

The economics of Trademarks

By **Marinos Cleanthous**

IP CYPRUS

The trademark system provides confidence and build strong relationships between producers and consumers. Some of the most notable companies of today, such as Louis Vuitton (1854), Nokia (1871), Coca Cola (1886) and Lipton (1871) were developed and managed to be dominant to the market for more than a century using their trademark as the main tool of advertisement.

However, until recently it was unclear the economic power of trademarks and the trademarks impact on the economy. At the beginning of 2012, IKEA became one of the first companies to disclose its trademark value as part of a financial transaction. The value of IKEA trademark was validated at 11 billion USD.

The 2013 Report of WIPO (the World Intellectual Property Organisation) takes a closer look at the economics of trademarks and explores the reasons why the more developed a country is, the better protection offers to a trademark.

The main summary of the report is that economic development is built on relationships of trust and confidence, which require strong brand reputation and thus protected trademarks.

Also, the report suggests that as the economic recovery of a country can be achieved mainly through competition and innovation, this means that the better a state provides safe and clear provisions for the protection of a trademark, the more developed its' economy will be.

Today, the global trademark systems face three main challenges:

First, strong brand reputation makes consumers willing to accept higher prices, as switching to a competing brand would entail additional search costs. Rather just advertising a product or a service, companies through the image of a

trademark work to create and deliver "a brand experience" for the consumer.

In practice this means that companies have to manage not only to maintain product quality but also to control their reputation.

However, the reputation mechanism only works if the consumers know that they purchase what they intended to buy. This is achieved via the trademark system. Lower search costs, create incentives to the producers (a) to invest in higher quality goods and services and (b) to produce different products and services.

Besides the above, trademarks improve communication about goods and services as they help consumers to distinguish between different products and services and in this way they promote competition between the companies.

Second, companies even from middle and low-income economies work at developing brands that are appreciated both at home and abroad. This is also called as the "internationalization of brands" and in order to be successful and fruitful requires the trademarks of the brand to be protected.

Third, the internet and the social media result a different and an increasing number of digital interaction and communication. The new advertising possibilities limited the distance between consumers and producers and created new ways of interaction. Internationally, trademark applications were increased during the so called "dot com boom". Therefore, reputation is more difficult to be controlled today as it can be earned or lost much more quickly.

In addition to the above, branding is no longer an activity of companies alone. Increasingly, individuals, cities, or even nations and governmental organizations are adopting an

active approach to branding by register their logos as trademarks

One other economical aspect of trademarks is the fact that not only a company can use the advantage of its good reputation to grow its market share but popular trademarks play a key role in helping companies to both attract and retain talented employees (Who really wouldn't like to have the opportunity to work to Google or Apple?!)

The WIPO Report, also, suggests that between 2009-2013, the average trademark value of companies based in middle-income economies has grown faster than the trademark value of companies in high-income economies. This might be an indication for the future.

Cyprus and the economics of trademarks

Cyprus economy is mainly based on services. That means that the local entrepreneurs should be aware of the importance of the protection of their brands' values and identity. Strong brand value can have an important impact on firm's growth potential as it can increase firm's financial value, which in turn can help them raise money in the financial market and additionally, firms with strong trademark reputation are more likely and more successful than their rivals to introduce new products and services.

As per the WIPO's Report, a strong trademark can also secure a firm's future revenue stream. The fact that trademark protection does not have a term limitation, has as a result to allow firms to extend their exclusivity over their brands and to prevent others from using their property.

In this context, Cyprus, which is member of EU since 2004, introduced a package of incentives and exemptions (known as IP box) relating to investment in intellectual property rights. The most significant provision is the 80% tax

exemption for any income generated from intellectual property rights.

Conclusions

Building strong trademarks is an an important investment as it can be a sustainable advantage for firms of the world today.

Trademark system helps companies to differentiate themselves, it promotes company's goods and services and it can even help company's venture into new markets. Further, reputable trademarks encourage companies to appropriate their investments in innovation.

Cyprus, despite the fact that it is small country, can be a big and important player in the area of new technologies and innovative services. The very attractive tax exemptions that Cyprus offers to any income generated by trademarks (and the other ip rights) and the fact that the country fully implements the EU legislation, underline the potentials of Cyprus companies to the global economy. But the question is , how informed are the local brand owners are for the importance of the protection of their trademark.

IP CYPRUS is an intellectual property service provider based in Cyprus.

IP CYPRUS' team is comprised of dedicated, experienced professionals who are passionate about intellectual property law and who have decided to promote and encourage innovation rather than to simply follow standard procedure.

For any issue related to the protection and the development of your ip rights in Cyprus and abroad: info@ipcyprus.com