

IT ENTREPRENEURSHIP (SCK3463/ SCD4763)

Chapter 7 Intellectual Property

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“The funny walk and tuxedo feathers are my intellectual property and trademark. If you want to look or act like me, you have to pay me a million dollars.”

Chapter Objectives

1. Define the term “intellectual property” and describe its importance.
2. Discuss the four major forms of intellectual property: patents, trademarks, copyrights, and trade secrets.
3. Specify the rules of thumb for determining whether a particular piece of intellectual property is worth the time and expense of protecting.
4. Describe the six-step process for obtaining a patent.
5. Identify the four types of trademarks.

Chapter Objectives

6. Identify the types of material that are eligible for copyright protection.
7. Discuss the legal environment that facilitates trade secret protection.
8. Identify the most common types of trade secret disputes.
9. Describe some of the physical measures that firms take to protect their trade secrets.
10. Explain the two primary reasons for conducting an intellectual property audit.

The Importance of Intellectual Property

- Intellectual Property
 - Is any product of human intellect that is intangible but has value in the marketplace.
 - It is called “intellectual” property because it is the product of human imagination, creativity, and inventiveness.
- Importance
 - Traditionally, businesses have thought of their physical assets, such as land, buildings, and equipment as the most important.
 - Increasingly, however, a company’ s intellectual assets are the most important.

Determining What Intellectual Property to Protect

Criteria 1

- Determine whether the intellectual property in question is directly related to the firm's competitive advantage.

Criteria 2

- Decide whether the intellectual property in question has value in the marketplace.

Common Mistakes Firms Make in Regard to Protecting Their Intellectual Property

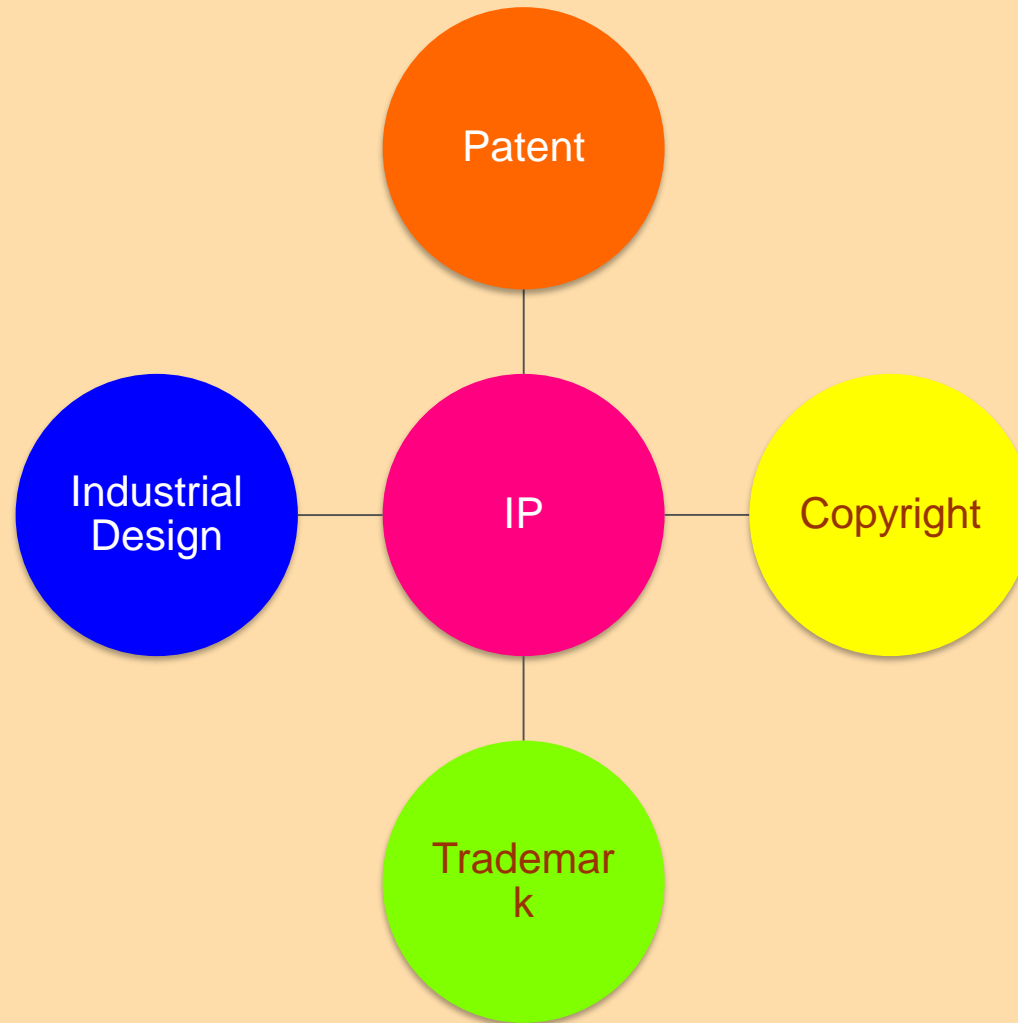
Not properly identifying
all of their
intellectual property

Not fully recognizing
the value of their
intellectual property

Not legally protecting
the
intellectual property
that needs protecting

Not using their
intellectual property as
part of their overall
plan for success

Types of Intellectual Property



Patents

- ... is a grant from the federal government conferring the rights to exclude others from making, selling, or using an invention for the term of the patent. (see the next slide for a full explanation)
- Increasing Interest in Patents
 - There is increasing interest in patents.
 - Since Patent #1 was granted in 1790, the U.S. Patent & Trademark Office has granted over six million patents.
 - The patent office is strained. It now takes an average of 32.2 months from the date of first filing to receive a U.S. patent.

Proper Understanding for What a Patent Means

A patent does not give its owner the right to make, use or sell an invention: rather, the right granted is only to exclude others from doing so.

As a result, if an inventor obtains a patent for a new kind of computer chip, and the chip would infringe on a prior patent owned by Intel, the inventor has no right to make, use, or sell the chip.

To do so, the inventor would need to obtain permission from Intel. Intel may refuse permission, or ask that a licensing fee to be paid for the rights to infringe on its patent.

While this system may seem odd, it is really the only way the system could work. Many inventions are improvements on existing inventions, and the system allows the improvements to be (patented) and sold, but only with the permission of the original inventors, who usually benefit by obtaining licensing income in exchange for their consent.

Growth in Patent Applications in the United States

| | 2006 | 2007 | 2008 |
|---------------------------|-------------|-------------|-------------|
| Applications received | 445,613 | 468,330 | 496,762 |
| Patents issued | 183,187 | 184,376 | 182,556 |
| Total patents pending | 1,003,884 | 1,112,517 | 1,208,076 |
| Average time for approval | 31.1 months | 31.9 months | 32.2 months |

Source: United States Patent and Trademark Office, *Performance and Accountability Report for Fiscal Year 2008*.

Three Basic Requirements for Obtaining a Patent

Useful

It must have utility.

Novel

It must be different from what has come before (i.e., not in the "prior art").

Not Obvious

It must be not obvious to a person of ordinary skill in the field.

Types of Patents

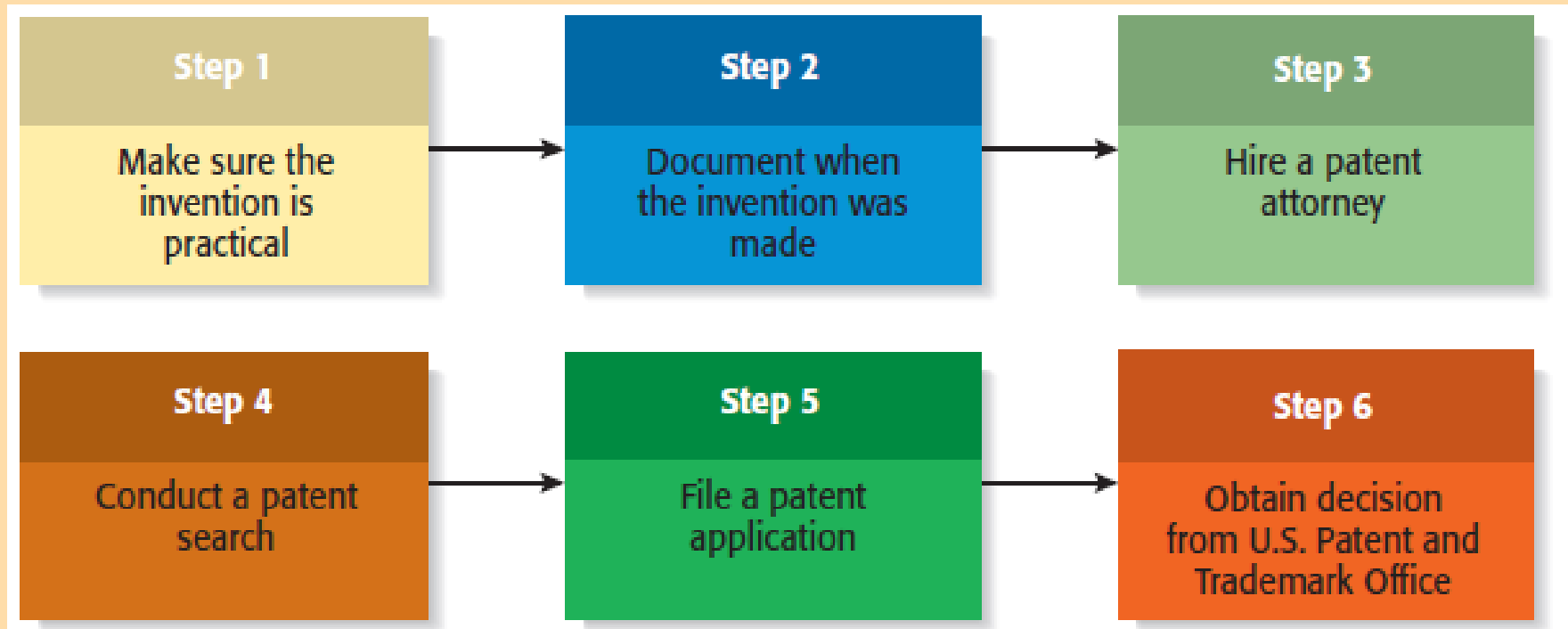
| Type | Type of Invention Covered | Duration |
|---------|---|---|
| Utility | New or useful process, machine, manufacturer, or composition of material or any new and useful improvement thereof. | 20 years from the date of the original application. |
| Design | Invention of new, original, and ornamental design for manufactured products. | 14 years from the date of the original application. |
| Plant | Any new varieties of plants that can be reproduced asexually. | 20 years from the date of the original application. |

Business Method Patents

(Special Utility Patent)

- Business Method Patent
 - A business method patent is a patent that protects an invention that is or facilitates a method of doing business.
 - The most notable business method patents that have been awarded:
 - Amazon.com’s one click ordering system.
 - Priceline.com’s “name-your-price” business model.
 - Netflix’s method for allowing customers to set up a rental list of movies to be mailed to them.

The Process of Obtaining a Patent



Patent Infringement

- Patent Infringement
 - Takes place when one party engages in the unauthorized use of another party's patent.
 - The tough part (particularly from a small entrepreneurial firm's point of view) is that patent infringement cases are costly to litigate.
 - A typical patent infringement case costs each side at least \$500,000 to litigate.

Trademarks

- Trademark
 - A trademark is any word, name, symbol, or device used to identify the source or origin of products or services and to distinguish those product or services from others.
 - Trademarks also provide consumers with useful information.
 - For example, consumers know what to expect when they see an Abercrombie & Fitch store.
 - Think how confusing it would be if any retail store could use the name Abercrombie & Fitch.

Illustration of the Multifaceted Nature of Trademark Protection



← Name is trademarked

← Symbol is trademarked

← Slogan is trademarked

Types of Trademarks

1 of 2

| Type | Types of Marks Covered | Duration |
|--------------|---|--|
| Trademark | <p>Any word, name, symbol, or device used to identify and distinguish one company's goods from another.</p> <p>Examples: <i>Dell, Nokia, CarePages, Netflix, Dogster, Fitbit</i></p> | <p>Renewable every 10 years, as long as the mark remains in use.</p> |
| Service mark | <p>Similar to trademarks; are used to identify the services or intangible activities of a business, rather than a business's physical products.</p> <p>Examples: <i>Amazon.com, Orbitz, eBay, Overstock.com</i></p> | <p>Renewable every 10 years, as long as the mark remains in use.</p> |

Types of Trademarks

2 of 2

| Type | Types of Marks Covered | Duration |
|--------------------|---|--|
| Collective mark | <p>Trademarks or service markets used by the members of a cooperative, association, or other collective group.</p> <p>Examples: <i>Rotary International</i>, <i>International Franchise Association</i></p> | <p>Renewable every 10 years, as long as the mark remains in use.</p> |
| Certification mark | <p>Marks, words, names, symbols, or devices used by a person other than the owner to certify a particular quality about a good or service.</p> <p>Examples: <i>Florida Oranges</i>, <i>ISO 9000</i>, <i>Underwriters Laboratories</i></p> | <p>Renewable every 10 years, as long as the mark remains in use.</p> |

What is Protected Under Trademark Law

1 of 2

| Item | Example(s) |
|---------------------|------------------------------------|
| Words | Ready Solar, Activate Drinks, Jott |
| Numbers and letters | 3M, MSNBA, 1-800-FLOWERS |
| Designs and logos | Nike swoosh logo |
| Sounds | MGM's lion's roar |

What is Protected Under Trademark Law

2 of 2

| Item | Example |
|-------------|---|
| Fragrances | Stationary treated with a special fragrance |
| Shapes | Unique shape of the Apple iPod |
| Colors | Nexium—the “purple pill” |
| Trade dress | The layout and décor of a restaurant |

Exclusions From Trademark Protection

| Item | Example |
|------------------------------|---|
| Immoral or scandalous matter | Profane words |
| Deceptive matter | Labeling oranges “Fresh Florida Oranges” that aren’t grown in Florida |
| Descriptive marks | Phrases like “golf ball” and “fried chicken” are descriptive and can’t be trademarked |
| Surnames | Common surnames like “Andersen” or “Smith” can’t be trademarked |

The Process of Obtaining a Trademark

Step 1

Select an appropriate mark

Step 2

Perform a trademark search

Step 3

Create rights in the trademark

Copyrights

- Copyrights
 - A copyright is a form of intellectual property protection that grants to the owner of a work of authorship the legal right to determine how the work is used and to obtain the economic benefits from the work.
 - A work does not have to have artistic merit to be eligible for copyright protection.
 - As a result, things such as operating manuals and sales brochures are eligible for copyright protection.

What is Protected By a Copyright?

Literary works

Musical compositions

Computer software

Dramatic works


Pantomimes and
choreographic works

Pictorial, graphic, and
sculptural works

Exclusions From Copyright Protection

- The Idea-Expression Dichotomy
 - The main exclusion is that copyright laws cannot protect ideas.
 - For example, an entrepreneur may have the idea to open a soccer-themed restaurant. The idea itself is not eligible for copyright protection. However, if the entrepreneur writes down specifically what his or her soccer-themed restaurant will look like and how it will operate, that description is copyrightable.
 - The legal principle describing this concept is called the idea-expression dichotomy.
 - An idea is not copyrightable, but the specific expression of an idea is.

Obtaining a Copyright

- How to Obtain a Copyright
 - Copyright law protects any work of authorship the moment it assumes a tangible form.
 - Technically, it is not necessary to provide a copyright notice or register work with the U.S. Copyright Office.
 - The following steps can be taken, however, to enhance copyright protection.
 - Copyright protection can be enhanced by attaching the copyright notice, or “copyright bug”  to something.
 - Further protection can be obtained by registering the work with the U.S. Copyright Office.

Copyright Infringement

1 of 2

- Copyright Infringement
 - Copyright infringement occurs when one work derives from another or is an exact copy or shows substantial similarity to the original work.
 - To prove infringement, a copyright owner is required to show that the alleged infringer had prior access to the copyrighted work and that the work is substantially similar to the owner's.

Copyright Infringement

2 of 2



- The illegal downloading of music is an example of copyright infringement.
- Copyright infringement costs the owners of copyrighted material as estimated \$20 billion per year in the U.S. alone.

Trade Secrets

- Trade Secrets
 - A trade secret is any formula, pattern, physical device, idea, process, or other information that provides the owner of the information with a competitive advantage in the marketplace.
 - Trade secrets include marketing plans, product formulas, financial forecasts, employee rosters, logs of sales calls, and similar types of proprietary information.
 - The Federal Economic Espionage Act, passed in 1996, criminalizes the theft of trade secrets.

What Qualifies For Trade Secret Protection?

1 of 2

- Trade Secret Protection
 - Not all information qualifies for trade secret protection
 - In general, information that is know to the public or that competitors can discover through legal means doesn't qualify for trade secret protection
 - Companies protect trade secrets through physical measures and written documents.

What Qualifies For Trade Secret Protection?

2 of 2

The strongest case for trade secret protection is information that is characterized by the following

- Is not known outside the company.
- Is known only inside the company on a “need-to-know” basis.
- Is safeguarded by stringent efforts to keep the information confidential.
- Is valuable and provides the company a competitive advantage
- Was developed at great cost, time, and effort.
- Cannot be easily duplicated, reverse engineered, or discovered.

Physical Measures for Protecting Trade Secrets

Restricting access

Labeling documents

Password protecting
computer files

Maintaining logbooks
for visitors

Maintaining logbooks for
access to sensitive
material

Maintaining adequate
overall security
measures

Conducting an Intellectual Property Audit

1 of 2

- Intellectual Property Audit
 - The first step a firm should take to protect its intellectual property is to complete an intellectual property audit.
 - An intellectual property audit is conducted to determine the intellectual property a firm owns.
 - There are two reasons for conducting an intellectual property audit:
 - First, it is prudent for a company to periodically determine whether its intellectual property is being properly protected.
 - Second, it is important for a firm to remain prepared to justify its valuation in the event of a merger or acquisition.

Conducting an Intellectual Property Audit

2 of 2

- The Process of Conducting an Intellectual Property Audit
 - The first step is to develop an inventory of a firm's existing intellectual property. The inventory should include the firm's present registrations of patents, trademarks, and copyrights.
 - The second step is to identify works in progress to ensure that they are being documented and protected in a systematic, orderly manner.