GROWTH THAT COMPOUNDS

Your customer base is priced exactly once: or never

Self-built brands and customer lists may not enter your own balance sheet. They are named and priced when the company changes hands: often not even then.

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MANAGEMENT SUMMARY

The commercial assets a company builds: its customer base, its brand, its way of selling: are barred from its own balance sheet by the recognition rules, in Germany by name. They receive an official price at one kind of moment only: a change of hands, where a buyer's purchase-price allocation names them, with customer-related assets the largest named category in the acquisition evidence. Between episodes, decisions run on proxies: collateral, relationships, reported equity, and the German lending evidence cuts both ways, which this essay reports rather than resolves. For the smallest firms the episode is negotiated line by line, and for the quarter of owners weighing closure it never comes. The practical output is a short evidence file in the counterparty's own categories, started before anyone asks: with its boundary stated: it cannot show what leaves with the founder.

Keywords: Intangible assets · Purchase price allocation · Customer base as an asset · Balance sheet recognition · Company succession

In Facebook's 2014 annual report there is a line most companies never get: acquired users, $2,026 million, useful life seven years. WhatsApp's user base received a number (preliminary, the filing notes), a page in an audited document, and an amortisation schedule: the day it was bought. It is a line WhatsApp could never have written for itself: a self-built user base has no purchase cost to record, and without one, the recognition rules leave the page blank. That logic decides when the assets a commercial team builds get a price: at a change of hands, or never.

The rule is explicit. The international standard, IAS 38, says: "Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognised as intangible assets." German commercial law carries the same list, item for item, in § 248 Abs. 2 HGB, and this site has already met it once, as the reason the most valuable stock has no advocate in a budget conversation. What that earlier essay did not ask is the question an owner eventually asks: does the invisibility cost anything outside the budget meeting, and when, if ever, does it end?

Why do accounting standards exclude internally generated customer assets from the balance sheet?

The standard-setters are candid about why the page stays empty. Spending on a self-built brand or customer base, says IAS 38, "cannot be distinguished from the cost of developing the business as a whole." No transaction, no measurable cost, no asset. The ban is not a conspiracy against intangibles; it is a refusal to print numbers nobody measured. Every growth budget quietly maintains such stocks anyway: the accounts simply have no field for them.

The aggregate effect is visible in official statistics. In the Bundesbank's ratios from German financial statements, intangible assets are 1.4% of total corporate assets, and 0.6% for firms under €2 million in revenue. That figure is not evidence that German firms own few intangibles. It counts what may be booked at all: purchased rights and licences, the occasional capitalised development project: because the self-built commercial kind may not appear. The smaller the firm, the emptier the page, and the more of what it actually runs on lives nowhere official at all.

Why does balance sheet recognition of customer relationships require an M&A transaction?

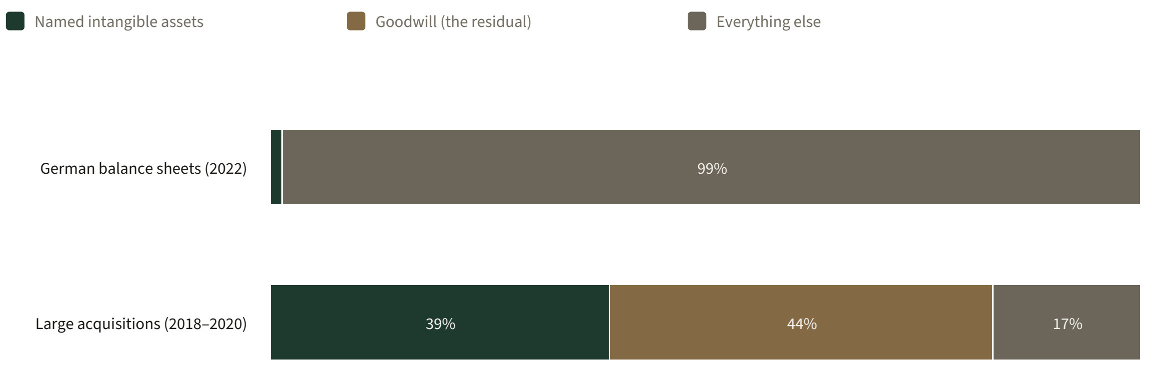
The logic of the regime is that these assets enter accounts when an arm's-length transaction finally supplies a measured cost. For the commercial asset base, that event is a change of hands.

At the large end, the naming is mandatory and quantified. When one company acquires another under IFRS, the buyer must allocate the price across everything identifiable: including precisely the assets the seller was forbidden to book. Deloitte's analysis of 222 large European IFRS acquisitions from 2018 to 2020: an advisory firm's count of public disclosures, not academic research, and offered by its authors as tendency, not law: finds about 39% of enterprise value landing on named intangibles and 44% on goodwill. The largest named category, at roughly 15% of enterprise value: customer-related assets. Houlihan Lokey's parallel study of US deals finds customer-related assets identified in about three-quarters of transactions. The asset your balance sheet may not name is the first thing a buyer's accountants name.

Two details in that evidence deserve their own sentences. First, even at the moment of maximum formality, the single largest block: goodwill, 44%: remains a residual with no name; Facebook's filing attributes its $15.3 billion of WhatsApp goodwill to "expected synergies from future growth" and similar, which is what accountants write when the value is real and the naming has run out. Second, the naming is done at the buyer's desk, on the buyer's evidence.

At the size where most companies actually change hands, the same event takes a humbler form. A buyer of corporation shares who does not prepare consolidated accounts books the purchase as one line: a participation, at cost, and the naming never happens at all. In an asset deal, the allocation is negotiated line by line in the purchase agreement, with real consequences: what lands on the customer base and what lands on goodwill drives the buyer's depreciation, and German tax law gives purchased goodwill a statutory fifteen-year life. Which means the seller is at the table when the naming happens, and the lines are set by whoever arrives with evidence.

Figure 1 What the books report, and what an acquisition names



Deutsche Bundesbank, Jahresabschlussstatistik (Verhältniszahlen), May 2025, 2022 values; Deloitte PPA-Examiner 2022, 222 European IFRS acquisitions 2018–2020, shares of enterprise value. Two different populations and denominators — the pairing illustrates the recognition regime and is the author's own; it is not a controlled comparison.

What do enterprise sellers and buyers sacrifice during the unpriced operating years?

Where lending runs on collateral, the invisibility prices in. In a December 2020 working paper, Antonio Falato and colleagues build a calibrated model in which only tangible capital can be pledged; the economy-wide shift toward intangible capital shrinks debt capacity and, in their accounting, explains about three-quarters of the observed trend in average US corporate cash ratios. The German small-business echo is narrower but pointed: KfW Research finds that digitalisation projects: largely intangible spending: are hard to finance with credit, and names collateral difficulties as a key driver.

Where lending runs on relationships, a German study finds no penalty. Jarko Fidrmuc, Philipp Schreiber and Martin Siddiqui, studying 21,517 unlisted German SMEs on data from 2005 to 2012, report two findings worth quoting together: "a high share of intangible assets does not worsen the access of firms to debt financing," and such firms "are statistically significantly more likely to choose an exclusive and persistent bank relation." The Hausbank absorbs the information problem: its advantage, in their account, is accumulated private knowledge of the firm. The corollary is this essay's own, not theirs: a counterparty without that history: a buyer, a buyer's bank, the next lender: starts from the documents.

So the honest interim answer is not "invisible assets choke your credit." On that going-concern evidence, access is not measurably worse. The cost concentrates at the episodes where no accumulated relationship carries the knowledge: the new lender, the sale, the succession: the moments decided on paper, by people reading it for the first time.

How do succession timelines and corporate acquisitions divide the German Mittelstand?

Germany is scheduled to run this experiment at scale. KfW Research counts roughly 109,000 owners a year, through 2029, who want to hand their company on. Their price expectations have risen: the median intended price is €375,000, up from €175,000 in 2019, though the average rose 34% in nominal terms and about 9.5% adjusted for inflation, and all of these are owners' own estimates, not transaction records. What buyers weigh, KfW's open-ended enumeration says, includes "Wettbewerbssituation, Kundenstamm, Auftragsbestand, Modernisierungsgrad": competitive position, customer base, order backlog, degree of modernisation. Three of the four named never appeared on the seller's balance sheet.

The second population is larger than most people expect. One German Mittelstand owner in four is now weighing deliberate closure when they step back: roughly 114,000 companies a year if the plans hold. On that path the pricing event never arrives: whatever is not sold off piecemeal simply stops being anyone's asset. Priced once, or never: is not rhetoric. It is the actual fork, and the counts on both tines are published.

How should enterprise founders maintain an auditable customer equity dossier before an exit?

The counterparty's categories are printed in advance. Purchase-price allocations name the same classes deal after deal: customer-related, marketing-related, technology-related, contract-related, and KfW's buyer criteria repeat them in plainer words. An entire advisory genre: sell-side readiness, vendor due diligence: exists to assemble evidence for exactly these lines once a deal is near, which is also the proof that such files are what the process reads. The addition this essay argues for is timing and authorship: the evidence accumulates in systems you already run, and the episode arrives on someone else's calendar.

Germany once built a public instrument for this, and its fate is the discipline. The federal economics ministry published a guideline for a "Wissensbilanz: Made in Germany," a knowledge balance sheet for the Mittelstand; its current revision is dated November 2013, and the moderator certification is still offered, by arrangement. The wider genre it belonged to has a published obituary: "Intellectual Capital Reporting: 1994–2012," in the words of the researcher who wrote it onto a conference tombstone. The lesson this essay draws from that grave: the reading is my own: is that reports denominated in no consuming process do not get read. The file that gets read is the one denominated in a process's own categories.

Table 1 The lines a change of hands will name, and the evidence that fills them

The line they will name	The evidence that fills it	Where it sits today
Customer relationships	Churn by customer cohort, three years back; share of revenue under contract and remaining term	CRM, invoicing, contract register
Brand and trade name	Branded search demand over time; pricing next to unbranded competitors	Search Console (16 months) or any keyword tool for longer series
Technology and process	The playbooks, templates and tooling that run without their authors	Wherever they are written down: if they are
Order backlog and contracts	Signed volume not yet delivered; renewal rates	ERP, contract register
What no file shows	Whether the relationships are the company's or the founder's	Not documentable: the subject of the asset that can leave

Categories: Deloitte PPA-Examiner 2022 and Houlihan Lokey PPA Study 2019/2020 (asset classes); KfW Research Fokus 526 (buyer criteria). The evidence column and the boundary row are the author's own.

How should business owners evaluate the counterargument against customer asset documentation?

The serious objection: everyone who matters already prices through the accounts. Markets ignore book values: the market-to-book gap for intangible-heavy firms is the entire premise of Hulten and Hao's "What is a company really worth?", where capitalising intangibles raised measured shareholder equity by 141% across 617 R&D-intensive firms. Analysts adjust; buyers run due diligence; nobody is fooled.

For a listed company, the objection simply wins, and this essay concedes the territory: its subject is the firm without a ticker. There, the pricing is episodic and document-driven, and the going-concern half of the objection has already been conceded to the German credit evidence above. What remains is the part nobody prices continuously: the episode itself. The closest published treatment, a 2023 California Management Review essay by Anup Srivastava and colleagues, names the same asymmetry: recorded when acquired, invisible when built: writing from listed-company evidence for boards, investors and credit officers. The German explainer literature states the rule; the exit-readiness industry sells the file at the door. What none of them says is what this essay has argued: for an unlisted company the rule, the episode and the calendar form one mechanism, and the seller's evidence is a working part of it.

So the homework is one page, from systems you already run. Pull churn by customer cohort for the last three years, and the share of revenue under contract. Date the page and start the file. The rest of the table above can accumulate at one line a quarter: the point is that the file exists before the question does.

Because the question's timing is not yours. Roughly 109,000 German owners a year plan to pass their company on: many of them to a counterparty who starts from the documents; a quarter of their peers are weighing the path where the asset base ends unpriced instead. Between those two paths sits everything this cluster has described: stock that compounds, budgets that quietly maintain it, people who can carry it out the door. The balance sheet will stay silent about all of it; the rules are clear, and they are not going to change for you. The file is how an owner gets a word in: on the one day the naming happens, or before it: KfW's own reading of the closure wave is that owners fold businesses whose model, and so whose achievable price, might have justified the search for a buyer. A page that shows what a buyer would name is the cheapest way to learn which tine you are actually on.

Where are the accounting and empirical boundaries of customer asset valuation?

Boundary. Accounting recognition, economic value and operational ownership are different questions. Use the transaction evidence to structure the inquiry, not to infer that every recognized customer relationship transfers intact.

Evidence base. The analytical frame also draws on these additional sources: Deloitte GmbH Wirtschaftsprüfungsgesellschaft 2022; Deutsche Bundesbank 2025; Dumay et al. 2020; Facebook 2015; Falato et al. 2020; Fidrmuc et al. 2018; legal source; Houlihan Lokey 2021; Hulten and Hao 2008; IFRS Foundation 2021; Schwartz 2019; Schwartz 2026; Srivastava et al. 2023; Zimmermann 2023; Bundesministerium für Wirtschaft und Technologie (BMWi) 2013. The links identify the exact works; they support the mechanisms and boundary conditions discussed here, not every claim in isolation.

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