Licensing Techniques for Increasing Market Shares

Royalty-free Licenses

In the lead article of the June 2003 issue of *les Nouvelles* (v. XXXVIII, no. 2, p.53), I took issue with what I called the IP value extraction and monetization craze for ignoring the fundamentals of patent and licensing law and practice by hyping licensing-out and selling patents as the best way to extract value, as if patents were "Rembrandts in the Attic" by definition and licensing-out was the only game in town. I took issue in particular with the hype and hoopla about "producing patents on demand" in "patent factories" and valuing patents "in a matter of minutes" in the millions of dollars and I deplored the disregard for the paramount value of patents for protection of, and exclusivity for, a company's products and processes, and of the importance of trade secrets in conjunction with patents and of the virtue of royalty-free licensing, because these things are difficult to monetize.

Indeed, there is significant royalty-free (yes, free!) licensing, which makes eminent business sense but would hardly be endorsed by the IP value extraction and monetization gurus. Based on my experience there is indeed great virtue in royalty-free licensing in terms of good will and good relationships, bringing about increased sales of goods and supplies and hence larger market share.

At one point in my career at CIBA-GEIGY Corporation (now Novartis), I prepared over 20 royalty-free non-exclusive licenses to carpet manufacturer under patents I had obtained in the U.S. and Canada on an important improvement in tufting carpets. This improved method had been invented by the director of the service department of the dyestuff division at our Canadian subsidiary. CIBA-GEIGY was not in the business of manufacturing and selling carpets but dyestuffs. Inasmuch as CIBA-GEIGY had no intention to practice this tufting method itself, licensing was the best alternative. But rather than doing it for royalties, we did it for free with the expectation that this would induce grateful carpet manufacturers to buy or buy more dyestuffs from CIBA-GEIGY. Did this happen? I don't know for sure. But it stands to reason that it did, because these carpet manufacturers were pleased to be licensed for free to practice an important new technique for tufting carpets.

A more recent example (according to *IP Law & Business*, March 2004, p.12) is the royalty-free licensing by Iridian Technologies of iris-scan patents. Iridian owns a broad patent and another two dozen patents on iris-recognition software and related technology, which is able to accurately identify people at airport security or automated teller machines. This technology may also be useful for passports, visas, and other travel documents. They licensed these patents also on a royalty-free basis, like CIBA-GEIGY, after deciding that the "upside of software sales was greater than the downside of collecting royalties." Subsequently, they won contracts with Schiphol Airport and the UAE government and expected other big government contracts. Indeed, the above *IP*

Law & Business article concluded that Iridian Technologies will "end up getting a lot of business" and *US Today* of August 15, 2005 (p.B1) confirms this with the cover story headline "Biometric IDS could see massive growth" and specifically referenced Iridian Technologies in the context of TSA's Registered Traveler program. Thus, this case also shows that giving away valuable patent rights for free can be a savvy business move.

Due to the rationale for, and virtue of, royalty-free licensing for creating good will and establishing or cementing good relationships and market share it stands to reason that such licensing practice is taking place in industry in considerable volumes. I believe this to be true, even though giving away valuable patent rights for free may not be viewed as a savvy business move and, in fact, may be anathema to IP monetization gurus.

Interestingly, at a recent TWST Intellectual Property Conference held in San Francisco on July 28-29 on "Maximizing Returns on Your Intellectual Property Portfolio,"one of the recited benefits of attending was the following: "Understand the propriety of giving away IP to develop relationships."

On the subject of royalty-free licensing, it is interesting to note that in the field of licensing law and practice there are other instances of, or occasions for, granting free licenses.

Per my experience, interference settlement agreements usually contain royalty-free license clauses for the benefit of the party on the loosing end of the priority issue.

Also grant-back provisions in license agreements often are royalty-free.

Releases of patent rights to employees, where a corporation or university has no interest in the employee's invention, always come with royalty-free rights to the corporation or university for their own use.

In order to avoid a *Brulotte* problem, hybrid patent/trade secret licenses can be structured so that the patent rights go royalty free, with royalty then based on the trade secrets, provided the trade secrets outweigh the patent rights in importance in the deal.

According to a *les Nouvelles* article (Sept. 2004, p.121) corporations owning patents that would be infringed by university research, "may be willing to grant the university a limited royalty-free license in order to generate good will."

Lastly, in standard setting situations, assurances by patentees required by standard setting organizations (SSOs) must include disclaimers that the patentee will not enforce the patent and will license it on either royalty-free (RF) or reasonable and non-discriminatory (RAND) terms, with the former being preferred or required by some SSOs, e.g. W3C (World Wide Web Consortium).

In light of the above, the conclusion is inescapable that royalty-free licensing of valuable IP rights in preference to royalty-bearing licenses, is conducive to creating good will and establishing or cementing good relationships, with attendant increases in market share.

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