
Exploiting IP Assets through Licensing, Franchising and Merchandising

Creating IP Culture Among Small and
Medium-Sized Enterprises

Sofia, October 17 and 18, 2017

Teresa Nobre, LL.M. IP (MIPLC)

Objectives

- How to acquire and transfer **technology** through licensing
- Understand the **advantages and disadvantages** of technology licensing
- How to prepare and negotiate licensing agreements
- How to license trademarks, designs, know-how through **franchising agreements**
- How to license trademarks, designs and copyright through **merchandising licenses**

Licensing, Merchandising and Franchising

Technology
License

Permission to
use IPR to create
technology-rich
product

Merchandising

Permission to use
IPR/image rights
to enhance
attractiveness of
product

Franchising

Permission to
use business
format/IPR to
replicate success

What is a license?

Is a permission granted by the owner of the IP right to another to use it on agreed terms and conditions, for a defined **purpose**, in a defined **territory** and for an agreed **period** of time.

Selling

Transfer of ownership rights from seller to buyer.

One-time activity.

One-time transfer of funds.

Few continuing obligations.

Licensing

Retains ownership rights and grants the right to use.

Ongoing incremental income stream.

Continuing interaction for a certain length of time.

ADVANTAGES

Better manufacturing capacity, distribution of outlets, local knowledge and management

Retain IP ownership and derive an economic benefit from it

Commercialize the technology more effectively

Gain access to new markets

Turning an infringer or competitor into an ally or partner

Some control over evolution of technologies where interoperability is important

DISADVANTAGES

Own investment can generate better profits

Licensee can become the licensor's competitor

If the technology is not complete, the licensor may be expected to continue development work at great expense to satisfy the licensee

Dependent on the skills, abilities and resources of the licensee for generating profits

FOR LICENSOR

ADVANTAGES

Access to technologies, which are already established or readily available, reaching the market faster with innovative technology.

No investment in research and development

Licensing-in opportunities, when paired with a company's current technology portfolio, can create new products, services and market opportunities

DISADVANTAGES

Financial commitment for a technology that is not “ready” to be commercially exploited, or that must be modified to meet the licensee’s business needs

Layer of expense to a product that is not supported by the market for that product.

Too technologically dependant, which could eventually become a barrier to their future expansion or their ability to adapt, modify or improve their products for different markets.

FOR LICENSEE

How to prepare to license technology?

- ★ Gather information via a **Due Diligence** exercise
- ★ Keeping confidence during the negotiations through a **mutual non-disclosure agreement**
- ★ Preliminary understanding in the form of a **MOU or Letter of Intent**
- ★ Before embarking on a long-term technology licensing agreement the parties may prefer to get their feet wet through a **distributorship agreement**

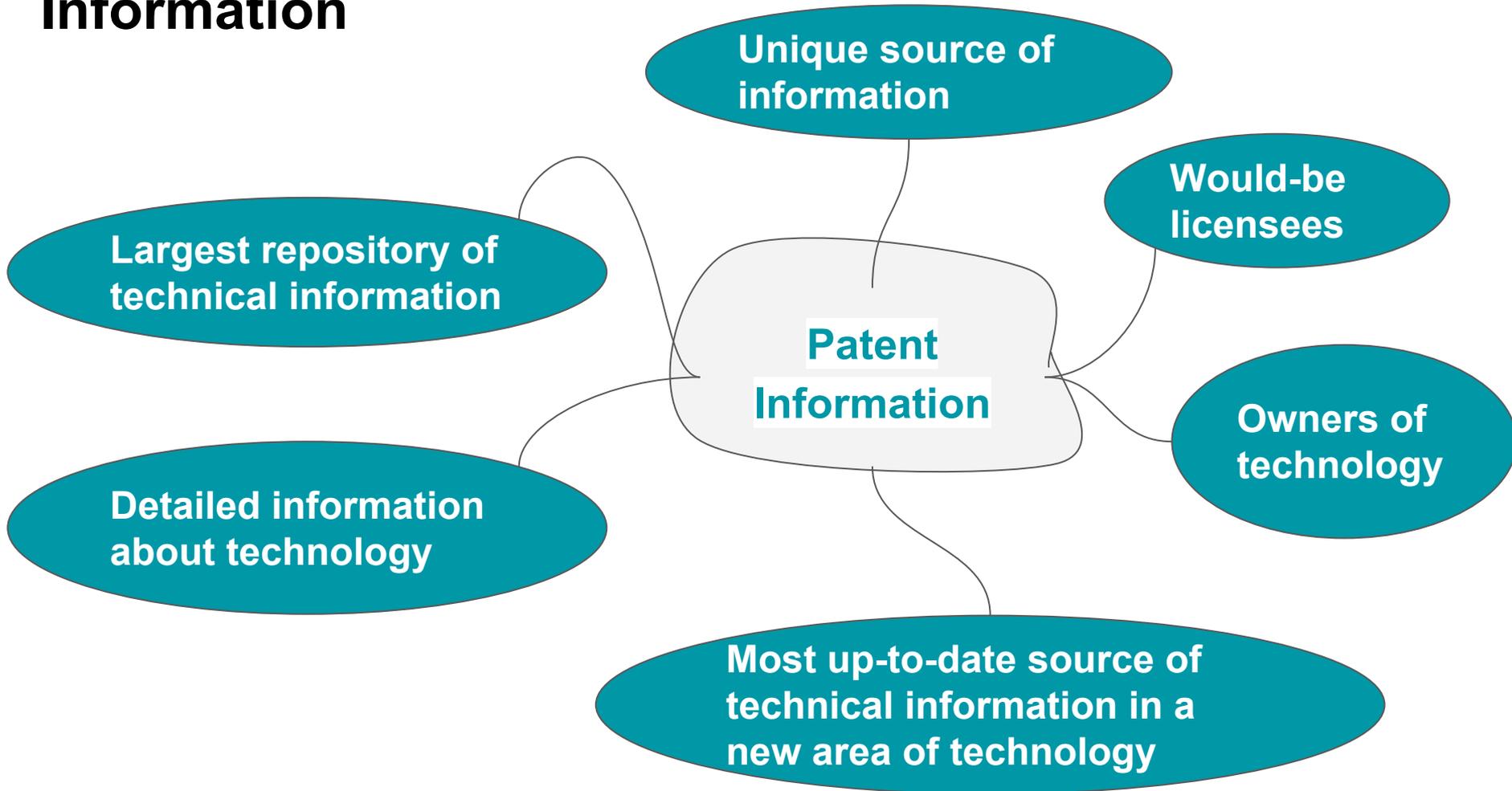
Due Diligence

- Is the technology proprietary?
- Is protection in the relevant markets secured?
- Are there any third parties claiming rights over the IP asset?
- Are there similar technologies?
- Will the IP asset serve to reduce costs, improve performance or deliver other identifiable benefit?
- Do other IP rights need to be acquired to fully implement the technology?
- To what extent does it fit into and further the business objectives of the alliance?

Where to obtain information for the Due Diligence?

- Publicly available information of publicly-traded companies
- Database services
- Trade publications, professional and business magazines, journals
- Trade and technology exhibitions
- Technology licensing offices of research-based universities and publicly-funded research and development institutions
- Relevant government ministries, departments and agencies
- Professional and business associations
- Technology exchanges
- Innovation centers
- Patent information services

Patent Information



How much is the technology worth?

Cost Approach

Costs associated with developing, protecting and commercializing the technology are the minimum the licensor wants to recover, with interest. Licensee may also estimate the costs of acquiring or developing a similar technology.

Income Approach

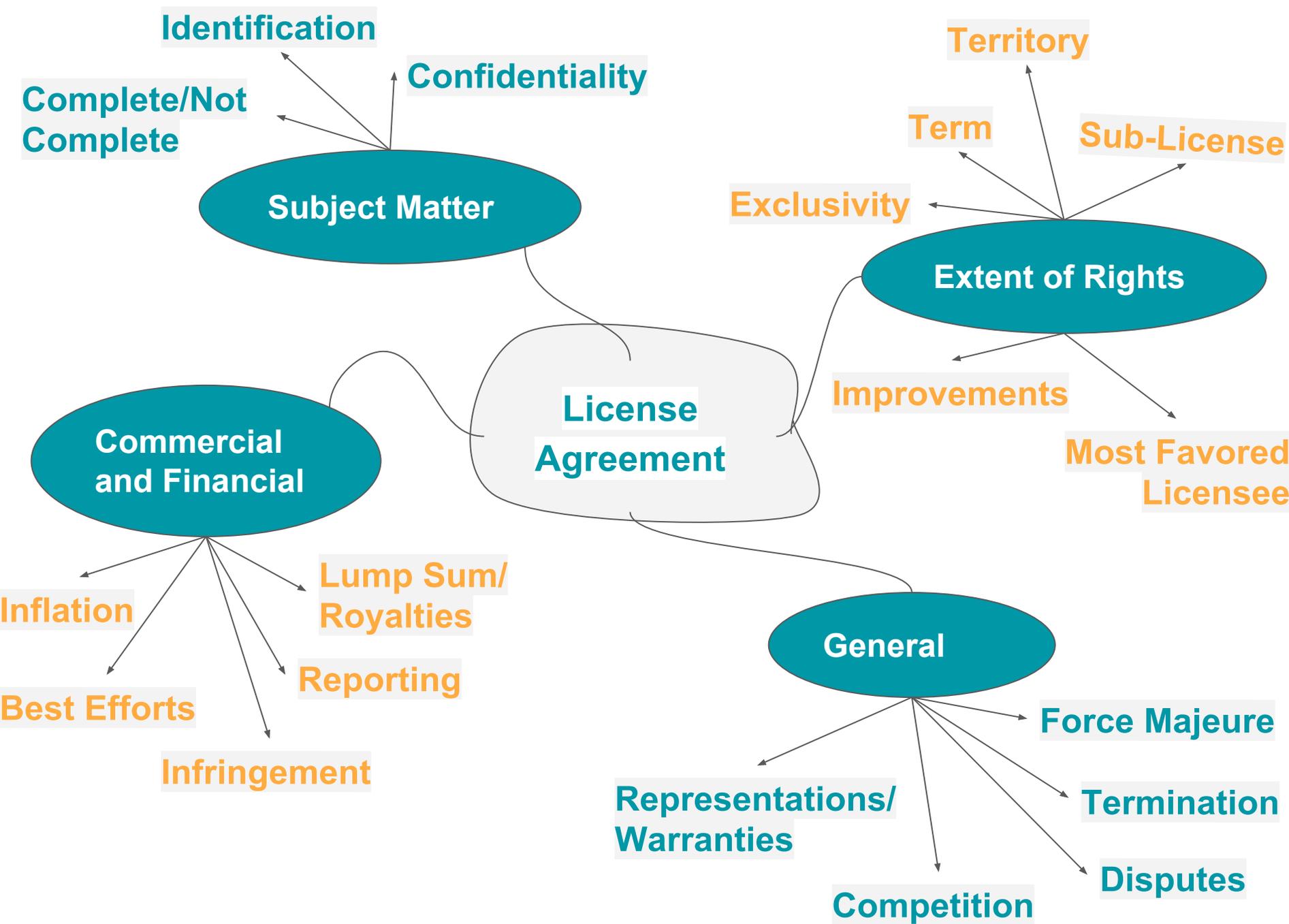
Guessing the amount of income the technology will generate, and determining the shares of both parties. Rule of thumb: licensor shall receive 25% of the benefits.

Market Approach

Looking into comparable market transactions, at least into existing royalty ranges.

How much is the technology worth? [Other considerations]

- **Intrinsic Quality** (e.g. significance of technology and stage of development)
- **Protection** Considerations (e.g. scope, enforceability)
- **Market** (e.g. size, share)
- **Competitors**
- **Licensee Values** (e.g. capital, research and marketing)
- **Financial** Considerations (e.g. profit margins, costs of enforcement and warranty service)
- **Risk** (e.g. product liability, patent suits)
- **Legal** Considerations (e.g. duration of the license rights)
- **Government** (e.g. local laws on royalty terms and currency movement)



Negotiating a licensing agreement

Preparation

Discussing

Proposing

Bargaining

- ★ If... Then...
- ★ Generate Variables
- ★ Aim for a “Win-Win” Outcome
- ★ Establish the Best & Worst Position for Each Issue
- ★ Aim High, but Protect Your Credibility
- ★ Trade Variables That are Cheap for You but Valuable to the Other Party
- ★ Everything is Negotiable

What is franchising?

Is where the franchisor gives others (franchisees) the right to use its **proven business model** (along with **IP and know-how**), in another location, for a defined period of time, in exchange for initial and ongoing fees.

- Franchisor gives franchisee **license** to use IP, confidential information/ trade secrets.
- Franchisor **controls** the way the business is run and managed by the franchisee (operations manual that reinforces, field visits, “mystery shoppers”, operational audits).
- Franchisor provides **training**, mentoring and ongoing **assistance** to the franchisee.
- Franchisee makes initial and periodic **payments** to the franchisor.

Businesses that are not franchisable

Creative

Businesses which require particular skills whether of an artistic or creative nature, which cannot be taught easily

Technical

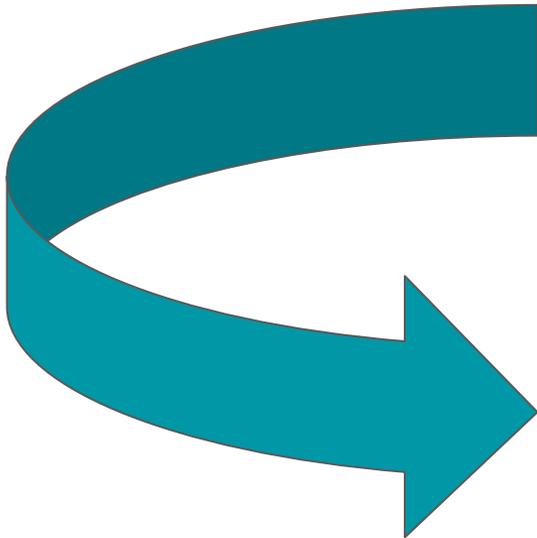
In most franchise systems only a relatively short period of initial training is provided, which is not enough to teach technical skills

Low
Margin

Low margin businesses, businesses that cannot sustain themselves for at least 5 years or have underlying problems in their business model

Main types of franchise models

- ★ Product or Distribution Franchise
- ★ Manufacturing, Production or Processing Franchise
- ★ Business Format Franchise



Product or Distribution

A **product manufactured** by a franchisor is sold to a franchisee who, in turn, sells it to the consumers under the trademark of the franchisor



Manufacturing, Production or Processing

Franchisor sells to franchisee an **essential ingredient** or provides some specific **know how** which, along with ongoing quality controls by the franchisor, enables the franchisee to manufacture or process the final product and sell it to retailers/ consumers



Business Format

Franchisor licenses to franchisee the right to use the particular **business model** including the intellectual property rights associated with it



ADVANTAGES

Business expansion (using other people's money)

Infusion of new capital through franchise fee

Additional and increasing revenue stream through royalties

Franchisees perform better than employees

Reduced operating costs

Spreading of risks

Smaller central organization.

Less risk of management fraud

Potential buy back of successful franchises

DISADVANTAGES

Risks and costs of seeking out and training a franchisee, supporting the launch of a new franchise operation

A bad choice of franchisee could be disastrous for the whole franchise network

Cost of maintaining the franchise network

Confidential business information has to be shared and thus become more vulnerable

Limits income to fee income and not profits

Pressure for change from franchisees

FOR FRANCHISOR

ADVANTAGES

Rely on recognition of an established brand

Smooth entry into a proven business model instead of starting from scratch

Availability of training, support, know how, marketing and financing

Established customer base

Lower risk

Personal ownership

Stability, supervision and quality control

Opportunity to grow within the system.

Exclusive territory

Lower costs in purchasing inventory and equipment

DISADVANTAGES

High start-up costs, ongoing royalty payments

Vulnerable to the network; bad reputation of one outlet affects the whole network

Obligations to report, follow directives and to provide access to accounting

Little flexibility due to control of business practices, inability to use knowledge gained

Loss of identity, customers do not know who owns the outlet

Obligation to grant back improvements to the franchisor which would be made available to all other franchisees

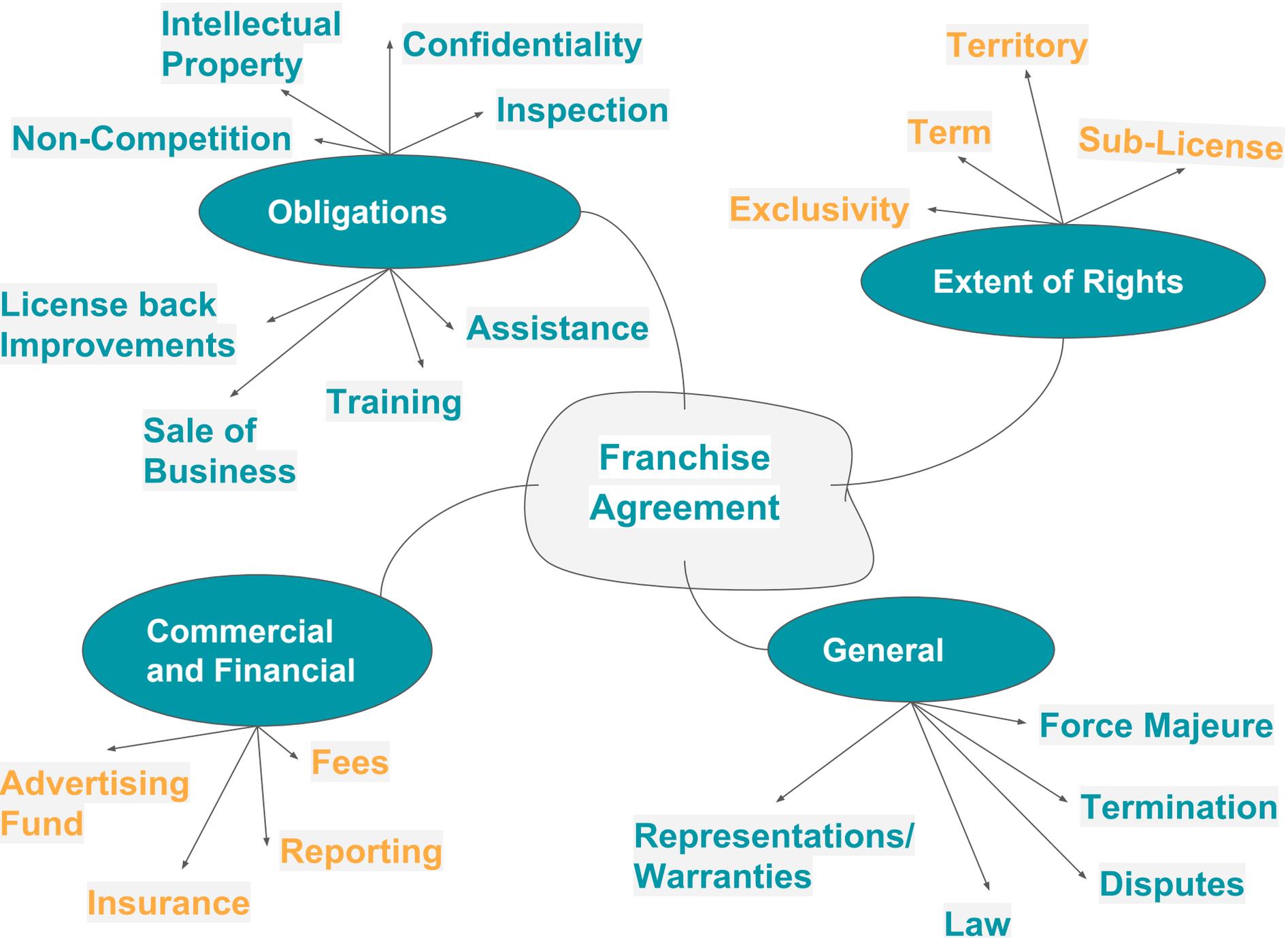
FOR FRANCHISEE

How to prepare to franchise?

- ★ Feasibility study and **pilot testing**, to establish the viability of the concept in multiple locations and to document and refine operations
- ★ Full and accurate written **disclosure** to franchisees
- ★ How to **market** the franchise?
- ★ Who is the ideal franchisee?
- ★ **Due Diligence** by the franchisee

Disclosure

- Business format, details of the pilot, franchisor experience, key people, other franchisees, competition, applicable laws
- Problems faced by the franchisor
- Costs involved in starting and operating a franchise
- Restrictions, e.g. which suppliers to use, what goods cannot be sold, and the territory
- Intellectual property
- Financial statements
- Grant back provisions
- Copy of the current form of the franchise agreement



How to manage franchisees?

- ★ **Operations Manual**
- ★ **Improvements** made by franchisor and franchisee
- ★ **Initial Training** (free of charge) and **Continuing Training** (at cost)
- ★ **Quality Control**
- ★ **Co-Branding**
- ★ **Company, Business and Domain Names**

Common areas of conflict franchisor vs. franchisee

Franchisors should not adopt a heavy legalistic approach to their disputes except for very serious breaches (disclosing confidential info, intending to set up a competing business).

- Failure to make payments
- Site selection and encroachment
- Accounting practices and procedure
- Misuse of advertising funds
- Supervision and support
- Approved suppliers
- Raw material pricing
- Unequal treatment
- Transfers by franchisees
- Misrepresentations by franchisor's management and sales team
- Business system changes, re-branding
- Intellectual property disputes

What is merchandising?

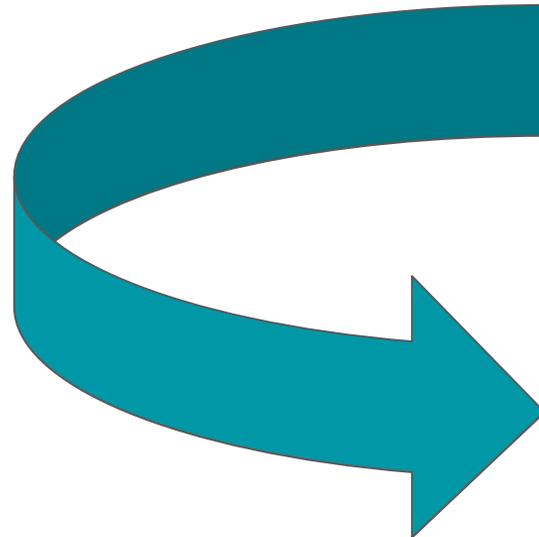
Is a form of marketing whereby an intellectual property right (trademark, industrial design or copyright) is used on a product to enhance the attractiveness of the product in the eyes of the customers.

- **Agreement** (license or transfer) to use property, personality or other rights (e.g. copyright and trademarks), vested in the character or personality
- **Images**: strip cartoons, actors, pop stars, sports celebrities, famous paintings, statues, well-known brand, or other appealing element
- **Products**: t-shirts, polos, baseball caps, badges, photos, mugs, table mats, pens, posters, screensavers, cookie jars, calendars, toys and umbrellas, etc

Forms of Merchandising

These are one of the most modern means of increasing the appeal of products or services to potential customers who have an affinity with that character or personality.

- ★ Fictional Character Merchandising
- ★ Personality Merchandising
- ★ Image Merchandising



Fictional Character Merchandising

Use of essential personality features (name, image) of fictional characters (film cartoons, toy creations, TV) to promote the sale of various products and/or services



Personality Merchandising

Use of essential attributes (name, image, voice) of real persons (actors, pop stars, sport celebrities) to promote the sale of various products and/or services



Personality Merchandising

Use of fictional film or TV characters, played by real actors, to promote the sale of various products and/or services



Personality Merchandising

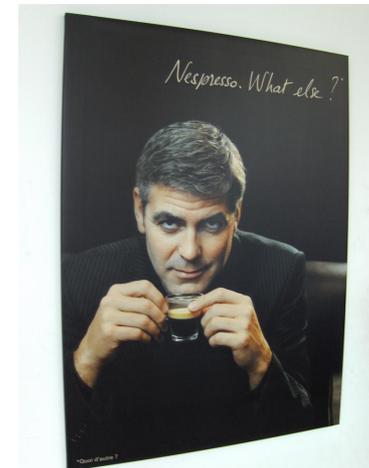
Personality Merchandising

Use of the name or image of the person to adorn a product



Personality Endorsement

Person informing the public that he/she approves product or service or is happy to be associated with it



In some countries, courts have been unwilling to grant celebrities monopolies over the use of their "character rights" to create merchandise.

MERCHANDISER

Generate lucrative license fees and royalties

Enter new product categories

Risk-free

Cost-effective

Invaluable marketing tool, as it increases the merchandiser's brand exposure, enhances the brand's image, and leads it to new markets

Effective tool to attract sponsorship for special events, as it strengthens the association between the sponsor's brand and the event

LICENSEE

Companies that manufacture low-priced mass goods may make their products more eye-catching, glamorous, fun and attractive

Companies that launch a new product on the market may advertise their product by associating it with a personality or fictional character in whose reflected light it will appear more attractive

ADVANTAGES

How to prepare to merchandise?

- ★ Make sure that you **own property rights** in the trademarks, logos, designs or characters
- ★ Look actively for **potential users** of your IP assets, and convince them of the commercial potential
- ★ Select the right licensee, trustworthy and diligent
- ★ Do some **market research**, check out how competitors are representing themselves, and study the tastes of consumers
- ★ Choose the right **type of products**
- ★ Jointly **promote** the business and the merchandise
- ★ Prepare **IP agreement**

Credits

This presentation is based upon the following publications:

- **Exchanging Value - Negotiating Technology Licensing Agreements, A Training Manual:**
<http://www.wipo.int/publications/en/details.jsp?id=291>
- **In Good Company - Managing Intellectual Property Issues in Franchising:**
http://www.wipo.int/edocs/pubdocs/en/sme/1035/wipo_pub_1035.pdf
- **Savvy Marketing: Merchandising of Intellectual Property Rights:**
http://www.wipo.int/sme/en/documents/merchandising_fulltext.html

Thank you!

Creating IP Culture Among Small
and Medium-Sized Enterprises

Sofia, October 17 and 18, 2017

Teresa Nobre, LL.M. IP (MIPLC)