CHAPTER 1
BRANDING IN THE GLOBAL ECONOMY

INTRODUCTION

Brands are an important aspect of everyday life. Consumers tend to have strong preferences for which smartphones offer the best functionality, which airlines provide the best service, which fashion accessories garner the most attention from friends and colleagues. Brands help consumers to exercise their preferences in the marketplace. They come with a reputation for quality, functionality, reliability and other attributes, ultimately enabling consumers to exercise choice in their decision-making. Equally important, they come with a certain image – whether for luxury, trendiness or social responsibility – which consumers care about, and which in turn influences decision-making on which goods and services consumers purchase.

For companies, in turn, brands and trademarks have become strategic assets and a source of competitive advantage (see Box 1.1 for the relationship between brands and trademarks). Successful branding campaigns generate demand and willingness to pay, helping to increase profit margins, as well as increase companies’ market share and value. Brand leaders thus spend considerable resources on maintaining their brand values. Similarly, companies without powerful brands invest heavily in order to create consumer goodwill towards their brands. Moreover, markets for brands have emerged, thus enabling brands to be licensed, franchised or acquired.

Despite their importance to consumers and businesses, relatively little is known about the economy-wide significance and role of branding activities. How much do companies invest in branding, and what proportion of company value can be accounted for by brand goodwill? What lies behind the increase in the number of trademark filings worldwide which protect brands? What are markets for brands, and is there any way of measuring these markets?

This chapter sets the scene for the 2013 edition of the World Intellectual Property Report by offering a perspective on key trends and cross-country patterns of branding behavior and trademark use. The chapter first discusses how brands and trademarks came into existence, how they have evolved, and what new developments stand out (Section 1.1). It then sheds light on the importance of brands to companies, both in terms of investment and in terms of their contribution to company value (Section 1.2). Finally, it explores what accounts for the surge in trademark filings worldwide (Section 1.3) and provides some insights into the evolving nature of markets for brands (Section 1.4).

In relation to terminology, it is important to point out that this Report employs the term “trademark” when referring to the specific instrument of intellectual property (IP) protection; the term “brand” is employed for more general discussions on the use of product and business identifiers in the marketplace. While there are no unique definitions of these terms, this approach appears to be in line with their ordinary meaning, as described in Box 1.1.
Box 1.1: What is a brand? What is a trademark? Is there a difference?

Everyday discourse often treats the English terms “brand” and “trademark” as synonyms. Dictionary definitions of these two words confirm their close relation, but point to some differences.\(^1\)

The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), as part of the agreement establishing the World Trade Organization (WTO), defines a trademark as a “(a)ny sign, or any combination of signs, capable of distinguishing the goods or services of one undertaking from those of other undertakings, shall be capable of constituting a trademark”.\(^2\)

The American Marketing Association states that “a brand is a name, term, sign, symbol or a combination of them, intended to identify the goods and services of one seller or a group of sellers and to differentiate them from their competitors”, stressing the similarity of both terms. In their seminal treatise on the economics of trademarks, Landes and Posner (1987) also indicate that trademarks and brand names are “rough synonyms”.

Subsequent economic research clarified the distinction between a trademark as a legal instrument and a brand as a business tool. Legal scholars have similarly described trademarks as the legal anchor for the use of the commercial functions of brands.\(^3\) Indeed, often a brand is protected by several trademarks, and the management of brands inevitably involves trademark law.\(^4\)

The marketing literature and the business community in turn stress the distinct significance of brands. In particular, they emphasize the image and reputational value of brands. To the business community and to marketing scholars, a brand is clearly more than a trademark alone. Brands are not merely viewed as instruments for differentiation, but relate to consumer perceptions, determining brand loyalty, brand awareness and brand associations.\(^5\) Urwin et al (2008), for instance, defined a brand as “a ‘reputational asset’ which has been ‘developed over time so as to embrace a set of values and attributes’, resulting in a ‘powerfully held set of beliefs by the consumer’ and a range of other stakeholders”. Brand value thus comprises the collection of past experiences and perceptions that the enterprise stands for, including for employees, customers, investors, suppliers and society as a whole. Brands thus distil the meaning and value of other intangible assets of the company into one meaningful identity.\(^6\)

As a consequence, multiple competencies and business functions at the company level – as opposed to marketing and advertising alone – contribute to brand value and brand development (see also Section 1.2.1). Similarly, not only trademarks but also other IP forms, such as industrial designs, patents, copyrights and others, contribute to brand value.

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1 The Merriam-Webster Dictionary defines a “brand” as, among other things: “3 a (1): a mark made by burning with a hot iron to attest manufacture or quality or to designate ownership (2): a printed mark made for similar purposes: trademark 4a: a class of goods identified by name as the product of a single firm or manufacturer: make b: a characteristic or distinctive kind: ‘a lively brand of theater’ c: brand name”.

2 It defines a “trademark” as: “1: a device (as a word) pointing distinctly to the origin or ownership of merchandise to which it is applied and legally reserved to the exclusive use of the owner as maker or seller 2: a distinguishing characteristic or feature firmly associated with a person or thing “wearing his trademark bow tie and derby hat””.

3 TRIPS, Section 2, Art. 15. See also (WIPO, 1993).


6 Moore (2012) notes that a brand collects, assembles, associates and articulates the meaning from other intangibles of the firm “into a highly faceted and nuanced entity and complex identity that distils meaning and creates brand equity”.

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1.1.

**TRADEMARKS AND ADVERTISING THROUGH HISTORY, AND RECENT TRENDS**

Trademarks and the advertising of brands have a long, related history and have exerted influence on the way reputation and image are built. Trademarks satisfy the need for producers to identify their products to the consumer, whereas advertising satisfies the desire of producers to make their products valued and demanded by consumers.

The use of distinctive signs existed in the ancient world, even when goods or services were acquired from local producers – and long before the rise of a formal, legally grounded trademark system. In fact, the use of distinctive, visual marks can be traced back thousands of years; they can be found on pottery, porcelain and swords dating from ancient Greece and the period of the Roman Empire, and also on goods produced by Chinese and Indian craftsmen in ancient times.

In addition to these early examples of the use of visual marks, one can identify three later timelines in history when distinctive marks were used extensively. The first of these was the Middle Ages, which saw the development of more intense long-distance cross-border trade. The second was the Industrial Revolution, which saw the creation of mass markets and the rise of advertising. The third timeline is today’s globalized economy, spurred by a brand-driven market and the Internet.

In the Middle Ages, the emergence of international trading networks, more complex distribution channels and intermediaries created the need to verify quality and to build trust through the use of signs associated with particular producers. In guilds in the Middle Ages, craftsmen and merchants affixed unique, observable traits to goods, in order to distinguish their work from the makers of low-quality goods, and also in order to maintain trust in the guilds. In the absence of a formal trademark system, this allowed guilds to prevent the sale of low-quality products and to build a reputation for the guilds. Good reputations assuaged consumers’ fears about purchasing products with hidden defects, and encouraged consumption of manufactured merchandise. The cost to counterfeiters of copying products increased.

With industrialization, trademarks started to play an even more important economic role. While industrialization delivered benefits as a result of specialization and economies of scale, it also meant that consumers became even more distanced from producers than had been the case in Medieval times. With the addition of many more steps between producers and sellers, the greater transactional distance created increased incentives for producer identification. Gradually, the modern trademark system emerged; it contained provisions such as making it illegal to copy somebody else’s trademark, and it also focused on preventing fraud. During the 19th century and early 20th century – by which time ‘marks of origin’ had become a well-established practice – trademark laws were passed in a number of European countries and also in the United States of America (US).

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7 For a summary of the history of trademarks see WIPO (1993), Ono (1999), Bittlingmayer (2008), Richardson (2008), and Corrado and Hao (2013).
8 See WIPO (1993 and 2004), and Richardson (2008).
9 See WIPO (1993) and Ono (1999).
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The history of advertising and other promotional activities to increase brand awareness is an equally ancient practice, and there is evidence that the Babylonians were using advertising as early as 3000 BC. Throughout history, advertising has been highly influenced by innovations in communication technologies – from the printing press to radio, to TV and to the Internet. In particular, the rise of advertising has been spurred by the rise of the printed press and the advent of inexpensive mass-circulation newspapers.

The advertising industry, as we know it today, did not emerge until the mid-18th century, when the Industrial Revolution got under way. Large quantities of goods produced and stored in warehouses were sold as a result of creating consumer demand. Some of the most notable trademarks and brands, such as Bass Pale Ale (UK, 1840), Louis Vuitton (France, 1854), Nokia (Finland, 1871), Lucky Strike (US, 1871), Lipton (United Kingdom (UK), 1871), and Coca-Cola (US, 1886) were developed during this period and have weathered the ups and downs of various economic cycles until this day. In particular, the tobacco industry and the pharmaceutical industry, as well as companies manufacturing consumer products, began the practice of advertising their products during the period of the Industrial Revolution.

The 20th century saw another growth spurt in advertising, helped by the expansion of radio broadcasting from the 1920s onwards; by the advent of television broadcasting in the 1940s, and, later, the proliferation of the Internet in the late 20th century.

In today’s interconnected global economy, with rising world incomes, trademarks and brands are reaching new levels of omnipresence. Global advertising expenditures are steadily rising, in part driven by the uptake in middle-income economies.

Since the beginning of the 21st century, a number of trends have influenced branding strategies worldwide. When it comes to the business world, three major, interrelated developments are worth highlighting.

First, today’s companies are adopting a more holistic marketing approach than was used in the past. Rather than just advertising a product, companies work to create and deliver a “brand experience” for the consumer, while simultaneously maintaining active relationships with the companies’ diverse networks and communities. Increasingly, companies have to manage not only to maintain product quality but also to maintain their reputation and conduct as good global citizens, paying attention to their image in fields such as social and environmental responsibility. The rise of independent labels for environmental standards, energy efficiency, fair trade, and other quality seals based on conformity assessments and tests – coupled with companies’ aspiration to co-brand their company or product with such attributes – has gained importance.

Second, globalization and the rise of multinational companies have triggered increased internationalization of brands. Companies aim to develop brand strategies with global reach while simultaneously trying to maintain local context that is attuned to domestic culture. While some companies, notably Internet companies, are born global, the majority of companies invest in building brand image and reputation regionally or worldwide. In particular, companies from middle- and low-income economies work at developing brands that are appreciated both at home and abroad. Brands emanating from high-income economies in turn adapt to consumers in middle- and low-income economies that have good prospects for future economic growth.

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10 See Corrado and Hao (2013).
Third, communication channels have evolved from a small number of standardized, one-way communication methods to a large number of more fragmented, constantly changing, more interactive channels. Media diversification, which began in the 1960s, initiated this trend. Arguably, however, the biggest changes are yet to come, due to the Internet and social media, which will result in an increasing number of digital interactions. On the one hand, the increasing availability of detailed customer data harbors the promise of more targeted, and thus more efficient, branding strategies. New advertising possibilities – such as viral videos, banners, advertorials, sponsored websites, branded chat rooms and others – have emerged. The “distance” between consumer and producer – introduced as consequence of new production and distribution systems during the 19th and 20th century – can be bridged once again through the creation of new communications technologies. The latter enable the producer and the consumer to interact with each other – just as they did in the 18th century, when producers and consumers frequently lived in the same village.

The advent of modern communications technologies notwithstanding, reputation is much harder to control today than it was in the past; it can be earned or lost much more quickly. Even without the Internet, there are numerous examples and a great deal of evidence showing how fast a brand’s value can be destroyed, either due to neglect on part of the brand holder or as a result of external circumstances beyond the control of the company. The new online and instantaneous communications environment is just adding another layer of complexity. Managing online communities and associated “word-of-mouth” on social media, blogs, comment threads and reviews is indeed proving to be a challenge for companies and others who are managing their reputation and image online.12

While some of the most well-known brands are more than a century old, and have demonstrated considerable staying power (see Section 1.2.2), arguably, the speed of the rise and eventual decline of brands has also increased. Coupled with the pressure to manufacture goods in ever-shorter production cycles, and to offer ever-greater product diversity, companies have to manage their brands carefully. They have to decide what products to introduce under a particular brand name, how to extend the brand name to other product categories, if and how to co-brand their product with another company, and whether to acquire, sell or license brands (see Section 1.4).

In addition, some overarching trends must be emphasized in order understand branding trends and strategies. One important issue is the fact that branding is no longer the purview of companies alone. Increasingly, individuals and civil society organizations, such as charities; the world of sports and entertainment (e.g. celebrities), and governmental or inter-governmental organizations are adopting an active approach to branding.

As result of the three trends outlined above, companies are now more actively involved in looking after their brand portfolios and how to leverage their brands. As part of this phenomenon, cities, regions and nations are more actively seeking to develop branding strategies (see Box 1.2). Emphasis is placed on the country origin or local origin of products – often influenced by particular local skills or traditions. As part of this development, one can also witness an increasing trend and interest in the use of collectively-owned brands in branding strategies.

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12 See Brinker (2012).
For example, geographical indications (GIs) (see Box 2.2 in Chapter 2) can be described in a non-legal sense as collectively-owned brands. In particular, the producers of agricultural products, food products, wines and spirits, as well as the producers of craft products, hope to denote the origin and the quality of products by the use of a GI to garner particular attention and a greater willingness by consumers to pay a premium for such products. While traditionally the use of GIs was commonplace in some European countries, increasingly, GIs are being used in non-European countries, with the establishment of associations focused on locally produced coffee, alcoholic beverages or local handcrafts, just to name a few examples.

### 1.2. Increased Importance of Brands to Companies Operating in the Global Economy

Today, investments in intangible assets often exceed investments in physical assets at the company level and at the country level. These intangibles have become a primary source of value creation and wealth.

The importance of brands – and thus trademarks – as intangible assets is universally acknowledged by both business practitioners and the marketing literature. Research provides evidence for the positive impact of strong brands and customer loyalty on company value, revenues and profits. Good reputation and image builds customer loyalty and the ability to garner a price premium. In addition, a company can use the reputational advantage of a brand not only to extract a premium price, but also to grow market share – and therefore its revenue stream – at the expense of its competitors. The associated additional earnings can help to finance long-term investments, including research and development (R&D) (see Chapter 3). Furthermore, marketing is often an integral part of the innovation process and how new products are introduced to the market. Additionally, strong brands can play a key role in helping companies to both attract and retain talented employees.

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13 For more details and examples, see WIPO (2013a).
14 See Box 1.1 in WIPO (2011a) based on Corrado et al (2006), and Hulten and Isaksson (2007).
16 See Simon and Sullivan (1993), Cobb-Walgren (1995), Askenasy et al (2010), and Keller (2011). Economists have also found a positive correlation between trademark use and firm value, but the causality is difficult to establish. Greenhalgh and Schautscheck (2013) found that higher trademark intensity has some positive associations with productivity growth in services, but the results are relatively weak for manufacturing firms.
Brands, reputation and image also matter in increasingly global production networks, and in international trade. In global value chains, production processes have dis-integrated and have been dispersed across countries. Often, branded companies or large branded retailers with a known trademark play the lead role in sourcing from decentralized networks of independent suppliers, defining product and process specifications and standards, and capturing the maximum profits along the way. The ability to control high value-added activities in global value chains often rests in upstream activities such as concept development, R&D, or the manufacture of key parts and components; alternatively, it may rest in certain downstream activities such as marketing, branding or customer service. These upstream and downstream activities are characterized by high barriers to entry; moreover, they command high returns – usually reaped by ‘lead companies’ in high-income countries. The actual physical production of goods is often left to globally operated turnkey suppliers with low margins and large production volumes.

In certain sectors, such as the automotive industry, food industry, computer industry, textile industry and others, building a strong brand has become an important element in the process of moving up the value chain in the globalized economy. In particular, companies in fast-growing, middle-income economies aim to make the leap from contract manufacturing and low-value tangible production activities to becoming own-brand producers of innovative products.

Countries seem more aware today of the leveraging effect of a strong national brand, and many have been working on developing strong ‘nation brands’. Indeed, the literature shows that consumers respond to the country of origin of a brand and the perceptions associated with it. A country of origin can therefore be a key factor in a decision to purchase a product from a particular country, as the country of incorporation forms part of a company’s image. In this context, richer and poorer economies alike are keen to improve their reputation and image (see Box 1.2). Emerging companies strive to establish brands that are valued at home and abroad, competing against strong established brands. In low- and middle-income economies, brands coming from high-income countries are often preferred to local brands, a phenomenon that is linked not only to perceived quality but also to social status.

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Box 1.2: Nation branding – old story or new trend? What impact does it have?

Nations have always created their own brands – by default or deliberately – directly and indirectly, including through diplomacy, their leaders, their history and their people. Throughout the past decade, however, countries seem to be much more aware of the leveraging power of a strong national brand. Just as companies manage their brands, countries too are increasingly involved in promoting their “brand” – and in a more active and deliberate fashion. Promoting tourism was – and often still is – the main objective of these national branding strategies. Indeed, many of these activities started at the subnational level – as exemplified in the “I love New York” campaign in 1977. Increasingly, however, the idea is to promote a strong nation brand with a certain quality image and reputation, in order to positively influence broader economic issues such as foreign direct investment, trade and the presence of skilled workers. As part of this strategy, since the late 1990s, many countries have succeeded in creating a distinctive country of origin sign (see Figure 1.1).

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23 See Humphrey and Schmitz (2001), Chattopadhyay and Batra (2012), and Kumar and Steenkamp (2013).
24 Nation branding can be defined as “a compendium of discourses and practices aimed at reconstituting nationhood through marketing and branding paradigms”, according to Kenava (2011).
25 See Bilkey and Nes (1982), and Han and Terpstra (1988).
28 See Anholt (2007) and Fan (2010).
29 See the protection of country names and examples (WIPO, 2013b).
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1.2.1 INCREASED INVESTMENT IN BRANDS

If brands are so central, how much are companies investing in brands and what contribution are brands making to economic growth? While the question seems straightforward, offering a reply, backed up with solid statistical evidence, is not possible for two reasons. 

First, it is difficult to clearly single out all the diverse efforts that companies make in order to build a strong brand and an associated trademark. By simply quantifying companies’ advertising budgets, it is not possible to capture the full range of a company’s investments that are specifically aimed at maintaining or creating a strong brand. High spending on advertising and marketing alone, without achieving customer quality advantage or sufficient scale, often results in low returns on investment.31 Brands are reputational assets – a promise to consumers – which largely depend on investment and the excellence of the company in all strategic business functions (see Box 1.1). As such, brands are said to “distill the value of other intangible assets into a one meaningful identity of the firm”.33 All customer-facing aspects of a company’s performance – including product quality, production innovation and the underlying technology, product design, product cost, managerial know-how, human capital in the company, research, service and other issues – have an impact on brand value, as well as on the company’s image and reputation.34 The alignment of performance with customer expectations is central to maintaining brand value.35 One such example is the hotel industry, where reputation is built over a long period and is based on promotional efforts, and, importantly, is also based on excellence in management, operations and other business functions.

32 Idem.
33 See Moore (2012).
34 See Clayton and Turner (1998), Kashani et al (2000), Smith et al (2004), Kapferer (2008), and Corrado and Hao (2013). Recently, the literature has also underlined the profound convergence between a brand and its design. Indeed, brand leaders are also often design leaders, see (Prahalad, 2011).
Second, even if one wanted to measure advertising and communication-related branding investments alone, currently, in cases where standard accounting procedures are applied, communication-related branding investments are not classified as investments. On income statements, in order to comply with standard accounting reporting requirements, companies treat related expenditures as purchased intermediate costs. On the aggregate level, branding-related efforts are not currently treated as productive capital to be factored in as investments in national accounts. As a result, the accounting statements of many modern companies tend to substantially underreport branding investments. Hence economic reality is also not reflected properly on the aggregate level.

Clearly, overcoming the first challenge is not practicable. Measuring the direct and indirect specific contribution of all business functions, and their interaction with a brand, is a difficult proposition for statisticians and economists. Some headway can be made, however, on the second challenge by ensuring that promotional expenditures and other communication-related expenditures related to brand building are capitalized as intangible investments. This approach would put branding expenditures on a par with R&D, software, training and other expenditures that expand a company’s revenue-generating capacity. This section draws on a background report prepared for the 2013 World Intellectual Property Report, see Corrado and Hao (2013).

For some time, there has been a growing consensus that all intangible assets of a company need to be more appropriately captured. Measurement frameworks for intangible assets have been developed. Specifically, experts on intangible assets have included branding investments as subsets of the intangible assets group “economic competencies” alongside (1) organizational capital i.e. the value of overall managerial competencies, and (2) company-specific human capital i.e. the value of competencies stemming from investments in company-specific training. Next to economic competencies, the other two pillars of the intangible assets framework are “computerized information” and “innovative property”, including R&D.

Statisticians and economists have started measuring what national accounts do not measure. Figure 1.2 shows existing estimates of tangible versus intangible investments across a number of high-income countries and China. In some countries, intangible investments are larger than tangible investments – for example, in the UK, the US, and also within the Eurozone, in Denmark, Finland, France, Ireland and the Netherlands. The broad category of intangible investment that includes brand equity, namely economic competencies, is the largest component of intangible investment for Eurozone area countries, the UK and the US. For half of all countries for which data are available, economic competencies account for slightly more or just about equal the investments in other intangible assets as a proportion of value added. See Corrado et al (2006). See OECD (2013b).
Figure 1.2: Increasingly, in high-income countries, intangible investments exceed tangible investments; economic competencies make an important contribution.

Investment in tangible and intangible assets (left) and types of intangible investments (right), both as a percentage of gross domestic product (GDP), 2007.

Note: The Eurozone area, as defined in this graph, comprises Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain. Luxembourg, officially part of the Eurozone, is missing from this graph.

Source: Corrado and Hao (2013), drawing on various contributions, including Corrado et al (2013), Miyagawa and Hisa, (2013), and the INTAN-Invest database. Estimates for China are based on The Conference Board’s unpublished research.

The above methods are refined further in the following analysis. Companies’ expenditures for bought-in advertising and market research services are used in the following analysis, the so-called “bought-in component” to shed light on promotional branding expenditures.\(^{39}\) Importantly, a longer depreciation schedule of four years is used to calculate branding investments. The rationale for this calculation is described in Box 1.3.

**Box 1.3: How long-lived are branding investments? Proposal for an updated depreciation schedule within the intangible assets framework**

Branding has been part of the suggested intangible asset frameworks for some time. Yet, the current intangible asset literature struggles to appropriately identify the depreciation rates to be used for branding investments. An investment is an outlay made today in order to achieve benefits in the future, which, in the case of R&D expenditures, seems fairly obvious. However, when capturing investment over time, one needs to factor in a certain “depreciation” of the asset’s value in order to properly assess the stock of the respective intangible assets produced. Economist and accountants have a fair understanding of how to account for depreciation of physical assets. Approaches on how to discount intangible assets, such as R&D, have also emerged. In the case of branding investments, however, economists struggle to capture how long-lived related investments actually are.

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\(^{39}\) Data on market research expenditures generate survey data and other outputs to help understand specific consumer needs improving the ability to tailor products and services. These data may not include production costs and may exclude certain forms of direct marketing (e.g., mail).
Present approaches – and statistics used, such as in Figure 1.2 – currently assume a high rate of depreciation for branding investments (55 percent per year), much faster than R&D (15 percent per year). The high depreciation rate used in the past reflects the fact that, in existing approaches, advertising is the dominant component of measured investments in brands, and thus other elements are ignored. Specifically, it is assumed that branding investments stimulate demand for approximately three years before buyers forget, or competitors imitate the brand and offset the investment, thus resulting in the asset having no residual value.\(^\text{41}\)

Nevertheless, practitioners know that efforts relating to the creation of a strong brand can have lasting impacts, sometimes over decades (see Section 1.1). While other assets of the company, such as new technologies, may go out of date quickly, the lifespan of a brand can be long.\(^\text{42}\) In order to reflect these factors, a longer depreciation schedule of about four years is used for branding investments.

Based on the analysis of advertising expenditures and new estimates of branding investments, a few lessons emerge.

First, similar to the use of trademarks, on average, advertising expenditures are cyclical in nature; they correlate well with company revenues and general economic activity (Box 1.4).\(^{43}\) This explains the recent, pronounced fall in global advertising in the context of the economic crisis and its current recovery. Advertising budgets can be quickly amended, unlike costs for staff, production, housing, equipment or R&D. That said, different sectors and different advertising outlets, such as newspapers versus television, respond differently to economic conditions.\(^{44}\)

Second, expenditures on advertising have risen to significant levels.\(^{45}\) According to private sector sources, the global advertising market for 2012 and 2013 is worth between USD 525 and 560 billion, and therefore about one-third of global R&D expenditures.\(^{46}\) The growth of advertising before and after the economic crisis of 2009 was fuelled largely by expenditures outside of high-income economies. While television and print media still constitute the bulk of advertising outlets, the strongest driver of advertising spending is now the Internet, accounting for between 15 and 20 percent of the global advertising market in 2012.\(^{47}\) The Internet proportion is considerably higher in countries such as the UK and the US.

\(^{40}\) This refers to the rates used to develop the INTAN-Invest dataset available at www.INTAN-invest.net.

\(^{41}\) See Corrado and Hao (2013).

\(^{42}\) See Clayton and Turner (1998), and Moore (2012).

\(^{43}\) See Picard (2001), and Hall (2012). For trademarks, see WIPO (2010a).

\(^{44}\) See van der Wurff et al (2008).

\(^{45}\) See Nayaradou (2006).


\(^{47}\) Idem.
Box 1.4: Economic growth, advertising and trademark filings are correlated, and move with the business cycle

Economic growth, advertising and trademark filings are correlated. As shown by Figure 1.3, US advertising and trademark filing activity is shown to move cyclically with the business cycle; indeed, in many countries these two indicators are a leading indicator of economic activity. Around the dotcom crisis in 2000, US advertising and trademark filings fell sharply, but recovered in a speedy fashion. Patent filings, in turn, fell after GDP started to decline; and this drop in patent filings and their recovery took longer and was shallower. During the most recent economic crisis in 2009, US advertising expenditures fell first, and were followed by trademark filings. Interestingly, the fall in trademark filings was not as vigorous as that for advertising, and it was less vigorous than that experienced following the 2001 crisis. Similarly, the 2010 recovery in patent filings seems to have been quicker than the recovery in trademark filings during previous economic crises.

In fact, the evidence shows that economic growth as measured by real GDP per capita goes hand in hand with increasing branding investments. This is also shown in Figure 1.4 which plots the proportion of branding investment as a percentage of GDP against the GDP per capita for various high- and middle-income economies.50

Research produced in the preparation of this Report have shown that a doubling of real GDP per capita is, on average, associated with an increase in advertising and market research expenditures of around 0.3 percent of GDP.51

Third, in the most conservative estimates, the proportion of expenditures on advertising in terms of a percentage of GDP has risen to considerable levels, accounting for 0.6 to 1.5 percent of GDP in most high-income economies, and increasing towards similar levels in fast-growing middle-income economies.49

Note: GDP data are in constant 2005 purchasing power parity (PPP) dollars.

Source: WIPO based on data in the WIPO Statistics Database, the World Bank, and the WARC AdSpend Database used in Corrado et al (2013).48

48 For earlier analysis along these lines, see WIPO (2010a), and Guellec and Wunsch-Vincent (2009).

49 The shares are higher in Nayaradou (2006), for example, as advertising expenditures are larger when other data sources are used.

50 Regressions of propensities on the natural logarithm of real GDP per capita and dummies for fixed effects confirm the positive relationship described above. For an earlier analysis with similar findings, see Chang and Chan-Olmsted (2005).

51 See Nayaradou (2006), and Corrado and Hao (2013).
The underlying relationship is plausible for several reasons, chief among them that, as countries grow and develop from agrarian to dynamic innovative economies, markets cease to be local. This is the result of improved infrastructure and, in particular, transportation systems, increased economies of scale in production and greater product differentiation – all within the context of economic development. This effect can be seen in the data for the Republic of Korea, for example, in Figure 1.4. As the country’s economic structure shifted to high-tech manufacturing and related exports from the late 1980s onwards, branding increased as a share of GDP.

Whether economic development triggers increased advertising, or whether advertising is a driver of economic growth, is an open question, however. On the one hand, research reveals that it is economic growth that triggers more advertising, and not the other way around. The argument here is that companies just spend a fixed proportion of their revenues on advertising. On the other hand, scholars and consultancies have argued that a more complex pattern of interactions between economic growth and advertising is at play; the direction of effects and causality might actually be quite different from what has been assumed. In this view, advertising makes it possible for companies to sell their products and to achieve better performance levels in terms of sales and value added. Branding strategies work along with technical knowledge obtained via R&D, competencies at transforming research results into useful products or processes, impacting demand through impacts on tastes or product quality, or by meeting needs in new or improved ways. In particular, advertising via digital media is said to help companies increase their revenues, market share and profit margins, thus boosting economic growth.

Figure 1.4: Branding investment increases compared with economic development, 1988-2011

Branding investment as a percentage of GDP, compared with GDP per capita, in 2005 USD PPP

Note: Comparable data on advertising and market research spending (purchased component excluding strategic marketing) for 17 countries. PPP refers to purchasing power parities.

Source: WIPO, based on Corrado and Hao (2013).

The underlying relationship is plausible for several reasons, chief among them that, as countries grow and develop from agrarian to dynamic innovative economies, markets cease to be local. This is the result of improved infrastructure and, in particular, transportation systems, increased economies of scale in production and greater product differentiation – all within the context of economic development. This effect can be seen in the data for the Republic of Korea, for example, in Figure 1.4. As the country’s economic structure shifted to high-tech manufacturing and related exports from the late 1980s onwards, branding increased as a share of GDP.

Whether economic development triggers increased advertising, or whether advertising is a driver of economic growth, is an open question, however. On the one hand, research reveals that it is economic growth that triggers more advertising, and not the other way around. The argument here is that companies just spend a fixed proportion of their revenues on advertising. On the other hand, scholars and consultancies have argued that a more complex pattern of interactions between economic growth and advertising is at play; the direction of effects and causality might actually be quite different from what has been assumed. In this view, advertising makes it possible for companies to sell their products and to achieve better performance levels in terms of sales and value added. Branding strategies work along with technical knowledge obtained via R&D, competencies at transforming research results into useful products or processes, impacting demand through impacts on tastes or product quality, or by meeting needs in new or improved ways. In particular, advertising via digital media is said to help companies increase their revenues, market share and profit margins, thus boosting economic growth.

52 See Schmalensee (1972), and van der Werff et al (2008).
Irrespective of the direction of causality, the data show that the richest countries seem to reach a threshold for advertising, and then decrease their advertising efforts as a proportion of GDP once they attain the highest development levels. In the US, advertising as a proportion of GDP first increased with GDP per capita, and then decreased after GDP per capita exceeded a certain level. The UK, Canada and Australia follow a similar pattern.

As discussed later, this trend might be due to the fact that advertising expenditures, i.e. the “bought-in component” only, are an imperfect way of capturing today’s investments in brands. It might also be linked to the fact that Internet competition has reduced advertising charge rates significantly over the last ten years.

Figure 1.5 shows that the proportion of advertising spending as a proportion of GDP is rather flat for the US (top), fluctuating at around 2 percent of GDP from the 1950s to the present, but with an actual fall in more recent years. This flat spending pattern was reflected generally among high-income economies during 1996-2010 (Figure 1.5, bottom). In comparison, R&D expenditures in the US have had a different trajectory since the 1950s, with a rapid increase shown as a percentage of GDP (Figure 1.5, bottom), suggesting a disconnect – at least in the US – between R&D and advertising spending.

Figure 1.5: In high-income countries advertising is constant as a percentage of GDP, while R&D increases

Note: Countries included in the sample for high-income economies on the right were Australia, Canada, Finland, France, Germany, Italy, Japan, Republic of Korea, Portugal, Spain, UK and US.

Looking at the same graph plotted for a group of high-income economies (Figure 1.6, top), one also sees flat development for the advertising component and a more rapid increase of business R&D spending during 1988-2010. There are important country-specific differences, however, with flat expenditures in Japan and the Eurozone area, and falling expenditures in the UK and in the US, over this shorter time period (see also Figure 1.6, bottom).

Also, and despite the high correlation between GDP and advertising, the advertising rates relative to GDP vary greatly among the major high-income countries. The US, for example, has a higher advertising propensity relative to GDP than most European countries; Japan’s advertising-to-GDP intensity, in turn, is particularly low. While this variation might also be due to measurement differences across countries, the reasons for these varying intensities – e.g., the level of competition, culture, industrial composition etc. – are not well understood. Remarkably, countries with similar levels of development also use trademarks, with greatly varying intensity (see Section 1.3.1).

In Figure 1.4 middle-income economies are located at the lower left section of the graph. China’s and India’s advertising propensity increased steeply with GDP per capita for a time, but has leveled off or declined in recent years. The steep increase for China and India are similar to the trajectory for Portugal, with the latter recording a relatively low GDP per capita in the 1980s. At the same time, in the 1980s Portugal had a higher GDP per capita than China and India, but a significantly smaller propensity to invest in its brands. Thus, for a given level of development, China and India are shown to attract more advertising from both foreign and local brand owners. The key question is whether over the past 30 years globalization has resulted in putting such fast-growing middle-income economies on a different trajectory than when high-income countries were at this stage of development a few decades ago. For a given level of GDP, more investment in branding might be required today than in the past. Foreign brands are also redoubling their efforts to cater for the rapid expansion of a large number of new middle-class consumers in these economies who have not yet been drawn into the “branded markets”.

When compared with high-income economies, middle-income economies, as exemplified here by the extreme case of China, have experienced both an increase in R&D ratio and an increase – albeit a slower one – in their advertising intensity (Figure 1.5, bottom).

The above findings are confirmed when estimating branding investment in advertising and market research with upward adjusted depreciation rates (see Figure 1.6). Relative to GDP, branding investments are stable or falling for high-income economies, whereas they are increasing for middle- and low-income countries and, in particular, for China. Based on this approach, it is estimated that the world invested USD 466 billion, or about 0.7 percent of world GDP, in brands in 2011. Again, this only takes into account the bought-in component and it excludes strategic marketing and, potentially, other expenditures not captured by standard advertising budgets.

Figure 1.6: Branding investments are growing as a percentage of GDP in middle- and low-income economies

Branding investments in high- versus middle- and low-income economies, in percentage of GDP, 1988-2011

Note: The advertising data for the US is different, and is lower than the data in the earlier estimate in Figure 1.5 (top) because a different database is used for global estimates.

Source: Corrado and Hao (2013), based on media-structured advertising data from WARC, and market research revenue data from Esomar.

The above analysis provides the best data that researchers have produced estimating global cross-country investments in brands. This data notwithstanding, the current analysis continues to underestimate important components of branding investments, namely certain components of bought-in branding expenditures and, more importantly, all brand-related activities carried out within companies in internal marketing or advertising departments, i.e., the salaries and wages of relevant staff, and thus the so-called “own-account component” is not accounted for.

A more accurate estimate of branding investment is required. For the purposes of this Report, a more comprehensive appraisal of branding investment for one country – the US – has been computed (see Corrado and Hao (2013)). The authors made progress on three fronts: the use of more accurate depreciation rates, the inclusion of bought-in expenditures on strategic marketing, and the inclusion of an estimate for own-account, in-house advertising and branding activities. For the latter, Corrado and Hao (2013) selected occupations that are thought to be actively involved in creating and maintaining a brand – including computer-related and media-related occupations – to account for the increased relevance of the Internet in brand building. Indeed, any measure of branding investment that only considers occupations such as advertising is likely to underestimate the contribution of branding to the economy.

59 Market research and public opinion polling (NAICS 54191) is used to measure purchased market research services. Marketing consulting services (NAICS 541613) are used to measure purchased strategic marketing services. Strategic marketing services (whether in-house or purchased) are now counted as investments in branding, as opposed to investments in organizational capital used in previous intangible assets framework and measurement efforts as, for example, in Figure 1.2.

60 See Corrado and Hao (2013), Table 7. A list of 14 specific occupations was used to develop own-account investments. One group of occupations used to develop in-house estimates of investments in branding consists of certain managers and analysts – advertising and public relations managers, marketing and public relations managers, and market researchers. Another group consists of certain computer, writer/editor and media occupations, in order to better capture in-house expenditures on online-related advertisements, which is one of the new trends identified in Section 1.1.
When considering labor inputs to building these intangible assets, occupations other than pure advertising also contribute to the creation of the reputation and image that comprise a brand.\textsuperscript{61}

As a result, the authors find that branding investments in the US are much higher than originally estimated; both the levels and the trajectory of such investments are impacted positively (see Figure 1.7). Instead of trending downward, as would be suggested if advertising expenditures only were examined, a slight upward trend in total expenditures on brands can be identified for the period 2000-2011. Figure 1.7 shows that in-house business investments in marketing grew faster than nominal GDP during the 2009 economic downturn and its aftermath, increasing rapidly from 2007 to 2011, and faster than nominal GDP growth. During the same period, advertising media expenditure fell 3.3 percent per year, demonstrating the difficulty of using advertising spending as a good barometer for investments in brands.

\textbf{Figure 1.7: More accurate branding investment data for the US show that investment is more dynamic than is suggested when advertising data alone is considered}

Components of new metrics for US business branding investment in percentage of GDP, from 1987 to 2011

\begin{figure}
\centering
\includegraphics[width=\textwidth]{figure1.7.png}
\caption{US business branding investment versus advertising media expenditure in percentage of GDP, from 1987 to 2011}
\end{figure}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{figure1.7a.png}
\caption{Components of new metrics for US business branding investment in percentage of GDP, from 1987 to 2011}
\end{figure}

\textsuperscript{61} See Urwin \textit{et al} (2008). The range of occupations contributing to branding indeed seems varied, and is an increasingly significant source of employment in modern economies. See UK IP Office (2011), and Officina Española de Patentes y Marcas (2012).
As per the improved metric, branding investments in the US stood at USD 340 billion in 2010. Accordingly, the economic contribution of branding investment is about 65 percent higher than the contribution estimated previously (see Figure 1.8); in fact, in terms of contribution to economic growth, it is comparable to roughly 50 percent of the direct contribution of privately-funded R&D. The research also suggests that the contribution of branding investments to growth in output per hour has increased in relative importance since 2007. In short, it demonstrates that branding investments are significantly underappreciated with respect to their size and the scale of their contribution to economic growth. While smaller than the contribution of R&D, they are a major source of economic growth, and one that is currently not accounted for. The new metrics also go to show that high-income economies have probably not decreased their branding investments, or held them at a constant level, as implied in the analysis based on advertising alone. The example of the US clearly shows that using advertising expenditures alone as a barometer of branding efforts is erroneous. Rather, branding investments have grown vigorously since 1980; in the case of the US, branding investments have made a significant contribution to growth in output per hour. In the period 1987 to 2011, US investments in brands accounted for about 22 percent of all intangible assets investment. Notably, they exceeded investments in R&D and design.

**Figure 1.8**
Percentage point contribution to economic growth in output per hour (OPH), 1995-2007

<table>
<thead>
<tr>
<th>Year Range</th>
<th>Added Branding Investment as % of New Calculations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-2011</td>
<td>0.25</td>
</tr>
<tr>
<td>2001-2007</td>
<td>0.20</td>
</tr>
<tr>
<td>1990-2001</td>
<td>0.15</td>
</tr>
<tr>
<td>1980-1990</td>
<td>0.10</td>
</tr>
</tbody>
</table>

**Percentage point contribution to growth in OPH, 1980-2011**

<table>
<thead>
<tr>
<th>Year Range</th>
<th>Added Branding Investment as % of New Calculations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-2011</td>
<td>0.10</td>
</tr>
<tr>
<td>2001-2007</td>
<td>0.08</td>
</tr>
<tr>
<td>1990-2001</td>
<td>0.06</td>
</tr>
<tr>
<td>1980-1990</td>
<td>0.04</td>
</tr>
</tbody>
</table>

Notes: Top, R&D and existing contribution of branding, based on information reported in Corrado et al (2013). Privately-funded R&D refers to R&D carried out by for-profit industries only (i.e. academic R&D is excluded). Bottom, output is private industry excluding education, health, and real estate. The first three time periods shown are between years with business cycle peaks, as defined by the National Bureau of Economic Research.

Source: Corrado and Hao (2013).
These branding investment estimates constitute significant progress, when compared with previous estimates. Nonetheless, more work is required. First, currently, these new branding investment indicators have only been computed for the US, where the detailed data required are available. Second, as advertising and branding efforts and their organization within the company and outside evolve, the current approach will need fine-tuning e.g., the choice of occupations used to account for in-house branding efforts will likely need to adapt as well. Third, new technologies, such as mobile broadband, social networks, digital video and others, will continue to shape how branding investments are undertaken and measured; additional challenges will arise with regard to the accurate measurement of related own-account or bought-in components.

To conclude, another question looms large. While it is important to measure branding investments, it is equally important to be able to capture their effectiveness and to rate the impact of branding investments accordingly. Anecdotal evidence suggests that the underlying return on investment on marketing and advertising expenditures has improved thanks to improved targeting made possible by new technologies – in particular by online advertising and access to more detailed customer data (see Section 1.1.). Through further research, it might be interesting to understand how the market for (big) data reflects the changing investments in branding. If the efficacy of advertising does indeed increase, then a declining ratio of branding investments to GDP – as seen in many high-income countries in recent years – could also reflect improved effectiveness of branding investments.

At the same time commentary about failures in performance can be communicated between consumers much faster through social media than through traditional channels. New competitors can gain access to market faster and cheaper than ever before if they can come up with something that captures consumers’ imagination.
1.2.2

THE VALUE OF THE LEADING BRANDS IS CONSIDERABLE AND IS ON THE INCREASE

If companies invest considerable sums in building strong image and reputation, how valuable are their brands?

Putting an estimate on the value of a brand and the underlying trademark is no easy feat (see Box 1.6 on page 45 for various approaches used). In practice, little reliable data exist about the actual value of existing brands. Given the investments that many companies make in public relations and advertising, as well as maintaining global portfolios of trademarks, it appears that companies recognize the relevance of brands. Nevertheless, brand values are not actively reported by companies. Accounting standards do not offer a standardized method of calculating value, and, in fact, such standards generally restrict the inclusion of brand value, and associated goodwill, on the balance sheet. Instead, investments in intangibles are, at best, listed as operating expenses (see Section 1.2.1). The exception to this rule is when companies have acquired a formal valuation of a brand as a result of having bought or sold a business entity. In most countries, companies are allowed to recognize the value of acquired brands i.e., acquired goodwill, as identifiable intangible assets, and are permitted to put these on the balance sheet of the acquiring company. In one recent but unusual case, brand value was provided in a transaction between a holding company and its subsidiaries (see Box 1.5).

Even if companies wanted to explicitly reveal information on brand values, there is no market mechanism for evaluating brand values, except in a case where brands or trademarks are acquired or licensed, and where the parties agree to value the goodwill associated with the brand (see Section 1.4).63

Nevertheless, global indices have emerged — indices which publish the values of the so-called “top 100” or the “top 500” brands worldwide (see Table 1.1 for data on the top 10 brands across the three most eminent brand value rankings). These rankings compiled by BrandZ, Brand Finance and Interbrand necessarily focus on a small selection of top brands and do not pretend to assess the value of brands to all companies, or to the economy as a whole. Moreover, methodologies for assessing brand values, as defined at the outset of this section, are complex to engineer, and therefore methodological choices — with respective strengths and weaknesses — have to be made.

Box 1.5: IKEA — one of the first companies to disclose its brand value

At the beginning of 2012, IKEA became one of the first companies to disclose its brand value as part of a financial transaction between a holding company and one of its subsidiaries. Interogo Foundation sold the brand name to Inter IKEA Systems — a subsidiary which now owns the IKEA trademarks — for about USD 11 billion dollars, as a way of “consolidating and simplifying the group’s structure”. The estimate is said to have been produced as a result of using internal data combined with outside analysis. It is reasonably close to the estimates published by two of the indices discussed in this section.62

Source: Press articles and investor relations material from August 9, 2012.

62 In 2012, Interbrand valued IKEA at USD 11.9 billion and Brand Finance valued it at USD 9.2 billion.

63 Adams and Oleksak (2011) noted that the dollar value of brands can be difficult to identify, since no financial transaction is involved in creating the brands.
Table 1.1: Brand values are high and are important as a proportion of market capitalization

Values of the top ten brands in 2013 in absolute terms and as proportion of the company’s market capitalization

<table>
<thead>
<tr>
<th>Company</th>
<th>Interbrand Brand value 2013 (in billion USD)</th>
<th>BrandZ Brand value 2013 (in billion USD)</th>
<th>Brand Finance Brand value 2013 (in billion USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apple</td>
<td>98.3</td>
<td>185.1</td>
<td>87.3</td>
</tr>
<tr>
<td>Google</td>
<td>93.3</td>
<td>113.7</td>
<td>58.8</td>
</tr>
<tr>
<td>Coca-Cola</td>
<td>79.2</td>
<td>112.5</td>
<td>52.1</td>
</tr>
<tr>
<td>IBM</td>
<td>78.8</td>
<td>90.3</td>
<td>45.5</td>
</tr>
<tr>
<td>Microsoft</td>
<td>59.6</td>
<td>78.4</td>
<td>42.3</td>
</tr>
<tr>
<td>General Electric</td>
<td>47</td>
<td>75.5</td>
<td>37.7</td>
</tr>
<tr>
<td>McDonald’s</td>
<td>42</td>
<td>69.8</td>
<td>37.2</td>
</tr>
<tr>
<td>Samsung</td>
<td>39.6</td>
<td>69.4</td>
<td>36.8</td>
</tr>
<tr>
<td>Intel</td>
<td>37.3</td>
<td>56.1</td>
<td>34.2</td>
</tr>
<tr>
<td>Toyota</td>
<td>35.4</td>
<td>55.4</td>
<td>30.7</td>
</tr>
<tr>
<td>Average</td>
<td>61</td>
<td>91</td>
<td>40.7</td>
</tr>
</tbody>
</table>

Note: The values for market capitalization are based on valuations on the New York Stock Exchange, obtained from Yahoo! Finance, access date September 6, 2013, 2 p.m.

Accordingly, different methodologies and different criteria for inclusion yield different results. In 2013, only 33 brands are common to all three top 100 rankings, and the brand values assigned by existing indices can differ noticeably for the same brand. The total brand value of all common top brands in the BrandZ and Brand Finance rankings varies between a low of about USD 863 billion and a high of about USD 1.2 trillion, and hence by about 39 percent.\(^{64}\) The brand value assigned by two distinct valuations for Apple, for example, differs by almost USD 100 billion (Table 1.1). Notwithstanding these caveats, a number of insights emerge when studying brand value indicators over time and across indices. To begin with, according to these rankings, the value of brands is significant and, for the most part, is increasing, with average values of between USD 46 billion and USD 91 billion for the top 10 brands in the three respective rankings in 2013. Furthermore, in nominal terms, the total value of the top 100 global brands grew by 32 percent (BrandZ), 19 percent (Brand Finance) and 24 percent (Interbrand) between 2008 and 2013, despite the economic downturn which began in 2009. The top 100 brands and their performance might not be representative of the brand values of all companies. Still, the top 200 to 500 brands in the Brand Finance ranking also experienced similar growth in their value.

\(^{64}\) Interbrand's total brand value lies in the middle of these two rankings.
Indeed, Table 1.1 also shows that the assigned brand values make up for a significant share of the company’s market capitalization. This further corroborates earlier analysis claiming the large contribution that brands make to shareholder value. Of course, this is also due to the fact that brand value indicators are computed to a great extent by incorporating the current and future profits of the company (see Box 1.6). It is also an open question whether the proportion of brand value in market capitalization tends to be smaller for brands outside the top 100 range.

According to WIPO calculations, the technology sector and Internet sector, including brands such as Google, account for the most highly ranked combined brand value among the top 100 global brands. More established sectors, such as car companies BMW, Mercedes-Benz and Volkswagen; banks such as Wells Fargo, HSBC and J.P. Morgan; business service companies such as Cisco, Oracle and SAP; and conglomerates such as General Electric, Siemens or Tata are the next most highly ranked sectors in terms of their total value within the top 100 global brands.

For reasons explained earlier (see Section 1.2), multinational enterprises outside of high-income economies are pursuing strategies to build or acquire brands at home and abroad. Multiple, possibly complementary, strategies have been adopted by companies as local and global economies have changed and grown. Some companies’ strategies have evolved over time: companies in countries such as Japan and the Republic of Korea, which at one time pursued a low-cost and low-price strategy, have, over time, been able to raise prices and quality, thus turning low-cost products into premium brands. Other companies, including companies in the information technology (IT) industry in particular, have made a name as providers of certain components, or as assembly and contract manufacturers (e.g. Asus, Acer, etc.); alternatively, these companies (e.g. Huawei) may have focused on business customers before entering the end-consumer markets with a more established brand. Other companies have bought brands from companies in high-income economies (see Section 1.4). Many of these successful brand strategies have tracked changes in economic climates and the evolution of opportunities over time.

**Figure 1.9: The total brand value of the top 100 global brands is increasing**

Total value of top 100 brands, 2008-2013, in USD trillion

Source: WIPO, based on data from BrandZ, Brand Finance and Interbrand.

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65 Study by Interbrand in association with JP Morgan. In this study, it is suggested that “brands account for more than one-third of shareholder value”.

66 Data obtained from Corebrand by Carol A. Corrado and Janet X. Hao at the Conference Board suggest that the estimate of corporate brand value, overall, is of the order of 5-7 percent of market capitalization for the top 500 US companies.

67 See Chattopadhyay and Batra (2012), and Kumar and Steenkamp (2013) for an elaboration of branding strategies of multinational companies emanating from middle-income economies.
Partly as a result of methodological issues and different criteria for inclusion, the majority of top brands are associated with companies that are primarily located in high-income economies (see Figure 1.10). Among the top 500 ranking in the Brand Finance index, brands emanating from the US led the field in terms of numbers – ahead of brands emanating from Japan, Germany, the UK and France. But, outside the list of traditional leaders, companies from other economies are also making an impact on these indices, with Chinese brands ranked in sixth place and Brazil ranked in twelfth place in 2013.

The average brand value of companies based in middle-income economies has grown faster than brand value of companies in high-income economies. In fact, the average value of the top 500 brands in companies based in middle-income economies grew by more than 98 percent between 2009 and 2013, while the brand value of companies in high-income economies has grown by 61 percent (Figure 1.10).

This trend is not consistent throughout all rankings, however. In the case of the Interbrand ranking, brands emanating from middle-income economies still play a small role, accounting for less than one percent of the total brand value. Again, this is partly due to the methodological criteria discussed in Box 1.6.

This issue aside, Table 1.2 consolidates all brands emanating from middle-income economies, and treats them as being part of one of the three rankings. Most of these brands belong to the banking, telecommunications or technology sectors. A comparatively large number of Chinese brands (13 out of 23) are included in the rankings, with an emphasis on the banking sector and the technology sector.
Table 1.2: Brands emanating from companies based in middle-income economies are mostly in the telecommunications sector and the banking sector

<table>
<thead>
<tr>
<th>Rank</th>
<th>BrandZ 2013</th>
<th>Brand Finance 2013</th>
<th>Interbrand 2013</th>
<th>Brand value by ranking (in USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>20</td>
<td>China Mobile LTD</td>
<td>China, Hong Kong SAR Telecoms</td>
<td>55,368</td>
</tr>
<tr>
<td>16</td>
<td>31</td>
<td>Industrial and Commercial Bank of China</td>
<td>China Banks</td>
<td>41,115</td>
</tr>
<tr>
<td>39</td>
<td>39</td>
<td>Tata</td>
<td>India Conglomerate</td>
<td>-</td>
</tr>
<tr>
<td>21</td>
<td>21</td>
<td>Tencent</td>
<td>China Technology</td>
<td>27,213</td>
</tr>
<tr>
<td>22</td>
<td>22</td>
<td>China Construction Bank</td>
<td>China Banking</td>
<td>26,859</td>
</tr>
<tr>
<td>33</td>
<td>33</td>
<td>Baidu</td>
<td>China Technology</td>
<td>20,443</td>
</tr>
<tr>
<td>37</td>
<td>56</td>
<td>Agricultural Bank Of China</td>
<td>China Banking</td>
<td>19,975</td>
</tr>
<tr>
<td>57</td>
<td>57</td>
<td>China Life</td>
<td>China Insurance</td>
<td>15,279</td>
</tr>
<tr>
<td>59</td>
<td>59</td>
<td>ICICI Bank</td>
<td>India Banking</td>
<td>14,196</td>
</tr>
<tr>
<td>58</td>
<td>64</td>
<td>Bank of China</td>
<td>China Banking</td>
<td>14,236</td>
</tr>
<tr>
<td>67</td>
<td>67</td>
<td>Sinopec</td>
<td>China Oil and gas</td>
<td>13,127</td>
</tr>
<tr>
<td>65</td>
<td>71</td>
<td>PetroChina</td>
<td>China Oil and gas</td>
<td>12,380</td>
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<tr>
<td>59</td>
<td>63</td>
<td>Sberbank</td>
<td>Russia Banking</td>
<td>12,653</td>
</tr>
<tr>
<td>66</td>
<td>66</td>
<td>Bradesco Brazil</td>
<td>Brazil Banking</td>
<td>-</td>
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<td>77</td>
<td>Itaú</td>
<td>Brazil Banking</td>
<td>-</td>
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<td>73</td>
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<td>Moutai</td>
<td>China Consumer</td>
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<td>79</td>
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<td>MTN Group</td>
<td>South Africa Telecoms</td>
<td>11,448</td>
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<td>82</td>
<td>82</td>
<td>Mobile TeleSystems OJSC</td>
<td>Russian Federation Telecoms</td>
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<td>84</td>
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<td>Ping An</td>
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<td>10,558</td>
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<td>89</td>
<td>89</td>
<td>Airtel</td>
<td>India Telecoms</td>
<td>10,054</td>
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<td>93</td>
<td>93</td>
<td>China Telecom</td>
<td>China Telecoms</td>
<td>-</td>
</tr>
<tr>
<td>94</td>
<td>94</td>
<td>Banco do Brasil</td>
<td>Brazil Banking</td>
<td>-</td>
</tr>
</tbody>
</table>


Methodological and other issues aside, the existing assessment of brand value demonstrates the growing role and economic importance of brands, both at the company level and at the country level.
CHAPTER 1 BRANDING IN THE GLOBAL ECONOMY

In theory, three main approaches to how to measure brand value stand out. One approach is the “product-market level” approach. It aims to identify the price premium generated by a brand, i.e., an implicit valuation of the revenue stream that accrues to the company from its brand name(s). This is the additional price a customer is willing to pay for an equivalent branded product versus a non-branded product. While this approach sounds pertinent to economists, it is difficult to implement in practice. Since this approach relies on comparing identical products—one of which is branded, while the other is not—it is difficult to implement in practice. Another reason it is difficult is because some brands relate to a company with multiple products whereas others relate to entire product ranges.

The second approach is the “financial market” approach, which calculates brand value on the basis of the hypothetical price of a brand if it were sold or acquired in an arms-length transaction. This approach only captures the value created by the brand if it were sold or acquired in an arms-length transaction. It aims to identify the price premium generated by a brand, i.e., an implicit valuation of the revenue stream that accrues to the company from its brand name(s). This is the additional price a customer is willing to pay for an equivalent branded product versus a non-branded product.

The third approach is the “customer mindset” approach, which focuses on customer attitudes towards which brands should be considered for inclusion in their indices. In addition, these financial data may only indirectly estimate the power of the brand with customers. Third, the “customer mindset” focuses on customer attitudes towards a brand, and relies on qualitative and quantitative research based on customer surveys, interviews and polls. This method is the most costly to perform, and is often restricted to small sample sizes for these brand rankings, unless customized research is carried out with fully representative samples by particular brand owners. Furthermore, no agreed scale or unit of measurement exists to properly assess the value of a brand as captured by customer perceptions. In addition, for a long list of the top 100 or 500 brands, it is challenging to produce global estimates which accurately aggregate brand values—as perceived by people of different nationalities—into a single quantitative and/or financial value indicator.

In practice, existing rankings use a mix of the above approaches to triangulate brand values. Table 1.3 summarizes the main approaches used in the compilation of the various indexes.

To begin with, different indices adopt different approaches as to which brands should be considered for inclusion in their indices. The Interbrand ranking, for example, requires that a company must generate more than 30 percent of its revenues outside the home market, and on three continents.

All three indices have a strong financial dimension, mirroring the “financial market” approach. By focusing on company data and forecasts, all rankings rely on standardized approaches to estimate the current and future performance of a company on which the brand for the (often hypothetical) licensor through the royalty stream. The full value of the brand is likely to be higher, with some of the value created by the brand accruing to the licensee, a factor which this approach does not account for. Finally, these financial data may only indirectly estimate the power of the brand with customers.

Table 1.3: Overview of selected brand rankings

<table>
<thead>
<tr>
<th>Name/origin</th>
<th>Availability</th>
<th>Brands under consideration</th>
<th>Main components of brand value calculation</th>
<th>Financial dimension</th>
<th>Consumer dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand Finance (UK)</td>
<td>2007-2013</td>
<td>Universe: World Industries: All Companies: Financial data must be publicly available. Private companies can submit data if they wish to be included</td>
<td>Revenue-based Financial value based on a royalty rate applied to future revenues</td>
<td>Qualitative &amp; financial research - In-house expert panels - Third party sources</td>
<td></td>
</tr>
<tr>
<td>Interbrand (US/UK)</td>
<td>2001-2013</td>
<td>Universe: Companies must generate more than 30% of their revenues outside their home market. Companies must be present at least in three major continents.</td>
<td>Profit-based Financial value based on past and future profits</td>
<td>Qualitative analysis - In-house expert panels - Primary research - Desk research</td>
<td></td>
</tr>
</tbody>
</table>

Box 1.6: Methodology used to establish brand value

In theory, three main approaches to how to measure brand value stand out. One approach is the “product-market level” approach. It aims to identify the price premium generated by a brand, i.e., an implicit valuation of the revenue stream that accrues to the company from its brand name(s). This is the additional price a customer is willing to pay for an equivalent branded product versus a non-branded product. While this approach sounds pertinent to economists, it is difficult to implement in practice. Since this approach relies on comparing identical products—one of which is branded, while the other is not—it is difficult to implement in practice. Another reason it is difficult is because some brands relate to a company with multiple products whereas others relate to entire product ranges.

The second approach is the “financial market” approach, which calculates brand value on the basis of the hypothetical price of a brand if it were sold or acquired in an arms-length transaction. It is often based on the brand holder’s revenues, but it also uses the cash flow valuation of licensing fees and royalties. While seemingly hard data are used, it is challenging to appropriately assign revenue flows to the power of the brand alone. Given the dearth of data in this field (see Section 1.4), it is equally challenging to identify pertinent royalty or licensing rates for the brands being studied. In addition, this approach only captures the value created by the brand for the (often hypothetical) licensor through the royalty stream. The full value of the brand is likely to be higher, with some of the value created by the brand accruing to the licensee, a factor which this approach does not account for. Finally, these financial data may only indirectly estimate the power of the brand with customers.

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All three indices have a strong financial dimension, mirroring the “financial market” approach. By focusing on company data and forecasts, all rankings rely on standardized approaches to estimate the current and future performance of a company on which the brand

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68 Based on Aliwadi et al (2002) and their interpretation of Keller and Lehman (2002). In addition, an international standard for monetary brand evaluation (ISO 10668) exists.

69 Even putting aside the practical implementation issues, it ignores the volume effect of having a stronger brand, and it is not as relevant where the volume effect is greater than the price effect, such as in “fast fashion” retail. In addition, some brands deliberately choose to position themselves as low priced e.g. Ryanair. This airline succeeds by differentiating itself as low priced, thus generating no premium relative to competitors’ short-haul airlines, and creating significant passenger volumes as a result. The authors would like to thank Michael Rocha (Interbrand) for this comment.


72 To provide an example, certain brands are widely known and are popular in a large middle-income economy such as China, but the same brands are unknown elsewhere. In such cases, how does a final combined value take into account the fact that Chinese consumers have high brand awareness and value perception, whereas consumers in other countries assign no value to these brands?
value is based. In the first step in the process, the brand’s relevance for company earnings is calculated. In the second step, a so-called “income approach” is used; this calculates the discounted future cash flow from the potential future earnings of a brand. These calculations are based on annual reports data, as well as on future profit forecasts. While the fundamental evaluation steps between the rankings are relatively similar, some differences exist.

These approaches suffer from the fact that it is hard to associate earnings exclusively with the value of a brand. Revenues are driven by factors other than the brand alone. It is also challenging to correctly assess pertinent, hypothetical royalty rates for the licensing of brands. These data are hard to come by, and they do not exist for most brands that are not licensed.

As described above, the customer dimension relies on qualitative and quantitative approaches. BrandZ is the only ranking which surveys consumers directly by conducting interviews as well as carrying out market research surveys. Brand Finance and Interbrand substitute direct consumer contact with using their own in-house experts drawn from offices worldwide. The behavioral aspect is the most important, but it is also the most difficult aspect to measure. As a result, there can be a tendency in some brand value methodologies to assign a proportionately higher weight to the financial dimension than to the customer dimension. Valuations carried out for particular companies by these brand valuation agencies may be much more granular than the top 100 rankings, and can more easily overcome the challenges described above.

All indices describe their approach in publicly available documents, and they compare their approach to their competitors’ rankings. Nevertheless, a lot of details, for example, how the overall values are computed, or how the customer dimension is assessed in practice, are not publicly available. It is therefore challenging to independently verify the underlying data or the methodologies, and then replicate existing findings.

1.3 THE GLOBAL SURGE IN TRADEMARK FILINGS AND ITS MAIN DRIVERS

The increase in expenditures on branding, and the increased economic role of such expenditures, goes hand in hand with a pronounced but less noticeable surge in trademark filings both at the national and the international level.

Nevertheless, the increased demand for trademarks remains relatively unexplored, as noted in the 2011 World Intellectual Property Report. While the patent-innovation nexus has garnered most of the attention from IP economists, the surge in trademark filings, and an analysis of its main drivers, has not.

73 See Keller and Lehmann (2006).
74 Brand Finance uses notional royalty rates that a company could earn if it were to license its brand to an independent third party. Interbrand uses a hybrid of the “customer mindset” and the “financial market” approach. BrandZ uses a hybrid of the “financial market” and “customer mindset” approach; it takes the financial value of the brand (not the company), similar to the method used by financial analysts to value companies, and it then assesses the proportion of that value that is attributable to brand and brand alone, based on an extensive quantitative global consumer research program.
75 Interbrand uses a combined approach by aggregating data from expert panels, desktop research and information gathered from primary research. Brand Finance uses an amalgam of in-house experts’ opinions combined with external data.
76 See Jensen and Webster (2011), and WIPO (2011a).
1.3.1

THE DEMAND FOR TRADEMARKS HAS GROWN SUBSTANTIALLY IN ABSOLUTE TERMS, AND IN PROPORTION TO ECONOMIC ACTIVITY

The demand for trademarks has intensified, reaching unprecedented levels since the 1970s.77 Trademarks have been in existence since the mid-19th century (see Section 1.1). Yet, in most high-income economies, the rapid growth in trademark applications only began to take off after 1975.78 Following a slow start in the early 20th century, trademark activity accelerated significantly in the mid-1970s at the United States Patent and Trademark Office (USPTO). At the Japanese Patent Office (JPO) such activity accelerated at an even earlier date. Trademark activity in other IP offices followed much later – in the 1980s (see Figure 1.11, top). Thus, the surge in trademark filings in high-income economies began about ten years earlier than the historic increase in worldwide patenting, which began in the mid-1980s.79 Middle-income economies, in turn, began experiencing a rapid rise of trademark filings in the late 1980s and 1990s.

A second significant acceleration took place from the late 1990s until today. In most high-income economies, and in a number of middle-income economies, applications reached their first peak in 1999 or 2000, suggesting amplified demand for new registrations during the dotcom boom, followed by a contraction in registrations that corresponded with the timeline of the dotcom collapse. Applications peaked again in 2007, before the onset of the global financial crisis, with demand falling again throughout the downturn, but with new filings recovering to near pre-crisis levels by 2011.80 Most middle-income economies saw substantial increases in trademark filings at the turn of the 21st century. By 2001, the Chinese trademark office had become the top recipient of trademark filings, a position China was not to regain in terms of patent filings until 2011, when it became the world’s top patent application recipient.

In absolute terms, trademark demand quadrupled from just under 1 million applications per year in 1985 to 4.2 million trademark applications by 2011 (Figure 1.11, bottom). During this period, trademark applications multiplied approximately fivefold in the case of the Republic of Korea and the US, approximately threefold in Australia, and approximately twofold in Canada, France and Germany.81 In the case of middle-income economies, the rise was more striking, with an increase by a factor of close to 30 in the case of China, 20 in the case of Turkey, 12 in the case of India, more than six in the case of Mexico, and three in the case of Brazil.

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78 See Duguid et al (2010), and Greenhalgh and Schautschick (2013).
81 The only major high-income economy with apparently falling filing rates is Japan. As explained earlier, the switch to a multi-class system introduces a downward bias, which is not meaningful for time series comparison. Moreover, the filing increase in individual European countries was accompanied by an increase in filings at the European Union’s OHIM, reaching 105,000 applications in 2011, up from zero in 1995.
Trademark growth has taken off since the mid-1970s in high-income economies, and since the 1980s in middle-income economies.

In turn, trademark application class counts increased from 4.4 million in 2004 to 6.2 million in 2011 (see Box 1.7 for an explanation, and Figure 1.11, bottom).
CHAPTER 1

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Box 1.7: Pitfalls when comparing trademark data over time and/or across countries

Care must be taken when comparing trademark data across countries and over time. Countries’ institutional frameworks for registering trademarks differ in important ways and often undergo substantial reform, which can affect how many applications trademark offices receive and eventually register.

Most importantly, when comparing trademark data across countries, it is vital to account for different trademark filing systems. Some offices have a single-class filing system, which requires applicants to file a separate application in respect of each of the goods and services classes in which they seek protection. Other offices follow a multi-class filing system, which enables applicants to file one application that lists all the classes in which they seek protection. For example, the offices of Argentina, Brazil, China, Colombia and Mexico follow a single-class filing system, whereas the offices of Japan, the Republic of Korea and the US, as well as many European offices, today operate multi-class filing systems.

All other factors being equal, a single-class filing system invariably results in higher application counts than does a multi-class filing system, as trademarks covering more than one class lead to more than one application under the former system. A direct comparison of trademark filing levels between countries that operate different systems would, therefore, be misleading. However, it is possible to compare trademark filing volumes on the basis of application class counts. For this reason, WIPO’s Statistics Database reports comprehensive class count statistics. However, these reports contain information dating back to no earlier than 2004, which complicates longer-term historical comparisons. Furthermore, several countries have switched from a single-class to a multi-class system – notably Australia and Japan in 1996 – introducing a structural break in application and registration data, which complicates comparability over time.

In addition to differences in filing systems, there are a number of other institutional differences that affect applicant behavior and the propensity of offices to register incoming applications. As will be further explained in Section 2.3, key institutional elements in this context include the following:

- Whether applicants must use the trademarks for which they seek protection and, if so, to what extent they must demonstrate such use prior to the registration of the trademark.
- To what extent trademark offices examine applications on relative grounds for refusal – i.e., whether new applications pose a conflict with earlier trademarks in different ownership.
- How opposition systems operate and at what point during the registration process third parties can initiate oppositions.
- Whether a country is a member of the Madrid system (see Section 1.3.2) and other international treaties or organizations, such as the EU, for which the Office for Harmonization in the Internal Market (Trade Marks and Designs) (OHIM) facilitates the registration of a trademark in several jurisdictions.

83 The abbreviated form of the Madrid system for the International Registration of Marks administered by WIPO. The Madrid system makes it possible for an applicant to register a trademark in a large number of countries by filing a single application with WIPO via the applicant’s national or regional IP office that is party to the system. The Madrid system simplifies the process of multinational trademark registration by reducing the requirement to file separate applications in each office. It also simplifies the subsequent management of the mark, since it is possible to record changes or to renew the registration using a single procedural step.

84 For example, many companies in European countries have switched from filing trademarks in their national office to filing in the OHIM. If one were to merely quantify the number of filings in the national IP office over time, and after the creation of the OHIM, the figures would therefore be misleading.

82 See also WIPO (2012).
Figure 1.12: Since 1985, trademark use intensified in most high- and middle-income economies

Trademark applications by GDP, direct applications excluding applications via the Madrid system, index (1985 = 100), growth in percentage terms since 1985 (1985 = 100), 1985-2011

Note: GDP data are in constant 2005 purchasing power parity (PPP) dollars. For France, Germany, Spain, Switzerland and the UK, the trademark applications by the OHIM were added. The graph is based on data for middle-income economies: Algeria, Brazil, Chile, China, Colombia, Costa Rica, India, Mexico, Panama, Philippines, South Africa, Sri Lanka, Thailand, Turkey, and high-income economies: Canada, France, Germany, Israel, New Zealand, Republic of Korea, Spain, Switzerland, the UK and the US. As China and Mexico use single-class systems, their trademark filing intensity should not be directly compared to the other countries in the graph.


For both high-income and middle-income economies, the use of trademarks relative to GDP increased considerably between 1985 and 2011 (Fig. 1.12). While high-income economies for which data are available increased their trademark filing intensity by a factor of 1.6, middle-income economies increased their trademark filing intensity by a factor of 2.6 during this period. Over the same time span, the US, Germany and Switzerland saw their trademark intensities, relative to GDP, more than double. France and Canada saw an increase of about 20 percent.

In the case of middle-income economies, over the same time span, Turkey experienced a sixfold increase in its trademark filing intensity, while in Mexico and Costa Rica it increased by a factor of about 3.5. The Russian Federation doubled its trademark filing intensity in a shorter time span, namely between 1992 and 2011. However, a few high-income economies such as Spain, Israel and New Zealand, and middle-income economies such as Sri Lanka, saw their trademark filing intensity fall between 1985 and 2011. The difference between nations with similar levels of economic development in terms of trademark filing intensity is little understood, however. Here, institutional and cultural factors could be at play.

85 When resident trademark applications are converted to equivalent class counts and are measured relative to GDP, one also finds increasing levels of filing intensities; the majority of the selected economies for which resident application class count data exist had higher ratios in 2011 than in 2006, with the Russian Federation exhibiting the largest increase by a factor of 20.
Remarkably, many middle-income economies use trademarks more intensively, relative to GDP, than do most high-income economies. When resident trademark applications are converted to equivalent class counts, countries such as Turkey, Viet Nam, China, Madagascar, Uruguay and the Russian Federation emerge with trademark filing intensities that are higher than the world average. A parallel to the earlier analysis of advertising intensities also emerges (see Section 1.2.1); less developed economies experience more trademark filings from residents and non-residents at an earlier period of development.

The mix of different IP forms also varies between richer and poorer economies. Economies with lower GDP per capita often file more trademarks relative to patents than do richer countries. This can be seen in Figure 1.13 (top), which plots the intensity of trademarks relative to GDP (class counts) and patents relative to GDP for a number of economies. This pattern does not hold for all countries for which data are available. Some high-income economies, such as New Zealand for instance, use trademarks more intensively, relative to patents, than do their peers. The case of Australia is striking, when compared with other high-income economies which have a high intensity of trademark filings but a low intensity of patents relative to GDP.

But, the general point holds. Furthermore, separate computations show that the intensity of patent applications over trademark filings is indeed positively correlated to the level of economic development (see Figure 1.13, bottom). An increase of GDP per capita thus reduces the ratio of trademarks/patents, with some statistical significance.

See WIPO (2012), Figure B.7.1. Among high-income economies, this concerns Switzerland, the Republic of Korea, Australia, Germany and Finland, for example.

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When data for trademark class counts become available for a greater number of middle- and low-income economies, this result should, in fact, be reinforced. Indeed, the current computations exclude many of middle- and low-income economies that are using trademarks relatively more frequently than patents.
Figure 1.13: Poorer countries use trademarks more intensively relative to patents

2011 resident trademark applications/GDP over 2011 resident patent application class count/GDP

Note: The Republic of Korea and China are excluded from the graph, as their level of filing intensity of both IP types is many multiples that of the rate of filing intensity of one of the other countries listed here.

Source: WIPO Statistics Database, September 2013 and World Bank for GDP.

Log of trademarks over patents against per capita GDP, 2011

Note: To compute the trademark/patent ratio, patent filings by origin, residents only (i.e. including, for example, filings by German residents at the German office and at the European Patent Office (EPO)) are divided by trademark class counts, by origin, by residents only (including, for example, filings by German residents at the German office and at the OHIM).

Source: WIPO Statistics Database, September 2013 and World Bank for GDP.
1.3.2. Main drivers of growth in trademark applications

The important surge in trademark applications, and its drivers, has been subjected to little systematic analysis thus far. The economic literature has largely focused on understanding the surge in patent applications. According to available data and analysis, the following main drivers for the growth in trademark applications can be identified. The empirical importance of the factors listed here, and their interaction, are not yet well understood, however.

1) Increased growth and investment in branding in high- and middle-income economies: Economic growth and increased global branding expenditures are highly correlated with trademark activity. The higher investments by companies to maintain existing brands, or to develop new brands, coupled with the rise of new players in new countries using trademarks, all have a positive impact on filing activity.

2) Increased product innovation: According to the literature, rising trademark activity also reflects the increased rate of product innovation and quality improvements in the economy. New or qualitatively improved products often trigger a new trademark filing, which helps to differentiate new goods and services in the marketplace. In the legal literature it has also been argued that trademarks reinforce the protection of patented goods; trademarks are said to prolong the life of a patented product beyond the patent itself. Increased global technological and non-technological innovation expenditures and activity may, therefore, act as indirect drivers of trademark activity.

3) The shift to an innovating service economy: Today, businesses and other entities providing services are eligible for trademark registration in most countries.

The services sector now accounts for about 60-70 percent of economic activity in high-income economies. As the proportion of services is growing in poorer economies as well, the structural change from economies based on manufacturing to economies based on services production is also judged to be an important driver of trademark filings.

The privatization and deregulation of important services industries e.g., telecoms, financial services and energy services, has led new private companies to create their own innovative services, and to brand and advertise them. This rise in a competitive and innovative service industry is translating into higher levels and faster growth of services trademarks. Moreover, the services sector is not alone in filing for services trademarks. As part of a shift to a service economy, manufacturing industries complement their product offerings with new services, such as after-sales, financial and consulting services, and they also file related services trademarks.

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88 See Jensen and Webster (2011), and WIPO (2011b).
90 See Rujas (1999).
93 See Schmoch (2003), Hipp and Grupp (2005), Schmoch and Gauch (2009), Myers (2013), and Blind and Green (2003). This is not always easy to show with the available data, as no straightforward comparison between Nice classes and particular sectorial industry classifications exists.
The number of services trademarks in total trademark applications is still lower than the share of goods trademarks. Together, the 11 service-related classes accounted for only one-third of all classes specified in applications filed worldwide in 2011. However, these percentages differed considerably across offices and across countries with different levels of economic development. Around 45 percent of trademark filing activity in Australia, Mexico, Turkey, the UK, the US, France and Germany was focused on service classes; in the case of Spain, services trademarks accounted for the majority of all trademark filing activity. Conversely, China, with around 77 percent of trademark filing activity, had the highest percentage of applications in the goods-related classes. India and Vietnam, for example, also displayed higher percentages of activity in goods classes.

However, on the global level, and in most economies, between 2004 and 2011 the number of filings of trademarks in services classes grew considerably faster than in goods classes (see Figure 1.14). In high-income economies, only a few countries, such as France, have seen the growth of goods classes achieve roughly the same levels as services classes. Among middle-income economies, the Russian Federation and South Africa saw higher growth in goods classes. Yet, these are the exceptions, with most other economies experiencing higher growth of services trademarks relative to goods trademarks. The services which drive trademark filings are diverse, but the following categories stand out as the main drivers of growth: advertising, business management, business administration, office functions; treatment of materials; medical services; veterinary services; hygiene and beauty care; legal services; security services; personal and social services.

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**Figure 1.14: Services trademarks have been growing faster than goods trademarks**

Growth rate of total trademark applications by goods and services, in percent, for selected economies, 2004-2011

Note: The time series are different for Chile (2007-2011) and South Africa (2008-2011).

Source: WIPO Statistics Database, September 2013.

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94 In the US, for example, between 1985 and 2010, the demand for services trademarks grew on average three times as fast as that for product trade trademarks. See Myers (2013).

95 See Fortune (2013).
4) Greater global demand for trademarks: Trademark filings on a local and international level are also positively influenced by increased globalization and economic development. Existing companies or other trademark holders export their brands to more countries, and they register local variations of existing brands, thus driving trademark filings. Brands created by companies that are “born global”, and have an immediate Internet presence, are available to consumers worldwide. For these firms, the importance of expeditiously registering their trademarks, and using them in overseas markets to retain rights, is increased (see Section 1.4). New brands emerge from middle-income economies, which also start exporting their brands. Finally, the use of electronic commerce (e-commerce) by firms and customers has increased, thanks to digital networks.

Interestingly, two sets of findings emerge when analyzing the data:

First, the data show that a wider range of companies, individuals and countries are now active in trademark filing than at any previous time in history. Trademark filings in middle- and low-income economies (at home and abroad) have increased significantly since 2005 in terms of volume, but also in terms of their share in global trademark filing activity. Trademark filings in middle-income economies now account for most trademark applications, i.e. 54 percent (see Table 1.4). About 30 percent of the top 20 IP offices are now located in middle-income economies. In regional terms, Asia surpassed Europe as the largest recipient of trademark applications in 2009. In 2011, it received 44 percent of all applications filed worldwide. Latin America and the Caribbean region also increased their shares in global trademark filings.

| Table 1.4: Middle-income economies’ IP offices receive the majority of trademark filings |
|----------------------------------|-----------------|----------------|-----------------|-----------------|-----------------|
| Patent (based on class counts) and proportion of GDP by economies’ income group (in percent), 2005-2011 |
| Patents (%) | Trademarks (%) | GDP (%) |
| High-income | 79.8 | 65.3 | 54.9 | 40.1 | 64.8 | 57.6 |
| Upper middle-income | 16.9 | 30.4 | 35.1 | 43.9 | 24.2 | 29.7 |
| Upper middle-income – excluding China | 6.7 | 5.9 | 21.3 | 21.1 | 14.8 | 15.5 |
| Lower middle-income | 2.7 | 3.1 | 8.9 | 9.9 | 9.9 | 11.8 |
| Low-income | 0.4 | 0.0 | 1.0 | 1.0 | 1.2 | 1.3 |
| BRICS | 15.1 | 30.1 | 20.9 | 32.4 | 20.2 | 26.5 |
| BRICS – excluding China | 4.9 | 5.6 | 7.0 | 9.6 | 10.8 | 12.3 |
| World | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: WIPO Statistics Database, September 2013.

Trademarks, first filed at the national level, are also increasingly being filed abroad. In order to obtain trademark protection in multiple offices, an applicant can either file directly in each individual office or file an application for an international registration through the Madrid system.96 When compared with patents, and thanks to the Madrid system, it is easier to obtain a trademark in a large number of jurisdictions. Moreover, the disclosure of trademarks does not destroy novelty – thus internationalization can happen over a longer period and at a different pace. Trademarks filed abroad more than doubled from 437,000 in 1995 to close to 872,000 in 2011 (see Figure 1.15). International registrations via the Madrid system also more than doubled from close to 19,000 in 1995 to close to 42,000 in 2012. Box 1.8 discusses the patterns of international trademark filing and the new tools needed in order to better understand international branding strategies.

96 See fn. 83 for a description of the Madrid system.
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Figure 1.15: More trademarks filed abroad
Growth of trademark applications abroad and Madrid registrations, percentage growth, 1995=1, 1985-2012

Source: WIPO Statistics Database, September 2013.

Box 1.8: New tools needed in order to analyze international trademark strategies at the sector level
The determinants of companies’ trademark filing behavior abroad, and the potentially pronounced differences in these strategies across sectors, remain largely unexplored. Differences exist across economic income groups. Trademark owners in high-income economies register a majority of their foreign trademarks in other high-income countries. Trademark owners in middle-income economies in turn register their trademarks about as frequently in high-income economies as they do in middle-income economies. Trademark owners in low-income economies register the majority of their trademarks in middle-income economies.

The intensity of trademark use abroad relative to exports is highest for high-income economies, meaning that for every dollar exported, companies in high-income economies file more trademarks abroad than other income groups. However, since 1994, middle- and low-income economies have ramped up their reliance on trademark use abroad relative to their exports.

Despite this evidence, analyzing the determinants and effects of trademark filings abroad is difficult because, until now, trademark data could not be jointly analyzed with sector-level economic data such as trade, foreign direct investment and other data. This might soon change. Lyibert et al (2013) are developing an approach to link trademark and economic data via standard product and industry classification systems. If perfected, this mapping would enable analysts to model the determinants and impacts of international and domestic trademark activity at the sector level.

Second, the data do not support the view that trademark filings at the national level are necessarily characterized by a larger share of non-resident filings. Brands and trademarks retain a local character that is persistent over time, partly due to language-related factors.

To begin with, trademark filings are usually more local – i.e. filed by residents – than patent filings, which are more international in nature. In most of the top 20 IP offices by number of trademark applications (class count), the majority of trademark filings are filed by residents. In China, the US, France, the Russian Federation, Germany, India, Japan, Turkey, the Republic of Korea, Mexico, Italy, the UK, the Benelux countries and Spain, the proportion of non-resident trademark applicants was always below 30 percent in 2011, and sometimes as low as around ten percent. The exceptions are Canada, Australia, Switzerland and China, Hong Kong SAR.

In the case of less developed middle- and low-income economies, the proportion of resident filings is clearly less numerous than in the 20 largest IP offices in the world, in terms of trademark filings. In countries such as Viet Nam, Thailand, South Africa, Colombia, Venezuela and Bangladesh, the proportion of non-resident applicants is around 40 to 50 percent of total filings. Even so, this proportion of non-resident applications for trademark filings is usually lower than the proportion of non-resident applications for patents.

97 See WIPO (2012), Figure B.2.1.3. In the case of European countries, care must be taken when analyzing the figures, as applicants can obtain domestic trademark protection by filing a regional application with the OHIM. This increases the difficulty of capturing the resident/non-resident breakdown. In particular, with OHIM filings, it is hard to assess to what extent the applicant has a domestic or an EU-wide objective.
Furthermore, over time, the proportion of resident trademark filings versus non-resident trademark filings does not appear to be impacted as much as in the case of patents. In fact, at the global level, the proportion of non-resident trademark filings hovered around 30 percent in the period 2004 to 2011. While this global figure is largely influenced by the high level of resident trademark applications in China, the finding also holds true at the national level. For instance, the proportion of resident trademark filings is relatively stable in large IP offices (see Box 1.9 for the US).

Overall, the finding that domestic actors dominate trademark filings at local IP offices is plausible. The answer lies in the nature of the companies that file for trademarks, and the reasons that they do so. When compared with patents, trademarks are more accessible to actors in any economy. They are cheaper and easier to obtain and they have a wider applicability to businesses, products and services (see Chapter 2).\(^{98}\) A lot of small- and medium-sized enterprises (SMEs) apply for trademarks to protect goods and services. The vast majority of these SMEs only operate domestically; consequently, SMEs represent a large proportion of resident applications for trademark filings. In fact, many trademark filings in middle- and low-income economies tend to be by individuals rather than by companies.\(^{99}\) Finally, patenting tends to be more concentrated in a smaller number of global companies. Additionally, patents are often filed abroad by company headquarters, rather than by their subsidiaries abroad.

Box 1.9: Non-resident versus resident trademark filings in the US

Of the five million trademark applications filed with the USPTO between 1985 and 2011, only 15.3 percent can be attributed to non-US residents.\(^{100}\) Foreign demand did appear to be more resilient following the dotcom boom. Throughout 2010, non-resident trademark filing applications recovered faster and exhibited stronger growth than resident filings. Overall, however, both resident and non-resident applications grew at roughly the same pace between 1985 and 2011 (see Figure 1.16).

Figure 1.16: Non-resident trademark filings are not becoming more important over time in the US as a proportion of total filings

Trademark filing applications by residents and non-residents, 1985-2011

There is some variation in the distribution of non-resident applications over this time period. As a proportion of total non-resident applications, Canadian filings peaked in the mid-1990s, potentially in response to increased access to the US economy following implementation of the North American Free Trade Agreement in 1994. While filings have since slowed, Canadian residents remain the largest source of non-resident applications for US trademark registration. Non-resident filings from Germany, the UK, Japan, France, and Italy also show signs of relative decline, although they are increasing in annual volumes overall. In contrast, China (including China, Hong Kong SAR), Mexico, and the Republic of Korea accounted for growing shares of non-resident applications. In 2011, Chinese residents were the fourth largest source of foreign applications for US trademark registrations.


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\(^{98}\) See OECD (2013c), Section 5.8.

\(^{99}\) See Abud et al (2013) for the case of Chile.

\(^{100}\) Applicant residency was established based on the first-named applicant’s address. For applications with no owner address data recorded, the first-named applicant’s nationality was used to proxy residency. Applications with neither address nor nationality data coverage were omitted. Basing residency on nationality yielded comparable results.
When it comes to IP offices in middle- and low-income economies with smaller volumes of trademark filings, non-residents file the majority of trademarks. In this case, experience shows that it is indeed the proportion of residents – and not non-residents – that is more likely to grow over time, as local companies develop experience with the trademark system, and also as the proportion of services in overall economic output grows. In general, a certain level of economic development is associated with a greater degree of dominance of resident trademarks in the home market. A stronger presence of these same brands in foreign markets is only attained at far higher levels of economic development, however.

5) The rise of the Internet: The Internet has affected the role of trademarks in at least three major and related ways. First, the Internet has led to a considerable and most likely lasting boost to trademark applications. On the one hand, existing businesses launch new Internet-based or related products and services, triggering new trademark filings. On the other hand, the Internet is spurring the creation of new companies and the development of novel products, which, in turn, is also spurring the use of the trademark system. Both these trends have led to a robust increase in services-related trademarks in particular. It is worth noting that during the Internet boom years around 2000, the filing of trademarks in IT-related service trademark classes also increased sharply.

Second, the Internet has increased the international and, indeed, global reach of brands. More companies file not only in their home country but also abroad, leading to a larger spread of trademark filings. Arguably, the role of brands – and the trust they create – are particularly important in the online context, as consumers engage in transactions remotely, often without being able to physically inspect the product before concluding the transaction. Comparable in some ways to the evolution of trademarks during certain historical advancements in international trade (Section 1.1), trademarks are seemingly becoming more important in the context of today’s national and cross-border online transactions.

Third, the Internet increases the need for legal protection where rights owners face online sales of counterfeit goods or other forms of misuse of their trademark.¹⁰¹ The consequences of this increased risk include not only loss of profit, but also impairment through trademark dilution (see Section 2.3.1 of Chapter 2 for a discussion on this concept).

In tandem with these three developments, a dynamic interaction is taking place between trademarks and domain names. Companies with existing brand names are filing for domain names both in country code top-level domains (ccTLDs) and in the international generic top-level domains (gTLDs) under these brand names (and in combination with other terms) in order to build their online presence, or, defensively, to prevent third parties from carrying out such registrations. In turn, new companies with novel products are more likely to acquire both trademarks and domain names.

Broadly in parallel with trademark filings, the number of domain name registrations has increased almost continuously, with ccTLD registrations growing from less than 2 million in 2000 to close to 35 million in 2012, and gTLDs, most importantly “.com”, moving from 105 million in 2004 to 233 million in 2012.¹⁰² This trend was also accompanied by an increasing number of domain name disputes, where trademark-related domain names were occupied by entities that were different from the trademark owner. The number of cases administered under the WIPO-initiated Uniform Domain Name Dispute Resolution Policy (UDRP), for example, has also grown. In 2003, the number of WIPO domain name disputes stood at 1,100; in 2012 that number had more than doubled to 2,884 cases.

¹⁰¹ See WIPO (2010b).
¹⁰² See OECD (2013a), compiled from country and generic network information centers and from ZookNIC.
In a recent development, the Internet Corporation for Assigned Names and Numbers (ICANN) has begun introducing new, generic, top-level domains. Following a round of applications, 1,930 applications are currently being processed, with the first of these domains expected to come online in 2014. The introduction of such domains comes with additional opportunities and risks around the use of trademarks online, thus further increasing the level of interaction between the Internet and trademarks. For example, brand owners who can afford the fees might assess whether to apply for their own domain. Regardless of whether or not they apply, they must address any need for a presence in new domains operated by third parties, and devise strategies for the prevention and resolution of infringement of their trademarks in such new domains.

Finally, there is the issue of the interaction between trademarks and how products are searched for and found via Internet search engines. A known trademark may lead Internet users more quickly to a company’s webpage and corresponding offerings online. Similarly, competitors or counterfeiters might be tempted to use someone else’s trademark to direct traffic to their sites. The Internet has provided countless new ways for businesses to refer to trademarks in a manner that affects the trademark holder’s business. Practices such as the use of trademarks within listings for non-genuine goods on auction sites, the use of trademarks as keywords in search engines, the use of trademarks to name accounts in social networks, or the use of trademarks on virtual objects that are traded in virtual worlds, constitute clear challenges to the traditional application of trademark law. As a result of competitors or counterfeiters purchasing trademarks as keywords from Internet search engines, advertisers’ websites may show up in searches for trademarks that these advertisers do not own. Many trademark owners fear that website traffic is redirected in such a manner. Whether this is true or not is largely an empirical question. As the importance of brands is likely to increase rather than decrease in the context of Internet searches and purchases of apparently genuine branded goods from websites, trademark enforcement practices will have adapt to this new environment.

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103 For more information see www.wipo.int/amc/en/domains/newgtld/.
104 See WIPO (2010b).
105 For the first empirical work on the matter see Bechtold and Tucker (2013). The authors find that, while some groups of users may visit the websites of trademark owners less often after seeing third-party advertisements on search engine result pages, other groups of users actually visit them more often.
6) **Strategic use of trademarks**: A more strategic use of trademark filings may have contributed to overall growth of trademark filings. In particular, in legal regimes where there is an absence of stringent use requirements, companies or other organizations may file a great number of trademarks – without any plans to use them immediately. They may do this so that they can “fence” around their existing trademarks by way of preparing for future similar product releases, or so as to ensure that other companies do not get too close to their namespace. The inflation of trademark filings could end up “cluttering” the trademark register (see Subsection 2.3.2).106 Currently, while there seems to be little indication that the existence of too many trademarks is inhibiting the registration of new marks, the proliferation of trademarks may be responsible for driving up the costs of searches and clearance for companies that are considering entering a new market.

7) **Institutional and regulatory changes**: Finally, in the case of institutional drivers (for example the facilitation of filing trademarks abroad due to international agreements), the ease of trademark applications via new online application systems, coupled with other factors outlined in Box 1.7, play an important role in explaining trademark filing patterns. Interestingly, however, the extension of registrable trademarks to new forms of trademarks – and beyond service, word and shape trademarks – does not currently seem to be a major driver of trademark filings for countries for which data are available (see Box 1.10).

To conclude, one might also expect that the enforcement of trademark rights is related to the growth of trademark filings, with the assumption that improved legal certainty over time via improved enforcements leads to more trademark filings.

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106 On trademark cluttering, see Graevenitz et al (2012). This work, commissioned by the UK Intellectual Property Office (UK-IPO), provides a first empirical assessment of the matter.

The filing of other types of trademarks (such as three-dimensional, sound or color) is still negligible in countries for which data are available. In Germany, for example, word, and word and image accounted for almost 97 percent of all trademarks filed in 2011. In Australia, the use of sound, scent, shape, color, or a combination of shape and color on trademarks, has decreased as share of overall trademark activity, accounting for a mere 0.3 percent of filings in 2012, down from one percent in 1996. Of these filings, the most popular is the shape trademark, which accounted for 137 filings in 2012, or 0.2 percent of the total. In the US, the proportion of image-only trademarks is slowly decreasing over time, while word and image trademark filings are on the increase. Filings to register sound, smell, and other non-visual trademarks are rare in the US. France is an exception, in that color trademarks play a non-negligible role; color trademarks accounted for 96 percent of non-word trademarks and hence about 26 percent of all trademarks in 2011 (Figure 1.18). It must be noted, however, that all color marks are not single-color marks; there are also trademarks that claim color as a distinctive feature, which might be captured by the French statistics as color marks.

Figure 1.18: In France, apart from word trademarks, color trademarks are the most commonly used trademark type

Proportion of French trademark applications, other than applications for word trademarks, by type, in percent, 1993-2011


1.4 THE RISE OF MARKETS FOR BRANDS

Markets for brands seem to play an important but underappreciated economic role in today’s global economy. Similar to patents, trademarks and brands are increasingly licensed, bought and sold at the national and international level. In addition, franchise business models are both growing and internationalizing.

Against this background, the absence of definitions, data and analysis on markets for brands is an important gap in the current body of knowledge. Whereas markets for technology have received a great deal of attention, the licensing and acquisitions of brands is relatively uncharted territory.108

This section seeks to synthesize the disparate data on markets for brands and to provide new evidence.109 The objective is (i) to define and provide a taxonomy for different brand markets, and (ii) to provide evidence on their magnitude.

109 This section draws on a background report prepared for the 2013 World Intellectual Report, see Frey and Ansar (2013).
1.4.1

WHAT ARE MARKETS FOR BRANDS AND WHY DO COMPANIES USE THEM?

What are markets for brands? Despite their economic significance, no agreed definition of these markets exists.

In this Report the term “markets for brands” covers three different transactions, grouped under the following: “Temporary transfer of the right to use an IP” with (i) the licensing of brands and (ii) the franchising of business models; and “Sale or purchase of IP ownership rights” essentially consisting of (iii) the acquisition of a brand and the transfer or associated rights, including as part of company merger and acquisition (M&A) (Figure 1.19).

Trademarks correspond to the legal rights associated with brand assets that may be transferred or purchased; hence they are often an integral part of these three transactions.

Companies often pursue a brand licensing strategy. Companies (“licensors”) may license the use of their brands (along with associated trademarks) to third party producers or sellers (“licensees”) in return for a stream of royalties or other value. Companies often pursue such a licensing strategy, allowing them to diversify their business and expand into additional product categories.

By doing so, they are able to enter new markets, access competences outside the boundary of the company, and generate new revenues without making substantial investments in building or acquiring additional know-how and manufacturing capacities.110 The practice is often used internationally as companies outsource their manufacturing, sales or services to foreign countries. An additional incentive might be the fact that companies need to commercially use the brand in order to retain rights to the trademark in a foreign country, and hence to maintain brand ownership.111 Again, licensing can often accomplish this at a lower cost than would apply in a case where a direct entry approach is adopted. In many cases of promotional trademark merchandising, the licensing of a trademark increases the brand value of the licensor as well.112 One such example would be the licensing of a brand of luxury car to a toy manufacturer producing miniature cars.

Note: The sale or purchase of IP rights (see, right) covers a case where there is a change of economic ownership of the IP right; the seller no longer has any rights associated with the IP.

Source: WIPO. Definitions aligned with (UN et al 2011).

Figure 1.19: Markets for brands defined

<table>
<thead>
<tr>
<th>Temporary transfer of the right to use an IP</th>
<th>Sale or purchase of IP ownership rights</th>
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<tbody>
<tr>
<td>Brand transfer and licensing to third party</td>
<td>Brand purchases and sales, also as part of mergers &amp; acquisitions</td>
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<tr>
<td>Trademark licensing</td>
<td>Trademark acquisition</td>
</tr>
<tr>
<td>Franchising</td>
<td></td>
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</tbody>
</table>

111 See WIPO (2004), and Jayachandran et al (2013). See the discussion of the use requirement in Subsection 2.3.2 of Chapter 2.
112 See Ladas (1973), and Calboli (2007).
Many companies also pursue a franchise strategy. A company (“the franchisor”) may choose to license its whole business model to a third party (“the franchisee”) in a particular geographical area in return for a stream of royalty payments or other value.\(^{113}\) Examples of this type of business model include fast food, hotel and car repair chains. As part of a franchise-based business model, the franchisee secures the right to use the brand and the relevant know-how. Franchising is similar to licensing in that it facilitates market entry for the franchisor while simultaneously enabling them to avoid the costs associated with building a brand and building a new business model; as such, franchising ensures short lead time to market. Licensing and franchising are also commonly employed as early-stage international moves for companies seeking to “go global”, since they offer an opportunity to operate in new countries, and in doing so, to incur relatively low costs and low risk. Because franchising allows entrepreneurs worldwide to expand with relatively little capital investments, it provides a suitable growth model for businesses in low-income countries.\(^{114}\)

Third, the acquisition of brands and the transfer of associated rights constitute a more permanent transfer of IP rights from one business to another. This regularly takes place as part of company M&As. One relevant example is the Lenovo purchase of the personal computer division of IBM, including the “Think” trademark, which took place in 2004. While there may well be secondary markets for brands – i.e. where companies acquire a brand, but not the related business – such transactions are likely to be uncommon, since brands are typically difficult to separate from a business, and the value of the business is likely to decrease substantially without the brand. Moreover, trademark assignments are likely to be a submarket of the above.

In short, markets for brands provide a way of mitigating some of the costs and risks associated with building a brand, allowing the companies involved to alleviate costs when entering new markets by using established brands.\(^{115}\) On the flipside, companies with established brand names increasingly depend on their ability to leverage brand equity by launching new products using established brand names, sometimes externally through brand licensing. This creates market opportunities, with some companies seeking to acquire established brands for new product developments, whereas others examine opportunities to leverage their own brands.\(^{116}\)

However, a number of factors may restrain the development of these markets. The granting of the temporary use of a brand – as in licensing and franchising – entails the risk of the licensee or the franchisee weakening the brand by reducing the product or service quality, for example. Customers will expect a certain quality level; if disappointed, this will have a negative impact on the brand value itself. A brand owner will have to closely monitor the use of his or her brands.

\(^{113}\) As stated in EFF (2011), franchising is: “[…] a system of marketing goods and/or services and/or technology based upon a written contract between two legally, financially and fiscally separate and independent undertakings, the Franchisor and each of its individual Franchisees, whereby the Franchisor grants each of its individual Franchisees the right, and imposes the obligation, to conduct a business in accordance with the Franchisor’s concept.”

\(^{114}\) See Frey and Ansar (2013).

\(^{115}\) See Tauber (1988).

\(^{116}\) See Clifton (2003).
1.4.2

PUTTING NUMBERS ON MARKETS FOR BRANDS: NOT SO EASY...

Temporary and partial transfer of the right to use an IP

Putting numbers on trademark licensing: Examples of trademark licensing in most sectors, as well as examples for individual product and service lines, abound.117 Trademark licensing also appears to be a significant source of revenue for many trademark owners.

Nonetheless, reporting systematic data on trademark licensing is notoriously difficult.

First, company-level data on brand licensing is hard to grasp. For the most part, trademark licensing transactions between companies are not made public. On the contrary, companies have an incentive to avoid admitting to existing or potential customers that their brand is being used by third parties. While annual reports may make numerous references to the importance of brands and related licensing, only in very rare cases do they provide detailed figures on trademark licensing payments and revenues. In addition, disparate information on trademark deals, and underlying royalty rates, can be gleaned from court records, some filings with the US Securities and Exchange Commission (SEC) or similar sources; nevertheless, no systematic source is available.118

Some private entities have made efforts to map the economic importance of brand licensing by gauging the sales of licensed products. One of these – The Top 150 Global Licensors ranking – has estimated that retail sales of branded, licensed products worldwide were almost USD 230 billion in 2012.119 Using this measurement, Disney Consumer Products is the largest licensor, with revenues of USD 39 billion in 2012 – more than double the revenues achieved in 1992 (see Table 1.5). Disney licenses its film, television and movie characters for use on third-party products and thereby earns royalties.120 Unmistakably, the entertainment sector, together with the sports sector, is one of the most important sectors in trademark licensing. As a result, the more detailed trademark licensing studies and publicly available data concern the licensing of cartoon characters or sport clubs to toys, food, home décor, clothing and footwear, and consumer products. The other top licensors in the ranking of the top global brand licensors mostly operate around the apparel, automotive, textile and consumer electronics sectors.

119 The ranking does not pretend to offer details on licensing revenues of these companies. Rather, the top global licensors report the retail sales of branded products from their licensees. These sales revenues are the basis on which confidential royalty rates are applied, yielding licensing revenue to top licensors.
120 Some of the major properties licensed by the company include Mickey Mouse, Cars, Disney Princess, Winnie the Pooh, Toy Story, Disney Fairies, and the Marvel properties including Spider-Man and Avengers. See Disney Annual Report 2012.
Others industry surveys by associations or consultancies help by collecting data on licensing across different IP forms and via surveys of licensors. They publish aggregate numbers; data are not made available on the level of the company, in order to keep individual license deals and revenues confidential. For instance, when examining the US licensing market, the latest survey carried out by the International Licensing Industry and Merchandisers’ Association (LIMA) shows that trademark owners generated USD 5.5 billion in royalties in 2012, a gain of 2.5 percent over 2011, for an estimated retail value of USD 112 billion. In terms of revenues, the majority of these revenues are generated in the following sectors (in decreasing order of importance): (i) “Celebrity and Character” (entertainment, TV, movie and celebrity) followed by (ii) “Corporate brands”, (iii) “Fashion” which includes designer branded goods, (iv) “Sports”, including leagues and individuals, (v) “Art”, and (vi) royalties for “University College” trademarks. Other surveys and reports carried out by consultancies offer insights into specific sectors in specific countries.

Second, in most countries, there is no legal requirement for trademark licenses to be recorded with the national IP office. Even where countries require registration (as is the case in Brazil), see Box 1.12, an insignificant amount of these data are available in a usable format, and there is no one source in existence anywhere in the world that stores all the various national statistics in a single repository. The information collected usually relates to registration requirements, which vary, and which are specific to each country. Often, only a minority of deals are registered. The data cannot be clearly associated with any particular company. Moreover, usually only information on the licensing deal, but not its outcomes (i.e. paid royalty streams, etc.) is available.

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121 See LIMA (2013).
122 Idem.
123 See PwC (2012), for example, on licensing in the Italian fashion industry.
To overcome these limitations, a number of private entities have begun to collect data on trademark licensing deals. This information includes the name of licensor and licensee, the royalty rate (e.g. five percent of sales, and a possible upfront payment) and the description of the deal. These data reveal the number of deals across time. Deal coverage is often low, however. Moreover, the data also do not include comprehensive figures on the value of trademark licensing deals, as the deal information is concluded ex ante to revenue generation. In addition, these sources are biased towards deals in high-income countries and, in particular, towards deals in the US.

The analysis of available deals shows that average royalty rates on both net and gross sales vary from less than 5 percent to more than 25 percent across sectors. The highest average rates are found within the “Celebrity and Character” category, while the lowest average royalty rates relate to “Corporate/Product” and “Fashion” trademarks.124

In short, trademark royalty deals and outcomes are only public for a minority of the total trademark licensing deals.125 Available information on licensing deals is highly incomplete.

**Putting numbers on franchising:** Thanks to incipient work by statistical offices, reports by national franchise industry associations and publications of consultancies, the data situation with respect to franchising is somewhat better.

Statistical offices are beginning to track the franchise industry. In 2007, the US Census Bureau launched an Economic Census Franchise Statistics initiative focused on assessing the contribution of franchising to the US economy and on examining the number of businesses engaged in franchising, their annual sales, as well as their employment data and payroll.126 The 2012 Economic Census forms also have franchising questions in relation to franchise industries. The US franchising sector has experienced steady growth both in terms of franchising establishment formation and related economic output. The estimates referred to in the US Census report suggest that the number of franchising establishments in the US will reach 757,055 by the end of 2013. Franchising output is expected to reach USD 802 billion by the end of 2013.127

Apart from some mostly US-specific rankings of top franchises, most other reports are based on data gathered from diverse national franchising associations or compilations of data produced by these associations.128 The lack of a reporting framework at the international level complicates matters; different national reports adopt different reporting structures, and the data are hard to compile and compare.

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125 Idem.
127 See IFA (2013).
128 The 2013 Franchise 500 Rankings, for instance, offers a tool that can be used to compare franchise operations in the US.
To get around this problem, Antonowicz (2011) gathered data from franchising associations of individual countries. He showed that franchising agreements are widely used around the world. According to his data, the international franchising market comprises 71 countries, 40,200 franchise brands and more than 3 million franchising establishments. In terms of the regional distribution of the market, the highest number of franchising brands operates in Europe, while Asia leads the field in the number of franchising establishments. In terms of franchising intensity relative to GDP, firms in Australia are the most active. Firms in North America, Africa, Europe, Asia and South and Central America follow in decreasing order of franchise intensity relative to GDP.

The above findings are similar to the findings of the European Franchise Federation (EFF) (2011). Over the period 2007 to 2009, Europe as a region was the largest franchising market, with 11,731 franchise brands. While the US was the largest single market for franchise brands in 2007, the data suggest that it was overtaken by China and the Republic of Korea in 2009. Nevertheless, the US was still the leading market in 2009, when the number of franchise establishments – as opposed to the number of franchise brands – is considered.

Finally, reports from the EFF show that markets for franchise brands are largely domestic. In China, for example, 90 percent of the franchise brands were still domestic in 2009. In Brazil, this figure was 89 percent in 2009, and in India, it was 99 percent in 2007.

Trade in IP – cross-border trademark licensing and franchises: Paradoxically, while these data are not available at the national level, monetary data on any IP-related licensing are provided at the international level. As part of their balance of payments (BoP) statistics compilation systems, countries report these IP-related receipts and payments with other countries under the title “Royalties and license fees” (see Section 1.3.1 in the 2011 World Intellectual Property Report).

One advantage of these data is that they are published by all countries in a timely and yearly (or quarterly) manner. Thus far, however, most data on cross-border receipts and payments of royalties and license fees do not distinguish between different forms of IP. For most countries, only aggregate data for all IP-based transactions were available. No breakdown of these data were available, which would have allowed economists to assess international payments and receipts for specific IP types, such as trademarks or franchising.

On this front, some noteworthy developments have taken place (as described in Box 1.11). The Manual on Statistics of International Trade in Services (MSITS) 2002 asks countries to submit data while separately identifying franchise and trademark payments. In addition, the current 2010 edition of the manual clarifies this recommended identification. More detailed data on international IP transactions have slowly started to become available. While these statistics will not be reported by the IMF, in line with the 2010 MSITS recommendations, the data are accessible from the countries themselves or from international organizations such as the WTO.

129 See Antonowicz (2011). Although the author provides a list of the countries included in the study, no country-specific information is provided. According to Frey and Ansar (2013), this makes it difficult to verify and replicate Antonowicz’s findings.

130 Frey and Ansar (2013) note, however, that the EFF figures diverge substantially from the US Census estimates as well as from Antonowicz (2011).

131 The OECD’s Technology Balance of Payments provides more detailed disaggregated information, distinguishing between four categories of technology services. See Athreya and Yang (2011). Yet, extracting trademark and licensing receipts separately from this database does not currently appear to be possible.
CHAPTER 1 BRANDING IN THE GLOBAL ECONOMY

Box 1.11: Important developments in relation to international IP payments

More disaggregated data on international trade in IP rights are starting to become available. Following publication of the fifth edition of the International Monetary Fund’s (IMF) BoP Manual, which introduced separate reporting for IP payments, the United Nations interagency Task Force on Statistics of International Trade in Services recommended an extended breakdown of charges for the use of IP through the Manual on Statistics of International Trade in Services. In the sixth edition of the BoP Manual, an item on the “Charges for the use of IP not included elsewhere (n.i.e.)” was introduced with clearer definitions. The 2010 edition of the trade in services manual recommends the breakdown between various IP-based licensing transactions.

The item “Charges for the use of intellectual property n.i.e.” is now defined as follows:

- Charges for the use of proprietary rights, such as patents, trademarks, copyrights, industrial processes and designs, trade secrets and franchises, where rights arise from research and development, as well as from marketing
- Charges for licenses to reproduce and/or distribute intellectual property embodied in produced originals or prototypes, such as copyrights on books and manuscripts, computer software, cinematographic works and sound recordings, and related rights, such as for the recording of live performances and for television, cable or satellite broadcast

Following these recommendations, royalties and license fees, or the new charges for the use of IP n.i.e should include license fees paid for the use of produced originals or outcomes of research and development and trademarks and franchises. MSITS 2010 suggests reporting franchise and trademark licensing fees separately.

The methodology makes a difference between temporary right to use, outright sales, and full transfers of IP rights (compare to Figure 1.19). Similarly, the provision of temporary right to use or reproduce IP products is shown as a service.

Another recently introduced change is where to classify the sales of specific IP assets. In previous recommendations, a sale of the IP asset was supposed to be under the capital account, i.e. as non-produced non-financial assets. In the new recommendations, the sale of other IP-based products should be included under the appropriate service that produces them, i.e. software originals should be shown separately under computer services; audiovisual (films, music) originals should be shown under audiovisual services. The only exception here is trademarks; their sale is not currently considered on a pari with the sale of other IP rights, which are treated as produced assets. The sale of trademarks, therefore, is still treated under the capital account as a non-produced non-financial asset.

Source: IMF (2009), and UN et al (2011).

The following relies on IP-flow BoP-statistics for five countries which already offer disaggregated information on trademark licensing and on franchising, namely Australia, Brazil, Canada, Sweden, and the US. A number of findings emerge from this preliminary analysis:

First, international markets for trademark licensing and franchising have been growing, both in absolute terms and relative to trade in services in some of the selected countries.

The total number of international trademark licensing and franchising transactions (defined as receipts plus payments) has grown in absolute terms over the period 2006 to 2011 for the five countries under consideration, except for Sweden (see Figure 1.20, top). The US and, to a lesser extent Sweden, have a positive balance in trademark licensing and franchising, whereas Australia, Brazil and Canada have a negative balance. The receipts and payments for the US are multiple times larger than that of its partners, and one can see how countries such as Canada rely on trademark and franchise-related payments from the neighboring US.
Trademark licensing and franchising also grew, relative to trade in services in the case of the US, rising from 2.2 percent to 2.7 percent of total services trade, and in Australia from 0.7 percent to 1.1 percent of total services trade. For the other countries, the development was flat, or, in the case of Canada, negative (Figure 1.20, bottom).

Second, when examining Australia, Canada and the US, one finds that the receipts for trademark licensing and franchising are relatively small when compared with other IP-based transactions (Figure 1.21). One also finds that payments can, however, account for a significant proportion of IP trade flows, as in the case of Australia and Canada. Transactions related to IP for software, copyright and industrial processes constitute the bulk of the IP-related unaffiliated international payments, both in Canada and in the US. In the US, trademarks and franchising account for 10 percent of the receipts for IP rights, while payments accounted for 6.6 percent of all imports for IP rights in 2010. In Canada, trademarks and franchising accounted for only 1.3 percent of the unaffiliated receipts for IP rights, but a considerable 25.6 percent of all IP-related payments. Also, in Canada and the US, the proportion of markets for unaffiliated trademark licensing and franchising are growing relatively slowly as a proportion of total IP trade between unaffiliated entities. In Australia, the situation is similar to Canada, but with amplified magnitudes and growth as regards IP-related payments. Specifically, the trademark and franchise proportion of total IP receipts was at 10 percent in 2011, but payments accounted for a much higher proportion, at 45 percent of all IP payments. In addition, they have been growing since 1998. Turning to Brazil, while the proportion of trademarks and franchises has been growing over time, royalty payments are also mainly due to payments related to know-how and technical assistance services (see Box 1.12).132

Figure 1.21: Markets for trademark licensing and franchising are relatively small compared with the trade in other IP forms

Source: WIPO, based on data from ABS and the Office of the Chief Economist, IP Australia, CANSIM, and BEA.
Box 1.12: Is the licensing of foreign brands and franchises increasing? Evidence from Brazil

Following national regulations, the Brazilian IP office (INPI) registers contracts related to the transfer of technologies. By law, companies are obliged to register technology or franchise contracts, in order to enable the Central Bank to process and facilitate outward payments of royalties and license fees. In Brazil, such registration also allows income tax deduction of these expenses. The contracts under consideration involve the licensing of industrial property rights, such as trademarks, patents, utility models, industrial designs and integrated circuits. They also include contracts on knowledge transfer not involving IP rights, such as know-how agreements and technical assistance services and franchise contracts.

Approximately 1,000 technology contracts between a foreign licensor and a national licensee are registered per year. The vast majority of these contracts relate to technical assistance services (76 percent), which are followed by know-how agreements (10 percent), trademark licenses (7 percent) and franchise contracts (3 percent). Given that only the number of deals is recorded, but not the value of the deals, these proportions do not necessarily reflect the actual amounts involved in the remittances.

However, the contracts involving trademarks licenses and franchising are the only ones that grew fairly consistently, both in absolute and proportional terms during the 2000-2012 period. Altogether, they now account for around 15 percent of contracts registered in 2012 (see Figure 1.22).

Third, in countries where these figures are available, the vast majority of registered international receipts for trademark licensing and franchising relate to transactions between affiliates. In the US, unaffiliated transactions accounted for 22 percent of total (affiliated and unaffiliated) trademark licensing and franchising receipts in 2011. In Canada, unaffiliated transactions accounted for only 9.5 percent of total trademark licensing. Although no separate information is available, the situation is likely to be similar in the vast majority of countries. In affiliated transactions, however, companies transfer trademarks within companies to manage the brand or franchise from a central position, and they then charge the other parts of the business a license fee. Global companies are known to allocate profits between tax jurisdictions – sometimes in order to optimize business processes, sometimes in order to pay fewer taxes – and this may impact on how licensing revenues and flows are reported, thus affecting the interpretability of the data.133

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133 For more details, see Box 1.7 in WIPO (2011a) and Madeuf (1984).
Fourth, and unsurprisingly, examination of the data from the US shows that most international trademark and franchise transactions are between high-income countries. US franchising and trademark licensing receipts are mainly confined to OECD member states. Unsurprisingly, Canada and Mexico, given their close proximity to the US, provide important export markets. Additional noteworthy US markets for trademark licensing, are Japan, the UK, Australia, and central European countries. One largely finds the same patterns when examining franchising receipts. An exception is China, which constitutes a more important franchise export destination than Australia and France.

Middle-income economies are becoming more important markets. While small, growth rates in US receipts from these countries increased substantially during the investigated period. In particular, US franchising receipts from the Middle East increased by 15 percent annually over the investigated period. Double-digit growth figures were also recorded for South America.

While middle- and low-income economies still provide relatively small markets, some regions, such as Asia, Latin America and Africa, have increased their proportion of trademark licensing from the US at the expense of Europe and Canada (see Figure 1.23).

While some middle- or low-income economies have increasingly become important export destinations for trademark licensing, and in particular for franchising, there is either limited or no evidence suggesting that these economies export licensed brands to richer countries. US payments to middle- and low income countries for both franchising and trademark licensing remained negligible over the investigated period.

Fig 1.23: Asia, Latin America and Africa are becoming more important markets for US trademarks

US trademark receipts, by region, affiliated and unaffiliated, 1996 and 2011

Note: Regions as defined by the US Bureau of Economic Analysis.
Source: Bureau of Economic Analysis (BEA), US Department of Commerce.
CHAPTER 1 BRANDING IN THE GLOBAL ECONOMY

Sale or purchase of IP rights: brand-related M&As

Both the press and the business literature provide numerous examples of brand-related M&As. In particular, the acquisitions of Dunlop, Jaguar, Land Rover, Volvo, Tetley and others by companies in middle-income economies have received much attention in recent years.

Putting a figure on the acquisition of brands is complicated for conceptual reasons. First, brands or trademarks are rarely acquired on their own; rather, they are usually part of an M&A deal (see Figure 1.19). Evidently, M&As are seldom motivated by the acquisition of a brand alone. They are usually related to many other strategic considerations of the parties involved – sometimes the brand comes along with other assets, with these other assets being the intended target of the takeover. Consequently, purely brand-related M&A transactions are difficult to single out from M&As that are motivated by other considerations.

Nonetheless, it is possible to use available M&A databases to extract some preliminary findings of interest (see Box 1.13).

Box 1.13: Triangulating cross-border purchases of brands

Frey and Ansar (2013) identified brand-driven acquisitions by searching a database of M&As. This was done by using a number of brand-related keywords in the deal descriptions. The authors are the first to admit to, and to describe, the limitations of such an approach. In the first place, it is likely to lead to a systematic undermeasurement of deals in which the brand plays some role; the deal descriptors might not mention the significance of brands and trademarks in the given transaction explicitly.

134 The database used is Bureau van Dijk (BvD)’s Zephyr. It covers deals in 40 languages – deals that English-only databases tend to miss. In addition, BvD states that it builds on data from a large number of analysts in various countries who monitor media, press releases by transaction parties, interim and annual financial reports, and filings in the local language. This partly helps to overcome the common bias against deals in non-English-speaking countries.

The chosen methodology yields about 1,000 to 1,700 brand-related deals per year, or only about 1.5 percent of the global deal volume. Interestingly, however, the value of the average brand-driven M&A transaction is approximately 10 to 12 times higher than the value of the average global M&A deal.

Most brand-driven M&A transactions tend to be domestic deals as opposed to international deals. Cross-border brand-related M&As – as defined here – typically constitute about 25 to 30 percent of annual transactions. However, the moderate proportion of cross-border transactions is not particular to the market for brand-driven M&A transactions, but is general to the M&A market as a whole.

When international deals take place, both the main acquirer and the targeted commercial entity tend to be in high-income economies, although there was a substantial decline in OECD country to OECD country transactions following the financial crisis of 2008 (Figure 1.24). Firms in non-OECD countries are becoming more important acquisition targets. Moreover, although it is possible to cite a number of prominent examples, Frey and Ansar (2013) conclude that there is little systematic evidence of non-OECD countries catching up in absolute terms, or of being important acquirers of branded companies in high-income countries. Interestingly, in this data sample, however, transactions in non-OECD-non-OECD countries have increased.

Figure 1.24: Markets for brand-driven M&A transactions are largely domestic

Brand-driven M&A transactions by origin and by transaction value, as a percentage of total, 2004-2013

Source: WIPO, based on data in Frey and Ansar (2013), based on the Zephyr database.
1.5 CONCLUSIONS AND DIRECTIONS FOR FUTURE RESEARCH

For centuries, companies have relied on succinct logos and promotional efforts, in order to help build their reputation and image. Trademarks as a registered IP right came into existence in the 19th century, when the first trademark laws were passed. As a result of globalization and the rise of the Internet, companies’ reliance on brands, advertising and trademarks is intensifying. While at the global level the use of patents is more concentrated, a dramatic increase in trademark filings has occurred in many middle- and low-income economies. Brands and trademarks are not the purview of companies alone: nations, institutions and individuals also care about brands and trademarks – and, in particular, about the value of such brands and trademarks.

This chapter sets the scene for the 2013 World Intellectual Property Report by establishing how branding behavior and trademark use have evolved in recent history, how they differ across countries and how they relate to economic growth. In order to take into consideration the economy-wide significance of branding activities, a rethink on the issue of how companies’ branding investments should be conceptualized and measured is being proposed. The more accurate estimates of branding investment – only available for the US at this point – show that both the magnitude and the growth of branding investments are considerable in absolute terms, and are much larger than previously believed.

The chapter also reviewed current approaches to brand valuations, the relative merits of such approaches, as well as the main trends in brand evaluations. The value of top brands is significant both in absolute terms and as share of firms’ market capitalization. Both the value and the importance of brands emanating from middle-income economies generates a great deal of speculation. While these brands are slowly beginning to show up in global brand rankings, this is only the tip of iceberg. Judging by the number of trademark filings in low- and middle-income economies, the world of brands will dramatically change in the years to come, with new brands appearing at the local and international level.

Additionally, the demand for trademarks has intensified, reaching unprecedented levels since the 1970s. This first assessment of the global increase in trademark filings aims to contribute to creating a better understanding of the rapid growth in the number of trademark filings worldwide. It shows that the surge of trademark filings in high-income economies began about ten years earlier than the historic increase in worldwide patenting, which began in the mid-1980s. Middle-income economies, in turn, began experiencing a rapid rise in trademark filings in the late 1980s and 1990s. For both high-income and middle-income economies, the use of trademarks relative to GDP increased considerably between 1985 and 2011. Interestingly, the intensity of trademark filings varies greatly between countries, even at the same level of development. In addition, middle-income economies use trademarks more intensively than richer countries. Interestingly, the use of more novel trademark forms, such as sound or smell trademarks, is at best just beginning to emerge in rich and poor countries alike.
The following main drivers for the growth in trademark applications have been identified: (i) increased growth and investment in branding, (ii) increased use of trademarks to foster product innovation, (iii) the boost to trademarks via the service sector, (iv) the internationalization of the global demand for trademarks, (v) the Internet and trademark interactions with domain names and online search, (vi) more strategic use of trademarks, and (vii) institutional and regulatory changes, including new electronic application procedures and improved international filing possibilities through the Madrid system.

Finally, the chapter has shown that markets for brands play an important but underappreciated economic role in today’s global economy. A taxonomy for studying different brand markets, and available evidence on their magnitude, is provided. Markets for brands provide a way of mitigating some of the costs and risks associated with building a brand. On the flipside, companies with established brand names increasingly depend on their ability to leverage brand equity by launching new products using established brand names. The scarce data on licensing presented in this chapter show that the markets for brands are large and growing, in particular in the area of entertainment, corporate brands that relate to consumer products, fashion, sports, arts and education. While franchising is likely to be an even bigger market – with a high level of activity in almost all countries – systematic international data is also hard to grasp. Interestingly, and contrary to what one might expect, the chapter shows that the market for franchising is still largely domestic. To conclude, while the press and the business literature provide numerous examples of brand-related purchases out of middle-income economies, the evidence seems to show that this is still a small, albeit growing phenomenon.

**Areas for Future Research**

Brands and trademarks merit closer attention from economists and statisticians. This chapter has identified a number of important gaps. It is hoped that it has laid the groundwork for reflection and debate and further economic work on the matter by introducing definitions, concepts, metrics and a series of findings. Drawing on the chapter’s findings, the following areas will need to be prioritized:

- First, the economic role and contribution of branding at the country-level and at the company-level deserves a more in-depth treatment in scholarly work on intangible assets. Thus far, the branding component has not received sufficient attention, both in terms of how to measure it and on how to settle on a fitting depreciation rate that would better capture the durability of the reputational capital generated. To facilitate this discussion, a better understanding of (i) changing branding models, (ii) the impacts of new technologies on branding efficacy, and (iii) the interaction between brands and other intangible assets would be helpful. On the data side, improved global datasets of branding expenditures i.e., including the bought-in as well as the own-account components – as defined in this chapter – are required.

- Second, more empirical research into the surge in trademark filings and its drivers is imperative. The chapter highlights important cross-country variations in the absolute and relative use of trademarks which need more study. The chapter also identifies the main drivers of recent trademark filing growth but, as it also shows, there is little understanding of the empirical significance of each of these drivers and their interactions. Two related subthemes are of particular interest: the role of trademarks in the services sector and the Internet.
Third, there is a need for research on the value of trademarks to their owners and to the economy as a whole. On the one hand, the question is how firms capitalize on trademarks when introducing new products to market, when trying to preserve market share and, for instance, if trademarks are used as collateral to secure debt – similar to way in which other IP assets are used for this purpose. Here, the interactions between trademarks and other IP rights, notably designs and patents, and other intangible assets for value creation at the company level remain ill understood. On the other hand, the question is how trademark owners derive value from markets for brands – as defined in this chapter – and hence via licensing or franchise agreements. Little is known about the magnitude of markets for brands, the associated business models and the resulting economic impacts. Finally, one main finding of the chapter is the relatively high and emerging importance of trademarks in low- and middle-income countries, both in absolute terms and relative to GDP or other economic variables. Better understanding the related economic and development impacts, also relative to other forms of IP, will be an area for further research.
REFERENCES


**CHAPTER 1**

**BRANDING IN THE GLOBAL ECONOMY**


