WIPO NATIONAL SEMINAR ON THE VALUATION OF INDUSTRIAL PROPERTY ASSETS

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THEME II: PARAMETERS FOR ASSESSING THE VALUE OF INDUSTRIAL PROPERTY ASSETS - VIEWPOINT OF A PROFESSIONAL CONSULTANT ENGAGED IN VALUATING INDUSTRIAL PROPERTY ASSETS

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Maximising the Value of Intellectual Property
Structure of the Presentation

- Importance of strategic use of intellectual property
- Direct exploitation of intellectual property
- Indirect exploitation of intellectual property
- Organisational structure
- The role of valuation
Treating intellectual property as an independent business

- Intellectual property is an asset rarely declared on the balance sheet

- Effective exploitation of the intellectual property requires a full understanding of its technical, financial and marketing implications

- Investment in intellectual property can be costly and risky with no assurance of a return on the investment

- Exploitation depends on:
  - value of the intellectual property to the company and to the market

- importance to the business of individual IP v. portfolio
  - structure of the organisation: marketing v. technical focus
  - protection against infringement in the market
Making Money from Intangible Assets

Strategic objectives include:

- competitive protection
- design freedom
- litigation avoidance
- basis for establishing alliances and joint ventures

There are two types of generic methods for exploiting intangible assets:

- direct exploitation
- indirect exploitation
**Direct Exploitation**

The company should exploit its intangible assets directly if:

- the intangible asset is core to the business or is too intrinsic to separate
- the necessary resources to exploit are present
- there is risk in allowing access to others
- potential royalties will be too low

Value may be maximised by:

- increasing volume
- increasing price
- extensions
  - geographic
  - product
  - distribution
- improving internal structure
**An Example of Brand Extension Opportunities**

In a recent engagement, we were asked to look at ways of extracting value from a household name in the fashion/design industry. A particular focus was on opportunities for brand extension, as illustrated below:

<table>
<thead>
<tr>
<th>Distribution channel</th>
<th>Product range</th>
<th>Customer segment</th>
<th>International coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current shops</td>
<td>Existing range</td>
<td>Existing customer profile (design-conscious/affluent/professional)</td>
<td>UK</td>
</tr>
<tr>
<td>Shops in shops</td>
<td>Brand extensions (maintain integrity)</td>
<td>Middle range</td>
<td>France</td>
</tr>
<tr>
<td>Direct mail</td>
<td></td>
<td></td>
<td>Japan</td>
</tr>
<tr>
<td>“Brand” goods in other stores</td>
<td>Existing range Different price &amp; quality</td>
<td>Down-market</td>
<td>Germany</td>
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<tr>
<td>Franchise</td>
<td></td>
<td></td>
<td>Other</td>
</tr>
<tr>
<td>Licence</td>
<td>Different products Different price &amp; quality</td>
<td></td>
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</tbody>
</table>
Indirect Exploitation

Generally, indirect exploitation should occur when the owner is unable or unwilling to exploit the value of the intangible asset directly. There are four main types of indirect exploitation:

- sale
- licensing
- joint venture
- franchising
Why indirect exploitation?

- To gain profits from a product with minimal risk & cost commitment;
- To test and develop an untapped market for future exploitation by direct investment;
- To gain profits from a product that is peripheral to the company’s core business;
- To gain access to secondary, less profitable, markets;
- To overcome government restrictions on imports;
- To keep the licensor ‘friendly’ and unlikely to become a competitor;
- For the potential prospects of “technology feedback”.

**Breaking down the barriers between R&D, finance and marketing**

Examples of stakeholder conflicts

**Research & Development**
- Further development of the technology

**Finance**
- Short term profitability
- Meeting of targets

**Marketing**
- Brand exploitation

**Shareholders**
- Dividend income
- Capital growth
Communication problems

There are often communication problems because:

- Different language
- Incongruent performance measures
- Personalities
- Culture
Structure of the Organisation

- Integration of commercial and technical aspects of IP into a profit centre with a marketing focus
- Segregation of responsibilities: sales, marketing, R&D, finance, legal
- Define corporate strategy on the exploitation of intellectual property
- Structure of the intellectual property portfolio:
  - define content in terms of dimension, value, income/cost, technology
  - focus on developing or mature products
  - focus on core competencies or diversification
  - offensive or defensive strategic objectives
- Alignment of IP strategy with the company’s business strategy
From Intangible Asset Valuation to Intangible Asset Management

The valuation of intangible assets should play an integral role in the process of managing and growing intangible assets. The management process should involve:

- Valuation of current portfolio of intangibles
- Identification of key "drivers" of value
- Evaluation of business strategies & investment decisions
- Goal setting & performance measurement
- Reward for value creation

The key elements of this process are that it:

- involves all key stakeholders
- revolves around a cross-functional framework and language common to finance and marketing and R&D
- incorporates rigour and discipline
- uses quality and relevant data

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