

## Brand and patent licensing

*“Intellectual and intangible assets, such as brands, trademarks, patents, and know-how, represent the industrialised world’s most under-valued group of assets”, says Mr Thayne Forbes, managing partner of London brand valuation consultancy, Intangible Business.*

Many companies have numerous patents and trade marks. In most cases, they are not treated as carefully as capital equipment or inventory. Additionally, many companies are developing only a small percentage of the patents and trade marks they do have. But good management means estimating and maximising the value of patents and trade marks, and doing something with the ones you decide not to develop.

However the attitude towards intangible assets is changing. Even historically protective and secretive companies, such as Unilever and P&G are amongst those global organisations implementing extensive strategies for brand and patent licensing.

Both companies in recent years have embarked strategies to consolidate and streamline their brand portfolios, to concentrate on the bigger, more profitable global brands. Just last month (September 2003), Unilever agreed to sell its US and Canadian brands, Metadent, Pepsodent and Aim toothpaste, and exclusive licensing rights to Close-Up toothpaste, to Church & Dwight Co in a deal initially worth \$104 million.

And P&G, traditionally considered a marketing company, could in fact be equally considered a technology company as they own over 27,000 patents, in addition to their many world-famous trade marks. After shunning licensing for decades, P&G has now implemented a policy whereby its patents and trademarks should be either actively developed; licensed or sold.

P&G spends over \$1.7 billion on research and development annually. But it uses fewer than 10% of its patents in its products and spends more than \$50 million a year just to maintain them, an expense expected to increase to \$200 million by 2005.

P&G’s licensing efforts are part of a long-term plan to make better use of the company’s intellectual property. And, in the case of brand licensing, the goal is more to build brand equity than pick up spare change. In 2000, the P&G licensing department in the US licensed the Physique haircare brand for hair accessories and appliances; Pampers for children’s clothes; Cover Girl for eyewear; and Mr Clean for household gloves.

Besides getting more return out of its unused patents and brand extensions, another motive behind P&G’s technology licensing push is to spur faster product development. Under a “use it or lose it” policy, P&G patents became fair game for the licensing department within five years of invention or three years of use in a P&G product. Now they don’t simply compete with competitors on the outside, they ‘compete’ with their own technology as it causes them to ‘run faster to stay ahead’.



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The risk isn't just for discontinued brands. Existing brands that don't license trade marks into new categories can also risk opening the door for other companies to do so. That was one factor that drove Coca-Cola into licensing in 1980 as a defensive manoeuvre. Lawyers advised Coke that if it did not go into the T-shirt market itself, someone else legally could. Coke responded by setting up a licensing programme, and it now licenses its flagship brand to more than 320 companies for more than 10,000 non-beverage items.

When Lou Gerstner took over at IBM in 1993, he saw that thousands of patents and trade marks weren't being developed, and only \$US 30 million per annum was being collected in licensing revenue. He promptly declared that they should either be sold or licensed! By 2001, IBM's licensing of patents, trademarks and technologies generated more than \$US 1.5 billion in royalty income – this represented close to 15% of IBM's pretax income.

In 1998, Ferrari acknowledged that about 50% of its \$US 28 million profit came from licensing its name, badge and prancing stallion logo. At Ferrari, they call it “solde trovati” – “found money”.

Today there are literally thousands of different properties available as licensing opportunities. Manufacturers of every consumer product category imaginable are producing licensed product lines, and there is virtually no retail establishment foolish enough to turn its back on these opportunities: Licensing indeed has become big business.

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