						$12		
Patent & Product Rights							$1,656	
Copyrights								$316
Other	$1,100	-	$36	$218	-	-	$180	$88
less Accumulated Amort.	($986)	($168)	($282)	($1,789)	$0	($289)	($1,318)	($70)

Company	AT&T	Coke	eBay	IBM	Infosys	Intuit	Merck	Disney
Financial Year	2005	2005	2005	2005	2006	2005	2005	2005
Balance Date	Dec. 31	Dec. 31	Dec. 31	Dec. 31	Mar. 31	Jul. 31	Dec. 31	Oct. 1
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P/E ttm	18.26	20.67	34.89	14.92	38.41	12.88	16.97	22.63
Intangible Assets - Indefinite Life								
Trade Name / Trade Marks	$4,900	$1,946						$944
Licenses	$59							
Bottlers' Franchise Rights		$521						
FCC Licenses								$1,432
Other		$161						$21
Net Intangible Assets	$10,634	$4,901	$2,904	$3,801	$2,082	$2,093	$2,621	$4,824
Total Assets	$145,632	$29,427	$11,789	$106,748	$2,066	$2,716	$44,846	$53,158
Net IA as a Percent of TA	7.3%	16.7%	24.6%	3.6%	100.8%	77.0%	5.8%	9.1%

R&D, Intellectual Property & Patents Today - Key Word Search - What's There, What's Not! [1]

Company	AT&T		eBay	Coca Cola	IBM		Infosys		Intuit		Merck		Walt Disney		Total
Report Type	10K	AR	AR/10K	AR/10K	10K	AR	20F	AR	10K	AR	10K	AR	10K	AR	Mentions
Pages / pdf	69	92	123	148	32	105	80	127	151	96	160	72	132	104	1,491
Alliances	0	0	0	3	4	5	4	6	1	1	3	3	1	0	31
Alpha	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Amortization	58	56	29	22	0	23	36	25	35	45	16	15	22	23	405
Beta	0	0	0	0	0	0	0	0	0	0	0		0	0	0
Breakthrough	0	0	0	0	0	0	0	0	0	0	2	3	0	2	7
Concept	0	0	0	0	0	0	1	8	1	1	0	0	1	1	13
Follower	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gateway	0	0	19	0	0	0	0	0	1	1	0	0	0	0	21
IP	26	91	2	0	6	17	0	14	0	0	0	0	0	0	156
IP Commercialization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Innovation	0	6	2	19	15	45	3	13	0	3	3	2	0	0	111
Invention	0	0	2	0	1	1	0	1	4	3	0	0	0	1	13
Impairment	11	20	23	89	0	12	10	5	37	42	11	12	37	38	347
Intangible Assets	29	29	69	54	0	36	29	35	51	58	0	0	28	29	447
Intellectual Property	0	0	25	0	6	2	27	9	25	17	8	4	17	2	142
Know How	0	0	0	1	0	2	0	2	0	0	2	0	0	0	7
Lab	0	0	0	0	0	0	2	1	0	0	0	0	0	0	3
Labs	2	3	0	0	0	0	1	14	0	0	0	3	0	0	23
Leader	0	7	2	1	0	8	2	12	0	0	0	4	0	6	42
License	0	10	34	2	3	9	12	3	16	11	30	16	15	5	166
License Fee	0	0	0	0	0	0	4	0	0	0	0	0	2	2	8
Life Cycle	0	0	0	0	2	3	3	4	0	0	0	0	1	1	14
New	53	92	130	58	28	88	124	90	96	98	185	113	78	166	1,399
Patent	1	6	1	0	2	3	5	3	8	5	97	29	0	0	160
Patent Expiry	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Patent Protection	0	0	0	0	0	0	0	0	0	0	16	1	0	0	17
Pipeline	0	1	2	2	0	0	0	0	0	0	18	19	0	2	44

R&D, Intellectual Property & Patents Today - Key Word Search - What's There, What's Not! [2]

Company	AT&T		eBay	Coca Cola	IBM		Infosys		Intuit		Merck		Walt Disney		Total
Report Type	10K	AR	AR/10K	AR/10K	10K	AR	20F	AR	10K	AR	10K	AR	10K	AR	Mentions
Pages / pdf	69	92	123	148	32	105	80	127	151	96	160	72	132	104	1,491
Phase	4	4	2	0	0	1	3	0	1	5	42	27	7	2	98
Product Portfolio	1	2	0	0	0	1	0	0	0	0	2	1	0	1	8
Product Development	1	1	19	0	0	0	2	1	0	13	5	2	1	1	46
Project	20	20	4	1	0	2	59	25	5	1	4	2	10	5	158
R&D	0	0	0	0	6	14	0	14	0	0	9	5	0	2	50
R&D Expense	0	0	0	0	0	1	0	0	0	0	0	0	0	0	1
Research	10	10	2	4	9	27	33	23	17	18	105	85	4	3	350
Research Center	0	0	0	0	0	0	0	0	0	0	6	5	0	0	11
Research Productivity	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1
Royalty	0	0	4	0	0	5	0	0	1	1	2	1	4	4	22
Royalty Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Royalty Receivables	0	0	1	0	0	0	0	0	0	0	0	0	0	0	1
Show How	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Stage	0	0	1	0	0	1	2	4	0	0	15	9	9	10	51
Suppliers	4	5	3	12	7	3	1	2	7	7	0	0	4	2	57
Testing	4	0	0	1	0	2	9	5	1	1	17	1	2	2	45
Trial	2	2	0	2	0	3	0	0	0	0	61	28	3	1	102

Other Intellectual Capital Concepts – Key Word Search – What's There, What's Not!

Company	AT&T		eBay	Coca Cola	IBM		Infosys		Intuit		Merck		Walt Disney		Total
Report Type	10K	AR	AR/10K	AR/10K	10K	AR	20F	AR	10K	AR	10K	AR	10K	AR	Mentions
Pages / pdf	69	92	123	148	32	105	80	127	151	96	160	72	132	104	1,491
Brand	2	7	9	25	2	2	10	67	6	3	5	2	5	21	166
Client	0	0	0	0	13	81	122	67	1	1	0	0	0	0	285
Contractors	0	0	3	0	0	0	1	10	4	4	2	2	0	0	26
Customer	94	103	103	8	9	4	28	52	112	102	20	16	2	2	655
Customers	127	167	77	39	2	1	20	28	151	130	16	18	2	4	782
Employees	60	65	53	41	10	65	126	193	57	55	32	28	19	12	816
Human Capital	0	0	0	0	1	0	1	3	0	0	0	0	0	0	5
Human Resources	1	3	2	4	3	9	8	39	0	0	2	1	1	1	74
Partners	0	2	6	58	7	24	2	4	8	6	2	3	2	3	127
Relationships	20	20	8	0	8	11	13	16	12	10	7	0	5	8	138
Reputation	0	0	14	2	0	0	7	6	5	5	0	0	0	3	42
Vendor	1	1	0	0	1	6	3	3	10	8	0	0	0	0	33
Vendors	2	2	0	0	2	3	14	6	3	3	0	0	0	0	35

Introducing the EBR Framework

1. Backdrop and View
2. Proposed EBR Framework
3. Concepts
4. R&D and other Intellectual Capital
5. eBay: More Evidence
6. Conclusions for EBR

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Introduction to eBay as a Reporting Entity

- IPO 1997
- Network Business Model
- Acquired PayPal Jul. 8, 2002 for $1.5 bn. (all stock)
- Admitted to S&P 500 Jul. 19, 2002
- Acquired Skype Sep. 13, 2005 for $2.6 bn. (½ cash, ½ stock)
- Gross Merchandise Sales 2005 = $46.201 bn.
- Categories with sales p. a. over $1 bn. 2005 = 13
- Registered Users Dec. 2005 = 192 m.
- Revenues 2005 = $46.2 bn.

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eBay is a Global Top 10 Retailer!

	Company	Revenues
1	Wal-Mart Stores Inc.	$316 bn.
2	Carrefour SA	$93 bn.
3	Home Depot Inc.	$82 bn.
4	Metro AG	$69 bn.
5	Tesco PLC	$68 bn.
6	Kroeger Co.	$61 bn.
7	Royal Ahold NV	$55 bn.
8	Costco Wholesale Corp.	$53 bn.
9	Target Corp.	$53 bn.
10	Sears Holdings Corp.	$49 bn.
11	eBay GMV	$44 bn.
12	Lowe's Companies Inc.	$43 bn.
13	Walgreen Co.	$42 bn.
14	Albertson's Inc.	$40 bn.
15	Safeway Inc.	$38 bn.

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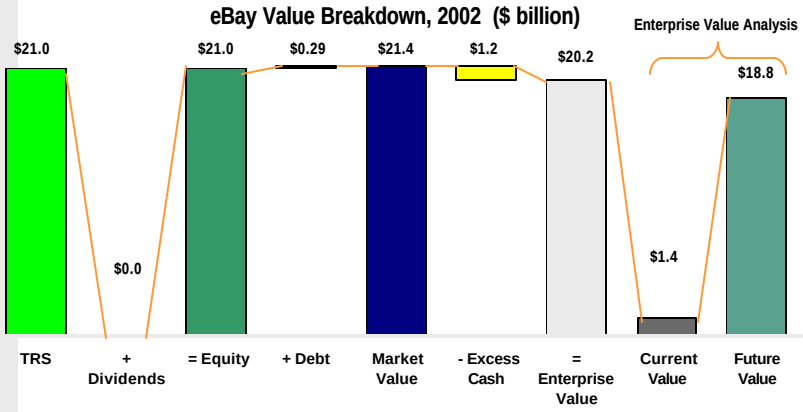
As of Year End 2003, over 90% of eBay's value came from Future Growth Expectations that were above and beyond the expectations for Current Operations.



1 Market Value = Shares outstanding multiplied by closing stock price as of December 31, 2002 plus market value of long term debt as of 12/31/2002
2 Excess Cash = Balance Sheet cash and short term investments as of 12/31/2002 less operating cash (assumed to be 2% of revenues)
3 Enterprise Value = Market Value less Excess Cash
4 Current Value of Operations = NOPLAT/WACC (16.5%) and represents the present value of current operations in perpetuity
5 Future value is defined as Enterprise Value less the Current Value of Operations and represents future incremental value the market expects the company to create beyond the value delivered by current operations
Sources: Factset data, Compustat, Worldscope, Accenture Analysis

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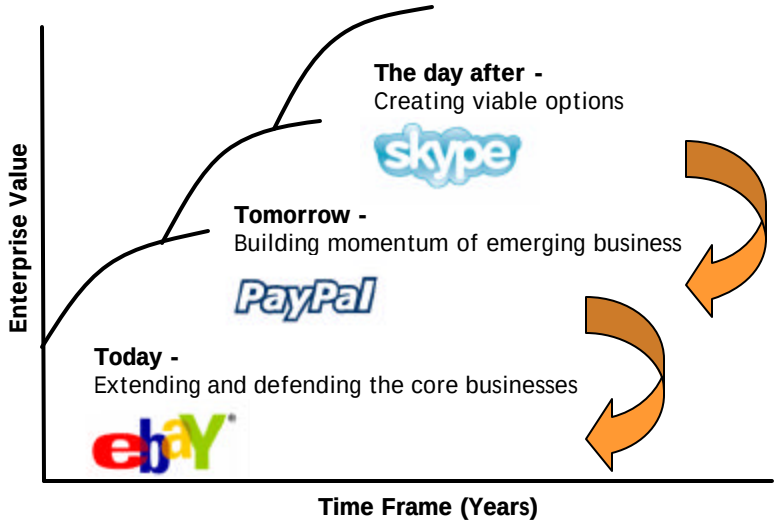
Slide 39

eBay is 3 Network Businesses Built on Strategic Layering where The Day After becomes Tomorrow & Tomorrow becomes Today. With eBay, Investors are Investing in Tomorrow and the Day After.



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Slide 40

Eight Elements of EBR Framework

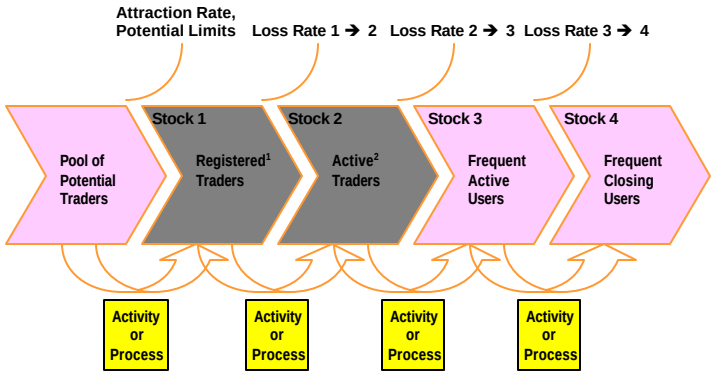
- Business Environment & Stakeholder Analysis
- Business Model/s
- Goals & Objectives; Strategy/ies
- Resources
- Activities
- Attributes
- TRS Components
- TRS

eBay & Proposed EBR Content (to be completed … illustrative at the moment)

EBR Element	eBay Reporting		eBay Not Reporting	
	Reporting	Doc. Location	Commentary	Metrics
Business Environment & Stakeholder Analysis	Yes	e.g., 10K	Partial analysis	
Business Model/s	No	n/a	Business model characteristics not formally commented on	
Goals & Objectives; Strategy/ies	Yes	e.g., San Jose Analysts' Day presentation		
Resources	No	n/a		
Activities	No	n/a		
Attributes	No	n/a		
TRS Components	No	n/a		
TRS	Yes	DEF 14A		

DRAFT

Activities



1. A Registered Trader is simply someone or some entity that has registered to trade with eBay
2. An Active Trader is someone or some entity that has either listed an item for sale or made a bid in the last twelve months

The 'creating frequent closing users' mega process represents the activity chain based on converting one resource into another … Registered Users and Active Users are just two 'resource pools' in this mega process and data on growth rates on these stocks will not provide a useful guide on the real stock of interest … how many 'frequent closing traders', spending how much, how often, with what consistency, with what churn rates?

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Observations on eBay EBR-like Reporting

- First, non-financial reporting is spread across a number of filings and documents – some statutory and some non-statutory
- Second, not all elements of the proposed EBR Framework are represented; some are missing
- Third, there is no attempt to comprehensively report on operations
- Fourth, there is no attempt to represent a 'causal chain', 'line of sight' or 'see through view' that gives insight into how the company is 'managing for value'

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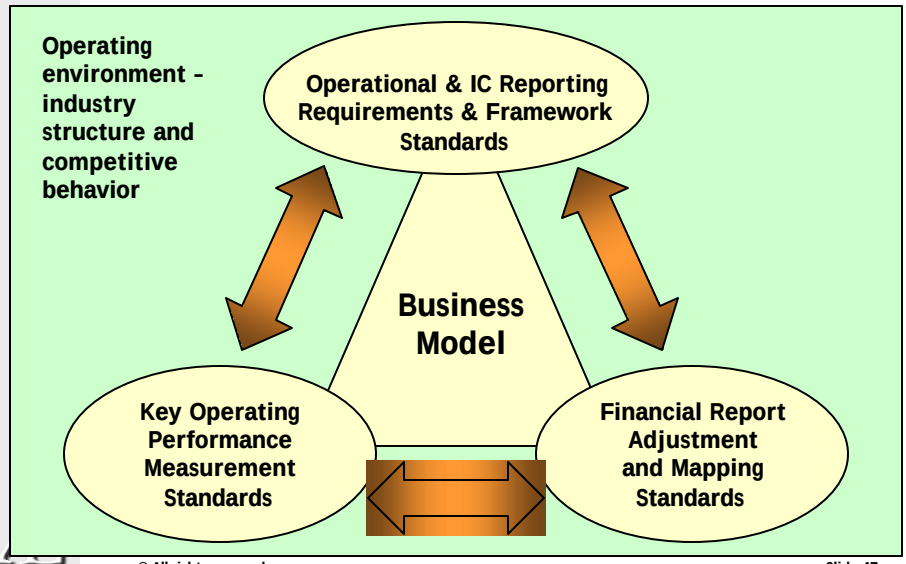
1. Information Quality Criteria Should be Met

	Criteria	Description
1	Validity	Measures what it is supposed to measure
2	Reliability	Measures the same way on repeated occasions
3	Credibility	The veracity of the information being presented is not in doubt
4	Completeness	The information set completely covers the phenomena purported being measured
5	Consistency	The same phenomena are measured and information presented, period-on-period
6	Coverage	All operating phenomena are being measured and reported
7	Integrity	The quality of processes giving rise to the information presented
8	Objectivity	The bias or opinion expressed when the issuer interprets or analyzes facts
9	Accuracy	Is factually irrefutability and devoid of error
10	Timeliness	Is available as close to real time as possible
11	Utility	Is germane to valuation
12	Usability	Is intellectually and practically easy to use
13	Accessibility	Is available in a succinct number of readily identifiable and available documents

2. Structural Requirements for Operational Reporting & Intellectual Capital Reporting Should be Met



Recommendations

1. **Operational reporting should be a requirement for publicly listed enterprises**
2. **Intellectual capital reporting should be an embedded part of operational reporting and not positioned as a voluntary adjunct to either financial reporting or operational reporting**
3. **There should be a regulatory sanctioned 'home" for operational reporting within the context of the reporting and disclosure legislative requirements within each legislative jurisdiction – whether at the country or supra-country level. Examples of existing "homes" that are being used to some extent for this purpose are the MD&A in the U.S. and Canada and the proposed Management Commentary by the IASB**

Recommendations

4. The content of operational and intellectual capital reporting should be established within the context of principles-based reporting and to draw its legal force from "test of neglect" criteria (more later)

5. The content of operational and intellectual capital reporting should be determined by reference to the enterprise's relevant business model/s – value chain, value shop or value network – and an understanding of the specific enterprise value drivers – resources, capabilities and activities – that are causally linked to that value and its creation within its "industry" context

6. Business model articulation may occur at the industry GICS (6-digit) or sub-industry GICS (8-digit) levels, with business models being identified according to the degree of homogeneity of business conduct among competitive peers

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Recommendations

7. Capitalized intellectual capital resources should be mapped back to the financial accounts should be standardized. The credibility of intellectual capital recognition will only occur when managerially accounted for on an historical cost basis. This does not mean that that intellectual capital should be reported on in the financial accounts – rather that when intellectual capital is reported on in the relevant disclosure section of, say, an annual report that if a value is to be attributed to an intellectual capital item, that it be on the net historical cost of the investment made in it. In this way, what will be important to users will be the identification of the intellectual capital resource as being causally connected to enterprise value in the eyes of management.

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Commentary

What the intellectual capital resource and its management in the hands of the particular enterprise's management team contributes to overall enterprise value will be up to the investor to decide. No attempt should be made by the company to mark-to-market except in the limited circumstances of self-generating and regenerating asset equivalents such as may exist with human capital. Thus, it may be at even high levels of industry disaggregation that there is still more than one business model – chain, shop or network – that represents the "industry" at that level. This is especially likely to be the case in value network businesses that have high fixed asset structures (such as hotels or airlines) and where different business models have been developed based on whether these assets are retained by the enterprise or have been distanced from the enterprise through different mechanisms (such as franchising, leveraged leasing, insourcing and so on).

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Duty of Care [1]

- **The legal criterion that can be drawn upon within a principles-based reporting environment for determining what operating information should be provided to users can be drawn from the legal test for negligence. Elements of negligence testing are, *inter alia*:**
- **Gravity of harm – the potential damage from not knowing what could have been know**
- **Likelihood or risk**
- **Cost to prevent**
- **Duty of care**
- **Standard of care**
- **Gross departure from standard of care**

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Duty of Care [2]

- **Duty of care, standard of care and gross departure from standard of care** are industry specific and argue for an industry or sub-industry approach to the issue – rather than for a firm-level approach or even a general approach to this aspect of reporting.
- **Duty of care** for an organization will describe the relationship between the parties and sets the level of responsibilities owed from one to the other. For example, credit card companies have a high duty of care because they are fiduciaries and are responsible for their client's debt obligations and information privacy.
- **Standard of care** for an organization will mean that which organizations of comparable size and sophistication do under the same circumstances. Stated differently, standard of care implies that if information privacy and identity theft protection protocol development and application are at a high level of sophistication in the credit card industry then every credit card company that does not have the equivalent level of protection protocols may be subjected to liability.
- **Gross departure from a standard of care** for an organization means not simply a mere departure from the standard of care but a departure that a "reasonable person" would consider flagrant. Extending the credit card industry example, this would mean that a credit card company had no internal access controls over client data.
- Neither standard of care nor gross departure from standard of care have any meaning in the absence of duty of care. Duty of care is the legal missing link in relation to operational reporting in a principles-based reporting environment.

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