

Importance of ipr in company valuation

[Business](#), [Company](#)



IP valuation is a mechanism for determining the monetary value of an IP asset. IP asset is a bundle of intangible assets of a Company and can be distinguished that law creates it. Such created IP assets are legally protected, independently identified, can be transferred and have an economic life p. Such IP assets are known and categorized as patents, trademark, copyright, industrial designs, trade secrets etc. The valuation of IP asset is directly linked and be understood in relation to monetary and financial valuation, the cost, and worth of an asset and the prospective economic benefits or profits, which it brings to the organization.

There are numerous reasons and motivations for conducting IP assets valuation. The primary reason for conducting IP valuation is to maximize the value of the organization having the ownership over such IP assets. The different scenarios of conducting IP valuation can be divided into four (4) major categories.

- The first category is " Transaction",
- Second category is " Enforcement of IP rights or assets,
- Third category is " Internal Use"
- Last and forth is " other purposes".

1. The first category includes licensing and assignment of IP assets or franchising, sale or purchase of IP assets, merger and acquisition deal of organizations, joint venture or strategic alliances, and donating IP assets.
2. The second category includes valuation of IP for calculation of damages for infringement of Intellectual Property.

3. The third category includes valuation of Intellectual Property rights or assets for Investment and research and development purposes, internal management of IP assets, strategic finance and monetary decision and last is for investor's relations.
4. The fourth category includes business and legal compliance and finance reporting, bankruptcy or liquidation of the Company, legal actions for protection of IP assets, tax compliance and last is insurance of IP assets. IP valuation is also helpful in making a strategy to be used in legal disputes related to intellectual property infringements, as to when initiate a legal proceedings through court or when to choose ADR mechanisms like Arbitration or Mediation ; Negotiation.

Valuation of Intellectual Property is a process, which is used to find out the important information to determine the monetary value of IP and to ascertain that what monetary benefits can be obtained out of a particular IP. The correct and precise assessment of IP is very advantageous in business scenario, which helps in taking management decision largely in the development and marketing of the products and services of an organization.

There are few factors to consider while conducting IP valuation, such as, an IP asset should be separately identifiable, specific identification and description, tangible evidence of its existence, like a contract, license agreement, registration certificate etc, be able to legally enforced and transferred, capable of generating separate revenue stream, can be sold without selling the other business or assets of the owner organization, and can be destroyed.

As this has been stated above that there are many motivations and incentives for conducting IP valuation, but the Valuation of IP is most important aspect for investment transactions and an organization can make its business more attractive and more viable to its shareholders and potential investors.

Valuation of IP is one of the crucial factors, which plays an important role in the Company's success in its business or its failure and it depends on the aspect as what extent the Company is able to exploit its IP assets and convert it into capital. The management of the Company and its business managers should know the value of all IP assets and related risk and liabilities for a better understanding, so that they can effectively take decision to maintain the value of IP assets.

It is worth to be noted that where the intangible IP assets have been properly protected through patents, copyright, trademark industrial design etc, then it is much easier to calculate the value of Company's IP assets. However, this is not the similar case with other intangibles assets, such as know-how, training process and methods, technical process, list of customers, user data etc. Such assets are also equally valuable; however, it is a bit difficult to calculate its value in comparison of previous case.

For valuing such kind of intangible assets, a very vigilant due diligence is required to be conducted with the help of IP expert/lawyers and the team of In House Accountants.

What is the role of IPR in the success and earning of profits can be understood from of several top-notch Companies like Samsung, Sony, Philips,

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IBM, Microsoft etc, which have increased their profits just because of their IPR portfolio management.

The value of an IP asset depends on its ability to exclude and keep the competitors away from a particular business or market. Such exclusivity rights can be enforced through legal process and basis on such exclusivity, the monetary benefits can be extract form a particular IP asset. An IP asset should be able to generate revenue or profit for its owner or the organization, which it belongs to and should be able to increase the value of other assets, to which it is associated.

There is one solution to increase the profit and revenue for any organization to have and properly maintain an IP portfolio. This will help in protecting the innovations inside the organization and will help in increase the current revenue but in future as well. Proper management of such IP portfolio protects the interest of shareholders in the Company, which ultimately leads to enhance the stock value, resultantly, multiplying the total worth of the Company.

The IP portfolio management gives a competitive advantage to the owner Company over the other competitors in the area of the business or service. Therefore, it is always necessary for the Company to keep on developing the IP portfolio, and adding new inventions thereto, which will ultimately increase its value. For example, when an acquisition or merger takes place, the IP Portfolio significantly helps in enhancing the value of the Company.

In short, it can be said that IPR portfolio management is an important concept conducted by the Companies to boost its profit, revenue stream, market value and in holistic view the worth of the Company. This is the reason only that these days the corporates are striving hard and investing a lot of money on research and development inside the Company to build up a worthy IP portfolio. Therefore, it is necessary to maintain IP portfolio not just for increasing the profits and revenue, but also for valuation of the Company.

Further, it is most important to select the right valuation method in a given circumstances. There are several factors, which should be considered while conducting a valuation of IP portfolio, such as what kind of property is involved, what is the level of technology used in the development of such IP. The advantages and disadvantage of any valuation method should be examine carefully before using or implementing the same.

No specific rule is applicable in choosing the method of valuation, however, which method should be used, it depends on various situations. There are five kind of methods, which are generally used for valuation of IP assets i. e. Cost based method, market based method, income based method, option based method and qualitative method. Thus, valuation of IP is an important notion, which help any Company to get the price of its worth, for its efforts put in the development of the organization, its assets, revenues etc.