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Contents

Stand Out from the Crowd

Prof Janek Ratnatunga

Professor Janek Ratnatunga, a leading Australian scholar in the field of management accountancy tells Joyce Njeri the importance of having a CMA – Australia qualification in today's cut-throat business marketplace.

Q. In today's competitive job market, a credential next to one's name can help their resume stand out. Why is it important for accounting students to gain a CMA – Australia qualification? What does your programme offer to stand out from the crowd of other training providers?

A. Companies rely on quality strategic analysis to be able to confidently chart a future course. The management accountant is one of the CEO and company's board most valuable advisers in this regard – they go beyond the numbers and bring together the best intelligence; leading indicators from within and outside the business. Without this information and analysis, it's akin to one flying blind."

As a management accountant you work hand-in-glove with the manager of a business, providing them with both the numbers and assessment of other forward leading indicators to help them set the course for the future – the financial world's equivalent of being an architect and of designing a house to stand strong in all future conditions.

The CMA-Australia programme is the only post-graduate level management accounting qualification in the world. You need to have a qualification in accounting to do this programme.

Q. Often people are confused as to the differences in the role of a financial accountant versus a management accountant. Can you shed some light on this?

A. Financial accountants look at what has happened in the past, according to an assessment of the numbers, as opposed to what will happen, according to numbers and other variables. Management accountants are forward looking.

Take the analogy of a ship; the financial accountant is at the back of the ship studying the wake and telling the captain how the ship has passed through the water, while the management accountant is up the front of the ship and can see the iceberg ahead and informs the captain (the CEO) of the challenges ahead. The management accountant is like a navigator within the business, advising the CEO, who is ultimately the one who leads and takes the decisions.

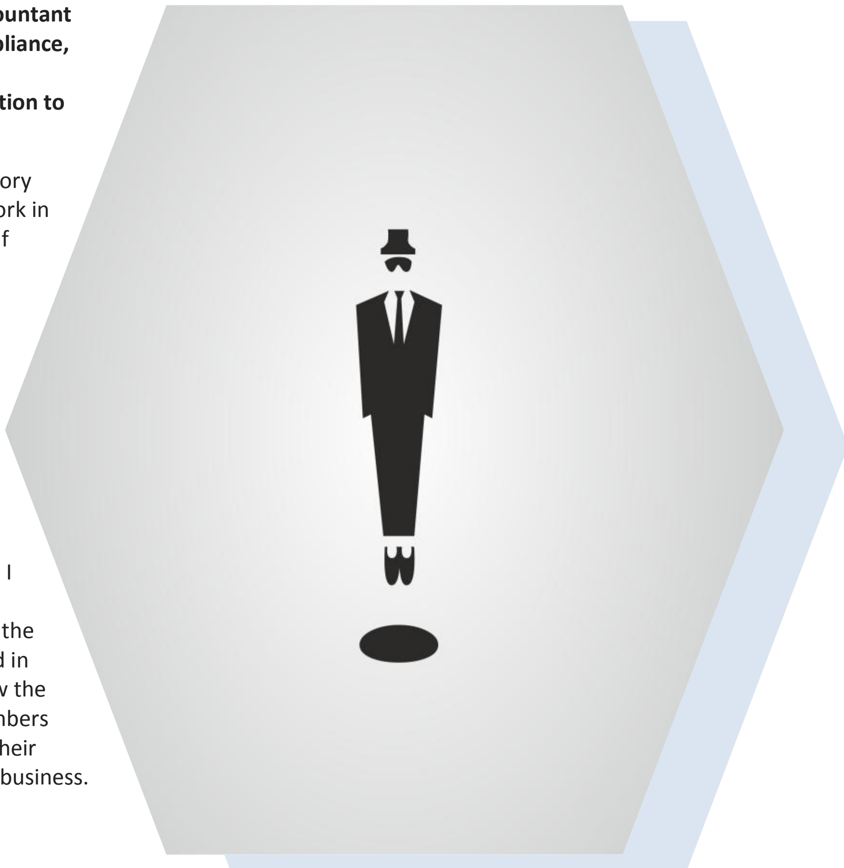
Professional bodies focusing on financial accounting issues pay only lip-service to management accounting, which requires a totally different mindset.

Q. Is it correct to assume that those with a certified public accountant (CPA) qualification would mainly focus on regulation and compliance, whilst those with a certified management accountant (CMA) qualification would concentrate on providing decision information to management?

A. This is by and large correct. Both roles are important. Regulatory accountants work in weeks and months; finance accountants work in years; management accountants work in minutes and seconds. If you need real time operational improvements that affect profitability, then you need to get a management accountant.

Following the global financial crisis, the market is tight, competition is fierce and there is very little money around which means you have to squeeze the most out of what you have. To be able to do that, you need real-time insights and advice. You need an expert who deals with leading indicators, not lagging indicators. Only a management accountant has the skills and expertise to provide this advice.

I don't want to simply be told if the numbers are right or wrong. I want to know what it means for business planning. The management accountant interlinks all the different elements of the business and gives you a total picture. The fact they are involved in the functional areas of the business means they can tell you how the wheel of the company is turning; they can tell you what the numbers mean for the company, not just what it means for the budget. Their analysis and advice is critical for the successful operation of the business.



Q. You have embarked on a major expansion plan, opening international centres that are offering CMA-Australia programmes in more than 12 countries including the UAE. As one of the growing professional qualifications, what do you think about Australia's accounting education? On the same note, what are your expansions plans globally and in particular the Middle East?

A. It is true that ICMA Australia is on an expansion programme. But it is a controlled expansion. We work only through universities and specialist educational establishments like the Wisdom Group in Dubai. ICMA is actively involved in the delivery and assessment of the post-graduate level CMA programme.

Most other professional bodies concentrate on assessment only, leaving the training to private non-related institutions. Australia's accounting education is considered 'world-class' and the ICMA was instrumental in getting management accounting recognised as a much needed skill for migration purposes. In the Middle East, in addition to the UAE, ICMA has a programme running in Lebanon and are now looking at launching courses in Egypt.

Q. What has been the response regarding enrolment to your programmes in the UAE? Kindly give us the exact number of students who have done the CMA-Australia programme or are currently pursuing courses.

A. The CMA-Australia programme in Dubai has been a phenomenal success. We run the course twice a year in March and November, and limit the numbers to 40 participants per programme. We just completed our 11th intake. This means there are at least 250 CMA members in Dubai. As we insist that students have an accounting degree or a professional qualification in accounting with at least 5-years experience, the quality of participants is of the highest calibre.

Q. Tell us more about the exams. What are the pre-requisites required for anyone interested in pursuing the Australia-CMA qualification. What is the certification or license procedure afterwards?

A. Licensing is a very American-centric term. Over in the USA even interior decorators, bread makers and dog washers need to be 'licensed'. This is not the case in the UK or Australia. Our members are 'certified' after a rigorous training and assessment process at the post-graduate level.

Many universities embed the CMA programme within their masters in accounting or MBA programmes. As I said before, the pre-requisite is an accounting degree or a professional qualification in accounting with at least 5-years experience. Most CMA course participants have 10-20 years of senior level experience.

Q. What attracted you to the profession of management accounting?

A. The fact that you are not simply waiting for things to happen and then just reporting on them, which is essentially what financial accountants do. It was the forward looking focus of the profession and the task of creating value and helping to set a strategic course; you get to see the fruits of your labour in that you get to see your advice translated into actions and then into outcomes. Helping to run a better business, that is very rewarding.

Janek Ratnatunga is CEO of ICMA and Professor of Accounting at the University of South Australia.

Source: Accountant Middle East

Fast Data Entry Techniques in Excel

The key task of management accountants is to do lot of number crunching i.e. to analyse the financial as well as non-financial data, interpreting data, summarizing the results, and prepare reports and dashboards for the management and also give insights and recommendations the management. Microsoft Excel is the key tool of the management accountants for data analysis and reporting. Mehul Metha (CA, CMA Aus) says, therefore, that management accountants are expected to be highly proficient in Excel. It is not enough for management accountants to just know the basic Excel. They MUST have expertise in using various advanced features of Excel. It will not be an exaggeration to say that without adequate Advanced Excel skills, management accountant will not be able to utilize his / her full potential.

Metha has observed that most of the Excel users are using not more than 40-50% of the Excel features. The users who learn and apply the advanced techniques of Excel are able to demonstrate better performance because they can do more sophisticated and in-depth analysis, which naturally bring better results, and also they save time by expediting the Excel related work by using appropriate features, tools and techniques of Excel.

For doing data analysis it is essential to feed data to the spread sheet (Excel sheet). Data can be fed in one or more of the following modes:

1. Manual data feeding
2. Linking from other sheets or other workbooks
3. Copy – pasting from other sources
4. Importing from databases such as ERP system or CRM system

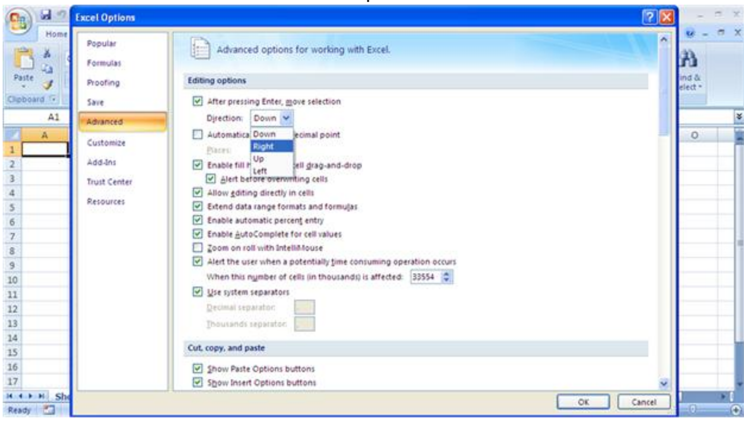
Although, most people do not give much importance to data entry aspect in Excel, it is one of the most essential operations in the entire process of data analysis & reporting. First of all, the data should be accurate and complete. If accuracy aspect is compromised then the analysis, findings and reports based on such data will not be trustworthy. Secondly there are always time limits for issuing the reports to higher authorities, who are not going to see your base data. So it is observed that in various cases, especially where the work is done largely in Excel sheets, the base data is many times vitiated or not fully accurate due to undue pressures in data entry process or copy pasting errors or linking or importing errors. Data entry aspect is largely ignored by most of the users without understanding its importance in the entire analysis and reporting process.

There are certain techniques which expedites data entry process. Some of the techniques are presented below, which can help users to speed up data entry process.

Controlling direction of cell pointer

We all know that when we press <ENTER> the cell pointer moves to another row. Some times when we want to enter data in the same row across the columns i.e. horizontal, it becomes very disturbing and time consuming when the cell pointer moves down with <ENTER>. However if you want that cell pointer should move to right in the same row instead of moving down, you can do that through Excel Options from Office Button (in Excel 2007) or File Button (in Excel 2010). Follow the steps stated below:

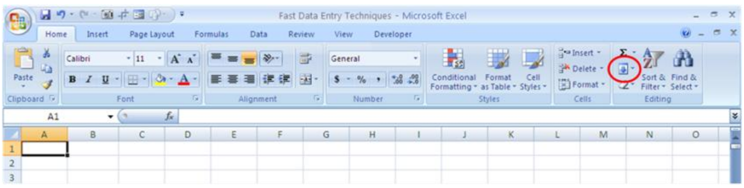
- **Office Button - Excel Options - Advanced Tab - Editing Options**.
- Ensure that first option (check box) "After pressing Enter, move selection" is checked.
- Select the direction from the drop down list.



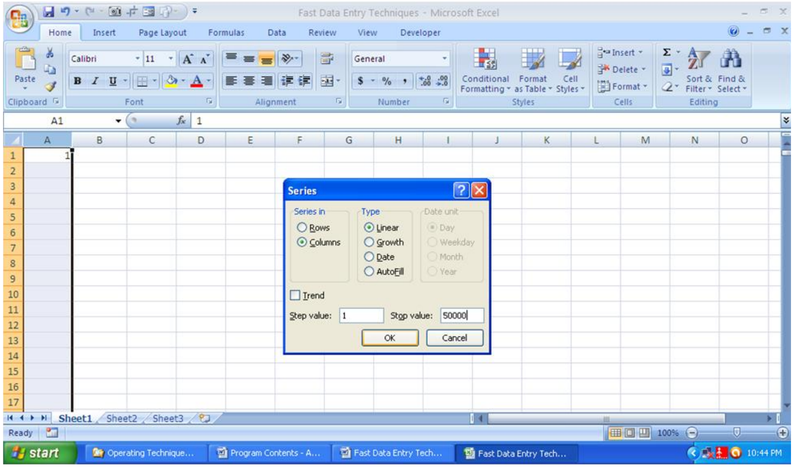
You can also uncheck the option to prevent the cell pointer move to another cell on ENTER. In such case you need to move the cell pointer with arrow keys. That is what Metha prefers.

Using AutoFill Command on Ribbon for entering series

Sometimes you are required to fill series in the rows or columns like numbers or dates. You can use fill-handle to auto fill series. For series up to say 100, 200, fill-handle is okay. But what if you need to insert 1 to 50,000 numbers, say to give numbers to the accounting entries downloaded from ERP system? Or you want to insert dates for 10 consecutive years? In such cases you need to use the Fill button which can be accessed by **HomeàEditingàFill** as shown in the figure below in the red circle:



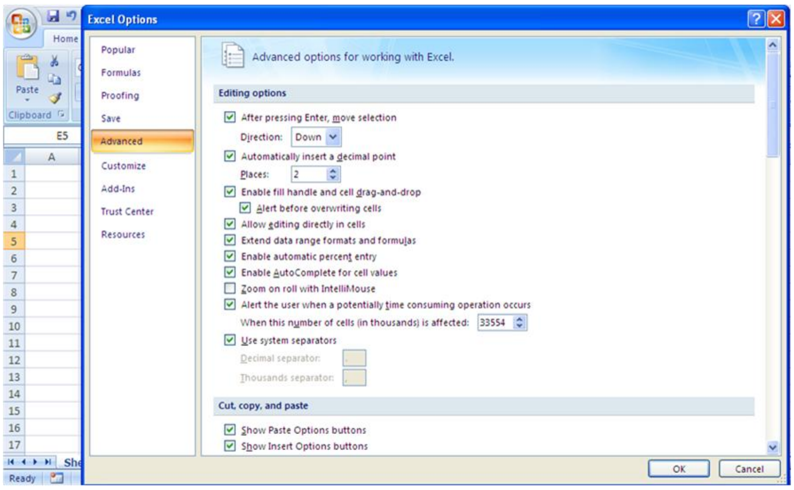
- If you want sequential number from 1 to 50000, type 1 in the first cell and then select the entire column.
- Click Fill button
- Select Series from Drop Down list and you will get following dialogue box
- In the Series dialogue box type 50000 in **Stop value** field. In **Series In** check **Columns**.
- Press OK and you will get 1 to 50000 in column A.



- Similarly you can work with dates viz. days, weekdays, months and years.
- You can also project linear trend / growth by checking **Trend** check box. This tool can be effectively used in preparing tables for present values, future values, annuity, actuarial calculations etc.
- Using AutoCorrect for converting acronyms into full names
- Using Replace for converting acronyms into full names

Entering decimal points automatically

Many times we are confronted with the situation to make entries which includes decimal points also. It is very tiresome to use decimal points each and every time. One solution to the problem is to type full figure (including decimal places) without entering “decimal point” each and every time. Thereafter dividing the entire range by 100 either manually or using paste special command. There is nothing wrong in it. But there is more efficient way by telling Excel to instantly insert the decimal places when you type the full figure. You can do it through Excel Options. Go to Office Button à Excel Options à Advanced à Editing options à check “Automatically insert a decimal point” as shown in the picture below.

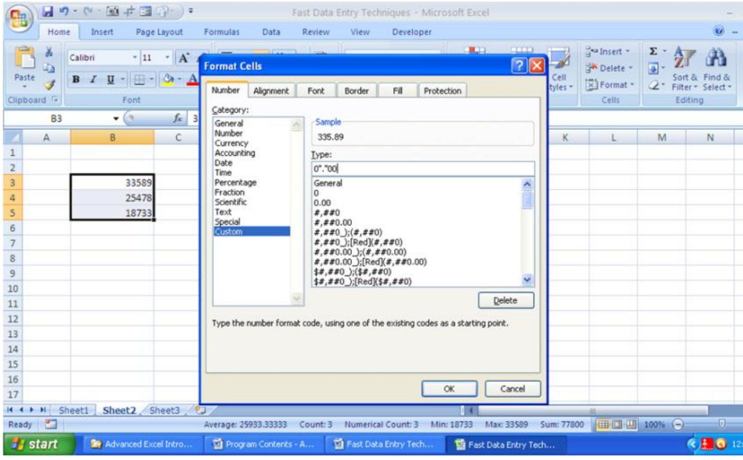


Start typing figures and you will observe that Excel inserts decimal places automatically. You can also specify the number of decimal places by selecting from the drop down list “Places”.

Converting into decimal points through number formatting

Number formatting is one of the very powerful tools of Excel because the way you display numbers in your report has impact on the readers / users. If you type full figures including decimal places but without inserting the decimal points and you want to display it into 2 decimal places you can do it by number formatting also with following steps:

- Select the range containing the numbers
- Right click and select **Format Cells**. From the Format Cells dialogue box select Custom in the Category drop box and then in the **Type** field enter following : 0”.”00 as shown in below picture.



- Click OK

You will find that all the numbers are displayed in hundreds with 2 decimal places. Remember, it is only display and the actual figures are intact in cells. If you use Excel Options or Paste Special techniques actual numbers are also changed.

Copying cells and ranges Down with CTRL – D

You can copy the entries downwards by using **CTRL – D**

Copying cells and ranges Right with CTRL – R

You can copy the entries on right side by using **CTRL – R**

Copying cells and ranges Up with ALT-H-FI-U Left with ALT-H-FI-L

Like CTRL-D and CTRL-R for fast copying down and in right, there are no specific built in key board short cuts for copying up or in left. But you can use ALT-H-FI-U for copying up and ALT-H-FI-L for copying on left side of active cell / range.

Key board shortcuts for formatting (number, dates, time, percentage, currency etc.

- For number formatting including 2 decimal places : CTRL-SHIFT-1
- For time formatting : CTRL-SHIFT-2
- For date formatting in format DD-MMM-YYYY : CTRL-SHIFT-3
- For Dollar currency symbol : CTRL-SHIFT-4 (unfortunately there is nothing for Rupee symbol)
- For percentage format i.e. (%) : CTRL-SHIFT-5
- For drawing gridlines : CTRL-SHIFT-7
- To switch on the formula mode (i.e. to see the formula in cells) : CTRL -~

- To switch off the formula mode (i.e. to see the actual and calculated results) : CTRL -`

Placing data in multiple cells by using CLTR – Enter

- Select the range
- Enter the number / formula in upper left cell
- Press CTRL-ENTER

You will get the results in all the cells.

Although the feature seems to be very simple and sometimes of no use, it is a very powerful tool for expediting the work, especially while copying calculated cells (i.e. formulas) in large number of cells or a very big range. See the examples in sheet ***Fill Button and Multi Cells***" and sheet ***Multi Cells with Ctrl Enter*** in the file **Fast Data Entry Techniques.xlsx**

Generating "Pick-up from drop down list" with ALT – Down Arrow

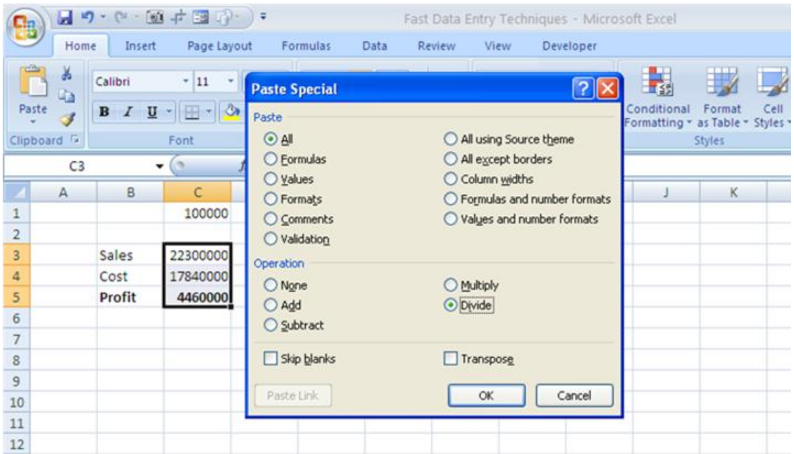
If you are making list and there are frequent entries, you can use "Pick-up from drop down list" from short-cut menu (i.e. right click menu). But right clicking all the times is tiresome and frustrating. So instead of right clicking method, you can simply use ALT-Down Arrow key to generate "Pick up from drop down list" and you can select the appropriate data item.

Fast moving around sheet using CTRL – Arrow Keys

With combination of CTRL and Arrow Keys you can move fast around the data in a sheet. If there will be no data in the sheet CTRL-Arrow Keys will take you to the end / beginning of the sheet.

Certain Paste Special Techniques

Paste Special is a powerful tool.



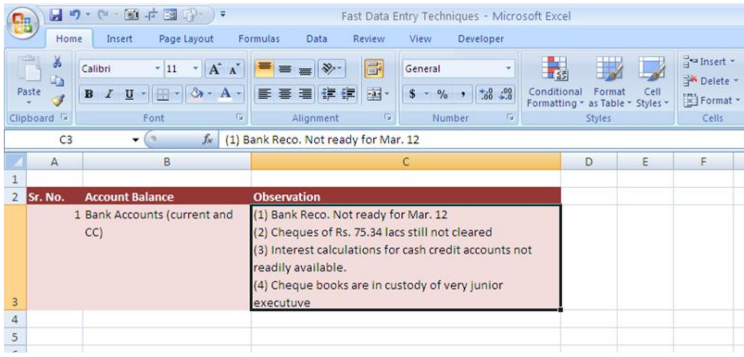
Although Paste Special technique is not unknown or even advanced, its frequent use can help in speeding up the data entry and other primary tasks. For example mathematical operations are not frequently used especially in tricky situations. Some examples of such tricks are below.

- If you want to convert numbers into negative, you can do it either using Multiply option (multiply with -1) in Paste Special dialogue box or you can simply use Subtract option.
- You can copy and paste only comments / validation criteria in the cells without copying the contents of the cell.
- You can copy and paste only values or only formulas.
- You can link multiple cells or range with the single / multiple reference cells with paste link. It can be absolute reference or relative reference.
- You can transpose the rows / columns

Forcing new line within the wrapped cell

Excel is widely used as text records keeping tools such as notes, audit observations etc. Some times in the single cell there might be need to insert numbered points or bullet points as shown in the picture below:

The technique is to use **ALT-ENTER** to force cursor on new line within the cell.



Metha hopes that these techniques will be quite useful in day to day data entry operations in Excel. In future articles he will come with some more Excel tips. You can mail himyour suggestions / comments on mehul@cmaindia.co.in

About the Author

Mehul Metha (CA, CMA Aus) is an Excel Expert. Metha has wide experience in project finance, corporate finance, accounting & auditing, financial modelling and training. He imparts training in Advanced Excel, Financial Modelling and Data Analytics. Mehul Metha is also CMA Program Manager at CMA India.

Source: http://www.cmaindia.co.in

Global Business Speaks English

Ready or not, English is now the global language of business, says Tsedal Neeley in the *Harvard Business Review*. More multinational companies are mandating English as the common corporate language—Airbus, Daimler-Chrysler, Fast Retailing, Nokia, Renault, Samsung, SAP, Technicolor, and Microsoft in Beijing, to name a few—in an attempt to facilitate communication and performance across geographically diverse functions and business endeavours.

Neeley says that adopting a common mode of speech isn't just a good idea; it's a must, even for an American company with operations overseas, for instance, or a French company focused on domestic customers. Neeley asks you to imagine that a group of salespeople from a company's Paris headquarters are getting together for a meeting. Obviously they don't all need to speak English? Now consider that the same group goes on a sales call to a company also based in Paris, not realizing that the potential customer would be bringing in employees from other locations who didn't speak French. This happened at one company Neeley worked with. Sitting together in Paris, employees of those two French companies couldn't close a deal because the people in the room couldn't communicate. It was a shocking wake-up call, he says, and the company soon adopted an English corporate language strategy.

Similar concerns drove Hiroshi Mikitani, the CEO of Rakuten—Japan's largest online marketplace—to mandate in March 2010 that English would be the company's official language of business. The company's goal was to become the number one internet services company in the world, and Mikitani believed that the new policy—which would affect some 7,100 Japanese employees—was vital to achieving that end, especially as expansion plans were concentrated outside Japan. He also felt responsible for contributing to an expanded worldview for his country, a conservative island nation.

The multibillion-dollar company—a cross between Amazon.com and eBay—was on a growth spree: It had acquired PriceMinister.com in France, Buy.com and FreeCause in the U.S., Play.com in the UK, Tradoria in Germany, Kobo eBooks in Canada, and established joint ventures with major companies in China, Indonesia, Taiwan, Thailand, and Brazil. Serious about the language change, Mikitani announced the plan to employees not in Japanese but in English. Overnight, the Japanese language cafeteria menus were replaced, as were elevator directories. And he stated that employees would have to demonstrate competence on an international English scoring system within two years—or risk demotion or even dismissal.

The media instantly picked up the story, and corporate Japan reacted with fascination and disdain. Honda's CEO, Takanobu Ito, publicly asserted, “It's stupid for a Japanese company to only use English in Japan when the workforce is mainly Japanese.” But Mikitani was confident that it was the right move, and the policy is bearing fruit. The English mandate has allowed Mikitani to create a remarkably diverse and powerful organization. Today, three out of six senior executives in his engineering organization aren't Japanese; they don't even speak Japanese. The company continues to aggressively seek the best talent from around the globe. Half of Rakuten's Japanese employees now can adequately engage in internal communication in English, and 25% communicate in English with partners and coworkers in foreign subsidiaries on a regular basis.

Adopting a global language policy is not easy, and companies invariably stumble along the way. It's radical, and it's almost certain to meet with staunch resistance from employees. Many may feel at a disadvantage if their English isn't as good as others', team dynamics and performance can suffer, and national pride can get in the way. But to survive and thrive in a global economy, Neeley says that companies must overcome language barriers—and English will almost always be the common ground, at least for now.

The fastest-spreading language in human history, English is spoken at a useful level by some 1.75 billion people worldwide—that's one in every four of us. There are close to 385 million native speakers in countries like the U.S. and Australia, about a billion fluent speakers in formerly colonized nations such as India and Nigeria, and millions of people around the world who've studied it as a second language. An estimated 565 million people use it on the internet.

The benefits of “Englishnization,” as Mikitani calls it, are significant; however, relatively few companies have systematically implemented an English-language policy with sustained results. Through Neeley's research and work over the past decade with companies, he has developed an adoption framework to guide companies in their language efforts. There's still a lot to learn, but success stories do exist. Adopters will find significant advantages.

Tsedal Neeley is an Assistant Professor in the Organizational Behavior unit at Harvard Business School.

Source: Harvard Business Review, May 2012

Seven Rules of International Distribution

An established corporation looking for new international markets makes a foray into an emerging market, carefully limiting its exposure by appointing an independent local distributor. At first, sales take off, revenues grow pleasingly, and the entry is praised as a smart move. But after a while, stagnation sets in and sales plateau. Alarmed, the multinational's managers try to discover what happened. They soon settle on what they perceive to be the main obstacle to sustained growth: the local distributor that got the company off to a flying start has run out of ideas and is now underperforming.

This pattern is repeated again and again as multinationals expand into new markets in developing countries, says David Arnold in the Harvard Business Review. Over time, a corporation's executives decide that the distribution organization isn't run as they would like. They rush in and make major changes, in some cases buying the local distributor or, more often, reacquiring the distribution rights and starting their own subsidiary. In either case, it's messy. A transition from indirect to direct sales is usually costly and disruptive. It can also create new problems that come to the surface only in the long term: executives may discover a few years later that they've gone too far in correcting a number of situations like this, saddling the multinational with a dense and inefficient network of national distributors.

The frustrations are summed up by the CEO of a major U.S. specialty chemical company: "In the end, we always do a better job with our own subsidiaries: sales improve, and we have greater control over the business. But we still need local distributors for entry, and we are still searching for strategies to get us through the transitions without battles over control and performance."

Arnold examined this pattern of imbalance and correction in a two-year field study of eight corporations in the consumer, industrial, and service sectors. These companies had entered almost 250 new country-markets, and he looked at their international distribution strategies in these markets. The research showed that avoiding the pattern of underperformance and correction meant accepting that, in most cases, the problem wasn't as simple as the distributor's being poorly run. Arnold learned that a corporation could avoid this scenario by overseeing marketing strategy from the start.

Below, He will look at what goes wrong with most distribution arrangements in developing countries and then present seven guidelines to head off potential problems. In the long run, multinationals come to see that it makes sense to continue working with independent local distributors who handle sales and a distribution system, even after the international companies have taken control of marketing strategy and major global accounts.

What Goes Wrong and Why

Arnold says that most multinationals stumble onto a stepwise strategy for penetrating markets in emerging countries through a series of unplanned actions to reinvigorate sales. As the pattern recurs with entries into subsequent markets, this approach, dubbed the "beachhead strategy," becomes official policy in many organizations.

On the surface, the strategy makes a certain amount of sense. Multinationals start from scratch in sales and distribution when they enter new markets. Since markets are nationally regulated and dominated by networks of local intermediaries, corporations need to partner with local distributors to benefit from their unique expertise and knowledge of their own markets. The multinationals know that on their own, they cannot master local business practices, meet regulatory requirements, hire and manage local personnel, or gain introductions to potential customers.

At the same time, the multinationals want to minimize risk. They do this by hiring local distributors and investing very little in the undertaking. Thus, the companies cede control of strategic marketing decisions to the local partners, much more control than they would cede in home markets.

Nevertheless, as the CEO of the chemical company points out, up to now many multinationals have eventually wanted to control their own operations through directly owned subsidiaries; they're seeking the economies of scale and control obtainable across a global network of marketing operations. For many multinationals, it's a foregone conclusion that local distributors have merely been vehicles for market entry, temporary partners incapable of sustaining growth in the long term.

David Arnold is an Assistant Professor at Harvard Business School.

Source: Harvard Business Review, November 2000

Private Equity's new Asian Strength

While the private-equity business remains in the doldrums in much of the world, the Asia–Pacific region stands out as an exception. A recent McKinsey report, Private equity Asia–Pacific: Is the boom back?, shows that in 2011, Asia was the world's only major region where these firms' total investment values returned to 2006 levels—a total of some $65 billion (exhibit). At 21 percent of global deal values, Asia's share of the private-equity business is now close to matching Asia's share of global GDP: 28 percent. Yet the gap between the two figures leaves substantial room for growth: on average, the ratio of private-equity investment to GDP among Asian countries is less than half that of the United States or the United Kingdom.

Taking advantage of the opportunity will mean confronting rapid changes. Among the most notable is a sharp increase in deal volumes, which are growing faster than total deal values almost everywhere in Asia. Across the region, volumes more than doubled, while values have risen by only 40 percent. The size of the average deal is therefore falling.

Consequently, investors feel new pressure for strategic innovation, especially in light of a steady (if slow) recovery in fund-raising. More money chasing smaller deals may strain some players' current business models. Partly as a result, partnerships with strategic acquirers are becoming increasingly common, reflecting Asia's newfound prominence as a source of outbound M&A. The number of "cornerstone" deals, in which a fund takes part in an initial public offering (IPO) by agreeing to hold its shares for a certain period of time, has also continued to increase, despite a weak IPO market in much of the region. And investors are pushing into countries, including Vietnam and Indonesia, that previously attracted little attention.

Change also marks the exit stage of investments, both for general partners and limited partners. For the former, volatile public-equity markets meant that, on the whole, exits were down by almost 40 percent in 2011—especially via IPOs (notwithstanding a few notable exceptions), which fell almost 60 percent. But for the latter, the news is more encouraging: a maturing market for "secondary" funds (which invest in limited partners' interests in existing funds) has increased the liquidity and flexibility of limited partners' investments.
The report then provides an in-depth look at the six diverse markets that together account for virtually all private-equity investments in the region: Australia/New Zealand, Greater China, India, Japan, South Korea, and Southeast Asia. Among the highlights:

- China alone accounted for almost 45 percent of Asia's 2011 activity, but slowing economic growth has raised concerns about that trajectory's sustainability.
- In India, by contrast, the private-equity business's growth has rested almost entirely on small deals. Combined with rising dry-powder levels, greater local competition, and persistent regulatory uncertainty, the emerging picture is that of a traditional operating model under greater pressure than ever.
- Southeast Asia saw a number of high-profile deals, with Indonesia and Vietnam generating particular excitement, along with Myanmar, whose attempts to emerge from decades of sanction-enforced isolation have caught many observers by surprise.
- Among Asia's mature markets—Australia/New Zealand, Japan, and South Korea—Japan saw the most significant changes in 2011. For investors locking in currency gains, the rising yen made exits especially attractive: exits doubled in number over 2010 and more than quadrupled in value.

Source: Mckinsey Quarterly, August 2012

How in Hell do You Value a Brand?

Despite a lack of consensus on how to calculate the value of a brand, Charles Orton-Jones (in the *Financial Management* Magazine on 18 March 2013) highlights how they are increasingly making their way on to the balance sheet and being used to gauge a company's wellbeing.

Let's be honest, says Orton-Jones, even marketing professionals have their doubts about the science of branding. He refers Marketing Week columnist Mark Ritson lost his temper recently when looking at the league tables of the most valuable brands. He ranted: "Dumb marketers keep banging on about getting 'marketing into the boardroom'. Are they insane? We can't even agree within a $100billion what the value of the world's biggest brand is. BrandZ says Apple is worth $182bn, while Interbrand claims it's only worth $76bn. Clearly, there will always be differences in valuation caused by methodology or base assumptions. But $100bn? Come on! It's a joke"' says Ritson.

With this in mind, Orton-Jones continues, many management accountants may try to give marketers and their brand numerology a wide berth. But alas, this is not an option, he says, for two reasons. First, brands are powerful tools with an astonishingly wide array of corporate applications. Second, brands are creeping onto the balance sheet, thus becoming part of the management accountant's domain. If the first claim was in any doubt, then Orton-Jones asks us to consider the case of the drug, ibuprofen. Consumers regularly face a choice between generic ibuprofen costing $ 2 a pack or Nurofen costing $8. The chemical composition of both products is identical. Yet consumers repeatedly and knowingly buy the branded product.

Brands can be used as collateral against loans. When Indian tycoon Vijay Mallya needed to raise funds for acquisitions he used his whisky brands – Bagpiper and Whyte & Mackay – as collateral. He is currently trying to pull off the same trick with his (insolvent) Kingfisher airline brand. Following an administration, an insolvent firm can sell its brands, a process requiring a valuation. Again, when Woolworths went bust the administrator used an external valuer to find a price for the brand to ensure a decent return was received from buyer Shop Direct Group.

Orton-Jones says that a royalty arrangement can help a firm lower its tax bill. Starbucks UK pays a licensing fee to Starbucks Coffee EMEA BV, a structure (controversially) designed to lower its UK tax liabilities. Brands can be loaned out. Starbucks struck a deal with Kraft to co-create a range of supermarket goods. Kraft brought its knowledge of the grocery market to the deal and Starbucks provided a brand that offered a 20 per cent price premium. The deal ended in legal arbitration, but over a 12-year period Starbucks' packaged coffee sales grew from $50m to $500m. Investors are starting to pay attention to brands as indicators of financial health.

Research by Millward Brown – one of the "big three" brand valuation agencies – showed that shares in its BrandZ portfolio of strongest brands had outperformed the S&P 500 by 37.1 per cent since April 2006 to May 2012. Jim Stengel, former global marketing officer for Procter & Gamble, says his Stengel 50 top brands have outperformed the S&P 500 by 400 per cent since the turn of the millennium.

There is also the small matter of IFRS 3 requiring firms to value all acquired assets independently on the balance sheet, including brands. These factors ought to convince you that brands are worth understanding.

The tricky part is putting a monetary value on a brand, says Orton-Jones. How exactly does one do that?
The key document is ISO 10668. This lists the permissible ways in which a brand may be valued. Have a read and you'll notice that there are an awful lot of approved methods.

The process starts on solid ground. Legal due diligence confirms the legal status of the brand and identifies potential threats. For purely financial reporting purposes the legal due diligence is not compulsory, but for any activity involving a third party it is mandatory. The next stage is behavioural analysis. This looks at the market in which the brand operates, the perception of the brand among stakeholders, customer perceptions and the range of benefits derived by the brand owner. The last step is the controversial financial analysis – the number-crunching bit.

There are three ways to perform financial analysis:

1) ***The market approach*** benchmarks brands by looking at real-world transactions. Researchers scour the press for brand sales to see what similar brands are fetching. The figure is then tweaked to account for differences between the brands being compared. This technique has the advantage of anchoring valuations in the real world.

2) ***The cost approach*** asks the hypothetical question: "How much would it cost to build this brand from scratch?"

3) ***The income approach*** tries to identify the additional income generated by the brand. This can be done in a number of ways. - The price and volume premium method estimates the higher price commanded by a brand, or the extra units sold, because of the strength of the brand, using generic alternatives for comparison. Valuing Nurofen compared to generic ibuprofen would be particularly susceptible to this approach. Some of the ways are as follows:

- The *income-split method* identifies the proportion of the economic profit attributable to the brand. This involves discounting the cost of capital employed and factoring in behavioural research.
- The *multi-period excess earnings method* values the brand as the present value of the future residual cash flow after deducting returns for all other assets required to operate the business.
- The *incremental cash flow method* compares the cash flow generated by the brand to the cash flow generated by a similar, but unbranded, product.
- Lastly, the *popular royalty-relief method*, which uses market data to try to calculate what fee would be levied if the brand owner did not in fact own the brand, but licensed it from a third party.

So, which is the best? Each valuation firm has its own view. At Brand Finance the "relief from royalty" method is the most frequently used. Managing director Richard Yoxon says there's a good reason for this: "The basic premise is to ask how much you'd need to pay to license the brand if you didn't own it. The method has the benefit of being quasi-market. We are benchmarking the brand with comparable real-world examples. It is the most commercial approach." Interbrand, another company specialising in the valuation of brands, broadly prefers the income-split method. The reason is that comparable real-world deals can be hard to find. And even when deals in the same industry are available, who is to say whether the same metrics should apply to another brand? Interbrand is also known for the strength of its behavioural analysis, using experts to identify the position of a brand in a market.

Each approach has its merits, argues valuations expert Anastasia Kourovskaia, vice president at global research agency Millward Brown Optimor: "If you want a defensible figure to present to the tax authorities, then Brand Finance's relief from royalty method is a good one. The taxman can't argue with real-world figures. The cost approach, where you try to work out what it would cost to create a brand from scratch, is useful for new brands. For older brands, such as Coca-Cola, it is impossible to know what it would take to re-create the brand. Interbrand's use of experts seems to me the more difficult method. Experts may disagree. And we know that advertising awards are often given by experts to campaigns, which don't deliver much uplift in sales, whereas campaigns that drive sales may be ignored by experts." Millward Brown Optimor's unique selling point is its use of customer surveys when building a valuation. "We use a battery of questions to identify their opinion of the brand and their relationship to it. It's vital because consumers are the ones who really matter," says Kourovskaia.

The method has its critics too. Brian Millar, director of strategy at branding consultants Sense Worldwide, says: "Asking consumers can drag you into a false world. People will make up opinions about brands they've never really thought about."

Consensus exists on one point, says Orton-Jones. Putting a valuation on brands helps to communicate the vital role they play to cynics in the boardroom. Management accountants may be included in that roster. Brand Finance's Yoxon says: "Management accountants need to understand that brands have an impact. It isn't just woolly marketing speak. By putting a value on brands it may be possible to justify increased investment in the brand. For example, if you update your stores you will incur a substantial cost. Carrying out a brand valuation and measuring how customer perceptions translate to the bottom line makes it easier for both marketing and finance departments to commit to that investment. Brand valuation can build a bridge between those departments."

If only precise brand valuations could be more readily determined. Mark Ritson proposed one answer: "We need the marketing equivalent of a cage fight to work out who is the most accurate valuation firm... wait for an actual acquisition to take place and then compare the price paid with the one predicted by the firms."

The winner becomes the industry standard. The losers quit the field. Bring it on!

Charles Orton-Jones is editor of LondonlovesBusiness.com. He used to be editor of EuroBusiness magazine, and won the PPA Business Journalist of the Year award.

Source: Financial Management, March 2013

AFMA – A New Provider of the ICMA CPD Program

The ICMA takes great pleasure in recognising the Academy of Finance and Management Australia (AFMA) as as Approved Provider. AFMA provides training programs and issues Board Certified credentials to successful candidates worldwide. AFMA has Board Certification professional programs in numerous finance and management fields including, accounting, marketing, information technology, economics, banking, risk management, quantitative analysis, quality control, supply chain management, valuation, portfolio management, applied finance etc., many of which are industry recognised in their specific fields.

The design for the institute's CPD program was approved by council and was introduced in two stages. Stage one was a 12 month orientation commencing 1 July 2011. During this period the proposed model was tested allowing for comment and some re-engineering, This feedback has now been received and has been incorporated to the current regulations. The one year orientation period also gave providers and educators an opportunity to submit programs to the institute for ICMA endorsement of specific courses and to attain accredited provider status. Stage two is the formal introduction of the program commencing on 1 July 2012.

The CPD details are as follows:

- CMA status members will be required to earn 30 points averaged over a 3 year period (10 points per annum).
- The following CPD Evidence form would need to be completed.
- AMA status members will be required to earn 24 points averaged over a 3 year period (6 points per annum).
- At this stage, GMA, RBA, RCA & CAT members will not have to maintain the CPD requirements
- Undertaking On-line CPD training will obtain the designated equivalent CPD hours for that program as advertised.
- Attendance at a program held under the auspices of an ICMA accredited provider will earn the attendee two points per hour
- Programs conducted by universities, other professional bodies, in-house corporate programs, seminar organizers and training institution are acceptable, if relevant to the practice of financial management/managerial accounting. Attendance under the auspices of such external providers will earn one point per hour
- For academic members, conducting courses, writing academic and professional journal articles will also be acceptable as CPD hours. A journal article equates to 30 hours of CPD. [Please provide photocopies of content of courses attended/ presented or journal articles written]
- No points are to be allocated for reading
- Members engaged in formal study under the auspices of a recognised tertiary education institution will be able to seek exemption from the points system during their years of study

The design committee decided that requesting members to devote between 6 and 10 hours per annum to their continuing professional development is not onerous and indeed is mandatory for the maintenance of knowledge and professional skills.

What's On in the World of the CMA?

- April 2013: IPMI Regular CMA Program (**Indonesia**)
- April 2013: Wisdom CMA Program (**Dubai**)
- May –July 2013 : Business Sense CMA Program (**Philippines**)
- May 2013: Multi Media University CMA Program (**Malaysia**)
- April 2013: Wisdom CMA Program (**Dubai**)
- June 2013: IPMI Intensive CMA Program (**Indonesia**)
- July 2013: Academy of Professional Education CMA Program (**India**)
- July-Aug 2013: Academy of Finance CMA Program (**Sri Lanka**)
- Sept 2013: UnPAR CMA Program (**Indonesia**)
- Sept –Nov 2013 : Business Sense CMA Program (**Philippines**)
- Nov 2013: Wisdom CMA Program (**Dubai**)

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HBS for Certification and Training, Lebanon

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