

SPPI on “Leasing of intellectual property and similar products, except copyrighted works” in France

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Structure of the presentation

- Definition of the service
- Market characteristics
- Turnover/output
- Pricing methods
- SPPI

Definition of the service

NACE: This item includes: This class includes the activities of allowing others to use intellectual property products and similar products for which a **royalty payment** or **licensing fee** is paid to the owner of the product (i.e. the asset holder). The leasing of these products can take various forms, such as permission for reproduction, use in subsequent processes or products, operating businesses under a franchise etc. The current owners may or may not have created these products.

Definition of the service

NACE: This class includes:

- leasing of intellectual property products (except copyrighted works, such as books or software)
- - receiving royalties or licensing fees for the use of:
 - patented entities
 - trademarks or service marks
 - brand names
 - mineral exploration and evaluation
- franchise agreements

Definition of the service

CPA: 77.40.11

Description: Licensing services for the right to use research and development products

77.40.12

Description: Licensing services for the right to use trademarks and franchises

77.40.13

Description: Licensing services for the right to use mineral exploration and evaluation

77.40.19

Description: Licensing services for the right to use other intellectual property and similar products, except copyrighted works

Definition of the service

borderline cases

- copyright and related rights – (with publishing)
- the market for patents is not part of this market
- revenues from the trials some companies sue to firms that they suspect to use, without any right
- Patent trolls
- The exploration agreements are not 7740, but licenses on information collected yes
- Some revenues can very often be recorded as or with the "costs of headquarters" (or "management fees")

Definition of the service

definitions

- ❑ **a patent** : is often granted for a given country, for 20 years, but the license of use of the patent is necessarily shorter
- ❑ **The protection of plant varieties**, also known as "plant breeder's rights", is a form of intellectual property law granted to breeders of new plant varieties
- ❑ **A trademark** (a brand)
- ❑ **A franchise** results from a system of marketing of products, services or technologies based on a collaboration between companies
- ❑ **An industrial design** is the ornamental or aesthetic aspect of an object
- ❑ **exploration services** can lead to licenses

Market characteristics

- ❑ **the industrial groups** (automobiles, pharmaceuticals, parapharmaceuticals, chemical etc.) which have a large research and development activity and who receive amounts more or less important of licenses as the result of the assignment of rights to other units
- ❑ the groups who manage **networks of brands or franchises** (in the distribution, in the textile industry, in the marketing of luxury products, or of ordinary consumer goods, in the catering industry etc.). The objective of these groups is the management of networks and the main income is the perception of licenses from their franchises.

Some brands with franchises

JULES

SPAR

PAUL
BONNEUR DE QUALITÉ
PAINES DE FRANCE

Troc.com

class'crouste



Eléphantbleu

MIDAS

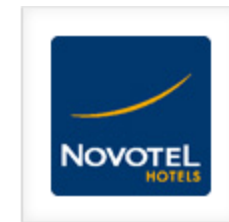
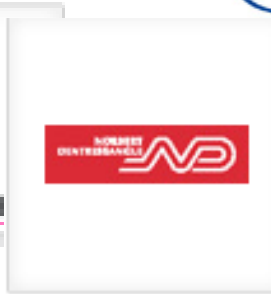
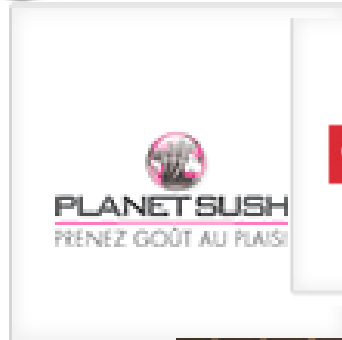
Speedy

RESTAURANT
DEL'ARTE

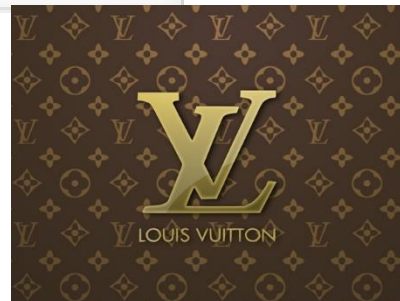
Adhap
services
l'aide à domicile

FONCIA

BRASSERIE
ELO



LACOSTE



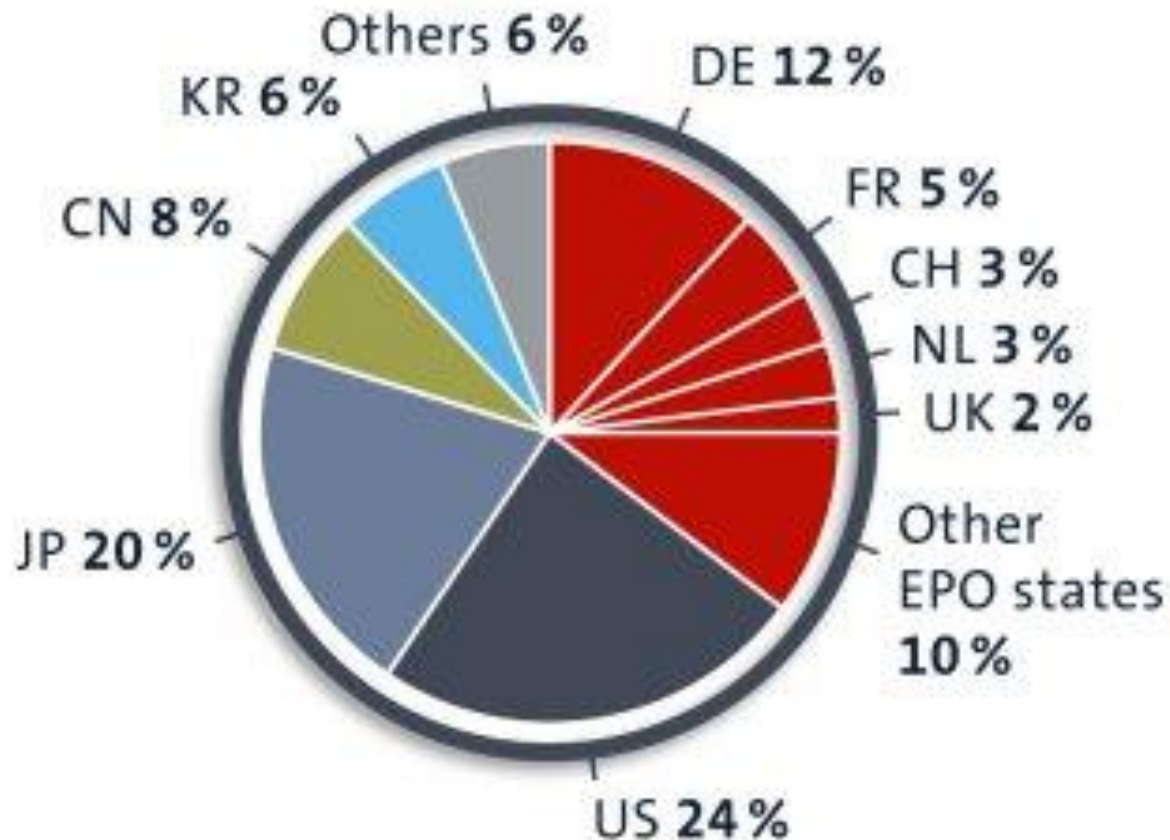
PEUGEOT

Market characteristics: number of patents recorded in the World

Figure 1 Patent applications recorded by the 10 main offices in the world (2012)

Office	Number of patents		
	2011	2012	growth (%) 2011-12
China	526 412	652 777	24,0
United States of America	503 582	542 815	7,8
Japon	342 610	342 796	0,1
Républic of Corea	178 924	188 915	5,6
EPO (European Office of patents)	142 793	148 560	4,0
Germany	59 444	61 340	3,2
Russian Fédération	41 414	44 211	6,8
India	42 291	43 955	3,9
Canada	35 111	35 242	0,4
Brasil	28 649	30 435	6,2

Market characteristics: origin of patents filed in European union



Market characteristics

- ❑ trademarks and franchises
- ❑ The market of the french franchise has recorded a doubling of its number of networks these past ten years and is experiencing a steady progression. In 2013, the number of networks is estimated at 1,719 and represents 65,133 stores or outletse, 308,993 employees and a turnover of 47.4 billion euros (source FFF).

Measure of turnover/output

- ❑ Strong difference between turnover and output
- ❑ Esane 2012: sector turnover 2 200 k€ only
- ❑ National Accounts : activity output : > 15 000 k€
- ❑ the **sectoral survey** only refers to the companies whose main activity is the collection of royalties (royalties of marks), while the largest share of the royalties collected in the economy comes from **industrial enterprises** which, after long and significant investments in **R&D**, leverage in a complementary manner their patents on the market in the form of licenses. But do not record them in their turnover.

Measure of turnover/output

Compte d'exploitation (K€)

Produits		Charges	
Chiffre d'affaires [FL]	288 835.611	Achat marchandises [FS]	46.200
Production stockée [FM]	0.000	Variation stock march. [FT]	0.000
Production immobilisée [FN]	0.000	Ach. mat. pr. & aut. appr. [FU]	0.000
Subventions d'exploit. [FO]	0.000	Var. stock mat. pr. & appr. [FV]	0.000
Repr. amort. & prov. [FP]	63 378.968	Autres achats & charges ext. [FW]	2 004 276.787
Autres produits [FQ]	2 171 447.709	Impôts & Taxes [FX]	35 865.150
		Salaires & Traitements [FY]	33 081.379
		Charges sociales [FZ]	10 937.199
		Dotation aux amort. [GA]	43 327.315
		Dotation aux prov. [GB+GC+GD]	34 878.364
		Autres charges [GE]	249 569.762
Total des produits		Total des charges	
Total calculé	2 523 662.288	Total calculé	2 411 982.156

turnover

other operating revenues

Income from licences

Brevets et licences (K€)

Redevances concessions brevets, licences (produits) [A3]	2 167 912.422
Redevances concessions brevets, licences (charges) [A4]	246 979.205

Measure of turnover/output

National accounts distribute "other operating income" (code 75 in French bookkeeping classification) in the following products:

- ❑ 40% in real estate activities (6820)
- ❑ 20% operating headquarters (7010)
- ❑ 40% in royalties from patents (7740)

Price mechanisms

- ❑ A typical example of patent royalty formula is a fixed amount plus a percentage of turnover achieved by the patent

- ❑ Regarding royalties franchises (first subsample) revenue service product licenses of property take several forms::
 - ⇒ 1 a right of entry into the network (payable only once in general)
 - ⇒ 2 a percentage of sales as a direct charge
 - ⇒ 3 a percentage of sales as royalty or indirect advertising fee

SPPI - sampling

□ The first sub-sample was selected based on

- sales of 77.40 product (ESA)
- and royalties on patents and licenses (ESA)
 - ◆ (40 companies)

⇒

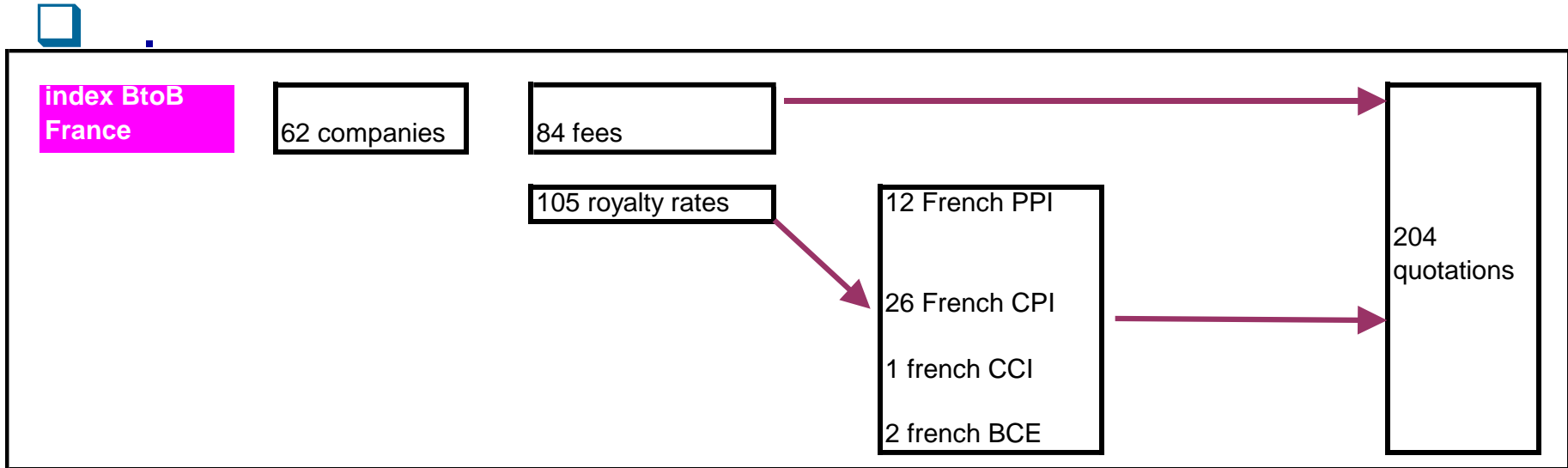
□ The second sub-sample on brand royalties or franchise was extracted from the membership file of the trade union concerned, the FFF (French Franchise Federation)

- ◆ (40 companies)

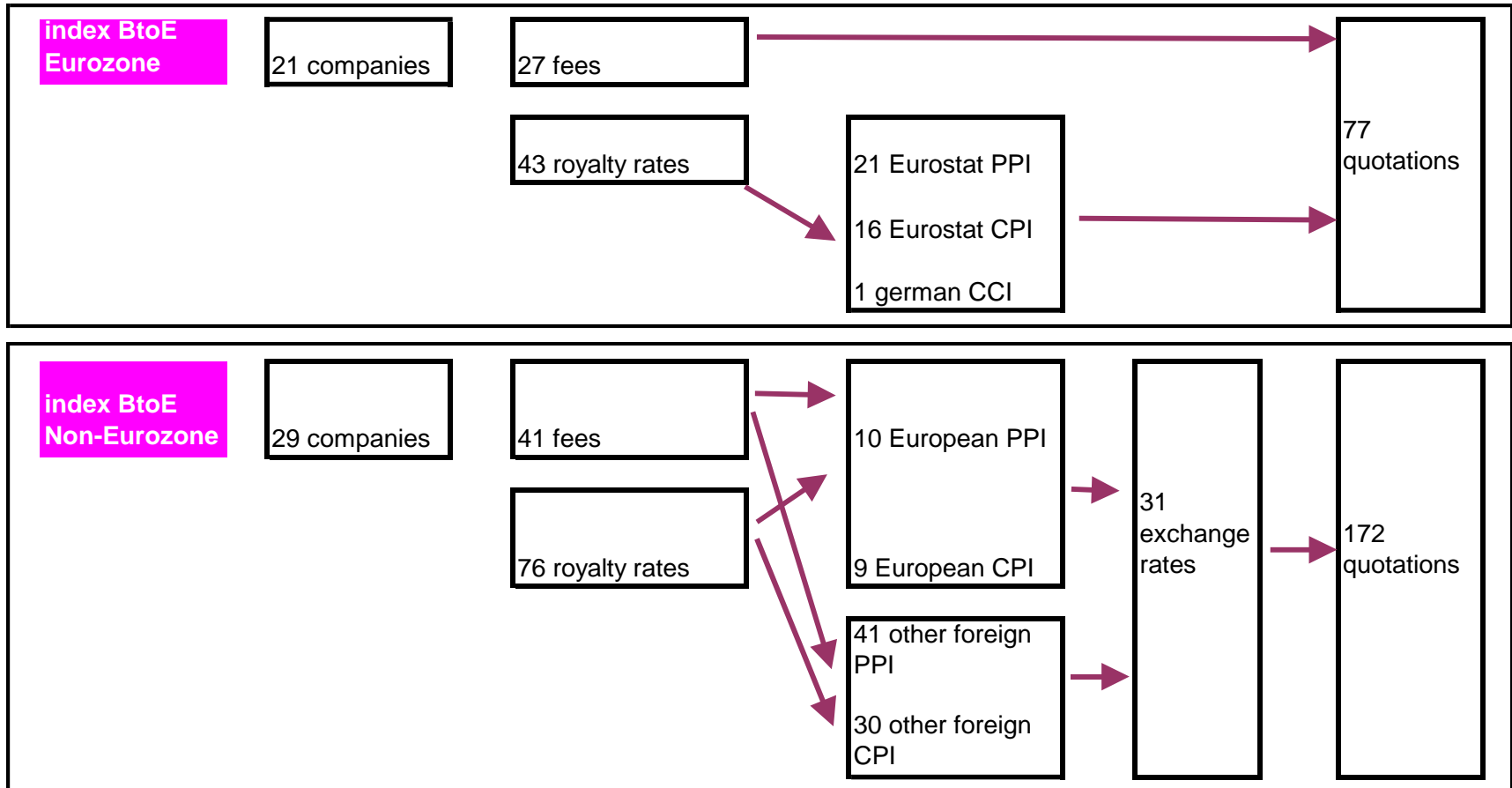
SPPI – pricing method

- ❑ The pricing methods for SPPI reflect exactly the price mechanisms: **a fixed entrance fee** when necessary, and above all **a rate of licence usage** applied to a turnover generated by the licence.
- ❑ But the price development of the basis turnover is not directly followed by the enterprise. It is modelled by the closest PPI or CPI of the given product in the given country. Hence, the pricing method can be called “model pricing”.
- ❑ It is quite burdensome to collect so many PPI and CPI, while the rate of licence usage directly collected varies little.

SPPI –pricing method BtoB France



SPPI –pricing method BtoE



Quality issues

- ❑ After 20 years, in many areas, the patent passes into the **public domain**, and the price of the patent, so that of the license which is bound, becomes “zero”. A sharp decline is often anticipated after 18 to 20 years: effect on price?
- ❑ the method for calculating the “7740” index is extremely dependent on the existence of **price indices in countries where patents are exploited**, and dependent of the availability and quality of these indices. The price indices which are available are not always at the same classification level, and the same periodicity.

Calculation and dissemination

BtoB <http://www.bdm.insee.fr/bdm2/choixCriteres?codeGroupe=1454>

		Indice des prix de production des services français aux entreprises françaises - prix de base - BtoB - CPF 77.40 - Services de licence pour utilisation de prod. de la propriété intellect. et similaires, exclu. oeuvres protégées - Base 2010	
<i>Mise à jour</i>		29/08/2014	
Année	Trimestre	001710933	
2014	2		p 99,0
2014	1		98,9

BtoE <http://www.bdm.insee.fr/bdm2/choixCriteres?codeGroupe=1463>

		Indices des prix de production des services français pour les marchés extérieurs - prix de base - toutes zones (BtoE) - CPF 77.40 - Services de licence pour utilisation prod. propriété intellect. et similaires, exclu. oeuvres - Base 2010	
<i>Mise à jour</i>		29/08/2014	
Année	Trimestre	001710935	
2014	2		p 98,8
2014	1		97,8

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Thanks for your attention

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