

I. PRACTICAL IP ISSUES IN DEVELOPING A BUSINESS PLAN

1. A business plan is a mechanism to ensure that the resources or assets of a business are applied profitably across all its activities for developing and retaining a competitive edge in the market place. For a new business it provides a blueprint for success, while for an ongoing business it provides an overview of where a business is at present, how the business is positioning itself, and how it seeks to achieve its objectives to become and/or remain successful.

Although putting together a good business plan takes a lot of work, its benefits justify the time and energy that are spent creating it. A business plan will help to:

- **examine the feasibility of a business idea or export plan:** A written business plan forces a company to think through all the key issues - such as the potential demand for its products or services, the nature of the competition, entry barriers, the unique selling proposition of the new or improved products or services, resources required, critical employees, relevant technologies and strategic partners, raising funds, projected start-up costs, marketing strategies, and the like.
- **access start-up services and financing:** potential investors and lenders require well-formulated and realistic business plans. This is often not the case; it is not surprising, therefore, that some 80 % of business plans received by investors and business incubators are rejected.
- provide **strategic guidance:** A business plan is a reference point providing you and your management team with an objective basis for determining if the business is on track to meet the goals and objectives in the time frame set and with the available resources.
- furnish a **standard/benchmark** against which to judge future business decisions and results. This standard /benchmark may evolve along with the business, and as such the business plan is a dynamic document that should be revised based on new and evolving circumstances.

A. Why integrate intellectual property in a business plan?

2. To attract investors and convince financial institutions, public sector start-up service providers and/or potential business partners of the solidity of the project in order to obtain funds a business plan should reveal the coherence of the business idea. It must provide credible evidence of effective or potential demand for the products or services in the market place, of the superiority of the products or services over those of competitors, the ability of the entrepreneurs to adequately manage the business and the ability of the company to make the product or deliver the service at an affordable price.

3. For more and more businesses, the secret behind their market success lies in the originality or innovativeness of their product or service vis-à-vis those offered by competitors. Innovative products, designs and creative works may be protected through the intellectual property system. IP protection would not only provide a clear evidence of innovative capacity (e.g. in the case of patents) but also provide a company with a strong market position for commercializing the product

in question. Therefore, a business plan should cogently reflect how the company plans to protect, manage and leverage its intellectual property assets.

4. Patents provide exclusivity for the commercialization of inventions and often play a crucial role in convincing investors or lenders. Obtaining patent protection implies that the invention has met the stringent legal requirements or protection (i.e. new, non-obvious and industrially applicable). While such criteria are technical criteria and therefore have no relation to whether the product has a market potential or not, they do provide proof of the innovativeness of the product, which may be a crucial factor in market success. In a number of high-tech sectors, such as biotechnology, obtaining patent protection for any R&D result with a market potential is almost a requirement for market success, without which few investors, in particular venture capitalists, would be willing to invest.

5. In addition, any new product is likely to incorporate technology originally developed by others. It therefore becomes crucial to make sure that all technology incorporated into a company's product is either in the public domain or authorization has been duly requested and obtained via a licensing agreement. The risks of not doing so may be extremely high and may even drive a company out of business. It is therefore increasingly common for investors to check whether a due diligence check has been conducted in order to avoid running into problems at a later stage. In high-tech sectors, where the possibility of inadvertently infringing a third party's intellectual property rights is particularly high, it is important to get a thorough search of patent databases done by a specialist so as to mitigate the concerns of start-up service providers and potential investors and to improve the chances of acceptance of the business plan.

6. In addition, including in the business plan information on the company's patent strategy would also be a way of proving the company's knowledge of the IP issues involved and its proactive attitude in this area, which may also be valued by investors and other business partners.

7. Trade names and trademarks are prime elements that differentiate a company, its products or services from those of competitors. A reputable trademark with a positive image among consumers will significantly enhance the value and perception of a product or service in the market. The trademark, therefore, acts as a quality assurance that the consumer recognizes and looks for at the time of purchase. A recent survey by Interbrand, a branding company, revealed that the estimated value of some of the world's most famous trademarks exceeds US\$ 50 billion. This is because consumers value trademarks, their reputation, their image and a set of desired qualities they associate with the mark and are willing to pay a premium for a product bearing a trademark that they recognize and meets their expectations. Given the above, it has increasingly become more common to use trademarks as leverage to obtain funding. Including any registered trademarks in your business plan is important as it may convince investors and other providers of the opportunities available to a given enterprise. A business plan should demonstrate that steps are planned or have been taken to create, register and effectively use these intangible assets to win and retain market share.

8. Confidential business information such as details of production, inventions, and technical, financial and marketing know-how is often the source of competitive advantage. It is, therefore, essential to communicate to start-up service providers and investors/lenders that an enterprise has proprietary business information and that adequate steps have been taken to protect it. In fact, even the business plan itself is a secret document that should only be disclosed on a need-to-know basis.

9. In a recent survey of European technology incubators conducted by WIPO¹ showed that IP ownership, or having a license to use the IP rights of others, is considered by 57% of surveyed incubator managers to be either a very important or quite important factor while selecting tenant firms. A company that has not protected its innovative technology, has not conducted a patent search to verify whether its inventions are already owned by others or has not requested a license to use a given proprietary technology may face problems in taking a new product or service to market.

B. Market research and competitive intelligence

10. To be successful, companies need to assess their markets through market research. Companies engage in market research primarily to identify their marketing opportunities and constraints within specific markets and also to identify prospective buyers and customers.

11. Market research includes all methods that a firm uses to determine the foreign markets that have the best potential for its products. Results of this research inform the firm of the following: the largest markets for its products, the fastest growing markets, market trends and outlook, market conditions and practices, and competitive firms and products.

12. How can intellectual property help during market research? Patent and trademark databases can be a very useful tool during your market research. Patent databases will provide information on, for example, whether a given technology is protected by others in a given market thus determining whether a license is required to use that technology in the said market; the latest technologies developed by competitors which are protected in that market; potential partners who have developed complementary technology to enhance your products and/or services; and other information that may be important for assessing the competitive environment in a given market and your chances of success.

13. Trademark databases should also be consulted in order to check whether the trademark you intend to use is likely to enter into conflict with a protected trademark in the said market. Discovering that a conflict may exist may strongly influence your decision to enter the said market, change your marketing strategy and/or force you to use a different trademark for that market.

14. Hence, intellectual property assets, albeit intangible, are important business assets and should form a key part of a good business plan. Reference to the assets of a company and its market opportunities should list both the tangible and intangible assets, as the latter are often the key to business success. **As such, any indication that confirms due diligence in protecting intellectual property assets is likely to play an important role in convincing start-up service providers and investors/lenders of the company's potential.**

C. How can intellectual property be integrated into the business planning process?

15. Many a business has failed because the answer to the following question was incorrect: "Why will consumers buy my product (or service)?" On the face of it, this may seem a simple question to answer, but a clear and precise understanding of the business and its environment is essential to answer the question. This involves taking an integrated look at a number of issues, such as the feasibility and viability of the business model; resources required; target markets; growth potential of the business, potential demand, competitors, etc. In each of these areas, the business planner must also be aware of the commercial relevance of intellectual property assets, whether owned or

¹ Available at: http://www.wipo.int/sme/en/documents/pdf/incubator_survey.pdf

licensed from another, and of the resources that may be needed to obtain, maintain and use these assets.

16. Below are a few key questions concerning intellectual property issues that should be considered while preparing a business plan. The list is not exhaustive, as many additional issues will have to be considered depending on circumstances of each business. The answers to these questions should help a company to integrate intellectual property assets into its business planning process.

- What intellectual property assets does the business own? Has it protected all its intellectual property? Should it do so?
- What is the status of the company's intellectual property portfolio? Are there any patents pending? Are trademarks up for renewal? Has the company got any confidential information that need to be guarded from early disclosure ?
- How important are these intellectual property assets to the company's success? What would happen if third parties were to copy or imitate your company's products infringing your IP rights without authorization? What impact would this have on the business?
- Does the company own all the intellectual property assets that it needs to commercialize its products/services, or does it have to rely on the intellectual property assets of others? If the latter is the case, has it requested permission from the owners to use such IP rights? Has the permission been set in a written agreement or license?
- What is the competition's intellectual property strategy and portfolio?
- What is the company's intellectual property policy and strategy?

17. Business plans are, therefore, a crucial tool for approaching investors and considering the market opportunities for your business. Because IP provides enterprises competitive advantages and increases its value, it is necessary to let investors know about the IP assets by adequately integrating them into the business plan.

II. INTELLECTUAL PROPERTY RIGHTS AND EXPORTS: AVOIDING COMMON PITFALLS

18. The decision to export has its attendant risks and challenges, as exporting involves a considerable investment of financial, managerial, and production resources. Therefore, it requires careful planning and execution. As a key business objective, the decision to export should be seen as a long-term business investment, rather than a short-term profit orientation.

19. Before starting to export, it is prudent to develop a cogently written international business plan or export plan for determining a product's readiness for export. A well-developed plan will assist the firm in assessing the potential of a product in international markets, facilitate application for financing and help determine if there is a market for the product in a given market. It will also help to decide on the most effective mode of entry into a specific new market (i.e. through direct exporting, by establishing a joint venture, by licensing intellectual property rights to third parties, through e-commerce, etc.).

20. What **intellectual property (IP) issues** should be take into consideration when developing an export plan? And what are the most common IP mistakes that should be avoided by exporters?

D. Developing an Export Plan

21. In developing their export plan and prior to embarking on an export operation, most enterprises engaging in direct exporting generally go through some, if not all, of the following key steps:

- identifying appropriate export markets,
- estimating demand and market needs,
- finding local partners and channels of distribution,
- adapting the product, its design, its brand or its packaging to the new market,
- negotiating and signing contractual agreements with export sales representatives, distributors, local partners, local manufacturers, licensees, etc.,
- determining prices for different export markets,
- budgeting export operation and raising funds,
- making transport arrangements for exports,
- advertising/marketing the product in the export markets,
- participating in trade shows or other events abroad.

22. There are a number of reasons why an enterprise should consider **intellectual property issues** while planning its export strategy. First and foremost, because intellectual property plays an important, and often crucial, role in most of the items outlined above. A few examples are provided to illustrate the issue:

- The **pricing** of the product will partly depend on the extent to which the brand or trademark is recognized and valued by consumers in the export market and the extent to which the product will face competition from similar or identical products (which may be limited through IP protection).
- In **raising funds**, holding patents over the innovative aspects of your product is often useful for convincing investors, venture capitalists or banks of the commercial opportunities available to your product.
- The **adaptation of the product, its design, its brand or its packaging for the export market(s)** will require creative and/or inventive work that may be protected through the intellectual property system thus guaranteeing a degree of exclusivity over the adaptations.
- The negotiation of **agreements with partners** will have to take into account issues relating to the ownership of intellectual property rights, particularly if the product will be manufactured abroad or will be modified, packaged or distributed by foreign partners.
- The **marketing** of your product will rely strongly on your company's brand image, embodied primarily in its trademark, which, if unprotected, would be significantly more difficult to enforce in case of copying or imitation by competitors.
- The timing of your **participation in fairs and exhibitions** may depend on whether you have already applied for protection for your inventions or designs, as early disclosure of your innovative work may result in loss of novelty and preclude you from applying for

protection at a later stage (unless a “grace period” is available in certain specified circumstances in the country concerned).

- In addition, there may be confidential business information relating to most, if not all, of the items listed in the key steps above. Such information will benefit from trade secret protection or protection against unfair competition provided it is disclosed on a “need to know” basis only, and only after a confidentiality or non-disclosure agreement has been signed. The export plan and strategy itself is a “trade secret” and companies will generally have an interest in making sure it remains confidential and is not disclosed to competitors.

23. Another important reason for taking intellectual property issues into account is because it may enable an enterprise to **strengthen its position in export markets** and stop other companies from imitating or copying a work protected by copyright, the functional features of a product, its trademark or its design. If the product is successful abroad, it is likely that competing firms will sooner or later manufacture a similar or identical product that will compete with the product in question. Without IP protection it may be difficult or impossible to stop imitators and the resultant loss of profit may be substantial.

24. A third reason to take intellectual property issues into account is that IP protection may enable an enterprise to **access new markets through licensing, franchising, the establishment of joint ventures or other contractual agreements with other companies**. IP rights enable firms to negotiate agreements with other firms for the production, marketing, distribution or delivery of goods and services in foreign markets. It may also provide your company with greater bargaining power when seeking to license technology from other firms that may be interested in your proprietary technologies, copyright works, designs, trademarks, etc.

25. Finally, failure to consider IP issues may result in large or fatal losses if your products are considered to be infringing upon the IP rights of others in the export market concerned. Even if an invention, design or trademark is not protected in your own country, this does not mean that someone else has not protected them in an export market. So, your product may have functional or aesthetic features that are not protected in your home country but are protected as IP rights by others in an export market. This may also be true for trademarks.

26. In addition, it is important to bear in mind that firms that have signed a licensing agreement with another company, thereby obtaining a license to sell a given product in their domestic market, may not have the right to sell the product in export markets. The territorial exclusivity and scope of the license is specified in licensing contracts and it is important to bear this issue in mind while negotiating a licensing agreement.

E. Avoiding Common Pitfalls

27. Exporters often realize about the importance of protecting their intellectual property once it is too late, i.e. once they are faced with imitators or counterfeiters or once they are being accused of infringing the rights of others. While preparing the export plan and strategy, it is, therefore, important to understand the IP environment in the potential export market as much as it is understanding all other facets of the business environment in that market. Some of the most common mistakes made by exporters include the following:

- (a) **Believing that IP protection is universal.** Many exporters believe that by applying for trademark, patent or industrial design protection in their own country they are automatically protected worldwide. However, intellectual property rights are territorial rights, and IP offices only grant protection for the relevant national (or regional) jurisdiction. One exception to this rule is copyright and related rights, which requires no procedural formalities for protection in all countries that are members of the Bern Convention (currently over 150 countries).
- (b) **Assuming that laws and procedures for the protection of IP rights are the same worldwide.** While there has been significant harmonization of laws and procedures for the protection of intellectual property rights worldwide, there remain many areas in which there are significant differences between countries. One example is the US, where patents are granted on a first-to-invent basis (i.e. an applicant may not be granted a patent if somebody else can prove that he/she had made the same invention at an earlier date) while most other countries grant patents on a first-to-file basis (i.e. the patent is granted to the first person to file an application for patent protection for a given invention). Another example relates to the protection of trademarks. While in some countries trademark protection may only be obtained through registration at the relevant IP office, in some others trademarks may also be protected through use.
- (c) **Not checking whether a trademark is already registered or is being used by competitors in the export market.** Using a trademark in a foreign country that is identical or similar to one that is registered or is already being used by a different company could be considered to be an infringement on the other firm's trademark rights. Your firm may be asked to cease using such a trademark or asked to pay damages for infringement, which may be a huge blow to the entire marketing and export strategy of your firm. Doing a trademark search in the relevant export market would be crucial prior to initiating your export operations, and preferably prior to selecting the trademark. A list of on-line trademark databases for doing trademark searches is available at:
<http://ecommerce.wipo.int/databases/trademark/output.html>
- (d) **Not using the regional or international protection systems.** Applying for IP protection in a number of national IP offices worldwide may be expensive. Regional and international protection systems, if available, are an effective way of applying for IP protection in various countries. Regional systems include the African Regional Industrial Property Office, the Benelux Designs Office, the Benelux Trademark Office, the Eurasian Patent Office, the European Patent Office, the Office for the Harmonization of the Internal Market, the *Oorganisation Africaine de la Propriété Intellectuelle* and the Patent Office of the Cooperation Council for the Arab States of the Gulf.

28. The systems of international protection include the Patent Cooperation Treaty (PCT) for Patents, the Madrid System for the international registration of marks and the Hague System for the international deposit of industrial designs. The PCT system (<http://www.wipo.int/pct/>) enables applicants to apply for patent protection through a single application in over one hundred countries and delay the payment of national fees for a period of up to 30 months, thus significantly reducing the initial expenses for filing for patent protection in many countries. The Madrid System for the international protection of trademarks (<http://www.wipo.int/madrid/>) and the Hague System for the international deposit of industrial designs (<http://www.wipo.int/hague/>) enable applicants to have their marks or designs protected in

several countries by simply filing one application with a single Office, in one language, with only one set of fees, saving significant time and money.

- (e) **Applying too late for IP protection abroad.** For some intellectual property rights, such as patents and industrial design rights, you must apply for protection in export countries within a specified period of time from the date of application in the domestic market. The period is generally referred to as the “priority period”, which is one year for patents and six months for industrial designs. Failure to apply during the priority period would generally result in the impossibility to obtain protection in such countries, thus leaving room for other companies to copy your invention or design freely.
- (f) **Disclosing information too early or without a confidentiality or non-disclosure agreement.** Disclosing information on your latest product innovation or new design to potential trade partners, export agents, distributors or anybody else prior to applying for protection or without a written contract requiring confidentiality, could result in you losing the rights over your invention or design. Your innovative product may, in fact, no longer be considered new and, therefore, patentable, or somebody else may apply for patent protection thus excluding you from the use of your own invention. And similarly for industrial designs.
- (g) **Infringing the IP rights of others.** Exporting your products without checking whether the product is infringing on the IP rights of others in the relevant foreign markets may prove a costly affair. For example, if you have licensed-in technology from other companies, you must make sure that you have a right to export the product bearing such technology in order to avoid infringing on the rights of the right-holder. If your products are thought to be infringing on the rights of others, they may be withheld at the border and their distribution impeded or stopped altogether, which may prove to be very costly or fatal to your business.
- (h) **Not defining issues of ownership of IP rights when outsourcing manufacturing.** Many companies outsource the creation, manufacturing or design of products to other firms, often in foreign countries. But businesses often forget to protect their IP rights in such countries or to specify issues of ownership of designs, inventions, software, etc, in the contracts with the foreign manufacturing companies. The main danger is that misunderstandings about ownership of the IP rights may arise between the company outsourcing the work and the firm contracted to do the work. There are great variations amongst national laws on the issue of ownership of right over contracted work and different rules generally apply to different IP rights. This is why it is important to find out about national legislation in the relevant export market and to include specific clauses in the original contract between the two firms clarifying issues of ownership of rights over any creative or inventive work that results from the agreement.
- (i) **Seeking to license a product in a market where the relevant patent or design is not protected.** Rather than exporting a product directly, many firms grant licenses to other companies in exchange for a one-time fee or a recurring royalty. A licensing contract often includes the sharing of technological know-how as well as the authorization to manufacture and/or sell a product developed by the licensor. It is important, wherever a licensing agreement is being negotiated, to make sure that the intellectual property rights related to the product being licensed have been adequately protected in the foreign country in question and that appropriate clauses have been included to clarify issues of ownership over such IP rights.
- (j) **Using a trademark that is inappropriate for the market in question.** There are numerous cases in which companies began to market their products or services in a foreign market

realizing subsequently that their trademark is inappropriate for that specific market in that: (a) the trademark has negative or undesired connotations in the local language or local culture or (b) the trademark is unlikely to be registered at the national IP office on absolute grounds.

29. In conclusion, there are ample reasons to make sure that intellectual property issues are duly taken into consideration while developing your export plan and that you take sufficient measures to ensure that a) you are not caught off-guard infringing on the IP rights of others; and b) limit the opportunities for competitors to free-ride on you firm's inventiveness and creativity.

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