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INTELLECTUAL PROPERTY MANAGEMENT AND MONETIZATION AND ITS RELEVANCE WITH RESPECT TO NEW INNOVATIONS

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Intellectual property is the creative work of the human intellect. A right to intellectual property is an invisible/intangible right to a product of a man's brain such as a new invented product *i.e.* property of the mind as against a right for material things/tangibles i.e. goods such as a right to the invented goods. An intellectual property is at times described as 'knowledge goods'.1 According to Article 2(viii) of the convention establishing the World Intellectual Property Organization (WIPO) 1967, intellectual property includes right relating to (i) literary, artistic and scientific works; (ii) performing artists performance, broadcast and phonograms; (iii) inventions in all fields of human endeavor; (iv) scientific discoveries; (v) industrial designs; (vi) trademarks, commercial names and designations; (vii) protection against unfair competition; and all other rights resulting from intellectual activity in the industrial, scientific, literary or artistic fields.

1 Bayer Corporation *v*. Union of India, 2014 (60) PTC 277 (Bom).

INTRODUCTION

With the advent of newer technology, processes and automation tools, businesses are becoming heavily dependent on technology and knowledge. These processes and innovation take a lot of effort to develop – once developed others can also benefit from them. It is quite crucial for innovators, technology or process creators and businesses to prevent others from deriving any benefits from unjust exploitation of these innovations and to be rewarded for this effort. In 2012 Samsung was required to pay USD 1 billion to Apple for patent infringement claims. Ericsson does not make cell phones anymore but it has a very profitable revenue stream merely from licensing of cellular technology patents to cell phone manufacturers. Zomato was initially started as Foodebay but changed its name due to similarity with eBay.

Intellectual Property is acquired so that it can be exploited for commercial purposes. A business generally use intellectual property rights to generate revenues by itself (i.e. by manufacturing and selling products using its own patent and brand names)- this is the most obvious manner to exploit intellectual property rights. However, they miss out on one important thing that is monetising from the IP created. A business may sell IPRs permanently, or it may allow other entities to use its IPRs through licensing, franchising or technology transfer.

Before moving further, the authors would like to clarify from the outset that this paper is solely for the purpose of understanding the relevance of Monetising Intellectual Property and its growing importance with the advent of new technologies. There exist no intention of the author to question the acts and provisions governing Intellectual Property Rights in India. The onset of this research paper is based on answering the following hypothesis given below:

i (i) What kinds of IPRs can be exploited through licensing and franchising?

ii (ii) What is the role of Technology Transfer Agreement in the age of innovation and technological advancement?

1. WHAT KINDS OF IPRS CAN BE EXPLOITED THROUGH LICENSING AND FRANCHISING?

Intellectual property is acquired so that it can be exploited for commercial purposes. A business may either use intellectual property rights to generate revenues by itself (by manufacturing and selling products using its own patent and brand names) – this is the most obvious manner to exploit intellectual property rights. A business may also sell the IPRs permanently or it may allow other entities to use its IPRs through licensing, franchising or technology transfer. Some businesses have earned millions through licensing their technology, while others have expanded globally bases on franchising model.

LICENSING AND FRANCHISING

Licensing, franchising, assignment and technology transfer agreements are some of the most common kinds of agreements for commercializing IPRs – the IP creator typically gets a royalty or license fees for such arrangements. It's critical for an entrepreneur to know the key concepts surrounding licensing and franchising agreements - these are often under negotiated. Lawyers and consultants also have the opportunity to add value at an earlier stage by handholding an uninitiated businessman through the concepts and helping him through the negotiation process.

For example, Ericsson had earlier transferred its mobile handsets business to a joint venture which was owned by Sony and itself. However, the joint venture is presently, wholly owned by Sony. Although it does not manufacture handsets anymore, Ericsson owns 30000 patents pertaining to mobile handset technology and derives a significant portion of its revenues from licensing this technology to other handset manufacturers. Recently, it even secured a temporary injunction against import of handsets by Micromax (such as Ninja series, Canvas 2 and Funbook talk) on the ground that these imports were violating its patent rights.

In another example, Nortel Networks Corporation, a US company which was being liquidated sold its patent portfolio for about US $4.5 billion to multiple technology giants such as Apple, Microsoft, Sony, and Research in Motion etc. Apple itself acquired over a thousand patents.

In such situations, there is always a risk that a particular company could acquire the entire patent portfolio of the seller and start suing its competitors for infringement across the globe, thus triggering a patent war. Therefore, companies have the objective of acquiring patents which are associated with the field they are operating in, to minimize risk of such litigation.

Now coming to the hypothesis, Licensing and Franchising can be used to commercially exploit all kinds of intellectual property –

such as copyrights, trademarks, patents, proprietary know-how, trade secrets and confidential information.

a) RECITALS

The Recitals do not discuss the legal obligations of the parties but explain the background and circumstances within parties which have decided to execute the agreement. Sometimes businessmen and parties ignore recitals but it is a good idea to describe them in some level of detail as this will help a court in understanding the agreement in its true light in the event of a dispute and it will also bring to light the commercial intent of the parties. It will also prevent a party from taking a contrary or inconsistent stance from what has been mentioned in recitals. Further, every agreement has a definitions clause so that the key terms used in it can have a specific and determinate meaning which is accepted by both parties. Important terms should also be defined depending on the circumstances and the nature of the contract.

b) SUBJECT MATTER OF THE LICENSE

The subject matter over which the license is granted must be clearly identified to prevent confusion later. It should also include the intellectual property that comprises the subject matter. There are various types of licenses, such as an exclusive license - prevents everyone from using the intellectual property including the licensor itself. A sole license – excludes the licensor from licensing the IPRs to any other entity. However the licensor itself can continue to use the IPRs in case of a sole licence. A non-exclusive license is the least restrictive and the licensor can issue as many non-exclusive licenses as required. It will always be in the licensee's interest to negotiate an exclusive or sole licence. However, for the licensor, it limits his ability to receive royalties to one source. If the licensee has not previously demonstrated any capability to sell the product, an exclusive or sole license may be a losing proposition for the licensor, as the creator of the IPRs.

c) SCOPE OF THE LICENSE

The scope of the license, that is, whether the license is only for the use of the brand name, whether it includes the right to manufacture the licensed product, or the right to further develop and improvise the product, should be specified.

d) RESTRICTIONS ON THE LICENSOR/LICENSEE

The grant of the license is coupled with certain restrictions on the licensor and the licensee to protect their business interests. Similarly, the licensor may be prevented from providing the license to another licensee within a defined area.
Non-compete restrictions should be limited and reasonable, as otherwise they may be violative of the Indian Contract Act, 1872 (prohibiting unreasonable restraints on trade or business) and hence unenforceable in a court. They may also require a competition act scrutiny if the restrictions are unfair or anti-competitive.

e) IMPROVEMENTS IN INTELLECUAL PROPERTY

A licensed product may be improved by the licensee, either on its own or jointly with the licensor. The licensee may also create local variants of the product. Therefore the agreement must specify whether the licensee has the authority to introduce modifications/improvements, whether it is required to follow any procedure for initiating such improvements. It should specify who owns the IPRs pertaining to the modified product. More importantly, the procedure for the commercial management of the IPR must be clearly specified.

f) RISK ALLOCATION MEASURES

Risk allocation will depend on the nature of IPR and the kind of license that is granted in relation to them. If a trademark licensee receives product from the licensor which he is required to sell as per the license agreement, he may require an indemnity from the licensor. If, however, the licensor has also granted the right to manufacture the licensed product, the licensor may seek an indemnity from the licensee for any claims in respect to the product sold by the licensee. An indemnity only covers losses and does not permit the licensor to recover any profits or a rate of return.

Some risks can also be mitigated by obtaining insurance, e.g. product liability insurance is an efficient way to reduce risk from product liability claims. Sometimes, one of the parties may also require another party to obtain product liability insurance in its own name.

g) ROYALTY PAYMENTS

The agreement must specify the amount of royalty or a license that is payable, manner and time of payment. A variety of payment models are possible, and parties can use any system that enables them to reap commercial benefits fully from the arrangements. Royalty payments can also be made in kind- sometimes, parties mutually license the right to use specific proprietary technology to each other without any cash payment at all. The cross license agreement provides each party the non-exclusive right to the other parties technology at no charge (and no royalty). Cross-licensing may also feature consideration paid in cash or cash equivalents.

The cross licensing agreement between Apple and Microsoft in 1997 required a US$ 150 million cash infusion by Microsoft into Apple (Microsoft acquired limited shares of apple in return). Similarly Hero Honda was a joint venture between Honda Motors Limited (controlled by Japanese interests) and the Hero group of India. Under the joint venture, Honda licensed technology to manufacture motor bikes to the Indian joint venture company. The joint venture entire relied on the marketing and distribution capabilities of domestic Hero group to sell the motor bikes.

h) TIMELINES

The date from which the agreement comes into force, the period for which it is valid, the process by which it can be terminated, the mode and time of payment, etc. must be clearly specified.

i) ASSIGNMENT AND CHANGE IN CONTROL

Sale of the assets of the licensee to the competitor in the entity which controls the licensee may be against the commercial interest of the licensor- the licensor may want the opportunity to be intimidated (and if it chooses to terminate the license) in the event of such occurrences. Therefore, a clause that prohibits assignment without written permission of the licensor, or states that the assignment would be terminated in case of a change in control if permission of licensor is not obtained, is usually inserted in license agreements.

In the event of disputes, a defaulting party often tires to argue that there commercial understanding was different from what is contained in the written agreement, or that it was modified after entering into the agreement- this can pose obstacles to dispute resolution and it may prevent the innocent party from obtaining the desired relief. In order to prevent the defaulting party from taking the stand it must be mentioned that the written license/franchising agreements captures the "entire commercial understanding" of the parties, and that any subsequent variations can only be made if they are in writing and signed by both parties.

j) OVERVIEW OF RESPONSIBILITIES OF LICENSOR

In a franchising agrrement, the franchisor will have additional responsibilities as compared to an ordinary license. He may be required to provide:

- Detailed product and design specifications,
- Support and assistance to the franchisee,
- An operations manual for the staff and officials of the franchisee,
- Training to the key sales representatives or staff of the franchisee,
- Assistance in obtaining regulatory or legal approvals for conducting the franchisee's business,
- Information and updates about new product launches and
- Recommendations regarding advertising and promotional activities.

k) MINIMUM COMMITMENTS OF FRANCHISEES

• CAPITAL COMITMENTS: Often in franchising businesses, the franchisor may consider stipulating that the franchisee to contribute a minimum pre-determined amount towards advertising, or in certain industries they require minimum purchase commitments from the franchisee. At the same time, the franchisee may incorporate a specific obligations of the franchisor to engage in regular promotion activities for the product (in the territory where the franchisee is responsible for marketing the product).

• • INFRASTRUCTURE AND CAPITAL COMMITMENTS: The franchisor, usually specifies minimum size and infrastructure requirements of the premises and a minimum investment to be made by the franchisee. Franchisors in the restaurant industry also require a minimum upfront capital contribution. For e.g., Subway or McDonalds.

• MONITORING OBLIGATIONS: The franchisor insist on the right to oversee the operation of the franchisee or depute a manager or supervisor to look into activities of one or more franchisees, to monitor compliance with the franchising agreement.

2. WHAT IS THE ROLE OF TECHNOLOGY TRANSFER AGREEMENT IN THE AGE OF INNOVATION AND TECHNOLOGICAL ADVANCEMENT?

Technology transfer is a mode of transfer of technological knowledge from one company to another or within the same corporate group. It can be in the form of tangible knowledge-knowledge embodied in physical goods, services and codified in blueprints, designs etc. or intangible knowledge like skills, tactics which the people have gathered or learned over a period of time in a particular sector or field for operating the technology. Vertical technology transfer takes place when technology is developed in its natural life cycle within the organization from one unit to another, say from research and development unit to its implementation in the production unit. Horizontal transfer happens when technological knowledge flows from one organization to another. The authors would be focusing on the aspect of horizontal transfers in this paper.

For developing and underdeveloped countries, technology transfer is an important mean for gaining access to the latest technology for the developed countries. For big companies, transferring obsolete technologies can be a way to monetize underutilized IP. The authors, through this paper try to highlight certain important provisions in a technology transfer agreement.

- **a) INTELLECTUAL PROPERTY**

Intellectual property involved in a technology transfer contract includes, patents, trademarks, designs, know-how. Developing and creating technologies involves huge investment, but imitation of those technologies can be done very easily. Having a very strong IP protection mechanism might reduce the chance of IP spillover or leaks to competing firms. The nature of IP protection in a particular country determines the terms and conditions and fees to be paid. In the case of weak regimes the licensor might insist for strong confidentiality clauses and higher royalty to set off in case of IP leaks. However, impact of IP protection mechanism on technology transfer varies from product to product. While transfer involving complex technologies which require huge machinery and expensive inputs might be unaffected by the IP regime of a country, but in case of products which can be easily imitated without much effort, IP protection regime often dictates the nature of the terms and conditions.

In a technology transfer agreement, there is a possibility that a new IP is created, or it is improved, or the existing IP is used by the IP is used by the parties. In the case of a newly created IP, it is essential to identify who will have ownership of the IP and whether the licensee will have certain rights regarding its usage or will it be joint ownership. In case of joint ownership one should review the applicable laws of the country and its possible consequences.

However, the most complex of the IP rights which might result in conflicts is the rights on the “improvements” on the existing IPs. First and foremost, the partied must explicitly mention what constitutes improvements. One should focus in the areas which might make the IP valuable, like functionality, reduction of cost, improvement of performance, added features which are making the product more useful. While negotiating on improvement clause, its possible that the parties agreed to make the improvement rights reciprocal-granting each other licenses for the improvements, rights can include only the patented improvements (but that would limit the scope by not including know-how). The improvement license for the inventing party can be made exclusive for a limited period; this can be important where the market favors the early adopter of the improved technology in a significant manner. What the clause should also mention is the improvement can be sublicensed. Making the improvements non-sub licensable will reduce the threat from competitive companies. In case the parties agree to make the improvements sub licensable, the provision might allow the inventing party a share in consideration received from the sub licensing.

GRANT BACK CLAUSE: Under a grant back clause, the licensee gives the licensor the rights to the improvement made by the licensee on the licensors technology. It's essential that the agreement must provide that the scope of such improvement is defined in clear words.

• b) TERRITORY AND EXCLUSIVITY

Like any other contracts, a technology transfer contract must explicitly identify the territory of the license granted and also should mention whether the license is exclusive (sole licensee) or non-exclusive (license may be granted to another party as well). Generally, the licensee seeks for an exclusive license in a particular country and may also include neighboring countries or regions. In case of exclusive license granted in a particular territory, demarcating a proper territory may prevent competition from similar entities that have similar license in other territories. For the licensor if the fees is received in terms of per piece or volume sales, the licensor may put a limitation clause on the exclusivity, making the exclusive period to be of say 3 to 5 years, and in case the licensee fails to meet the target, the license becomes non-exclusive.

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