



# A guide to strategic licensing

Turning IP into commercial value

Law &  
Strategy

“ A robust commercial licensing strategy is essential for unlocking the full value of intellectual property.



Mark Lubbock

Partner, Solicitor





In today's competitive landscape, effective commercial licensing strategies are essential for unlocking the full value of intellectual property.

**This article explores four critical pillars:**

**1**

○ Understanding intellectual property as a property right

**2**

○ The fundamentals of licensing intellectual property rights

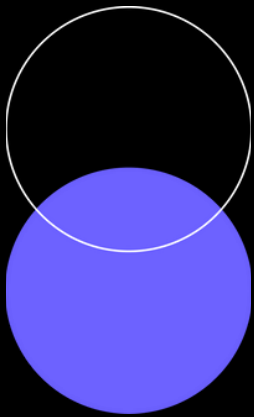
**3**

○ Structuring successful joint ventures

**4**

○ Best practices for intellectual property rights management

# Understanding intellectual property as a property right



Intellectual property rights consist of a bundle of different rights, most of which in the UK have been created by statute and which are subject to international treaties where the signatory states grant broadly similar rights to those in the UK, thus enabling the UK owner of intellectual property rights to own and exploit similar rights in other countries.

The exact mechanism for achieving this depends on the rights and countries in question but with planning and strategic thinking it is possible for a rights holder based in the UK to become the owner of a range of international rights which will enable it to pursue a licensing strategy.

The intellectual property rights which may be the subject of a licensing strategy may include the following:



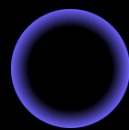
## Patent rights

which protects inventions.

The advantage of patent rights to a company is that they create a clearly marked area of technology into which competitors may not stray without the risk of becoming subject to an infringement action.

Businesses can then develop their protected technology free from unfair competition. Patents are also useful – if not crucial – for the purpose of raising finance and obtaining investment (since patents are a verifiable asset on which investors and lenders can rely).

Further, they facilitate the granting of rights to third parties who may wish to develop and exploit the rights and will pay for the right to do so (since patents will protect the business in which they will invest).

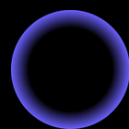


## Copyrights

which protects original work of authorship.

Copyrights are used to protect economic value of many types of work including software and databases not least because it can last for very long time (in many cases more than 70 years).

It is an inexpensive right since it comes into being upon creation of a qualifying work. Like other property rights it can be licensed, assigned and charged.



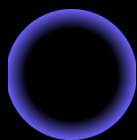
## Trademarks

which protects branding.

Trademarks protect the branding of the technology and are useful to develop the goodwill and reputation of the business that owns the technology; they can be useful to continue to protect the owner's market, notwithstanding the expiry of other rights such as patents.



# Understanding intellectual property as a property right



## Registered designs

**which protects the design of aspects of products.**



## Database rights

**which protects certain databases from unauthorised extraction and re-utilisation.**



## Confidential information & know how

**which protects sensitive data.**

Database rights are primarily a UK and EU right which protection certain databases from unauthorised extraction and re-utilisation of the data in them.

Confidential information and know how are based upon the right to take action for breach of contract or for a breach or duty to prevent unauthorised use or disclosure of the information in question – if it is confidential.

In order to exploit an intellectual property right by licensing the rights to a third party.

■ ■ It is critical for the would-be licensor either to own the rights in question or to be a licensee of such rights with the right to sub-license them.

Typically the creator or author of the technology or works to which the rights relate will be the first owner – or it will be the employer of such rights.



**Mark Lubbock**  
Partner, Solicitor

# Licensing intellectual property rights

Subject to laws relating to competition and export control, it is principally up the parties to agree on the rights to be the subject of the licence and the extent, duration and purpose of the use to be made of such rights by the Licensee.

Licences are contracts whereby one party (the “Licensor”) permits the other party (the “Licensee”) to use the Licensor’s intellectual property (either owned by the Licensor – the more usual case – or licensed to it by a third party owner – a more complex scenario since the owner’s rights need to be taken into account) since otherwise the use by the Licensee would be an infringement of the owner’s rights and could be prevented.

As such licences are extremely flexible, the forms of enabling the exploitation of intellectual property rights need careful consideration to ensure that they are effective and do not impinge on the Licensor’s freedom to exploit the rights in areas which it wants to exploit itself.

The terms will also depend on the role that the Licensor wishes to take in the exploitation (e.g. to make and sell products or parts of them) or to design the technology and license it, the rights being licensed, the technologies, products or processes to which they relate and the markets into which they will be sold recognising that these will inevitably change over time.

Type	Consideration
Purpose of the licence	Is the licence an enabling part of a wider purpose such as a joint development or collaboration or is it to enable an interested licensee access to a product or process to enable them to develop it in their market?
Geographical extent	The licence could be worldwide, limited to economic areas like North America or the EU, or more specific territories such as individual countries or even regions of countries.
Duration	How long will the license last, is it for the life of the last of the patents being licensed to expire, subject to rights of earlier termination for breach, other forms of non-performance, and insolvency?
Field of Use	Platform technologies or technologies which can be used in several different areas of economic activity can be licensed for specific uses.

# Licensing intellectual property rights

Type	Consideration
<b>Rights to exploit</b>	What rights will the Licensee have? Will they be able to develop the technology itself (and what happens to the rights they create as a result), manufacture, sell, and support in the after sales market or will they, for example, be restricted to just making and not selling other than to the Licensor and its distributors? Will manufacturing rights be restricted to a particular geographic area?
<b>Obligation to maintain and enforce</b>	Who will be primarily responsible for keeping the rights in force (and importantly paying the not insignificant costs of so doing) and taking action against infringers? What happens if one party wants to stop paying patent prosecution or renewal costs and the other party disagrees?
<b>Exclusivity</b>	Will the licence be exclusive, sole or non-exclusive to the Licensee (sole typically means that the rights are restricted to the Licensor and the Licensor)?
<b>Duration</b>	How long will the license last, is it for the life of the last of the patents being licensed to expire, subject to rights of earlier termination for breach, other forms of non- performance and insolvency.
<b>Rights to assign and sub-licence</b>	Can the Licensee assign its rights and if so to whom? Can the Licensee sub-licence the rights and for what purposes?
<b>Royalties and lump sum payments</b>	<p>How will the Licensee pay for the rights it has been granted? Typically, this is by way of a percentage payment on the final selling price (usually excluding tax and often costs like insurance, freight costs and returns) of the products or processes the subject of the licence.</p> <p>However, these can be structured as minimum royalties (assuming minimum sales) or advance royalties (paid in advance of the sales expected to be made) as well as running royalties on products actually sold.</p> <p>In addition, particularly for products in development when licensed it is common for a Licensee to pay a lump sum payment to the Licensor when either party achieves a milestone such as obtaining a regulatory clearance.</p>
<b>Improvements</b>	<p>This is touched on above, but is a key consideration for products in development or which can be improved and further developed (e.g. software).</p> <p>Who will own the improvement, and what value is to be applied to them? Who will be able to use them for commercial exploitation and in what area? Does it matter if the improvement can only be used in conjunction with the rights being licensed?</p>

## Licensing intellectual property rights

Type	Consideration
Termination	What rights should either party have to terminate the license and what are the consequences of termination
Allocation of risk	<p>There are always risks incumbent on parties undertaking a commercial relationship, and these need to be allocated and, in certain cases, limited or excluded.</p> <p>For example, it is common for a Licensor to indemnify the Licensee against the risk that third-party rights might be infringed and for the Licensee to indemnify the Licensor against product liability risks caused by defects in the Licensee's implementation of the technology.</p>
Governing law & jurisdiction	<p>This is often a tricky area for smaller companies granting licences to bigger ones. The bigger company demands its own jurisdiction, although it is better able to manage litigation in different territories, because it seeks to discourage the smaller party from undertaking the expense and management time needed to manage litigation in a different territory and one that it is unfamiliar with.</p> <p>In addition, if the Licensor is granting a number of similar licences, it will want to be very careful about having them subject to different laws and jurisdictions since that will complicate their meaning as well as their management.</p>



**If the Licensor is granting a number of similar licences it will want to be very careful about having them subject to different laws and jurisdictions since that will complicate their meaning as well as their management.**

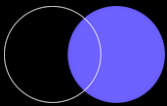


**Mark Lubbock**

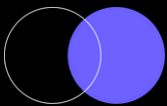
Partner, Solicitor

## Joint venture structures

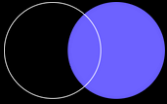
Licensing strategies often take the form of a key part of a wider commercial relationship between companies particularly in developing technologies where collaborative agreements allow the parties to bring their respective skills and knowledge to achieve a common goal. There are a number of legal structures which can be adopted to achieve this end. Joint venture arrangements include the following:



**Corporate joint venture** where the parties set up a special purpose vehicle (“SPV”) to own and control a business venture in which the shares are owned by the participants, and which can be used to bring in further participants by way of investment or additional technology.



**Contractual joint ventures** where there is no SPV but a contractual arrangement governing each parties’ rights and obligations under the business venture including how the collaboration should work and what intellectual property rights are licensed to each party and what rights they have in respect of them and any improvements made as a result of the collaboration.



**Specialisation agreements** where each party agrees to focus on an aspect of the development so that one party will focus on, e.g. the manufacture and/or sale of a particular product while the other might focus on developing improvements and the manufacture of a different component.



Such arrangements are invariably complex to negotiate and document and require experienced counsel to deliver them in a form likely to survive the trials and tribulations of such relationships.



**Mark Lubbock**

Partner, Solicitor

# Intellectual property rights management

**It is also wise to give early thought as to how the ownership and management (including licensing) of intellectual property rights should be handled.**

**The use of an IP holding company (which is not trading or, if it is, doing so only in so far as necessary for the purposes of the management, licensing and enforcement of IP) is a useful way to separate the ownership of a key business asset from the financial and other risks faced by operating entities in the business which, for example can result from the appointment of administrators, receivers and liquidators.**

This can protect the IP from those risks and liabilities. It is important in so doing to emphasise the independence of the IP holding company from the rest of the group by, in time, giving it its own management, board and governance. Further, dealings with the remainder of the group should be conducted on an arm's length basis so far as it practical to do so. These steps are ultimately important for any tax structuring, but it is also important to avoid claims of acting in concert or being joint actors in any situations which give rise to existential risk.

Depending on the development stage of the business it may also be feasible for the IP holding company to have employees whose duties exclusively relate to the management, licensing and enforcement of the IP such as patent counsel and paralegals and (importantly for tax structuring) those involved in research and development. It is better if such employees are not directly involved in the group's day-to-day commercial activities, as this will assist in ring-fencing the IP. There can of course be overlap at director level and the shareholdings will mean that the company is ultimately under the control of a holding company in the group, but as much separation as is practical is useful.

The intra-group assignment and licensing of IP necessary to achieve such ring fencing should be properly documented (including by recording assignments and licences in national IP offices where it is legally advisable to do so – such as the UK) and accounted in the corporate books and records.

For a greater level of protection, the IP holding company may set up a subsidiary or subsidiaries dedicated to licensing third parties, further separating the IP holding company from trading and financial risk.

Intra-group licensing needs to take account of national laws which may impact on how IP rights can be enforced by assignees and licensees. For example, in the UK, non-exclusive licensees do not have the automatic right to take action for infringement of trademarks, copyrights or patents in their own name and, if transactions are not recorded in at the UKIPO within 6 months of the date of the transaction, rights against third party interlopers and infringers may be lost or limited.



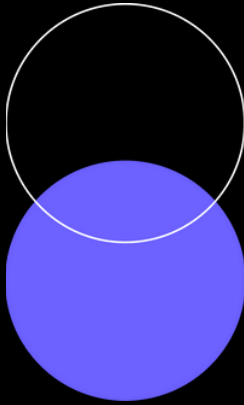
**Intra- group licensing needs to take account of national laws which may impact on how IP rights can be enforced by assignees and licensees.**



**Mark Lubbock**

Partner, Solicitor

## Final thoughts



In summary, a robust commercial licensing strategy is essential for unlocking the full value of intellectual property, whether through understanding IP as a property right, structuring effective licences, forming joint ventures, or managing rights efficiently. By taking a proactive and informed approach, businesses can maximise opportunities and minimise risks in today's dynamic market.

## Get in touch

Want to know more? Speak to our Commercial IP team today.



**Mark Lubbock**

Partner, Solicitor  
[mlubbock@eip.com](mailto:mlubbock@eip.com)



**Ellen Keenan-O'Malley**

Senior Associate, Solicitor  
[ekenanomalley@eip.com](mailto:ekenanomalley@eip.com)

# Law & Strategy