



REGIONAL BUREAU FOR AFRICA SERIES OF WEBINARS FOR SMES- SESSION 2

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**Online
22 June p.m.
2020**

Mrs. Rose Mboya

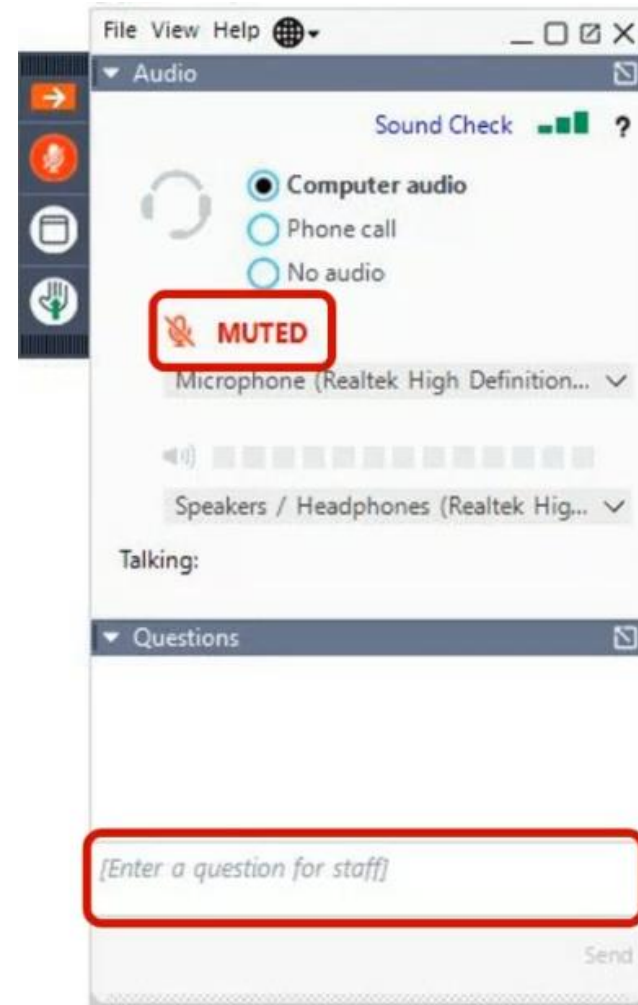
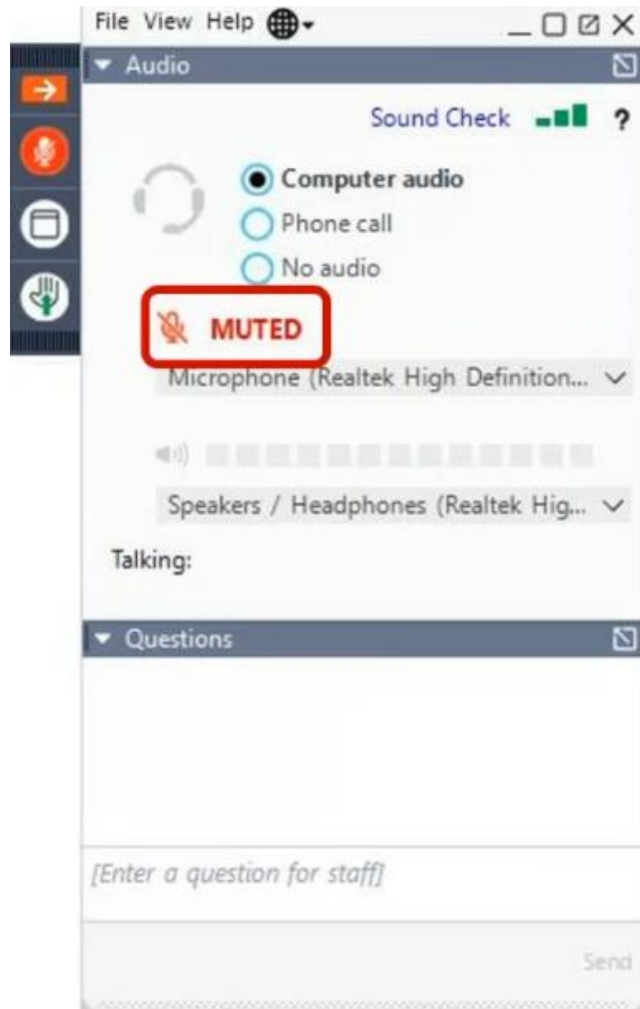


- Head of Intellectual Property Division at Kenya Industrial Research and Development Institute (KIRDI)
- Established IP office at KIRDI, developed IP Policy, carried several IP Awareness and have 10 Patents granted.
- Formulated Intellectual Property Strategy for Botswana, Malawi, Lesotho and Sierra Leone
- As a technical committee member, developed draft IP Strategy for Kenya 2012.
- PhD student in Entrepreneurship.

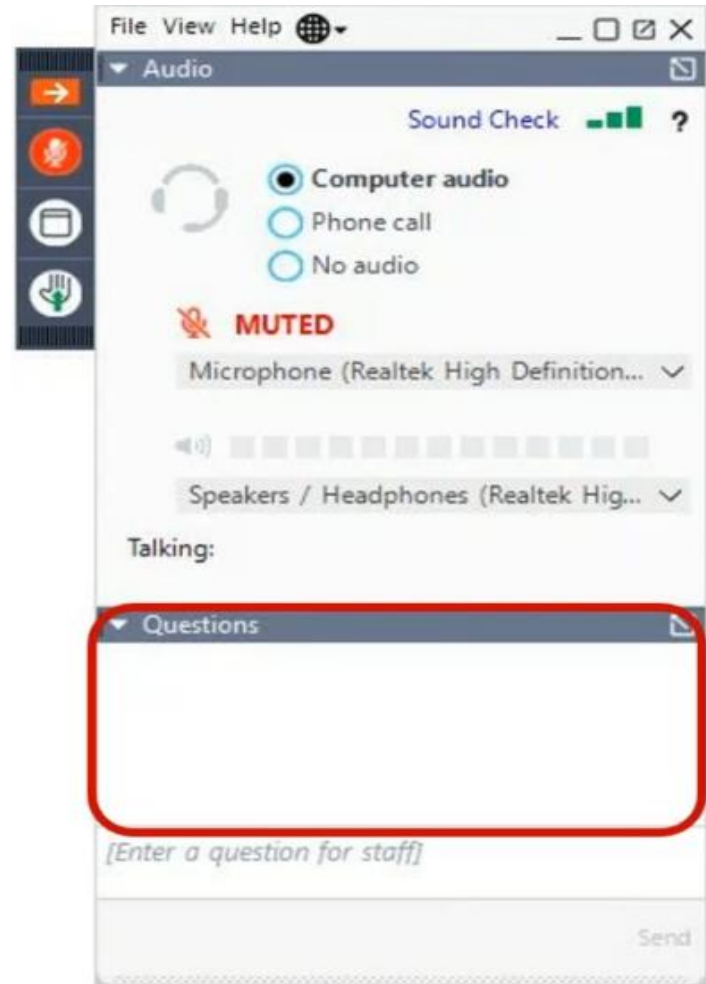
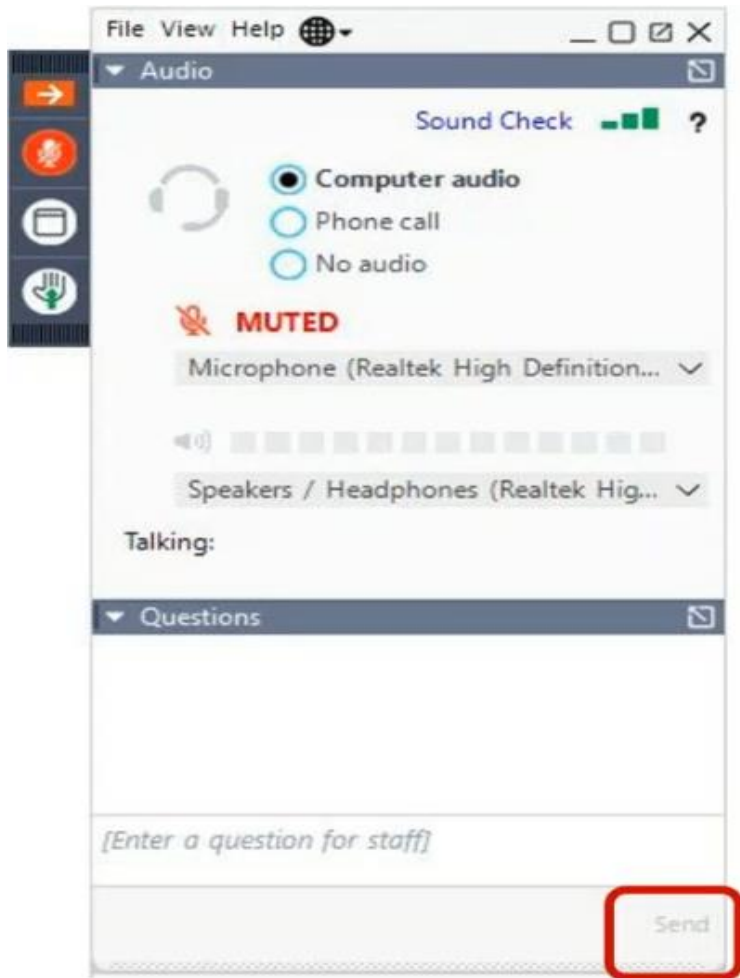
IP AUDITS, DUE DILIGENCE AND VALUATION

- Ways of identifying your actual and potential IP assets;
- Evaluate the status of the actual and potential IP assets by addressing issues on IP ownership, IP protection, commercialization and enforcement;
- Insight into basic methods to evaluate the Net Worth of IP Assets both Actual and Potential through IP Valuation
- Case Studies
- Q&A session (20 minutes)

How to ask questions?



How to ask questions?



Q&A



- Do not worry if we can't address all your questions in today's session
- You can always reach us at the following emails for further questions or information:

rba@wipo.int

Next sessions

- Access to IP

- July 23 from 10.30 – 11.30 CET

- Register here:

- https://www.wipo.int/meetings/en/details.jsp?meeting_id=58048

- Working With IP In Your Business

- July 23 from 14.30 – 15.30 CET

- Register here:

- https://www.wipo.int/meetings/en/details.jsp?meeting_id=58049

Past session

- Fundamentals of Intellectual Property and Relevance in Business

- July 22 from 10.30 – 11.30 CET

- Summaries and Presentations will be available here:

- https://www.wipo.int/meetings/en/details.jsp?meeting_id=58028

Intellectual Property Audit, Due Diligence and Valuation



Series of WIPO Webinar For SMEs in Africa, July 2020

Rose Mboya

International IP Consultant and Expert.

Head of IP Division, Kenya Industrial Research and Development Institute (**KIRDI**)

OBJECTIVES

- The overall objective of this session is to equip the participants with **knowledge and skills** that they can use to undertake Intellectual property Audits at Firm level. Specifically for the participants to:
 - Appreciate the Importance of IP Audit for business
 - Understand what is it and what it entails
 - Identify intangible assets in the company
 - Undertake basic Valuation of IP
 - Appreciate the importance of IP Due diligence
 - Determine some of the potential IP Risk areas
- Note: Examples used in this session are based on real case scenario without mentioning the actual names

Introduction to Intellectual Property Audit

Why Carry Out Intellectual Property Audit?

- Many times SMEs innovate without noticing
- Even if innovation is noticed their value is not appreciated
- Innovation not seen as intellectual property
- SMEs have no knowledge of the IP assets they have
- **THEREFORE THEIR VALUE NOT MAXIMIZED**

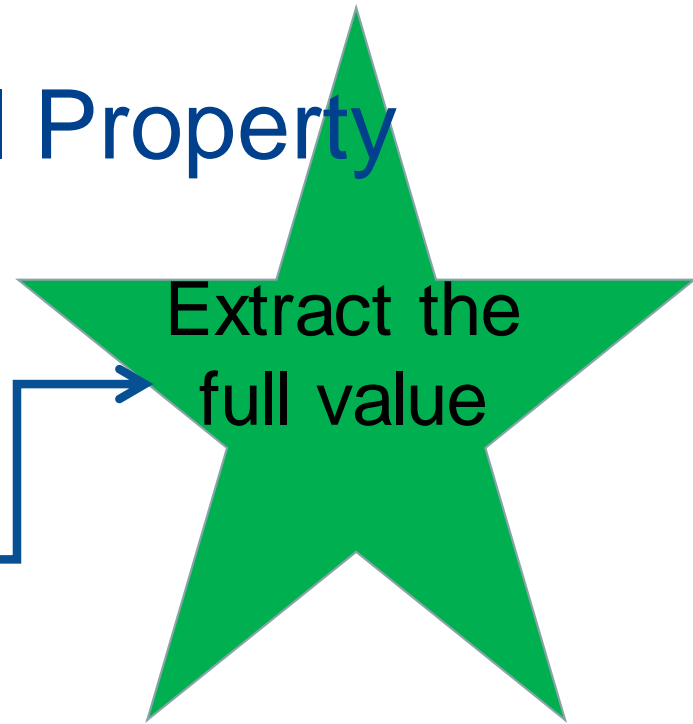
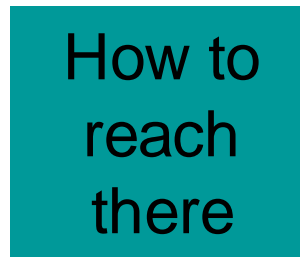
Introduction to Intellectual Property Audit

How can an SME manage IP Assets effectively?

- (a). Must **Recognize** that IP assets are **business assets and must be**
 - accounted for ,
 - managed
 - effectively exploited
- (b). Must carry out **intellectual property audit (IP Audit)**

Introduction to Intellectual Property Audit (IP Audit)

IP Audit is taking stock of IP Management at your enterprise?



Capitalize on potential of IP Assets

Intellectual Property Audit Process

Step I: Determine **Actual** IP Assets Owned by the Company

□ IP Assets are either technologically or institutionally based

■ **Technologically IP Assets include:**

- Patents,
- Trade Secrets,
- Industrial Designs,
- Software that have technical effects
- utility model,
- New plant variety

Step I: Determine Actual IP Assets Owned by the Company

■ Institutionally Based IP Assets include:

- Product brand
- Logos, tagline (*"Just do it"*)
- Trademarks
- Customers Lists
- Distributional channels
- Quality Marks
- Copyright works
- Business Methods

Step 2: Determine the Potential IP Assets Owned by the Company

■ **These are IP assets that the company own but have not been protected or recognized for example:**

- New product, process, or formulations,
- Unique package, shapes, patterns or design
- Small improvements to existing products
- Engineering designs
- Names of products or services

Step 3: Determine the **Status** of IP Assets both Actual and Potential

(i): Ownership

■ **Who owns the IP assets :**

- Company (SME)
- Employee
- Joint Ownership between your company and another company (in which case what are the terms)
- Licensee (incase IP Asset is licensed out)
- Under License (incase IP is licensed to the company)

Step 3: Determine the Status of IP Assets both Actual and Potential

(ii): IP Protection

■ Are IP Assets already protected

■ If YES

- through which IP right? (patents, ID, Trademarks, copyrights, trade secrets etc)
- In which **countries**?
- **Are they still valid?** When was the renewal date?

■ If **NOT** determine the Best Strategy for your company in protecting the IP Assets

(ii): IP Protection

■ IP Protection Strategy

Example 1: Suppose you have this unique recipe for baking cakes. Your clientele is increasing and you want to protect the unique recipe

What would be the strategy

- ***A. To protect it as a utility model***
- ***B. To protect it as a patent***
- ***C. To keep it as a trade secret***
- All these are options that you have and must make informed decision on the best strategy

Step 3: Determine the Status of IP Assets both Actual and Potential

(ii): IP Protection

■ **What are your future plans**

■ Are you intending to enter **new markets or expand** your business to other countries?

■ **If yes**, start considering protecting your IP in those countries

■ Are you aware of the IP laws in those countries?

■ Otherwise somebody may protect the said IP in those countries for example **trademark** and bar you from entering that market in future (**identifying risks in advance**)

(ii): IP Protection: What are your future plans

*Example 2: A company based in South Africa has been producing a cosmetic product called QR. QR is registered in South Africa. Another company based in Kenya has equally been producing cosmetic product called **QR plus**. **QR plus** is registered in Kenya.*

*The company based in South Africa wishes to start supplying the cosmetic products QR in Kenya. Their application to register the trademark QR has been denied based on existence of similar trademark **QR plus**. **QR cannot enter Kenyan market despite its huge clientele base in Kenya***

What options does the South Africa company have in order to supply Kenyan market?

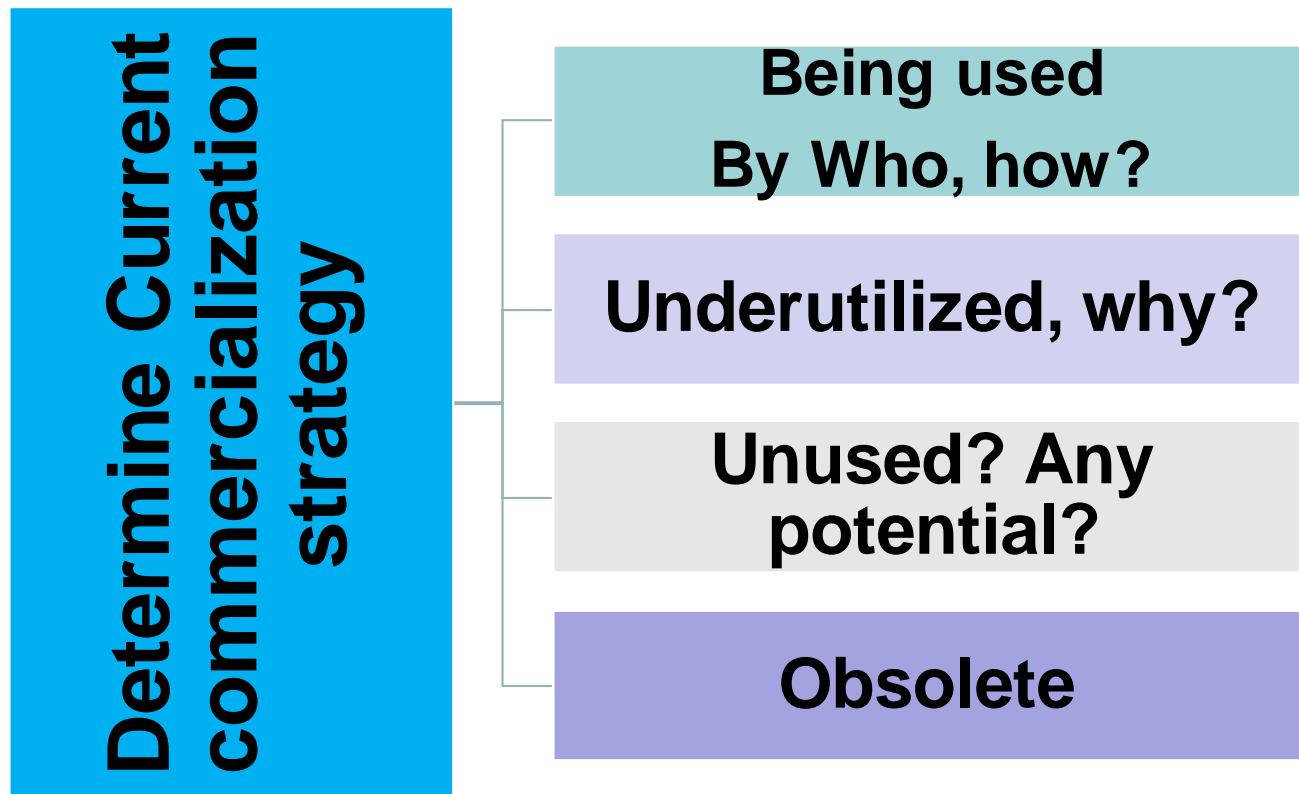
Step 3: Determine the Status of IP Assets both Actual and Potential

(iii): IP Commercialization

- **How is the IP Asset being commercialized?**
- By the SME or Firm
- Has been licensed out
- Through joint venture between the SME and other enterprises
- Currently being commercialized at low level
- Not being used

Step 3: Determine the Status of IP Assets both Actual and Potential

(iii): IP Commercialization



Step 3: Determine the Status of IP Assets both Actual and Potential

(iv): IP Enforcement

i. **Example 3:** *Company A has been producing alcoholic products for over 50 years under the name **Smooth moves**. **Company B** has been distributing the same for **company A** in Tanzania for 10 years. Company B (distributor) has gone a head and registered the trademark **Smooth Moves** under **company B's** name without the knowledge of company A*

- Identify Infringer
- Determine enforcement strategy in place
- Is actions against infringer worthwhile
- Can you turn the infringer into potential client
- Is there a policy or strategy on IP enforcement

Step 4: Examine Existing Contracts, Agreements and Policies

- Are IP Issues included in your contracts with distributors, potential distributors, during the time you are negotiating?
- Does the company have an IP Policy in Place?
- Are employees aware of this policy?
- What does it state on ownership of IP assets created by an employee?
- Do you have a strategy in place to minimize the effects of unforeseen IP cases?
- **Most SMEs have agreements and contracts that do not include IP issues.**

Step 4: Examine Existing Contracts, Agreements and Policies

Example 4: Company Y an SME based in Botswana has been producing a product that is used in pit latrines. Through negotiation with ***Company Z*** in Zimbabwe, ***Company Y*** has given ***Company Z*** 1000 samples of the products to test the market in Zimbabwe. Having realized the market niche in the product. ***Company Z*** has started producing the said products and selling in Zimbabwe market without knowledge of ***Company Y***.

Company Y and Company Z did not have any contract to indicate that the samples were for market test only. There is no contract barring company Z from producing the said product

Step 4: Examine Existing Contracts, Agreements and Policies

Example 5: *Mr. MW is an upcoming artist. He has approached a music **producer** to listen to the new song and give his comments. The producer having listened to the music, informs **Mr. MW** that he will send his comments later. The producer having realized the song is good starts producing and selling CDs with the said Song. The song has become a hit. **Mr. MW** gets to know that his song is already in the market. He approaches the producer's company but is barred by the Gate. He approaches another producer who refuses to produce the song since it is already in the public.*

There was no contract between Mr. MW and Producer

Step 4: Examine Existing Contracts, Agreements and Policies

Example 6: *Mr. Alpin is the production manager in Company named **Wonders** that majors in producing **unique energy drink**. The sales of the energy drink have continued rising over the last few years. **Mr. Alpin** has decided to start his own company and is producing the same energy drink under the name **Drive**. The Proprietor of **Wonders** has noticed a drastic drop in the sales of their energy drink. Upon investigation realizes that another drink called **Drive** is their main competitor. Further investigation reveals that the owner of the company producing **Driver** is his former employee **Mr. Alpin**.*

Step 4: Examine Existing Contracts, Agreements and Policies

In Examples 3, 4, 5, and 6 above

- i. Ensure that you state clearly the position of your IP assets in distributorship contracts/agreements and even with potential distributors
- ii. Ensure all the necessary agreements are signed between the company and the prospective buyer, investor, merger, potential acquirer before undertaking any action
- i. Include **IP clause** in employment contract with your employees. Otherwise your once employees become immediately your **competitors**
- ii. Do contracts and not **MOUs**

Step 5: Determine the **Value** of IP Assets both Actual and Potential

(iv): IP Valuation

- **What is the Net Worth of your IP Assets both Actual and Potential?**
- Many SMEs know the value of the **buildings, equipment**
- BUT do not know the value of their **trademark, brands, designs, patents**
- SMEs group all the **intangible assets** as **goodwill**
- Each of the IP Asset has its own individual value
- **SMEs undervalue** their company worth

Step 5: Determine the **Value** IP Assets both Actual and Potential

(iv): IP Valuation: Approaches to IP Valuation

■ **Cost Method**

- Cost of producing the IP Assets + profit.
- Provides the minimum value of the IP Asset

■ **Approaches to IP Valuation**

■ **Market Approach Method**

- Looking at similar IP assets and finding out what was their value,
- IP Dealings are done in close door meetings may be difficult to get comparison

Step 5: Determine the **Value** of IP Assets both Actual and Potential

(iv): IP Valuation

- **Income Method**
- You look at the future income that will arise from the use of the IP asset and discount it to the present value
- This is usually the best approach,

Step 6: Develop IP Business Strategy

The strategy will include some of the following:

- IP Protection for potential IP Assets
- IP policy Development
- Strengthening existing Agreements and contracts by including IP Clauses for example in employment contracts
- Identifying potential IP Risk areas and minimizing the same
- Enhancing income generation for underutilized IP Assets THROUGH Licensing out

IP Due Diligence

- “IP due diligence” is done to assess, as objectively as possible, the
- **value and risk** of all or a part of a **target company’s** IP assets.
- To assess the
 - **Financial,**
 - **Commercial and**
 - **Legal benefits and risks linked to a target company’s IP portfolio,**

IP Due Diligence: When is it carried out

- Financial transactions involving IP
 - initial public offering or significant stock purchase, or using IP as a collateral,
- Buying or selling a business : ensure ownership, non-infringement and marketability of the IP assets.
- Before a transfer or assignment of IP
- Developing or launching a significant new product
 - risk of infringing IP rights or possible freedom to operate issues linked to new product development and launch
- IP licensing in or Out (Licensee or Licensor MUST)
 - Ensure ownership of the IP
 - There are no existing licenses that would interfere with the proposed new license.

IP Due Diligence

Summary: When is Due Diligence Done

- Merger & Acquisition
- Joint Venture
- Sale of intellectual property,
- Assignment
- Licensing for example in Franchising,
- Financial Transactions for example Initial public offer
 - It could significantly increase or reduce the value of the IP Assets or company being acquired
 - lead to a cancellation of the acquisition process

Positive Effects of IP Audit for an Enterprise

- Recognition of your IP Assets
- Protection of your IP Assets
- Knowledge of your IP Asset Value and maximizing it
- A well-structured IP portfolio can also be used as collateral.
- Improved bargaining in mergers and acquisition due to knowledge of your net worth
- Increased revenue through licensing of IP assets
- Identifying and minimizing IP Risk areas in advance
- Enhanced Enterprise positioning in the market
- Develop and sign contracts that have IP Clauses and the enterprise interests

Further resources for SMEs

World Intellectual Property Organization Publications

- A Practical Guide for Valuing Intangible Assets in Research and Development Institutions (2016)
- IP Asset Management, IP Audit and Due Diligence (2014)
- Intellectual Property for Small and Medium-Sized Enterprises SMEs 2014
- Making Intellectual Property Work for Business - A Handbook for Chambers of Commerce and Business Associations Setting Up Intellectual Property Services 2012
- Intellectual Property Audit Tool (2006)
- Secrets of Intellectual Property: A Guide for Small and Medium-sized Exporters (2003)

Thank you for your attention!

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Institute (**KIRDI**)