

# Exploring a Sense of Intellectual Property Valuation for Indian SMEs

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## ABSTRACT

*As intellectual property (IP) has become an integral part of business strategy, the valuation of these assets has become more and more critical. Consequently, the strategic decisions of Indian SMEs also increasingly depend on understanding the economics affecting the value of these assets and most crucially appraising the approximate value of their IP. In this light, the paper reviews the principal approaches and methods used to evaluate an IP asset and proposes a framework to help the Indian SMEs to select an appropriate approach for effective valuation of their IP. In the background, paper discusses various scenarios where IP valuation is required and needed for SMEs and also explores some problems and issues generally faced/reported by the Indian SMEs in IP valuation. Further, the paper examines the broadening set of channels through which SMEs can exploit their IP. The paper provides five constructive building blocks (descriptions of IP assets, valuation purpose, influencing factors, valuation premise and Standardizing IP valuation) for Indian SMEs to choose a viable approach. The paper concludes that the selection of an appropriate method depends upon the circumstances surrounding the valuation, including the type of IP being valued, the purpose of valuation, the basis of valuation and most importantly the availability of information. The clear understanding of the underlying assumptions and theories behind the various valuation methodologies will assist the Indian SMEs greatly in negotiations for the sales or licensing of their intellectual property.*

*Keywords: Exploitation, Intellectual Property (IP), Licensing, Small and Medium Sized Enterprises (SMEs), Valuation*

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## INTRODUCTION

There are several compelling reasons in the literature to protect the intellectual property<sup>1</sup> (IP). It encourages innovation (Kremer, 1988; Helpman, 1993; Jeffe & Josh, 2004; Chen & Thitima, 2005; Crosby, 2007) and rewards entrepreneurs (Gans, 2003; Boone, 2001; Teece,

1987), drives economic growth (Schmookler, 1966; Falvey *et al.*, 2004; Thompson and Rushing, 1999; Gould and William, 1996) and competitiveness (Landerman and William, 2003; Lai, 1998 and Chaudhuri *et al.*, 2006), creates and supports competitive jobs (Vandenbussche *et al.*, 2007; Burke and Fraser, 2007; Burke *et al.*, 2002), protects consumers and

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families (Frank & Salkever, 1997; Hausman & Leonar, 2002; Giancarlo & Harvey, 1997), and helps generate breakthrough solutions to global challenges (Bruno, 2009; GIPC, 2011; Norm *et al.*, 2011). Most importantly, the shift towards knowledge and technology-based industries has placed increasing importance on intellectual assets as the source of competitive advantage for firms, thus increasing the need to have such assets protected (WIPO, 2004). All businesses today- big and small, public and private, high and low technology enabled- need to create and extract value from their intellectual capital. However, the capabilities to generate and develop, protect, level of usage and exploitation of IP varies significantly across the organization, depending on their sector, size, focus, resources and the business environment in which they operate. Larger sized firms give tremendous value to their intellectual property (Christine & Mark, 2007; Gould & Gruben, 1996; Sumanjeet, 2012). Today, between 60-80 per cent of the market value of the companies on S&P is attributed to IP (Roberts, 2012). In 2007, 90 per cent of the Global 2000 enterprise value was attributable to ‘intellectual assets’ (up from 20 per cent in 1978). In 2011, the brand value of the Coke Company’s intangibles

(excluding goodwill) was estimated at around US\$ 71,861 million, followed by IBM at US\$ 69,905 million, Microsoft at US\$ 59,087 million and Google at US\$ 55,317 million (Table 1).

Alike large firms, small and medium sized enterprises (SMEs), in both developed and developing countries<sup>2</sup> rely heavily on intellectual property<sup>3</sup>. But, in case of SMEs, more than a ‘*value game*’, IPRs have strategic importance, as small firms require constant creativity and innovation to adapt to fast-changing market conditions, short product cycles and intense market competition. While some create new products, services and processes, others are specialized in adapting existing technologies for specific niche markets. In short, IPRs offer huge opportunities for SMEs to gain and maintain substantial competitive edge in the marketplace. Therefore, strong protection of IP may assist SMEs<sup>5</sup> in every aspect of their business activities- from planning to business strategy; product planning to product development and design; product delivery to marketing and from raising financial resources to expand the business boundaries through licensing or franchising<sup>6</sup>. But, the value of IP is often not adequately appreciated and its potential for providing opportunities for future profits is widely underestimated by

Table 1. Top ten most valuable global brands

Company	Industry	2010 (US\$ Million)	2011 (US\$ Million)	Change in Brand Value (%)
Coca-Cola (US)	Beverages	70,452	71,861	2%
IBM (US)	Business Services	64,727	69,905	8%
Microsoft (US)	Computer Software	60,895	59,087	-3%
Google (US)	Internet Services	43,557	55,317	27%
GE (US)	Diversified	42,808	42,808	0%
McDonald’s (US)	Restaurants	33,578	35,593	6%
Intel (US)	Electronics	32,015	35,217	10%
Apple (US)	Electronics	21,143	33,492	58%
Disney (US)	Media	28,731	29,018	1%
HP (US)	Electronics	26,867	28,479	6%

Source: Best Global Brands 2011, Interbrand, BusinessWeek (compiled by the Researcher)

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