

## How to manage IP?

- Complexity of today's businesses
- Cumulative nature of innovation
- Too precious to be left to the lawyers
- Fragmentation of IP
- Is IP in sync with the go-to-market strategy?

## Who manages your company's IP?

- Sales & Marketing
- Legal
- Finance & Accounting
- R&D/Technical
- Human Resources
- IT
- IPR

## Integrated Management of IP

- Different forms of IP (trademarks, patents, copyright, trade secrets) managed together
- IP management is integrated with overall business model design and corporate strategy

## Managing things together

- Marketing and Branding
- Enforcement and Franchising
- Sell or License
- Open or Closed innovation

## Integrated management

- Firm's business strategy: How to become inimitable
- Intellectual Property position: How to extend IP protection
- Business model choices: IP and Non-IP
- Timing decisions: When to protect IP

# Inimitability of Business Models

making competition irrelevant

- Intellectual Property protection law: Patents, ®, ©, Designs etc
- Business Model management: Blue Ocean Strategy "NON IP"

# Managing Together

(combining law and management)

Two kinds of IP:

- 1. Limited Life: Patents, Designs, Copyright
  - 2. Unlimited Life: Trade secrets, Trademarks
- 20 15 life + 60*
- 

# Case Study: Pilkington Glass

## Plate Glass vs. **Float Glass**

A process that uses molten tin to create the surface of a glass sheet was developed in the late 1950s. The glass, in liquid form, was poured onto the tin causing the lighter glass to float. The resulting product, "float glass," had an extraordinarily smooth surface and required much less sanding than products made using earlier techniques. Today, glass for commercial use is almost entirely float glass, and plate glass is used only in very rare cases.

Float glass is less expensive to produce than machine-made plate glass. It also has fewer irregularities. There is little room left to wonder at how easy it overtook plate glass as the favored material to use in new construction.

## Case Study: Pilkington Glass

- Patents and Trade Secrets: Pilkington Group
  - Float Glass /Plate Glass
  - Grinding and Polishing Process replaced
  - License industry incumbents (scope: restrictive)
  - Rapid price reduction and acceptance of technology
  - Protection: Patents, Trade Secrets and Licenses

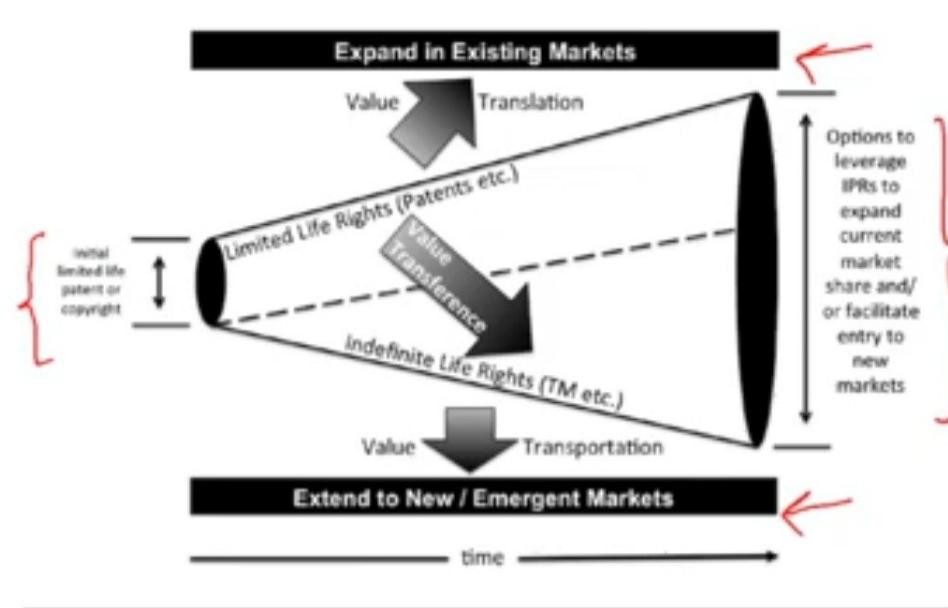
## Case Study: Dolby Laboratories

"I have a general principle that I follow: I don't go into any area that I can't get a patent on. If you don't stick to that approach, you quickly find yourself manufacturing commodities."

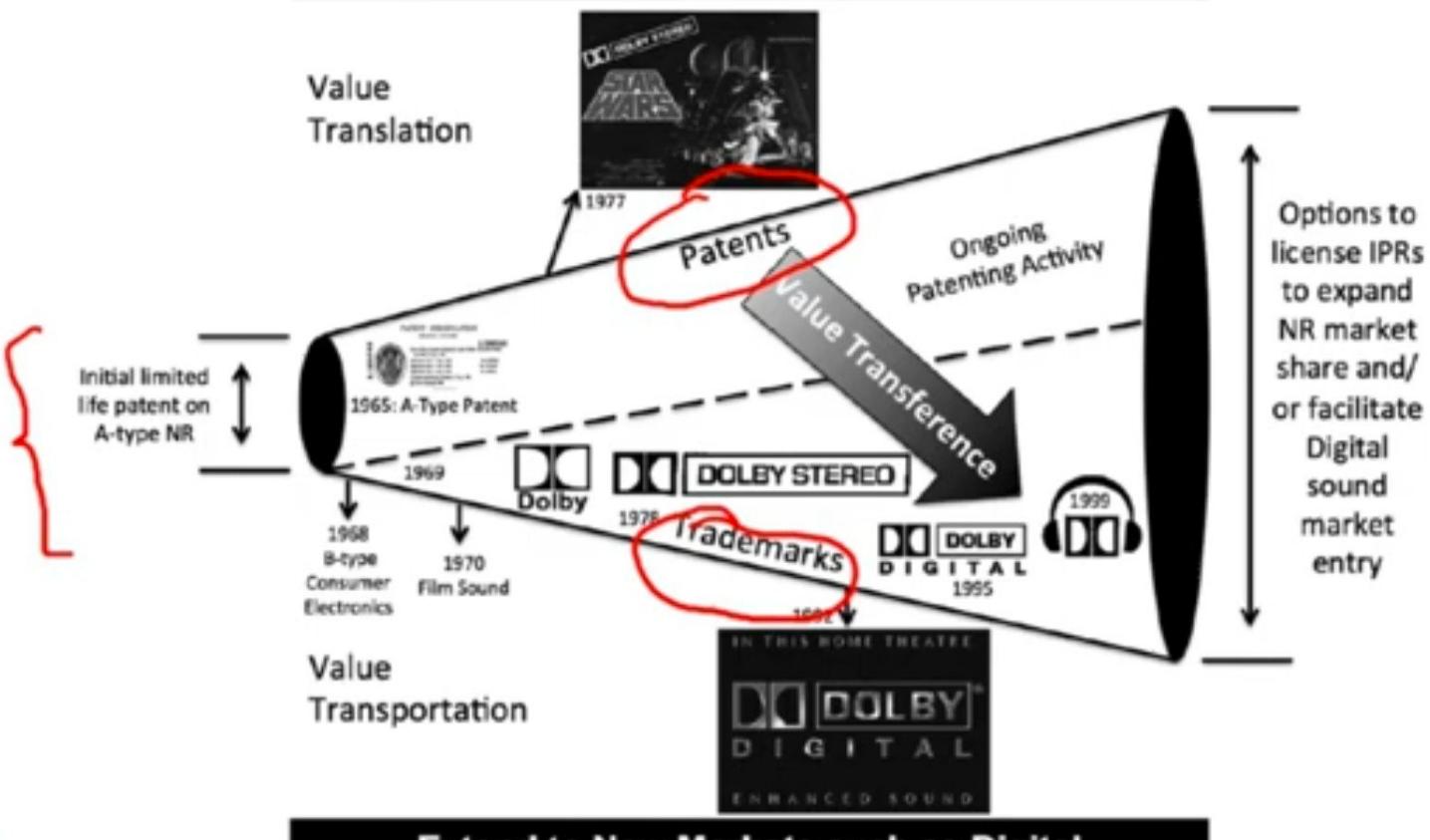
- Roy Dolby

- Patents and Trademarks: Dolby

# Value Articulation



## Expand in Existing Analogue Sound Markets



## Extend to New Markets such as Digital

time

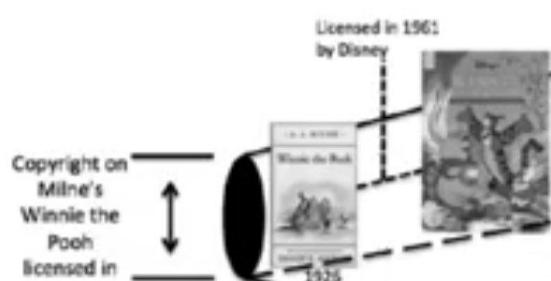
# Case Study: Disney

Value Articulation: A Framework for the Strategic Management of Intellectual Property



## Expand in Media/Entertainment Markets

### Value Translation



Copyrights



Trademark, USPTO:  
4195045, Reg. 2010

Value Transference

### Value Transportation



Trademarks

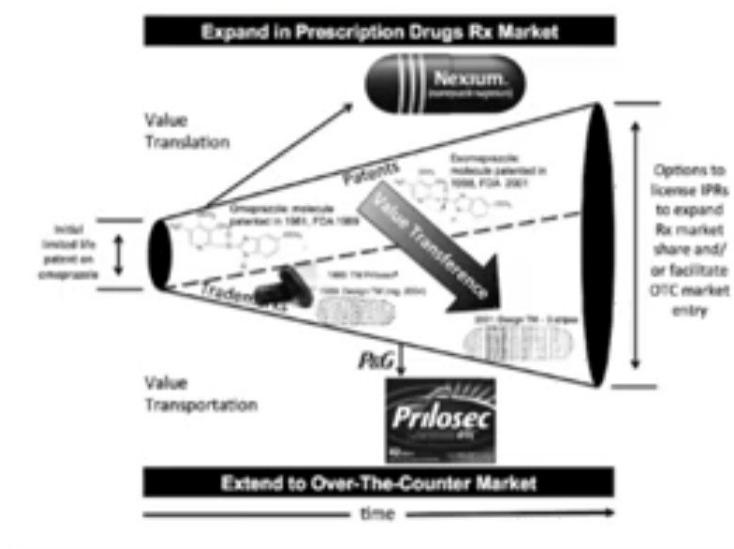
Options to  
license  
character  
based IPRs  
to multiple  
Consumer  
Packaged  
Goods  
markets

## Extend to CPG/FMCG Markets

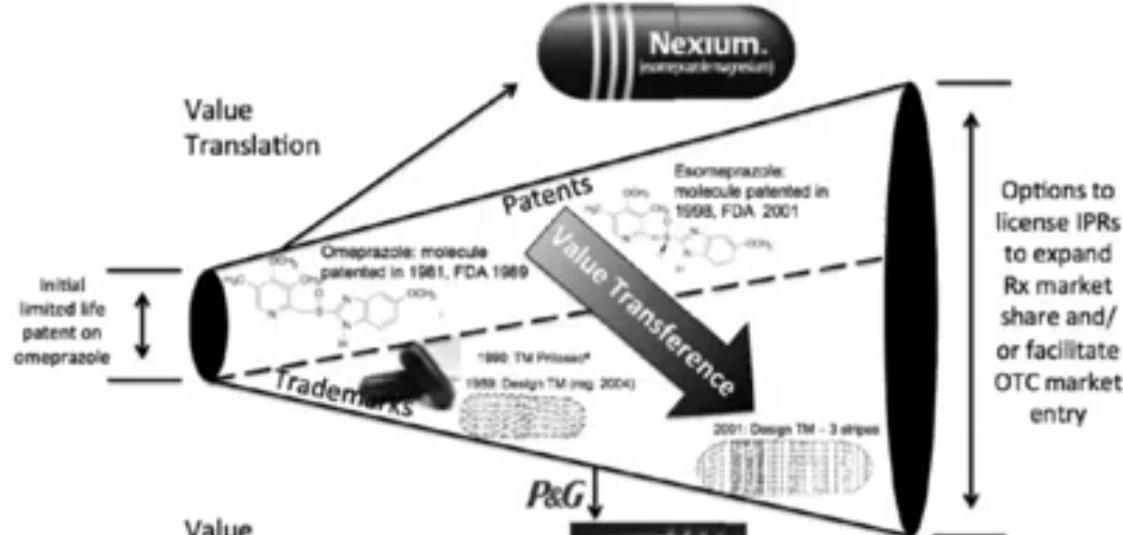
time

# Nexium: Purple Pill

**FIGURE 3.** AZ's Temporal Management of the PPI Invention and Associated IPR's



## Expand in Prescription Drugs Rx Market



## Extend to Over-The-Counter Market

time

## How they compare

### IP Laws

- Grants a monopoly (exclusivity)
- Different IP Acts: Patents, Designs etc.
- Origin: Statute of Monopolies (Patents)
- Why: incentivize innovation
- Existence of IP
- Normal use of IP

### Competition Laws

- Abhors monopolies
- Competition Act, 2002
- Origin: Statute of Monopolies (Patents)
- Why: competition & consumer interest
- Exercise of IP
- Abuse of IP

# Competition Law

## **Domain:**

1. Anti-competitive Agreements
2. Abuse of Dominant Position



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- (a) the Copyright Act, 1957 (14 of 1957);
- (b) the Patents Act, 1970 (39 of 1970);
- (c) the Trade and Merchandise Marks Act, 1958 (43 of 1958) or the Trade Marks Act, 1999 (47 of 1999);
- (d) the Geographical Indications of Goods (Registration and Protection) Act, 1999 (48 of 1999);
- (e) the Designs Act, 2000 (16 of 2000);
- (f) the Semi-conductor Integrated Circuits Layout-Design Act, 2000 (37 of 2000).'

An enterprise, which enjoys dominant position by virtue of the IPR, if it engages in conduct considered abuse in terms of section 4, shall not enjoy any immunity. These abuses are in terms of section 4:

- (i) directly or indirectly, imposes unfair or discriminatory condition or price;
- (ii) limiting or restricting production of goods or provision of services or market;
- (iii) limiting or restricting technical or scientific development to the prejudice of consumers;
- (iv) denies market access in any manner;
- (v) makes conclusion of contracts subject to acceptance by other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts;
- (vi) uses its dominant position in one relevant market to enter into, or protect, other relevant market.



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### REASONABLE CONDITIONS

Section 3 sub section (5) of the Act declares that "reasonable conditions as may be necessary for protecting" any IPR will not attract section 3. The expression "reasonable conditions" has not been defined or explained in the Act. However, by implication, unreasonable conditions that attach to an IPR will attract section 3. In other words, licensing arrangements likely to affect adversely the prices, quantities, quality or varieties of goods and services will fall within the contours of competition law as long as they are not reasonable with reference to the bundle of rights that go with IPRs.

For example, a licensing arrangement may include restraints that adversely affect competition in markets by dividing the markets among firms that would have competed using different technologies. Similarly, an arrangement that effectively merges the Research and Development activities of two or only a few entities that could plausibly engage in R&D in the relevant field might harm competition for development of new goods and services. Exclusive licensing is another category of possible unreasonable condition. Examples of arrangements involving exclusive licensing that may give rise to competition concerns include cross licensing by parties collectively possessing market power and grant backs. A few such practices are described below.

- 1) Patent pooling is a restrictive practice. This happens when the firms in a manufacturing industry decide to pool their patents and agree not to grant licenses to third parties, at the same time fixing quotas and prices. They may earn supra-normal profits and keep new entrants out of the market. In particular, if all the technology is locked in a few hands by a pooling agreement, it will be difficult for outsiders to compete.



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- 2) Tie-in arrangement is yet another such restrictive practice. A licensee may be required to acquire particular goods (unpatented materials e.g. raw materials) solely from the patentee, thus foreclosing the opportunities of other producers. There could be an arrangement forbidding a licensee to compete, or to handle goods which compete with those of the patentee.
- 3) An agreement may provide that royalty should continue to be paid even after the patent has expired or that royalties shall be payable in respect of unpatented know-how as well as the subject matter of the patent.
- 4) There could be a clause, which restricts competition in R & D or prohibits a licensee to use rival technology.
- 5) A licensee may be subjected to a condition not to challenge the validity of IPR in question.
- 6) A licensee may require to grant back to the licensor any know-how or IPR acquired and not to grant licenses to anyone else. This is likely to augment the market power of the licensor in an unjustified and anti-competitive manner.
- 7) A licensor may fix the prices at which the licensee should sell.
- 8) The licensee may be restricted territorially or according to categories of customers.
- 9) A licensee may be coerced by the licensor to take several licenses in intellectual property even though the former may not need all of them. This is known as package licensing which may be regarded as anti-competitive.



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- 10) A condition imposing quality control on the licensed patented product beyond those necessary for guaranteeing the effectiveness of the licensed patent may be an anti-competitive practice.
- 11) Restricting the right of the licensee to sell the product of the licensed know-how to persons other than those designated by the licensor may be violative of competition.
- 12) Imposing a trade mark use requirement on the licensee may be prejudicial to competition, as it could restrict a licensee's freedom to select a trade mark.
- 13) Indemnification of the licensor to meet expenses and action in infringement proceedings is likely to be regarded as anti-competitive.
- 14) Undue restriction on licensee's business could be anti-competitive. For instance, the field of use of a drug could be a restriction on the licensee, if it is stipulated that it should be used as medicine only for humans and not animals, even though it could be used for both.
- 15) Limiting the maximum amount of use the licensee may make of the patented invention may affect competition.
- 16) A condition imposed on the licensee to employ or use staff designated by the licensor is likely to be regarded as anti-competitive.

The above list is not exhaustive but illustrative.



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#### PENALTY PROVISIONS

The Commission is empowered to inquire into any unreasonable conditions attached to the IPR agreements and can impose penalty upon each of such right holder or enterprises which are parties to such agreements or abuse, which shall be not more than ten percent of the average turnover for the last three preceding financial years. In case an enterprise is a 'company' its directors/officials who are guilty are liable to be proceeded against and punished.

In addition, the Commission has the power to pass inter alia any or all of the following orders (Section 27):

- (i) direct the parties to discontinue and not to re-enter such agreement;
- (ii) direct the enterprise concerned to modify the agreements;
- (iii) direct the enterprises concerned to abide by such other orders as the Commission may pass and comply with the directions, including payment of costs, if any; and
- (iv) pass such other order or issue such directions as it may deem fit.

In case of abuse of dominant position under section 4 by virtue of an IPR by an enterprise, in addition to the above penalties, the Commission has the power to order division of enterprise under section 28.



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# Importance of IP Valuation

- Securing financial investment
- Identify walk-away position in negotiations
- Foundation to establish damages for infringements
  - Georgia-Pacific factors: reasonable royalties
- Determining royalties
- Legal and accounting reasons



## Challenges in valuing IP

- Level of subjectivity and assumptions: “probabilistic rights”
- Lack of information to identify benchmarks: intangibility
- Shortage of valuation experts: inter-disciplinary difficulties
- For startups – defending valuation during negotiation



## Valuation methods

- Fair value approach – commonly followed
  - Valuation to reflect reasonable assumptions and estimates
  - Significant factors to be considered – information about business, understanding of market conditions, marketability of final product/service based on IP
- Two major approaches to valuation
  - Cost-based valuation
  - Market-based valuation

## Cost-based valuation

- Basis – economic principles of substitution and price
- Value of IP assumed to be historical production and protection cost
- Information required for this approach:
  - Material cost – isolated costing of tangible assets used to develop IP
  - Labor cost – wages, fees, compensation, insurance etc.
  - Apportioned overhead cost
  - Redevelopment information
  - Profit and incentive component

## Application of cost-based valuation

- New IP
- Exchangeable for intangibles like software (different code for same function)
- Royalty rates set as fair rate of return based on cost of IP
- Estimate internal Return Of Investment (ROI) of IP of associated technology or other intangible asset

## Common issues with cost-based valuation

- No correlation between sunk cost and real market value of IP
- Does not account for economic and market factors related to IP
- Opportunity cost not considered
- Risks associated with economic and other returns not factored
- Technological obsolescence not factored (depreciation issues)

## Market-based valuation

- Basis—potential economic returns to be earned from products/services from IP
- Two market-based valuation approaches
  - Comparable transactions/industry benchmarked approaches
  - Future income based approaches

## Comparable transaction/industry benchmark

- Used for benchmarking similar technologies (or deals with IP at similar stage)
- When relevant market information on prices, royalty rates or investment available, most reliable method
- However, it depends on access to information such as
  - Product lifecycles in industry, potential entry barriers, potential for income growth

## Issues with Comparable approach

- Identifying similar IP difficult
- Difficulty in obtaining details about terms and conditions of relevant transactions: confidentiality issues
- Market may undervalue IP at early stage due to information asymmetry

## Future income based approach

- Basis—forecasting income streams expected from IP and discounting it to present terms
  - Income = cash flow (and not profit)
- Identifying potential income
- Assessing duration of said income
- Risk assessment of forecasted income
- Information required
  - Selling prices, market share, volume or product, capital expenditure, time for regulatory approval, historical prices of sales, costs, profits etc.

## Issues with Future Income approach

- Identifying the appropriate income stream
- Obtaining various information
- Forecasting future income streams
- Issues with discounting rates – what rate to choose

# Georgia-Pacific Factors

1. Royalties patentee receives for licensing the patent in suit
2. Rates licensee pays for use of other comparable to the patent in suit
3. Nature and scope of license in terms of exclusivity and territory / customer restrictions
4. Licensor's established policy and marketing program to maintain patent monopoly by not licensing others to use the invention
5. Commercial relationship between licensor and licensee, such as whether they are competitors or inventor and promoter
6. Effect of selling the patented specialty in promoting sales of other products of the licensee; the existing value of the invention to the licensor as a generator of sales of his non-patented items; and the extent of such derivative or convoyed sales

## What method to choose?

- Cost based:
  - Legal and accounting requirement standards
  - Taxation, capital gains tax, stamp duty liabilities
- Market based:
  - Determining license and royalty fees
  - To get financial investments
  - Strategic reasons (to identify worth of the business)

## Georgia-Pacific Factors

7. Duration of patent and term of license
8. Established profitability of the products made under the patent, its commercial success and its current popularity
9. Utility and advantages of patent property over old modes and devices
10. The nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefit of those who have used the invention
11. The extent to which the infringer has made use of the invention and the value of such use
12. The portion of profit or selling price customarily allowed for the use of the invention

## Georgia-Pacific Factors

13. The portion of realizable profit attributable to the invention as distinguished from non-patented elements, significant features / improvements added by the infringer, the manufacturing process or business risks
14. Opinion testimony of qualified experts
15. Outcome from hypothetical arm's length negotiation at the time of infringement began

**Source:** *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1119-20 (S.D.N.Y. 1970), modified and aff'd, 446 F.2d 295 (2d Cir.); *Unisplay, S.A. v. American Electronic Sign Co., Inc.*, 69 F.3d 512, 517 n.7 (Fed. Cir. 1995).