

## **SMEs or Micromultinationals?**

### **Leveraging the Madrid System for International Branding**

When looking at the internationalization of business operations, size matters less and less: SMEs equally take their share in the global market.<sup>1</sup> Rather than critical mass and the necessary budgetary backing, smart business strategies, a high degrees of flexibility and the ability to grasp new business opportunities drive success in worldwide markets.

The democratization of access conditions is probably one of the better side effects of a phenomenon described as “Globalization”. Soros argues in his book on Globalization that the revolution in information and telecommunication technology, not only impacted the speed at which interaction takes place, but also brought the most remote corners of the world closer together. All this, at incredibly low cost. Access to the global community at low entrance fees has opened the doors for new players and provided new market opportunities for small and big companies alike. New value chains and values creating networks are being created across international boundaries.

### **The role of the Madrid System in international branding**

Few international facilitating frameworks, amidst them “the Madrid System of International Registration of Trademarks”, have come close to keeping up with current market conditions. The objective of the Madrid System is to assist firms with obtaining trademark protection at the international level and to facilitate the management of trademarks at the worldwide level, although access to the system is limited to enterprises having real and effective business presence in one of the currently 78 countries that are members to the system.

In this sense, the Madrid System provides an essential tool for international brand strategies. Trademark protection forms the cornerstone of marketing. Branding, whether it be aimed at product differentiation, market segmentation, the creation of new customer demand or the management of competition requires, legal protection of intellectual property rights, especially trademarks, as its baseline. Without an efficient system in place to guarantee low cost fees, easy and reliable protection of trademarks- private property rights over a brand-marketing would be a risky business.

*“Markets are alive because there is IP protection. The protection of a brand is like a guarantee that a car is actually yours.” (Novartis, 2004)*

Currently, the Madrid System allows business to have its trademark protected in 78 contracting parties. This is done by filing one single application through the trademark office where the company has its base. The trademark office then sends the application to the World Intellectual Property Organization (WIPO). The Madrid System, often described as a one-stop shop,<sup>2</sup> is appreciated by the International Trademark Association (INTA) for “*allowing one single application that is filed in one place, in one language, with a minimum of formalities, with one fee and paid in a single currency. This results in only one registration, with one number and one renewal date. It allows nationals of member countries<sup>3</sup> to protect their trademarks, whether for goods and services, in any or all of the other member countries.*”<sup>4</sup>

The system is currently based on two international treaties. The Madrid Agreement Concerning the International Registration of Marks (Madrid Agreement) was adopted in

1891<sup>5</sup> and the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks (Madrid Protocol), which brought along major reforms of a 19<sup>th</sup> century designed system, which was adopted in 1989.

The adoption of the Madrid Protocol revised the system's architecture to correspond better to current market conditions. Recognizing English and Spanish in addition to French was an important step to transform a system that was primarily European in character into a truly international business tool. The link to the Community Trademark System of the European Union and the accession of the U.S.A. to the Madrid Protocol in the first decade of 2000 have given further meaning to the system<sup>6</sup> and underlines the argument that the Protocol provides the necessary incentives for more countries to join. Generally speaking, the protocol's requirements for registering a mark are more liberal than under the Madrid Agreement. Wallis outlines the key reforms set out under the Madrid Protocol as follows:

*“The protocol is more flexible in terms of what a person can petition for protection from Member States. The protocol allows an applicant to apply for a mark simply filed with the office of origin, while the agreement requires an application to register a mark registered with the office of origin. The protocol further affords more time for each Member State to review applications and declare if the petitioned mark can not be afforded protection. The protocol allows for each Member State to collect more fees for each application. While fees increased, each applicant should still expect to pay less than if filing independent national applications. The protocol is more flexible in that if the initial application is refused the international registration may be converted into national applications. The language requirements for filing changed giving applicants the right to file in English, French and Spanish (added by the author).”<sup>7</sup>*

### **Strengths and Weaknesses of the Madrid System from the perspective of SMEs**

In 2005, filing activities under the Madrid System grew by 15%. This considerable growth rate was primarily driven by SMEs. While the top users of the Madrid System remain multinational companies (MNCs), the overall ratio of filing by SMEs as compared to MNCs indicates clearly that use of the system by SMEs is on the rise. While MNCs have a higher per company filing rate, the overall rate of SMEs filing trademark protection through the Madrid System is higher than the one by MNCs.

International trademark statistics equally impress when looking at the share of filing registered by trademark owners residing in developing countries. While developed countries still dominate, amongst others, because many developing countries are not yet members to the system, trademark applications by Chinese firms rose by 31.4% in 2005 to 1 334, leading the list of developing country users, which rose overall by 30.6%. China was also the most designated country, accounting for 13 576 out of a total of 356 476 designations listed on international trademark applications.<sup>8</sup>

This data clearly indicates that the overall features of the Madrid System do correspond to users' needs. So, what exactly should an SME keep in mind while considering international trademark registration or renewal facility made available through the Madrid System?

### **Strengths**

It is important to recall that the Madrid System allows an applicant to file and renew an international trademark registration at a *relatively* low cost, by undergoing *relatively* uncomplicated procedures, in a *relatively* short period of time. Current language requirements permitting filing in English, French and Spanish (since April 1<sup>st</sup> 2004) potentially allow 3.1 billion people of the world to seek international trademark protection in their native language. This makes the system not only accessible to a wide range of stakeholders, but also avoids possible confusion arising from the translation of unique words. The needs of Least Developed Countries are sought to be met by a significant reduction of fees. Enterprises in Least Developed Countries (LDCs) only have to pay 10% of the regular fees.

*“Our Group will continue to invest a large amount of money both, in the media and in the intellectual property protection of our assets, in order to consolidate and even strengthen our presence in current markets and in future ones. Through the Madrid Protocol trademark owners reduce their costs in protecting their marks abroad. The filing in other countries is simpler, thus allowing us to more efficiently obtain protection; and the efforts of trademark owners to maintain the IP rights will be reduced, as it allows a centralized managerial system of IP rights.”*  
(Boticário Group)

Thus, the Madrid System lifts entry barriers to foreign markets which are otherwise very difficult to overcome for the SMEs as they do not have the same kind of access to human and monetary resources as do the MNCs.

## **Costs**

According to INTA, filing under the Madrid System is four times more cost effective than filing an international trademark on a country-by country basis. Many costs usually associated with filing international trademark protection (e.g., translation costs) are hence eliminated through the Madrid System. For any company, and particularly for SMEs, this huge cost saving allows them to concentrate their scarce resources on other business objectives. The Moroccan based SME “Induver” and the Latin American company “Boticário Group” confirm this.

*“Exports make up for 30% of our turnover. We, therefore, need a system like Madrid that allows us to have our brands protected in export markets. It’s cheap and it’s handy. A middle-sized company like Induver can therefore bring down costs substantially.”*

*“The Group invested heavily in the internationalization of our marks. We invested approximately US\$ 1 240 000. Through the Madrid Protocol, our expenditures amounted to US\$ 700 000. This represents a cost saving potential of 40 percent.”*  
(Boticário Group)

## **Time**

Through the Madrid System, trademark registration is guaranteed in a predictable period of time. While in some countries an application filed through a national registration can take over six years to process, membership to the Madrid Union requires each national trademark office to notify WIPO within a limited amount of time (12-18 months) of possible objections to the international registration.<sup>9</sup>

## **Less Red Tape**

The streamlined process of international trademark registration and renewal further eliminates administrative burdens and red tape. The assignment of trademark rights may be recorded with just one agency for all the countries where protection is desired rather than on a country-by-country basis. For SMEs having international trading interests this may eliminate the need to hire foreign counsel in each country, unless the international application meets objections or refusals in a particular designated country. The CEO of the Moroccan SME, “ Société Agriland, confirms this in an interview:

*“J’ai préparé tout moi même pour le processus de l’enregistrement de la marque internationale ; ça m’a pris presque deux mois. Avec un avocat j’aurais eu plus de temps pour m’occuper de l’entreprise.” (Ste. Agriland)*  
*(I went through the entire process of protecting my trademark internationally myself. It took me two months. With a lawyer, I would have had more time to spend on my business.)*

Following the same logic, the Madrid System allows companies to make an international application based on a national application/registration. Trademark owners can file for a registration of their trademarks in their country of origin, which has the advantage of allowing them to deal with administrative procedures with which they are familiar.

It, hence, reduces significantly time, effort, anxiety and energy which would be needed to deal at one go with a variety of different jurisdictions, each with its own procedures, as confirmed, for example, by the Danish SME Arlafoods.

*“The whole administrative side is less burdensome and less bureaucratic. Everything is simpler. This means we can save money.” (Arlafoods)*

## **Centralised Renewal of Trademarks**

Under the Madrid System, protection can also be maintained in a fairly uncomplicated matter. The principle of ‘one-stop-shopping’ is sustained in the post-registration phase.<sup>10</sup> International registration, which lasts for ten years, may be renewed for additional ten-year periods by paying a single renewal fee to WIPO. Since 2005, this can be done online through WIPO’s website. By renewing its international registration, an SME renews at the same time the individual national rights, which it has obtained through extension of its international registration. The centralised system, hence, greatly simplifies the process of maintaining international trademark protection.

To a certain extent, the Madrid System is suited to meet evolving market considerations since it allows to expand an international trademark ex-post into additional markets. Further, any changes regarding name, address or ownership can be communicated directly to WIPO through one single process.

## **First Mover Advantage**

The Madrid System may also provide business with a first mover advantage in a given market since it allows to secure international priority date. International applications need to provide

only the name of the national or regional office in which the earlier application was filed together with the date of filing and (where available) the number of the application. No certification is necessary to establish a priority date in a designated country.

In practice, the Danish SME “Aralafoods” explains that a tight evaluation of expected future earnings determines the use of the system.

*“The use of the Madrid System is determined by an anticipation of expected sales. Profits need at least to cover registration fees. Before we use the Madrid System we make a valuation of expected returns and compare them to expected costs. Before we use the Madrid System we ask ourselves the following questions: Where will we sell? How do costs for protection compare to expected profits? Is there a country where we aim to sell in the future? In general, we always try to anticipate our future needs.”*  
(Aralafoods)

### **A tool for international branding**

The Madrid System allows to brand a product world-wide. Adequately fine-tuned with a firm’s marketing strategy, it hence allows to go truly international with a product or a service. In interviews conducted with Chinese firms this was considered a major advantage. All of the twelve Chinese firms (of which half were SMEs) confirmed that the Madrid System facilitated market access.

*‘For us marketing and the use of the Madrid System go hand in hand. When we export products to new markets, we use the Madrid System because it is easier to use than filing a number of national applications.’*

Equally, the Moroccan SME, Société Agriland, confirms this view.

*“La marque c’est le patrimoine d’une société. Si l’entreprise veut exporter au niveau international c’est essentiel qu’elle soit protégée.”*(Ste. Agriland)  
(A mark is an essential element of a business. If a company want to export at the international level, it is essential that its’ mark is legally protected.)

The Madrid System covers a market of 3.1 billion people, which is more than half of the world’s population. Through the Madrid System even the most remote markets become accessible to companies, independently of their size. Unfortunately, many SMEs particularly in developing countries and countries in transition are not aware of the enabling opportunities of the Madrid System. As a result, they are missing hence out on a substantial number of opportunities for international trade.

*“In Bulgaria, most companies don’t know about the Madrid System. We are the biggest company in the country; so, of course, we know about it, but honestly SMEs don’t even know that it exists.”*(Balkanholding Pharma)

*“Au Marocqu in n’y a pas assez d’entreprises qui savent que le système de Madrid existe. Il est donc nécessaire de répandre la communication.”*(Induver)  
(In Morocco, there are not enough companies which know that the Madrid System exists. It is, hence, necessary to expand communication.)

*“Today, only a handful of companies in Latin America are aware of the existence of the Protocol. There is a total lack of awareness on the part of trademark owners about this simplified filing system.”(Boticário Group)*

## **Weaknesses**

### **Costs, a closer look**

SMEs may, however, be careful when making their cost estimate since many of the costs associated with trademark rights in foreign markets are not eliminated. Costs associated with trademark clearance or prosecution costs are not eliminated through the use of the Madrid System. If an application is refused registration in a selected country, the legal advice of a professional law firm in that country must be sought so to defend the case.<sup>11</sup>

### **Time, a closer look**

While timescales are relatively fast, companies operating in the consumer goods sector, the fashion or cosmetic industry may find current time scales still lagging behind product cycles. The cosmetic company, L’Oréal, for example, stated in an interview that the life cycle of their products is often shorter than eighteen months; thus it is futile to make any efforts to seek international trademark protection through the Madrid System.

### **Less Red Tape, a closer look**

So far, application is paper based and electronic filing is not yet possible and SMEs confirmed in informal interviews that the system is still much more formalistic than necessary.

*“The Madrid System is still quite formalistic and you can not do everything you can do on a national basis. One has to wait 18 months till one gets the information, even when WIPO already has the information.”(Arlafoods)*

*“While it allows to safe registration fees, it lacks flexibility.” (China National Cereals, Oils & Foodstuffs Imports & Exports Corp)*

In addition, the principle of basing an international registration on a home application (compulsory for the first 5 years), may work to the disadvantage of companies operating under jurisdictions that that asks for a more narrow and precise description of goods and services than those of other countries.<sup>12</sup> This aspect was supposed to have deterred, for a long time, the U.S.A. to join the Madrid System. However, a growth rate of 65% in trademark registrations through the Madrid System by U.S. based firms suggests that, in practice, this aspect did not weigh very heavily on the companies in the U.S.A.

## **The Central Attack**

The ‘central attack’ is also related to the question of dependency. If during the first five years the home application is refused registration, opposed or successfully cancelled, the international registration in all of the elected jurisdictions is equally affected.

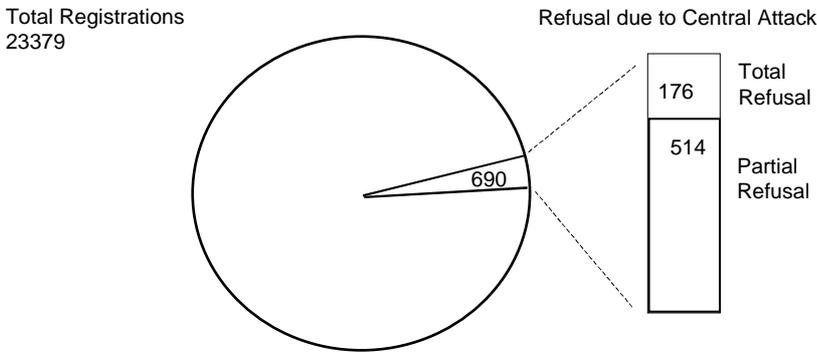
There is, however, a safety net built into the system. The so-called ‘opting-back’ allows conversion into national applications. However, doing so is a rather expensive undertaking and SMEs may compare costs and benefits before choosing this path.

*“Compared to the Community Trademark system (CTM) of the European Union (which is now linked to the Madrid System)a trademark is less vulnerable from opposition from other countries. The system allows for opting back, so there is no need to check in all countries. This is a security link.” (Arlafoods)*

Statistically speaking, the ‘central attack’ is not an issue for the vast majority of companies. According to 2004 international trademark data, the ‘central attack’ only concerns 3% of all registrations, of which only 0.7% were totally refused.

*“The central attack of the trademark scares people away, but it is really more a ghost than a reality.”(Arlafoods)*

**The central attack concerns 3% of all registrations  
but only 0.7% were totally refused**



Source: Roya Ghafele, WIPO Trademark Annual Statistics 2004

**A tool for international branding, a closer look**

SMEs with a special focus on Latin American or South East Asian markets may find the system irrelevant to their trading activities since countries in these regions are currently not members of the system. In these contexts, national filing avenues are still the only way to obtain trademark protection in these markets.

*“More members! More countries from Latin America. To the Boticário Group, it would also be interesting to have other countries in Africa, in the Arab World and in Asia joining the system. This would facilitate the expansion of the protection of our marks in markets, where we have so far not been able to fully obtain protection.”(Boticário Group)*

Companies that seek to tailor their products or services to the various local consumer tastes of the world may find the Madrid System also not to be the best avenue for their marketing activities. Current research in marketing looks more and more into the individualization of marks. Based on the assumption that each customer has a specific taste, the question arises how to provide the optimal good or service for this customer. This type of tailoring is only possible through the Madrid System if the company is ready to file a new registration for each variation of the trademark. There is no scope for manoeuvring the features of a trademark to create variants of it so as to tailor it for use in marketing according to cultural sensitivities and local tastes in different parts of the world, or for different segments of customers or the various individual tastes, etc.

## **Conclusion**

Marketing is the art of creating perceptions, provoking illusions, seducing to dream; simply to give customers a good feeling when using a product or service sold under a particular brand or trademark to which the customer attaches certain desirable attributes and which fulfils the expectations that the customer has of that product or service. In a broader context, it is the art of creating realities through signs and language.

Humans interact, use language, refer to signs and in this way create a social context in which they define themselves and their relationship to others.<sup>13</sup> A brand is a linguistic element that clearly impacts the social context of human behavior. Brands influence the dynamics of communication.<sup>14</sup> Brands act as a social marker and distinguisher.

*“Branding is all about perception... When customers look for a brand, they seek a promise of performance... Customers demand from the brands they love more than simply reliability; customers want brands to become a form of self-expression.”<sup>15</sup>*

From a company’s perspective the right branding strategy translates directly into market power. Brands influence customer demand; hence, they impact demand and, ultimately, determine a firm’s market share and profitability.

Within this context, the Madrid System plays an important role since it provides an easier entry for legal protection at the international level. While it does not yet fully meet the requirements of companies which tailor their marketing strategies to the various cultures and customs of the world, it really is the best alternative firms currently have at their disposal to promote and protect their brands worldwide. When opting for Madrid, SMEs should thus not only conduct a legal due diligence, but also analyze the relevance of seeking protection for a given mark in a given country from a business perspective. This being said, the Madrid System truly is one of the few facilitating frameworks that enable international trading activities independent of company size.

Therefore, it is too much to state that the Madrid System has paved the way for a new type of players in the market that may possibly better be described as Micromultinationals rather than SMEs?

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### **Disclaimer**

**The views expressed in this article are the author's own and do not necessarily reflect those of the WIPO, its member states or its secretariat.**

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<sup>2</sup> W. Finkelstein, One-stop Shopping for International Trademark Protection, (2003) *Franchising World* 35/2, p.32,33

<sup>3</sup> Countries have chosen to be either part of the Madrid Protocol or the Madrid Agreement or both. Depending on the status of membership of the country of origin of the applicant, the trademark owner can choose among the other participating countries where to file a registration of a trademark.

<sup>4</sup> [www.inta.org/madrid](http://www.inta.org/madrid)

<sup>5</sup> Revised at Brussels (1900); Washington (1911); The Hague (1925); London (1934); Nice (1957); Stockholm (1967) and amended in 1979

<sup>6</sup> J. P. Hines and S. J. Weinstein, Using the Madrid Protocol after U.S. Accession, *The Trademark Reporter* 93 2004, p.1003-1028

<sup>7</sup> E. E. Wallis, The Madrid Protocol: Will This International System succeed in the United States?, (2004) *UCLA Journal of Law & Technology* Nr. 1

<sup>8</sup> Chinese Figures do not include Hong Kong.

<sup>9</sup> Briggs & Morgan, 'The Madrid Protocol: A Primer for United States Trademark Owners', (2006) Electronic Publication of Briggs & Morgan LLP

<sup>10</sup> M. Mutterperl and S. Vale, 'U.S. Accession to the Madrid Protocol Should Streamline International Protection for Trademarks Owned by American Businesses and Citizens, '(2003) Electronic Publication by Fulbright & Jaworski LLP

<sup>11</sup> S. Fox Morrison, 'The Madrid Protocol A Centralized, Streamlined, and Cost-effective Solution to the High Cost of Worldwide Trademark Protection – Is it too Good to be True?,' (2003) Electronic Publication of the Intellectual Property Group of Davis Wright Tremaine LLP

<sup>12</sup> W. B. Borchard, *ibid*, (2003) and Briggs & Morgan, *ibid* (2006)

<sup>13</sup> M. Foucault, *The Archeology of Knowledge and Discourse on Language*, (2003) Barnes/Noble Books; J. Potter, *Representing Reality, Discourse, Rhetoric and Social Construction*, (1996) Sage; P. L. Berger and T. Luckmann, *The Social Construction of Reality. A Treatise in the Sociology of Knowledge*, (1967) Penguin

<sup>14</sup> E. Baroncelli, E. Krivonos and M. Olareaga, *Trademark Protection or Protectionism?*, (2004) Worldbank Policy Research Working Paper 3214

<sup>15</sup> *Business Week*, Branding for Success: Interview with Ted Tan, Deputy Chief Executive of IE Singapore, (14.12. 2004)