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Defining and Measuring the "Market for Brands": Are emerging Economies Catching Up?

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Abstract:

Brands are ever more visible and central to the functioning of modern economies. Firms, institutions, government and non-governmental actors as part of civil society spend an ever-increasing amount on the right branding of their organization, and/or their products. The demand for trademarks has thus grown substantially.

Mirroring this trend, "Markets for brands" - as defined in this paper - play an important but underappreciated economic role in today's global economy. Trademarks and brands are increasingly the object of commercial transactions; they can be purchased, franchised or licensed. The ability to use Market for Brands allows companies to diversify their business, to access competences, and to generate new revenues without substantial investments. In recent years, firms in emerging economies have been more active users of these markets by licensing or acquiring established global brands.

Yet, despite their apparent importance, little is known about the size of these markets, and how relevant these are for firms in countries with different stages of development.

This paper first defines and provides a taxonomy for different brand markets. Second, it analyzes the economic rationale of such markets. Finally, it provides evidence on their magnitude, also assessing their relative importance of the different brand-related transaction types in developed and emerging economies alike.

Keywords: Brands, branding, trademarks, licensing, franchising, mergers and acquisitions, emerging economies, intellectual property

JEL Codes: F23, F60, M3, O3, O34

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The views expressed in this article are those of the authors and do not necessarily reflect the views of the World Intellectual Property Organization or its member states.

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Introduction

Brands are ever more visible and central to the functioning of modern economies. Firms, institutions, government and non-governmental actors as part of civil society spend an ever-increasing amount on the right branding of their organization, and/or their products. The demand for trademarks has thus grown substantially.

Mirroring this trend, "Markets for brands" - as defined in this paper - play an important but underappreciated economic role in today's global economy. Trademarks and brands are increasingly the object of commercial transactions; they can be purchased, franchised or licensed. The ability to use Market for Brands allows companies to diversify their business, to access competences, and to generate new revenues without substantial investments.

In recent years, firms in emerging economies have been more active users of these markets by licensing or acquiring established global brands. Emerging market multinationals - such as Lenovo buying IBM and Tata Motors buying Range Rover - have purchased Western brands to establish international brand recognition.

Yet, despite their apparent importance, little is known about the size of these markets, and how relevant these are from firms in countries of different stages of development. In particular, despite numerous case studies, quantitative evidence on the relative importance of Market for Brands in emerging economies is surprisingly sparse.

This paper brings together the disparate data on Market for Brands to address this research gap. The three objectives of this paper are (i) to define and provide a taxonomy for different brand markets, (ii) to analyze the economic rationale of such markets, and, finally, to (iii) provide evidence on their magnitude, also assessing their relative importance of the different brand-related transaction types in economies with different levels of development.

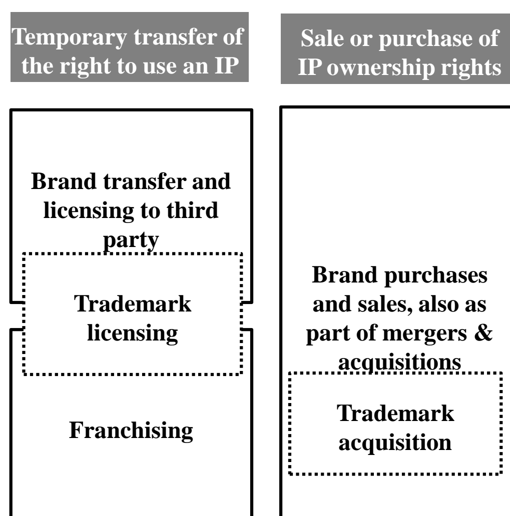
The remainder of this paper is structured accordingly. In section 1, we provide a taxonomy and definition of what we call "Markets for brands". Section 2 identifies the economic rationale behind the different brand-related transactions, and examines the corresponding economic literature. Section 3 assesses the quantitative importance of these different brand markets while discussing available data sources and their shortcomings.

1. Markets for brands: Definitions and concepts

We start by defining three different Market for Brands, which relate to licensing of brands and trademarks, the franchising model and finally the acquisition of brands. We then proceed to discussing the economics of these markets and the literature examining their extent in emerging economies.

Figure 1 sets out a taxonomy for the Market for Brands.

Figure 1: Markets for brands: A taxonomy



Source: Authors. See also WIPO (2013a).
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.

As also discussed in WIPO (2013a) one can distinguish between the

1. "*Temporary transfer of the right to use an IP*" with (i) the licensing of brands and (ii) the franchising of business models

   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. 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. 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. One such example would be the licensing of a brand of luxury car to a toy manufacturer producing miniature cars.

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.[4] 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 economies.

2. "*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).

   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 Market 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.

Markets for trademarks and brands are highly intertwined and thus difficult to separate.[5] Trademarks indeed correspond to the legal rights associated with brand assets that may be transferred or purchased. Accordingly, this paper takes the perspective that trademark transactions constitute a subset of each brand transaction type depicted in Figure 1.

[4] 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."

[5] See for more detail Box 1.1 in WIPO (2013a).

2. The economic and business rationale behind the Market for Brands

The economic value of both trademarks and brands is well-established in the business and economic literature. As brands have become highly valuable assets, brand management has become a priority for most companies.[6]

The value of brands can, at least partly, be attributed to their differentiating function, enabling consumers to identify the products of one company and to distinguish them from those of its competitors.[7] Brands affect the perceptions of consumers in terms of their overall evaluations of the product, and thus have a major impact on their product purchase decisions. This provides firms with incentives to offer products of a consistent and reliable quality[8], while reducing consumer search costs, allowing firms to charge higher prices for their products.[9] Accordingly, the value of brands is likely to be higher in industries where search costs are high.[10]

Brand management in turn is about building strong brands, but also leveraging them on the market.[11] Markets for brands are thus a result of active brand management decisions. Understanding how Market for Brands emerge therefore requires an understanding for economic and management principles, on which basis companies make their decisions. In this section, we aim to create a more profound understanding for how brand management decisions and Market for Brands are intertwined. Both the upside potential and downside risks for brand-related transactions are assessed.

Decisions to build a brand internally, or acquire one externally, is something companies face on a regular basis. Within the soft drink industry, for example, Pepsi decided to acquire the Gatorade brand. Similarly, Cadbury Schweppes acquired Accelerade, while Coca Cola decided to develop Powerade internally.

Building and entertaining strong brands requires substantial investments. Creating a new brand is also a high risk and longer term activity. For instance, research on the US consumer packed goods industry, show that only 20 percent of new brands earn more than USD 7.5 million in first year sales, and less than 1 percent generates more than USD 100 million.[12] At the same time, the Information Resources Inc. (IRI) (2005) survey finds that new brands are facing failure rates of 55 percent. While these findings shall not be generalized across countries and industries, they nevertheless suggest a tension arising from the combination of the substantial investments required in order to build a strong brand and the limited chances of success.

[6] Keller (2011).
[7] Besen and Raskind (1991), Landes and Posner (1987). See WIPO (2013b) for a fuller discussion.
[8] Cabral (2000) and Economides (1988).
[9] Landes and Posner (1987).
[10] Gottschalk *et al.* (2002).
[11] Keller (2011).
[12] IRI (2005).

Consequently, it has thus long been suggested that licensing in or acquiring existing strong brands might be a wiser business decision than trying to build a new brand name from scratch.[13] Rising costs and failure risks associated with developing and launching new brands have led many companies to pursue new product strategies that are less costly and less risky than developing completely new brands. Established brands are therefore often extended beyond their original categories to reduce the cost and risk of entering a new product category.[14] While some companies extend their capabilities internally, others rely on the market for brand licensing to support such extensions.

Decisions to engage in Market for Brands can be examined in the context of transaction cost economics (TCE). According to TCE both institutions and markets provide ways of coordinating economic transactions. Williamson (1981) shows in some detail how the structure of the modern firm developed as a result of TCE, making multi-divisional firms increasingly profitable, as transaction costs within the firm's boundaries became more efficient. In technology industries, Demsetz (1991) argues that the extent of a firm's vertical integration is reached when the costs of acquiring and managing specific information or knowledge, to produce highly complex products, is no longer economically beneficial. The same principle can be applied when analyzing Market for Brands - that is, firms' willingness to engage in Market for Brands is associated with the cost of developing branding capabilities internally.

In short, Market for Brands provides 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 the established equity.[15] Simultaneously, the strong competition between manufacturers and retailers in saturated markets, shortened product lifecycles, and more sophisticated customers require companies to be more responsive. Because the development of a strong brand may require years of marketing and investment, leveraging established brands provides an alternative way for companies to reduce time to market. Major corporations with established brand names in fact depend increasingly on their ability to leverage brand equity by launching new products using established brand names, sometimes externally through brand licensing.

In terms of downside risks, a growing branch of the brand management literature, however, points at several risks associated with sourcing brands externally. Specifically, research in marketing suggests that the success of the brand extension depends on the transfer of brand equity to the extension.[16] Many scholars have thus examined the impact of brand associations on consumer perceptions of brand extensions[17], while other studies have investigated the impact of perceived quality on the success of the extension, implying that consumer quality perceptions most likely will be transferred if the extension is perceived to fit the parent brand.[18] This is in line with signaling theory, suggesting that firms can take advantage of their quality reputation by using the brand name of an established product for new goods.[19]

[13] Tauber (1988), p. 26.
[14] Aaker (2011).
[15] Idem and Kapferer (2008).
[16] Idem.
[17] Aaker and Keller (1990), Bousch and Loken (1991), Dacin and Smith (1994) and Meyvis and Janiszewski (2004).
[18] Loken and Roedder (1993).
[19] Wernerfelt (1988).

When a franchising or brand licensing deal is conducted, however, the franchisee or licensee must make several decisions on prices, marketing efforts, and any inputs into the quality of the final product. At the same time, the licensor will continue to invest in the brand through advertising and by improving the quality of their products. If all these decisions can be completely specified in the contract and incentives towards joint profit-maximizing are fully aligned, efficient choices could theoretically be guaranteed. However, the costs associated with monitoring and enforcing such agreements typically lead to incomplete contracts. As a result, some decisions may occur *ex post* to the contract, on the basis of self-interest rather than joint profit-maximizing. For example, the licensee may have incentives to cut costs by reducing the quality of inputs, while it is still in the interest of the licensor to invest in building a stronger brand, leading to potential free-rider problems. Accordingly, vertical agency issues are central inhibiting factors to licensing and franchising deals, and thus to Market for Brands.[20]

A further inhibiting factor to Market for Brands stems from asymmetric information. This is because while tangible and financial assets are traded in organized markets - where prices provide information about asset values - Market for Brands are informal. Accordingly, no market prices are publicly available to derive information from. Although International Accounting Standards (IAS) allow for capitalization on the basis of the fair value of the asset, this is only permitted by reference to an active market. The fair value capitalization of intangible assets is thus challenging since there are no transparent markets to derive information form.[21] For this reason, the IAS also expects markets to be uncommon for intangibles, providing a source of asymmetric information regarding the value of brands. As a result, there is uncertainty about the brand transaction process. Because a seller can negotiate with several potential buyers, it is not unlikely that a firm ends up overpaying, as each buyer may differ substantially in its subjective value. The uncertainty regarding the distribution of bids, which provide information about the value of the brand, therefore provides a risk to the buyer in terms of overpaying. This in turn posts a risk of adverse selection, potentially resulting in brand markets consisting mainly of low quality brands.

2.1 Brand markets – In detail

Brand licensing: Corporations frequently license established brands when entering a new product category. This because the development of new resources and capabilities may prove difficult and costly; something that can be overcome by licensing the brand to a third party in return for a stream of royalties. The use of brand licensing for expansion into new product categories is widespread. For example, the Walt Disney Company licenses its Disney characters for an array of products including merchandise, publishing, and music.[22]

In essence, licensing is a form of brand alliance, contractually enabling a firm to use the brand of a third party to market its own product for a fee. This allows companies to (i) gain fast access to new markets (ii) access competences outside the boundaries of the firm (iii) leverage the brand equity of other companies (iv) enhance brand awareness. Hence, in short, it allows companies to leverage the brand equity built up among consumers while minimizing financial investment required for the expansion.

[20] Martin (1988) and Mathewson and Winter (1985).
[21] See *e.g.* Arora and Gambardella (2010).
[22] Keller (2003).

Brand licensing arrangements differ in cost, depending on the structure of the deal. A licensing deal can range from involving just a single logo, at the low cost end, to securing the right to sell and manufacture a product for a specific region, at the high cost end. For example, while Harley Davidson only licensed its name and logo for clothing, Amgen licensed its entire hepatitis drug for the Japanese market, involving the licensing of an entire bundle of rights related to the brand, but also rights related to the technology.[23] Accordingly, brand licensing frequently occur in the context of technology licensing to add additional value to the deal, commonly referred to as embedded licensing.[24] Dupont's licensing of its Taslan air-texturing technology, together with its trademark, to Heberlein Mashinefabrik AG of Switzerland, provides one such example.[25] A further example is the US company ZAP Portable Energy, which licensed its battery recharging technologies to China-based Zibo Enterprises, to manufacture and sell products with the ZAP trademark.[26]

Embedded licensing typically occurs in the context of brand globalization, when brand awareness is higher, making the brand more transferable across markets.[27] This in turn allows the licensed technology to be more effectively commercialized by the licensee and allows the licensor to charge a higher fee. For example, Valence Technology licensed its Intelligent Lithium Phosphate Packs to the Chinese company Lishen, with the right to use the "ValenceProven" sign, for its technology to appeal to customers worldwide.[28] Similarly, Hewlett-Packard encourages a combined way of licensing its technology together with its brand.

Brand licensing, however, involves substantial risks for the licensor, as it may dilute its brand name, as it exposes the licensor to the risk of opportunistic behavior by the licensee.[29] Decisions made by the licensee may impact on how a brand is perceived, but also to affect the consistency of the overall brand image.[30] Brand owners on the other hand want their brand-licensed extensions to be as consistent as possible. As suggested by Teece (1992), the licensee might use the licensors resources, such as brands, in unexpected ways that are not covered by the contract. For example, Pierre Cardin or Burberry are extensively licensed brands, where the licensor has by certain accounts lost control over product quality and brand associations, leading to the dilution of their brand equity.[31] Furthermore, incoherent use of the brand can even have negative effects on related consumers' perceptions.[32] Finally, in the case of embedded licensing, the separation of the brand can affect a licensor's assessment of risks when the brand enters new markets with the technology. If the licensee fails to invest sufficiently in the technology, the reputation of the brand will be damaged, resulting in negative spillover effects to other product categories. Hence, brand licensing decisions require careful assessments of costs related to in-house development, relative to potential negative effects on existing products.[33]

Franchising: Franchising has become a key element of many businesses development strategies. It permits the diversification of the product and/or service offered while making it significantly easier to enter market niches and gain access to new geographical markets.

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[23] Saqib and Manachanda (2008).
[24] Arora and Fosfuri (2003), Fosfuri (2006) and Jiang and Menguc (2012).
[25] Maycumber (1997).
[26] PR Newswire (2004).
[27] Townsend *et al.* (2009).
[28] Jiang and Menguc (2012).
[29] Gürhan-Canli and Maheswaran (1998).
[30] Park, *et al.* (1986).
[31] Jacobacci and Keller (2014),
[32] Gürhan-Canli and Maheswaran (1998).
[33] Roedder *et al.* (1998).

Franchising deals can be structured in different ways. Firstly, some deals specify the royalty rate that can be attributed to the trademark and an additional franchise fee related to any sub-licenses given. As stated in the Krispy Kreme deal: "In return for the use of trademarks and trade names, Krispy Kreme will pay 2 percent of all sales of licensed products and if Krispy Kreme is to sublicense any of the trademarks or names they would be payable to HDN as franchise fees." Other deals apply the royalty rate to a bundle of different rights. The IHOP deal provide one such example, stating that: "IHOP Corp. and International House of Pancakes, Inc. signed a multi-exclusive agreement in 1996 allowing International House of Pancakes to operate one IHOP Franchised Restaurant, including the use and display IHOP service marks, trademarks, trade names and insignia, and to use Franchisor's trade secrets, formulae, processes and methods of operation within specified guidelines." Accordingly, we are most often unable to determine the value added of the trademarks. Furthermore, deals may vary in their specifications about the use of the trademark. For example, the Buffalo Wings deal states that: "The agreement grants the rights to the Buffalo Wings Trademarks and is according to the Buffalo Wild Wings System which incorporates product, service, building and promotional specifications:" Finally, in addition to the royalty rate, deals may incorporate upfront payments and/or an advertising fee. In the U-Swirl Yoghurt deal description we find that: "The initial franchise fee will be USD 5,000 and the royalty fee will be 1 percent of gross sales." The Buffalo Wild Wings agreement also specifies an advertising fee, according to which: "The licensees will pay 3 percent of gross sales weekly as an advertising fee in addition to spending 0.5 percent of gross sales on approved local marketing and promotion." Hence, the franchising agreement commits the franchisee to invest in maintaining and building brand equity.

To better capture the role of the brand in franchising, some scholars have conceptualized brand equity as a relational market-based asset that is an external resource that resides in the relationships of final users of the brand.[34] In essence, this means that to ensure a consistent brand image across the franchise channel strong and reliable franchisee-franchisor relationships are required. This is because these relationships will eventually be reflected in the brand, and thereby communicated to the end consumer. As a result, both franchisees and franchisors share the incentive to promote and sustain franchise brand equity in the long-run. From the perspective of the franchisee, establishing strong relationships with the brand enables them to differentiate themselves from competitors and non-franchised businesses.[35] Since brand equity in turn is a driver of profitability, franchisees have incentives to contribute in brand building activities, by attracting new and retaining loyal customers and enhancing customers' willingness to pay a premium price.[36] At the same time, a strong brand is a critical parameter to the success of the franchisor. This is because when evaluating a franchising opportunity, franchisees will be concerned with the long-term strength and viability of the brand they are taking on. To support its growth ambitions, the franchisor thus needs to improve its brands appeal to its franchisees.[37]

However, although franchisees and franchisors largely share the incentive to promote and sustain franchise brand equity, franchisees may at times have limited incentives to safeguard brand equity if there are no negative effects on their short-term profits.[38] There are thus reasons for the franchisor to carefully monitor the franchisees use of the brand. The ability of the franchisor to do so depends not only on the specifications of the contract, but also the legal environment within which the franchisor operates.

[34] Davis and Mentzer (2008), Delgado-Ballester and Munuera-Aleman (2005) and Nyadzayo *et al.* (2011).
[35] Gupta *et al.* (2008).
[36] Sashi and Karuppur (2002) and Netemeyer *et al.* (2004).
[37] Grünhagen and Dorsch (2003).
[38] Watson and Johnson (2010).

Brand acquisitions: Brand acquisitions may reduce costs in several ways. First, synergies between brands can enhance the firms combined brand equity and reduce marketing expenditure.[39] Second, acquired brands may have existing market presence, established manufacturing skills, as well as established customer and distribution networks. This creates market opportunities with some companies seeking acquire established brands for new product developments, while others look at opportunities to exploit their own brands.[40]

From a brand management perspective, the challenge in context of M&A transactions is to transfer the brand equity from the stronger to the weaker firm when the deal has been closed. From a TCE perspective, there are thus good reasons for firms to acquire brands on the market, although these benefits can be offset by the difficulty of integration into the brand portfolio, making the pursuit of a coherent brand strategy more challenging.[41]

In summary, this section has identified several driving and restraining forces behind Market for Brands (see also Table 1). Firstly, building strong brands requires substantial investments. At the same time, companies are facing high new-product failure rates, meaning that there are both substantial costs and risks associated with building new brands. Secondly, growing competition between manufacturers and retailers, in combination with shortened product lifecycles, require companies to be more responsive, while building a new brand may require years of marketing. Thirdly, brand acquisitions allow companies, aiming to create a global brand, to do so faster with already internationally established brand equity, reducing their time-to-market. Finally, brand extensions can sometimes increase consumers' perceived quality of the established brand and thus allows companies to leverage established brand equity.

Table 1: Drivers and restraining factors to Market for Brands

Markets for brands	Drivers	Restraining factors
Brand asset transfers (brand acquisitions)	-Costs of building brands -High failure rates -Shortened product lifecycles -Time-to-market -Globalization / local brand loyalty	-Market concentration -Portfolio integration costs -Informal markets (valuation costs)
Brand asset licensing (brand licensing and franchising)	-Costs of building brands -High failure rates -Shortened product lifecycles -Time-to-market -Globalization -Leveraging brand equity (revenue generation)	-Informal markets (valuation costs) -Brand dilution and free-riding problems -Principal-agency problems (monitoring and control costs) -Poor legal environment (enforcement costs) -Local brand loyalty

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[39] Capron and Hulland (1999).
[40] Clifton (2003).
[41] Doyle (1990), Yang *et al.* (2011) and Gussoni and Mangani (2012).

There are thus several reasons for why companies decide to rely on Market for Brands. Firstly, there are three are push-factors to which companies need to respond, leading them to look to Market for Brands to get better deals by acquiring, franchising or licensing brands. These factors include globalization, time-to-market and shortened product-life cycles. In addition, cost reduction and risk mitigation provide important pull-factors on the demand side, incentivising companies to search the market for established brands. Finally, on the supply side, firms are incentivised by the possibility of generating additional revenue through established brand equity, either by means of brand licensing or franchising. Push and pull factors create market opportunities with some companies seeking to acquire established brands for new product developments, while others look at opportunities to exploit their own brands on the market, by means of brand licensing and franchising.

However, there are also a number of factors restraining the development of Market for Brands. Firstly, the literature suggests that there are substantial costs associated with integrating a new brand to a company's portfolio. These costs, however, need to be considered in relation to the synergies the brand will ideally create. Second, Market for Brands are informal. This is true of markets for both brand asset transfers and brand asset licensing. As a result there are no transparent markets to derive price information from. This imposes additional costs on companies in terms of brand valuation and leave market participants with the risk of overpaying. Theoretically, such asymmetric information will lead to adverse selection, resulting in companies with valuable brands exiting the market. Third, in relation to brand asset licensing, there is a risk of the licensee or franchisee diluting the brand by reducing input quality in order to cut costs. At the same time, the licensor or franchisor may still have the incentive to further invest into building a stronger brand, leading to potential free-rider problems as their investment spill over on the licensee. The relationship between the licensor and the licensee can thus be analysed from a principal-agent perspective, in which the licensor will have to carry costs of monitoring and controlling the behaviour of the licensee. Fourth, further costs may occur from a poor legal environment, resulting in higher costs of enforcing the contract. This problem is likely to be more present in developing countries. Finally, brand loyalty is sometimes local, meaning that it is difficult and costly to establish an international brand on the market. While this may provide an incentive for brand acquisition, it is likely to restrain the international licensing of brands.

2.2 Brand markets and their role for firms in fast-growing middle-income economies

As shown in WIPO (2013a), the majority of top brands are associated with companies that are primarily located in high-income economies. Generally speaking, the international brand recognition and value of brands from low-and middle income countries is low. The number of firms with a global brand in these countries is growing but small, and this also applies to their average brand value.

Numerous explanatory factors are at play for the above circumstance, such as the companies' age and experience, their international presence in terms of investment and exports, their advertising budgets and strategies, but also the fact that top brand rankings are biased towards the brands of high-income economies.[42]

[42] On the last point, see section 1.2.2 in WIPO (2013a).

In this context, for firms in emerging countries as well the question arises whether to build or acquire a globally successful brand. The country origin of the brand or the source country associated with the brand visibily matter to consumers. A part of the branding literature has focussed on this so-called country-of-origin (COO) effect. Specifically, the consumer perception of a brand is co-termined by the country the brand is associated with.[43] As a result, more established brands from high-income economies have a better image and thus value.

Multinational enterprises outside of high-income economies are pursuing strategies to build or acquire brands at home and abroad to have access to this reputational asset, *i.e.* the reputation of certain brands mostly emanating from high-income countries. Multiple, possibly complementary, strategies have been adopted by companies.[44] 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.[45] 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 may have focused on business customers before entering the end-consumer markets with a more established brand (*e.g.* Huawei). Other companies have bought brands from companies in high-income economies.

Broadly speaking, emerging multinational companies today pursue two different strategies: focused innovation to build core brands via internal efforts or brand acquisition or licensing of established brands, or a combination of both.[46]

Accordingly, in recent years, firms in emerging economies have been more active users of brand markets. Brand acquisitions provide a way to gain access to global markets faster, with already internationally established brand equity. A number of companies have grown by buying up established Western brands, such as Godiva, Dunlop, Jaguar, Land Rover, Volvo, Tetley and ThinkPad.[47] This has allowed these companies not only to leverage the acquired brand in their home market, but also expand further geographically to build a global business. For example, Apollo Tyres expanded the Dunlop brand into new markets in Africa, while Tata Tea expanded the Tetley brand to China, and Asian Paints has leveraged the Berger brand in the Middle East.

Brand acquisitions, however, require substantial financial resources. The Market for Brands is thus largely confined to multinational corporations. WIPRO in India was already a highly established firm when it made its first acquisition – Spectramind – in 2003. Similarly, Mahinda Tractors had already expanded globally before it acquired a majority position in Chinese Yancheng Tractors. Other examples include the Turkish company Ulker acquiring Godiva and Lenovo's acquisition of ThinkPad – both acquisitions taking place after the firm's initial expansion into foreign markets.

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[43] Jo (2005) and Pappu *et al.* (2006).

[44] See Chattopadhyay and Batra (2012) and Kumar and Steenkamp (2013) for an elaboration of branding strategies of multinational companies emanating from middle-income economies.

[45] WIPO (2013a).

[46] Chattopadhyay *et al.* (2012). Typically, companies pursuing a focused innovation strategy invest more in R&D than other EMNCs do in order to leverage their technological capabilities to achieve higher profitability.

[47] Two examples from India illustrate the importance of acquiring strong brands. In 2008, the Tata Group bought the Jaguar and Land Rover (JLR) for USD 2.3 billion. The rationale behind the deal was described by CEO Ratan Tata, stating that: "The only way I can enter the US market is through mergers and acquisitions, so if I get an opportunity, then I will look at it very actively". See Khanna *et al.* (2009).

Western companies also acquire brands in developing countries. L'Oréal's acquisition of the skin care brand Mininurse of Raystar Cosmetics allowed the company to move quickly into the Chinese skin care market, where Mininurse has already established brand recognition. Furthermore, this allowed L'Oréal to reach the Chinese mass market, by selling brands such as Maybelline and Garnier through the 280,000 establishments owned by Mininurse. For similar reasons, L'Oréal also acquired the local skin care brand, Yue-Sai Kan Cosmetics, enabling it to extend its manufacturing base and local brand reputation further.[48]

Again, however, as pointed out by Ille and Chailan (2011) and as outlined earlier, brand acquisitions are no guarantee for success. Balmer and Dinnie (1991), among others, have argued that many M&A failures occur because companies fail to maintain the brand's value during the merger process.[49]

Still, the use of brand markets by emerging multinationals is of continued interest. As far as possible, data will be provided to that effect as well in the following sections.

3. Markets for Brands: Data sources and key findings

Section 3 assesses the quantitative importance of above-defined brand markets while discussing available data sources and their shortcomings.

Following the taxonomy set out in Figure 1, first the licensing and franchising of brands is assessed. Subsequently, the sale and acquisition of brands as part of M&A-related is estimated by relying on a novel methodology.

3.1 Trademark licensing and franchising

Reporting systematic data on trademark licensing is difficult for several reasons.

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 publicly declaring such a licensing relationship. Disparate information on trademark deals, and royalty rates, can be gleaned from court records, filings with the US Securities and Exchange Commission (SEC) or similar sources; nevertheless, no systematic source is available.[50]

Second, in most countries, there is no legal requirement for trademark licenses to be recorded with the national IP office.[51]

[48] Tao (2005).

[49] As a result, Williamson and Raman (2011) suggest that Chinese companies have since shifted their acquisition strategy. Instead of acquiring global brands, sales networks or goodwill, they now focus on hard assets such as mineral deposits, technologies and R&D facilities. This is, they claim, due to a reorientation towards the Chinese market. Rather than using acquisitions as a mean of gaining market share abroad, Chinese corporations now aim at strengthening their position in their home market. For example, when Geely acquired Volvo for USD 1.8 billion they announced that their main objective was to integrate Volvo's technology into its new manufacturing facilities, not to use the Volvo brand for international expansion.

[50] See Smith and Parr (2005).

[51] Even where countries require registration, 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.

Some private entities map the economic importance of brand licensing by gauging the sales of licensed products.[52] The entertainment sector, together with the sports sector, is one of the most important sectors in trademark licensing. The licensing of cartoon characters or sport clubs to toys, food, home décor, clothing and footwear, and consumer products is dominant. The other top licensors mostly operate around the apparel, automotive, textile and consumer electronics sectors (see WIPO, 2013a for details).

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.[53]

Finally, commercial data providers collect data on trademark licensing deals.[54] This information includes the name of licensor and licensee, the royalty rate (and the description of the deal. These data reveal the number of deals across time. Deal coverage is often low, and the value of trademark licensing deals is missing, as the deal information is concluded *ex ante* to revenue generation.

Yet, above data sources are often country or sector-specific and – due to their methodology – frequently partial or incomplete.[55] In addition, these sources are biased towards deals in high-income economies and, in particular, towards deals in the US.

In short, available information on licensing deals is highly incomplete.

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 started tracking the role of franchising to the US economy.[56] In the US, this sector has experienced growth both in terms of franchising establishment formation and related economic output; franchising output was expected to reach USD 802 billion in 2013.[57]

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.[58] 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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[52] See, for instance, the “Top 150 Global Licensors ranking“ in Lisanti (2013) and as discussed in WIPO (2013a).
[53] For instance, when examining the US licensing market, the latest survey carried out by the International Licensing Industry and Merchandisers' Association (LIMA, 2013) 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.
[54] See Smith and Parr (2005).
[55] *Idem.*
[56] See US Economic Census, *2007 Economic Census Franchise Report*, released on September 14, 2010. See also PwC (2011).
[57] See IFA (2013).
[58] The 2013 Franchise 500 Rankings, for instance, offers a tool that can be used to compare franchise operations in the US. Available at http://www.entrepreneur.com/franchise500/index.html.

To get around this problem, Antonowicz (2011) gathered data from franchising associations of individual countries.[59] Although the author provides a list of the countries included in the study, no country-specific information is provided. This makes it difficult to verify and replicate the author's findings. Still, the report shows the international franchising market comprises 71 countries, 40,200 franchise brands and more than 3 million franchising establishments. 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 European Franchise Federation (EFF) (2011) also shows that over the period 2007 to 2009, Europe 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 is considered.
It is also shown that markets for franchise brands are largely domestic, in particular in low- and middle-income economies. 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. Arguably, however, the data is already outdated however, considering the rapid evolution of these emerging markets.

Cross-border trademark licensing and franchises: "Royalties and license fees" constitute the most comprehensive and systematically gathered trademark licensing data, and is typically published in the Balance of Payments (BoP) of individual countries.[60] While the data includes royalties and license fees for the use of trademarks, only aggregate numbers related to a variety of assets are published.[61]

In 2011, the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) was released. It distinguishes between "Franchises and Trademarks", "Outcomes of Research and Development" and "Computer services; Audiovisual and Related Services".[62] In the future, disaggregated licensing data will be available.

For the *World Intellectual Property Report 2013* we still gathered data for individual countries on a case-by-case basis. This was done by reviewing individual countries national accounts for any published data as well as contacting representatives from various national statistics offices and colleages from the statistics division of the World Trade Organization, investigating the availability of any unpublished trademark licensing and franchising data. Doing so, we gathered data for five countries: Sweden, Australia, Canada, Brazil, Canada and the US.

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[59] See Antonowicz (2011).
[60] Athreye and Yang (2012) and WIPO (2011). According to the IMF, data on "Royalties and license fees" incorporate: "international payments and receipts for the authorised use of intangible, non-produced, non-financial assets and proprietary rights […] and with the use, through licensing agreements, of produced originals or prototypes […]".
[61] For the drawbacks of this data, see WIPO (2013a). First, it is limited to cross-border transactions, which most likely only constitute a fraction of the total licensing market. Second, there are difficulties in isolating licensing revenues between corporations from transfer pricing within corporations. Third, disaggregated licensing data which would allow us to assign the licensing payments or receipts to particular transactions, such as trademark licensing, is typically not available.
[62] For details see Box 1.11 in WIPO (2013a), IMF (2009), and UN *et al.* (2011).

The data provided by these countries is heterogenous. For example, the data available for Australia and Sweden does not allow us to separate trademark licensing from franchising. Nor does it enable us to distinguish between affiliated and unaffiliated transactions. Brazil, on the other hand, distinguishes between trademark licensing and franchising, but does not separate affiliated and unaffiliated transactions. Furthermore, some countries only collect data on trademark licensing and franchising payments, not on receipts.

The most comprehensive data is published by Canada and the US. This data allows us to distinguish both between affiliated and unaffiliated transactions, as well as between franchising and trademark licensing. In addition, both payments and receipts are separated by region and/or country. In the case of Canada, we can examine trends in franchising and trademark licensing with the European Union, the US and 0ther countries. The data for the US is somewhat more detailed, allowing us to track year-on-year trends in trade with 34 individual countries in five regions. One discontinuity in the US data should, however, be emphasized. While the data on trade with individual countries is reported for unaffiliated transactions only over the period 1986 to 2005, unaffiliated and affiliated transactions are not disaggregated on country level in the data covering the period 2006 to 2011. We are therefore unable to compare the data over the full period.

Nonethless, 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. In the US receipts from trademark licensing increased from USD 794 million in 1994, to USD 3,377 million in 2011 (these numbers include unaffiliated transactions only). Growth on the payment side was slower, with trademark licensing payments increasing from USD 154 to 582 million over the same period. Turning to the franchising market we find a similar pattern. Receipts from franchising grew from USD 113 million in 1987 to USD 1,327 million in 2011, while payments remained one-digit. In Sweden, both payments and receipts somewhat increased over the investigated period, 2005 to 2012, although trends were cyclical. While Australian trademark licensing and franchising receipts have remained relatively stable since 1998, payments have been growing substantially from about USD 332 to 1,232 million in 2011 (these numbers include affiliated transactions). Since these payments are the receipts of other countries, they indicate growth in the global market for licensed brands.

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 2, 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 one. 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.

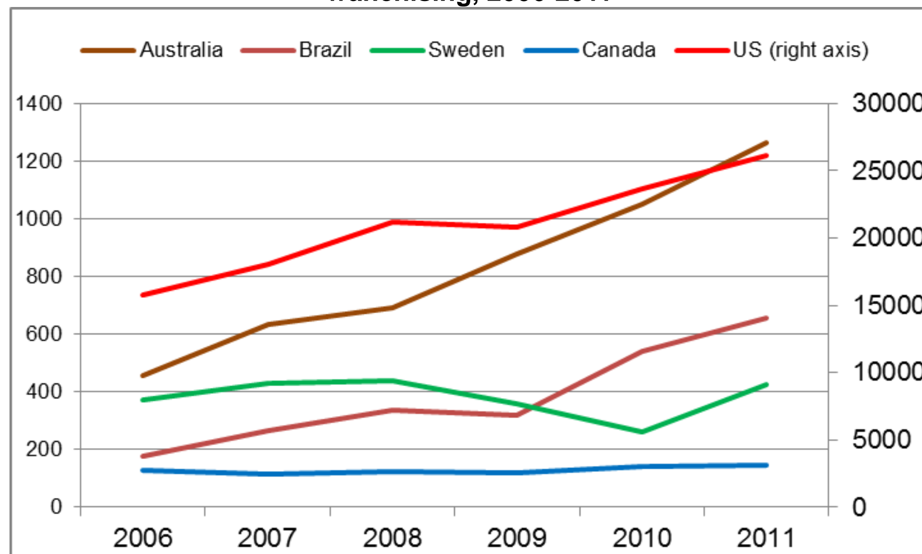
Trademark licensing and franchising also grew, relative to trade in services in the case of the US, rising from 2.2 percent to 2.7 percent of total services trade, and in Australia from 0.7 percent to 1.1 percent of total services trade. For the other countries, the development was flat, or, in the case of Canada, negative (Figure 2, 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 (see Figure 3). 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 trademark licensing and franchising are growing relatively slowly as a proportion of total IP trade among 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 in WIPO, 2013a and Lutz *et al.* (2013)).

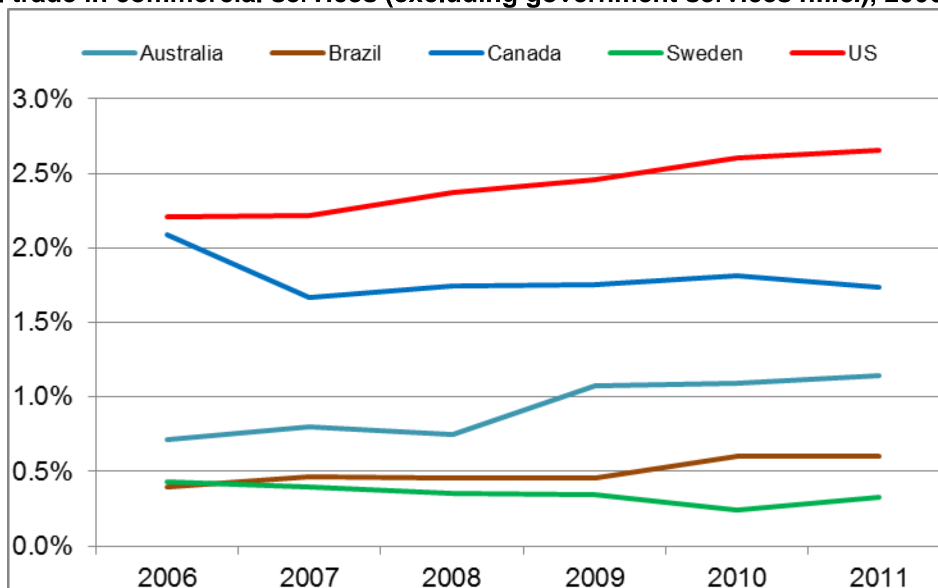
Figure 2: The total value of international trademark and licensing transactions has mostly increased over the period 2006 to 2011, sometimes rapidly

Total affiliated and unaffiliated transactions (receipts and payments) for trademarks and franchising, 2006-2011



Source: WIPO, based on data from the Australia Bureau of Statistics (ABS), National Industrial Property Institute Brazil (INPI), Statistics Canada (CANSIM), Statistics Sweden (SCB), Bureau of Economic Analysis (BEA).

Total affiliated and unaffiliated transactions for trademarks and franchising as a proportion of total trade in commercial services (excluding government services n.*i.e.*), 2006-2011

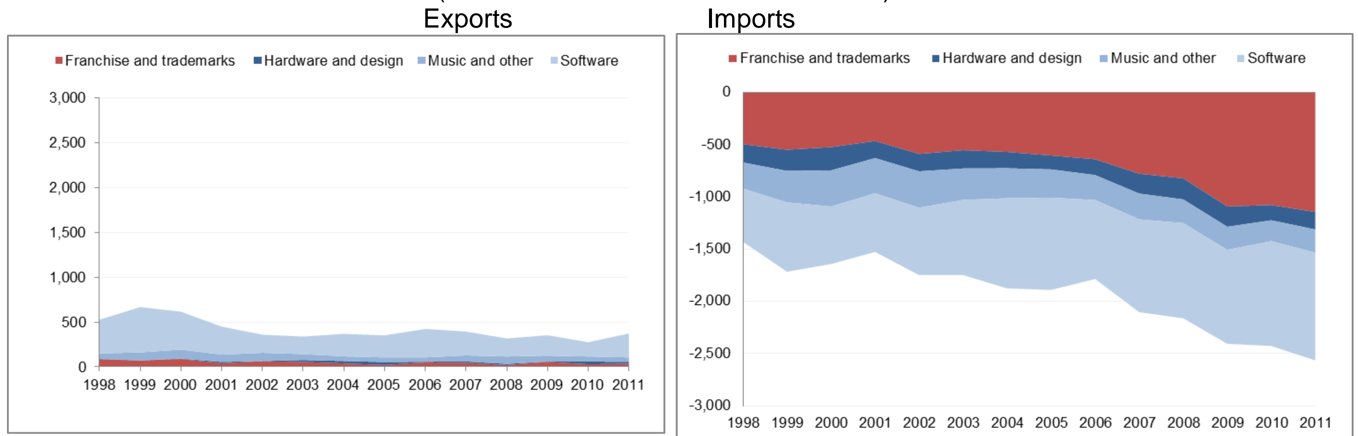


Source: WIPO, based on data from ABS, INPI Brazil, CANSIM, SCB, BEA and WTO data for trade in commercial services.

Figure 3: Markets for trademark licensing and franchising are relatively small compared with the trade in other IP forms

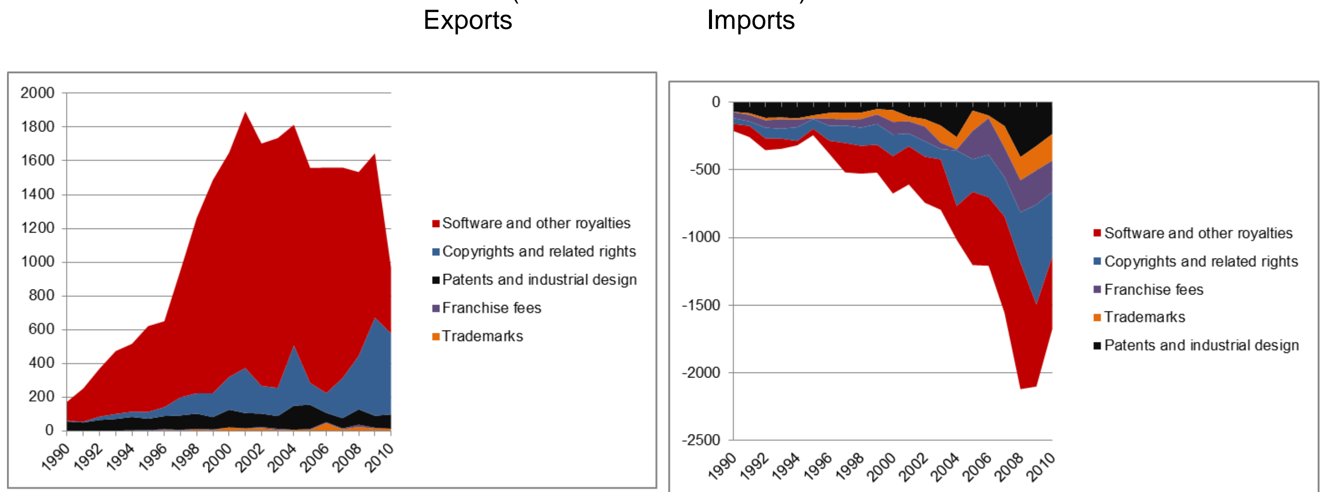
Australia (affiliated and unaffiliated transactions)

Exports Imports



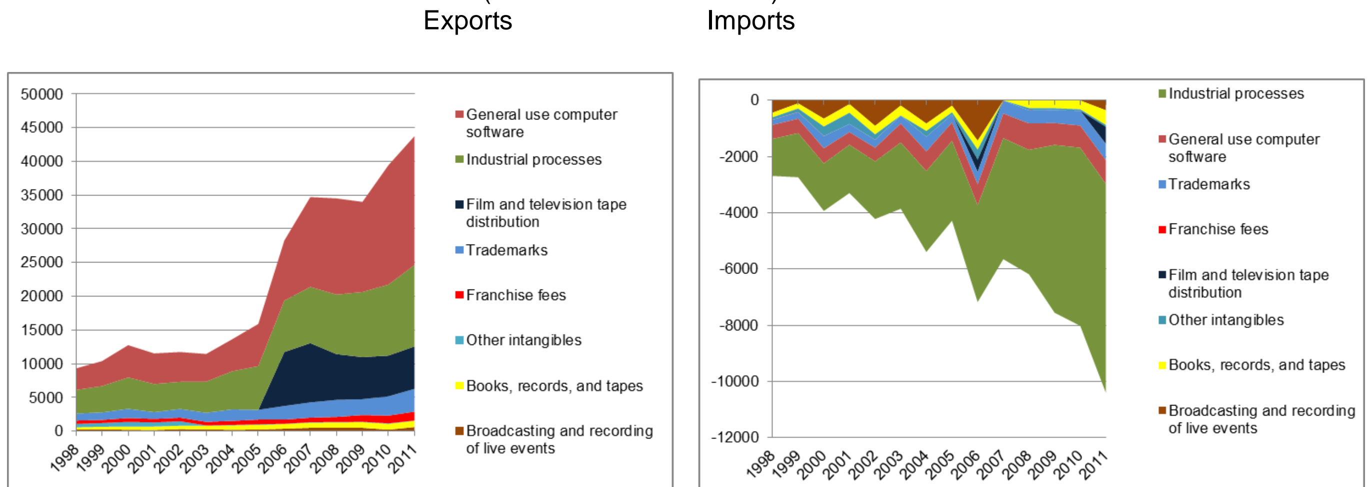
Canada (unaffiliated transactions)

Exports Imports



US (unaffiliated transactions)

Exports Imports



Source: WIPO, based on data from ABS and the Office of the Chief Economist, IP Australia, CANSIM, and BEA.

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. 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.[63]

Fourth, and unsurprisingly, examination of the data from the US shows that most international trademark and franchise transactions are between high-income countries. On the basis of the data published by the US Bureau of Economic Analysis, we are able to separate trademark licensing and franchising transactions by 34 individual countries in five regions. This allows us to examine geographical trends in trademark licensing and franchising, but also to distinguish between developed and developing economies. Because the data only covers transactions with the US, however, our analysis will inevitably provide a somewhat distorted picture of the international licensing market. Still, in the absence of more comprehensive data for a broader number of countries, it provides a useful indication of year-on-year trends by region.

The US data suggests that international licensing market is largely confined to OECD countries. Overall, US trademark licensing and franchising receipts from developing economies have not been growing at the same pace as receipts from developed ones in absolute terms. At the same time, although receipts from developing countries are still small in absolute numbers, growth rates in US receipts from these countries have been increasing substantially over the investigated period, indicating a growing demand for Western brands. We find no indication, however, of developing countries increasingly exporting brand assets to the US. US payments to developing countries for both franchising and trademark licensing remained negligible over the investigated period.

More specifically, we find US receipts from trademark licensing to have grown substantially from every region apart from Africa over the period 1994 to 2005. Receipts from Europe increased from USD 281 to 438 million, while exports to Asia and Pacific as well as Latin America and other Western Hemisphere nearly doubled. Exports to the Middle East exhibited the highest growth rates, although they remained small in absolute numbers, growing from USD 7 million in 1994 to USD 21 million. Over the period 2006 to 2011, when affiliated transactions are also included, we find a similar growth pattern, with the exception that we also find significant growth in receipts from Africa, most likely stemming from affiliated transactions.

On the payment side, which reports the share of the licensing receipts from the US, of other countries and regions, we only find the same upward trend in some regions. For example, US trademark licensing payments to Asia Pacific increased substantially from USD 10 to 44 million between 1994 and 2005, although it shall be noted that nearly all growth came from Japan. Growth in payments from Europe was relatively modest, up from USD 110 to 144 million over the same period, while we do not observe any growth in payments to Africa or Latin America and other Western Hemisphere. Although there was a jump in payments to Latin America in 2006, when affiliated transactions were also included, this figure has steadily been declining since.

[63] For more details, see Box 1.7 in WIPO (2011).

We observe a largely similar pattern when examining the international franchising market. Franchising payments were either non-existent or low one-digits to every region over the investigated period. At the same time, between 1987 and 2005, receipts increased from Europe (USD 43 to 267 million), Latin America and other Western Hemisphere (USD 7 to 71 million), Asia Pacific (USD 20 to 222 million), and the Middle East (USD 2 to 63 million). Hence, while the US exhibited considerable growth in franchising receipts to all regions, growth in payments has been relatively small.

US receipts from developed countries have been growing the most in absolute numbers, while growth in receipts from developing economies sometimes have been more substantial in relative terms, in particular from franchising. Receipts of developing countries have, however, remained negligible from both franchising and trademark licensing.

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.

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.

3.2 Brand-driven M&A transactions

Putting a figure on the acquisition of brands also presents a number of challenges. First, brands or trademarks are rarely acquired on their own; rather, they are usually part of an M&A deal (see Figure 1). And 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 triangulate cross-border purchases of brands producing some initial and robust findings.

Our methodology proposed consists in the quantification of so-called “brand-related M&A transactions“. The idea is to search for a defined list of of brand-related keywords in the M&A deal descriptions.

The database used is Bureau van Dijk (BvD)’s Zephyr.[64] It covers deals in 40 languages – deals that English-only databases tend to miss. 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.

[64] Software version 30.0 searched on 22/05/2013 ("search date" hereafter). Zephyr is a database of M&A, IPO, private equity and venture capital deals with links to detailed financial information on companies. Zephyr covers over ten years’ of history for deals around the world.

This partly helps to overcome the common bias against deals in non-English-speaking countries.

Zephyr consolidates deal-related information into comprehensive deal comments, presented chronologically. Additional information includes the structure, finance and deal payment method plus references to regulatory or shareholder issues. The deal comments are updated as the deal progresses. As part of its deal coverage, Zephyr also collects the strategic rationale behind each deal by typically drawing on direct quotes from deal participants.

Our method is to focus on the deal comments and the deal rationale to distinguish brand-driven M&A transactions from the rest. A high and a low estimate for the number and value of brand-driven M&A deals is produced as described in Box 1.

Box 1: Low and high estimate of brand-driven M&A deals

Low estimate

To establish the low estimate, the following keywords were used in the text box search limited to Deal Rationale: There were a total of 992,372 global deals (M&A, IPO, private equity and venture capital deals) from 2004- Until search date. We limited these results by using the following criteria:

- Deal Type: Acquisition, Merger
- Current deal status: Completed
- Time period: 2004 - until search date (this was the maximum time period for which Zephyr have data available globally)
- Text search within Deal Rationale using keywords: ("brand" OR "franchise" OR "franchising" OR "trademark")
- Acquirer OR Target OR Vendor

These criteria yield a total of 8,046 deals between 2004-Until search date.

High estimate

To establish the high estimate, the following keywords were used in the text box search including Deal Rationale *and* Deal Comments: There were a total of 992,372 global deals (M&A, IPO, private equity and venture capital deals) from 2004- Until search date. We limited these results by using the following criteria:

- Deal Type: Acquisition, Merger
- Current deal status: Completed
- Time period: 2004 - until search date (this was the maximum time period for which Zephyr have data available globally)
- Text search within Deal Rationale using keywords: ("brand" OR "franchise" OR "franchising" OR "trademark")
- Acquirer OR Target OR Vendor

These criteria yield a total of 12,421 deals between 2004-Until search date. These cover a wide range of target sectors, with other goods and services (29 percent) and food, beverages and tobacco (16 percent) constituting the largest sectors by target value.

Some limitations to our approach deserve mention: First, the market for brand-driven M&A transactions is likely to be associated with the performance of the M&A market in general. As a result, the estimates are likely to be partly driven by general economic and M&A activity. Second, while Zephyr covers more than 40 countries, we cannot exclude the possibility that there is some bias towards English speaking and developed countries. This is because documents have to be translated into English in order to appear in the deal activity. Finally, it is likely to lead to a systematic under measurement 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.

With these caveats in mind, a few interesting and robust findings emerge which are discussed in detail in later sections:

- Firstly, the 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.

- Secondly, 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.

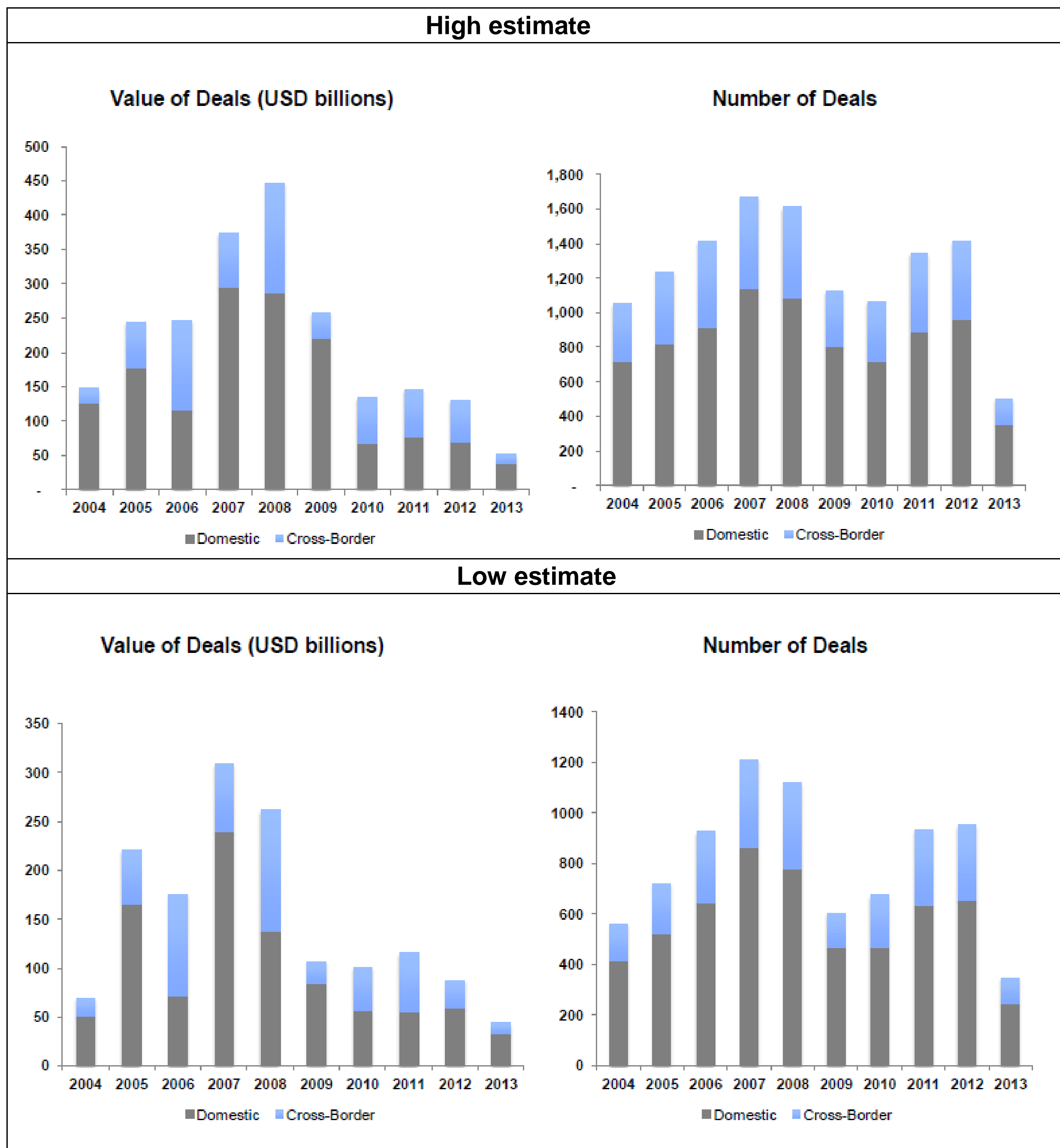
- Thirdly, when international deals take place, both the main acquirer and the targeted commercial entity tend to be in high-income economies, although there was a substantial decline in OECD country to OECD country transactions following the financial crisis of 2008. Firms in non-OECD countries are becoming more important acquisition targets. Moreover, although it is possible to cite a number of prominent examples, the data implies 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.

Over the investigated period, the total global market for M&A has ranged between approximately USD 2.5 – USD 6.0 trillion. The annual number of deals varied substantially between 65,000 to 80,000 deals, while the average global M&A deal's value is ~ USD 50 million. As a share of the total global M&A market, the market for brand-driven M&A transactions is quite small. The high estimate (low estimates in parentheses) for brand-driven M&A transactions have ranged between approximately USD 150 to 450 billion (USD 60 to 325 billion) globally since 2004, representing about 6 to 10 (3 to 9) percent of the global M&A market in value year-on-year (see Figure 4). In terms of volume, brand-driven transactions number 1,000 to 1,700 (600 to 1,300) deals per year or about 1.5 (1.0) percent of the global deal volume. We also find that the total market for brand-driven M&A transactions has not yet rebounded since the financial crisis of 2008. In terms of the number of deals, the market was back at 2006-levels by 2011 and has remained stable since.

Typical brand-driven M&A transactions are large with an average value of ~ USD 430 (400) million. Accordingly, 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.

Finally, the market for brand-driven M&A transactions is largely domestic, although the share of cross-border transactions has increased substantially since 2010, in terms of deal values. Yet, this was driven by a sharp decline in domestic transaction values, rather than an increase in the value of cross-border deals. Interestingly, the number of domestic transactions did not decline as sharply. This means that the decline was mainly caused by lower average deal values in domestic markets, and not a decline in volume. In terms of deal numbers, the share of cross-border transactions remained relatively stable, typically constituting about 25 to 30 percent of annual transactions throughout the investigated period. We find the above described findings to be consistent between our high and low-range estimates. Accordingly, there is no clear trend towards a growing share of cross-border transactions. We thus conclude that markets for brand-driven M&A transactions remain largely domestic.

Figure 4: Annual number of domestic vs. cross-border M&A deals – high and low estimate



Source: Authors' calculations based on Zephyr database

There are several possible explanations for this. First, brand equity is often local and not transferable between countries. This would, however, imply that the motive behind the acquisition is generally to use the acquired brand in the home market, which is not necessarily the case. On the contrary, local brand equity is more likely to provide a rationale for companies to extend their brand portfolio, as highlighted by the L'Oréal acquisition of Mininurse. The consistently moderate share of cross-border transactions could, however, equally be explained by the characteristics of the global M&A market. Cross-border M&A transactions are, for example, generally complex and involve numerous tasks arising from differences in business customs, environments and tax schemes.

Here, past research on cross-border M&A transactions provides some guidance, showing that these historically have represented on average one quarter of total M&A transactions, both in deal value and numbers.[65] Hence, the moderate share of cross-border transactions is not particular to the market for brand-driven M&A transactions, but general to the M&A market as a whole.

When examining the importance of both cross-border and domestic markets for brand-driven M&A transactions, by country and over time, we find that the two largest markets–the domestic US and UK markets–have been declining substantially since the financial crisis of 2008. Most likely, this also explains the decreasing share of the total domestic market relative to cross-border transaction values over the past few years. Furthermore, all leading markets relate to trade within or between developed countries. This is in line with past research, on the global M&A market, showing that firms from developed countries have historically played a predominant role not only in outward, but also in inward cross-border M&A.[66] For example, over the period 1991 to 1998, Kang and Johansson (2000) find that the US, the UK, Germany, France and Canada accounted for almost 55 percent of total inward M&A deal value.

A closer look at the value of brand-driven M&A transactions by acquirer country reveals a largely similar picture to that of the global M&A market, although the concentration around high-income economies, and in particular the US and the UK, is even more profound (see Figure 5). By deal values, the US market is larger than the following 44 markets together. Furthermore, the top ten brand acquirers by deal value are consistently developed countries. This is a robust finding, holding both for our low and high-range estimates.

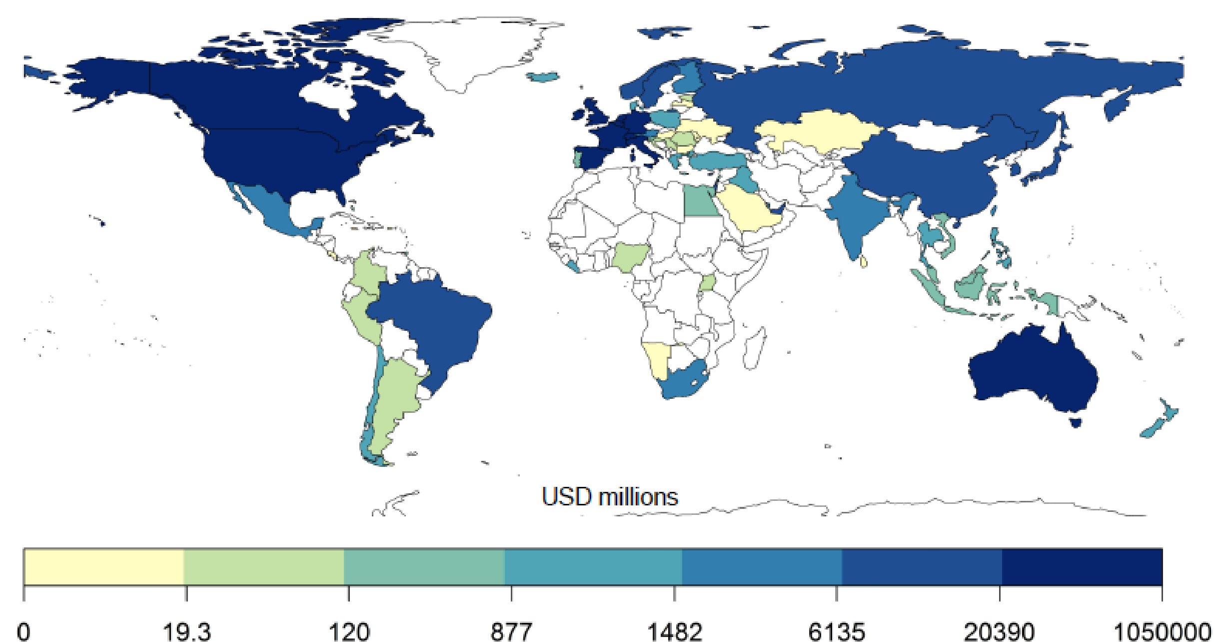
Among the BRICs countries – Brazil, the Russian Federation (Russia), India, and China constitutes the largest market, recording acquisitions amounting to USD 17.5 (10.6) billion. Yet, it is only the fourteenth largest market globally. Furthermore, brand acquisitions made by Russian companies have been largely concentrated to one year. The other BRICs, in terms of Brazil, India and China, constitute much smaller markets, recording total deal values below USD 8 (5) billion over the investigated period. This can be compared to the two leading markets, with US and UK companies recording acquisitions amounting to USD 1,095 (806) and 389 (292) billion, respectively.

In terms of number of deals, however, developing countries play a somewhat more prominent role. It shall be noted that while the number of deals vary substantially between our high and low-range estimates, the general patterns observed remain consistent. According to our high-range estimates, India and China provide the ninth and tenth largest brand acquirers, respectively recording 171 (93) and 128 (58) acquisitions over the investigated period. In addition, South Africa recorded 100 (43) acquisitions, while the Russian and Brazilian companies made 67 (24) and 61 (14) acquisitions, respectively. Although these are not negligible numbers, the BRICs are still far behind the leading markets. For example, US companies made 5,351 (4,227) brand-driven acquisitions over the investigated period, while UK companies acquired 1,928 (1,332) firms for brand-related reasons.

[65] Coutinet and Sagot-Duvauroux (2003).
[66] Kang and Johansson (2000).

Our findings show that markets for brand acquisitions are mainly confined to developed countries, with some of the BRICs playing a somewhat larger role in terms of number of deals. This implies that while acquisitions made by EMNCs are relatively small in values, they contribute to the volume of the global market. A plausible explanation for this is that brand acquisitions require substantial financial resources, meaning that brand-driven M&A transactions in developing countries are likely to be confined to a few established companies.

Figure 5: Total brand-driven M&A transactions by value (USD billions) by acquirer country 2004–2013 (High estimate)

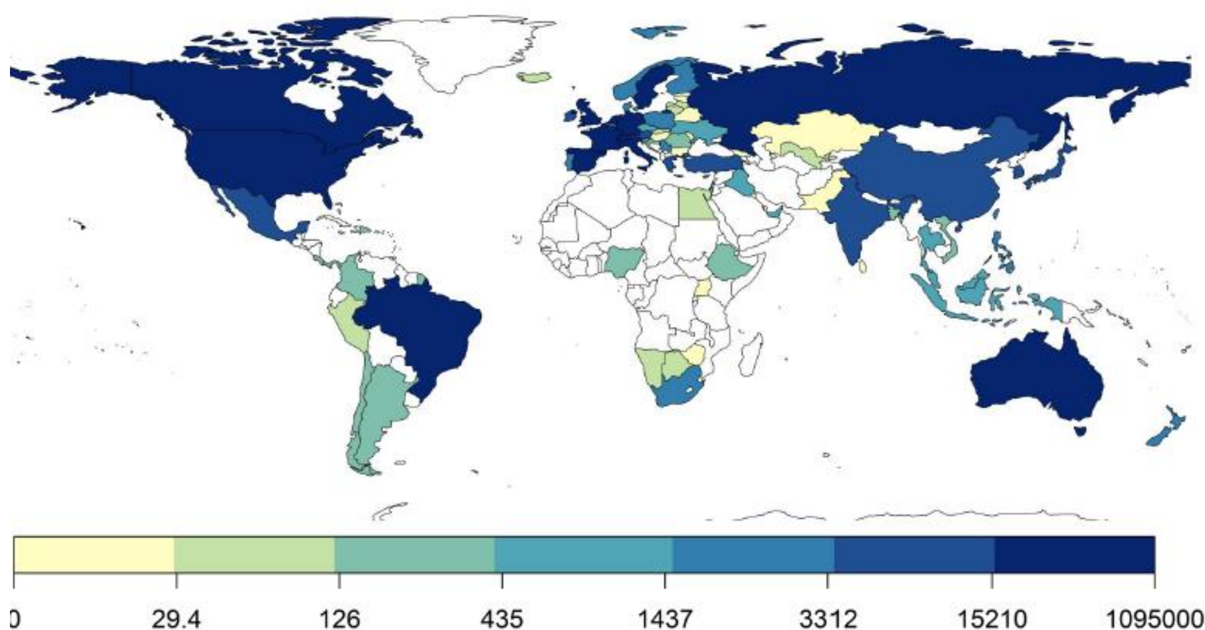


Source: Authors' calculation based on Zephyr database

When examining our sample by target country, we find a largely similar pattern. In terms of deal value, the main target markets are in developed countries, although we note that developing countries provide more important target than acquirer markets (see Figure 6). Among the BRICs, the Russian Federation provides the largest market, and the tenth largest market globally, with brand-driven acquisitions amounting to USD 27.9 (18.5) billion. The other BRICs are similarly substantially larger target than acquirer countries. Brand-driven M&A transactions of Brazilian companies amounted to USD 23.0 (8.6) billion, while Indian and Chinese markets were somewhat smaller, with total transaction values amounting to USD 14.2 (13.0) and USD 10.4 (6.7) billion, respectively.

In terms of deal numbers, the BRICs provide somewhat more important target markets. According to our high-range estimates, China constitutes the eight largest market, recording 250 (146) brand-driven acquisitions, and in our low-range estimates, we find it to constitute the fifth largest market. The other BRICs equally provide important markets, with India recording 197 (112) transactions, followed by 170 (49) transactions in South Africa, 121 (57) deals in Russia, and 115 (46) acquisitions in Brazil.

Figure 6: Total brand-driven M&A transactions by value (USD billions) by target country 2004–2013



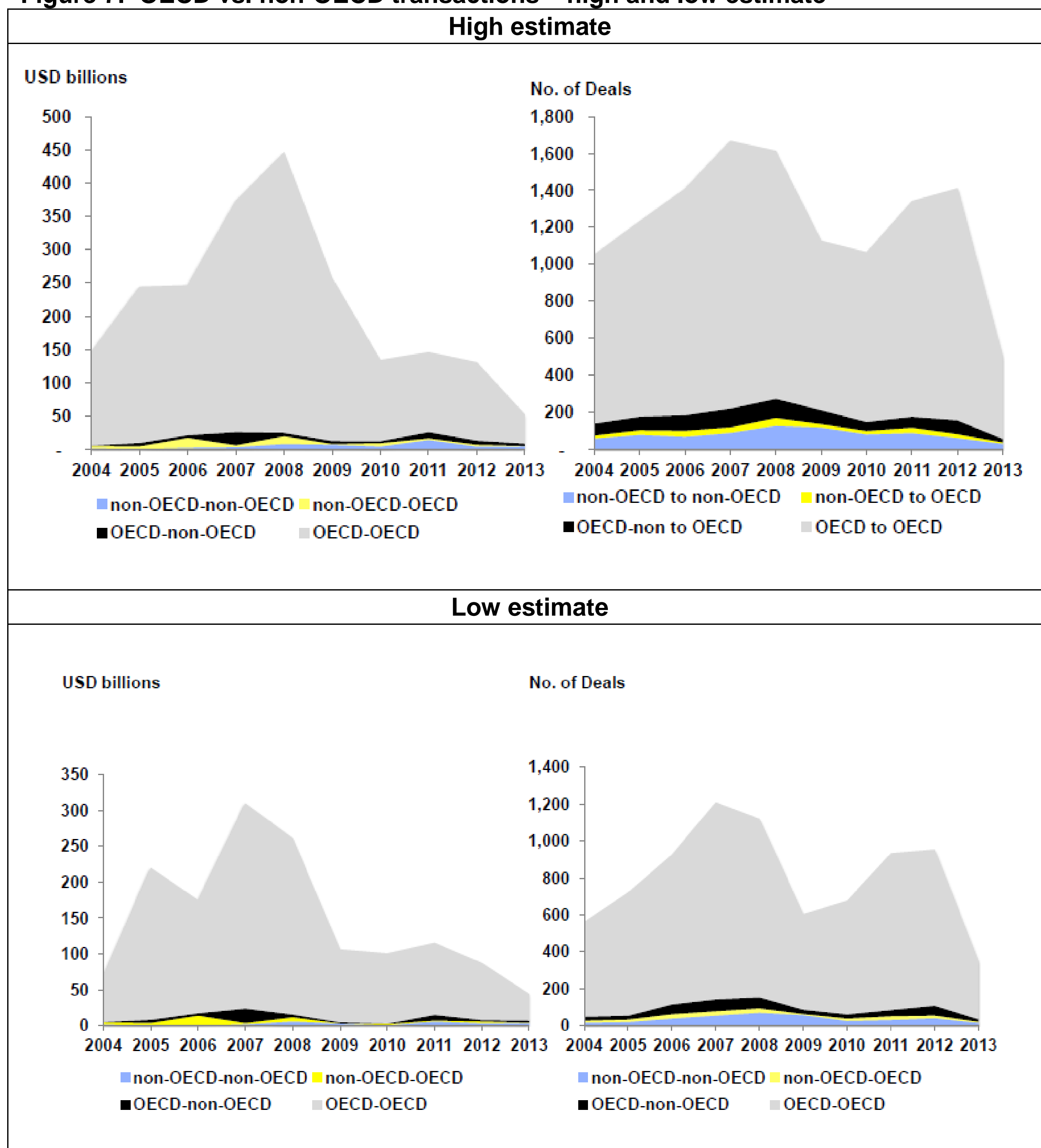
Source: Authors' calculations based on Zephyr database

The relative importance of the BRICs as target countries, suggests that OECD countries are more active acquirers of non-OECD brands, than non-OECD countries are in acquiring OECD brands (see Figure 7).[67] We turn examining this pattern over time. Our findings show that OECD to OECD transactions have dominated the market persistently over the investigated period, with no sign of non-OECD to OECD or OECD to non-OECD transactions growing substantially in relative or absolute terms. An exception is the period around the financial crisis of 2008, when OECD to OECD transactions fell more sharply than others. Non-OECD to non-OECD transactions provide the second largest category in terms of number of deals, but has been somewhat smaller than the OECD to non-OECD markets in terms of transaction values.

This underlines the above described pattern of the BRICs playing a somewhat larger role in terms of number of deals. However, most non-OECD transactions are domestic or occur outside the OECD region. That is suggested by the fact that non-OECD to OECD transactions constitutes the smallest category, which has even been falling over the investigated period. This finding is surprising since past research shows that there has been a rapid growth in M&A markets of emerging countries such as China, India and Russia, in recent years. For example, Harrison (2011) finds that in 2010 emerging markets took a substantial share in the total market of global M&A. Of the total of three trillion US dollars spent on 40,983 transactions, USD 923.5 billion and 14,700 deals took place in emerging markets – *i.e.*, about one-third of overall activities.[68] We thus conclude that the low share of non-OECD to OECD transactions is particular to brand-driven M&A transactions, and does not apply to the global M&A market. This finding is in line with Williamson and Raman (2011), arguing that Chinese companies, for example, instead of acquiring global brands, sales networks or goodwill, focus on hard assets such as mineral deposits, technologies and R&D facilities.

[67] OECD stands for the Organisation for Economic Co-Operation and Development.
[68] Harrison (2011).

Figure 7: OECD vs. non-OECD transactions – high and low estimate



Source: Authors' calculations based on Zephyr database

Finally, when examining trends in brand-driven M&A transactions made by companies in BRICs countries value more in detail, we find that the above observed pattern of moderate growth in these markets holds, with the exceptions of occasional deal value increases in the Russian and Brazilian markets. In terms of deal numbers, however, trends have been cyclical. While there was a surge in acquisitions in the mid to late-2000s, in particular driven by Chinese companies, these markets have recently been in decline. Furthermore, the numbers of deals are relatively small, peaking at 27 acquisitions made by Chinese companies in 2009. This leads us to conclude that the BRICs are not catching up in markets for brand-driven M&A, at least not in terms of transaction values. While the number of transactions has indeed been growing, they still provide a fraction of the total market, and trends have been highly cyclical.

Conclusions

Little is known about the magnitude of Market for Brands, their economics, the associated business models and the resulting economy-wide or sectoral impacts. This paper provides a taxonomy for studying different brand markets as well as evidence on their magnitude.

The scarce data on licensing presented show that the Market for Brands are gaining significance and are growing, in particular in the area of entertainment, and corporate brands that relate to consumer products, fashion, sports, arts and education. Franchising is an even larger market – with a high level of activity in almost all countries, although mostly domestic in nature.

Still, relative to other types of intangible assets, franchising and trademark licensing markets are still relatively small. When examining the geographical distribution of licensing receipts we find that trademark licensing and franchising markets largely are confined to the OECD region, although non-OECD countries increasingly provide important export destinations for licensed brands. The main reason for this is most likely that brands may be perceived differently across countries and regions. This sets boundaries to the diffusion of brands, which does not necessarily constrain technology licensing. Specifically, trademark licensing and franchising is associated with a number of principal-agency problems. While these equally exist in other licensing markets, they are likely to be less profound. For example, an industrial process is often not directly perceived by the consumer. Hence, if misused by the licensee, it may not directly affect the product sales of the licensor. The misuse of a brand, however, will inevitably result in the dilution of the brand equity established by the licensor. Monitoring and control costs in trademark licensing and franchising markets are thus relatively high, potentially inhibiting the expansion of those markets.

Finally, markets for brand-driven M&A transactions – as defined and measured imperfectly here - constitute only a fraction of total M&A deal volumes and to the OECD region in general, and to the US in particular. A plausible explanation for this is that brand acquisitions are associated with substantial transaction costs. This is suggested by the literature showing that although there good reasons for firms to acquire brands on the market, these benefits can be offset by the difficulty of integration into the brand portfolio, making the pursuit of a coherent brand strategy more challenging.

Notwithstanding these facts, the value of the average brand-driven M&A transaction is 10 to 12 times higher than that of the average global M&A deal. Also, non-OECD markets have become increasingly important as OECD markets have declined in relative terms.

Despite these initial findings, this paper has also underlined a number of data constraints and limitations to our methodology which impact the reliability of the results. While we conclude that there is evidence that Market for Brands outside the OECD region exist, we acknowledge that further research on this topic is required. This, in turn, requires steps to improve the data availability on brand related transactions. The implementation of BPM6, separating trademark licensing and franchising from other transactions in international licensing data, provides one important step in that direction. Similar steps needs be taken to improve the data availability on domestic Market for Brands, allowing for more comprehensive research on these markets. This paper aims at providing a foundation for such future work.

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