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IP Australia

**SMART  
START**



# The New Business Owner's Guide to Profiting from Your IP

PATENTS

TRADE MARKS

DESIGNS

PLANT BREEDER'S RIGHTS

Robust intellectual property rights delivered efficiently

P

TM

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PBR

## SMARTSTART SYMBOLS TO HELP YOU:

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Indicates a helpful tip or important information.



Gives you details of where to go for more information.



Provides you with real-life case studies of small business owners dealing with IP issues and the day-to-day running of their business.

### Important Note

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# 10 IP tips every business should know

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# 10 IP tips every business should know

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**All great business ventures start out with a great idea but it's not always clear what to do next. Here are 10 tips to help you protect your ideas.**

1. Put a dollar value on your intellectual property (IP). Know its worth so that you can attract investors or get the true worth of your business in a sale.
2. Discover your protection options. IP protection can offer you legitimacy and help you build a strong reputation but you should find out whether you can rely on common law or whether you should register your IP.
3. Keep your ideas confidential. Until you have taken steps to protect your IP, someone could take advantage of your idea.
4. Seek professional advice before you start. Advice can be obtained from a range of IP professionals before you take the plunge.
5. If your idea is a physical object, make a model. Let prospective investors visualise the idea and its market potential, but have them sign confidentiality agreements beforehand.
6. Keep track of your expenses. IP can help you build real wealth, attract investment and grow your business but you need to know whether your potential profits will cover your costs.
7. Know the marketplace. Conduct research to ensure you know your consumers and your competition.
8. Educate yourself. Take business courses and seek advice on how best to commercialise your idea. IP units are also available at a range of TAFEs, universities and educational facilities.
9. Use your IP wisely. IP can be a valuable business asset that can be bought or sold and it might be more profitable if you license someone else to use it. You should always seek professional advice before making any major business decisions.
10. Keep an eye on your IP. Copycats are out there and your rights will not enforce themselves. IP can create security for your business and minimise the risk that others will profit from your ideas, but you need to be vigilant and seek legal assistance if needed.

# Commercialising your IP

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**If you've been in business a while and have protected your IP, you need to know how to make the most of it while keeping an eye on your bottom line. Your business is based on commercial viability. But it's not always clear how to proceed in a way that ensures you are using your IP to its full potential.**

Sometimes the best way forward is to include other parties in your business venture. Before doing so, your IP should be clearly identified, protected and the conditions of its use should be made clear to all involved.

### **The New Business Owner's Guide to Profiting from Your IP**

explores the ways in which you can enlist the help and resources of others to make the most of your IP.



**“If you’re complacent about your IP, then you’ll get copied”**

Martin Chimes, CEO Unistraw

# Commercialising your IP

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**Commercialising IP is the process you undertake to get your innovation, whether it's a product or a service, out into the marketplace and making you money.**

There is no such thing as a 'best' strategy to commercialise your IP. It depends on your individual circumstances so you should consider all your options before taking the leap.

## Establish ownership first

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**If it isn't clear from the beginning who owns the IP attached to a business, then trouble could arise in the future. Before making any moves to commercialise your idea, you should systematically establish proof of ownership of all your IP assets.**

Your records should include:

- the date the trade mark, design or invention was created
- all relevant documentation including contracts, log books, conceptual drawings and relevant meeting or brainstorm session minutes
- details of any persons other than yourself who were involved in its creation
- the application and registration details of any trade marks, patents and designs.



# Consider your commercialisation options

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**In some situations the most profitable option isn't necessarily doing things yourself. There are other ways to make the most of your idea without having to do all the work.**

Before you decide on a commercialisation strategy, you will need to explore all options in light of your personal and professional circumstances. There's no such thing as a 'best' strategy to commercialise your product. How you decide to commercialise depends on your particular IP, existing core business capabilities, understanding of the market and ability to generate finance.

## OUTSOURCING AND INTERNATIONAL EXPANSION

Some smaller operators rely on **outsourcing** to avoid the costs associated with establishing a business such as setting up new premises, hiring employees and contractors, taking out insurance and establishing a supplier network.

If you don't have the capability to manufacture, market or sell your IP product, and you don't want to partner with another company, you may be able to outsource one or more of the required tasks. Outsourcing means you, the IP owner, contracts one or more businesses to undertake a specific task. If you lack manufacturing capabilities, for instance, you might contract a company to physically produce your product. Depending on your company's capabilities, you can then promote and sell the product yourself. You may also decide to contract another person or company to do this for you.

Alternatively, you can outsource all the commercialisation components: manufacturing to one party, marketing and promotion to another, and selling to yet another. In this arrangement you act as project manager and can maximise the returns from commercialising your product without formal 'partnering' or large capital outlay. The advantage of this approach is that it can reduce your need for financing and you maintain control over the product.

If you choose to outsource one or more processes, you will need contracts to ensure your IP rights aren't infringed and that confidentiality isn't breached. You should consult an IP or commercial lawyer to assist you with drafting a suitable contract or agreement.

It may be the case that the best returns for your product or service are going to be found in an overseas market or it may be more cost effective if your manufacturing takes place overseas. Before exploring **international expansion** you need to be sure that you have adequate financial support, marketing and promotion networks, and are informed on the relevant tax implications. Speak to your accountant or business advisor before making any moves overseas.



## Case Study

# Grasping at straws pays off

### NAME

Peter Baron / Martin Chimes

### BUSINESS

Unistraw

### INDUSTRY

Food technology

### IP SMART SINCE

2003

In 1997 Peter Baron was experimenting with fun ways to encourage his grandchildren to drink more milk. Wanting to avoid adding excess sugar to their diets, he came upon the idea of a straw with flavoured filters that would change the taste of milk as it was sipped.

His first prototype was constructed from regular drinking straws, flavoured powders and of all things—women’s stockings!

It took time—seven years in fact—but with the assistance of business partner John Rainbow, Peter perfected the Sipahh straw. He then patented its unique filter system and designed the machinery that would manufacture his product.

In 2004 Unistraw International Limited was launched and John and Peter appointed Martin Chimes as CEO.

Within 18 months of the product launch, Unistraw had 97 distribution partners internationally, had partnered with McDonalds to include Sipahh straws in their children’s meals and were stocking them in major supermarket chains.

“Our key objective was to develop low-cost manufacturing,” said Martin. “We knew we had to set up in China or somewhere that would give us that base. We realised we had to develop a global brand and to get rapid expansion across the globe, the best thing to do was license our product,” he said.

Launching itself as a food technology company, Unistraw knew the importance of protecting its intellectual property (IP) and created its own licensing model and patent strategy.

Martin said, “We’ve had to develop and protect our IP—that was a key focus for us. Priority number one in our strategy was protecting ourselves as much as we were able to in the form of patents, registered trade mark and design rights, trade secrets and copyright.”

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## Grasping at straws pays off

Unistraw has implemented a sophisticated protection measure—it segments the manufacturing process to ensure that its products and systems can't be reverse engineered.

"Although we own the IP, there's not one person in our company who knows the whole manufacturing process from beginning to end," says Martin, who explains that Sipahh flavours and filters are produced in separate plants and then assembled on other sites.

Despite their impressive IP protection strategy, Unistraw has faced its share of copycats.

When Sipahh straws were first demonstrated in 2005 at Germany's 'Anuga'—the world's largest food and beverage trade show—Unistraw discovered that a food giant competitor was about to launch a similar straw in supermarkets. That set off alarm bells. John recalled that back in 2003 when he was exploring commercialisation options for Sipahh, samples of the products were viewed by a competing company. Unistraw took the company to the High Court in London, but it was eventually settled out of court. It is understood that the competitor may only sell and market its straws in the UK, leaving Unistraw's key markets protected.

Another company that attempted to launch a similar flavoured straw in China via the internet was shut down in 24 hours.

Martin explains, "We work straight away on the basis that if somebody's going to try and copy us, they've got to get through a legal minefield to get away with it. We have to be vigilant and pursue them endlessly. If you're complacent about your IP, then you'll get copied."

Unistraw are pursuing other uses for their Sipahh straw technology including partnering with Tetra Pak to include the straws on their drink packs and the possibility of using the straws to deliver probiotics—live micro-organisms which help protect the body from bacteria and assist recovery from illness.

The sky is now the limit for what was once just a couple of straws and a pair of pantyhose but as Martin notes, it could have stayed a pipe dream. "If Peter hadn't recognised from the start what he stood to lose by leaving his IP vulnerable, we'd have been edged out of the marketplace years ago."

While IP protection costs money, Martin says it's crucial for businesses of all sizes, "There's no way around it. You've got to put together an IP strategy which works for your business and marketplace, like we've done. I think we're developing a reputation as a company who will fiercely protect their IP. And that's a great reputation to have."

## LICENSING

Licensing is another way to increase profitability. The key thing to remember about licences is that the owner of the IP, while providing the right to commercialise it, always retains its ownership.

The type of licence you choose will depend on the degree of involvement you wish your manufacturer or distributor to have in the commercialisation of your IP. Any type of IP can be licensed, from patents to trade marks, to software and components that are incorporated into another manufacturer's product.

A licence creates contractual rights, duties and obligations between the owner of the IP and any person or company granted the right to further develop or produce the IP product. As it's a legal contract, these terms can be enforced through the courts.

The most common licence used by IP owners is an 'exclusive licence'. An exclusive licence is a contract whereby the owner gives permission to a licensee to commercialise their IP on particular terms set out in the contract. A licence usually extends to all aspects of commercialisation, from developing it further, to manufacturing products, marketing, promoting and selling those products.

As an IP owner granting an exclusive licence, you benefit by avoiding the risk of your product not reaching the market and by receiving licensing fees in return. The licensee benefits by knowing that they will be the sole recipients of the profits coming from the time and funds they invest in bringing that product to a market-ready state.

After assessing your circumstances, you may decide it's best to retain some commercialisation rights. For example—you may decide to produce your IP product in-house and to partner with an exclusive licensee for the marketing, promotion and selling aspects of bringing your product to the market.

On the other hand, you may decide that you have a marketable idea but don't have the capacity to develop it further than the concept or prototype stage. In this case you could grant one company an exclusive licence to manufacture the product. If you choose this particular strategy, you may not retain any commercialisation obligations at all. Your return will be entirely from the licensing payment.

Exclusive licences don't always provide blanket protection for the licensee. There are often varying conditions of exclusivity relating to product, field and/or territory restrictions.

### Product restrictions

An owner may licence their IP to a licensee, with the restriction that the IP is only permitted to be used for a particular class of product. Your product may have many possible uses, such as the formula for a type of plastic. To capitalise on this IP, it may be that you retain some of the rights to its use but license several other manufacturers to use the IP in specific products. All parties would benefit, because it would be unlikely that there would be a crossover in the markets. By giving up some of your commercialisation options, you in return receive licensing fees from each party.

## Field restrictions

A field restriction is similar to a product restriction, but instead of relating to a product, it relates to a field of application. Your IP could have applications in various industries, so as the owner you may decide that if you lack the capability to commercialise your IP in these fields, companies already operating in them may be better placed to maximise the IP potential. Once again, by forgoing some of your commercialisation options, you can receive licensing fees from these companies.

## Territory restrictions

A territory restriction is similar to product and field restrictions, but operates in relation to a geographical area. You may have created a new industrial process that can be used anywhere in the world, but you don't have access to manufacturing facilities or markets in other countries. By granting established companies in these countries the rights to use the process in their specific country, you are again gaining fees in return for the relinquishing of options.

Your business advisor or IP lawyer can assist you in choosing the licensing structure most appropriate to maximise your IP.

## ASSIGNMENT

Assignment is basically selling your IP outright to another party. You may have thought about going into business with your new idea and realised that you don't have the business skills or the desire to manufacture or develop the product yourself. You may also want to sell your IP to fund your next big idea. Whatever your reasons, seek advice on the contract of sale and the accurate value of your IP.

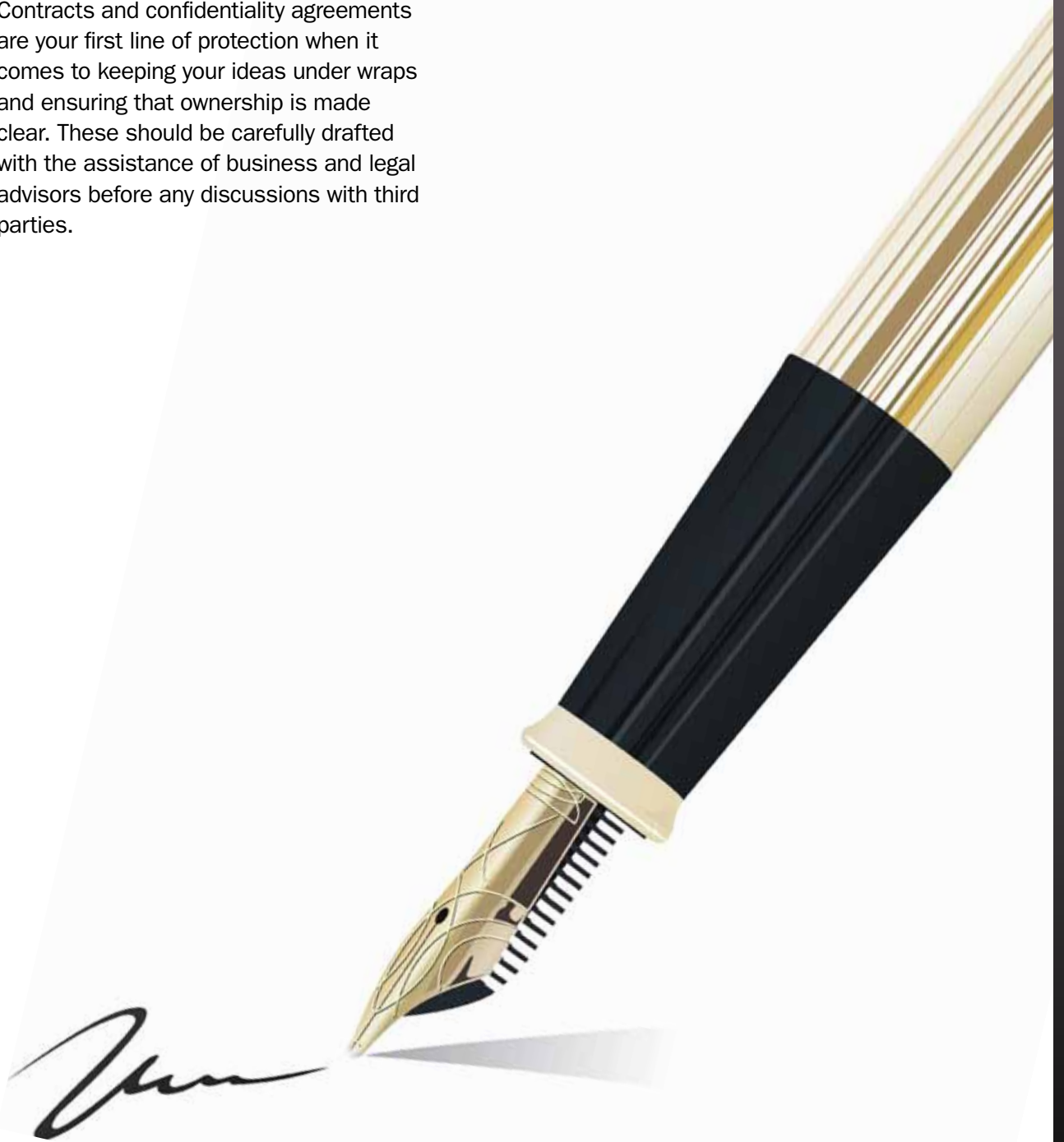


# Commercialisation traps to avoid

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**Regardless of whether you decide to commercialise in-house or with a partner, be aware of the two most common commercialisation traps—not maintaining the confidentiality of your IP and not securing ownership of your IP.**

Contracts and confidentiality agreements are your first line of protection when it comes to keeping your ideas under wraps and ensuring that ownership is made clear. These should be carefully drafted with the assistance of business and legal advisors before any discussions with third parties.



# Finding money and business partners

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**However you decide to proceed with your idea, commercialisation requires money. In the business planning stages you should have identified your funding source and it may be that you require external funding to ensure the growth and success of your business.**

There are two main ways to raise money:

- **Debt financing**—where you borrow funds using assets to secure the loan, for example—the business owner’s home.
- **Venture capital**—where an investor buys a share of your business.

## DEBT FINANCING

Debt financing is investment funding, generally from a bank, which the borrower must repay with interest. The loan is secured by a charge over the business’s assets so that if the debt isn’t repaid, the assets can be sold by the lender to pay the debt. Debt financing is a risky option as you are pledging assets at an early stage in your venture and at a time where you may not have regular cash flow to meet the repayments. When it comes to IP-based business, lending institutions are often reluctant to support new and relatively untested ideas.

## VENTURE CAPITALISTS

Venture capitalists can often fill the gaps when the banks won’t by providing start-up funds or ‘seed capital’. Venture capital is the most commonly sought and generally the most appropriate investment mechanism to finance the commercialisation of IP. Unlike debt financing, if your profit does not eventuate you do not have to repay your investor—they knew the risks when they invested in your business. However, if your business prospers on the back of seed capital, the venture capitalist will likely be seeking much higher returns.

A joint venture agreement between a business owner and a venture capitalist should cover all the responsibilities and rights of both parties. It’s essential to get legal assistance in drafting this type of agreement. The agreement will also set out the nature, ownership and responsibilities for IP rights, which is often what the business owner uses as a bargaining chip for securing venture capital. The agreement should also outline trade restraint provisions if a partner leaves the joint venture.

### How do I find venture capitalists?

If you are looking for someone to buy a share (equity) in your business there are a number of organisations that can assist you. An internet or Yellow Pages search will provide you with a range of options.

# Where can I get help?

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**Government assistance comes in the form of education, tax incentives and grants.**

**AusIndustry** - the business delivery division of the Department of Innovation, Industry, Science and Research delivers a range of innovation grants, small business services, tax and duty concessions, industry support, and venture capital products, visit [www.ausindustry.gov.au](http://www.ausindustry.gov.au)

**Business Enterprise Centres** - provide low cost advisory services to small business. The aim of BECs is to improve the business skills of small business operators, intending operators and independent contractors, visit [www.becaustalia.org.au](http://www.becaustalia.org.au)

**Commercialisation Australia** - assists researchers, entrepreneurs and innovative companies convert ideas into successful commercial ventures. The support is designed to help applicants through the commercialisation process. Assistance is tailored to the needs of each successful applicant and is structured around the key development stages in the commercialisation pathway, visit [www.commercialisationaustralia.gov.au](http://www.commercialisationaustralia.gov.au)

**Enterprise Connect** - offers a comprehensive business review free of charge to small and medium enterprises. They provide a national network of services and support for eligible SMEs to access expert, practical advice and support tailored to their individual businesses, visit [www.enterpriseconnect.gov.au](http://www.enterpriseconnect.gov.au)

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