

Protecting and valuing your intangible assets

The 'secret sauce' of your business, such as the certain way you do business, your customer database, how your customers like to buy, budget cycles, or recipes, and processes and trade information you don't want to make public is what makes up your intangible assets. It's just as important to protect them as it is your physical assets.

Unlike intellectual property, e.g. patents and trademarks, which you formally apply for and register through the [US Patent and Trademark Office](#), intangible assets are things that can be just as important yet don't have legal protection.

A great example is the reputation of your business or the credibility of your brand. It's impossible to box up your reputation, though you'll spend years building it. A ruined reputation is probably worse than a competitor copying your idea. You can usually take legal action to stop another business stealing your intellectual property but clawing back your good name in the public's eye is a mountain to climb.

Intangible assets explained

Small businesses often overlook the importance of safeguarding intangible assets that play a vital role in their success. These include:

- › Personal relationships and the history of trust with customers and suppliers that builds customer loyalty. You may know what they like and don't like, their kids' names, where they live, how they like things to be delivered, colors, styles and anything else that you can customize to their needs, that another business would find hard to figure out.
- › Any trade secrets, processes or efficiencies of production that you've found out by trial and error over the years you've been in business. This could include knowing how to get new customers, client budget cycles and their particular pain points.
- › The business relationships you've developed over the years, such as joint ventures or strategic alliances. Many agreements or referrals and word of mouth are built up over time. A good example is the network of referrals between trade businesses who verbally recommend work to each other.
- › Your customer data, which could include addresses, emails and buying history, providing useful information on their needs. Knowing your customer behavior patterns can also help with what products and services to offer, the staff to employ and when to make contact.

Recognizing and protecting these valuable intangible assets is how small businesses can maintain their competitive edge as well as long-term growth and stability.

The benefits of intangible assets

Businesses with intangible assets tend to be worth more than those that don't. If you think about some of the largest businesses in the world, like Facebook, Google and Apple, the value is in their recurring revenue, number of people signed up, online activity or subscribers. It's not their buildings, equipment or car parks.

Other benefits of intangible assets include getting a higher price when selling the business, less chance competitors can copy you and you're likely to be able to charge more for what you do.

Locating and protecting your intangible assets

The knowledge that exists in your head relating to important business activities is hard to quantify, and if you did write it all down in a business manual, the accountants would only let you include the value of the paper you wrote it on.

Our suggestion is to list all the things in your business that make up your intangible assets and then work out what you'll do to keep them secret or confidential such as:

- › Having all staff, suppliers and others that may come into contact with trade secrets to sign confidentiality agreements or non-disclosure agreements (NDA's). Yes they may still steal your ideas, but this will reduce the chance it occurs by signaling you're serious about preventing accidental disclosure and gives you some legal backup if you want to take action against the thief.
- › Making sure employee agreements emphasize that a breach of confidentiality is serious misconduct.
- › Having your most precious information on a need-to-know basis, to limit who knows what. For example, you wouldn't expect all employees to have access to specific aspects of your business that are commercially sensitive.

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- › Only put information online websites, downloads, social media, e-newsletter that you're happy for a competitor to access.

Even though these assets can be mission-critical, you're unlikely to see them on your balance sheet as it's usually too difficult to value them.

Valuing intangible assets

It can be tough to determine an accurate valuation of an intangible asset, as it's difficult to quantify physically. You may have spent years developing a process or piece of software, but the accounting valuation will be incredibly low (you can't count your own labor as a cost in developing intellectual property or asset). An intellectual asset (such as your business credibility) is priceless.

The main point of valuing an intellectual asset is to make yourself aware of how valuable it is, so you can take steps to protect it. Consider the cost to your business to redevelop a process, recover your reputation, manage a competitor copying your way of doing business, or the loss of your trade secrets. By identifying the value that intellectual assets hold to your business, you can put protection in place to ensure this value remains.

Next steps

- › Undertake an audit of your business to identify which intellectual assets you have and then next to each, estimate the value, then prioritize from highest to lowest.
- › Commence protecting these assets in order of importance and get help if you need to draw up any legal documents like confidentiality or non-disclosure agreements.
- › Consider if you should convert any intellectual assets to intellectual property and register them officially with the USPTO.

Doing the work to determine intangible value within your business makes it more attractive when the time comes for you to expand or sell.

Note

This is a guide only and should neither replace competent advice, nor be taken or relied upon as financial or professional advice. Seek professional advice before making any decision that could affect your business.