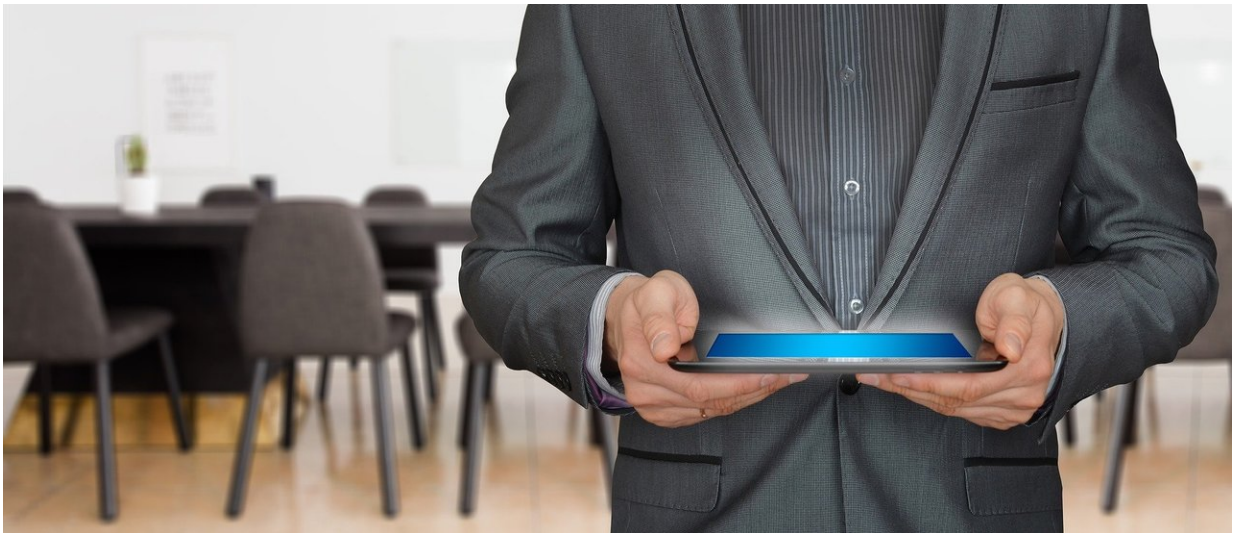


Entrepreneurs: Get the trademark to succeed, research says

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Startups and entrepreneurs should spend the effort and money to obtain trademarks, because trademarks help them succeed in both product and financial markets, researchers say.

In a paper presented today at the Financial Management Association annual meeting in New Orleans, researchers said the [trademark](#) portfolio held by an entrepreneurial firm is an important determinant of the eventual success of the firm. The paper, "Trademarks in Entrepreneurial Finance," is the first to study the role of trademarks for entrepreneurial

firms; most existing studies have focused on the role of patents.

"We hypothesized that trademarks play two important roles: a protective role, leading to better product [market](#) performance; and an informational role, signaling higher firm quality to investors, said Qianqian Yu, assistant professor of finance at Lehigh University, who co-authored the paper with Thomas Chemmanur and Harshit Rajaiya of Boston College and Xuan Tian of Tsinghua University.

A trademark is a recognizable symbol, word, phrase, design or other signifier that identifies and distinguishes a product or service produced by one firm from those of other firms. Think of the Starbucks or Google logos, the Target "bulls-eye," Nike's "Just Do It" slogan or Intel's "Intel Inside" tagline.

Different from patents, which primarily capture [technological innovation](#), trademarks allow startup firms to differentiate their products and generate customer loyalty through advertising. Because they are costly to acquire and maintain, trademarks may also signal the intention and ability of a firm to launch and continue a new product line, serving as a credible signal of firm value to investors.

Researchers studied the relationship between the number of trademarks held by firms and various aspects of venture capital investments in them; firms' probability of successful private-firm exits (IPOs or acquisitions); and the IPO and secondary market valuations of the portion of these firms that go public. They also looked at institutional investor participation in these IPOs; firms' post-IPO operating performance; and the post-IPO information asymmetry faced by these firms.

They tested their hypotheses using a large and unique dataset of 55,977 trademarks registered by VC-backed firms of the years 1985-2015 and data on VC investment in these firms; data on their exit outcomes (IPO,

merger or acquisition); and on the IP valuations and post-IPO operating performances of the portion of these firms that go public.

"We find that the number of trademarks held by an entrepreneurial firm is associated with a greater VC investment amount spread over a smaller number of financing rounds, a greater probability of successful exit, higher IPO and secondary market valuations, greater institutional [investor](#) IPO participation, smaller post-IPO equity market information asymmetry, and better post-IPO operating performance," the researchers said.

Trademarks held by a firm help it attract financing on favorable terms and are an important predictor of its success, both as a private firm and later as a public firm, they found. Obtaining a trademark signals a higher probability of success to private investors like VCs and to public equity market investors (such as institutional investors and potential acquirers), they said. It also enables a firm to perform better in the product market, such as through giving it some monopoly power over its products, which translates into better financial performance.

"Our findings highlight the importance of the value of trademarks for entrepreneurial firms and therefore generate important implications for entrepreneurs, venture capitalists in private equity and public investors," Yu said.

More information: Thomas J. Chemmanur et al. Trademarks in Entrepreneurial Finance: Empirical Evidence from Venture Capital Investments in Private Firms and Venture-Backed IPOs, *SSRN Electronic Journal* (2018). [DOI: 10.2139/ssrn.3183879](https://doi.org/10.2139/ssrn.3183879)

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