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BVMegatrends

Nearly 30 years ago John Naisbitt wrote book, *Megatrends*, in which he identified major economic and social shifts that were then expected to occur, with the advice that successful managers will take them into strategic account. Some were highly perceptive, such as “*Hierarchies to Networking*” (a decade before the start of the commercialization of the Internet and a generation before social networking) and “*Speed as a Competitive Weapon*” (Federal Express was barely past startup; now, figuratively, our iPhones and Blackberries are surgically implanted). Others, such as “*Short Term to Long Term*,” missed the boat.

So what are the BV megatrends today? Here are my candidates. I'd love to hear your opinions – I'll integrate them into next month's e-letter. Send them to bill@adventvalue.com.

1. Internationalization

There are two trends driving the internationalization of BV:

First and most pervasive is the globalization of economic activities. According to the World Bank, over the last decade U.S. GDP has shrunk amazingly fast as a percent of global GDP – from just under 28 percent in 2005 to marginally more than 24 percent in 2008. Consequently even the smallest of businesses can be dramatically affected by what happens half way around the globe – from sourcing inventory to distributing worldwide. In other parts of the world, either because of privatization or the development of capital markets, interest in BV has grown exponentially. A good percentage of students in our POV courses here in the states are international students and ASA courses are regularly taught overseas. I recently taught a POV course in Los Angeles that included students from Europe, Asia, South America, and Central America.

Second, international accounting standards are significantly fair value focused, and the International Valuation Standards Council (www.ivsc.org) has been hard at work to develop and propagate BV standards. Combine this with the drive towards convergence of accounting standards (FASB & IASB) and BV fair value work will likely become borderless. Given the advanced litigious nature of the U.S., BV fair market value maybe less so. And that leads to the next BV megatrend.

2. Bifurcation

The genesis of BV is found in fair market value and growth in the BV profession throughout the 20th century was driven by tax compliance and litigation – both primarily fair market value or derivatives thereof. However, growth in the BV profession over the last decade has been driven

primarily by fair value for financial reporting.

While core valuation theory is universally applicable (there's always a direct relationship between risk and reward, despite the fact that the credit and capital markets occasionally forget such), different compliance forces are attempting driving standards, methodology, and procedures.

How is this bifurcation currently playing out? I see it considered in our course development, in the student mix at the BV principles of valuation classes, and in dual track professional conferences.

3. Institutionalization

The days of “cowboy” valuation are [nearly] at an end – as any of us who have priced E&O insurance can attest to. The courts are becoming more informed on valuation. Both the IRS and the SBA are in the beginning stages of setting criteria for what qualifies as an acceptable appraisal. And on the fair value front, auditors are more astutely reviewing valuations that support purchase price allocations and goodwill impairment testing. Like the California Condor, the valuation dabbler is on the endangered species list. Unlike the Condor, however, there's no benefit in maintaining the dabbler's habitat in order to stave off extinction. The less you maintain professional currency, the more likely a dabbler you'll become.

Related, as the profession continues to mature, valuation theory expands and becomes more sophisticated. What passed for state-of-art analysis 20 or even 10 years ago might not survive a Daubert challenge today or might be looked at with distain by the tax courts. However, as our knowledge base continues to expand, the danger of forsaking astute common sense for the safety of empirically templating our analysis to make our profession more scientific grows.

Maybe the BV profession is like a hormonal teenager – driven by seemingly uncontrollable factors to figure out who we are supposed to be. Those of you who attended the recent *Total Cost of Capital* sessions at last month's Advanced BV Conference in Boston saw this in action. Unlike academia, though, we don't have the safety net of tenure to help work through the theory, only the opposing forces of the opportunity to commercialize and the threat of Daubert.

So users of BV often look at the BV profession with askance. Will this lead to institutionalization? If history is of any guide, look to the real estate appraisers. Licensure, regulation and the institutionalization of the real estate appraisal profession has led to a crowded market, uneconomic work, and codification of acceptable incompetency. Is this where BV is going?

4. Unification?

There really hasn't been much movement towards unification of the BV profession. Like “world peace,” though, lots of people talk about unification and unification sounds like something that should be pursued regardless on the slim chance that it could ever occur without supernatural intervention. The ASA as a whole has spent many years trying to unify the appraisal profession without success.

The internationalization, potential institutionalization, and yes, even the bifurcation of BV can all be the basis of building a more mature BV profession and unification. The question is, does the BV profession in general and ASA/BV in particular want to be a passenger or a driver?