PARTRIDGE IP LAW

POTENTIAL BUSINESS MODELS TO EXPLOIT FULL VALUE
YOUR INTELLECTUAL PROPERTY

Potential Business Models

Companies with intellectual property assets can choose from a wide array of methods to generate economic returns from their intellectual property portfolio. Leveraging these assets can generate new revenue streams, strengthen control, and reduce risk.

The business models identified in the following chart identify a variety of strategic options each with their own advantages and disadvantages.

Business Model	Description	Valuation
Content License	A license is an agreement where the content owner maintains its ownership of the rights involved, but allows a third party to exercise some or all of those rights without fear of an infringement suit. The rights involved may include copyrighted content, proprietary information, trade secrets, concepts and ideas. The content owner maintains ownership and exercises continuing control over how the third party uses the owner's rights. The content owner can license some or all of its exclusive rights (to reproduce, distribute, display, perform or create derivative works).	Royalties for use of content.

Business Model	Description	Valuation
Branding Opportunities	1) <u>Trademark License</u>. A trademark license is an agreement between a trademark owner (the "licensor") and another person or business entity (the "licensee") in which the licensor gives permission to the licensee to use its trademark or trademarks in commerce while all goodwill is inured to the benefit of the owner and quality control can be exerted. 2) <u>Sponsorship/Endorsement</u>. Payment in exchange for right to use the name, likeness, and endorsement services of another in connection with the advertisement, promotion, sale or rendering of goods/services. 3) <u>Co-Branding Agreement</u>. Co-branding is a pairing of two or more branded products or services to form either a separate and unique product/services or brand. Co-branding is beneficial for a variety of reasons including (a) a means to introduce one company's products and services to the loyalists of another, (b) enables one brand to benefit from the "halo of affection" that belongs to another, and (c) cost-savings via shared resources. However, co-branding exposes several risks, including: (a) credit for positive experiences may be spread across two brands; (b) negative experiences with one brand may reflect negatively on the other brand. 4) <u>Certification</u>. Is the confirmation of certain qualities or characteristics of an object, person, or entity provided by external review, education, or assessment. Certification is adopted for a variety of reasons including: (a) delineate and apply professional standards, (b) increase the level of practice, and (c) protect the public 5) <u>Franchise</u>. A franchise agreement outlines the sale of a franchise and the obligations and expectations in running and operating the business.	1) Royalties 2) The endorser may be compensated via annual base compensation, bonuses, royalties and in-kind gifts. 3) Payments can take several forms including a one-time payment up front for development, integration, and use of brand/content; on-going payment; percentage of profits; or royalties generated from co-branded products/services. 4) Flat fee and ongoing training payments or payments for use of content. 5) Flat fee; continuing management services fees, agree to purchase products/services from franchisor; percentage of profits; royalties.
Materials	In this arrangement, content can be purchased at a discount and sold for profit.	Purchase price
Events	In this arrangement, the parties participate in mutually-agreed upon events, seminars, workshops, etc.	Percentage of proceeds

Business Model	Description	Valuation
Advertising	Publisher agrees to publish advertisement in specified media in exchange for compensation	Flat fee base rates with premiums for additional services
Consulting Agreement	The IP creator provides consulting services to the licensee to integrate the content/brand into the licensee's goods or services.	Flat or ongoing fees.

Royalties

The royalty rate differs for different rights being licensed. Rates are always determined by first defining Gross and Net Sales.

"Gross sales" typically refers to the total amount billed to customers who buy the product containing the licensed work. "Net sales" are usually defined as the licensee's gross sales minus certain deductions. Deductions are items deducted from sales before the royalty is calculated. In general, it is acceptable for a licensee to deduct from gross sales any amounts paid for taxes, credits, returns, and quantity discounts made at the time of sale. It is also not unusual for a licensee to deduct shipping (the cost of getting the products to the buyer). In other words, the licensee calculates the total amount billed to customers and deducts certain items, such as the costs of goods, before calculating and paying the royalty.

The royalty payment is calculated by multiplying the royalty rate against either gross or net sales. If against gross, the royalty rate will typically be lower than a royalty rate based on net receipts. Royalty rates for licensing vary depending on the work involved.

Below are some royalty estimates based on the premise that a content creator is licensing its work to others to use in their own works which they will then exploit (basic rights) but then may be utilized in secondary or ancillary works exploited by third parties (subsidiary rights). While this chart identifies royalty estimates for basic rights, subsidiary rights typically result in a 50/50 split of receipts or a far greater share to the content creator in light of the fact that the licensee does not contribute substantial resources, time or effort to produce those items:

- Hardcover Book: 10-15% (typically of net receipts); rate may increase up to 20% after a minimum threshold has been sold.
- Paperback book: 7.5-12.5%
- Electronic Editions: 10-15%
- Adaptations/Derivative Works: 7.5-15%
- Sales through Direct-to-Consumer Marketing: 5%
- Audio/Video adaptations: 7.5-10%
- Sound Reproduction Rights: 50/50 split between content creator and licensee
- Translation Rights: 50/50 to 75/25 split between content creator and licensee

- Multimedia Rights: 50/50 to 75/25 split between content creator and licensee
- Movie and Television Rights: 50/50 to 75/25 split between content creator and licensee
- Live Theatrical Rights: 50/50 to 75/25 split between content creator and licensee
- Merchandising Rights: 50/50 to 75/25 split between content creator and licensee
- Speaking Event/Presentation: per-day flat fee

Per unit royalty. In some cases, a content owner may negotiate a "per unit royalty" that is tied to the number of units sold or manufactured, not to the total money earned by sales. This is a set dollar amount to be paid to the content owner for each licensed product sold/manufactured or for each attendee at an event incorporating the licensed content.

Guaranteed Minimum. In on-going license agreements, a "guaranteed minimum annual royalty payment" (GMAR) is often employed. Pursuant to a GMAR, the licensee promises to pay a specific amount, usually at the beginning of every year, regardless of how well the merchandise sells during the year. At the end of that year, if the earned royalties exceed the GMAR, the content owner is paid the difference. If the GMAR exceeds the earned royalties, the licensee takes a loss.