



Industrial Property Rights Guidelines for Commercialization in Kenya

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1.0 Introduction

Commercialization of Industrial Property (IP) Rights is the process of turning products and services into a commercially viable enterprise. When it is done successfully, it delivers a larger market share, increased revenue, greater future profits and business growth.

Managing IP commercialization successfully depends on several internal and external factors such as business objectives, type of IP as well as economic and technical resources accessible to the enterprise. It also depends on prevailing economic conditions at the time of commercialization.

In addition, since IP can be commercialized either directly by its owner, or by building up business partnerships, the selection of the most appropriate tool is often challenging, especially for Micro, Small and Medium-sized Enterprises (MSMEs).

Regardless of the sector, businesses generate and sell intangible assets. How to commercialize, whether by the enterprise itself or not, is a matter of business strategy. This guide has been prepared to provide information to IP rights owners on the various ways they can follow to commercialize their intangible assets. The guide is based on facts and best practices in IP rights commercialization globally.

1.1.1 Conditions for use

This guide is aimed at providing information to the public and does not set aside the skills and advice of a legal professional or IP rights expert or any other professional advice that may be required in the process of IP commercialization.

2.0 Pathways to Commercialization

IP commercialization can be done by its owner, or through an assignment or by creation of partnerships, which takes many forms as illustrated in Figure 1. IP issues may also arise in the ordinary course of doing business meaning that they may not lead to a

special commercialization contract. This guide details the conditions under which these pathways can be pursued.

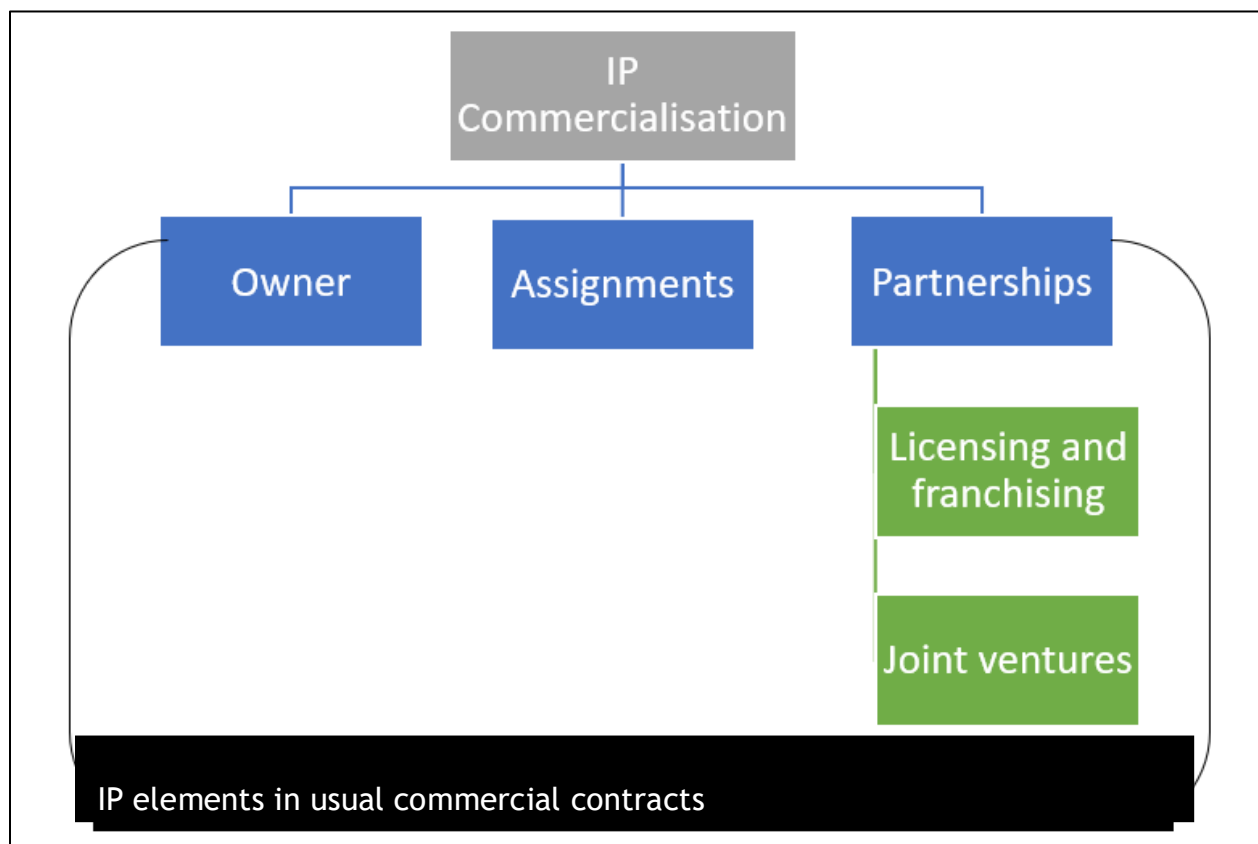


Figure 1: Pathways to commercialization, Adapted from European Union IP help desk, 2016.

2.1.1 IP Commercialization by its Owner

Enterprises may want to take up commercialization activities on their own when the business:

- i. Already has enough capabilities for marketing, so that there is no need for partnership,
- ii. Does not have enough capacities for building up and/or carrying out such a partnership,

- iii. Hesitates to share information with third parties, or does not want to create possible competitors or spend money and make an effort to building partnerships.

This first section covers the most essential points, which should be taken into account by businesses during the different stages of the product development cycle, particularly when they prefer to commercialize their IP on their own.

2.1.1.1 What to consider when commercialization of IP is carried out by its owner

a. Keep your ideas secret

Only inventions or designs not publicly disclosed can be protected as patents/utility models or designs. Moreover, IP rights in Kenya are registered on a first-to-file basis. Therefore, it is essential to keep your ideas secret in order to get the most benefit from the advantages of IP protection.

Measures that may help businesses to keep their IP secret within the enterprise:

- i. Making sure that employees, researchers and collaborators have in place confidentiality obligations and reminding them from time to time of the importance of complying with those obligations,
- ii. Reviewing public disclosures (such as technical publications or communications with potential partners) to guarantee that confidential information is not included therein,
- iii. Confidential agreements with partners and testers are signed prior to performing concept and technical testing.

b. Conduct of search

Performing a search is an important step to verify whether the idea is new and worth being pursued. Besides, it also helps enterprises to avoid re-inventing and re-developing as well as applying for IP rights for an already existing technology, design or brand.

c. Maintain the records

Keeping records of inventions is of utmost importance, as this will help you to prove the date and ownership of the invention, when needed. Besides, such records are a valuable source of information when drafting patent applications.

d. Protect IP

Taking steps to protect your intangible assets is not only necessary for their proper management, but also for getting full benefit from those assets.

When considering IP protection, it must be noted that IP assets can be protected by several types of IP tools, and consequently the most appropriate protection strategy must be chosen pertinent to the marketing strategy.

For example, inventions can be protected through patents and utility models, or by keeping them in secret. You should, therefore, consult an IP professional on the most adequate registration strategy according to your product, business plan and budget.

e. Enforce IP rights

IP rights require constant monitoring, which is the responsibility of the owner. Hence, it is best practice to monitor the market and competitors to be sure of identifying any infringing actions. Alternative Dispute Resolution (ADR) mechanisms may be utilized as time and cost efficient measures to solve IP related disputes out of court (section 101 of the IP Act, 2001).

2.1.2 Assignment of IP rights

An IP assignment is a transfer of ownership of an IP right, such as a patent, trade mark or design, from one party (the assignor) to another party (the assignee). Consequently, the assignee becomes the new owner of the IP (Section 93 of the IP Act, 2001). Assignments are useful tools for commercialisation, when the owner of the IP does not have enough capabilities (financial, human resource, marketing, etc.) to market the developed intellectual asset and/or when the owner would like to realise an immediate cash flow from an IP asset, which he does not plan to exploit with its own resources.

2.1.2.1 What to consider in assignment of IP rights

a. Remember to sign Non-Disclosure Agreements (NDAs)

By its very nature, an assignment process involves detailed negotiations and requires exclusive information to be shared between the parties, even though the process does not lead to an agreement in the end. Therefore, Non-Disclosure Agreements (NDAs) are important tools to guarantee that any shared confidential information will not be disclosed or used for purposes other than the negotiation.

NDAs are highly relevant for assignors in particular to protect their sensitive information at the pre-agreement stages, as assignees most probably need access to confidential information during due diligence activities and the negotiation phase.

b. Analyse the risks by performing IP due diligence

In general terms, IP due diligence is a risk management tool revealing the value of the IP assets and liabilities. This exercise can also be used to gather as much information as possible on the IP being assigned. Due diligence studies are performed by multidisciplinary teams of IP experts from legal, financial and technology areas and generally clarify the following about the IP asset to be assigned:

- i. the ownership status
- ii. the status of the IP protection
- iii. any restrictions on exploitation (freedom to operate)
- iv. the value of the IP, to be used as a basis during the negotiations
- v. legal requirements for the assignment

c. Key terms to consider in the assignment of the IP rights agreement

Although assignment agreements need to be prepared with the assistance of lawyers and IP professionals, it is always best to know the most relevant issues as well as the key IP clauses to be negotiated and included, before signing the agreement:

- i. **The form of the agreement:** to be done in writing.

- ii. **Identification of the IP:** the assigned IP must be clearly identified and the corresponding know-how required for exploitation.
- iii. **The payment:** the amount, type (lump sum or in instalments) and terms of payment must be defined.
- iv. **Warranties:** contractual assurances undertaken by both parties concerning specific facts must be introduced.
- v. **Governing law and settlement of disputes:** parties must agree on the law to be applied in case of any possible conflicts. Parties should also define how disputes are settled (directly in courts or via ADR mechanisms) (section 101 of the IP Act, 2001).
- vi. **Register the assignee** at the IP office to record the new owner in the IP registries, as required by law (section 93 of the IP Act, 2001).

2.1.3 Licensing and Franchising

2.1.3.1 Licensing

A license is a contract under which the holder of an intellectual property (licensor) grants permission for the use of its intellectual property to another person (licensee), within the limits set by the provisions of the contract. Hence, in business language, a license allows the licensor to make money from its intellectual asset by charging the licensee in return for its use. Licensing has a vital role in an enterprise's commercialization strategies, since there are significant advantages of licensing IP, creating a win-win situation for both parties.

Besides, license agreements can also be seen as instruments for the distribution of risks between the licensor and the licensee.

2.1.3.2 Categorization of licenses

The type(s) of license(s) should be defined according to:

- i. The business goals of the licensor
- ii. The products/services to be licensed

- iii. The target market conditions (geographic and product segment)
- iv. The capabilities of the licensee

2.1.3.3 *Types of licenses*

- i. **Exclusive:** only the licensee is able to use the licensed IP or technology (the licensor cannot use or license it);
- ii. **Sole:** the licensor agrees not to grant any additional licenses but retains the right to make use of the licensed IP.
- iii. **Non-Exclusive License:** the licensee and the licensor can both use the licensed intellectual property or technology. The licensor is also allowed to negotiate further non-exclusive licenses with other enterprises.

2.1.3.4 *Conditions for licensing*

- i. **Negotiations:** Be prepared for the negotiations and negotiate tactfully - licensing agreements are usually long term business partnerships. It is therefore common that before entering into such an agreement, carrying out a due diligence audit and signing preparatory agreements, such as NDAs or Material Transfer Agreements (MTAs) help both parties mitigate the risks during the negotiations and towards the licensing period. The agreement should include a clause on the responsibility (generally the licensee's) for registration of the license agreement and payment of the relevant fees.
- ii. **Granted rights:** the rights granted with the licensing agreement must be defined clearly. The licensee must carefully assess whether the rights included are sufficient for an optimal exploitation.
- iii. **Improvements:** In patent licensing both parties can make improvements through further research or by developing know-how related to the licensed technology. Therefore, it is highly recommended for the parties to clearly address the treatment of future improvements. The common practice is to grant mirror

rights, that is, each party retains ownership but grants rights on its own improvements to the other.

- iv. **The payment:** the amount, type and terms of payment together with the calculation of royalties (if applied) must be defined. Royalties may be calculated on the basis of a percentage of the sale price, profits made or a fixed amount per each product unit sold etc. If deductions are to be made (e.g. tax, delivery expenses) it is essential to clearly indicate them. The licensor can also define a “minimum amount of royalty” irrespective of the revenues generated by licensor.
- v. **Warranties:** contractual assurances undertaken by both parties concerning specific facts must be stated.
- vi. **Infringement acts:** parties should agree on how possible infringement acts against the licensed IP will be handled.
- vii. **Governing law and settlement of disputes:** parties must agree on the law to be applied in case of any possible conflicts. Parties should also define how disputes are settled (directly in courts or via ADR mechanisms).
- viii. **Registration of the contract:** registration of the licensing contract at the IP office is necessary.

2.1.3.5 Key terms in the licensing agreement

Although licensing agreements need to be prepared with the assistance of lawyers and IP professionals, it is always best to be aware of the most relevant issues as well as the key IP clauses to be negotiated and included, before signing the agreement:

- i. **The form of the agreement:** written form is often necessary.
- ii. **The duration of the agreement:** the commencement, duration and termination of the contract must be clearly stated in the agreement.
- iii. When defining the duration, the expiration date, the market and the economic life of the IP to be licensed must be taken into account.

- iv. **Identification of the IP:** the assigned IP must be clearly identified and the corresponding know-how required for exploitation.
- v. **The type of licensing:** exclusivity or non-exclusivity must be clearly stated.
- vi. **Geographical scope and field of use:** the geographical scope of the license (i.e. where the licensee can exploit the IP), should be clearly defined. In addition, the licensor can limit the field of use of the licensed IP rights as well as the goods and services for which the license is granted.

Prohibited terms in licence contracts

According to the Section 69 of the Industrial property Act No. 3 of 2001, clauses in a licence contract should not impose unjustified restrictions on the licensee with the consequence that the contract, or should be harmful to the economic interests of Kenya otherwise the licence contract will not be registered by the Institute.

2.1.3.6 Franchising

Franchising is a special type of licensing, enabling the replication of the owner's (franchisor) business concept in another location by providing continuous support and training to the recipient (franchisee). Since business concepts include the use of IP allowing the business to be run, franchising has an intrinsic connection with IP based on licensing of IPs and know-how. Franchising is a win-win deal: While on the one hand, franchising helps franchisors to expand their business with the need for less investment, on the other hand it enables franchisees to enter into a market more easily since the business is based on an established brand and/or on a proven business model. That is, franchising means less risk and low costs for both parties with higher chances of surviving within the first years of business.

2.1.4 Stages in Franchising

2.1.4.1 *Conduct a feasibility study*

Developing a feasibility study will provide potential franchisors with an outlook for deciding to proceed with franchising and help them in planning of the subsequent steps. The following factors should be considered:

a. **Test the system**

Applying the developed franchising system in at least one pilot unit on the same or similar market can help the potential franchisors to test the operational aspects of their business model and help them to perceive the possible defects before the launch of the franchising. The pilot unit should preferably be run by the staff of the potential franchisor or even a pilot franchisee.

b. **Take particular care when developing the agreement**

The key terms in franchising agreements are similar to those in IP licensing agreements. However, particular attention should be paid to the conformity with the Commercial law in Kenya and the conditions for providing goods/services to the franchisee during running of the system.

2.1.4.2 *Launching your franchise*

- i. **Advertising:** advertising campaigns and publicity materials are important in promoting the franchise system.
- ii. **Selection of franchisees:** developing criteria for the recruitment process of franchisees has utmost importance on the success of the franchise.
- iii. **Franchise disclosure document:** during the negotiations, it is a best practice to prepare a franchise disclosure document which encompasses detailed information about the franchisor, franchising system, related IP, references and financial figures, among others.
- iv. **Due diligence:** potential franchisees should carry out a due diligence audit to detect potential risks, which may arise during the franchise. Such an audit may

include verification of the related IP, financial and business information about the franchisor, sufficiency of the goods/services, training and assistance to be provided by the franchisor, among others.

2.1.4.3 Joint Ventures (JVs)

JVs are business alliances of two or more independent organisations (venturers) to undertake a specific project or achieve a certain goal by sharing risks. IP has an important role in the creation of such collaborations, since venturers bring their own intellectual assets for the success of a JV and they should agree on their initial contributions, responsibilities and obligations within the alliance as set out in JV agreements.

Advantages of Joint Ventures

- i. Gives opportunity to exploit and share IP assets with reduced financial investment
- ii. Allows enterprises to access new markets by sharing risks
- iii. Creates possibilities to leverage existing technologies and patents developed by each venturer
- iv. Provides enterprises with the chances to develop new IP with less investment
- v. Allows utilization of unused IP assets.

2.1.4.4 Key Terms in the JV Agreements

- i. **Joint ventures agreements must be in writing.**
- ii. **Background, foreground and access rights:** in JVs, the venturers bring into the project their previously owned IP assets - which are known as background - and they should decide on the access rights to their background for other venturers. Furthermore, the project implementation will also generate IP, which is referred to as IP foreground or results. The ownership of foreground/results and determination of access rights should be clarified before entering into a JV

partnership together with compensation of IP registration and/or maintenance costs.

iii. **IP rights specific terms:**

a. **Patents:** since any prior use or public disclosure will ban the invention from being patented, internal and external measures should be adopted to avoid any leak of information. The parties should share information internally to identify if some form of prior art would be an impediment to future patent filings.

b. **Trademarks:** licensing conditions and geographical restrictions, as well as precise termination rights, should be clearly defined. The venturers should also agree on the terms to limit the use of the new trade marks to a confined geographical area or product range after JV termination.

c. **Confidential Business Information:** all possible confidentiality measures should be taken to safeguard such valuable business information.

iv. **Handling the partnership issues in JVs:** the conditions of accepting new partners as well as exit of current partners must be defined. Actions in the case of insolvency of partners should also be clarified.

v. **Contributions of each partner:** the financial contribution of each partner to the JV in terms of intangibles should be defined.

vi. **JV management:** the management structure of JVs should be defined. For example, an IP management committee for operational IP matters such as patent filings, licensing and disputes can be agreed upon. Specific importance should be given to IP exploitation management.

vii. **Termination of JVs:** termination clauses on IP and related rights in the case of termination of JVs should be provided.

viii. **Others:** insurances and IP advisory (if any) should also be included.

2.1.4.5 IP considerations during the life span of JVs

Joint ventures can be subdivided into the following four phases and there are essential IP-related issues to be taken into account in each of the stages.

a. IP considerations in the pre-contractual stage:

- i. Partners should protect their own background IP assets before bringing them into the project.
- ii. An NDA should be signed between the parties before disclosing any confidential information.
- iii. Conducting an IP due-diligence study is advisable in order to define each party's contribution to the JV (with their background IP) and to establish whether the IP rights cover the required technical field and geographical area.
- iv. JVs must be shaped in a way that is not destructive to free competition in the common market. Therefore, when creating JVs, a careful consideration of related competition law is highly recommended.

Otherwise, if the JV is found to be intended for formation of a monopoly, the deal can be annulled by the public authorities.

b. IP considerations in the contractual stage:

- i. Partners should agree on whether the background IP will be assigned or licensed (or sub-licensed) to other partners for project implementation. Background rights are usually licensed since the owner can have continuous control over them. During the negotiations, venturers should discuss the terms of license, if licenses are granted.
- ii. Joint venturers should start discussions on handling the ownership issues for foreground IP/results. At this stage, they should agree on whether to include joint ownership clauses within the main JV agreement or deal with jointly owned IP on a case-by-case basis using distinct JV agreements.

c. IP considerations in the implementation stage:

- i. Parties should decide who will own the foreground rights and who will exploit them. The law generally provides that rights to foreground made in the course of the JV will belong to the inventing party. However, as it is not always very easy to ascertain the individual contribution to foreground IP. A joint ownership agreement should clearly state the proportion and manner in which those rights are to be held by venturers. An equal sharing of rights on ownership, exploitation and/or enforcement may be considered.
- ii. Parties should decide the ownership of the improvements of an already existing background, made by one of the venturers. It should be noted that background improvements are often claimed by the background owner.
- iii. If exploitation activities will not be carried out by the JV itself, parties can carry on such activities individually. Instead, venturers also assign their rights to access foreground to other parties for its exploitation. It must be noted that venturers may need to grant access to their background for it to be used together with foreground in the exploitation phase.

d. IP considerations in the termination stage:

- i. Partners should agree on the precise terms for termination of the JV or for the possible exit of a venturer.
- ii. Arrangements on all necessary steps for termination of access rights such as licenses (if any) should be made.

3.0 Handling Industrial Property Rights arising from other Commercial Agreements

Technology transfer arrangement may be internal (e.g. transfer of knowledge between employer and employee) or external (e.g. transfer of knowledge between different partners in a project). This facilitates development of new and improved product or services and paves the way for technological advances.

In addition to the mechanisms explained previously, knowledge, technology and therefore IP - can also be transferred through other contractual instruments that occur

in the ordinary course of doing business. This have been referred in this guide as IP elements in other commercial agreements and their use is explained in this section.

3.1.1 Non-Disclosure Agreements

Non-Disclosure Agreements (NDAs) are legally binding contracts establishing the conditions under which one party (the disclosing party) discloses information in confidence to another party (the receiving party). The common characteristic of these agreements is that the disclosed information is valuable for the disclosing party to the extent that it must be kept away from the public domain.

Therefore, an NDA is a tool to be used to reduce the risks for possible disclosure of information, when there is a need to grant access to confidential information, e.g. when entering into a partnership such as licensing.

3.1.1.1 What to consider in NDAs

- i. Clearly define the “confidential information”.
- ii. Describe any restrictions on use of confidential information by the receiving party.
- iii. Provide the list of information not covered by the agreement.
- iv. Define the duration of “obligation for confidentiality” (unlimited or a period of time).

3.1.2 Material Transfer Agreements

Material Transfer Agreements (MTAs) are used when exchanging tangible materials between parties to secure the IP rights of the material provider against possible disclosure by the recipient party.

The material exchanged can take many forms, such as product samples, prototypes, software, chemical compounds or biological materials etc. Generally such a transfer occurs during:

- i. Feasibility studies to check whether the material is compatible with the recipient facilities;

- ii. Research activities on the material in R&D partnerships; and
- iii. Provision of samples or prototypes to future clients for trials etc.

3.1.2.1 Steps to drafting MTAs

- i. Clearly define the material(s) transferred.
- ii. Establish the limitations on how the recipient can use the transferred material(s).
- iii. If the transferred material(s) is (are) subject to further improvements or researches, define the ownership of the results and access rights.
- iv. State the confidentiality obligations.
- v. Define the duration of the agreement.

3.1.3 Consortium Agreements (CAs)

Consortium Agreements (CAs) are contracts, made between “consortium partners”, to set out rights and obligations during a temporary partnership for the purposes of carrying out a specific project. CAs minimize the probability of later disputes as they provide rules and responsibilities for the parties during the project together with the access rights to be granted to the partners concerning the project results.

3.1.3.1 What to consider in CAs

- i. Define the project and the project period.
- ii. Describe the management rules of the consortium including the IP management scheme.
- iii. Provide the list of background IP provided by each consortium partner and define the related access rights and conditions.
- iv. Set out the rules for exploitation and dissemination of results such as:
 - who owns the results;
 - access rights of other partners;

- responsibilities with regard to IP protection of results;
 - provisions for transfer of ownership and involvement of third parties; and
 - other responsibilities for exploitation and dissemination e.g. publications and handling confidential information in promotional activities, among others.
- v. Responsibilities of the partners with regard to enforcement.

3.1.4 Contract Research & Development

Contract Research and Development (R&D) is usually used by companies to outsource the R&D activities to universities or research centres for the purpose of acquiring new knowledge, when the company has no internal resources to carry out these activities.

3.1.4.1 *What to consider in contract R&D*

- i. Define the need and the project period (outsourced R&D activity).
- ii. Describe each party's contribution (e.g. market know-how from enterprises, R&D activities from the third party).
- iii. Define the ownership and access rights to results (commonly in contract R&D agreements, the enterprise owns all the generated IP and provides limited access rights to the third party).

3.1.5 Consultancy Agreement

Such agreements are established between organisations willing to provide advice to enterprises on specific matters, in return for payment of a fee. Enterprises engage in these partnerships for different objectives, such as to get assistance to overcome a technical problem, or to analyse a concrete technical matter or data.

3.1.5.1 *What to consider in consultancy agreements*

- i. Sign an NDA or add confidentiality clauses in the agreement, as the consultant may have access to sensitive business information during the consultancy period.

- ii. Clarify the ownership of the IP which is created by the consultant during the consultancy period. IP developed by a consultant is owned by the consultant - not by the client - unless there is an agreement that provides otherwise.