



Exploiting IP Assets: Overview of Licensing, Franchising and Merchandising

**Tan Tee Jim, SC
Senior Partner,
Lee & Lee,
Singapore**

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Nature of IP Assets

Trademark – “Motorola”, “Let’s Go Mobile” slogan;

Patent – Over 20,000 pending and granted patent inventions. Motorola, Ericsson and Nokia account for more than 60% of the industry’s R&D- significant entry barrier;

Design – shape, look, keypad, etc. Design of the product is critical in the purchase decision;

Trade secret – know-how and business practices relating to the manufacture and sale of the phone.



Nature of IP Assets

Exclusivity -

- ◆ The right to *exclude* others from using the rights granted by the IP system (e.g. manufacture and sell a patented product) without the consent of the IP owner.
- ◆ Only the IP owner can exercise the rights.
- ◆ The rights are intangible and are not inherent in the product.

Exploiting IP Assets

The rights can be exploited by -

- ◆ Selling;
- ◆ Licensing (including franchising and merchandising);
- ◆ Raising finance or funds (e.g. using IP assets as a collateral);
- ◆ Strategic partnerships (e.g. joint ventures and alliances to exploit the IP assets).

Purpose of exploiting IP Assets

- ◆ To improve revenue;
- ◆ To improve competitive advantage;
- ◆ To more fully exploit the IP assets;
- ◆ To extend the brand/brand image;
- ◆ To enhance business reputation;
- ◆ To raise finance/funds (e.g. using IP assets as a collateral to attract investors).

Prior to exploiting IP Assets

- ◆ Ensure that the IP asset is really necessary for the business;
- ◆ Assess the worth of the IP asset (through various valuation methods, e.g. income method, cost method);
- ◆ Conduct clearance searches to check availability, validity and ownership of the IP asset;
- ◆ Due diligence on the other party.

Licensing

An arrangement/agreement whereby the IP owner (licensor) agrees to grant to the licensee the right to use or exploit certain IP rights on agreed terms and conditions, with the owner retaining ownership of the IP rights (cf – an assignment where the ownership of the IP rights is also transferred)

- ◆ The licence may be comprehensive or may only relate to certain aspects (e.g. nature of the right, duration and location).
- ◆ The licence may be exclusive, non-exclusive or sole.

Benefits of Licensing

Licensor

- Ability to expand into other fields as well as product and geographic markets;
- More revenue stream;
- Reduce risk of manufacturing, promoting and selling;
- Enhance consumer loyalty and goodwill;
- Retain ownership and control over the use of IP right.

Licensee

- Ability to reach markets more quickly (esp. technology licensee);
- Easier access to new technologies, resources and expertise of others;
- Reduce time, expense and risk in investing in own R&D;
- Ahead of competition;
- Ability to sell proven or standardised product.

Risks of Licensing

Licensor

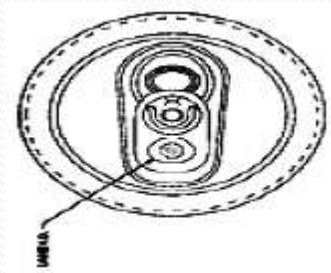
- Create a potential competitor;
- Risk of choosing a wrong licensee who could damage reputation;
- Loss of control over the use of IP right (e.g. trade secret).

Licensee

- Increased costs of doing business;
- Strict secrecy and other requirements – less freedom to operate business;
- Administrative and reporting burdens (e.g. audits, sales records, etc.);
- Obligation to grant back improvements.

Examples of well-known licensing

- ◆ Inventor/Coca-Cola – can opening device – royalty of £148 k per day



- ◆ Apple/Nokia – June 2011 – patent licence in relation to mobile communications to settle patent litigation actions;
- ◆ Apple/Microsoft/IBM – software licenses for the use of their respective software in operating systems.

Licensing

Main terms -

- ◆ Parties;
- ◆ Subject matter – what exactly is being licensed;
- ◆ Extent of licence – exclusive, non-exclusive, sole, field of use, territory;
- ◆ Royalty/licence fee (annual fee or fee based on targets);
- ◆ Best efforts (e.g. obligation to spend an agreed amount on R&D, marketing, etc.);
- ◆ Grant back and tie-in;
- ◆ How to deal with infringement by third party;
- ◆ Termination;
- ◆ Dispute resolution.

Franchising

An arrangement/agreement whereby the owner (franchisor) of a business system with a bundle of IP rights (e.g. TM, copyright and trade secrets) agrees to grant to the franchisee the right to operate the business in the franchisee's territory, to license the IP rights for the operating the business and to provide training, technical support and mentoring.

- ◆ Popular in the food and beverage sector (e.g. “McDonald’s”, “Subway” and “Starbucks”).



Franchising

- ◆ Established business model in one country.
- ◆ Attempt to replicate success in another country by a franchisee.
- ◆ Extension of use of IP rights.



Franchising

Goals

- ◆ For the franchisor: to geographically expand its business without taking too many financial and other risks.
- ◆ For the franchisee: benefit from the brand, experience, know-how and expertise of the franchisor.



Franchising

Franchisor owns IP rights in

- ◆ Trademark/Brand.
- ◆ Operating procedure.
- ◆ Patents on equipment and software used in the business.
- ◆ Copyright in the instruction manuals and marketing materials.
- ◆ Production and marketing knowledge.



Benefits of Franchising

Franchisor

- Expansion of market without the risks associated with entering new markets;
- Continuous control over business operations (staff training and quality);
- Expanding brand equity and image;
- Harnessing consumer loyalty;
- Retain ownership and control over the use of IP right.

Franchisee

- Lower risk of failure because the franchise is a proven and profitable business;
- Leverage on a recognisable or well known brand;
- Easier access to resources and expertise of others;
- Training and support are provided;
- Collective purchasing power – economies of scale.

Franchising – main obligations

Franchisor -

- ◆ Making available its business concept (including IP rights);
- ◆ Instruction/assistance/training to the franchisee;
- ◆ Supply of products to the franchisee;
- ◆ Exclusivity.

Franchisee –

- ◆ Payment of royalty/licence fee;
- ◆ Follow guidelines of franchisor;
- ◆ Marketing and promotion.

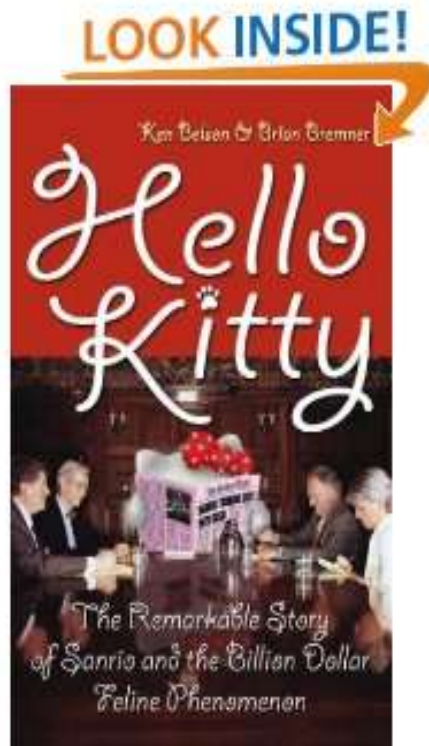
*Obligation on both parties to keep information confidential
and secret*

Merchandising

An arrangement/agreement whereby trademarks, designs, artworks, fictional characters, real personalities and other distinctive signs or symbols are licensed for use in relation to products or services.



- ◆ The distinctive signs or symbols are often derived from television, film, toys, books, comics and computer games.
- ◆ Merchandising often relates to fictional character, real personality and major sporting event.



Hello Kitty is Japan's brilliant answer to Disney's Mickey Mouse phenomenon in the U.S. This book explains how Sanrio, the company behind Hello Kitty, turned a cute cartoon cat into a multi-billion dollar global commodity. Hello Kitty merchandise helped Sanrio generate nearly \$1 billion in revenue in 2002 partly through licensing agreements with more than 500 companies in Japan and hundreds more overseas. The distinct face of Hello Kitty is now plastered on 22,000 different products and sold in about 40 countries. Sanrio's biggest success is its ability to create products that appeal not only to children, but women in their 20s and 30s around the world. That's why Kitty adorns not only bedspreads, backpacks and notebooks, but mobile phones, toasters and even cars.

Canon





Tata has modeled and endorsed top-notch brands such as Fuji Film and Yamaha motorcycles, Colgate and Pepsi





“World Cup is big business”



Benefits of Merchandising

Merchandiser

- Increase brand visibility and appeal;
- Valuable marketing tool;
- Expansion into markets, extending product range and business;
- Relatively risk-free and cost-effective;
- Further revenue stream (lucrative royalties/licence fees);

Merchandise

- Increased visibility and appeal of own products and business;
- Effective advertising/marketing tool (can easily attract sponsorship);
- Relatively low cost of gaining market share.

Merchandising

Main terms -

- ◆ Parties;
- ◆ Subject matter – what exactly is being licensed;
- ◆ Scope of use (e.g. on specific products);
- ◆ Royalty/licence fee (annual fee or fee based on targets);
- ◆ Modifications/improvements/alterations
- ◆ Best efforts (e.g. obligation to spend an agreed amount on R&D, marketing, etc.);
- ◆ How to deal with infringement by third party;
- ◆ Termination;
- ◆ Dispute resolution.

Exploiting IP Assets

Take-Aways

- ◆ IP assets are important business tools.
- ◆ As such, they should not be used merely to *exclude* others from using the rights granted by the IP system but should be fully exploited by way of licensing, franchising and merchandising.
- ◆ Various ways to exploit IP assets (e.g. as collaterals to raise funds and as marketing tools).
- ◆ IP agreements must clearly set out the parties' rights and obligations.
- ◆ Important to review and monitor IP agreements to ensure compliance.



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Tan Tee Jim, SC
Senior Partner,
Lee & Lee,
Singapore

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