The link between SME financial performance and trademark rights revealed

- Study finds link between trademark rights and entrepreneurial finance among SMEs
- Argues that trademarks help protect the market opportunities of start-up companies
- Adds to evidence highlighting importance of IPRs to SMEs despite low ownership levels

New research has highlighted the beneficial effect of trademark ownership for start-up companies. One of the first studies to explore the relationship between brand rights and a firm's financial performance, it demonstrates that fledgling companies with more trademarks achieve higher valuations, attract greater investment and perform better after IPOs.

The study’s findings should boost IP professionals and policy influencers in their efforts to counter negative perceptions of trademarks among the general public, which often associates brand rights with the interests of large corporations. They also underscore the importance of ongoing initiatives by trademark associations, IP offices and private practice firms to promote knowledge and understanding of brand rights among smaller enterprises.

The report – Trademarks in Entrepreneurial Finance: Empirical Evidence from Venture Capital Investments in Private Firms and Venture-Backed IPOs – was undertaken by Professor Thomas J Chemmanur and Harshit Rajaiya of the Carroll School of Management at Boston College, as well as Professor Xuan Tian of Tsinghua University and Assistant Professor Qianqian Yu of Lehigh University.

Focusing on the relationship between soft IP rights and entrepreneurial finance, it gauges the role trademarks play in the performance, valuation and financing of SMEs. It does so by analysing a “large and unique dataset of 55,977 trademarks registered by VC-backed firms over the years 1985-2015 and data on VC investment in these firms, data on their exit decisions, and on the IPO valuations and post-IPO operating performance of the subsample of these that go public”. In examining this data, the study held sample firms’ patent ownership and citations at a constant to ensure that its results reflect differences in brand rights ownership, rather than other forms of intellectual property.

Through this analysis the research finds an association between a higher number of trademarks owned by a start-up company and greater investment by venture capitalists, with a one standard deviation increase in the study's trademark measure being correlated with a 2.6% (0.27 million dollars) jump in total funding for the median firm in the sample.

Greater trademark ownership is also linked to a higher probability of a successful exit through IPO or acquisition, as well as greater company valuations; a one standard deviation increase in the study's trademark measure is associated with a 78.9% higher IPO valuation and 38.6% increase in secondary valuation. Increased institutional investor IPO participation, and better post-IPO operating performance were also found to correlate with greater rights registration. Furthermore, the report points, instrumental variable analysis suggests that these results are causal with than simply correlative.
Seeking to explain these outcomes, the authors argue that trademarks serve two important roles for SMEs: firstly, they play a “protective role”, lending firms monopoly power in a product market and helping them to foster consumer loyalty, thereby enhancing performance; and secondly, they serve an “informational role”, signalling a better future performance – and therefore a higher value – to investors (both venture capitalists and public equity investors).

The study is not the first to demonstrate the positive effects of trademark ownership for start-ups; the EU Intellectual Property Office (EUIPO) EU Observatory’s ‘synthesis report’, released earlier this month, highlighted a number of economic benefits arising from trademark rights, including a link between greater IP ownership and higher company revenues (and revenue per employee), especially among SMEs.

As such, the research adds to a body of evidence, which underlines the importance of educating SMEs on the value of trademark protection on how to acquire IP rights – a strategic priority for INTA, and the subject of the presidential taskforce established by the association’s president Tish Berard. Such a focus is certainly needed - EUIPO’s recent synthesis report confirmed that IP ownership among smaller companies is alarmingly low: only 9% of SMEs have registered rights, compared to 40% of larger EU firms. This is despite proactive IP office outreach efforts and the clear advantages of ownership.

Such efforts should also help foster a wider appreciation of the value of trademarks among consumers and the general public – one of the key priorities set out in INTA’s 2018-2021 strategic plan – who are perhaps more used to hearing of IP rights being asserted against, rather than used by, smaller companies. The starting point, though, is to ensure that the benefits of rights ownership are communicated, that perceptions over the cost of registering rights are accurate and that SMEs themselves start to share their success stories.

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