Treatment of Marketing Assets and Testing Strategy

UNECE Group of Experts on National Accounts
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**Review: Treatment of Marketing Assets as Produced**

Marketing assets consist of items such as brand names, mastheads, trademarks, logos, and domain names (BPM6 paragraph 13.17 and 2008 SNA paragraph 10.198).

A key driver of brand value and corporations invest in building and supporting their brands to differentiate their products and develop a positive emotional connection with their customers.

Both the 2008 SNA and the BPM6 classify marketing assets as nonproduced non-financial assets.

✓ **Assets that come into existence in ways other than through processes of production.**

The Globalization Task Team (GZTT) recommends that marketing assets be reclassified as produced assets.

Advisory Expert Group on National Accounts (AEG) and the Committee on Balance of Payments Statistics (BOPCOM) were supportive but recommended **targeted testing** before deciding on the final recommendation.
Treating marketing assets as produced

Testing is extremely important!

✓ Conceptually most agree that marketing assets are produced
✓ Impacts the core concepts of production boundary and asset boundary
✓ Potentially a significant impact on GDP
What is the aim of testing?

Objective: To see if marketing assets can be treated as produced in the next update

(1) What data sources are available?

(2) Adequate methodology to calculate the current production & gross fixed capital formation (GFCF)? Appropriate valuation?

(3) Development of depreciation rates/retirement patterns/service lives to calculate capital stock and consumption of fixed capital (CFC)

(4) Appropriate deflator
No internationally agreed guidance available

- No agreed statistical methodology on how to produce these estimates.
- Unlike R&D which had dedicated surveys and Frascati Manual on how to measure.

- Would the current production and GFCF be calculated as sum of costs? Which costs to include? Is advertising expenditure (or a portion of) a good proxy? Would own-account production of marketing assets be included?

- Are other methods viable (e.g., income-based approach)?

- Some countries currently record marketing assets when purchased/sold
  - Separate from the sale of a whole company which would be embedded in goodwill.
  - Consistent with current guidance to only record on the balance sheet when evidenced by a sale (nonproduced).
Experimental Estimates

Some experimental estimates developed by ONS (UK) and the Statistics Netherlands and by academics (e.g. Corrado, Hulten and Sichel).

- Purchased marketing and branding services: data more readily available

Main challenges posed by estimating own account production of marketing and branding services.

Some relevant issues and challenges identified in both estimates.

- How do we define investments in brand expenditure?

Example: Statistics Netherlands—Investment in brand equity is that part of the expenditure on marketing and advertisement that has as the primary goal to increase the value of a brand name or to increase output over a period of more than one year.
Experimental Estimates

Some relevant issues to consider:

Establishing the criteria to determine what may be considered the “primary goal” of the marketing and advertising expenditure.

- Example of advertising expenditure that could be excluded: employment ads, government ads on ethical issues or public safety.

Only taking the output (or turnover) of advertising industry likely to lead to underestimate of all advertising expenditure in an economy.

- Direct purchases of advertising for units not classified in the advertising industry (e.g., television, web portals/social media)

Do we exclude all expenditure not considered a “primary goal” or a portion? How do we estimate the portion to include?

Identifying the occupations engaged in marketing and investment

Estimating appropriate time-factors of workers.
Way forward: Two-stage testing

Stage 1: a dedicated group of countries and International Organizations to review existing literature on the topic and see if methodology can be replicated.

- Two 2-hour virtual workshops will be held on June 28 and June 30 from 7:30- 9:30 EDT/13:30 – 15:30 CEST.

- Aim of workshop is to discuss:
  - Pros and cons of the various methods
  - Design of questionnaire that will be sent to all countries to test the feasibility of treating marketing assets as produced.

- Please send email to sna-globalization@imf.org if interested in participating in the virtual workshop

Stage 2: Launch questionnaire to all countries in September 2022

- Evaluate country responses and make recommendation to AEG/BOPCOM on feasibility by end of December 2022.
Thank you