
BUSINESS BRIEFING

Maximising the potential of
Intellectual Property for your business



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NEW ZEALAND
INTELLECTUAL
PROPERTY OFFICE

IPONZ

The Intellectual Property Office of New Zealand (IPONZ) is the government agency responsible for the granting and registration of intellectual property rights, specifically patent, trade mark, design and plant variety rights. Innovation and creativity are important elements in gaining a competitive edge in the marketplace and for many business ventures intellectual property is one of their most important assets. Through the provision of our services, IPONZ aims to ensure people realise the full economic potential of their intellectual property.

For information about IPONZ, visit iponz.govt.nz



Australian Government
IP Australia

IP AUSTRALIA

IP Australia is the Australian Government agency that administers intellectual property (IP) rights and legislation relating to patents, trade marks, designs and plant breeder's rights. By granting these rights, and contributing to the improvement of Australian and international IP systems, IP Australia is supporting Australia's economic development.

IP Australia also provides policy advice to Government and works with business, industry, IP professionals and the public to raise awareness of the value of IP and ensure that the IP system meets their business needs.

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For information about IP Australia, visit ipaustalia.gov.au

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FOREWORD

MOST BUSINESS LEADERS ARE ACUTELY AWARE OF THE IMPORTANCE OF THINKING CREATIVELY AND INNOVATIVELY IN TODAY'S MARKET PLACE.

In order to ensure that businesses maximise the benefit of their innovative concepts, ideas and designs, it is vital to understand the best way to protect and manage these intellectual property (IP) assets. The effective management of IP can benefit businesses in a number of ways, assisting them to build wealth and grow through commercialisation opportunities, develop a strong brand and business reputation and minimise the risk of copycats, which can ultimately erode market share.

However, while most businesses are aware of the need to identify and protect their physical assets, they are a little less familiar with intellectual property. This is despite the reality that IP is now being recognised as one of the most valuable assets a business can own.

In order to make understanding the topic a little easier, we have partnered with IP Australia and the Intellectual Property Office of New Zealand (IPONZ) to provide trans-Tasman guidance in this paper, *Business briefing: Maximising the potential of Intellectual Property for your business*.

As the government agencies in the respective countries responsible for administering registered IP rights, IP Australia and IPONZ are well placed to provide guidance in this area.

This paper covers a range of issues relating to IP and discusses them in four sections:

1. Identifying and managing your IP
2. Commercialisation of IP
3. Financial aspects of IP
4. The impact of social media

Business briefing: Maximising the potential of Intellectual Property for your business is part of our *Business Briefing Series*, written to assist business leaders and financial professionals in understanding and managing challenging issues in the business world.

Given the massive growth and interest in IP right across the globe, I hope this paper assists you in improving your understanding and management of IP and, as a result, providing your business with the best opportunities for growth in the future.



Lee White FCA

Chief Executive Officer,
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INTRODUCTION

INTELLECTUAL PROPERTY (IP), CONSIDERED TO BE AN INTANGIBLE ASSET, IS A BROAD TERM THAT DESCRIBES THE APPLICATION OF THE MIND TO CREATE SOMETHING NEW OR ORIGINAL. WHENEVER YOU INVENT OR DESIGN SOMETHING, DEVELOP A NEW PRODUCT OR SERVICE, OR EVEN ESTABLISH A CLIENT LIST, YOU HAVE CREATED IP.

IP is an important asset that should be strategically managed. Protecting and managing your IP assets is particularly critical when establishing your product or service in the market and is often what sets a business apart from competitors.

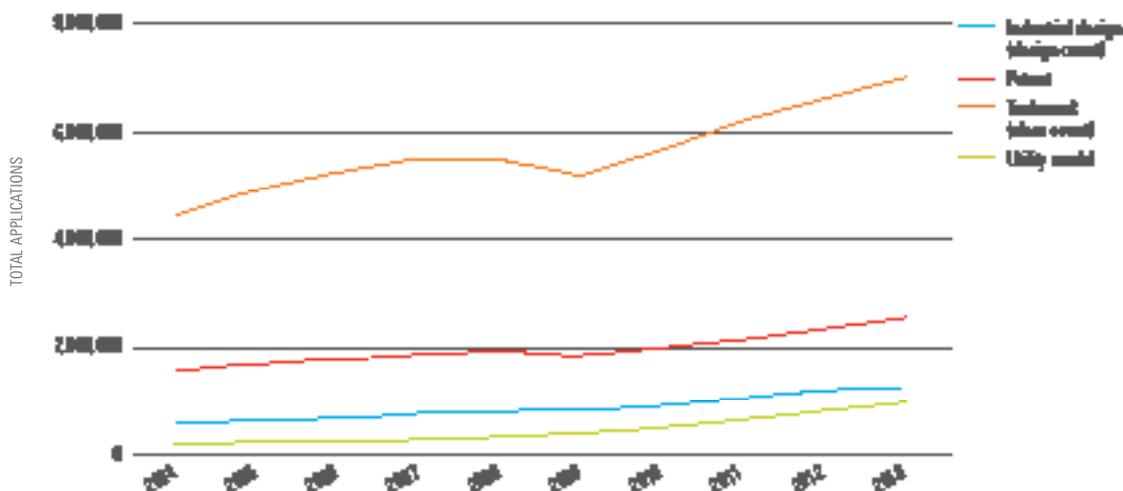
IP rights help protect what you have created. Registrable rights, such as patents, trade marks, designs and plant breeder's rights (known as plant variety rights in New Zealand), reward innovators by providing exclusive rights to use or prevent others from using, selling or licencing a trade mark, invention or design, for a set period of time.

In this way registered IP rights:

- Reward the innovator's effort and skills
- Encourage innovation activities which benefit society
- Promote wider access to innovations, encouraging follow-on research and development by others, and
- Protect a person's rights of ownership in their intellectual pursuits.

However, IP rights exist in many forms and in some cases they don't need to be registered to be of value. There are forms of IP that can be protected without a formal registration process.

Each IP right provides different competitive advantages for its owners and new commercialisation opportunities, but IP isn't just for big business – understanding IP and developing an IP management strategy is just as important for small organisations as it is for large innovators.



SECTION ONE: IDENTIFYING AND MANAGING YOUR IP

IP RIGHTS ARE LIKE TOOLS – EACH RIGHT HAS DIFFERENT FEATURES AND USES, AND IS SUITED TO DIFFERENT CIRCUMSTANCES. IT IS IMPORTANT TO IDENTIFY AND PROTECT YOUR IP ASSETS TO GAIN MAXIMUM BENEFIT. YOU MAY NEED TO SEEK ADVICE ON YOUR SITUATION FROM AN EXPERT SUCH AS A TRADE MARK OR PATENT ATTORNEY WHO CAN HELP YOU PROTECT AND MAKE THE MOST OF YOUR IP.

If you have an invention or are thinking about a new product or service then you may be able to protect it through a registered IP right. Before you start, it's important to make sure that your idea, product or service is new. This can help you avoid wasting time and money duplicating work that's already been done.

A good starting point is searching IP databases available online. Visit www.ipaustralia.gov.au or www.iponz.govt.nz.

Before filing a patent application, do your research. It is important to consider your market, your ability to effectively exploit your invention, the benefits of protection and the strength of your rights.

TIP

INTERNATIONAL PATENTS

To obtain patent protection overseas, you need to file separate patent applications in each country of interest. This can be a cost effective solution when you only intend to file in a few (2-3) countries. Alternatively, you can choose to file an international application under the Patent Cooperation Treaty (PCT).

The PCT is administered by the World Intellectual Property Organization (WIPO) and provides you with the means to seek protection in up to 148 countries with one application. One of the benefits is that this allows you more time to decide whether you want to pursue patent protection and in which countries. You will still need to request examination of your application in each country.

1.1 WHAT CAN BE REGISTERED AND WHAT CAN'T?

Broadly, IP rights fall into two categories:

- **Registered rights** require a formal process of application, examination and registration
- **Unregistered rights** automatically apply without the need for registration.

Both registered and unregistered IP can be owned, sold and transferred, leased or given away, just like physical property.

To help you identify which IP rights are most relevant to you, the different types are described below.

REGISTRABLE INTELLECTUAL PROPERTY: PATENTS, TRADE MARKS, DESIGNS AND PLANT BREEDER'S RIGHTS

Patents

A patent is a right granted for any device, substance, method or process that is new, inventive and useful. Owning a patent gives you the exclusive right to commercially exploit an invention for a specific period. A patent allows you to exclude competitors from copying, exploiting, or benefiting commercially from the invention within the country it is granted.

Trade Marks

A registered trade mark can protect your brand by giving you exclusive rights in a sign that identifies you as the trade source. In this way, a trade mark helps to distinguish your products or services from those of a competitor. This can also help create customer loyalty and enable the product or service to compete more effectively by generating repeat business. Trade marks can include words, logos, colours, shapes, sounds, smells – or any combination of these.

TIP**TRADE MARK COVERAGE**

Goods and services for trade marks are divided into different classes according to the Nice International System of Classification. There are 45 classes, each covering all possible goods and services, for example: vehicles (Class 12), toys (Class 28) and financial services (Class 36).

When you apply to register a trade mark, you will need to nominate (and pay for) one or more classes of goods and services. Consider carefully which class or classes to choose because you will not be able to expand your list of goods or services once you file your application. For example, TaylorMade safeguards its golf equipment and clothing apparel by filing a trade mark in two different classes. If you want to add more classes later (for example, if your product/service range expands) you'll need to submit a new application.

WHAT IS THE DIFFERENCE BETWEEN THE TRADE MARK SYMBOLS ™ AND ®?

The ® symbol indicates that a trade mark is registered. This can only be used next to your trade mark once it has been registered.

Anyone can use the ™ symbol without registration to claim trade mark rights in connection with their goods and/or services under common law. Regardless of whether trade mark registration is sought, it is important to ensure you are not infringing the rights of others.

Designs

A design refers to the features of shape, configuration, pattern or ornamentation which gives a product its unique appearance. Once examined and certified, a registered design protects the overall appearance of a product. If you have created a three dimensional design for industrial purposes such as product packaging, you may wish to consider registering it as a design.

Items typically registered as a design include items of clothing, jewellery, furniture and household goods.

TIP**CLAIM YOUR REGISTRATION**

You may notice many products have the text 'Regd design' followed by a series of numbers. This indicates that the owner has registered their design and acts as a warning to 'would be' copycats. Remember, it is an offence to claim your design is registered when it isn't.

Plant breeder's rights (Australia) or plant variety rights (New Zealand)

Plants have been selectively bred for thousands of years, culminating in the incredible yields, quality and resistance that we see in our modern day crops. Plant breeder's rights (PBR) as they are known in Australia and plant variety rights (PVR) in New Zealand are a form of IP that protects new plant varieties by granting breeders the exclusive commercial rights to produce, reproduce, condition, sell, import, export and stock their variety.

TIP**YOUR APPLICATION**

PBR or PVR applications must be submitted by the original breeder, by someone who has acquired their ownership rights or by an employer if the breeder works for an organisation. Only new or recently exploited varieties can be registered and you must prove that they are distinct, uniform and stable.

This means that the variety must be different from all other commonly-known varieties and these claims must be verified with a comparative test. The new variety must also have uniformity and stability by staying true to its description after repeated propagation.

TABLE 1: REGISTERED INTELLECTUAL PROPERTY RIGHTS SUMMARY

WHAT'S PROTECTED?	TYPE OF IP PROTECTION	WHAT IT PROTECTS	BENEFIT	INTERNATIONAL PROTECTION
Inventions and new processes	Patent	A standard patent is granted for any device, substance, method or process that is new, inventive and useful. Examples: Polymer bank notes and WiFi.	A patent allows you to stop others from using and selling your invention. You can manufacture and commercialise an invention yourself or you can assign or license your patent to others.	File separate applications in each country. File a single application under the Patent Cooperation Treaty (PCT).
A 'sign' such as a word, phrase, picture, logo, letter, numeral, shape, colour, sound, scent or aspect of packaging used commercially to identify your goods and/or services from those of other traders.	Trade mark	A trade mark is used to identify the particular goods or services of a trader as distinct from those of other traders. Examples: Sunbeam, Holden, Driza-bone, Morstein, Bonds and Weet-Bix.	A trade mark is a vital element in developing and maintaining a brand and shows your customers who you are. As your business grows, your trade mark can increase in value.	File separate applications in each country. File an application through the Madrid Protocol to member countries.
A product's appearance	Design	The visual appearance of a product is protected, but not the way it works. Examples: Speedo Fastskin full body swimsuit and the Albion cricket helmet.	A registered design that has been examined and certified gives you a legally enforceable right to use your product's design to gain a marketing edge.	Applications will generally need to be filed in each country for which design protection is being sought. Australia and New Zealand are signatories to the Paris Convention. This gives applicants six months to file in a foreign country and use the date of filing in Australia or New Zealand as the priority date.
New plant varieties	Plant Breeder's Right in Australia or Plant Variety Right in New Zealand.	This protects the commercial rights of new plant varieties. Examples: Cotton plants with insect resistance and the pink iceberg rose.	A PBR or PVR is legally enforceable and gives you exclusive rights to commercially use, sell, direct the production, sale and distribution, and receive royalties from the sale of plants.	There is no international system for filing a PBR or PVR and applications generally need to be lodged in each country. There are exceptions to this rule. See www.ipaustralia.gov.au/get-the-right-ip/plant-breeders-rights/international-pbr/ for more information.

Applications for registered IP rights in Australian can be made via www.ipaustralia.gov.au

Applications for registered IP rights in New Zealand can be made via www.iponz.govt.nz

UNREGISTERED INTELLECTUAL PROPERTY

There are two common forms of unregistered IP: copyright and confidential information/trade secrets.

Copyright

Copyright protects your original works of art, literature, music, film, sound recordings, broadcasts and computer programs from unauthorised copying. It comes into existence automatically as soon as work is created. In Australia and New Zealand, like most countries, copyright is an unregistered right. This means you don't need to file an application for copyright protection.

Copyright exists in the work itself, and gives the artist or creator the exclusive right to copy, publish and distribute works, and to enjoy certain other rights, depending on the type of copyright work concerned.

TIP

USE A COPYRIGHT NOTICE

Although copyright protection in Australia or New Zealand is not dependent upon formal registration, it is best practice for copyright owners to place a copyright notice in a prominent place on their work. This warns others that there are conditions for the use for your materials.

The copyright notice is the symbol © followed by the name of the copyright owner and the year the work was created or first published. For example, this publication is protected by copyright as shown in the inside front cover.

TIP

KEEP THINGS CONFIDENTIAL

Trade secrets will exist for as long as the information remains confidential. To manage this risk to your business, limit the number of people who have access to the information and, where possible, consider using legally binding confidentiality agreements with staff or third parties.

Confidential Information or Trade Secret

Confidential information is something you choose not to make publicly available, particularly to competitors, because it is valuable to your business and gives you a competitive edge. This could include manufacturing know-how and trade secrets, customer or supplier databases, or the functionality of computer programs.

A trade secret is both a type of IP and a strategy for protecting your IP. They may be a good business strategy if your product is difficult to reverse engineer, making it difficult to copy.

The main benefit of a trade secret is that it can exist for as long as the information remains confidential.

FAST FACTS

PATENTS

AUSTRALIA

Two types of Patents: 'innovation' and 'standard'. The maximum term of an Innovation Patent is eight years, and 20 years for a Standard Patent. Eligible pharmaceutical Standard Patents can receive protection up to 25 years.

Applications cost A\$370 for a standard patent if filed electronically, otherwise A\$470; examination fees are A\$490; acceptance fees are A\$250. Annual renewal fees apply.

Member of PCT (Patents Cooperation Treaty) since 1980.

NEW ZEALAND

One type of Patent: 'standard'. The term of a standard patent is 20 years.

Applications cost NZ\$250 for a complete specification, examination fees are NZ\$500. All applications are filed electronically and renewal fees apply.

Member of PCT (Patents Cooperation Treaty) since 1992.

TRADE MARKS

AUSTRALIA

Trade Mark Registration lasts for 10 years from the date of filing and can be renewed every 10 years indefinitely.

Applications cost A\$120 per class if filed electronically, otherwise A\$220. Registration fees per class are A\$300. Renewal fees apply every 10 years.

Australia has been a contracting party to the Madrid Protocol relating to international registration of trade marks since 11 July 2001.

NEW ZEALAND

Trade Mark Registration lasts for 10 years from the date of filing and can be renewed every 10 years indefinitely.

Applications and registration cost NZ\$150 per class; all applications are filed electronically. Renewal fees apply every 10 years.

New Zealand has been a contracting party to the Madrid Protocol relating to international registration of trade marks since 10 December 2012.

DESIGNS

AUSTRALIA

Registration lasts for an initial term of five years, renewable for a further five years (maximum of 10 years).

Applications cost A\$250 per design if filed electronically, otherwise A\$350; renewal for the second 5 year term is A\$320 if filed electronically. Examination costs A\$420 if requested by the registered owner.

Both countries belong to an international treaty called the Paris Convention, which can make the process of design registration in other countries easier.

To be enforceable, a registered design must have first been examined and certified. Examination requests can be made either by the applicant or a third party.

NEW ZEALAND

Registration lasts for an initial term of 5 years, renewable for second and third periods of 5 years.

Application and registration cost NZ\$100 per design. Renewal for the second 5 year term is NZ\$100 and third period of 5 years NZ\$200.

To be enforceable, a registered design must have first been examined and certified. Examination is automatic upon application – no request required.

PBR/PVR

AUSTRALIA

Registration lasts for up to 25 years for trees and grapevines and 20 years for other species.

The application fee is A\$345 to A\$445, examination costs are A\$920, A\$1,380 or A\$1,610 while the annual renewal fee is A\$345 – A\$395 per year.

Australia has been a member of the UPOV (International Union for the Protection of New Varieties of Plants) Convention since 1989.

NEW ZEALAND

Registration lasts for up to 23 years for woody plants and 20 years for non woody plants.

Application fees are between NZ\$350 and NZ\$500. Either an examination fee (between NZ\$230 and NZ\$600) or trial fees (based on species, between NZ\$450 and NZ\$3,200 will be charged.) More than one trial fee may be required. The annual renewal fee is NZ\$160 per year.

New Zealand has been a member of the UPOV (International Union for the Protection of New Varieties of Plants) Convention since 1981.

All fees are current as at July 2015. NZ fees are quoted excluding GST. GST will be applied for applicants within NZ. Actual fees incurred will vary depending on individual circumstances.

1.2 BEWARE THE PUBLICITY TRAP – PROTECT BEFORE YOU PUBLICISE

Each type of IP has a range of criteria that must be met for a right to be granted. For example, to obtain patent protection, the item you want to protect has to have an inventive step, meaning no one else has ever invented what you have. Additionally, most registered IP rights have eligibility criteria that state the IP must be ‘new’, meaning it has not been disclosed or revealed in public.

If you have publicly disclosed your design, new invention or plant variety before applying for registration, you may have lost your ability to protect it. You should be aware of this before you mention a new design or invention in your latest catalogue, exhibition stand or online.

CASE STUDY

Electrical manufacturer Kambrook potentially lost millions of dollars because it failed to protect its electrical power board invention.

When it was released in 1972, the product was hugely successful and was the basis for Kambrook’s growth into a major producer of electrical appliances. As the product was never patented, Kambrook ended up sharing the market with many other manufacturers and losing its opportunity for millions in royalties.

Today Kambrook has a number of registered rights for a range of consumer goods demonstrating their awareness of the importance of IP.

1.3 STRATEGIES FOR PROTECTING CONFIDENTIAL INFORMATION

TRADE SECRETS

Trade secrets are most effective in cases where the product or process is difficult to reverse engineer, that is, difficult to recreate. One disadvantage is that trade secrets do not provide any legal security against an independent competitor inventing something identical. By choosing to keep certain information about your business a secret, you can keep your organisation’s IP options open (as discussed previously, designs and patents can only be registered if they are new and have not been made public).

EXAMPLE

The best known example of a trade secret is the Coca-Cola formula. Coca-Cola has used trade secrets to keep the formula of its popular soft drink from becoming public for decades.

The company never applied for a patent, so it was never required to disclose the formula.

The law regarding the protection of trade secrets and confidential information is prescribed by common law in Australia and contract/employment law in New Zealand. Using this method of protection therefore needs to be managed by the organisation wishing to keep something a secret.

Protection is usually maintained by not disclosing the secret information at all, or by disclosing it to only a very limited number of people. When disclosure is unavoidable, confidentiality agreements should be used between the IP owner and those to whom the information will be disclosed. The purpose of these agreements is to contractually agree to the terms of the use and disclosure of the confidential information and provide written evidence of such an agreement.

CONFIDENTIALITY AGREEMENTS

Confidentiality agreements can be made with anyone whom you wish to impose an obligation of confidence regarding the use and disclosure of your confidential information. This may include employees, business partners, business associates or researchers.

PROACTIVE STRATEGIES FOR PROTECTING YOUR CONFIDENTIAL INFORMATION INCLUDE:

- **Security procedures** – mark confidential material ‘confidential’ or ‘commercial-in-confidence’ and store it securely. Protect electronic information with passwords. Keep desks clear of confidential information.
- **Education** – ensure that everyone who deals with confidential information in your organisation is aware of its nature and value.
- **Coordinate with other IP protection** – you may wish to consider what complementary forms of IP protection are available to help ensure brand integrity in the event your confidential information is made public. For example, Coca-Cola also has trade marks for their brand name, slogans and bottle shape.

When drafting confidentiality clauses and undertakings, consider the following:

If you wish to impose an obligation of confidence on an employee, be sure it is not an unreasonable restraint on that person's right to earn a living. The courts will not enforce an unreasonable restraint. Before disclosing confidential information to a joint venture partner or financier, ask that person to sign a confidentiality agreement.

Below is a checklist of key aspects to include in confidentiality agreements:

- Identify each person who has access to the information
- Be very clear about what information is to be treated as confidential
- Identify how the information can be used (e.g. evaluating a proposal)
- Specify the number of copies that may be made of the confidential information
- Specify when to return originals, and when to return or destroy any copies
- Set a time limit for considering the information, or a date for its return.

A confidentiality agreement is usually modified as a relationship moves forward. It may be that a new level of confidentiality is required or that the confidentiality obligations are revised.

1.4 REVIEW YOUR IP

An IP review enables you to capture and analyse information so that informed and considered decisions can be made about your business. Furthermore, it may uncover potential risks to your business that could ultimately result in costly legal proceedings with employees or third parties.

A regular review of IP is part of good management practice but is often overlooked by many organisations. Good practice would see a review of IP included in the half yearly management sign-off. In the same way that management ensures the safe keeping of physical fixed assets, this would reaffirm a commitment to ongoing management of IP assets.

The sheer diversity of IP and circumstances surrounding its creation often makes it impossible for an organisation to be fully aware of all the IP they own, but an IP review can help. It is a systematic review of the IP owned, used

or acquired by an organisation. Additionally, it helps to establish:

- Whether or not there are IP rights requiring registration
- Who owns the rights and, if these aren't owned by you, identify any conditions of use that apply
- An assessment of whether IP is being used effectively
- Whether rights are being challenged or threatened by others
- Whether there is an effective IP management and maintenance plan in place
- Records of IP creation and ownership.

Many who conduct an IP review for the first time are surprised, not just by how many IP assets their organisation owns but also how valuable these are to their organisation. For example, they might discover a new patentable product which has arisen from the research and development undertaken by employees or new IP acquired as part of a recent venture or as a result of a non-core business activity.

- A preliminary IP review: gives an overview of existing IP, and the value it contributes to the enterprise
- A comprehensive IP review: is usually conducted when there is a specific purpose to address, such as due diligence or to enforce or defend legal action. In cases such as these, a qualified IP practitioner (e.g. a patent attorney, IP lawyer or recognised accountant) should be engaged to assist.

If the purpose of an IP review program is to identify what IP an organisation owns, its current status and its commercial potential, the review will be extensive. It might include:

- Questionnaires for present and former employees and contractors to identify, for example, inventions, know-how and methodologies acquired and computer software developed
- Interviews with employees to uncover information about discoveries and creations
- Review contracts to determine whether or not normal business activities have resulted in the creation of IP, and if so, that there are contracts in place stating who owns that IP. Reviewed contracts should include agreements with employees and independent

contractors, joint ventures, licences and research and development agreements

- 'Documents of Title' as evidence of current registrations
- Database searches, including commercial patent databases and searches of public IP registers. Court registries could be searched to identify any infringement actions against an organisation
- Publication reviews of trade journals and government gazettes (particularly in relation to applications for patents, trade marks and designs), as well as competitors' brochures and marketing materials, information products and prospectuses. This will help you to stay informed of possible developments, infringements and legal compliance.

Setting the scope of an appropriate IP review will often be dependent on the size of the organisation being reviewed, the length of time it has been conducting business and the extent of its activities.

1.5 DEVELOPING AN IP STRATEGY

The way you treat your organisation's IP will depend on its commercial and strategic value. By asking the right questions, you can take steps to evaluate your position in relation to risk and determine IP management strategies that may avoid complications with third parties.

An IP strategy needs to be developed with an understanding of how IP fits into your overall commercial objectives as obtaining IP is hardly ever a goal in itself. To do this you need to:

- Establish your organisation's goals – what are you trying to achieve and what is the nature of the competitive environment you operate in
- Evaluate your IP position against your organisation's goals and align your IP to them – what IP is central to your core business
- Establish whether there are any forms of IP that no longer fit in your strategy
- Develop your IP strategy – there are a number of strategies that can be used to protect and exploit IP assets ranging from contractual agreements with partners to determining the geographical boundaries you wish to operate within.

By consulting an IP advisor or expert like an attorney, you can develop an IP strategy that is appropriate for your circumstances. This one action could add significant value to your organisation and may become the basis on which future decisions are made about upgrading, selling or retiring your organisation's IP assets.

CASE STUDY: SCRUBBA WASH BAGS

ASHLEY NEWLAND HAS FIRST-HAND EXPERIENCE TAKING AN IDEA FROM A CONCEPT TO A COMMERCIAL REALITY. HE'S THE INVENTOR OF THE SCRUBBA WASH BAG, BILLED AS THE WORLD'S SMALLEST WASHING MACHINE. IT'S A POCKET-SIZED GADGET FOR WASHING CLOTHES THAT PEOPLE CAN USE WHEN THEY GO CAMPING OR TRAVELLING.

Newland had a big advantage when commercialising his idea: he's an experienced patent attorney, so knew how important it was to protect his IP once he'd come up with the idea and the design for a prototype.

He had the idea for the Scrubba one evening when he was preparing to go travelling and climb Mt Kilimanjaro in Africa. 'We could only take a few clothes and we didn't have access to a sink. I thought there must be a way to wash our clothes in a zip lock bag. A few weeks later I had a revelation. Washboards had been around for centuries. So I thought there must be a way to make a flexible washboard stored in a waterproof, sealable bag people could take away when they are travelling,' he says.

While working on an early prototype, he spent his evenings completing a provisional patent application, which he filed the day before he left on his travels. By filing the provisional patent application first, Newland didn't need to worry about his public use of the Scrubba wash bag prototype becoming 'prior art' that could later prevent him from obtaining a patent on his invention.

'The first time I tried the prototype in Tanzania I was amazed how dirty the water was. I realised I had a good product on my hands,' he says.

Newland subsequently approached a number of businesses about licensing his invention, including big multinational camping businesses, but found most companies were unwilling to put the time or money into developing a brand new product in an untested market.

'I realised that unless I proved there was a market for it, I wouldn't be able to get anywhere with it. Plus without a positive cash flow, I wouldn't have been able to protect the invention internationally. So I decided to take the leap and start producing the Scrubba wash bag myself.'

Although he didn't have the manufacturing process finalised, he decided to crowdfund a first batch through a web site called Indiegogo. Then he sent media releases to two gadget web sites, Gizmodo and Gizmag, which published it, and was then picked up by numerous other gadget websites.

'I woke up the next day to an inbox full of orders, enough to get the manufacturing process going. I was able to fulfil the orders I received through crowdfunding and then released the Scrubba to general sale.'

Newland says one of the benefits of using crowdfunding was that he was able to take the business international from the outset. 'This is a big change in mind set for entrepreneurs as the old mentality was to start in your local market and then scale internationally. While it was initially daunting, it allowed for rapid expansion. Within just two years, we have distributors in more than 14 countries.'

During the development stage, Newland even came up with a new manufacturing process, which resulted in a second patent application.

He also says to avoid disclosing your invention before applying for a patent.

‘As soon as you disclose your invention you potentially limit your future rights. You might think spending \$4,000 on a patent attorney as a start-up is a lot of money, but if someone copies your idea you won't regret spending this money.’

Newland explains that while Australia and the US do have a one year grace period for filing a patent application on an invention following its public disclosure, the regulations can be quite strict and so relying on the grace period isn't recommended. As most other countries lack a grace period, you will be severely restricting your international market coverage if you disclose your invention before filing.

He also advises thoroughly researching the trade mark databases in Australia, the EU and the US before settling on a particular trade mark, and looking into whether design registrations have been filed that are similar to your product.

He says it's vitally important to have a plan in place if you intend on expanding beyond Australia. Be aware of

SCRUBBA WASH BAGS CONTINUED

the difference between jurisdictions like Australia which have a 'first to use' rule for trade marks, compared with jurisdictions such as China, where there is a 'first to file' rule regarding rights to trade marks.

‘Speak to as many people as possible and if you have no money, find friends or crowdfunders who are willing to help you. And remember, in the internet age, you can definitely have a global business right from the start.’

1.6 IP GOVERNANCE AND THE BOARD

When a significant proportion of your organisation's value is contained in your IP and other intangible assets, IP should be given appropriate consideration at board level. Board members will bring an appropriate balance of skills, experience and independence, depending on the nature and extent of your operations, from accounting to marketing but should also include IP management.

To determine whether IP is considered at board level, you should consider the following questions:

- Are there practices in place to identify, assess, monitor and manage both strategic and operational IP risk?
- Does the board regularly review and approve the risk management and oversight policies?
- Has the board established a risk management committee?
- Is IP asset control and protection considered by the risk management committee? The Risk Management Group should consider trends, expiries and emerging threats to IP assets.
- How can the board encourage and reward innovation and maximise the returns on the organisation's IP?

If the Board asks management 'who owns this asset?' The organisation should be able to answer. Every organisation has an element of uncertainty and carries risks that can be managed through effective planning, foresight and internal controls. By assigning someone within the organisation the role of overseeing all policies relating to IP acquisition, protection and control and by bringing this important topic to the attention of the board, you can improve the operation of your organisation.

SECTION TWO: COMMERCIALISATION OF IP

THE IP SYSTEM OFFERS PROTECTION, BUT IT CAN ALSO OFFER MARKET INTELLIGENCE. IT CAN BE USED TO DETERMINE IF THE IDEA YOUR ORGANISATION IS WORKING ON ALREADY EXISTS, CAN HELP BOOST YOUR MARKETING EFFORTS, PROTECT YOUR INTERESTS AND AVOID LEGAL COMPLICATIONS DOWN THE TRACK.

BY LEARNING HOW TO USE THE IP SYSTEM YOU CAN AVOID WASTING TIME, EFFORT AND MONEY AND INSTEAD FOCUS ON EXPLOITING YOUR IP MORE EFFECTIVELY.

2.1 UNDERSTAND YOUR MARKET

Using IP databases and records as a source of market intelligence provides an organisation with a list of potential partners, competitors and licensees. They can also be used to inspire and help an innovator discover how someone else solved a similar problem.

A competitor will be just as eager to protect their rights as you are, especially if they have spent time and money securing formal IP protection. Spend time gathering market intelligence on your competitors – it can give incredible insights into their future direction, current marketing or research and development effort. For example, if you are a soap manufacturer and your trade mark search reveals a major manufacturer has just registered a range of new trade marks in the soap class, you can strategically prepare yourself for the new market entrant.

To conduct searches, you can start online by visiting IP Australia www.ipaustralia.gov.au or the IP Office of New Zealand www.iponz.govt.nz. Both websites offer patent, trade mark, design and PBR /PVR searching capabilities.

Various international IP databases are also accessible. Three of the largest international databases are:

- The European Patent Office: www.epo.org
- United States Patent and Trademark Office: www.uspto.gov
- World Intellectual Property Organisation (WIPO): www.wipo.int

IP attorney firms and specialist searching firms also offer professional search services. You could also subscribe to journals, articles and newsletters relevant to your areas of interest and/or use internet search engines.

2.2 AVOID THE RISK OF INFRINGING ON OTHERS RIGHTS

Smart business owners constantly monitor the market to understand what their competitors are doing. This is an important step when starting a business so you are not only aware of your competitors, but also ensure your idea is not infringing on someone else's existing IP.

There are two main forms of IP infringement:

1. Accidentally infringing the IP rights of others
2. Infringement of your rights by others.

Infringement is costly so it is best take to steps early to avoid it. There are a number of basic steps you can take to avoid infringing the IP rights of others.

SEARCH AND BE SURE

As good practice you should conduct a search of existing IP databases on the IP Australia and / or IPONZ website before going public with a new logo or product that might inadvertently infringe on another person's IP.

Identify your IP

Remember your IP includes registered rights as well as critical business information, such as customer lists and specialist knowledge. Identify and review your organisation's IP.

Maintain your rights

If you own registered IP keep a record of important dates such as renewals and ensure your details are kept up to date on all registers – in Australia, New Zealand and all other countries where you have registered rights. Maintaining IP calendars are useful for applications and registration renewals. Once you start the application process there are time critical deadlines to meet.

Get permission for source material

Avoid the use of any material that is sourced from another person without obtaining specific permission. You should be vigilant in always asking about the source of any material provided to you and the restrictions, if any, of use in that material. You should also acknowledge any material you use with a clear and reasonably prominent attribution.

Under copyright law in both Australia and New Zealand, 'fair dealing' exceptions exist where you can use copyright work without seeking permission for the purposes of personal research, reporting the news, criticism or review and parody or satire.

However, you cannot reproduce any percentage of someone's work for commercial purposes without their permission.

Retain ownership records

It is important to maintain documents that prove your ownership or permission to use someone else's IP. This will help you defend your rights in the event your IP is infringed. Conversely it will help prove that any infringement was innocent rather than deliberate and can reduce your liability.

Stop infringement from happening to you

As the owner of IP rights, you have a range of options to prevent the infringement of your rights by others. This includes remaining vigilant in the market place and being prepared to act when an infringement occurs.

Determining whether there has been an infringement of IP rights and what legal action is appropriate can be a complex exercise. It is recommended that you talk to an IP professional before taking any infringement action.

When developing an infringement strategy you may wish to consider:

- **Identification and awareness:** Identify and record details of each piece of IP you own, educate your staff on IP rights and record details of permissions or licences to use IP.
- **Proactive measures:** You can take proactive measures to limit the incidence of infringements. These can include the use of software access codes or passwords, or physical protection measures, or data 'seeding' to enable easy detection of infringements.
- **Detection methods:** Set out the methods that you

will use to detect infringements. These can range from periodic review of competitors' products and advertising to campaigns specifically targeted at identifying infringements and infringers.

SEND A MESSAGE TO YOUR MARKET

Branding is the emotional connection with your consumers and one of an organisation's most valuable assets. As part of your organisation's marketing strategy, send the right message to market about your IP. You may use the ® symbol next to your trade mark once your trade mark is registered.

Before registration, it is permissible to use TM near your trade mark to indicate to others you are using it as your trade mark. Although it is not yet registered, you are claiming ownership under common law.

Where your publications, packaging, products or designs contain original works, include a copyright notice (i.e. © + owner's name + year the original work was first created)

These labels will show customers that your product is authentic, help deter copycats and protect your brand reputation.

2.3 DEVELOPING A DISTINCTIVE BRAND

Protecting IP should be the starting point for building your brand as for example, you wouldn't start a direct marketing effort towards a business unless you owned it. If you're going to create a brand and build IP around your brand identity, the starting point is to come up with a name and protect it with a registered trade mark.

Developing a distinctive trade mark should be an integral part of your marketing strategy. The public will identify a certain quality and image with goods and services bearing your trade mark. It can become an important means of maintaining goodwill with your clients and improving your bottom line.

Here are some tips for developing a distinctive brand:

- It's best to generate a name that you think is going to work as the identity of your organisation or product/service line.
- Some brand experts suggest that a name needs to be short and easy to say and remember but, importantly, the name needs to be unique and recognisable.
- Know your market – there's no point in having a brand name that doesn't work in the market place.
- A good name emphasises the benefit that you're delivering to your customers and that can be protected and defended.
- You can protect your brand online with a domain name that matches your trade marked name. Domain names are an important part of your brand and organisation's identity, especially when operating on a global stage.

If you can put a tick next to all those boxes as you create the idea for your name, then you've come up with something powerful.

TIP

NOT ALL LOGOS OR NAMES CAN BE REGISTERED AS A TRADE MARK

To increase your chances of registration, a trade mark needs to be something other traders don't need to use in the normal course of their trade (for example SENSITIVE SKIN for soap products would be hard to register as it describes a characteristic of the goods being manufactured rather than indicating a trade source). Invented words and names that don't have a direct correlation to the product are more likely to be registrable – for example 'Apple' for computers.

It is also very difficult to register a geographic name or a common surname as a trade mark.

2.4 PROOF OF OWNERSHIP

- Was your IP developed in the course of running the business, by employees and/or contractors or developed externally by another person or organisation?
- Was it something you learnt from publicly available resources or developed jointly with another person?

You should be in a position to prove beyond question the ownership of IP under these scenarios to avoid complications further down the track.

While patents, designs, trade marks and plant breeder's/variety rights have a public register of owners, title is not guaranteed by registering the IP right. An IP title does not have the same defensible qualities as does the title to land or other assets.

Ownership is based on being able to show that you are the 'author' or 'creator' of the IP. It is sometimes difficult to establish effective property rights where several people may be involved in creating new IP. One of the most common mistakes organisations make is not securing rights from a third party contractor. Unless specified by a legally binding agreement or contract, it can be difficult to determine who is the 'author' or 'creator' of the IP.

Don't risk it – sort out the ownership aspects from the start. Once the money starts coming in, it's often too late to get an agreement over ownership conditions.

EXAMPLE

You might pay someone to design a company logo or develop a software system. Unless specified, the IP will belong to the designer. Payment of fees does not necessarily secure ownership rights. The business engaging the designer should ensure it owns the logo, given it is likely to become their corporate identity. The best way to ensure ownership would be to clearly stipulate who owns the IP in the contract.

You should also ensure that contracts with third parties include a clause that requires them to prove that the work completed will not infringe IP, in any medium, owned by another company.

To help prove your ownership of IP, keep a record of:

- What right you have and in what format the right was created
- What, if any, material from a third party was used in the creation process, and whether permission for such use was obtained
- When it was created
- Who created it
- Evidence of ownership – such as an application for trade mark
- Contracts with all parties involved in the creation of the IP, which clearly identify who owns the IP
- Log books showing how the creation process was undertaken (particularly important for IP created by employees)
- Files of early drafts and prototypes to document the evolution of the IP created.

2.5 DIFFERENCE BETWEEN BUSINESS NAMES, TRADE MARKS AND DOMAIN NAMES

One of the most common misconceptions among businesses is the role of a business or company name. In essence, a business or company name provides no ownership rights. Only a trade mark provides legal rights that entitle the owner to use, licence and sell the name.

An Australian or New Zealand registered trade mark gives the owner a limited monopoly to the exclusive right to use that name in the country it is registered to distinguish their products or services from others.

The requirements for registration of business, company and domain names are different to registration of a name as a trade mark. What may be registrable as one is not necessarily registrable as the other and requirements for the registration of a business name may vary across state and country borders.

DEVELOPING A DISTINCTIVE BRAND

Chartered Accountants Australia and New Zealand restricts the use of the description 'Chartered Accountants' to members in practice. It is not considered appropriate for members to include the words 'Chartered' or 'Chartered Accountant(s)' in a registered business name or company name. This is because the right to use a registered name is able to be transferred to persons other than Chartered Accountants ANZ members. Where Chartered Accountants ANZ regulations are satisfied, the words may be used as a description of the practice, in conjunction with the registered name.

Similarly, it would not be appropriate to incorporate the words into a registered trade mark, which is likewise capable of transfer to non-members.

DID YOU KNOW

As discussed earlier, a trade mark should not be descriptive. An example of a descriptive mark would be 'Brisbane Mowing Service' for lawn mowing services in Brisbane. A trade mark needs to be capable of distinguishing the particular goods or services. With good marketing, the name becomes associated with a particular product, service, quality and business.

Trade marks can also be owned and infringed in cyberspace. Like business and company names, there are no proprietary rights in a domain name. To help build your brand identity, try to secure the same name for your trade mark, and your business, company and domain names.

CYBER-SQUATTING

Cyber-squatting involves individuals or firms registering domain names with the sole intention of selling them at an inflated price to a trade mark owner.

The growing trend of trade mark misuse¹ and cybersquatting has increased the demand for World Intellectual Property Organization (WIPO) dispute resolution services with 2,585 cybersquatting cases being filed in 2013.

Approximately one in five of the 2,585 cases filed during this time were settled prior to a panel decision. Of the remainder, 91% of panel decisions ordered the transfer of the domain names to the trade mark owner.

To find out more about the WIPO Arbitration and Mediation Centre visit <http://arbitr.wipo.int/domains/filing/udrp/complaint.html>

ONECheck is a New Zealand service that enables you to conduct a search for a company name, domain name and trade mark in one. Just enter your business name to find out if your name is available as a company name, a domain name and a trade mark.

Visit www.business.govt.nz/onecheck to conduct your search.

DID YOU KNOW

¹ Source: http://www.wipo.int/pressroom/en/articles/2014/article_0003.html

TABLE 2: DIFFERENCE BETWEEN BUSINESS NAMES, TRADE MARKS AND DOMAIN NAMES

	FUNCTION	WHAT REGISTRATION PROVIDES	WHERE TO REGISTER AUSTRALIA	WHERE TO REGISTER NEW ZEALAND	IS REGISTRATION REQUIRED?
Trade mark	A 'sign' such as a word, phrase, picture, logo, letter, numeral, shape, colour, sound, scent or aspect of packaging used commercially to identify your goods and/or services from those of other traders.	A registered trade mark gives you the legal right to use, license or sell it within Australia for the goods and services for which it is registered.	IP Australia grants trade mark rights. See www.ipaustralia.gov.au or call 1300 651 010	IPONZ grants trade mark rights. See www.iponz.govt.nz or call 0508 447 669	NO – but is recommended as registration provides you with the best protection for your brand.
Company name	Identifies a legally incorporated entity	A company name is the name you choose to give your company when you register it. No proprietary rights in the name are gained through registration.	It is compulsory to register your company with the Australian Securities and Investments Commission (ASIC) in order to be recognised as an Australian company under the Corporations Act 2001. Company names are registered with ASIC. Visit www.asic.gov.au	Company names are registered with the Companies Office (NZ). www.companies.govt.nz	YES – new companies must be registered.
Business name	Enables consumers to identify the owners of a business. This is the name that a person or a company trades under.	In Australia business name registration records the contact names and details of the owners of your business. No proprietary rights over the name are gained through registration. There is no register of trading or business names in New Zealand.	It is compulsory to register your business name in each state and territory that you trade in if you are using a name other than your personal name or company name. Business names are registered in each state. See your local telephone directory for contact details or visit www.business.gov.au	There is no register of trading or business names in New Zealand.	YES
Domain name	Identifies your address on the internet. You will need to register a domain name if you want to create a website or operate over the internet.	Domain name registration gives you exclusive use of an internet address for an agreed period of time. Variations include .com, .com.au, .biz.au, .net.au, .co.nz, org.nz and .nz. No proprietary rights in the name are gained through registration.	Domain names are registered through various resellers or registers who are given authority by .au Domain Administration Ltd (auDA). Visit www.auda.org.au	Domain names are registered through various resellers or registers who are given authority by the domain name commission. Visit www.dnc.org.nz	YES – if you want to use an address on the internet.

2.6 IP AND EXPORTING

If you want to trade overseas or sell to international customers via the internet, you should consider seeking IP protection in the countries you plan to trade in.

There are international agreements in place to make it easier for you to secure your rights in overseas markets. Australia and New Zealand are party to multilateral agreements and arrangements that give you the opportunity to secure exclusive rights in overseas markets. International registration of each IP right involves different treaties and application processes that vary in costs and time limits.

The first step is to develop an IP strategy that suits your specific business needs, goals, resources and priority international markets. Be mindful with patents and designs – you cannot ‘see how it goes’ in the Australian or New Zealand market then apply for patent and design rights in other countries. Once you file, there is a narrow window of opportunity when applications for international markets need to be filed.

An effective strategy might involve a combination of different IP rights. For example you may register a patent on a new invention and a trade mark for the same product.

Once you have secured your IP rights, the next consideration is to develop an infringement strategy to protect against the unauthorised use of your IP. It is important to protect your IP by responding swiftly and resolutely to infringements of your rights.

Understanding IP issues before you start doing business overseas and being on the ‘front foot’ with the challenges you may face will help you overcome common pitfalls such as potential IP violations or local customs and laws relating to imports and trade. Additionally, organisations should consider engaging experts to assist them with specialist knowledge of IP and the jurisdiction being considered.

PATENT PROSECUTION HIGHWAY

The Global Patent Prosecution Highway (GPPH) is an initiative between Australia and 18 other countries, allowing innovators to fast-track their patent application. Through this initiative, applicants who have received a positive assessment of at least one patent claim for an invention from a participating office can request accelerated examination of their application in any of the other participating countries.

To learn more about the Global Patent Prosecution Highway and how you can benefit from it, visit IP Australia’s website, www.ipaustralia.gov.au

2.7 SEEKING INVESTMENT

RAISING CAPITAL

Venture capital, angel investors and private equity are ways of financing early-stage, high potential start-up organisations.

To maximise your ability to attract investment, you will need to understand what the venture capitalist will require in return for providing you with funds to commercialise your IP product.

It is essential to plan your business structure carefully before you seek venture capital. You should also spend time researching the predictable requirements of professional providers of venture capital and how they want to see information presented. It is likely that you will require professional assistance to prepare your plans and presentation.

The likely range of advisers to help you prepare your organisation's structure for venture capital input may include a patent attorney, a lawyer, an accountant and/or a management consultant. You will need good project management skills to effectively combine their respective and complementary expertise.

Venture capital is high risk/high return investment, which is particularly suited to a dynamic IP-based organisation. Venture capital is allocated to early start-ups which are unable and/or unwilling to offer conventional debt based security, such as personal guarantees and collateral security over real estate. Retail banks and other funding institutions are not always comfortable with investing in or lending to organisations where the organisation's prime focus is the commercialisation of IP.

Studies have shown that inadequate protection of IP is an important reason for capital providers declining to invest. Clearly it is important that you have a business plan, which includes a strong program for protecting your IP.

THE PLAN SHOULD SHOW, FOR EXAMPLE:

- Realistic, focused strategies for the next five years
- An experienced, enthusiastic management team with specific objectives
- A good marketing plan
- Reliable market research indicating strong market opportunity and methods of realising business opportunities
- Focus on the domestic market with potential for international expansion
- An IP portfolio able to protect those aspects of the business which determine the venture's success and establish competitive advantage
- Viability and revenue projections, pricing and gross-margin strategies
- Potential to grow revenue by a significant percentage each year - for the next three to five years
- The potential to generate a reasonable pre-tax internal return.

Given that only five per cent of technology driven start-ups are still trading after three years, a structure which attempts to protect your organisation's IP assets is viewed positively by investors.

CROWDFUNDING

An emerging source of raising capital is crowdfunding, where entrepreneurs can make a request for funding through an online portal from a large number of people (i.e. the crowd). As noted in the Scrubba wash bag case study, it is important to protect your invention by applying for a patent before you expose it on a crowd funding website. Once a product has been exposed to the public, you may lose the exclusive right to it.

2.8 COMMERCIALISATION – LICENSING, ASSIGNMENT AND FRANCHISING

Commercialising IP is about getting your products or services to market with the intent of making a profit. Your commercialisation strategy will depend on many factors including your individual circumstances, business capabilities, access to finance and your priority markets, both domestic and internationally.

When you commercialise in-house you develop your product to a market-ready state without any external assistance. Going it alone means that you take on all the work and risk associated with launching a new product. It also means that if you are successful, you reap all the benefits.

If you do not have the resources or facilities, you may choose to outsource all or part of your production. This section outlines the most common commercialisation methods.

Licensing

Licensing your IP to another party can be an effective way to exploit IP, particularly if you don't have the resources or experience to develop and market your product or service. Essentially, a licence is a contract where the IP owner gives permission to a licensee to commercialise that IP. A licence may extend to all aspects of commercialisation, from developing it further, to manufacturing products or marketing, promoting and selling those products. As with all other aspects of commercialisation, licensing needs to fit in with your business strategy and practices.

An exclusive licence is the most commonly used mechanism to commercialise IP with a partner but there are many other types of licences including know-how, trade mark and non-exclusive. Licensing arrangements are a fairly common method of exploiting trade marks but any type of IP can be licensed. They give the licensee the right to use (but not own) the IP. The owner of the rights will usually receive payments in the form of royalties in return for their use.

Assignment

An assignment is an outright sale, unlike licensing, where the creator or owner of the IP retains ownership and some control over the use of the IP. When IP owners transfer their ownership, they can't impose any performance obligations on the new owner.

Assignment is worth considering as an alternate commercialisation strategy, even with the complete loss of IP ownership. For example, an owner may prefer to receive a substantial up-front lump sum payment for the assignment, instead of smaller royalty payments throughout the commercialisation period, as would happen with a license. Capitalising on the financial rewards up-front may be the preferred option as it often has a smaller amount of risk compared to licensing.

Franchising

When the owner of a successful business wants to expand without borrowing capital, they can license IP to franchisees. This generally sets out use of trade marks, logos, promotional material, the business model, various processes and shop fit-outs.

Franchising is a method or system for distributing goods and services. The franchisor owns the IP rights over the business system, service method or special product. The franchisee pays a fee or regular royalties for the right to trade under the brand name. The franchising code of conduct places certain restrictions on licensing agreements.

The franchisee can benefit from coordinated marketing efforts and a pre-existing business model.

SECTION THREE: FINANCIAL ASPECTS OF IP

AS WITH ELEMENTS OF PHYSICAL PROPERTY, IP IS AN ASSET. ACCURATE RECORDING OF THESE ASSETS MAY MAKE THE ORGANISATION MORE ATTRACTIVE TO POTENTIAL PURCHASERS, PARTNERS AND INVESTORS.

3.1 ON THE BALANCE SHEET

The International Accounting Standards Board, Standard IAS 38 *Intangible Assets* prescribes the identification, recognition, measurement and disclosure requirements for intangible assets.

An intangible asset is defined as an 'identifiable non-monetary asset without physical substance'. To meet the definition of an intangible asset, an asset must be identifiable to distinguish it from goodwill. To be identifiable, the asset must be separable or arise from contractual or other legal rights. Separable means that the asset is capable of being separated from the organisation and is able to be sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability.

An intangible asset is recognised only if it is probable that the future economic benefits attributable to the asset will flow to the organisation and its cost can be measured reliably.

Expenditures on the acquisition, development and enhancement of intangibles such as new systems, processes, IP and market knowledge cannot be recognised as intangible assets unless an asset is separately identifiable and the organisation has control over the future economic benefits to be generated by the asset.

The Standard does not permit the recognition of internally generated goodwill such as brands, mastheads, publishing titles, customer lists and similar items as they cannot be distinguished from the cost of developing the business as a whole. Intangible assets with a finite useful life are amortised over the useful life of the asset. The residual value of an intangible asset with a finite useful life is assumed to be zero unless there is an active market for the asset or there is a commitment by a third party to purchase the asset. An indefinite useful life means there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Intangible assets with an indefinite useful life are not amortised, rather they are tested annually for impairment to ensure they do not exceed recoverable amounts.

MERGERS AND ACQUISITIONS

IFRS 3 *Business Combinations* requires that an acquirer must recognise an intangible asset acquired in a business combination (acquisition, merger, etc.) if it is separable or arises from contractual or other legal rights. Examples of items that would normally be expected to meet the definition of an 'intangible asset' in a business combination are:

- Trade marks, trade names, service marks, collective and certification marks
- Internet domain names
- Get-up: unique colour, shape or package design
- Newspaper mastheads
- Customer lists
- Customer contracts and related customer relationships
- Books, magazines, newspapers and other literary works
- Musical works
- Pictures, photographs and audio-visual material
- Patented technology
- Computer software and databases
- Trade secrets such as secret formulae, processes or recipes
- Licensing and royalty agreements
- Franchise agreements
- Operating and broadcasting rights
- 'Use' rights such as drilling, water, air, mineral, timber-cutting and route authorities
- Registered designs
- Plant Breeder's Rights.

3.2 IP VALUATION

IP is another asset that you should not forget to value. A working knowledge of the different approaches to valuing IP and how IP assets can impact the net worth of a business is essential. It is not a quick or easy task and there are no hard and fast rules about how to value your IP assets.

If you invest the time and expense to identify and value your IP, you will benefit by:

- Determining a better idea of the overall value of your business
- Providing a tool to measure and manage your assets
- Providing security and backing for lenders
- Providing taxation benefits (taxation deductions)
- Reducing proportion of an organisation's net worth attributed to goodwill – important when selling a business.

To recognise, value and record your IP you must be able to identify your IP as a separate, stand-alone asset and recognise it as enduring in nature.

As part of an acquisition in a business combination, intangible assets are identified and a fair value is ascribed to these. Any remaining excess of consideration over identifiable assets and liabilities will result in goodwill. For instance, if IP can be identified, it will then be amortised based on the remaining useful life assessed at the time of acquisition. This life will often be assessed as a fixed term, rather than indefinite. In contrast unidentifiable assets, like goodwill, are not amortised and will be tested annually for impairment to ensure they are not carried above the recoverable amount. Depending on this treatment, this may have an immediate effect on both the profit and loss and the balance sheet.

The lists below contain examples of some identifiable and unidentifiable intangibles that may be found within a typical business.

The IP valuation approach you choose depends on the type of IP you have and the reason for valuing it. IP assets cannot always be valued purely as a function of cash generation or replacement cost, as some IP assets provide value through cost savings or competitive advantages which are not assessable through a traditional discounted cash flow approach.

There are three commonly used IP valuation approaches:

The cost approach

The cost approach applies a value to an IP asset by estimating the cost of replacing the asset with a similar asset or one providing similar service potential or utility. The cost approach may include costs to develop or purchase the asset (e.g. patent attorney and patent application costs), adjustments to reflect specific characteristics of the asset (e.g. economic or functional obsolescence) and any opportunity cost incurred by the developer.

The cost approach is mainly used for internally-generated IP assets that have no identifiable income streams, such as some patents, which may be used defensively to prevent competitors from operating in a given field.

The income approach

Under the income approach, the value of an IP asset is determined by reference to the present value of income, cash flows or cost savings generated by the IP asset. This involves converting forecast cash flows using either discounted cash flow techniques or, in simple cases, the application of a capitalisation multiple to a representative single period cash flow.

The income approach is beneficial when valuing an IP asset that actively generates income. It may be used with regard to the sale of patented articles, or alternatively for income generated through patent licence royalties.

IDENTIFIABLE INTANGIBLE ASSETS	UNIDENTIFIABLE INTANGIBLE ASSETS
Patents, trade marks and brand names	Quality of the management team
Copyrights and designs	Know-how
Franchises and licences	Marketing expertise/marketing profile
Newspaper mastheads/publishing rights	Management expertise
Government quotas	Distribution networks
Covenants not to compete	Economies of scale
Secret processes and formulae	Technical skills
Information databases	Program rights

The market approach

Under the market approach, the value of an IP asset is determined by reference to market activity, e.g. transaction bids or offers involving identical or similar assets.

While the market approach is theoretically the most accurate, the information required to make such determinations is often not publicly available on account of the confidentiality surrounding license agreements. In addition, the heterogeneous nature of IP assets means that it is rarely possible to find identical assets. If there is market evidence at all it is usually in respect of assets that are similar, but not identical.

There are numerous strategic advantages associated with accurately valuing IP. However, there is no single valuation approach or method of valuing which works best in all scenarios.

3.3 TAX ISSUES ASSOCIATED WITH IP

The tax treatment of expenditure incurred in developing or acquiring IP, as well as receipts, profits or gains from using, disposing of or licensing IP, depends upon the relevant statutory rules in Australia or New Zealand and generally whether the expenditure, receipt, profit or gain is regarded as being capital or revenue in nature.

Determining this issue is very fact specific. Consulting a Chartered Accountant or other tax adviser early on should ensure that you are aware of the tax ramifications of an organisation's strategies in relation to IP.

Australia and New Zealand, like most countries, have specific rules for the treatment of, for example, copyright, patents, software, software developed in-house, licences to use certain property, and research and development expenditure. They also have transfer pricing rules that apply when IP is disposed of, or licensed to, related organisations in other countries or vice versa. Similarly specific rules may apply when a group of companies acquires or disposes of an entity that owns IP.

The following comments are general in nature and limited in scope.

EXPENDITURE ON DEVELOPING OR ACQUIRING IP

Expenditure incurred to establish or enhance an organisation's business structure will generally be regarded as capital in nature and not deductible,

whereas expenditure incurred in operating the business will be regarded as revenue in nature and deductible. For example, expenditure to acquire a patent for use in an organisation's manufacturing operations would typically be regarded as capital in nature whereas wages paid to medical practitioners who create patient records in the ordinary course of business and in respect of which copyright subsists would generally be revenue in nature and deductible.

However, capital expenditure on acquiring or developing IP may qualify for a capital allowance (Australia) or depreciation (New Zealand) deduction, providing the IP acquired or developed meets the relevant definition ('depreciating asset' in Australia or 'depreciable intangible property' in New Zealand). Deductions for the capital cost of the IP are spread over its effective life from the time it is used or installed ready for use for the purpose of producing assessable income. A depreciating asset is defined for Australian tax purposes to include rights held (under a Commonwealth or foreign law) as the patentee, or licensee, of a patent or the owner, or licensee, of copyright or a registered design. Depreciable intangible property is defined for New Zealand tax purposes to include, inter alia, a patent; the right to use a copyright, a design or model, a patent, land, plant or machinery, or a trademark; copyright in certain items including software and sound recordings; and certain plant variety rights. The effective life of the various types of IP which are able to be depreciated for tax purposes are prescribed in each country.

Significantly, a capital allowance deduction or depreciation is not available for expenditure on other items of IP such as in Australia, for example, registered or unregistered trademarks, plant breeder's rights, domain name licences, business or trading names, goodwill or confidential information/trade secrets.

TIP

PROVE THE COST OF ACQUISITION OF IP

Where IP is acquired as part of a larger acquisition of a business, avoid disputes about the cost of acquisition of the IP by ensuring that the sale contract apportions the purchase price to all of the assets acquired, including the various types of IP.

THE ASSIGNMENT OR DISPOSAL OF IP

Where an organisation disposes of IP the tax treatment will depend on whether it has been depreciated or not. Any gain on disposal of an asset that has been depreciated, i.e. the excess of sale proceeds over written down value, is generally taxable. Similarly, any shortfall is allowed as a deduction. By contrast, where IP is not depreciable, e.g. a trademark in Australia, the tax treatment will depend on whether the gain is on revenue or capital account.

LICENSING IP

The licensee's perspective

An organisation may acquire a right to use certain IP in its business operations in return for the payment of licence fees. Providing that the licence fees are regarded as revenue as opposed to capital in nature, such fees will be allowable as a tax deduction. Generally speaking, the payment of periodic licence fees based on usage will be regarded as revenue in nature.

Where all or part of a licence fee paid is capital in nature, the tax treatment will vary depending on whether the licence is depreciable.

If the licence fee is payable to a non-resident and is a 'royalty' as defined for tax purposes, withholding tax may be required to be deducted. The tax definition of 'royalty' is broad and may include amounts paid which might not qualify as royalties as that term is ordinarily understood.

The licensor's perspective

Rather than disposing of their IP outright, organisations may choose to exploit it by granting one or more licences to use it, generally in return for a lump sum, periodic licence fees based on usage or a combination of both.

Where an amount is received for the grant of the licence itself the tax consequences will differ depending upon whether the original IP is depreciable. Periodic licence fees will be subject to tax as and when they are derived.

Where the licensee is in an overseas country, licence fees received may be subject to withholding tax in that country. In these circumstances, the organisation may be able to claim a credit against the tax payable domestically for all or part of the foreign tax paid.

3.4 GST AND STAMP DUTY

GOODS AND SERVICES TAX (GST)

The supply of IP by way of sale, assignment, or licence (i.e. grant of a right to use IP) by a registered business will generally be a taxable supply that is subject to GST. Input tax credits may be available to a registered business that acquires the IP.

However, in Australia, where IP is transferred as one of the assets of a 'going concern' for GST purposes to another registered business, it may qualify as a GST-free supply. IP may also be supplied GST-free (wholly or partly) for example, where the purchaser (recipient) is a non-resident who is outside Australia, or to the extent that the rights are for use outside Australia. Similar approaches are adopted in New Zealand where supplies of going concerns and supplies to non-residents are generally zero-rated for GST purposes.

STAMP DUTY

Stamp duty is a transfer tax which, in Australia, is payable on the transfer of assets, at rates of up to 5.75%, of the higher of the purchase price and market value of the assets transferred. As stamp duty is a state/territory tax in Australia, the rates of duty, and the categories of assets which are subject to duty, vary from jurisdiction to jurisdiction. The transfer of IP is a category of business asset that is subject to duty on transfer in some, but not all jurisdictions. New Zealand does not impose stamp duty.

In Australia, an organisation's location and the location of the customers of the business will govern whether, and to what extent, they are liable for stamp duty on IP. IP on which stamp duty will usually be paid includes a business name, trade name, trade mark, patent, registered design or copyright. Generally, where the ONLY asset being transferred is IP that is a registered trade mark, patent, registered design and/or copyright, no stamp duty should be payable. However, where IP is transferred as part of a business or with goodwill or other assets, stamp duty could be payable, and the revenue authorities generally apportion the value of the IP between states and territories based on percentage sales, by state/jurisdiction of customers, averaged over the last 3 years. The transfer of IP of a business that only operates from one location could give rise to a stamp duty liability in a number of jurisdictions if it has customers in those jurisdictions. If stamp duty is payable, it is generally payable by the purchaser although

in some states the liability is imposed jointly and severally on the vendor and the purchaser. Filings and payments of stamp duty are generally required within 1 – 3 months after signing of the agreement for transfer.

3.5 GRANTS AND INCENTIVES

Everyone likes a helping hand. Many organisations are surprised to learn of the broad range of incentives available for development, acquisition, commercialisation and export of IP. Incentives include: grants, loans, tax concessions, rebates, export assistance, market research, mentoring and skill development.

You may also find it useful to contact an advisory service for information on what support is available for your organisation.

AUSTRALIAN GRANTS

Grants and other funding programs are available from the federal, state and territory governments and in some cases from local councils. Generally there are few grants available for starting a business and those that are available are competitive or are only available in specific circumstances. However, there are grants and other assistance available for business activities such as expanding a business, research and development, innovation and exporting.

To help you locate grants and assistance relevant to your business, the Australia government has created a search tool called Grant Finder. Using Grant Finder, you can search for grants and assistance programs available within your state or territory, in addition to those provided by the Australian government.

Visit - <http://www.business.gov.au/Grants>

NEW ZEALAND GRANTS

For information on New Zealand Grants visit <http://www.business.govt.nz/support-and-advice/grants-incentives>.

SECTION FOUR: THE IMPACT OF SOCIAL MEDIA

TECHNOLOGY IS RAPIDLY CHANGING HOW ORGANISATIONS RUN AND COMMUNICATE, AND THE IP ISSUES ARE ALSO EVOLVING. FOR EXAMPLE, YOUR ORGANISATION'S INTELLECTUAL PROPERTY CAN ALSO INCLUDE CUSTOMER DATABASES SO YOU SHOULD THINK ABOUT HOW THEY ARE PROTECTED.

Social media is now part of our daily conversation. Many organisations and individuals have been using social media to their advantage and have become successful content producers. As a result, they are able to instantly communicate to their customers and networks.

The most popular social media channels include Facebook, Instagram, YouTube, Twitter and LinkedIn. Although these are just a sample, channels such as these provide a whole new platform for interaction. Facebook alone, as of 31 December 2014, had 1.39 billion monthly active users worldwide.²

These channels can assist your business to reach consumers on a grand scale, but there are IP considerations that need to be identified when taking your business into an online marketplace. The law is still catching up with the changing face of social media and rights owners

should take responsibility for policing their IP rights and not rely on channel operators to do so. Organisations also need to be careful not to infringe the rights of others through their social media activity.

It all comes down to making sure you've secured your IP rights and are mindful of the rights of others when engaging in online business or promotion. Ensure you have read and understood the terms and conditions of any channels you use and be aware of their policies and complaints procedures.

You may not use social media networks but it is likely that your employees and customers will. It is recommended that organisations create an employee policy in relation to the use of social media. This could address your communication channels and how the use of your IP in the social media space will be policed.

ONLINE CHECKLIST

If you are considering using the internet as a resource for your business, you need to ask yourself some important questions:

- Are your business names and trade marks registered? If not, you could be infringing on another trader's IP and doing it in a very public way.
- Are you disclosing information about new designs or inventions? Doing so can rule out any possibility of registering a design or patent.
- Are you linking to or using the IP of others, such as photographs shared online? Ideally you should seek permission or make sure you attribute the material to the rightful owner. It is important that rights owners not only police the use of their works but also that they clear any potential copyright protected content which they use.
- Will your content include original material such as photographs, drawings or creative writing? This material is subject to automatic copyright protection in Australia or New Zealand, but you need to make sure you indicate the owner of the rights clearly. One way is to use the © symbol followed by the creator's name and the year of creation, e.g.— © John Smith 2011. Another way is to use watermarks to indicate they are your property and that copying them would be infringing on your rights.
- Do your employees have personal accounts that could be associated with your organisation? Comments made by employees can be viewed as indicative of an entire organisation's viewpoint and may lead to serious legal issues, so make sure employees are aware of what is appropriate.
- Use confidentiality agreements to ensure your employees do not disclose any confidential information.

² Source: <http://newsroom.fb.com/company-info/>

Chartered Accountants Australia and New Zealand and IP Australia are very active in social media, follow us on:

CHANNEL	CHARTERED ACCOUNTANTS AUSTRALIA AND NEW ZEALAND	IP AUSTRALIA
LinkedIn	www.linkedin.com/groups?gid=134362	www.linkedin.com/company/ip-australia
Twitter	www.twitter.com/chartered_accts	www.twitter.com/IPAustralia
Facebook	www.facebook.com/charteredaccountants	www.facebook.com/ipaustralia.gov.au
YouTube	www.youtube.com/CharteredAccts	www.youtube.com/user/IPAustralia

DID YOU KNOW

OUR IP CHECKLIST

SECTION 1 - IDENTIFYING AND MANAGING YOUR IP		YES	NO	N/A
1.1 What can be registered and what can't?	Have you listed the different types of intellectual property contained within your business and identified which of these can be/is protected by formal registration?			
1.2 Beware the publicity trap	Do your business processes ensure that you do not publicly disclose (publish, discuss, sell, display etc.) any new designs, products, concepts or business ideas prior to seeking protection for these?			
1.3 Strategies for protecting confidential information	Have you identified any trade secrets or confidential information contained within your business and taken steps to protect this information?			
1.4 Review your IP	Does your organisation review its IP assets regularly as part of its business planning and reporting processes?			
1.5 Developing an IP Strategy	Do you know what IP is central to your core activities and have you included the management of these IP items in your business plan?			
1.6 IP governance and the board	Has someone within the organisation been assigned the role of overseeing all policies relating to IP acquisition, protection, control and bringing any IP issues that need to be resolved to the attention of the board or executive for reporting purposes?			

OUR IP CHECKLIST CONTINUED

SECTION TWO: COMMERCIALISATION OF IP		YES	NO	N/A
2.1 Understand your market	Do you regularly scan the market place including IP databases and keep up to date with your competitors' activities and industry developments?			
2.2 Avoid the risk of infringing on others rights	If you own registered IP, do you keep track of important dates such as renewals and ensure your details are kept up to date on all registers, both in Australia and in other countries?			
2.3 Developing a distinctive brand	If you have a registered trade mark, do you use the ® (Registered symbol) on marketing materials in order to send a signal to the market including your competitors?			
2.4 Proof of ownership	Is there a written service contract (or other document) in place with each independent contractor used by your organisation which clearly records that any IP created by them under the contract is owned by you?			
2.5 Difference between business names/trade marks and domain names	Do you have both the regulatory and protection options in place?			
2.6 IP and exporting	Have you considered IP protection in other countries at the same time as seeking protection in Australia and/or New Zealand?			
2.7 Seeking investment	Do you have an understanding of what financiers will require in return for funding the commercialisation of your IP?			
2.8 Commercialisation – licensing, assignment and franchising	If you are looking to grow your business, have you considered the benefits and limitations of licensing, assignment and franchising?			

SECTION THREE: FINANCIAL ASPECTS OF IP		YES	NO	N/A
3.1 On the balance sheet	Have you placed a dollar value on your IP assets?			
3.2 IP valuation	Are you familiar with different ways IP can be valued?			
3.3 Tax issues associated with IP	Do you know the tax treatment for expenditure on developing or acquiring IP?			
3.4 GST and stamp duty	Do you understand how GST will be calculated on IP 'supply'?			
3.5 Grants and incentives	Have you searched the relevant websites for programs that are available in your region?			

SECTION FOUR: THE IMPACT OF SOCIAL MEDIA		YES	NO	N/A
Social Media	Do you have a policy surrounding the use of social media for your staff?			

USEFUL CONTACTS/LINKS

Chartered Accountants of Australia and New Zealand,
www.charteredaccountantsanz.com

Intellectual Property Office of New Zealand (IPONZ),
www.iponz.govt.nz

IP Australia,
www.ipaustralia.gov.au

Australian Competition and Consumer Commission,
www.accc.gov.au

Australian Taxation Office,
www.ato.gov.au

Commerce Commission New Zealand,
www.comcom.govt.nz

Institute of Patent and Trade Mark Attorneys of Australia (IPTA),
www.ipta.org.au

International Union for the Protection of New Varieties of Plants (UPOV),
www.upov.int

Internet Corporation for Assigned Names and Numbers (ICANN),
www.icann.org

Licensing Executives Society of Australia and New Zealand (LESANZ),
www.lesanz.org.au

New Zealand Inland Revenue Department,
www.ird.govt.nz

New Zealand Institute of Patent Attorneys Inc. (NZIPA),
www.nzipa.org.nz

Stamp Duty is administered by local authorities in Australia.
For further information, visit the website of your local revenue office.

The Intellectual Property Society of Australia and New Zealand Inc. (IPSANZ)
www.ipsanz.com.au

World Intellectual Property Organization (WIPO),
www.wipo.int



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