

Valuing Data

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There is a conundrum at the heart of the data economy: Digital information drives many of the world's most valuable companies yet there is no consensus about how to value the raw material itself. The fifth session of DataTalk focused on data valuation, and our discussion considered principles that can help frame the issue. This note provides a brief summary of the key themes that emerged, noting that the conversation was conducted under the Chatham House rule, and comments are unattributed.

Be clear about the objectives. An organization can seek to value its data to help management make decisions, to inform shareholders and the market, or for tax or legal purposes, to name a few. The purpose can dictate how you would undertake the valuation, with some objectives calling for a more conservative approach and others a richer or more accurate estimate. But even clarity about the aim may go only so far. Intangible assets now account for more than 80% of the value of S&P 500 companies. No wonder the debate about stock market valuation can get so heated. It's one thing to put a price on a building or piece of machinery, but pegging the value of an algorithm or a brand requires more art than science.

Focus on the process. Data isn't the new oil, as some have claimed. It's not a finite resource and it can be used multiple times. It also can be worthless if it's not fit for purpose, or if you don't have the tools or the skills to extract useful insights or develop compelling services. The value resides in what a firm can do with the information it has. There is also a fundamental philosophical question of whether data has value in isolation or without the context of a business. A social media company may excel at engaging readers and attracting advertisers, but that same data may have far less value for a bank or a manufacturer. With these variables, it is less about the valuation per se, and more about having an agreed approach for valuing data – a systematic approach that enables confidence that the valuation is fair.

Adopt a risk-reward approach. There is a tendency to think that more data is always better; whereas a portfolio manager's approach would instead think about risk as well as reward. That begins with assessing the quality of a given data set and the degree to which it can be leveraged for other purposes. Drawing on different data sets may enable a firm to gain a wider range of insights, but they also increase the risk of breaches, of violating data privacy laws or of drawing spurious conclusions. Regulation also poses a growing risk, where moves in some markets (e.g. to require personal data to be stored on servers in-country, and to consolidate banks' KYC via a shared utility) can effectively devalue a firm's data advantage overnight. Legislative initiatives to give individuals more ownership of their data, and effectively designate organizations as mere custodians of information, would also have a big impact on value.

Conventional metrics are useful only to a point. Firms can attempt to attribute what portion of their cash flow stems from data, but as with most intangibles, estimates can vary widely. Then there is the question of how to discount those cash flows. There is a general feeling that data depreciates fairly rapidly, that its shelf life is short and the discount rate should be high. Cyber insurance premiums and the cost of data breaches also provide some indication of value, but most experts believe that recent insurance payouts averaging in the neighborhood of \$100 for each person affected by a breach significantly undershoot the real value of data as it reflects only the indemnification for the remediation, not the value of the data lost.

Keep your eye on the prize. The difficulties of data valuation shouldn't deter organizations from doing the work. Sharpening estimates will help managers set priorities and investors allocate their capital. Better data valuation also could be an enabler for greater cross-border flows, and to overcome some of the legacy mindsets that have instead favored locking down data (like other, more tangible resources) within a country's physical borders.