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VALUATION OF TRADE MARKS AND BRANDING IN THE 21ST CENTURY
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ENHANCING TRADE MARK VALUE CAPTURE THROUGH LICENSING

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INTRODUCTION

IP Valuation of trade marks measures value in a number of ways such as market value measure of the trade mark at the present time or income value measure of future earnings of the trade mark. This future earnings aspect of the trade mark value recognizes that trade mark value capture depends upon use of the trade mark. This paper will highlight how trade mark value capture can be enhanced through strategic management of licensing of the trade mark.

TRADE MARK LICENSING MODELS

Trade mark licensing can be either a license of one or more trade marks or a license of trade mark(s) bundled with other intellectual property. In regards to trademark license agreements, the issues are summarized below:

Table 1 Trade Mark Licensing Issues

	TM Licensor	TM Licensee
Ownership of IP	Licensor maintains ownership of all IP	Licensee can use Licensor's TM's in accordance with terms of the agreement
Protection of IP	Licensor requires Licensee to protect TMs	Licensor requires Licensee to protect TMs
Potential business applications of IP	Allows Licensee to use TMs while protecting integrity of TMs	Limitations to applications and use of TMs is spelled out in the agreement
Third party IP	N/A	N/A
Development and usage of IP	Controlled by the terms of the agreement	Controlled by the terms of the agreement

A trademark specification is the vehicle by which a trade mark licensor can control the use of the trade mark by the trade mark licensee. The specification describes the requirements for reproduction of the trade mark, such as colour, size, graphics, font and typeface. In this manner, the trade mark owner can control the reproduction of his trade mark and prevent erroneous uses that may lead to dilution or erosion of his trade mark.

In addition to the trade mark specification (which is typically attached to a trade mark agreement as an exhibit), the trade mark owner should specify in a trade mark agreement how and where the trade mark can be used. For example, the trade mark owner may require appending ® to the trade mark use under the license agreement.

In addition, use of the trade mark as an adjective and not a noun can be specified. Also, there can be restrictions on use such as geographic restrictions, field of use restrictions, use on specified goods or services or time-limited use. Geographic restrictions in trade

mark licenses are common. In addition to a use-here-but-do-not-use-there type of geographic restriction, the exclusivity of use can be geographically restricted. For example, a licensee can receive an exclusive license to use the trade mark in one territory, but receive a non-exclusive right to use the trade mark in other territories. This exclusivity restriction can also be used with field of use restrictions, specified goods or services use or time-limited use (e.g., two years exclusive and thereafter non-exclusive).

Trade mark protection can be granted within one or more “classes of goods”. Similarly, the trade mark license can limit use of the trade mark by the licensee to one or more specified classes. In this manner, the trade mark license can define the scope of the license by classes of goods in addition to territory and time.

A trade mark license agreement typically asks the licensee to agree to non-acquiescence and non-dilution terms. Acquiescence is a legal term and describes when an IP owner knowingly stands by without raising any objection to the infringement of their rights while someone else unknowingly makes a claim on the owner’s IP rights. Consequently, the IP owner whose rights are infringed loses the ability to make a claim against the infringer, or succeed in an injunction suit due to the infringer’s conduct. The term is most generally a kind of “permission” given by silence or passiveness. An agreement to non-acquiescence is an agreement by the licensee that failure of the licensor to police the trade marks that are the subject matter of the license or assert them against the licensee does not reduce the ability for the licensor to later enforce its trade mark rights under the license agreement against the licensee. Dilution of a trade mark is misuse of the trade mark specification or use which creates confusion in the mind of the public (or at least doubts as to the goodwill behind the trade mark), thereby diluting the strength of the trade mark. The licensee is also typically asked to agree to non-dilution, i.e., to not take any action or any use of the trade marks which would dilute the trade marks. Usually the directions for non-dilution are provided in the Trade Mark Specification and/or Trade Mark Usage Guide which indicates how to use the trade mark in a non-diluting manner.

From the licensor standpoint, quality control audits may be required. The licensor should have the ability to monitor and inspect trade mark usage to ascertain that use of the trade mark is consistent with the restrictions of the agreement. This prevents and/or controls trade mark dilution by the licensee. From the licensee standpoint, he/she must not only agree to take trade mark usage quality control measures to prevent trade mark dilution (e.g., by warranty terms), but must also usually agree to help police trade mark misuse by notification of such misuse to the licensor. In regards to the warranty terms, it is typical to allow the licensor time to correct any breach of the warranty after licensor notification of the breach.

TRADE MARK VALUATION

One can theoretically determine a value for IP just as it is possible to do for other assets, tangible and intangible, using in particular three basic methodologies: income methods, market methods and cost methods as shown in Figure 1. The income methods look to the future and value assets based upon projected future economic benefits of use of the assets. The market methods look to the present (or recent past) and value assets based upon comparable transactions, typically recent transactions. The cost methods look to

the past and value assets based upon the costs of development of the assets. In practice, these methods are used in combination and a value can be determined in response to the results obtained by the different methods.

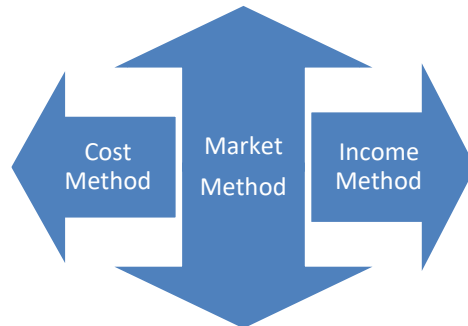


Figure 1 Valuation Methodologies

For trade marks, valuation can involve the market method, the income method, possibly the cost method or a combination of these methods as shown by the dashed circle in Figure 2. Typically, the market method uses comparable trade marks in similar industries to develop a valuation. But the income method contemplates that future uses of a trade mark will affect a present value of that trade mark.

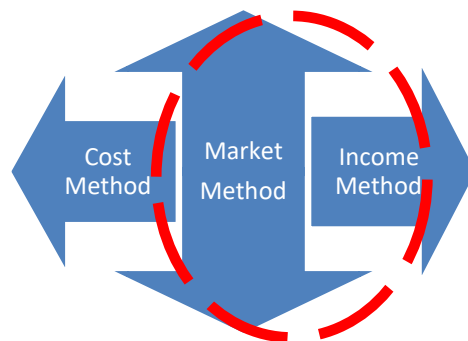


Figure 2 Trade Mark Valuation Methodologies

As with any IP valuation, a relevant value of a trade mark has to take into account the business context of the valuation in order to understand the potential business edge provided by the trade mark. Valuation should also include a fine analysis of the legal situation of the trade mark (its validity and scope, ownership issues, etc.).

Forbes reports the most valuable trade mark in world is the Google trademark at US\$44.3 billion. Yet, how is this trade mark valuation calculated. Intellectual property, like other forms of property, has both an intrinsic value and an extrinsic value. The intrinsic value of the property is the objective property value that can be measured by the effort put in to create the property. The intrinsic value of a trade mark depends upon many factors and is dependent upon the business. For example, intrinsic value can be

determined by the cost that has gone into developing, registering and marketing the trade mark. Alternatively, the intrinsic value can also be determined by looking at the value of similar trade marks within a market relevant to the business. Further, intrinsic value can also be determined by possible future economic benefit of using the trade mark in the business. Other factors also affect the intrinsic value of the trade mark, such as whether the trade mark is registered or not or whether the trade mark enables a product (e.g., an enabling trade mark distinguishes the product from other products in the market).

While the intrinsic value may decrease over time by depreciation of the property asset value, the intrinsic value is easy to measure. The extrinsic value of the property is the perceived value of the property. Thus, the extrinsic value is a subjective measure of the value and more difficult to measure than the intrinsic value.

An example is the real estate mantra “Location, location, location” which refers to the fact that where a property is located affects the price of the property. And why should location affect property value? Why are two houses built with exactly the same material, by the same contractors and which look exactly the same have different values just because they are located in different locations? It is because the extrinsic value of the property involves valuing a perception of the property.

Well, very few people have trouble accepting the extrinsic value proposition when applied to real property. However, when it is applied to intellectual property, it is a more difficult concept. Why should a patent have one value when used for licensing and another value when used in a collaboration? Why should a manufacturing process trade secret have one value when utilized internally to support a product line and have another value when licensed to a third party for second source product supply? Why should a trade mark have one value when owned by Company A and have another value when owned by Company B? The value of the Google trade mark reported by Forbes factors in the public’s perception of the Google company to create value as represented, for example, by the Google stock price. Also, as part of the income method of valuation, the perception of the ability of Google to successfully extract value from its IP portfolio and its human capital under the direction of its management is also represented in this valuation. Some of the extrinsic value of a trade mark is the goodwill represented by that trade mark.

STRATEGIC MANAGEMENT OF TRADE MARK LICENSING WITH CORPORATE STRATEGIES FOR ENHANCED VALUE CAPTURE

The extrinsic value of intellectual property can be enhanced in two ways: extracting value and capturing or creating value. Take a patented invention, for example. The intrinsic value of a patented invention is the cost of research and development that has gone into the conception and reduction to practice of the invention as well as the cost to patent the invention. The extrinsic value results from how the patented invention is used: both how the patent is used (e.g., licensed) and how the product in which the patent is realized is used (e.g., sales). The same is true for trade marks.

An example of extracting value from a trade mark is placing the trade mark on a product which is being successfully commercialized. The extracted value has two parts: positive

value received from the sale of the product and negative value received from the productization and commercialization of the product (e.g., costs of marketing and selling the product). When extracting value, the trade mark value is viewed as being the value appurtenant to the product displaying the trade mark.

Capturing value looks at the intellectual property itself as a “value creator”. Examples of capturing value from a trade mark include licensing the trade mark, using the trade mark for competitive positioning in a market or using it to enhance company reputation.

Successful financial management of a company looks towards obtaining a return on investment (ROI) on Research & Development spending and other IP costs. Successful IP Management can increase this ROI. In addition, successful IP Management can add to a company’s bottom line net income!

The bottom line net income can be increased by protecting a product’s profit margin through successful IP Management. Net income can be increased by using successful IP Management to obtain additional financial liquidity through collateralizing intellectual property. Net income can also be increased by using successful IP Management to develop and launch new products, increase the depth of current product portfolios, and develop new markets for current or new products. Finally, net income can be increased through successful IP Management of brand strengths to increase market and customer awareness. The main driver for optimizing value creation through successful IP Management is the degree of alignment of an IP Management strategy with a corporate strategy. When the IP Management fully supports and is fully aligned with the corporate strategy, value creation is maximized.

ENHANCING VALUE CAPTURE BY LICENSING BUNDLED IP INCLUDING TRADE MARKS

Value extraction by value capture from one’s trade mark can be enhanced by bundling other intellectual property with the trade mark in an intellectual property use scenario. In order to maximize the value of an IP portfolio, creating and maintaining IP that is (or can be) bundled together for supporting business strategies is essential. A trade mark may be easily recognizable within a certain market segment and therefore a strong trade mark, but combining that that trade mark with patents and enabling trade secret technology and know-how to enter a new market can provide an increased bundled value. The goal, as with any bundling activity for maximizing value, is to have $1 + 1 > 2$. In other words, the value of the bundled IP is greater than the combined value of each IP in the bundle.

To maximize value creation, various complementary IP rights can be bundled or packaged to support one or more business strategies. The key to maximizing value creation is alignment and complementary IP rights. Alignment refers to alignment of the bundled IP rights with the business strategy it supports and the alignment of the various IP rights with one another. Complementary IP rights refers to the “one plus one is greater than two” formula shorthand for the value of the bundled IP is greater than the combined value of each individual IP in the bundle. IP Management is also important for creating and packaging the bundled IP rights to make sure that complementary IP rights maximize

value creation of the IP bundle and that the IP bundle is aligned with business strategies and IP Management Strategies for further value creation maximization.

An example of bundling for value creation is to bundle patents and trade secrets and, possibly, copyrights together with trade marks for a technology transfer to set up a second source manufacturing facility. In order to provide a turnkey solution, in addition to the IP licenses and the know-how provided in the technology license, one or more employees may be temporarily seconded to the licensee to help integrate the technology into the licensee's facility and to assure quality product manufacture so that the value of the trade mark is not negatively affected by third party product manufacture and, in fact, the trade mark value is enhanced by the increased ability to put products into the marketplace. The technology transfer may even involve sharing trade secret information on suppliers and distributors, as well as marketing and sales strategies.

As another example, bundling trade secrets, trade marks, copyrights and, possibly, patents into a franchise license can provide a turnkey solution for a food and beverage outlet to take advantage of the branding and goodwill developed by the licensor and associated with the trade mark being licensed (e.g., many fast food outlets are franchised in this manner). The trade secrets could include secret recipes. The trade secrets could also include supplier lists. The trade mark license includes a license to use the trade marks in which the licensor has built up a brand and good will for signage, uniforms and other collaterals. The copyright license could provide a license to marketing material and copyright collaterals for use in the licensee's business. There may be some patented technology covering equipment used in the business (e.g., drink dispensers, deep fryers) and the patent license would cover this technology.

Unlike the technology transfer, where the trade mark is licensed providing the licensee the ability to take advantage of the goodwill created by the licensor, there needs to be some means of quality control so that the licensor's good will is not harmed. Also, like the technology transfer, one or more licensor employees may be temporarily seconded to the licensee to help get the franchise business up and running.

As with all things, the benefits (financial, IP and other benefits) from an IP Portfolio can be maximized by appropriate planning and execution. This means that a company should identify and allocate sufficient resources for IP. Such resources (financial, personnel, IP, etc.) should be timely and fully provided for successful IP value extraction and creation. Focus should be on maximizing value extraction and creation from the IP Portfolio in line by coordination of IP Management Strategies with Corporate non-IP Strategies.

OTHER LICENSING MODELS THAT INCREASE A TRADE MARK'S VALUE

Design registrations complement trade marks such that licensing models that include both design registrations and trade marks can be tied to particular products and increase customer recognition. So, the contribution to the strength of an IP portfolio by the design registrations and trade marks is dependent on the importance of the products on which such registerable IP is used by the organization as a whole.

With the expansion of trade marks to cover three-dimensional marks, the division line between trade mark registrations and design registrations can become blurred. Both can

be used to identify product source to the market and its customers. So, licensing models can be devised for strategic licensing of design registrations and trade marks to can be strategized to optimize value extraction, thereby increasing a trade mark's value.

Another licensing model that has become popular recently is product placement in movies and other audio and visual products. Products having the trade mark conspicuously displayed in such audio, visual and audio-visual vehicles can utilize enhanced trade mark value to generate greater product sales. Whether it is Tom Cruise using a particular cellphone to call in a Mission Impossible assignment or E.T. collecting candy, conspicuous product display is another licensing model which can increase trade mark value.

LICENSING TECHNIQUES TO PREVENT DECREASE IN TRADE MARK VALUE

Building a brand directly affects the value of a trade mark. So, when trade marks are licensed it is necessary for the licensor to protect the brand he has created in his trade mark by policing the licensee's use of the trade mark. In order to have a strong brand and, consequently, a valuable trade mark, it is imperative that the trade mark owner be vigilant. The trade mark owner needs to prevent misuse of his mark in a manner that would cause the mark to become descriptive or generic (e.g., escalator, aspirin). The trade mark owner also needs to prevent misuse of the trade mark so that it does not become diluted through inconsistent use.

Protection of goodwill in the trade mark is as important as protection of a brand behind a trade mark. Protection of a franchisor's goodwill, for example, can be addressed in the franchise agreement by warranties. Also, protection of the franchisor's goodwill can be assisted by quality control audits (e.g., monitoring and inspecting products, services and trade mark usage). Such terms and audits in a franchise agreement are equally important in a licensing agreement.

WRAP-UP

A strong IP portfolio, including strong trade marks, enables organizations to take advantage of their IP and accumulate wealth given that wealth is now measured increasingly in terms of ownership of or time-critical access to knowledge-intensive, high value-added, technology-intensive systems. The value of trade marks is now recognized, not only by IP attorneys and accountants but also increasingly by the business community as a whole, and more recently by governments and policy makers. This recognition of the value of trade marks is based on a general perception that in a knowledge-driven economy IP such as trade marks is a key asset. In practice, this recognition is illustrated by many business situations such as transactions. At a minimum, as valuation of IP gains credibility as, for example a source of securing financing, it will be essential to understand the business value of trade marks and other IP rights and the value an IP portfolio can achieve for an organization. However, even though it is generally accepted that a trade mark is a business asset, there is still a need for a common understanding and acceptance of how to value such assets.