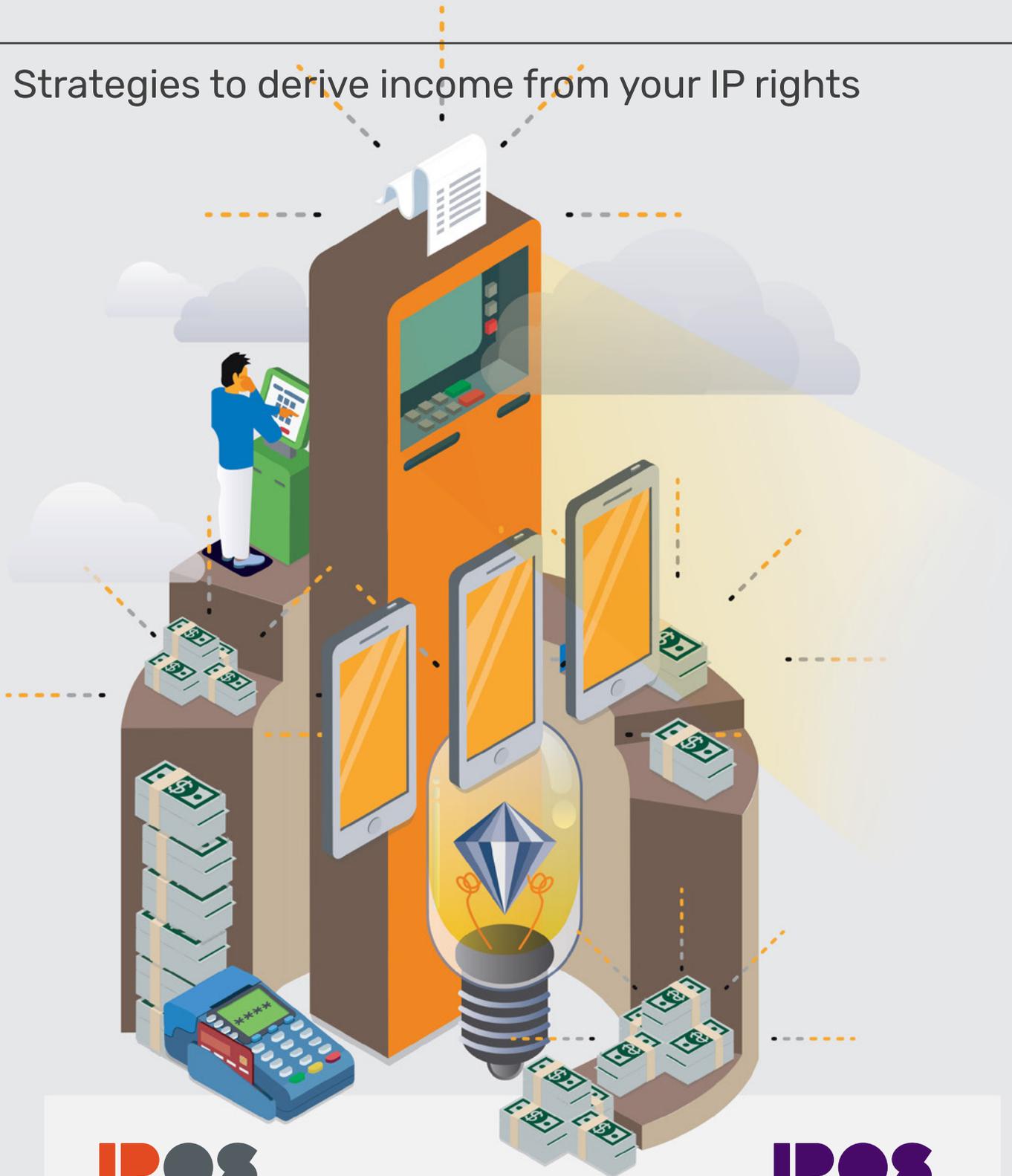


MAKING MONEY FROM YOUR IP

Strategies to derive income from your IP rights





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Introduction

Companies typically create and build unique intellectual property (IP) assets because they intend to use them in the products and services they offer. However, your ideas and the assets you create from them may have more market potential than you can realise with your own resources. This is where a monetisation strategy may bring substantial benefits.

As its name suggests, IP is a form of property right. This means it can be licensed and sold (assigned) in much the same way as any other type of asset. As many businesses have discovered to their advantage, IP can facilitate income generation by providing a basis for other firms to sell products and services that use it. In turn, you receive fees, which may be one-off, up-front, on-going, or a combination of all three.

This guide takes you through the main principles and practices of licensing, franchising and IP brokerage.

Chapter 1 starts by introducing the main methods of monetising IP directly (i.e. getting paid for providing access to the rights themselves). It briefly discusses what licensing and franchising are, when they may be beneficial and what the differences are between these two approaches. It also looks at when selling your IP to a third party might be a good option.

Chapter 2 focuses on licensing. It takes you through the concept of exclusivity, and how to determine which rights you may want to license. It also sets out how to think about what you should charge, check out prospective licensees, and manage an agreement once you have signed it.

If you choose to set up a franchise to exploit your IP, you will have a wider range of topics to consider. **Chapter 3** covers key franchising decisions that may affect how well your IP is protected and exploited.

Parting with rights that you have created may be the best decision if you are not in a good position to exploit them yourself. **Chapter 4** deals with selling IP, exploring typical buyer motivations, the types of IP that are generally easier or harder to sell, how to conduct background checks and negotiate an appropriate price.

Chapter 5 then describes several less direct methods to monetising IP. These include attracting advertising or sponsorship, offsetting costs your business would otherwise incur, using IP to set an industry agenda and standards, or to substitute marketing costs to obtain more repeat business.



Produced by **IPOS International**, these intellectual property management (IPM) business guides aim to deliver a suite of IP solutions for enterprises based on industry best practices. As the expertise and enterprise engagement arm of the Intellectual Property Office of Singapore (IPOS), IPOS International helps enterprises and industries use IP and intangible assets for business growth. Some of these engagements may be eligible for Enterprise Singapore (ESG) funding, such as the intangible asset audit and strategy development aligned with business goals. IPOS International's business portal www.iposinternational.com also contains case studies and videos of enterprises leveraging IP to gain a competitive edge in their innovations. Should you have questions on IPM matters or wish to speak with our Intellectual Property Strategists, do email us at enquiry@iposinternational.com or call +65 63308660.



How can I make money from my IP?



01

1. How can I make money from my IP?

What are the main ways in which IP can help me make money on its own?

Since, as its name suggests, IP is a property right, it is possible to use it to transact business with others in much the same way as you would with hard, tangible assets. Driving value directly from the assets themselves, as opposed to using them in your own products and services, is generally referred to as IP 'monetisation'.

This chapter provides an introduction to the main 'direct' forms of monetisation, which include licensing, franchising and selling IP to a third party. These are not the only types of value you can extract: as noted below, IP monetisation can also enhance your profitability by making your IP available in other non-financial ways.

What does licensing involve?

An IP licence is a legal contract between two parties, where the first grants rights to the second to use its assets. As well as providing the basis on which most digital content is provided, licensing approaches can be used in many more ways to boost incomes and facilitate everyday trading.

The basic principle of a licence is that it allows someone else to do or use something you own without granting them ownership of it. Software packages used on your smartphone and computer are an everyday example of IP that you are allowed to use, but don't own (because if you did, this could affect other people's rights to use it too). Similarly, when you download music onto a device, you do so under a licence that allows you to listen to the music but does not confer ownership rights over it.

The situations described above are effectively product sales but are formulated as licences because it is necessary for the vendor to retain content ownership—otherwise, they could only ever make one sale! Also, like product sales, a service and support infrastructure is required to supply customers.

However, licensing can also enable you to let others make use of your IP without requiring you to be involved in the supply chain. Conceptually, this means a licensing income stream can be pure profit with no associated overheads—which is part of its appeal.

Whenever a licensing agreement is put in place, one party (the licensee) obtains rights to use the IP owned by another party (the licensor). In exchange for a fee or royalty paid by the licensee, the licensor agrees not to sue the licensee for infringement, assuming that various terms and conditions are respected.

It is possible for a single company to both license-in IP, so that it gains access to capabilities that it requires but does not own, and simultaneously to license-out some of its IP to someone else. In highly contested markets, where competing companies battle for market share using similar technologies, some form of cross-licensing (where one side grants access to its IP in exchange to receiving access to some of the other party's IP) may be very important. This can allow participants to trade without the distraction of constant legal battles.



The **Partnering For Competitive Advantage** guide in this series discusses the formation of collaboration agreements and the process of licensing-in technological capabilities that a company may be lacking. The main emphasis of this guide is on how IP can be licensed-out to earn income.

Most forms of intellectual property can be licensed, including copyright, trade marks, patents and designs, as can some other types of intangible assets, like databases. Depending on the type of IP licensed, the licensor is likely to insist on different requirements and safeguards, as set out in this guide; the terms of licences can be varied to suit the situation.

Chapter 2 of this guide focuses on how you can apply this principle to grow your business by extracting a regular income stream from it.

When might licensing be desirable, or necessary?

There is a range of occasions when licensing your IP to someone else (called 'licensing out') might make good business sense. It may be that you want to make your IP work harder by providing another organisation with access to it. Alternatively, you could find that another organisation may be infringing your IP; rather than pursue them in court, you might decide that licensing your technology to them is the best solution.

Licensing-out is a well-established way to 'make your IP work harder', enabling it to be used in new areas that your organisation does not have the bandwidth or capability to serve effectively. This is the opportunity-led aspect of licensing and can prove highly lucrative. The new areas might involve additional technological applications, new markets or new territories.



Licensing often looks a very desirable option when you want to benefit by extending the use of your IP into a new or different geographical region without incurring the costs of setting up a subsidiary. If you can identify a suitable local licensee who already can implement your IP, a substantial amount of cost and time can be saved.

You may also find, in some circumstances, that a competitor appears to be using your IP without permission. You could opt to pursue them in court, but whether or not you decide to litigate, a satisfactory outcome will often involve a licensing agreement so that any breach is made legal. This also applies should a competitor have a case against you for unauthorised use of some part of their IP portfolio.

1. How can I make money from my IP?



Sometimes, where both parties own relevant IP, the outcome may be a cross-licence. This type of agreement allows both of you to use each other's IP. It may also involve balancing payments for past misdemeanours.

The accompanying **Going Global** guide in this series describes 10 different ways of going overseas with your product or service, of which licensing/franchising is one. It also describes how infringements can be detected and what can be done to mitigate their negative effects.



Licensing pros and cons

Pros		Cons	
✓	Increases your product or service reach by geography or market.	✗	A possible loss of control over how your IP is used or represented.
✓	Allows IP you aren't using to generate income.	✗	Your licensee may not meet your performance expectations (or targets).
✓	Provides a way of expanding a technology into new applications you can't service yourself.	✗	Your licensee will have their own profit motives which may not always coincide with yours.
✓	The licensee may make improvements and give you access to them.	✗	Your licensee may assert ownership of improvements they make if this is not catered for contractually in advance.
✓	Your licensing incomes can represent pure profit, apart from the costs of servicing the contract.	✗	If you do not set up the contract in an efficient manner, your costs of servicing it may be quite high.
✓	Licensing contracts confirm market demand and traction and thereby make your IP more valuable and easier to raise finance with.	✗	You have to decide whether to go exclusive or non-exclusive at the outset—you may not be able to change your mind later!
✓	Where there is a possible infringement issue, licensing can also be used to secure freedom to operate and overcome disputes.	✗	Cross-licensing may not yield any income (you may need to pay to obtain licences you need). However, it is likely to be cheaper than battling things out in court.
		✗	Someone might take an exclusive license from you as part of a deliberate attempt to stifle sales.



Careful consideration of the terms of a licence can prevent, or at least mitigate, many of the possible downsides. Making sure the agreement is clear and specific about which territories and purposes are allowed, and what targets need to be met, will address many possible concerns. It is very important to get it right at the start, as it may be hard to agree with changes to licences later.

What does franchising mean/ involve?

Franchisors grant other businesses ('franchisees') the right to use their IP, in the context of a complete operating business model. It is common for a franchise to include licences to an entire bundle of IP, including one or more brands and a wide range of copyright materials.

Compared with licensors, franchisors usually provide a wide range of additional services to their franchisees, which are designed to produce a consistent customer experience and quality of product and/or service. For example, it is common for a franchisor to provide training and a very detailed instruction manual setting out how to run the business properly and successfully.

Everything from machines to marketing materials may be required to be obtained or purchased directly from the franchisor by the franchisee. In return, the franchisor is usually the main investor in IP marketing and protection; this will build and safeguard the brand image and may also generate leads which are provided to the franchisee on a geographic basis.

For a would-be entrepreneur, becoming a franchisee reduces business risk, as it typically provides access to a proven model, a recognised and established brand and a level of head office support. In return, the franchisor is likely to require an upfront financial commitment (which may be substantial) and will expect to receive a percentage of your turnover.

A franchisor can insist that a business is run in specific ways—setting out, for example, where ingredients or components must be sourced from, how they can be used and processed, and when and how the franchise's trade mark and other IP can be used. There may also be strict geographic or territorial limits on the customers to whom a franchisee can sell (to make room to offer more franchises).

1. How can I make money from my IP?



Franchising pros and cons for IP owners (in addition to points raised for licensing)

Pros		Cons	
✓	You can exercise a lot of control over how your IP is used and represented.	✗	Your reputational risk is high if your franchisee does not meet the standards you set.
✓	You can expect to benefit from a substantial share of the incomes your franchisees derive.	✗	Costs of preparing contracts and recruiting franchisees can be considerable.
✓	You can expect to get paid frequently.	✗	Costs of preparing contracts and recruiting franchisees can be considerable.
✓	Franchisee businesses become an extension of your operation.	✗	You need to create a very comprehensive franchise 'bible', which is a non-trivial (and therefore costly) exercise.
✓	Less capital is required to expand your business than growing organically (you are using franchisees' investments to expand).	✗	You will be involved in supply chain management on an on-going basis to maintain quality and consistency.
✓	Franchisees are likely to be more motivated than either employees or licensees and may perform better.	✗	You may need to set up regular mystery shopping/auditing programmes.
✓	Operating costs are reduced (compared with seeking to expand into new markets).	✗	You end up having a degree of responsibility for the franchisee's businesses (and vice versa).
✓	Your franchisees share some of the risk with you and your business (which may include costs associated with your IP rights such as prosecution and renewal fees).	✗	You will almost certainly have to disclose details of your business model, financial information, intellectual property disputes, important legal agreements, margins, profit and loss and other information to your franchisees on an on-going basis.
✓		✗	You may come under pressure from the franchisees to adopt changes to the business that you are not comfortable with.



Reputational matters are especially important to consider when selecting franchisees for your business. Both sides can significantly affect public perceptions of your brand—for better and for worse!

Can I sell my IP to someone else?

If you find yourself owning IP which is underutilised or not used at all, it may make sense to pass the legal ownership of it onto someone else who is more capable or better motivated to use it. This normally takes the form of an assignment of rights.

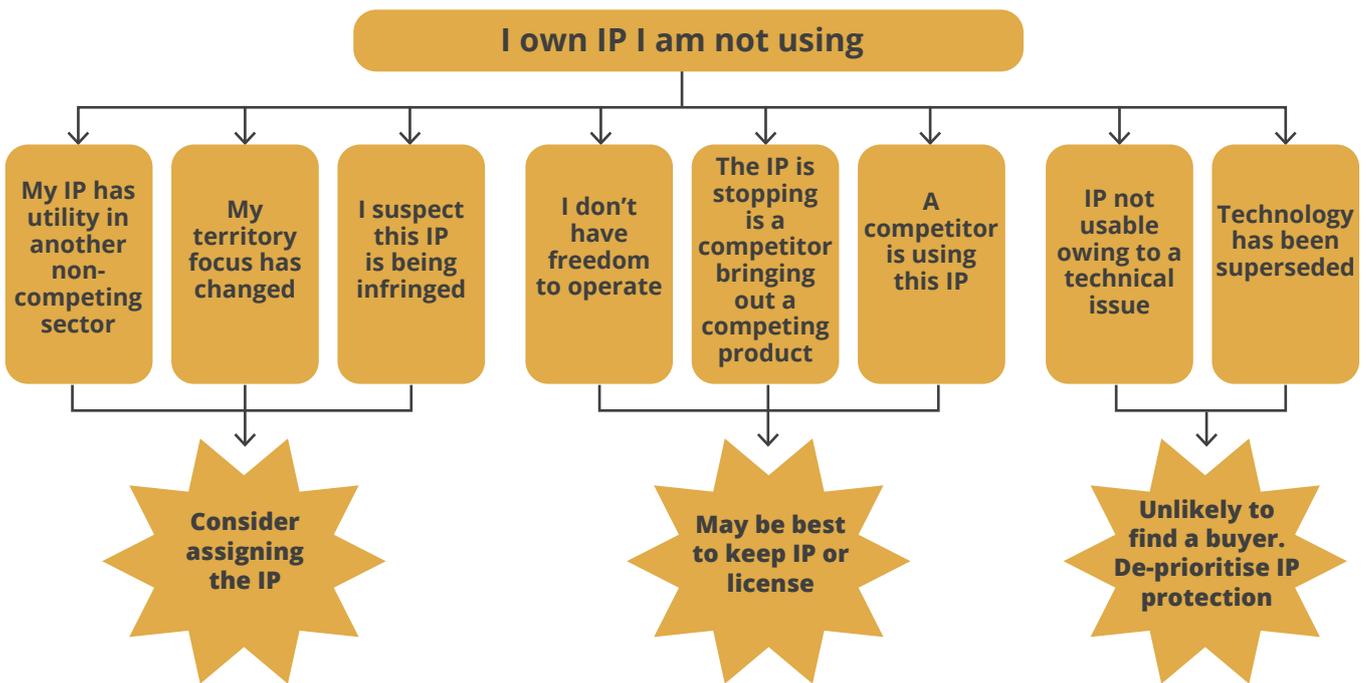
There are often times where IP is registered in expectation of a return that becomes difficult to obtain. This can happen for several reasons:

- A technology that was developed is found not to work well enough or turns out not to be feasible to produce at scale
- You discover that there is a possible infringement issue, and that the company cannot obtain freedom to operate unless it obtains a licence from one or more competitors
- You have a change of strategy or direction that means the protected product, service or brand is no longer core to your business
- You decide to withdraw from a territory or region where you have IP protection in place
- You invent new technologies that are better than those covered by the IP, meaning that you will move away from selling products and services that use it

In some of these situations, as the following graphic illustrates, it may be possible to sell or assign the IP to a third party, even if it is a direct competitor, without affecting the sales of your products or services.

When considering assigning rights to a competitor, however, care has to be taken that by doing so, you do not enable the competitor to build a competing product or service that can eat into your market.

1. How can I make money from my IP?



How else can I leverage my IP value?

As well as exploiting IP by licensing, franchising or selling the IP, owning these rights can help your business generate turnover and profit in several other ways, as explained in Chapter 5 of this guide.

As your IP matures, the number of ways in which you can monetise it increases. You may be able to start earning at least some income from advertising and sponsorship from a relatively early stage of development, which can build with higher volume exposure. Once your business and products/services have a reputation and the IP is valuable, you will start to benefit from the loyalty of your customers or by locking them in to make repeat purchases. You may also be able to influence the entire market by, for example, helping to set industry-wide standards.

At the same time, it is important to remember that registrable IP rights such as patents and designs only offer a fixed term of protection. There may come a point, as your IP is nearing the end of its protection period when insufficient time remains for others to exploit your assets profitably. Whether this actually happens will depend on whether you are continuously adding to your rights portfolio (and renewing them when necessary).

*Your IP may be useful in raising finance, whether it is formally put up as security or collateral for a loan or whether its mere presence helps to convince an equity or debt investor to fund your business. For more information on this method of leveraging your IP, see our accompanying guide on **Unlocking IP's Financing Potential**.*



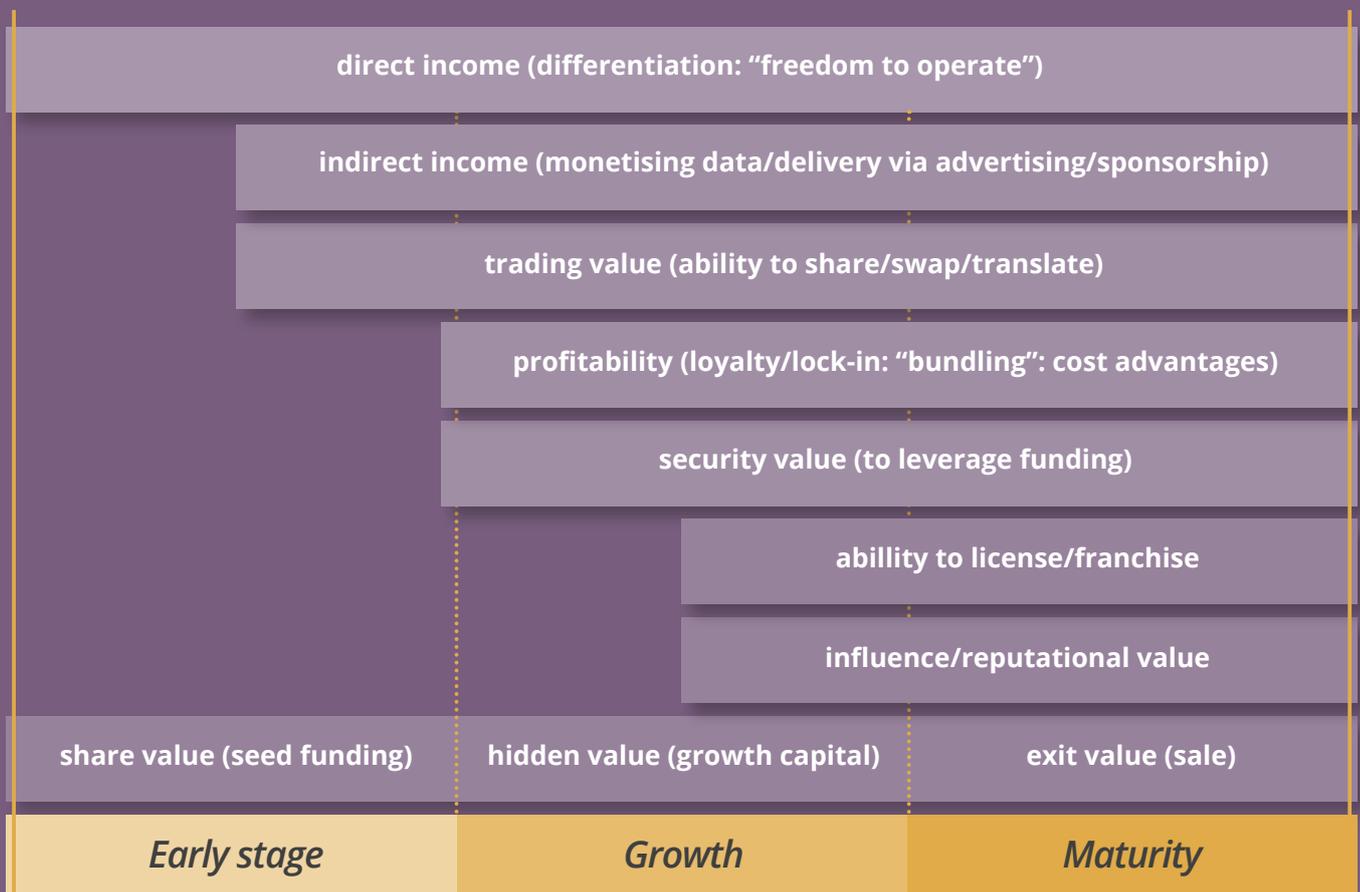
How monetisation options develop over time

The following illustration shows some of the main ways in which your IP monetisation options may increase, the more mature your business becomes.

In addition to **direct** income from selling products or services incorporating your IP, it is often possible to generate significant **indirect** income. For example, if you sell product on your website, it may be possible to place adverts on your site which will generate additional income. This would not be possible without ownership of your IP, but it is not directly related to it or its sale. You can also, at times, obtain value by agreeing to **trade** (share or swap) your IP, for example by cross-licensing it as described above.

Once the business is growing, there is often the opportunity to increase profitability by several techniques. For example, you may have loyal customers who come back again and again for your product or service, and you may be able to increase repeat sales by 'locking your customers in' (e.g. by providing a platform which one invested in, requires continuous subscription). Profitability can also be increased as the business grows owing to the cost savings your IP delivers. Also, the more the cash flows associated with your IP grow, the more attractive these rights become in financing.

As your business grows even further, **licensing** and **franchising** may become increasingly attractive, and the business is also able to influence the entire market (for example by helping to set industry-wide standards).



1. How can I make money from my IP?



CHECKLIST

Which types of value-producing activity might be relevant for my business?

✓	Monetisation route	Summary
	Licensing	<i>Allow others to use your IP rights and other intangible assets, usually in exchange for a royalty</i>
	Franchising	<i>Expand your market reach by allowing others to replicate your whole business model</i>
	Disposal	<i>Sell your IP to someone else who can use it more profitably</i>
	Advertising/sponsorship	<i>Use your market or web presence (e.g. website visitors) to attract other people's promotional spend</i>
	Sharing/swapping	<i>Allow others to benefit from your IP and associated know-how to obtain other services your business needs</i>
	Use in finance	<i>Leverage the contribution your IP makes to your business in negotiations with equity and debt funders</i>
	Use of influence	<i>Use your IP as your credentials to stamp your mark on your industry</i>



What are the main principles of licensing?



02

2. What are the main principles of licensing?

What does 'exclusivity' mean in practice?

Businesses sometimes assume that it is only possible to offer a single, exclusive licence for a particular piece of IP, and that if more than one licence is agreed then they all are non-exclusive. This is not the always case, as exclusivity is capable of being very tightly defined.

From a licensee's perspective, 'exclusive' means the licensor will not also license to a direct competitor of the licensee in the same defined field of application. However, the 'field of application' in question can be limited by timescale, territory, sector and use. Similarly, the idea of 'uses' can be quite wide-ranging, extending to commercial vs. non-commercial purposes, and distinguishing between rights to import, make and sell, or even a particular area of science.

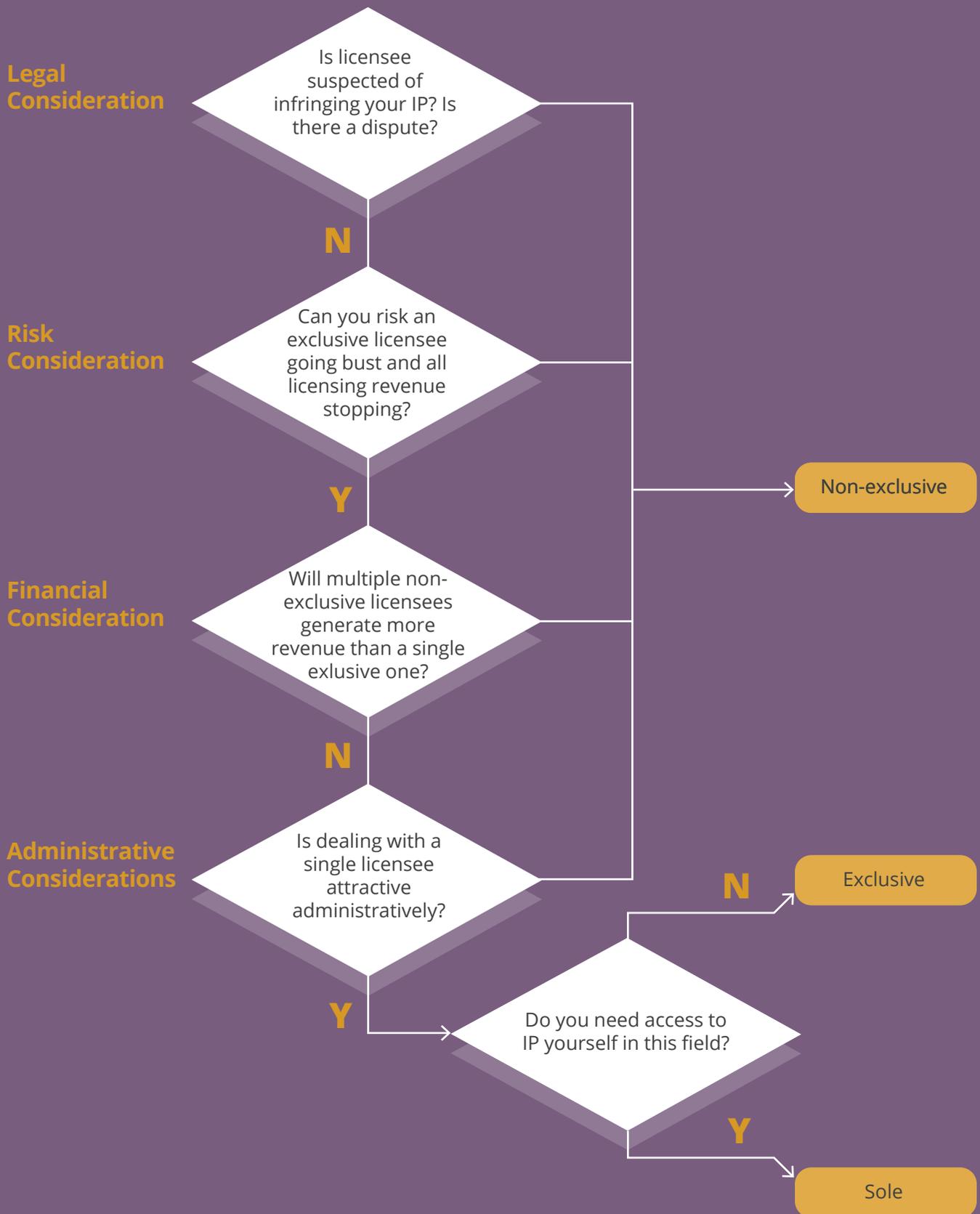
For more information on licensing definitions, and on licensing in the context of IP created during collaborative development activity, please see the accompanying guide in this series—**Partnering for Commercial Advantage**.



One of the first decisions you will need to make when considering the structure of a licence is whether you want it to confer rights that are exclusive, sole or non-exclusive. (bearing in mind that granting 'exclusivity' also applies to yourself!). The following table summarises the main variants.

Type of licence	Non-exclusive	Exclusive	Sole
Definition	Multiple licences, often identical or similar, issued to companies who may be in direct competition with each other	Only one licence is issued in relation to each specific sector, application, geographic region or time period	Similar to an exclusive license but you, as licensor, also retain rights in same field/region/application as licensee
Typical uses	<ul style="list-style-type: none"> • Bulk licensing of a product, such as software and creative works • Industry or safety standards • Old technology used by industry and hard to enforce 	<ul style="list-style-type: none"> • Licensing to non-competitors for defined technology areas • Licensing to resellers/distributors in other regions • Manufacturers allow others to use IP you are not going to exploit 	<ul style="list-style-type: none"> • Usually limited to circumstances where you wish to allow another company to use IP rights at the same time as you • Gives licensee more comfort regarding competition
Points to watch	Provides licensees with little comfort regarding competition, so less valuable to them	Does not allow you to use the rights in the specified way—exclusive means exclusive!	Still limits your freedom to issue further licences

Should I offer exclusivity?



2. What are the main principles of licensing?

How do I determine what rights to include?

When drawing up an agreement, the bundle of rights being licensed must be appropriate and sufficient for the purpose envisaged by both parties. Although it is perfectly possible to license a single IP right, it is often more sensible and beneficial to use a licence to provide access to a bundle of rights.

In some circumstances, access to a single, specific IP right is all that the licensee requires. For example, if you primarily own copyright-based assets, there may be a particular image that an advertiser wishes to use in a campaign or a piece of music that a filmmaker wishes to use in a scene of his or her next movie. Character properties are also frequently licensed for use on a wide range of merchandise. It is important in such cases to identify clearly what the IP is and what the licensee is allowed to do with it, as further explained in this chapter.

By contrast, when technology is licensed, a licence granting access to a single patent in isolation rarely provides the most appropriate solution. The licensee often needs access to a bundle of rights, such as supporting copyright materials (these would include build manuals, standard operating procedures, test results and other process documentation). You may also need to consider how you provide access to know-how (likely to come from technical staff in the organisation with the expertise of implementing the invention), though this may be best dealt with by way of a separate contract or consulting assignment.

If you are granting a licence to an overseas company to manufacture and distribute your product, as well as including rights to use any patents, know-how and process documentation, you may need to consider whether you also want to license the use of a trade mark, so that the resultant products are presented consistently. This provides a marketing and promotional benefit, but you will need to think carefully about how to manage the risk of any brand damage if your licensee under-performs.

You will also need to incorporate clear and strict terms. One of the most important of these is a 'right of audit'. This gives you the right to examine the books of the licensee (and, if relevant, conduct a physical audit and inspection) if you suspect that they have not been disclosing all the sales of the licensed product or service.

What are the key points I need to consider?

The options available when drafting a licensing contract are almost endless! Each agreement can, and should, be tailored to the specific situation. The accompanying diagrams set out some of the more frequently encountered questions that are likely to require consideration when drawing up a licensing agreement—the checklist at the end of the chapter summarises the headings that will need to be addressed.



Every licensing agreement contains a set of clauses detailing the **scope** of the licence. Some of these will be easy to determine—for example, the length of the licence cannot be longer than the remaining legal life of the rights—but others will need to be informed by your strategy.

While you should always get professional advice regarding the drafting, your advisor will need to know what your intentions are on several key points, summarised in the accompanying diagram.

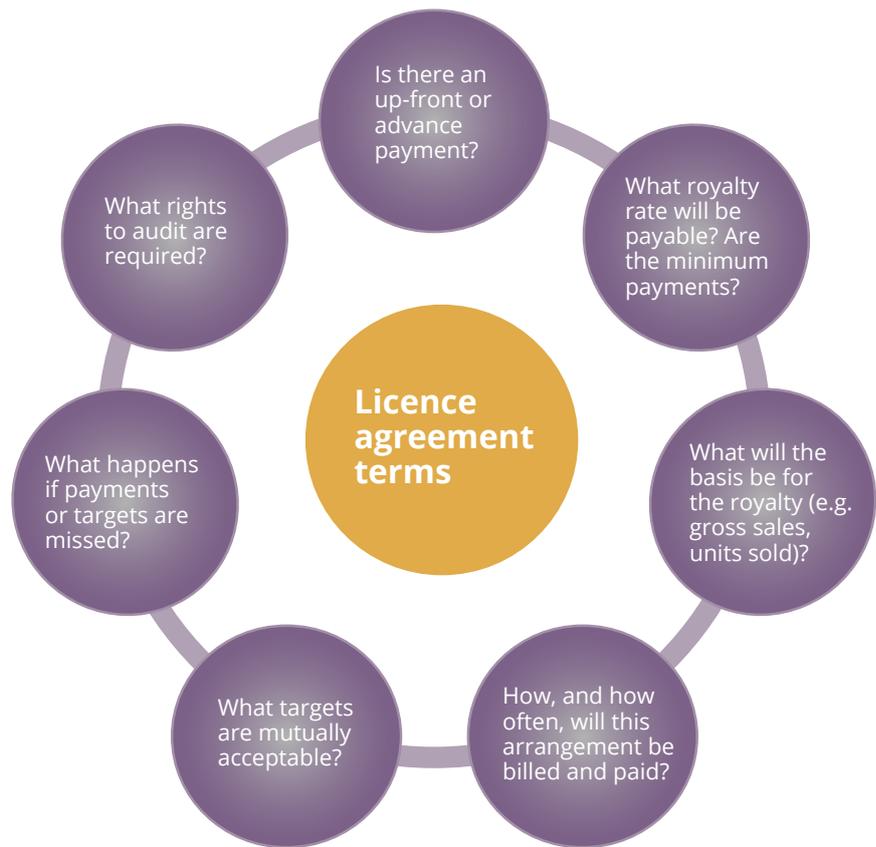
After determining what rights you will grant, your agreement will need to consider how you will make sure that your licensee fulfils their obligations under it. Sometimes, there may be an upfront fee required to address past infringement (which could be substantial), but normally the focus will be on how you will be paid on a forward-looking basis.

Your terms need to consider not simply how much money you want, but how your royalties will be calculated. For example, you will not

want to link your payments to the licensee's profits, because these may be prone to manipulation or understatement. You also need to be clear on the definition of the base sales revenue: is it a whole product or a component in a larger item or solution?

2. What are the main principles of licensing?

Since you are entering into a potentially long-term commitment, it is important to ensure that your interests are being adequately served. As a minimum, the key safeguards you will want to think about will need to cover all the points indicated in the accompanying diagram (the question of how you set a price is considered separately below).



Are there important 'lower-level' items too?

The above guide is not an exhaustive list. Most licensing agreements also contain several other terms covering aspects such as:

- Whether the licensee is allowed to sub-license or transfer its rights
- Who owns any improvements made to the technology by the licensee
- What happens in the event of any dispute, including who has the right to sue for infringement

These are also important considerations, but are perhaps best considered once you have determined what the basics of the commercial deal should be.

Also, it is important to be aware that the licensee might reasonably ask you to warrant that the IP you are asking them to pay to use is fit for purpose. In practical terms, this means you are not aware of any disputes involving your IP and that, to the best of your knowledge, your IP does not infringe any third party rights.

The **Partnering For Commercial Advantage** guide in this series has more detail on several the licensing terms that you may encounter or need to consider, particularly if you are a licensee.



Other advantages of licensing

Aside from the obvious benefits of increasing reach and building revenue outlined above, licensing can also have several other advantages that may not be so obvious. These include bringing other companies into the IP development and enhancement process, making the IP stronger and more defensible in court, having extra eyes on competitor activity and helping to set the standards for your entire industry.

In some circumstances, such as when dealing with collaborative development partners, you may well expect a licensee to improve or add to your technology. Provided you have access to any such improvements, this could be of significant benefit to your organisation.

When it comes to patents, the presence of licensees paying royalties has been deemed by courts to be a 'secondary indicator of patentability'. This means that a court will be more likely to deem the patent as valid if a third party is prepared to pay a licence to access it. The more licences are granted, the stronger the licensed patents become, and the greater the likelihood that the validity of the patents will be upheld in trial, which is a very beneficial side-effect.

If you think your technology may be of use across the industry and be part of a new standard, it may be advantageous to consider licensing it on a non-exclusive basis to competitors. Although this has risks, and removes the monopoly typically enjoyed by owning a patent, broadening the availability of the technology opens up a greater likelihood that it will form part of a future standard in the industry.

Being able to influence standards and owning patents that are 'standards essential' puts your company in a very strong position; it potentially lays a foundation for substantial future licensing income. However, this will have to come from big usage volumes: you will only be able to charge your competitors a 'fair, reasonable and non-discriminatory' fee under industry conventions.



*There are special industry rules concerning these so-called 'FRAND' arrangements. These are covered in the accompanying guide in this series—**Uncovering your Hidden Value.***

How do I decide what to charge?

The fee chargeable to allow a third party to access your IP is governed by how much you are prepared to accept and how much the other party is willing to pay, so will ultimately be a matter of negotiation. However, this process is always helped if you have a clear idea of your IP's value, and have researched previous licensing agreements in the sector that might provide suitable precedents.

2. What are the main principles of licensing?

Getting the rate right at the outset is important, as it is often difficult or impossible to renegotiate at a later date. Since licensing fees or royalties are generally charged on revenues, but have to be paid for out of profits, it is important to do your research and to determine what a good and a reasonable deal looks like from both perspectives. You are aiming for a 'win-win' where both parties are motivated to support and promote the products or services based on the IP being licensed, and well rewarded if expectations are met.

As the accompanying guide on IP valuation explains, IP value is context-specific. It follows that the value of the IP to the licensor (if they were to exploit it themselves) may be lower than the value of the IP to the licensee (who may well have a larger advertising budget or more developed distribution channels). However, the opposite may also be true. This needs to be borne in mind when setting expectations on the proceeds that may arise from an agreement.

The **Uncovering your Hidden Value** guide to IP valuation in this series describes how IP is typically valued and where representative royalty rates for the sector can be obtained.



While the core element of most licences is a royalty rate that operates as a percentage of the value of goods sold, it is not the only element. You may, for example, find it convenient to use minimum payments, advance fees or upfront lump sums to get the rate of return you are seeking as a licensor. However, it is important to make sure that your licensee remains motivated by retaining a good amount of 'upside opportunity' (ability to earn more than anticipated) if they perform well.

How should I 'vet' prospective licensees?

Finding good, reliable licensees may not be a trivial task, especially when you are operating in international markets. There may be several organisations wanting a licence to some (or all) of your IP that you would be wise to avoid. It is important to spot these early on, so that time and resources

are not wasted working on an agreement which is not in the company's best interests.

The **Going Global** guide in this series goes into more detail on the IP implications of strategies you can, and should, adopt when weighing up the pros and cons of dealing with international licensees.



A licensee can, in many ways, end up being viewed as a representative of your company. If they are licensing a core technology only, then your reputational risk may not be great; but the closer they are to selling your identifiable product or service to their customers, the more likely it is that their conduct will affect your brand and its image - either positively or negatively. You want to work with a licensee who is willing to put in the effort required to make the agreement a success and sustain that effort over an extended period of time.

Depending on their aspirations and sphere of operations, it is possible that a licensee could end up competing with you, and potentially limit rather than contribute to your sales. Risks of this are arguably highest if you find yourself licensing to a direct competitor, following for example a dispute about alleged infringement.

As the licensing relationship will hopefully be close and long-lasting, it is also important that you choose a licensee who is financially stable. If they are not, there may be a negative impact on your licensing revenues or reputation. If you are going to place obligations on a licensee to police markets for infringement and/or enforce your rights, they need to have the financial capacity to meet them.

Stability is not only a financial measure. While you will have a contract to provide a degree of protection, the personal relationship between licensee and licensor and their respective management teams can also be an important consideration. While it is not possible to predict or control when shifts of personnel or strategy might happen, you can mitigate your risk exposure by ensuring you are not entering into a relationship with an organisation that has continual change at the top. You may wish to insert 'change of control provisions' in the licence agreement (these enable you to cancel the licence or renegotiate its terms if the licensee company is sold).



CHECKLIST

Choosing a licensee

✓	Factors to consider when choosing a licensee	Summary
	Financial stability	<i>Are you confident that the potential licensee is not going to go bust and can continue to invest in promoting your licensed product / service?</i>
	Strategic stability	<i>Will the licensee continue to be committed to the licensing agreement for the duration?</i>
	Personal chemistry	<i>Can you work with this company? Is there a degree of mutual trust and respect?</i>

2. What are the main principles of licensing?



✓	Factors to consider when choosing a licensee	Summary
	Competitive issues	<i>Are you comfortable that there are no competitive issues? Is the company either outside your industry or acting solely as your representative?</i>
	Reputation	<i>Do you expect the prospective licensee to behave in a way that will maintain or enhance your reputation?</i>

Once signed, how do I manage a licence?

As with any relationship, it is important to put the required effort and energy into making a licensing relationship as successful as possible. This is true not only when the arrangement is working well and generating a lot of income for your

organisation, but also when things are not going so well.

It is important to manage your licensing agreements closely. On the one hand, you will want to ensure that your licensee is adhering both to the letter and the spirit of the agreement you made. For example, if you have licensed use of your trade mark, you need to ensure that it is being used correctly and that the goods/services that your licensee is selling are of a quality and standard that is acceptable to you. Failure to do this introduces the risk of damaging the image of your brand, thereby diminishing the value of your trademarks.

On the other hand, you want to check that the arrangement is working for both parties as intended. If some licensees are struggling to make an agreement work for them, it is unlikely they will continue to put in the amount of resource into the project that was envisaged.

If you suspect that your licensee is not contributing enough effort to make the agreement a success, it pays to address this early on, rather than react to a disappointing set of results and a lower than expected royalty payment. Regular update and progress meetings may prove to be a worthwhile investment of time for both parties so that any issues can be raised and hopefully mitigated as early as possible. Of course, you will want to have the backup of a properly drafted agreement that provides the scope to terminate the agreement for non-performance if needed.

If you suspect that your licensee has under-reported the level of sales of your product or service they have made in a period, and so is offering an unfairly low level of royalty, this needs to be addressed. Provided that your licensing agreement contained a 'right of audit' clause, you should not be afraid to exercise it in these circumstances, and instruct an auditor to inspect the management accounts of the licensee company.

Do I need to record the existence of an IP licence?

Facilities to record licensing agreement vary by country. The main motivation for recording a licence would most likely be to assist the licensee in enforcing the rights, should this be necessary and a feature of the agreement.

In Singapore, it is not compulsory to record the grant of a licence. However, if (for example) a trade mark owner decides to license the use of the mark to a third party, this can be recorded on the register with IPOS. By providing notice of the existence of a licensing agreement to third parties, it may strengthen your ability to take action against infringers (and might act as a small deterrent).



The **Going Global** guide in this series has further advice on managing relationships with overseas licensees.



CHECKLIST

Which terms should normally be present in a licensing agreement?

✓	Parties	<i>Who is the agreement between, and what happens if one or the other party changes ownership?</i>
✓	The IP	<i>What is being licensed? (often a bundle of rights are licensed along with other intangibles such as know-how)</i>
✓	Sector	<i>Which industry sectors or markets are covered?</i>
✓	Territories	<i>Are there geographic restrictions?</i>
✓	Exclusivity	<i>Is the licence exclusive, non-exclusive or sole?</i>
✓	Purpose	<i>What can the licensee do with the licensed material?</i>
✓	Payment rates and terms	<i>Are up-front fees payable? Are there advances? What royalty rates are payable, and on what basis (what figures are used as a basis for calculation? are they subject to minimums?). What are the invoicing terms, and who will do the invoicing?</i>
✓	Dispute resolution	<i>How are disputes between the parties handled? Is mediation the first resort? Which court and law will the parties agree to follow?</i>

2. What are the main principles of licensing?



✓	Ownership and access to improvements	<i>What rights does the licensor have to licensee improvements?</i>
✓	Confidentiality	<i>What parts of the agreement are confidential?</i>
✓	Term	<i>How long will the licence last? How does this relate to the remaining life of the IP rights that are included?</i>
✓	Transferable	<i>Is the licence transferable? Can a licensee sub-license the rights?</i>
✓	Targets	<i>Should the licensee be compelled to use “best efforts” to achieve targets? Are minimum sales stipulated?</i>
✓	Termination	<i>Can the licensee be terminated early? If so, how and by whom?</i>
✓	3rd party infringement	<i>What happens if a third party is suspected of infringement? Whose responsibility is it to enforce the IP?</i>
✓	Defence against claims	<i>What happens if a claim is brought against the licensee for infringement? Who is responsible for defending the claim?</i>
✓	Right to audit	<i>When and how can the licensor audit the licensee to confirm the basis on which fees are being paid? Who pays the auditor fees?</i>
✓	Warranties and Indemnities	<i>Does the licensor warrant that the IP is free from dispute and there is no known infringement? Can they indemnify the licensee against any claims that they are infringing third party rights by using the IP?</i>



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