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The small print for BIG IDEAS

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Date produced: 21<sup>st</sup> April 2020

## qLegal Online Publication

### Strategies to Commercialise Your Intellectual Property

*The aim of this toolkit is to provide an overview regarding the various ways of strategising your Intellectual Property Rights (IPRs). The toolkit sets out some basic definitions relating to IPRs and then covers and explains the methods of IPR commercialisation. The toolkit covers areas of commercialisation such as assignment, licensing, franchising, joint ventures and spin-offs.*

#### What is Intellectual Property (IP) Commercialisation?

Intellectual Property (IP) refers to intangible property that has been created by the mind, whether it is artistic, literary, engineered, a symbol, or even a name, and is being protected under the law for commercialisation purposes. The law provides a means for an IP creator to protect his/her rights via patents, copyrights, trade marks and designs (amongst others). These legal rights related to IP (“IPR”) enable formal recognition over the creation, as well as a stream of financial benefits from a sole right to use over a period of time. Most importantly, IPR provide a set of safeguards which allow for safe competition between creators and thus incentivise innovation.

Innovation

Protection

Commercialisation

Commercialisation of IP enables your creation to be put on the market, in order to generate revenue and profit while protecting the commercial rights of your creation and safeguarding your ability to commercialise your creation over the claims of another party. The following can be done through the sale or the licensing of the IP. Selling your IP is straightforward, where ownership and any other rights in the IP is transferred to another person by way of a purchase agreement. Licensing on the other hand, means giving someone else authority to use your IPR within prescribed limits in exchange for something, usually monetary gain. For example, where a clothing brand wishes to print t-shirts with the ever-famous F.R.I.E.N.D.S series logo, they must ask for licensing permission from the IP owner (who has trademarked the logo of the show) and pay fees, in order to make use of, and profit from, the series logo. Failure to obtain permission from the owners of the IP will likely lead to legal disputes.

#### Ownership of Intellectual Property

Establishing the owner of the IP is imperative, as an IP owner and IP creator are not necessarily the same person or entity and the creation can be under sole ownership or joint ownership. Also, investors and other partners are often involved in the creation of the IP, so are also given individual rights over your creation(s). **A patent is owned by its**

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**creator (except where there are employment concerns). A trade mark is owned by the individual or entity that filed for it. Copyright protection arises automatically with the creation of a creative work.** Other ways to come into proprietary possession of IP would be either through the purchase from an IP owner, or through commissioned work where it is established in a contract between the parties that the commissioner of the work, rather than the creator of the work, is to be the owner of the creation. An employee of a company is deemed under employment law to have assigned the IPR to their work to their employer simply by being classified as an employee. In contrast, an independent contractor or consultant is deemed under the law to retain the IPR to the work they create for the company, unless they sign a contract that expressly assigns the IPR to the company for whom they are doing the work.

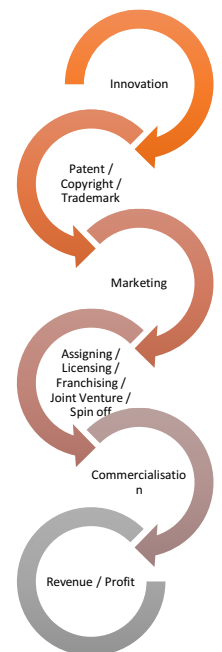
## Benefits of Intellectual Property commercialisation

Commercialisation of your IP, whether it be through assignment, licensing, franchising, joint ventures or spin-offs brings an array of benefits. **However, the key factor and most important benefit to commercialisation stemming from all of these routes, is revenue and profit making** – which is the ultimate goal of creators.

## Key Considerations when commercialising Intellectual Property

When looking to commercialise your IP, there are important considerations that must be kept in mind and subsequent actions that need to be taken. A key decision is which commercialisation avenue is to be taken. To decide this, the owner of the IPR must:

- Consider the nature of the business,
- The type of IPR and the limitations of such IP protections (where different IPRs are valid for different lengths of time, with patents being the shortest at a maximum of 20 years, copyright usually being 70 years from the life of the author, and trade mark protection lasting indefinitely as long as they are in use),
- The available capital,
- The objectives of the business,
- The relevant legal issues,
- The business's capacity to monitor and enforce the IPR,
- The reputation of the business and;
- Seeking professional advice on assessing their IP asset portfolio and routes to commercialisation (This would be part of the due diligence necessary at the start of the commercialisation process and would include an assessment of the company's assets and liabilities).



When negotiating the commercialisation transaction, information disclosed by the IP owner should be kept confidential through Non-Disclosure Agreements (NDAs), to protect against the risk of the IP being disseminated if negotiations break down. This is especially key in patents where disclosure can destroy the necessary novelty requirement and frustrate subsequent efforts to gain patent protection. IP owners and potential licensors should use IP databases or Freedom to Operate (FTO) analysis to ensure that the IPR can be exploited commercially without

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infringing third party rights. Commercialisation also includes monitoring and enforcement of the IPR where necessary. However, despite these potential difficulties, commercialisation of IPR is key to allowing businesses to grow, and has intrinsic importance to SMEs<sup>1</sup>.

### Methods of Commercialisation

#### *Assignment*

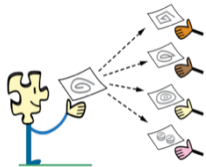
**Assignment is effectively a sale of an intellectual property asset** - it is the transfer of ownership of that asset, so that the original owner no longer has the right to use that IP. This is permanent and usually for a lump sum or agreed payment over time. This means it has the benefit of providing an immediate source of cashflow. However, on the flip side, where the IPR is used well by the new owner (the assignee) and achieves commercial success, the original owner (the assignor) cannot partake in any of the benefits, unlike in a licensing agreement. On making the assignment, the assignor relinquishes all right of control over that IPR. Assignments are best used where a business wishes to shut down an activity line, or for example where a business has gone insolvent and needs to regain capital to be shared by the creditors. Assignment can also be utilised to 'mortgage' an IPR, using it as security for a debt.

#### *Licensing*

**Licensing is equivalent to renting an asset out.** The owner (the licensor) permits the tenant (the licensee) to use the IPR and profit from it free from infringement, within the agreed limits which are set by provisions in the contract between them. There are three main licensing types: exclusive, sole and non-exclusive.

- An **exclusive license** is akin to an assignment – only the licensee has permission to use the IPR; not even the owner is permitted to use the IPR, having contractually surrendered this right within the license agreement.
- A **sole license** is where only one license is given, and the licensor keeps their right to use the asset as well.
- A **non-exclusive** licence is where multiple licenses are given out, with each licensee having permission to use the IPR, and with the licensor keeping their right to use the asset as well.

An advantage of a licence agreement is that the owner retains some control over the IPR, including the right to terminate the agreement and continues to benefit financially from the IPR. Therefore, if the licensee uses the IPR well and achieves great commercial success, the licensor can also partake in the profits. Other important advantages of licensing are that the owner of the IP is able to maintain the ability to exploit the IP in certain territories or industries (fields of use), whilst licensing out the IPR in other territories/fields of use to allow further expansion and profit generation. This is without taking on further financial risk as the onus of marketing/ advertising is on the licensee. The licensor can also access the licensee's existing customers, thus negating risk.



A key disadvantage, however, is that the licensee can become a competitor. In licensing, the licensor remains in control of dispute resolution and infringement proceedings by third parties, and the licensor would indemnify itself against any losses incurred by the licensee.

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<sup>1</sup> Small/Medium Enterprises

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## **Franchising**

**Franchising is the method by which businesses can expand without requiring additional capital.** It is how companies such as McDonalds and KFC have managed to become global names with offices worldwide. Effectively, the franchisee duplicates the business of the franchisor (the owner of the IPR) in new places. In franchising, the franchisor has developed a way of doing businesses, which it then allows another entrepreneur (the franchisee) to use in another location, for a given period of time, for an initial payment and then ongoing fees.



The franchisee is able to use the franchisor's IPR and know-how taught to them by the franchisor. The franchisor sets standards they expect the franchisee to comply with, whilst the franchisee must submit samples of their work for quality-checking purposes. If they are to fall below the required standard, the franchisor can withdraw authorisation. Importantly, this method allows expansion and profit generation, without risk of incurring losses. The franchise benefits the franchisor in this way, whilst allowing the franchisee to enter into a market more easily.

## **Joint Venture**

**Joint Venture (JV) involves two or more companies entering into working relations (but remaining separate entities) for a set period of time.** A JV is often seen as more efficient than a merger or an acquisition as it allows for quicker access to materials and IP than a merger or an acquisition, which can be time consuming. Unlike where an IP license is given, a JV would not include a payment for the use of the IP but rather the sharing of IP for the mutual benefit of both parties. This is often seen where two competitors turn to each other and combine their IPRs to deal with market changes and new innovative strides.

## **Spinoffs**

**Spinoffs refer to the establishment of separate companies/legal entities under which the IP provided by the parent company will be commercialised for profit on the market.** Spinoffs are considered to be one of the best and most efficient ways to transform a creation into a product and service to license.

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