What Is Intellectual Property?

Intellectual property is a broad categorical description for the set of [intangible assets](https://www.investopedia.com/terms/i/intangibleasset.asp) owned and legally protected by a company from outside use or implementation without consent. An intangible asset is a non-physical asset that a company owns.

The concept of intellectual property relates to the fact that certain products of human intellect should be afforded the same protective rights that apply to physical property, which are called [tangible assets](https://www.investopedia.com/terms/t/tangibleasset.asp). Most [developed economies](https://www.investopedia.com/terms/d/developed-economy.asp) have legal measures in place to protect both forms of property.

KEY TAKEAWAYS

* Intellectual property is an umbrella term for a set of intangible assets or assets that are not physical in nature.
* Intellectual property is owned and legally protected by a company from outside use or implementation without consent.
* Intellectual property can consist of many types of assets, including trademarks, patents, and copyrights.

Understanding Intellectual Property

Companies are diligent when it comes to identifying and protecting intellectual property because it holds such high value in today's increasingly knowledge-based economy. Also, producing value intellectual property requires heavy investments in brainpower and time of skilled labor. This translates into heavy investments by organizations and individuals that should not be accessed with no rights by others.

Extracting value from intellectual property and preventing others from deriving value from it is an important responsibility for any company. Intellectual property can take many forms. Although it's an intangible asset, intellectual property can be far more valuable than a company's physical assets. Intellectual property can represent a [competitive advantage](https://www.investopedia.com/terms/c/competitive_advantage.asp) and as a result, is fiercely guarded and protected by the companies that own the property.

Types of Intellectual Property

Intellectual property can consist of many types of intangibles, and some of the most common are listed below.

Patents

A patent is a property right for an investor that's typically granted by a government agency such as the U.S. Patent and Trademark Office AND **Intellectual Property Organisation of Pakistan**. The patent allows the inventor exclusive rights to the invention, which could be a design, process, an improvement, or physical invention such as a machine. Technology and software companies often have patents for their designs. For example, the patent for the personal computer was [filed in 1980](http://patft.uspto.gov/netacgi/nph-Parser?Sect1=PTO2&Sect2=HITOFF&p=1&u=%2Fnetahtml%2FPTO%2Fsearch-bool.html&r=16&f=G&l=50&co1=AND&d=PTXT&s1=%22personal+computer%22.TI.&s2=Apple.ASNM.&OS=TTL/%22personal+computer%22+AND+AN/Apple&RS=TTL/%22personal+computer%22+AND+AN/Apple) by Steve Jobs and three other colleagues at Apple Inc.

Copyrights

[Copyright](https://www.investopedia.com/terms/c/copyright.asp) provides authors and creators of original material the exclusive right to use, copy, or duplicate their material. Authors of books have their works copyrighted as do musical artists. A copyright also states that the original creators can grant [anyone authorization](https://www.investopedia.com/terms/l/licensing-agreement.asp) through a licensing agreement to use the work.

***Intellectual property examples of copyrights are:***

* *literary works.*
* *music.*
* *dramatic works.*
* *pantomimes and choreographic works.*
* *sculptural.*
* *pictorial, and graphic works.*
* *sound recordings.*
* *artistic works.*

Trademarks

A [trademark](https://www.investopedia.com/terms/t/trademark.asp) is a symbol, phrase, or insignia that is recognizable and represents a product that legally separates it from other products. A trademark is exclusively assigned to a company, meaning the company owns the trademark so that no others may use or copy it. A trademark is often associated with a company's brand. For example, the logo and brand name of "Coca Cola," is owned by the [Coca-Cola Company (KO)](https://www.investopedia.com/markets/quote?tvwidgetsymbol=ko).

*Trademarks are an interestingly broad example of intellectual property. A trademark can be anything that differentiates a particular company from its competitors, including:*

* *A logo*
* *A slogan*
* *A sound*
* *A color*

*Trademarking may overlap with copyright; for instance, a logo may be copyrightable as an artistic creation and also registered as a trademark. However, a trademark may protect words, designs, and other elements that are not considered copyrightable. Like copyrights, trademarks may be protected under common law and the Lanham Act even if they are not registered.*

Franchises

A [franchise](https://www.investopedia.com/terms/f/franchise.asp) is a license that a company, individual, or party–called the franchisee–purchases allowing them to use a company's–the franchisor–name, trademark, proprietary knowledge, and processes.

The [franchisee](https://www.investopedia.com/terms/f/franchisee.asp) is typically a small business owner or entrepreneur who operates the store or franchise. The license allows the franchisee to sell a product or provide a service under the company's name. In return, the franchisor is paid a start-up fee and ongoing [licensing fees](https://www.investopedia.com/terms/l/licensing-fee.asp) by the franchisee. Examples of companies that use the franchise business model include United Parcel Service [(NYSE: UPS)](https://www.investopedia.com/markets/quote?tvwidgetsymbol=ups) and McDonald's Corporation [(NYSE: MCD)](https://www.investopedia.com/markets/quote?tvwidgetsymbol=MCD).

Trade Secrets

A [trade secret](https://www.investopedia.com/terms/t/trade-secret.asp) is a company's process or practice that is not public information, which provides an economic benefit or advantage to the company or holder of the trade secret. Trade secrets must be actively protected by the company and are typically the result of a company's [research and development](https://www.investopedia.com/terms/r/randd.asp). Examples of trade secrets could be a design, pattern, recipe, formula, or proprietary process. Trade secrets are used to create a business model that differentiates the company's offerings to its customers by providing a competitive advantage.

*Intellectual property examples of common trade secrets include:*

* *manufacturing processes*
* *client lists*
* *ingredients*
* *systems*
* *sales methods*
* *launch strategies*
* *business plans*

Special Considerations

Many forms of intellectual property cannot be listed on the [balance sheet](https://www.investopedia.com/terms/b/balancesheet.asp) as assets since there aren't specific accounting principles to value each asset. However, the value of the property tends to be reflected in the price of the stock since market participants are aware of the existence of the intellectual property.

Some intangible assets are recorded as property, such as patents because they have an expiration date. These assets are recognized by a numerical value through the process of amortization. [Amortization](https://www.investopedia.com/terms/a/amortization.asp) is an accounting method that decreases the value of an intangible asset over a set period of time. This process helps the company to reduce their income by expensing a set amount each year for tax purposes as the useful life of the intangible asset winds down.

For example, a patent might only have 20 years before it's registered as public domain. A company would assign a total value to the patent. Each year for 20 years, the patent would be expensed or amortized by [the same amount](https://www.investopedia.com/terms/s/straightlinebasis.asp) by dividing the total value by 20 years. Each year the amortized asset amount would reduce the company's [net income](https://www.investopedia.com/terms/n/netincome.asp) or profit for tax purposes. However, intellectual property that is considered to have a perpetual life, such as a trademark, is not amortized since it doesn't expire.

Real-World Example of Intellectual Property

In 2017, there was a widely publicized intellectual property case in which a company called Waymo sued Uber over alleged stealing and implementation of technology relating to Waymo's self-driving car program. The plans for the technology, although not yet completely viable, constituted significant intellectual property for Waymo. When they alleged that Uber had obtained their intellectual property, they were able to take action through the court system to attempt to keep Uber from utilizing the information to enhance their own self-driving car program.