



Using Patents, Trade Secrets, Industrial Designs, Trademarks and Geographical Indications for the Business Success of SMEs

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What makes a product successful?

- Product represents a **functional improvement** compared to other existing products
- Advantageous price
- Product or its package has an **attractive design**
- The **brand** of the product has a good reputation (guarantee for quality) and has been promoted through publicity
- Product can easily be found in the main retail places and is distributed by the main distributors
- Good after-sale services



Legal protection of IP grants exclusive rights

- **Innovation** - improvement of functional aspects or fabrication process of the product → **Patents, Utility Models**
- **Design** - the product's appearance → **Industrial Designs**
- **Brand** - commercialization / marketing of the product → **Trademarks**



Limits on Patents

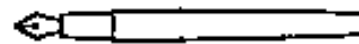
- **Limited in time:** protection for max 20 years. After that, they may be commercialized without authorization
 - In Europe less than 25% of the patents are upheld for 20 years
- **Limited in content:** a patent only protects what is specified in the claims
- **Geographical:** a patent is only valid in the country/countries where protection is granted



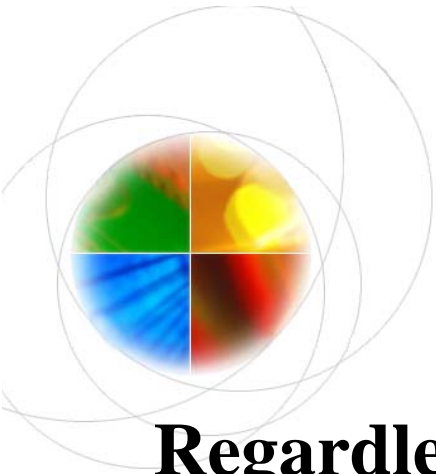
A range of IP can be used to protect the same product

Example: Fountain pen

- **Patent:** for the fountain pen that could store ink
- **Utility Model:** for the grip and pipette for injection of ink
- **Industrial Design:** smart design with the grip in the shape of an arrow
- **Trademark:** on the product and/or the packaging to distinguish it from other pens



- Source: Japanese Patent Office



**Regardless of what product your enterprise
makes or what service it provides,
it is likely that it is regularly
using and creating
a great deal of intellectual property**



IP rights can be acquired for

- Name of the business : **Trade Name**
- Distinctive signs: **Trademarks, Geographical Indications, Certification Marks, Collective Marks**
- Creative designs (appearance or look of the products): **Industrial Design**
- Innovative products and processes: **Patents, Utility Models**
- Cultural, artistic and literary works, including (in most countries) computer software and compilation of data: **Copyright**
- Confidential business information (customer lists, sales tactics, marketing strategies, manufacturing process, etc.): **Trade Secrets**

Example: Lego

- **1934 - Trademark:** Leg Godt (“play well”)
- **1958 - Patent:** stud and tube coupling system (the way bricks hold together)
- **1974 - Industrial Designs:** lego figures: castles, pirate ships, Wild West ranches, cavalry forts, space stations, people
- **Copyright:** artistic work, manuals





How can IP ‘add value’ to your business?

- (1) Increasing market value of the firm
- (2) Marketing
- (3) Exporting goods and services
- (4) Raising finances
- (5) Acquiring new technology and finding suppliers
- (6) Commercializing innovative products



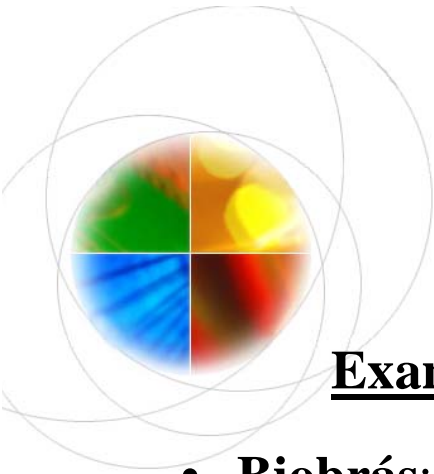
(1) IP can increase the market value of a business

- IP may **generate an income** for your SME
 - Exclusive rights to use and exploit (for limited time) + prevent others from commercially using your creations
 - Licensing, sale (patents, trademarks, industrial designs, know-how, copyright)
 - Cross-licensing: using IP as a negotiating tool to obtain licenses from other companies



(1) IP can increase the market value

- IP rights can enhance the value of your SME in the eyes of **investors** and **financing institutions**
 - IP rights are one of the 5 main criteria used by European venture capitalists in their decisions to fund SMEs
- In the event of a **sale, merger** or **acquisition**, IP assets can provide an extremely valuable bargaining tool
- IP assets are separately identifiable business assets and have a **separate value**
 - E.g. Coca-Cola brand value: estimated at US\$ 69 billion



Examples

- **Biobrás:** A Brazilian biotech company obtained a patent on human recombinant insulin. While sales have remained constant (company exploring commercialization), the value of shares has gone up six-fold over the past 5 years. **bioBRÁS**
- **Amati Communications (US):** Texas Instrument paid US\$ 395 million to acquire a small computer company (Amati Comm.). The reasons for such a high price were 25 key patents.



(2) IP is an important marketing tool

*“Marketing is everything you do
to promote your **business**,
so that
customers buy your products or services
and begin to patronize your business
on a regular basis”*



IP rights are crucial for (1)

- **Differentiating** your products/ services and making them easily recognizable
 - **Industrial designs & trademarks** are identifiers ? customers **distinguish**, at a glance, between your products or services and those of your competitors. They establish a **link** between your products or services and your SME
- Promoting your products or services and creating a **loyal clientele**
 - **Trademarks, geographical indications, collective marks, certification marks** ? customers associate them with certain desired **qualities**



IP rights are crucial for (2)

- Creating a distinct **image** for your business in the minds of your customers and in positioning your business in the market
 - Trademarks, trade names, industrial designs, patents
- Marketing your products or services in **foreign countries**
- Marketing your products in the **new economy**
 - Use of **domain names** and **trademarks** in e-commerce



(3) Exporting Goods and Services

- IP rights are ‘territorial’
- SMEs that intend to export their products should consider **legal protection** of their IP in their **export markets** in order to have **exclusivity**
- Whether you commercialize yourself or license
- **In time!**



(4) Raising Funds

Two ways of raising funds:

- **Debt** - loan which the borrower must repay
- **Venture** - which gives the investor a share of the actual business of the investee and is not automatically repaid by the investee business, but rather relies on the investor ultimately realizing the equity held in the business



4.1 Debt Finance

- Debt finance is generally ‘secured’ by a charge over the business’ assets. In principle, these assets can be any claims that have reasonably predictable cash flows, or even future receivables that are exclusive.
- **Securitization of IP assets** - a new trend: collateralizing commercial loans and bank financing by granting a security interest in IP is a growing practice, esp. in music, Internet and high technology sectors.
 - E.g., securitization for future royalty payments from licensing a patent, trademark or trade secret, or from musical compositions or recording rights of a musician (D. Bowie).



4.2 Venture Capital

- For the venture capitalist, return depends upon future profits.
- IP ownership is important to **convince** investors of the market opportunities open to the enterprise for the commercialization of the products or services in question :



Convince Venture Capitalist (1)

- Strong **trademarks** are a guarantee for a loyal clientele
- **Patents** and **industrial designs** provide exclusivity for the commercialization of inventions resp. attractive designs ? may be important to convince investors for the commercialization of your product
- **Patents** may convince investors that your product is innovative, unique, or superior to the offerings of competitors



Convince Venture Capitalist (2)

- **Trade names, trademarks** and **domain names** may be the prime elements that differentiate your product from those of competitors
- For many companies, **trade secrets** (such as details of production, secret inventions, and technical, financial and marketing know-how) alone may be the source of their competitive advantage

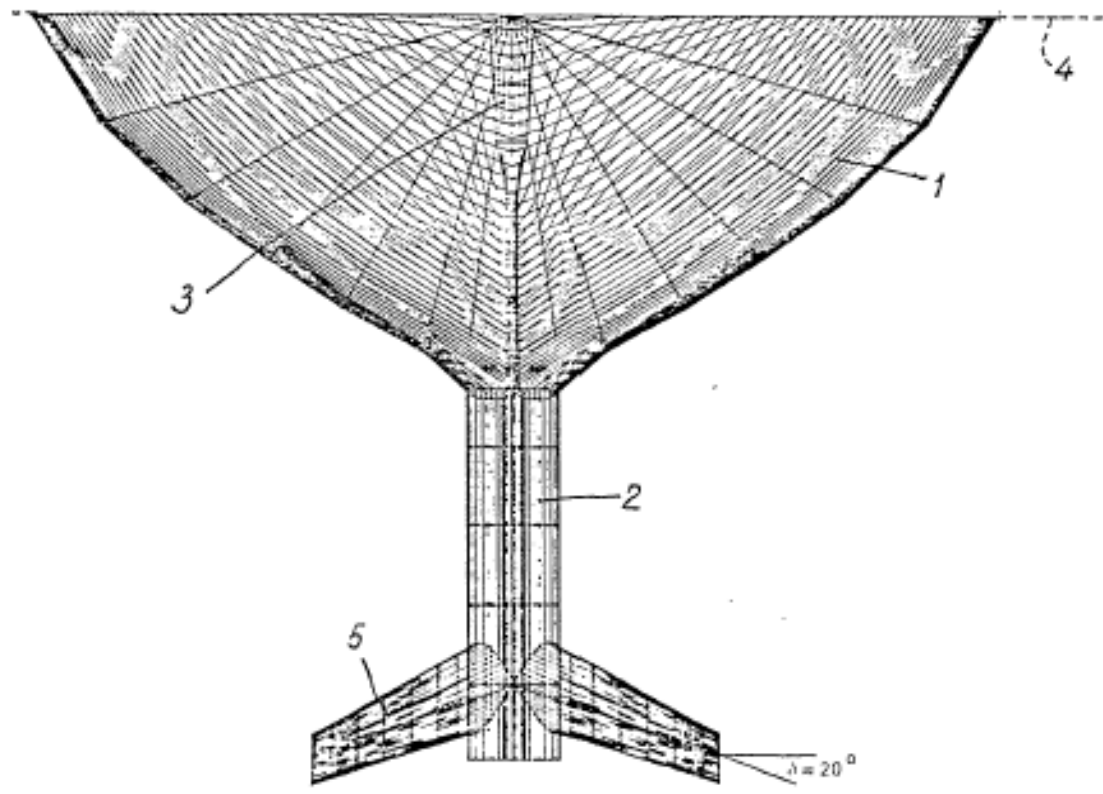


Therefore...

- ✓ Ensure that your IP portfolio protects those aspects of the business which determine the venture's success
- ✓ Reflect proprietary IP in your business' books, balance sheet, business plan
- ✓ Any indication that confirms due diligence on your part in the management of IP assets is likely to play an important role in convincing investors of your company's potential



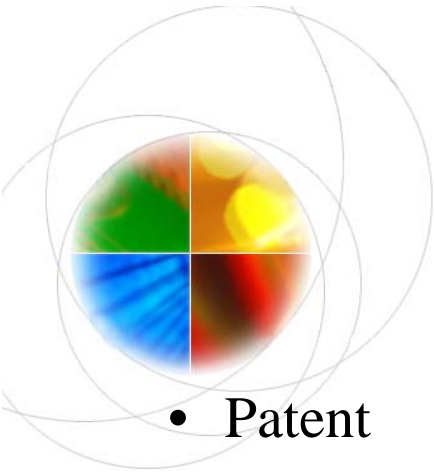
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(5) Acquiring New Technology & Finding Suppliers

- SMEs seeking access to **innovative technology** developed by other companies should consult patent databases to identify the necessary technology.
- They may have to negotiate licensing agreements with the patent holder in order to obtain the right to use the technology.
- Information in patent documents may also assist entrepreneurs in their search for **alternative suppliers** of identical or similar technologies.



Patent Information: Other Side of the Coin

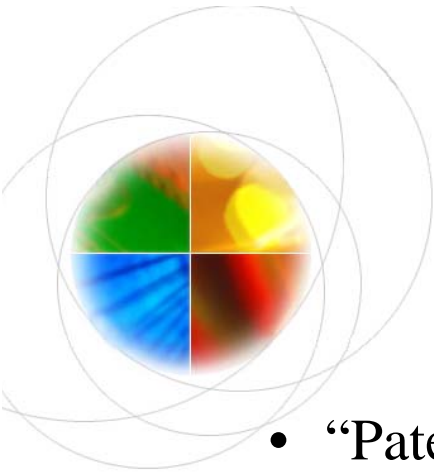
- Patent

? 1. “deed securing to a person an exclusive right granted for an invention”

? 2. “open, evident, manifest”; “open to public perusal” < Latin *patens*

(Collins Dictionary)

- Patent as an interchange between society and the inventor
- All patents are published and are **open to public**



What is Open to the Public?

- “Patent information” is the technical and legal information contained in patent documents that are published periodically by patent offices.
- A patent document includes the full description of how a patented invention works and the claims which determine the scope of protection as well as details on who patented the invention, when it was patented and reference to relevant literature.

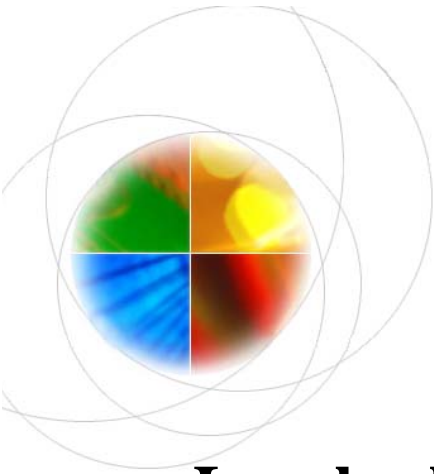
Relevance of Patent Documents

Technological relevance

Patent information

Legal relevance

Commercial relevance



Using Patent Information

Legal relevance:

- Avoid possible infringement problems
- Assess patentability of your own inventions
- Oppose grant of patents wherever they conflict with your own patent



Using Patent Information

Technological Relevance:

- Keep abreast with latest technologies in your field of expertise
- Avoid unnecessary expenses in researching what is already known
 - “*Discovery consist in seeing what everybody has seen, and thinking what nobody has thought*” (Albert Szent-Györgyi von Nagrapolt)
 - In Europe, more than US\$ 30 mill. per year is waisted in unnessary research - 30% of the total investment in R&D



Using Patent Information

Technological relevance:

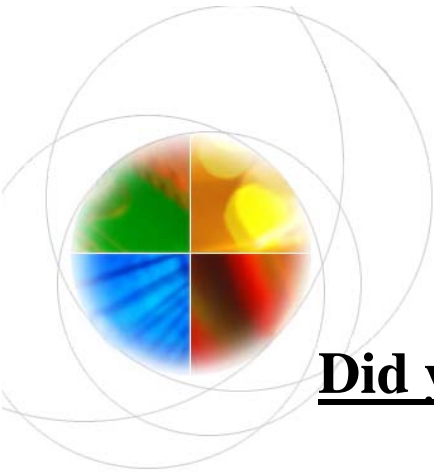
- Identify and evaluate technology for licensing and technology transfer
- Get ideas for further innovation
- Identify alternative technologies
- Find ready solutions to technical problems



Using Patent Information

Commercial Relevance

- Locate business partners
- Locate suppliers and materials
- Monitor activities of competitors
- Identify niche markets
- Use what is allowed to use (limits of patents)



Using Patent Information

Did you know?

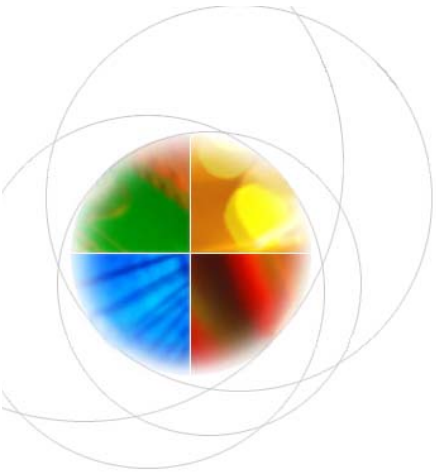
- The entire set of patent documents worldwide includes approximately 40 million items.
- Every year approximately 1 million patent applications are published.
- About two-thirds of the technical information revealed in patents is never published elsewhere.



Using Patent Information

Did you know?

- Most of the inventions are disclosed to the public for the first time when the patent is being published.
- The information contained in the patent documents IS NOT SECRET!



Thomas Edison:

“I start where the last man stopped”



(6) Commercializing Innovative Products

- An invention on its own has little value for an SME ? **How do you turn inventions into profit-making assets of your SME?**
- **Trade secret** vs. **Patent** - The acquisition of a **patent** gives the SME **exclusivity** over the commercialization of an innovative product or the innovation process of fabrication
 - either: commercialize the invention yourself
 - or: allowing its commercialization by others



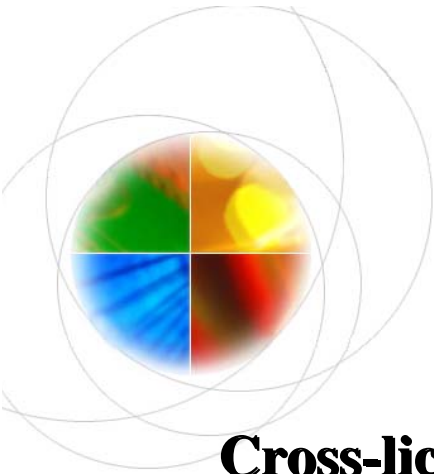
Commercializing Innovative Products (2)

- If you choose not to exploit the patent yourself ? you may
 - **sell** or
 - **license**the rights to other firms that have the capacity to commercialize the patented inventions
- A **licensing agreement** is a partnership between an IP rights owner (licensor) and another who is authorized to use such rights (licensee) in exchange for an agreed payment (fee or royalty)



Advantages of Licensing Technology

- you can ensure a **steady** stream of additional income from your invention (royalties)
- **no need to invest** yourself in the commercialization of the invention
- your SME can **expand** its business to the frontiers of your partners' business
- **cross-licensing**



Cross-licensing: example

- Dell (computer company) has number of patents in the US on its unique business models
- In 1999, Dell used its patent portfolio as collateral in a US\$ billion cross-licensing deal with IBM with lower cost computer components
- This freed Dell from having to pay IBM several millions of dollars in royalties



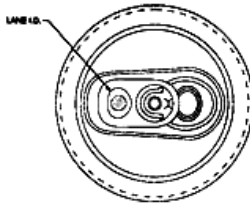
Attention !

- ✓ International context? IP right you wish to license must be protected in the countries concerned.
- ✓ License agreement: written + record in register
- ✓ Choose the right partner

Commercializing innovative products

Example: ring-pull cans

- The inventor licensed the system to Coca-Cola at 1/10 of a penny per can. During the period of validity of the patent the inventor obtained 148,000 UK pounds a day on royalties.



Commercializing innovative products

Example: Post-it

- The glue used for **Post-its** was discovered by chance by 3M. Initially ignored, it was then patented. Post-its subsequently brought huge profits to the company through licensing agreements.





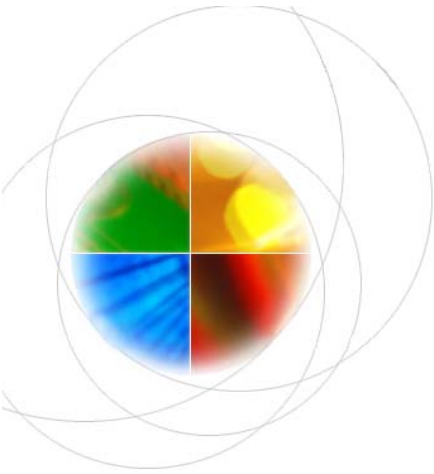
Some key strategies

1. **IP audit**: taking stock of all IP (how is it currently exploited?)
2. **IP valuation**: like physical assets, IP assets should be identified and valued individually (as a stand-alone asset)
 - important for licensing, during M&As, for raising funds, to report to shareholders and investors
3. **Licensing**: may provide a constant revenue stream from royalties
4. **Cross-licensing**: using IP to obtain access to other companies' technology



Some Key Strategies

5. **Announce your IP:** let potential investors, lenders, business partners, share holders, etc. know that you have proprietary IP.
 - Include IP assets in accounts books, balance sheet, business plan
6. **IP search:** consult IP databases on a regular basis.



Conclusion

By establishing a culture of identifying, cultivating and strategically using its IP assets, an enterprise can increase its revenue, have an edge over its competitors and position itself well in the market.



Trade Secrets

- **Definition:** Any **confidential** business information which provides an enterprise a **competitive edge** may be considered a trade secret
- **Examples:** sales methods, marketing strategies, innovative manufacturing process, lists of suppliers, new products or services, financial information
- **Famous examples:** Coca-Cola formula, Microsoft's source code for Windows
- Every company has its trade secrets. Information that it does not want competitors to know about.
- Trade secrets are also **intellectual property** !



How to protect trade secrets?

- No need for registration. But 3 essential requirements:
 - The information must be secret !
 - It must have commercial value because it's secret
 - It must have been subject to reasonable steps by the holder to keep it secret (e.g. confidentiality agreements)



Trade secrets vs. Patents

- **Advantages** of trade secrets:
 - No need to register
 - Not limited in time
 - No disclosure
 - Can protect unpatentable information
- **Disadvantages** of trade secrets:
 - Costs of keeping it secret can be high
 - Others may discover/invent it independently
 - Others may patent it (if patentable)
 - If the secret is embodied in a product it may be reverse engineered
 - More difficult to enforce



Trade secrets or patents?

Suppose:

- An SME develops a process for the manufacturing of its products that allows it to produce its goods in a more cost-effective manner.
- The process is not sufficiently inventive to be protected by a patent, but it provides the enterprise a competitive edge over its competitors.
- The enterprise in question may therefore value its know-how as a **trade secret** and would not want competitors to learn about it.

Trade secrets or patents?



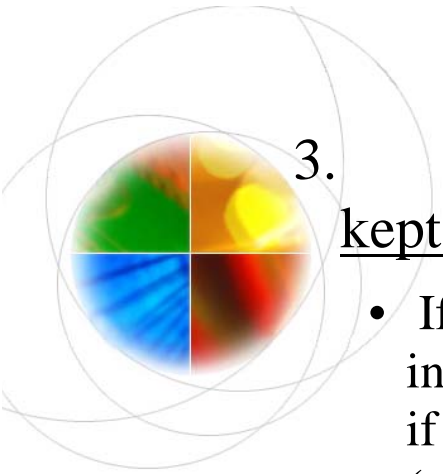
- 1958 : **Patent** for stud and tube coupling system (the way bricks hold together)
- But: Today the patents have long expired and the company tries hard to keep out competitors by using designs and copyright





Trade secrets or patents?

- Case-by-case basis
- **Trade secret** protection may be advisable :
 - For inventions or manufacturing processes that do not meet the patentability criteria and therefore can only be protected as trade secrets (though they may qualify for protection as a utility model)
- 2. When the trade secret is not considered to be of such great value to be deemed worth a patent (though utility model may be good alternative)

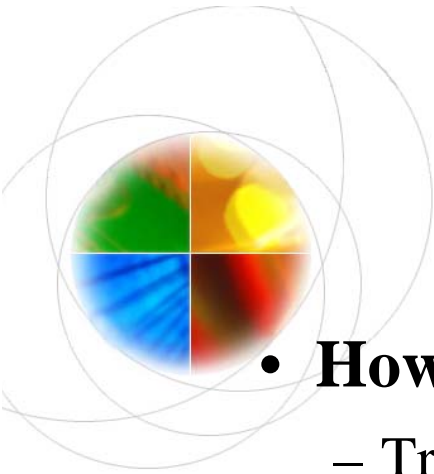


3. When it is likely that the information can be kept secret for a considerable period of time.

- If the secret information consists of a valuable patentable invention, trade secret protection would only be convenient if the secret can be kept confidential for over 20 years (period of protection of a patent) and if others are not likely to come up with the same invention in a legitimate way.

4. When the secret relates to a manufacturing process rather than to a product, as products would be more likely to be reverse engineered.

5. When you have applied for a patent and are waiting for the patent to be granted.



- **However, bear in mind:**

- Trade secret protection is generally weak
- The courts may require very significant and possibly costly efforts to preserve secrecy
- Patent/utility model protection will provide much stronger protection
- Patent/utility model may reveal a lot of valuable information, but at the same time, it provides exclusivity in the marketplace



Strategies for Protecting Trade Secrets

- Consider whether the secret is patentable and, if so, whether it would not be better protected by a patent
- Make sure that a **limited** number of people know the secret and that all those who do are well aware that it is confidential information
- Include **confidentiality agreements** within employees' contracts
- Sign confidentiality agreements with business partners whenever disclosing confidential information



IP and Marketing

- How to make my product easily recognizable?
 - Create a **distinct identity** through industrial **designs** and **trademarks**
- How to develop trust and confidence in my products?
 - Refer to **reputation** and certain **qualities** in the product through **collective marks, certification marks, geographical indications**



Industrial Designs

- Industrial designs are compositions of lines or colors or any three-dimensional forms which give a special **appearance** to a product
- They protect the **ornamental** or aesthetic aspect of a product (not functional)
- **Exclusive rights:** Right to prevent others from applying (making, selling or importing) the protected design to commercial products for a period of 10 to 25 years (Estonia: 25y)
- Requirement of **registration** (new EU legislation includes unregistered design protection)



What is a Good Design?

Legal point of view:

- appeal to the eye (e.g. shape of toothbrush)
- useful article
- new or original
- design should not be dictated by functional or technical necessity (handle + brush)
- must be reproducible by industrial means



What is a Good Design? (2)

Business point of view:

- Make your product appealing to consumers
- Customize products in order to target different customers (e.g. Swatch)
- Develop the brand image (e.g. Apple's "Think Different" strategy)





Trademarks

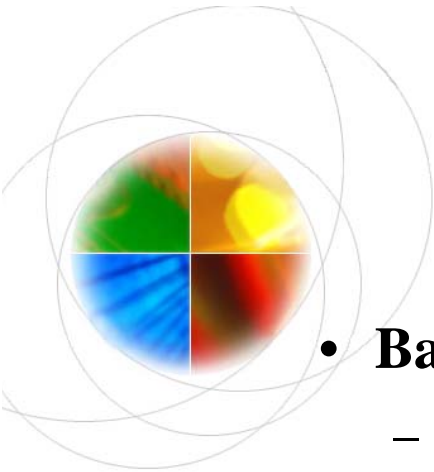
- A trademark is a **distinctive sign** which identifies certain goods or services as those produced or provided by a specific person or enterprise
- **Exclusive rights:** To prevent others from using identical or similar marks on identical or similar goods in respect of which mark is registered



What is a Good Trademark?

Legal point of view:

- **Distinctive** : allow to distinguish goods and services from those of another company
- **Signs eligible for registration:**
 - words (including personal names)
 - letters
 - numerals
 - figurative elements
 - colors
 - any combination of the signs mentioned



- **Bars for Registration:**

- Generic (too descriptive)
 - E.g. “chair” for chairs; “sweet” for chocolate
- Contrary to morality or public order
- Misleading (as to the nature of goods, source, characteristics, or suitability for the purpose)
 - E.g. “wool”
- State emblems
 - E.g. National Flag
- Existing third party rights ? trademark search



What is a Good Trademark?

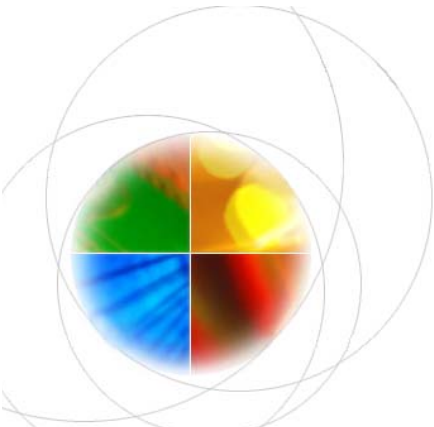
Business point of view:

- sufficiently distinctive
- easy to read, spell, memorize and pronounce
- suitable for export markets (no adverse meaning in foreign languages) (e.g. Pajero)
- fit the product or image of the business
- have no legal restrictions
- have a positive connotation



Possible Categories

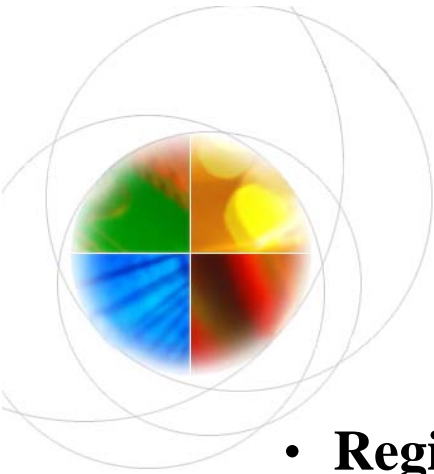
- Fanciful words:** invented words without any real meaning in any language (e.g. Kodak or Exxon)
 - Pos: easy to protect (likely to be considered distinct)
 - Neg: difficult to remember ? greater efforts in advertising
- Arbitrary marks:** words that have a real meaning in a given language. This meaning, however, has no relation to the product itself or to any of its qualities (e.g. Apple)
 - Pos: level and ease of protection is generally high
 - Neg: no direct association between the mark and the product
? greater marketing power to create such an association in the mind of the consumer



3. **Suggestive marks:** marks which hint at one or some of the attributes of the product (e.g. Benecol, Bonaqua)

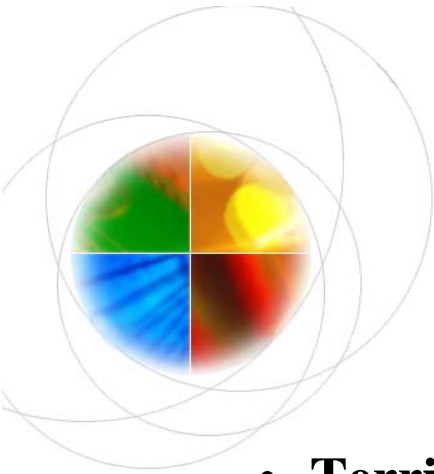
Pos: act as a form of advertising and may create a direct association in the mind of the consumers between the trademark, certain desired qualities and the product

Neg: Risk too descriptive or not sufficiently distinctive to meet the legal criteria for trademark protection



How to Protect a Trademark?

- **Registration** is required in most countries (except well-known trademarks).
- **Trademark search** : To be sure that it is not registered by another company in the country for the same products (goods or services).
- It is important to register **early**, and in any case **before launching** a new product on the market



How to Protect a Trademark?

- **Territorial** : only protected in the country in which registration has been obtained
- **Term** : 10 years – renewable indefinitely !
- Some countries: **obligation to use** (3 or 5y non-use ? invalid)
- Does not protect any feature of the product itself



How to take full advantage of a trademark?

- Register your trademark as soon as possible.
- Monitor the market and be sure that no one infringes your trademark rights.
- Use your trademark in publicity and marketing campaigns.
- Consider licensing and franchising
- License ? be sure that the quality is maintained



Example: “*Artesanía Latina*”

- *word + figurative element*
- *Spain ? CTM (registered with the OHIM)*
- *for toys, especially “maquettes” (sailing wooden cars, teddybears, etc.)*

boats,





Collective Marks

- Signs which distinguish the geographical origin, material, mode of manufacture, quality or other common characteristics of goods or services of different enterprises using the collective mark
- Typically, the owner is an association of which those enterprises are members



Collective Marks

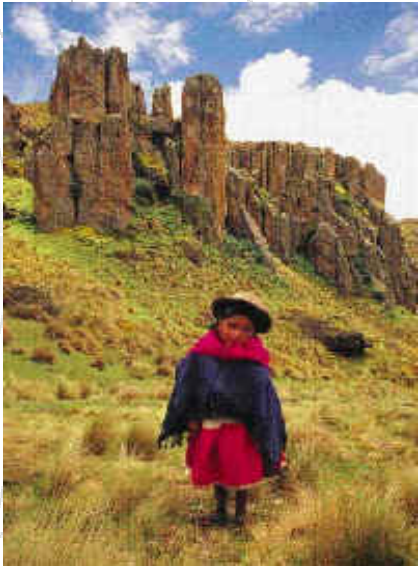
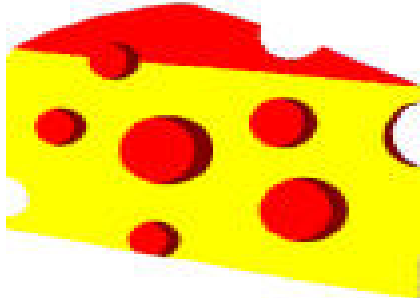
- The owner is responsible for ensuring compliance with certain standards by its members.
- Thus, the function of the collective mark is to **inform the public about certain particular features** of the product for which the collective mark is used.
- Often used to promote products which are characteristic of a given region. In such cases, collective marks may also provide a framework for cooperation between local producers.

Example: “Interflora”

- *international chain; used all over the world to and send flowers*
- *more than 70.000 flower shops in 150 countries*
- *the emblem of Interflora is Mercurius, baring as a symbol of the service that the associated shops provide*
- *the slogan of the organization is the famous “Say flowers flower it with flowers”*



Example: “Cajamarca” (Peru)





Certification Marks

- usually given for compliance with certain standards
- not confined to any membership
- may be used by anyone who can certify that the products involved meet certain established standards.



Example: “Max Havelaar”

- owned by the Max Havelaar foundation*
- each producer/importer of coffee, chocolate, tea, honey, bananas or oranges can be considered as a potential license holder*
- they have to comply with certain conditions of trade*





Example: “Tooth friendly”

- *appears on the packaging of foodstuffs*
- *certifies that its ingredients do not produce cavities and thus are not bad for your teeth*





Example: “Woolmark”

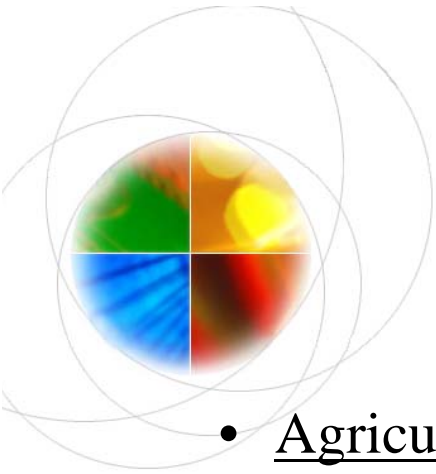
- registered by the Woolmark Company*
- a quality assurance symbol denoting that the products on which it is applied are made from 100% wool and comply with strict performance specification set down by the Woolmark Company*
- registered in over 140 countries*





Geographical Indications

- A sign used on goods that have a specific geographical origin and possess qualities or a reputation that are due to that place of origin
- Most commonly, a geographical indication consists of the name of the place of origin of the goods
 - E.g. Champagne
- In some countries (incl Estonia): can also be figurative element
 - E.g. Eiffel tower



- Agricultural products typically have qualities that derive from their place of production and are influenced by specific local factors, such as climate and soil (e.g. cheese)
- In Azerbaijan:
 - no owners
 - perpetual protection
 - registration

Example: “Talavera de Puebla”

- *Considered to be one of the finest ceramics in Mexico*
- *Handmade and painted by hand*
- *Historical linked with Arabic culture*
- *Typical are the geometric designs in blue color painted on a white background*
- *The design and colors of the artwork are created following traditional rules and knowhow*





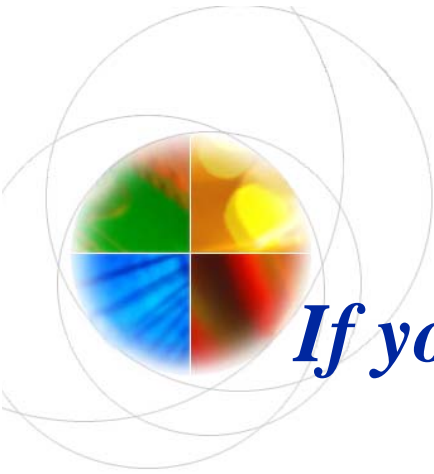
Examples

- *Champagne, Sherry, Porto, Scotch Whisky*
- *Bulgarian yoghurt*
- *Pilsen, Budweis*
- *Egyptian Cotton*
- *Tuscany (olive oil < Italy)*
- *Roquefort (cheese < France)*



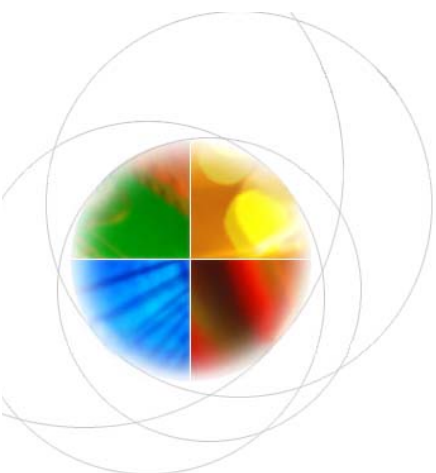
Geographical Indications

- Inherent in certain products from a particular region are characteristics that are due to the soil, climate or particular expertise of the people of that area which consumers expect and have confidence in
- Capitalizing on that reputation for your products that emanate from such area or benefit from such skills in your marketing strategy makes sound business sense in differentiating your products from those of others.
- But ! You SME must maintain the standards and quality expected



***Message for SMEs:
If you can't beat them, join them***

- One of the greatest challenges for SMEs is not so much their size, but their isolation.
- Difficulties faced by SMEs acting individually to gain recognition for their goods or services in the marketplace.
- Working collectively, SMEs can benefit from the advantages of collective strengths.



WIPO's website:

<http://www.wipo.int>

WIPO's website for SMEs :

<http://www.wipo.int/sme>