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# IP monetisation in India: exploring the options

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**With an ever-growing appetite among its new consumers, India offers exciting IP portfolio opportunities that may yield income directly or drive the wealth-creating effects of enhanced reputation and goodwill**

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## Introduction

Intellectual property has mostly been underused as an asset. It has a quantifiable monetary value which can be liquidated when a business is expanding or finds itself in difficulty. In an uncertain economic climate, it has become even more important to monetise such value.

India's demographic profile reveals vast potential for investment. Backed by the country's strong and dynamic IP laws, there are many options for IP monetisation in India. Given the size of the national economy and its ever-growing hunger for consumption, IP monetisation represents an exciting opportunity.

The monetisation of intellectual property is closely linked to its protection, which gives an IP portfolio credibility in the marketplace and provides opportunities for its commercialisation. Monetisation also leads to improved financial performance through profit maximisation and cost optimisation; costs can be reduced by reviewing the portfolio and cutting certain assets which are unnecessarily expensive to maintain.

This chapter considers the monetisation of intellectual property in the context of India, its market demands and the legislation that may have an impact on the strategy. The assets available may include trademarks, patents, designs, copyright, know-how, trade secrets or a combination of these, exploited using

techniques such as franchising and licensing. This chapter focuses particularly on the monetisation of trademarks.

There are many methods by which a company can derive monetary value from its IP portfolio. This may be achieved as income – in whatever form it is generated – or through the accrual of reputation and goodwill which ultimately have a wealth-creating effect.

## First steps in trademark monetisation

Before a trademark is monetised, thorough due diligence of the trademark must be conducted and its exclusivity ascertained. This process should include:

- Protection of the trademark in the appropriate class (or classes) of goods, with extensions for services that may be necessary for its use.
- A clear demarcation between the primary target of the mark – defined in terms of the goods for which the proprietor expects to use it – and secondary goods. Owners may also seek to identify an area of collaboration in which a trademark may synergise with another mark for a defined purpose to create value.

Once the relevant territories are identified, mapping the exclusivity of the trademark can ensure that the scope of exploitation is without threats. A potentially problematic dichotomy may arise where a brand owner enjoys reputation and goodwill as a result of use in India, as opposed to spill-over reputation in India arising from international use of the trademark. Some brand owners find themselves in a situation in which their trademark is in extensive international use, but does not enjoy spill-over reputation or

goodwill in India. Such a trademark may also be in conflict with regional or local brands, which has the potential to affect not only the trademark owner, but also third-party licensees. In such circumstances, a risk assessment must be conducted to minimise conflict by:

- Restricting goods and services.
- Reaching a consent agreement with the conflicting mark – backed by the Trademarks Law, which explicitly recognises consent.
- Making a strategic decision to collaborate with the conflicting party in a commercial transaction.
- Deploying the ‘dipstick method’, whereby the branded product is introduced onto the market in small quantities over a prolonged period, gradually taking root in consumer consciousness so as to coexist with a potentially conflicting mark.
- Buying out the conflicting brand.

Once the due diligence process is completed, the company must decide on its approach to monetisation. As the government periodically adopts policies that may have an impact on the protection of brand investments, it is also important to evaluate whether monetisation is best achieved through a 100% subsidiary or a joint venture, or by implementing a plan based on licensing, endorsements, securitisation, collateralisation, mortgage or sale and license-back. Some of the main options are explained below.

## Monetisation methods

### Licensing and franchising

Traditionally, Indian law recognised licensing only for registered users in India. However, licensing under contract is now accepted, provided that an element of quality control is assured. Trademark licensing is governed by a number of legislative instruments, including the Contract Act 1972, the Competition Act 2002, the Trademarks Act 1999, the Consumer Protection Act 1986 and the Foreign Exchange Management Act 2000. Trademark licensing differs from other forms of IP licensing in that it provides for the exercise of quality control over the licensee, but the Trademarks Act does not define the term ‘quality control’. As such,

the standard of quality control to be applied will vary from case to case – the requirement does not necessarily imply that the licensee must achieve the highest possible quality. Rather, the idea is to guarantee uniform quality, as the trademark is seen as signifying a particular quality standard.

Licensing can release value from the brand by extending it to a new market. It can provide a company with a steady income stream through defined and periodic royalty payments, as well as generating goodwill and improving brand reputation on the basis of perceived quality. Companies can choose from many licensing strategies, including retail licensing, online licensing, ingredient licensing, brand extension licensing, endorsement licensing, co-brand licensing and cross-licensing.

Franchising has also proved a popular monetisation strategy. In the absence of specific legislation, it is mainly governed by the same body of law as licensing. However, in addition to adhering to the quality standards prescribed by the franchisor, the franchisee must localise the goods and the business model to meet market demand. Domino’s Pizza has achieved this in India, as has McDonald’s – which has even tailored its menus to suit the Indian palate.

In a joint branding or co-branding arrangement, two or more brand owners share brand equity, each contributing an element of its brand to create something new. For example, HDFC Bank and Jet Airways have recently launched a co-branded credit card with a range of benefits for their mutual customers.

In a cross-licensing agreement, each party grants the other a right to its intellectual property. For example, in 2010 Microsoft entered into an agreement with Amazon which allowed the two companies to access each other’s patent portfolios, including patents covering the Kindle e-book reader.

It is no longer mandatory to record a licence with the authorities, except in limited circumstances where the nature of the arrangement necessitates approval. In a bid to attract foreign investment, the government has also relaxed the norms on percentage royalty payments for technology and trademark licences – at present, there is no upper limit on royalty remittances for technology and trademark usage.

In order to take full advantage of a licensing arrangement, it is vital to structure the agreement so as to ensure that all goodwill and reputation arising from the licensee's use accrues solely to the licensor's benefit. It is not unknown for licensing and joint venture arrangements to turn sour in situations where the Indian partner claims ownership of the brand and the resultant goodwill and reputation on the pretext that the foreign brand was developed and localised solely by the Indian partner.

There has been much recent discussion about making company valuation mandatory in the context of listing on a stock exchange. However, as there are no prescribed guidelines for the valuation of intangibles, the rules that apply at present factor in only the income-based, market-based and cost-based brand valuation methods.

### **Collateralisation**

Intellectual property can also be monetised through a pledge and mortgage structure. Collateralisation involves lenders instead of investors: a financial institution, bank or other lender extends credit on the basis of the IP portfolio's value. The intellectual property acts as collateral to minimise losses in the event of default – which would result in the rights being transferred from the owner to the lender. Although the Trademarks Act has no provisions on the recordal of a mortgage, the concept appears in the Patent Act. Mortgages can be made enforceable through binding contracts, by power of attorney and by notification to the Company Register, vendors and dealers. In the event of default, the brand can also be sold to a competitor at an opportunity cost price.

### **Joint ventures**

A joint venture is a business agreement in which parties agree to develop new assets or manufacture and distribute existing products by contributing equity and share revenue, technology or trademark licences. As R&D costs and risks are shared, joint ventures allow for profit maximisation.

In India, retailer Wal-Mart has entered into a joint venture with Bharti Enterprises for a wholesale cash-and-carry business. In the

pharmaceutical sector, Granules India Pvt Ltd has entered into a joint venture with Ajinomoto OmniChem – the arrangement creates a more cost-effective context for the manufacture of high-value active pharmaceutical ingredients (used mainly in cardiovascular and oncological therapy) that are going off-patent. This has resulted in a boost for manufacturing efficiency and increased generation of revenue, which can be used to improve value-added services, such as regulatory guidance, quality control and customer service. As in many situations, well-structured and well-drafted contracts are needed to ensure the remittance of income generated through the sale and distribution of collaborative products and services.

### **Endorsement**

Endorsement is a form of monetisation that attracts goodwill to a brand and improves its brand equity with the help of a popular public figure. For example, PepsiCo has previously benefited from its association with cricketing legend Sachin Tendulkar and Bollywood actor Ranbir Kapoor to enhance its brand's equity, reputation and goodwill, resulting in increased sales and revenue for the company.

### **IP insurance**

Insuring intellectual property may help to minimise risk and cost. The insurance premium, although expensive, would be recoverable in the event of litigation. In the United Kingdom, 'after-the-event' insurance enables companies to fund litigation proceedings as either a claimant or a defendant.

At present, there are no specific provisions for IP insurance in India, except in a few cases where it might form part of a company's key person insurance or business risk insurance. However, the option is worth exploring through foreign insurance agencies and the use of contracts with monetary deterrents. There may be a time when insurers may treat even litigation between two parties as a basis for arriving at an out-of-court monetary settlement.

### **IP exchange**

Intellectual Property Exchange International (IPXI) is a nexus that allows IP rights to be traded as a commodity. The unit licence rights

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that are sold on the IPXI are rights to use a predetermined unit of intellectual property. As non-exclusive, price-discoverable, market-priced rights, they are an effective way of addressing the problem of a lack of transparency in the IP market.

### **Sale**

Many companies operate with more than one brand in the market and may wish to divest themselves of a particular brand without abandoning their entire business. The sale of a brand effectively involves the sale of an overall package which includes IP rights, such as trademarks, registered designs and copyright, but also the goodwill in the business and the right of a company to represent itself as the brand's sole operator. In many cases, a company has protected marks which are not in use and as such are susceptible to cancellation action on grounds of non-use. The Trademarks Act 1999 requires the registered proprietor of a brand to use it in commerce within five years and three months of the date on which registration was granted. The Trademarks Act 1958 previously stipulated that application for the registration of a registered user could not be entertained where such registration would facilitate trademark 'trafficking'. However, this concept was removed from the 1999 act and unused trademarks can now be sold.

### **Remaining in control**

Although brands are typically monetised by the methods mentioned above, the residual means of monetising the intellectual property surrounding a brand could be the commercial exploitation of databases, know-how, distribution and marketing networks and similar advantages. Manpower is a key factor in IP management. In order to ensure that vital knowledge is secured for the company, not tied to an individual, it may be necessary to consider insurance against the departure of key personnel (eg, in the form of key person insurance) and to bind employees through appropriate agreements. Track records of local inventions, plans, surveys, presentations and emails must be owned and retained by the brand owner. **iam**

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Safir Anand is the firm's head of trademarks, entertainment and contractual intellectual property. A strategist for several IP portfolios, Mr Anand also advises on legal issues relating to franchising and licensing, sport and media, packaging and advertising, competition, the Internet, character merchandising, IP audits, due diligence, oppositions and rectifications, copyright, and IP law and the individual. His memberships include the International Trademark Association, the Asia-Pacific Lawyers Association, the Association of Media and Entertainment Counsel and the International Franchising Association.

Mr Anand has spoken at various conferences, including a LexisNexis conference on intellectual property in mergers and acquisitions. Recent articles include "Key Licensing Issues in India" and "Legal Issues in Advertising - Major Implications for IP Rights", both for *Intellectual Asset Management* magazine.



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Ms Sharma has significant experience in the field of contractual and commercial exploitation of intellectual property. In addition to the drafting of licensing, distribution and franchise agreements, she has advised various companies on establishing operations in India, including advice on adopting the best business model. As a brand strategist, she has extensive experience of advising on the choice and protection of brands and on maximising brand visibility. She has also provided advice on packaging and labelling laws, copyright issues and intellectual property in takeovers and joint ventures.

Ms Sharma has spoken at workshops by the Franchising Association of India on the operation of franchising in different sectors.