



Ethiopian Intellectual Property Office



Training of Trainers Program on Effective Intellectual Property Management by Small and Medium-Sized Enterprises (SMEs)

Exploiting IP: Overview of Licensing, Franchising and Merchandising

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What are the Objectives?

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- Understand the basic of licensing / TM licensing
- Learn about the importance of preparing and negotiating a license agreement.
- Understand the basics of a license agreement.
- Learn to manage a licensing relationship as well as termination and post termination/problems issues.

How can we reach these Objectives?

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1- The basic concept of license

- What is a license / Why to license / How to license

2- Negotiating a license agreement

- Negotiation process / Guidelines of negotiation

3- Overview of license agreement

- Characteristics of a license agreement / Issues in a license agreement

4- Managing a license agreement

- Implementing and managing the agreement / Termination and post termination issues

1- The basic concept of license

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- What is a license

(1) Definition of a license

When the owner of an IP right (**licensor**) simply gives another (**licensee**) permission to use that right, while the owner continues to retain the **ownership** of that right.

1- The basic concept of license

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- What is a license

(2) License agreement

It is a **written** contract where the **purpose, territory** and the period of **time** is defined and agreed to by the parties.

This written contract is called a “**license agreement.**”

1- The basic concept of license

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- What is a license

(3) Types of license

a. Licensing-in

- An enterprise **obtains** technology from an external source: university, laboratory, another company or an individual.

b. Licensing-out

- An enterprise **transfers** its technology to another.

c. Cross-licensing

- A cross-licensing occurs when **two parties licenses** their technologies to each other.

The distinction between a license and an assignment

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	License	Assignment (sale)
Ownership	The licensor continues to own the IP rights but only gives the licensee the permission to use a defined right over one or more IP rights.	The ownership of the IP rights is transferred from the assignor (seller) to the assignee (buyer). This is a one-time transaction for an agreed price.
Suing for infringement	A patent licensee cannot sue for infringement unless an exclusive licensee is given the right to sue.	As a general rule, only an assignee of a patent can sue for infringement
Taxation	<p><u>Licensee:</u> Royalties paid under a license are deductible business expenses of the licensee.</p> <p><u>Licensor:</u> Royalties paid under a license comprise ordinary income for the licensor.</p>	<p><u>Assignee:</u> Payments made for an assignment are capitalized by the assignee</p> <p><u>Assignor:</u> Payments received for an assignment may be taxed as capital gains to the assignor.</p>

The distinction between a license and an assignment

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Article 28 of the proclamation 501/2006 states on the

28. Transfer of Right

- 1/ A right on a registered trademark or an application for registration of a trademark may be assigned, or licensed in whole or in part.

The distinction between a license and an assignment

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Regarding the assignment of the rights, article 28, section 4 states that:

- 4/ The right to a trademark can be transferred in or without connection with the business in which it is used. In case where there is a transfer of the business, the right to the trademark that is attached to the business passes over to the new owner, unless otherwise agreed.

The distinction between a license and an assignment

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Regarding the licensing of the rights, article 29 states that:

- 1/ The owner of a registered trademark or of an application for registration of a trademark may, by contract, grant to any other person a license to use the trademark. The contract shall be made in writing and shall indicate whether it is for all or part of the goods or services in respect of which the trademark is registered or an application is filed for.**

1- The basic concept of license

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- Why license

- (1) Essential component of certain business relationships**

- Many business relationships depend on licensing of IP rights. Ex: **hiring a consultant** or collaborates with one or more enterprises which may be vendors or subcontractors for manufacturing a part or component, or when it **collaborates on R&D** or when it forms a strategic alliance or a **joint venture**.

1- The basic concept of license

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- Why license

(2) Non-core IP for adding a revenue stream

- A business may consider allowing another to **exploit** its IP rights (license) for a **fee** where it does not or no longer uses a particular IP right in its core business.

1- The basic concept of license

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- Why license

(3) Core IP for adding a revenue stream

- Even when an IP right is integral to the core business of an enterprise, the enterprise may choose to concentrate on one geographic market (e.g., Germany or Russia) or **one field of use** (e.g., the market for two-stroke engines) and **license** to others with greater capacity or interest in other markets or fields of use.

1- The basic concept of license

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- Why license

(4) Core business is licensing

- Some companies enter into business with the sole objective of creating and licensing IP rights, without ever manufacturing a product; for them the IP is the product.

1- The basic concept of license

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- Why license

- (5) Forcing an infringer to become a licensee (stick license)**

- In a situation where the IP rights are being **infringed**, the owner of those rights may choose to litigate, which could be **expensive**, with an uncertain outcome and be protracted. A more **realistic option** may be to put pressure on such infringers to take a **license**, for example, by threatening to litigate.

1- The basic concept of license

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- Why license

(6) Licensing to each other (cross licensing)

- In closely-related industries where rivals employ very similar technologies they often **infringe** upon each other's IP rights. In such situations cross-licensing is relied upon to avoid expensive tit-for-tat **litigation**.

1- The basic concept of license

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● Why license

(7) Patent pools

- Some manufacturers don't hold any patents. The patents are put in a patent pool by the patent holders and they are **licensed in a package**.
- Such arrangements are relevant where a single product may **involve many patents** making its manufacture impossible without dealing with an array of patent holders.

1- The basic concept of license

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- How to license

(1) Franchising (enormously successful and rapidly growing trend)

- The **key** to franchising is the **licensing** of IP rights, particularly trademarks.
- A **successful** business model is **replicable** at other locations, along with its **IP rights** (trademarks, designs, patents and copyright) and know-how.
- Franchising is a specialized **license** where a **franchisee** is allowed by the **franchisor** in return for a **fee** to use a particular business model and is licensed a **bundle of IP rights**, notably, trademarks and supported by **training, technical support and mentoring**.

1- The basic concept of license

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- How to license

(2) Merchandising

- Practice in which the **brand** or image from one product or service is **used to sell another**.
- **Ordinary consumer goods** such as plates, mugs, towels, caps, clothes, apply on their products the trademark of another.

Ex.: Trademarks of popular companies, sports teams, universities have huge consumer recognition and appeal, allowing for brisk sales at a premium price.

1- The basic concept of license

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- How to license

- (3) Brand Extension** (or brand stretching)

- Through a trademark licensing agreement, a company may team up with another who may be provided with the right to **apply the trademark on a new product.**

Ex.: Virgin Group: initially was a record label, extended to transportation (airline)

1- The basic concept of license

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- How to license

\$1 + \$1 = \$3

(4) Co-branding (or brand partnership)

- Two or more reputed trademarks, not necessarily with the same level of reputation may **join together in one product** creating a new appeal to the same clientele or break into a new market.

Ex.: Sony-Ericsson / Nike-Apple



1- The basic concept of license

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● How to license

(5) Component or ingredient branding

- A product may license the right to **use the trademark of an ingredient**.
- The reputation of the trademark of the ingredient lends value and appeal to the host product.

Ex.: - PC computers with Intel Inside

- Stereos with Dolby noise reduction

2- Negotiating a license agreement

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- Negotiation process
- Negotiating → reaching an agreement where the licensor grants and the licensee acquires the right to use the licensor's technology on specified terms and conditions.
- The objective is a “win-win” situation.
- The negotiation process involves 4 distinct phases: preparing, discussing, proposing and bargaining.

2- Negotiating a license agreement

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- Negotiation process

- (1) **The Preparation Phase** (very important)

- a. **Preliminary analysis** of the business objectives and either or not a licensing agreement would further that objective.
 - b. Establishing a team consisting of **experts** from the financial, legal and technical areas.
 - c. Preparing the **key commercial issues** to be covered in the license agreement and the position of the party on each such issue.

2- Negotiating a license agreement

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- Negotiation process

(2) The Discussion Phase

- The **licensor promotes** the merits and the opportunities offered by its technology, and the potential **licensee reviews** documentation and information under a confidentiality agreement.

2- Negotiating a license agreement

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- Negotiation process

(3) The Proposing Phase

- The parties are exploring the **possible relationship** and the principal commercial terms. Key questions are being asked, assumptions tested, strategic objectives established and boundaries identified.

2- Negotiating a license agreement

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- Negotiation process

(4) The Bargaining Phase

- The price of the license depends on the **territory** to which it is granted.
- It depends also on the **down-payment amount** by the licensee.

NDA & LOI

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Non-disclosure Agreements (NDA)

To safeguard confidential information → it is **recommended** to sign a NDA. Trust alone is not enough

Letter of Intent (LOI)

A Letter of Intent or a Memorandum of Understanding (MOU) is an **agreement spelling** out the mutual understanding of the parties before a formal license agreement is signed.

2- Negotiating a license agreement

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- Guidelines of negotiation
- Guidelines draw the practical framework for the conduct of a negotiation.
- They are not rules, and the failure to follow or achieve a guideline is intended to alert the negotiator to the need to have an understanding of the current position.

2- Negotiating a license agreement

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● Guidelines of negotiation

- a. Aim for a “**win-win**” outcome
 - A dissatisfied party will often go to extreme lengths to redress a perceived injustice.
- b. Create different options (plan B)
 - A little imagination can create additional **variables** which can be managed so as to arrive at an outcome that meets the parties respective business objectives.

2- Negotiating a license agreement

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- Guidelines of negotiation

- c. *If ... Then guideline*

- If Then guideline is otherwise known as the **“Never Give Unless You Get guideline”**. It is too easy for the inexperienced negotiator to agree to a proposal, and to then make a separate proposal – and be surprised when it is rejected. The negotiator has the power and the chance to explore and to link the issues and so achieve a better outcome.

Ex.: “If we grant you an exclusive worldwide license, then you have to double the sum payable on signing the agreement.”

2- Negotiating a license agreement

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- Guidelines of negotiation

- d. Establish the maximum (or **best**) position, and the minimum (or **worst**) position in respect of each issue.
- This is part of preparing for the negotiation and identifying and **ranking** the issues of importance to oneself, as well as anticipating those likely to be important to the other.

2- Negotiating a license agreement

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- Guidelines of negotiation

e. Aim high, but protect your credibility

Ex.: price for a Mercedes Benz is \$50,000 and a customer offers \$35,000 → **very high and not realistic** and destroys the customer's **credibility**.
Rather, the customer might agree to pay \$45,000, and then negotiate for better services.

3- Overview of license agreement

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- Characteristics of a license agreement

(1) A license agreement is the outcome of a business strategy and the start of a business relationship

- The parties clearly understand each other's business objectives, and appreciate that there is a mutual need to ensure that the licensing agreement is successful.

3- Overview of license agreement

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- Characteristics of a license agreement

(2) A license agreement is a contract.

- Meeting the legal requirements for a binding and enforceable contract is essential.

3- Overview of license agreement

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- Characteristics of a license agreement

(3) Absence of any prohibition in a license agreement cannot be interpreted as a permission to do the omitted act.

- A license is not transferable or assignable, sub-licensable or encompasses a specific right/scope, simply because it does not expressly restrict the same.

The factors that influence the royalty rate

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- The following factors influence the royalty rate that may be established:
 1. Market Size
 2. Competition
 3. Product Development Stage
 4. Patent Strength
 5. Unique vs. Common Technology
 6. Manufacturing Rights
 7. Exclusive vs. Non-Exclusive
 8. Worldwide vs. Regional Licenses
 9. Deal Structure
 10. Prevailing royalty rates in that particular industry technology (ballpark range)

3- Overview of license agreement

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- Issues in a license agreement
 - a. Identification of the Parties
 - The Agreement should be made between the party who has the **right to grant** the license and the party who will be **exercising that license**. It must be clear as to who the licensor and who the licensee is.
 - Additional details, including the **addresses** for each of the parties, the **jurisdiction** of incorporation (for corporate entities) and the effective **date** of the Agreement, may also be included in the identification section of the Agreement.

3- Overview of license agreement

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b. Definitions

- Licensed **patents/trademarks**, any confidential information and know how, meaning “those that are subject of a license”
- Licensed **products**, meaning “those that may be produced, used, offered for sale, sold or imported by the licensee under the terms of the license”
- **Territory**, meaning the geographical territory “where the product may be used”

3- Overview of license agreement

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c. Subject Matter

- Be clear about the scope of a license.

Ex.: “the licensed subject matter” shall mean the “Intellectual Property Rights” i.e. all rights owned or otherwise held by Company X whether domestic or foreign

3- Overview of license agreement

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d. Extent and scope of the licensed rights

- A license could be **exclusive** or **non-exclusive**.

A non-exclusive license spreads the risks and rewards to several licensees, the licensor does not depend on the success of one licensee.

It offers a better control over the technology and, by virtue of the fact that several licensees are using and exploiting the technology in several markets.

3- Overview of license agreement

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e. The field of use

- The License may be limited to a **particular class of customers** (such as airlines), commercializing the technology within a **specific industry** or industry segment (such as computer software), or using it for a **particular purpose** (such as research or incorporation into some other product or process).

3- Overview of license agreement

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f. Territory

- The license may be limited to a particular geographic territory.

Ex.: worldwide rights or for specific countries or even specific parts of countries (such as a state or region of a country)

3- Overview of license agreement

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g. Technical assistance

- Depending on the kind of technology being transferred, there is often an agreement to provide the licensee with technical assistance in the form of documentation, data and expertise.

3- Overview of license agreement

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h. License fees

- Many forms:
 - **Lump sums**: may be one sum only, payable on signing the agreement or more.
 - **Royalties**: i.e. regular payments to the licensor.

3- Overview of license agreement

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- Other issues in a license agreement
 - a. Effective date
 - b. Recitals
 - c. Sub-license
 - d. Improvements
 - e. Transferability of rights
 - f. Inflation
 - g. Infringement
 - h. Product liability

3- Overview of license agreement

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I. Licensor and Licensee obligations

j. Taxes

k. Force Majeure

l. Anti-competitive practices

m. Government regulations

n. Disputes

o. Indemnities

4- Managing a license agreement

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- Implementing and managing the agreement
- A license is a **continuous relationship** between two parties working towards a mutually-rewarding outcome.
- Several **issues** arise in managing the relationship in a license agreement:

4- Managing a license agreement

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● Implementing and managing the agreement

(1) Technical assistance

- It reduces the time required by the licensee to move the licensed technology into production. It includes the following:
 - a. Plant visits and training
 - The licensee obtains rights to **on-the-spot training** of its technical engineers, in the licensor's facilities.
 - b. Direct assistance
 - The licensee may obtain the right to have **site assistance** (within the licensed territory) from the licensor's technical personnel to solve problems related to commercial use of the licensed process and/or the making and selling of the licensed product.
 - c. Consultation
 - This is the right of the licensee to **contact the licensor** by mail, fax, telex or telephone through representatives appointed by each party.

4- Managing a license agreement

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- Implementing and managing the agreement

(2) Tangible items

- The agreement should specify how the licensor will **bill** and collect for any machinery sold to the licensee, and for such items as operating manuals, blueprints, drawings, manufacturing specifications, test equipments or devices supplied by licensor to licensee.

4- Managing a license agreement

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- Implementing and managing the agreement

(3) Reporting

- Licensees are typically obligated to send a **royalty statement** or report with each royalty payment (certified by an auditor)
- The reporting clause usually requires the licensee to keep and maintain complete and **accurate financial records** relating to all products manufactured, sold, used, returned and invoiced (if such products relate to the licensed intellectual property) in sufficient detail to allow the licensee to verify such records.

4- Managing a license agreement

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- Implementing and managing the agreement

(4) Auditing

- Most audit clauses limit the licensor in the exercise of its rights to a specified frequency (e.g. once per year) and only upon reasonable notice and during regular working hours.

4- Managing a license agreement

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- Termination and post termination issues

(1) License agreements come to an end in the following two ways:

- a. The period of the agreement expires or an event agreed to trigger termination occurs.
- b. The agreement is terminated by one party before the agreement has expired. The right to terminate the agreement is usually set out in detail and relate to a failure to perform in some way amounting to a breach of a condition of the agreement, for example, failure to make payments, bankruptcy or insolvency.

4- Managing a license agreement

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- Termination and post termination issues

(2) After expiration or termination of the agreement

- a. Know-how or confidential information: When an agreement expires or is terminated by the licensor, the licensee shall stop using the know-how or confidential information.

4- Managing a license agreement

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b. Sub-license

- Are there any sub-licenses or other rights that have been granted to third parties and do they continue after termination?

c. Other clauses

- Maintaining confidentiality, continuing rights to use the other party's improvements, access to records for a particular period. Ex.: "Protection of Confidential Information: This obligation shall continue in full force and effect during the term of this Agreement and thereafter for a period of three (3) years."

Thank You

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