Exploiting Intellectual Property Assets: Licensing, Franchising and Merchandising
Overview

1. Intellectual Property and Competitiveness
2. Direct Use
2. Selling and Licensing
3. Franchising
4. Merchandising
5. Joint ventures and strategic alliances
1. Intellectual Property and Competitiveness
New Economy

- New economic reality where competition is based on innovation:
  - Global market place
  - Demanding and fickle consumers
  - Shorter product cycles
  - Working through relationships, networks and outsourcing
  - Increased competition
  - Pressure to do more with less
Intellectual Property and Competitiveness

• The intangibles that add value and differentiate a product are protected by IP

  – Transformation of the intangibles that add value and differentiate a product into the proprietary rights = IP rights

• The IP system provides exclusivity over the exploitation of innovative products and services, creative designs and business identifiers

• Exclusivity means that an owner of IP has the right to prevent anyone else from using and exploiting the IP right
Exploiting IP Assets

• **Direct Use**: Core to the competitiveness of the product or service

• **Indirect Use**:
  – Sale, license, franchise or merchandise
  – Joint ventures and strategic alliance

• **Other possibilities**: Defensive patenting, publication

• Finance
2. Direct Use
Direct commercialization of the IP assets by yourself

Individual Exploitation to maintain the competitiveness of the product

- Make/produce copies of the products and sell them
- Reproduce the works on different types of products
- Exhibit the works in craft exhibitions, fairs, online catalogs, etc.
- Enforce your IPRs against infringers

**Advantages:** direct quality and exploitation control

**Disadvantages:** high costs and risks
Indirect Commercialization of IP Assets

• Mediate exploitation of IP Assets by third parties based on contractual agreements with the IP owner

• Advantages:
  – Low investment / Low risks
  – Potentially high return

• Drawback: Lack of control
  – Special attention to contracting
Indirect Exploitation by the third parties

Concerning:

- All (registered and not registered) IPRs: trade marks, patents, industrial designs, copyright, know-how
- Part of IPR (type of right)
- Combination of IPRs

Can be in a form of:

- Assignment of the IPRs to a third party vs
- License of the IPRs to a third party
3. Assignment and Licensing
Why should business consider

<table>
<thead>
<tr>
<th>Licensing IP...</th>
<th>Selling (Assigning) IP...</th>
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| **Grant** of a **right to use** the IPRs to a third party under contractually agreed **conditions**
  
  (// lease): possibility to limit

  
  Market; Geography; Time; Specific Application; Grant of Rights Usage

  
  **Direct way to increase the value and benefits of your IPRs:** Can generate lucrative fees and royalties

  
  **New markets:** Allows business to enter into **new product** categories or in **new geographical areas** in a relatively risk-free and cost-effective way

  
  **Marketing tool:** Increases the business’ exposure and recognition

| **Transfer** of the ownership of the IPRs (//sale)

  
  **Loss of all future income-earning potential**

  
  **Buyer becomes a new owner of all assigned IPRs**

  
  If no alternative

  
  If adequate **price**

  
  If no interest for further commercialisations
Licensing that might be of interest for your business might concern...

- Strategic, core technology or patents
- Non-core or “mature” technology and patents, products
- Struggling businesses or products (new or mature)
- Technology that can be applied to other markets
- Trade marks, designs, copyright, know-how, any combination of them
- Services
<table>
<thead>
<tr>
<th>For the Licensor</th>
<th>For the Licensee</th>
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<tbody>
<tr>
<td>• Earn revenue</td>
<td>• Lower costs</td>
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<td>• Strengthening relations with partners in the value chain</td>
<td>• Starting a new business</td>
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<td>• Capital saving</td>
<td>• Access to new technologies and know how</td>
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<td>• Expanding an existing business (extending your territory</td>
<td>• Possibility of creating innovative products</td>
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<td>or the nature of business)</td>
<td>• Settle infringement dispute</td>
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<td>• Access to markets</td>
<td>• Manufacture standardized product</td>
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<td>• Turning infringer/competitor into a partner</td>
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<td>• Create standard</td>
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<td>Why NOT to license ...</td>
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<tr>
<td><strong>For the Licensee</strong></td>
<td><strong>For the Licensee</strong></td>
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<tr>
<td>• Create competitor</td>
<td>• Royalties add cost</td>
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<td>• Bad choice of licensee could damage reputation</td>
<td>• Secrecy requirements</td>
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<td>• Loose control of proprietary information</td>
<td>• Administrative burdens - audits, reports etc</td>
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<td></td>
<td>• May be obliged to grant back improvements</td>
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Examples of licensing

Patents

- Patented technology for the treatment of “stone washed” denim jeans of Novozymes, a Danish, biotech company specializing in enzymes and microorganisms
- Novozymes’ technology for improving production methods and fabric finishing has been licensed worldwide

The patented system of can opening was licensed by inventor to Coca-Cola at 1/10 of a penny per can. During the period of validity of the patent the inventor obtained 148,000 UK pounds a day on royalties

Trademarks

- Certification marks
- Franchising, merchandising
Cases: Non exclusive licensing-out strategy

Copyright

**Embroidery Stock design:**

- Library of designs for commercial embroidery companies to sew on garments for sale
- Download online
- License agreements to use design
- Allows embroders to choose according to their preferences and project needs

Su Embroidery Studio
http://www.suembroidery.com/

Dakota Collectibles
Embroidery Design Center
http://www.dakotacollectibles.com

Sm. Jumper
Jammin’
People
Cases: Exclusive licensing-out strategy

Based on the materials of Julian Nolan

- Avionics system
  - mature product
  - commitment to support customers
    - high cost to change
    - still profitable, but none core

- Licensed to main customer
  - Deal structure
    - NPV increased, GNPV
    - Regain strategic focus

- Win-Win result
Sony Corporation

- In 1946 a small enterprise of some 20 staff members repairing phonographs
- In 1952 the founder of the enterprise came across patent information on an invention of the Bell Laboratories: the transistor
- Obtaining a patent license from the patent holder, Western Electric (WE) of the United States of America
- In 1955 production of the first transistor radio and marketing of the new product
- Enabling of the small enterprise to enter the global market of electronics
  - Renamed as Sony Corporation
Consider licensing:

- You are an artist/designer/inventor and don’t want to be involved in manufacturing
- You don’t have capacity to produce more items
- You don’t want to produce elsewhere (in Poland/abroad)
- You don’t have capacity to distribute elsewhere
- You want to benefit from a better reputation of a partner
How to develop a proper licensing strategy?

1. Protect your IP rights
2. Find right licensee
3. Assess foreign markets
4. Tailor scope of license to actual needs of licensee
5. Preserve control over the commercial use of your works
6. Negotiate fair compensation
7. Draft a solid license agreement
8. Management of licenses
Key elements of a licensing agreement

• Licensor: grant of the right to use specified IPRs by licensee
• Licensee: payment of royalties to the licensor

• **Scope of the license:**
  - Exclusivity
  - Scope of use (manufacture / distribution)
  - Territory
  - Right to sublicense

• **Representations and warranties**
  - Validity of the IPRs (best knowledge?)
  - Indemnification (limitation of)
  - Enforcement of the IPRs against third party infringers
  - Liability of the licensor ?
  - Standing to sue of the (exclusive) licensee ?
Key elements of a licensing agreement

• **Control** over licensee’s **accounting methods** (for purpose of checking the amount of the royalties)

• **Control** over licensee’s **use of the IPRs** with respect to:
  – Quality of the products sold under licensor’s IPRs
  – Prohibition to misappropriate licensor’s IPRs

• **Confidentiality**

• **Term of the agreement:**
  – early termination / termination for
  – breach of the agreement / post termination obligations

• **Governing law**

• **Jurisdiction / dispute settlement** (mediation – arbitration under the WIPO rules)
Licensing

You don’t get the deal you deserve, you get the deal you negotiate
4. Franchising
Specialized license where the 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 (TM, service marks, patents, trade secrets, copyrighted works…) and supported by training, technical support and mentoring.

- All franchisees are licensees but not all licensees are franchisees.
• **Franchising vs licensing**
  
  – Licensing of IPRs is an element of franchising
  – Licensing of IPRs is the means to reach the end

• **Goals of franchising**
  
  – For the franchisor: geographically expand its business without taking financial risks
  – For the franchisee: benefit from the brand, experience and know-how of the franchisor
### Why enter into a Franchise?
- Lower risk of failure
- Recognizable image
- On going support
- Easier to obtain financing
- Benefit from franchisors R&D

### Why not enter into a Franchise?
- All IPR owned by the Franchisor
- Payment of fees
- Obliged to follow the business model
- Depend on the success of the Franchisor
Key elements of franchise agreement

• **Franchisor:**
  – Making available its commercial concept (including IPRs)
  – Instruction / assistance to the franchisee (services)
  – Supply of products to the franchisee
  – Exclusivity

• **Franchisee:**
  – Payment of royalties
  – Following the guidelines of the franchisor
  – Promotion

**Non-Disclosure Document:** Confidentiality agreement contract between franchisor and franchisee to keep the information secret
5. Merchandising
• Commercial exploitation of a name, symbol or distinctive sign which has acquired a certain brand recognition in a specific field(s) for the purpose of selling goods or services in other fields

• Often distinctive signs or characters themselves derive from television, film, toys, books, comics, and computer games
• **Merchandising vs licensing**
  – Merchandising is based on licensing

• **Goals of merchandising**
  – For the merchandisor: expand its business to other lines of products / services without taking financial risks

  – For the merchandisee: benefit from the brand recognition of the merchandisor’s products / services
Merchandising

Examples:

- Picasso
- Taj Mahal, India
- Collection of Licensed Products embroidery design
  Licensed by Warner Bros. Consumer Products, Inc
- Elvis '68 Fabric by Cranston Village
  Licensed by Elvis Presley Enterprises
- 360 Wrap-Around Panoramic Photo
- Tom and Jerry
Case Study: Mary Engelbreit

From WIPO SMEs Division Case Studies Collection

- Mary Engelbreit is known throughout the world for her colorful and intricate designs, and has become a pioneer for art licensing.
- Beginning: "drawing to order" for free-lance clients.
- Went to New York → illustrating greeting cards.
- Several well-known card companies bought her designs, and sales were brisk into a million-dollar-a-year business.
- Decision to license her cards to Sunrise Publications to free up more time for her art and to grow her business in other areas.
Case Study: Mary Engelbreit

- Other companies were anxious to merchandise Mary's distinctive artwork on a wide range of products including calendars, T-shirts, mugs, gift books, rubber stamps, ceramic figurines and more

www.maryengelbreit.com
Mary Engelbreit Studios now has contracts with dozens of manufacturers who have produced more than 6,500 products in all.

Mary takes extreme care in choosing only the best companies to work with and goes to great lengths to make certain that her artwork is reproduced as faithfully to her original work as possible.

“A Day At The Beach” new collection of fabric designs
6. Joint ventures and strategic alliances
A small Italian company established in San Leucio in 1998 as a continuation of a long family tradition.

Specialization on exclusive tailor-made silk fabrics, produced for the business to business sector.

Constant self-renewal by creating new fabric designs.

**Strategic alliances**

- with Milanese loom maker to incorporate the improvements in their new machines and with local university researchers to develop new techniques for finishing fabrics to gain technical innovation in the mill’s mechanical, chemical and finishing processes.
- with three other renowned silk textile makers from the district to market silk fabrics from San Leucio:
  - Foundation of a consortium,
  - Registration and management of San Leucio Textile Silk Quality collective trademark.
Case Study: Heng Yuan Xiang Group (HYX)

HYX was founded in 1927 till 1987 was a small wool store Shanghai

- Creation of an eye-catching trademark and development of a successful branding strategy
- Continuous R&D and promotion of the brand

**Strategic Alliances**

- with a textile factory that had the necessary assets for production – equipment, factories and capital
- By 2010 with over seventy factories that help to manufacture its products
- with thousands of franchisee (5,000 franchise stores) to sell its products in more than seventy categories via a comprehensive franchise system
Conclusions

- Protect your IP
- Choose the best protection
- All forms of IPRs can be used in combination for the best effect
- In light of the resources and market opportunities choose the right strategy to benefit from the IP
- Even if you can’t or don’t want to use your IPRs yourself…Bear in mind that third parties may want to use them!
Thank you for your attention!

Any Question?

WIPO’s website for SMEs:

www.wipo.int/sme

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