Journal of Business Venturing Insights 6 (2016) 1–6

Contents lists available at ScienceDirect

Journal of Business Venturing Insights

journal homepage: www.elsevier.com/locate/jbvi

Vertical disintegration of production and the rise of market for brands

Christian Lechner [a,*], Gianni Lorenzoni [b], Enrico Tundis [a]

[a] Free University of Bolzano, School of Economics and Management, Piazza Università 1, 39100 Bolzano, Italy
[b] Department of Management, University of Bologna, Via Capo di Lucca 34, Bologna (BO), Italy

ARTICLE INFO

Article history:
Received 1 March 2016
Received in revised form
10 May 2016
Accepted 23 May 2016

Keywords:
Market for brands
Vertical disintegration
Entrepreneurial opportunities

ABSTRACT

The emergence of a market for brands is a relevant economic phenomenon that creates entrepreneurial opportunities. In this research, we explore the relationship between the size of market for brands and the vertical disintegration of production, as antecedent of the rise of market for brands. We take an industry-level perspective and focus on trademark transactions in the US as the empirical setting for our analysis. The results uncover a positive relationship between the degree of industry vertical disintegration and the size of market for brands. We conclude with examples of how a market for brands creates entrepreneurial opportunities.

1. Introduction

Brands represent the most valuable intangible asset (Itami and Roehl, 1991) that firms as diverse as Apple and McDonald's own, often worth much more than other assets, such as property and machinery (The Economist, 2014). From the economic point of view, brands may facilitate the flow of information in product markets to reduce information asymmetry issues (Aaker, 1991). Brands better enable matching between suppliers and consumers to the extent that they convey information to consumers about the origins of goods or services. Also, brands allow consumers to better express their preferences formed by past experience in the market place (Economides, 1988; Ramello, 2006). As intangible market-based resources, brands can represent valuable resources that can create competitive advantage over competitors (Kozlenkova et al., 2014; Srivastava et al., 2001).

The willingness of firms to develop brands has been associated with the cost of developing brands internally (see e.g., Frey et al., 2014). The development of a strong brand is not something that can be achieved over a short period of time and without substantial and risky investment: firms may therefore look outside their boundaries to acquire brands. But also this exchange process is not without costs. In fact, it can be harmed by a number of related problems, such as a difficulty to estimate the economic value of brands and inappropriate management of brands when transferred. What is more, brands are often integrated with the rest of the business process of specific firms and the lack of asset complementarity may weaken the ability of the acquirer to generate value from a particular brand as a traded resource (see e.g. Makadok, 2001). In spite of this, anecdotal evidence of Italian fashion brands being acquired by foreign firms, suggests that firms have become more active in the acquisition and disposal of brand assets; the understanding of this important phenomenon is however still lacking.

* Corresponding author.
E-mail addresses: christian.lechner@unibz.it (C. Lechner), gianni.lorenzoni@unibo.it (G. Lorenzoni), enrico.tundis@unibz.it (E. Tundis).

http://dx.doi.org/10.1016/j.jbvi.2016.05.002
2352-6734/

By taking a broad view of the phenomenon, the aim of this research is to provide evidence of the existence of a market for brands and enablers for its emergence. We are interested in brand transactions that involve the transfer of specific brand assets between firms rather than the buy or sell of entire firms through M&As. In this research we explore hypotheses on what determines the emergence of market for brands, in particular on the relationship between the process of disintegration of production and the size of this market. As any emerging market, a market for brands creates entrepreneurial opportunities while so far intangible assets have mainly been regarded as factors for the success of entrepreneurial firms (Williams et al., 1991).

2. Value chain disintegration as driver of the increase of brand transactions

A market for brands is most likely to emerge when brands can be separated from the upstream activities manufacturing and design. In this respect, a notable feature of buyer-driven value chains - which are common in consumer good industries such as footwear, fashion, and consumer electronics - is that they are characterized by branded marketers that play a pivotal role in setting up decentralized production networks. In the sportswear sector, for instance, since the mid-1970s several prominent firms launched (e.g. Nike, Reebok, etc.) successful brands without any manufacturing.

The process of outsourcing of upstream activities has shifted the sources of competitive advantage of leading marketers to downstream and market-based resources, such as brands. Branded marketers have thus increased their effort in building new brands or developing and reinforcing existing brands. At the same time, however, these branded marketers have been instrumental in providing suppliers with knowledge that subsequently allowed them to upgrade their position in the global value chain (see e.g., Herrigel et al., 2013). In order to leverage their internal capabilities or exploit superior capabilities, suppliers may seek to acquire the market-based resources (i.e. brands) owned by downstream branded companies.

Based on the above arguments we hypothesize the following:

H1. : There is a negative relationship between the degree of vertical integration of production and the size of market for brands.

3. Empirical analysis

3.1. Data

The empirical analysis carried out is based on trademark transactions in the US manufacturing. There is a close relationship between trademarks and brands. A trademark is "a word, phrase, symbol or design, or a combination thereof, that identifies and distinguishes the source of the goods of one party from those of others" (http://www.uspto.gov). Trademarks correspond to the legal rights associated with brand assets, for instance brand name, logos, and slogans that may be codified and thus transferred or purchased. Likewise, a trademark right enables its owner to prevent others from taking advantage of the goodwill in the owner's brand name.

The data collected for this research allows to empirically explore the relationship between the size of market for brands and the process of vertical integration of production at the industry-level.

The database was obtained by merging several secondary sources of data. The first source was the *USPTO Trademark Case File Dataset* (Graham et al., 2013), which contains detailed information on the registered trademarks at USPTO (United States Patent and Trademark Office). From this source it was possible to gather data on the NICE[1] class to which trademarks belong. The second source of data was the *USPTO Assignment Dataset* (USPTO, 2014), where the complete history of interests in a trademark is recorded. This data includes, among other information, the type of transaction and the date of the execution of a transaction. The integration of the two sources of data allowed us to distinguish assignments[2] from other types of transactions such as merger- or security-based transactions executed through the years across the several NICE classes.

To gathere information on US manufacturing industries, we used the *NBER-CES Manufacturing Industry Database* (Becker et al., 2013). This database contains 6-Digit NAICS[3] industry-level annual economic figures, such as data on output, employment, input costs, investment, capital stocks, and various industry-specific price indexes.

Correspondence between trademark (NICE) and industry (NAICS) classification was not straightforward. Lybbert et al. (2014a) have implemented a probabilistic matching algorithm to map trademark data directly into industry categories. We used this matching approach - which has been proposed to similarly concord patents to economic data (Lybbert and Zolas, 2014) - to allocate NICE classes of trademarks to NAICS industry codes in order to create measures of intensity of trademark exchanges that are comparable across industries at 4-digit NAICS level of aggregation.[4]

[1] The NICE classification is the international classification system of goods and services applied for the registration of a trademark.

[2] An assignment of assignor's interest is a "transfer by an assignor of its entire right, title, and interest in a registered mark or a mark for which an application for registration has been filed" (USPTO, 2014, p. 8)

[3] The NAICS classification (North American Industry Classification System) is the standard used by US Federal statistical agencies in classifying economic activities.