

Assoc. Prof. Vlada Borisova, PhD*

INTELLECTUAL PROPERTY MANAGEMENT MODELS FOR SETTING UP BUSINESS CONCENTRATIONS IN CREATIVE INDUSTRIES

The aim of the study is to bring out the business models for intellectual property management, which are a prerequisite for the formation of business concentrations in the creative industries. The aim is achieved by studying the economic characteristics of intellectual property as a business asset; by analyzing the models of economic realization applicable to intangible assets and by bringing out the leading economic effects from the formation of business concentrations such as outsourcing and joint ventures. The research methodology is interdisciplinary, using as a priority the method of comparative analysis and the synthesis of the theory and practice in the field of intellectual property management.

JEL: A20; K0; L1; L7; M3; O3; Z1

Keywords: intellectual property; management; business models; long-term intangible asset; outsourcing; joint venture; patent pool; evaluation

Intellectual property is essential for the functioning of creative, innovative and cultural enterprises, for the development of creative industries, and for the economic growth of the economy as a whole. It is the main *driver* of the creative industries and its management is the prerequisite for the realization of the intellectual property business (Howkins, 2002), for increasing the revenue and the competitiveness of the enterprise and for successfully managing the risk in intellectual property related business decisions (King and Sykes, 2003, p. 22).

The economic advantages of the intellectual property business for the enterprise are the trade monopoly, the high competitiveness, the economies of scale, the excess profit (Bader, 2006), as well as the possibility to form business concentrations in order to realize the effect of synergy (Gupta and Roos, 2001).

In this sense, the intellectual property management for business purposes is expressed in:

- the management of the intellectual property *objects* in the enterprise, which involves the application of different management techniques for the identification, protection, use and legal protection of the intellectual property for generating profit.
- the management of the intellectual property *right*, which is made through the exercise of the powers that are contained in this right – the aim being the economic realization of the intellectual property objects. In this sense, the economic realization of the objects is achieved through their *use*. The use of industrial property objects

* UNWE, Department of Creative Industries and Intellectual Property, vborisova@unwe.bg

consists of their *industrial production and commercial dissemination*. The use of artistic property objects consists of the realization of each of the actions specified as *economic rights* of the author, performer, producer, radio-television organization, etc.

In this context, the main research thesis is that *the intellectual property business is expressed in the commercial relations arising from the management of the intellectual property rights for the purposes of the economic realization of the objects for which they provide protection*.

Intellectual property as a business asset

It is traditionally accepted that tangible assets form the bigger part of the enterprise's value and that to a large extent it depends on its market competitiveness. Nonetheless, they have the property of exhaustiveness, which makes long-term intangible assets that increase their value over time, an increasingly preferred business asset. This is especially noticeable in the entertainment sector, innovation productions, information technologies and digital markets, where intellectual property is a leading business asset.¹ The intangible nature of intellectual property objects² allows them, in the course of their use, to multiply their economic potential by generating excess profits. These features distinguish them substantially from traditional business assets and turn them into a separate and valuable long-term business asset for the enterprise. As such, intellectual property objects are used in the realization of business activities for the production and trade of the products that contain them (for example, the innovation contains the invention, or the product is disseminated under a trademark).

The following objects are of major economic importance to business:

- *Inventions* – undoubtedly the invention is the most important for the growth of the economy as a whole because it has a direct relation to the realization of the so-called *scientific and technological progress*. When being industrially produced for mass consumption purposes, inventions become *technological innovations* and their production copies are called *innovation products*.³

- *Utility models* – the utility model is directly related to the shape of the product that determines its functions (changing the shape of an existing product that results in a change in its function). In this regard, utility models are also involved in the creation of innovation products.

- *Trade secrets* – any creative or innovative enterprise has a trade secret. However, it is not always properly identified by the management team and as a result it

¹ Business assets are a resource controlled by the enterprise as a result of past events from which future economic benefits are expected (International financial reporting standards).

² The intangible nature of the intellectual property objects is conditioned by the circumstances that they are: the result of creativity; unique in terms of content; new and original.

³ In developed economies, the so-called innovation economies, enterprises compete with one another with new and original innovation products created on the basis of new technical solutions (inventions).

is not always properly managed for business purposes. The trade secret is related to the so-called know-how, which is a set of knowledge, skills and experience relevant to the existence and functioning of the business. Know-how can be organizational, management, marketing, production, etc. It is not protected by registration, but by a system of measures for keeping the information which is valuable to the business as a secret.

- *Industrial design* – the industrial design is relevant to the visible appearance of the product without affecting its function. Industrial design helps consumers identify the product among other similar or identical products by its visual appearance and not by its manufacturer or trader. Industrial design as a business asset is important both for the innovation activity of the enterprise and for its company appearance (*company design*) and the industrial appearance of the product (the visual appearance of the product directly related to its marketing).

- *Trademarks* – trademarks are a sign that distinguishes the goods and services of one manufacturer or trader from those of another one. They help identify the manufacturer or the trader of a product (service). Trademarks are a valuable business asset with regard to product marketing and the creation of the so-called *trademark value*.⁴

- *Objects of copyright protection* – in their economic nature these objects are so-called *social innovations*, including works such as computer programs, databases, domain names, multimedia, traditional knowledge, sound recordings, etc.

Long-term intangible assets are defined as assets that do not have a physical carrier; provide rights and privileges to the business that owns them and are an integral part of the enterprise. They are separate assets, different from the enterprise's monetary and tangible assets. Their value depends on the current or future incomes of the enterprise (Smith & Parr, 2005) realized by the intellectual property business. In this regard, intangible assets, which are objects of intellectual property, are characterized by:

- uniqueness – because of the creativity and intellectual work invested;
- being non-amortizable – assets age morally, not physically and not as a result of the exercise of intellectual property rights;
- reproducibility – the economic potential allows the multiple use of assets simultaneously by several individuals in different territories;
- over profitability – they generate excess profit because of the trade monopoly.

As intangible assets, intellectual property objects differ from others (rights, business relationships with clients, goodwill) in the legally regulated way of establishing intellectual property. The objects are protected by the intellectual property right and their use is made by the obligation contained in it. The objects are identifiable, transferable, and have an economic life that is, in most cases, shorter than the

⁴ Trademark value is the value that the brand adds to the value of the goods and services for which it is registered and for which it is used.

term of their intellectual property protection. Intellectual property is most often found in the assets of an enterprise because of the obligation contained in the intellectual property right of its holder to use the object. The obligation arises from the fact that the economic expression of the intellectual property right is the trade monopoly it provides to its holder. It is because of the danger of abusing the trade monopoly that the holder of the intellectual property is obliged to use the object of the monopoly.

In cases where the intellectual property has not been evaluated in advance, for example because it is internally created by the enterprise in order to meet its business objectives or it is created accidentally in the course of employment, then it can be identified as part of the enterprise's actual relations. When the intellectual property is the result of the R&D department's activities (invention) (Bader, 2006) or the marketing department (trademark or design) the case is similar. Then, after the evaluation of the intellectual property, it becomes booked into the accounts as a long-term intangible asset of the enterprise. When it is externally acquired it is booked into the accounts as such an asset, often at the price of the license (Borisov, 2003).

Other than through *licensing or purchasing*, the enterprise may acquire intellectual property by *merger, acquisition or by purchasing another business enterprise* by forming the so-called business concentrations.

Models for the business realization of intellectual property

The economic realization of the intellectual property objects is attained through business models for intellectual property management such as *licensing and dissemination, import and export*.

Licensing business model

Licensing is related both to the object's *industrialization* and the creation of copies of it, as well as to their *commercial dissemination* (Borisov, 2003). Licensing is the commercial activity of exercising the right of the holder to dispose of the intellectual property right by allowing another person to use the object of protection without transferring ownership of it (Lemley, 1999). Licensing involves commercial relationships because the licensing transaction is a commercial transaction.

Business model of expropriation

Dissemination is a priority commercial activity that is not related to the industrialization of the object but to the commercial realization of its copies (see Yang, 2012). During dissemination, copies may be expropriated by *purchase/sale, exchange, donation, and offer for sale or storage in commercial quantities*. These are expropriation transactions, resulting in the transfer of ownership of the respective copies. Upon *purchase/sale*, the dissemination right shall be terminated for the copy that has been sold.

It is possible to make the purchase/sale of the *intellectual property object itself*, not only its copies. In this case, the ownership of the object, the intellectual property rights and the trade monopoly are transferred. There is a significant difference between the purchase/sale of a copy of the object and that of the intellectual property object itself. Thus, when the ownership of a copy of the object is expropriated, this does not result in the expropriation of the ownership of the intellectual property itself or in the expropriation of the intellectual property right (respectively, the trade monopoly) in favor of the purchaser.

Business model of commercial dissemination

The import and export of copies is a priority commercial activity that is irrelevant to the industrialization of the object (see Harvey, and O'Brien, 2016). When exercising the right to import and export, in the presence of unfair competition it is possible for a market defect called *parallel import to be created*. Parallel import is feasible under licensing terms, not under purchase/sale. Parallel import is characteristic for countries whose markets are not part of a single market, such as the European one.

Taking into consideration the specificity of intellectual property objects in the commercial relations related to their use, their subjects or the type of the transaction have a commercial character. The most common subjects of the commercial relationship are the intellectual property holder and the user(s). The object of the commercial transactions is the intellectual property object, and in particular its use. In this regard, commercial relations are a legal expression of the relations arising from the intellectual property business. These business models for intellectual property management, together with the evaluation of the objects of protection, mediate the formation of business concentrations in forms determined by the nature of the intellectual property business.

Economic benefits of intellectual property management

The realization of the economic benefits of intellectual property management is due primarily to its characteristics as a business asset.

The main economic effect of managing an enterprise's intellectual property is the creation of potential value for its business. Other positive economic effects are:

Competitive advantage, stable market position and extra profit – when an enterprise uses intellectual property in its business, this improves its market position, provides it with a competitive advantage and increases its revenue.

Intellectual property rights provide protection for the results of an enterprise's activity when they are commercially presented to the public. This protection allows the enterprise to expand its markets by, for example, participating in official fairs, exhibitions and forums in order to reveal the essence of the subject of its business without the risk of competitors taking advantage of the information provided. At the same time, when there is an infringement, an enterprise may seek its rights through

judicial proceedings, by forbidding competitors to produce, sell, use or disseminate the new or improved product without consent. These advantages of intellectual property can significantly reduce or even eliminate competition. In most cases, this leads to increased sales, as competitors are prevented from offering a similar product.

Adding a new cash flow – when an enterprise owns an intellectual property, it can license it, securitize it⁵ or bet it as a special pledge.⁶ Whichever of these forms of alternative funding is applied, including licensing, which is always for consideration, it forms new cash flows.

Fundraising and attracting potential investors – intellectual property that is not part of an enterprise's core business activity can be used to raise funds by being:

- sold or licensed;
- used as a bank guarantee, collateral or special pledge on bank loans;
- used to protect the enterprise's investments in its research activities;
- used to increase the enterprise's return on investments.

Being subject to transactions without financing – the most often used example in practice for intellectual property transactions without financing is licensing not in exchange for payment but in exchange for authorization to use someone else intellectual property, the so-called cross licensing.

Strategic partnerships – the availability of an enterprise intellectual property portfolio is a sure prerequisite for its strong market and business positions in negotiating strategic partnerships such as mergers, takeovers and acquisitions. This is so, because intellectual property increases the value of an enterprise's business and thus gives it a better negotiating position.

Related sales or consumer misleading – when an enterprise sells a product created under a brand new technology or marketed under a famous trademark or original design, and this product is similar in functionality to a competitor's products, then consumers may be misled as to the origin of the product and may consume the similar product because of its lower sales price.

Part of the branding and marketing strategy – enterprises that have an intellectual property portfolio can publicly use it by demonstrating higher technology opportunities, greater innovation opportunities, as well as a good performance in advertising, marketing, and branding strategies on the market.

Higher profits or return on investment – intellectual property is important for recovering and obtaining higher returns for enterprises that have invested heavily in research and development.

⁵ A business model for financing the enterprise, which is carried out by a company, which is an investment intermediary - liability companies with a special investment objective that convert illiquid claims into securities (shares or bonds) with which they buy them from their holders.

⁶ The subject of the pledge is not only an object but also the rights that go with it. There is no real transfer of the intellectual property object that the pledgee's enterprise can use in its business.

Better opportunities for access to financial resources – in some cases, enterprises that market new technology on the market can increase their capital through their intangible assets by including their intellectual property in the business plan, during negotiations with investors, financial institutions, government agencies, etc.

Legal measures against simulators and counterfeiters – the specialized intellectual property legislation provides criminal, civil and administrative means for the protection of intellectual property objects from various forms of illegal use.

A positive image for the enterprise – the intellectual property portfolio shows the level of professional knowledge, specialization and technological capabilities of the enterprise. The development and maintenance of a portfolio helps it raise funds, negotiate with business partners, investors and shareholders and increase its image and market value.

The economic benefits of intellectual property management and its use with business objectives indicate that intellectual property supports almost every aspect of business development and the implementation of a competitive strategy:

- from the developing of the product to its design;
- from providing the service to its marketing;
- from raising financial resources to exporting or expanding the business outside the country by forming business concentrations.

Regardless of the undoubtedly positive business effects generated for the enterprise by the examined business models, only the business concentration model makes possible the multiplying of the extra profit generated by the use of intellectual property through the effect of synergy.

Economic motives for the consolidation of intellectual property

As an intangible business asset, intellectual property is the subject of transactions much more often than other assets. Inventors, research institutes and universities transfer the intellectual property of their inventions to innovative enterprises, giving them an industrial and commercial appearance. The same applies to trademarks, industrial designs, etc. (Gordon and Parr, 2005, p. 6). The business models for the consolidation of intellectual property are part of the strategic enterprise management plan and are related to the formation of the so-called business concentrations through mergers, takeovers and acquisitions.

The economic motives of the enterprises can be strategic, managerial or purely financial, "from business survival to business growth." Depending on the business growth strategy of the enterprise, business consolidation processes are also driven by specific reasons, such as:

- the internal growth of the enterprise – related to its capital, technological and market development. In this case, the intellectual property will be used through

its own production, licensing, or through business models for special pledging, in-kind contributions⁷ or securitization;

- the external growth of the enterprise – related to the need for businesses to access new resources and new markets. In such situations, the intellectual property will be used through exports, patent pools⁸, outsourcing or a joint venture.

Types of business concentrations with intellectual property

Intellectual property outsourcing

A frequently used approach turned into a business practice is for an enterprise to start its expansion initially by exporting its product abroad and subsequently by identifying a local enterprise for outsourcing (Glass, 2004) or a licensee.

Prior to export, an enterprise needs to investigate whether the product exported by it will be in violation of someone else intellectual property rights on the territory in question. When an enterprise's product contains a someone else patented technology, it can proceed to negotiate a license agreement with the patent holder, purchase the patent, change the product (regardless of the related costs) or merge its patent with the local enterprise in the so-called patent pool.

The license model is the most economically effective of the possible business models. Nevertheless, another commonly used business model is the export of the product or production to the territory of other countries – the so-called outsourcing.

Outsourcing is the result of a strategic business solution for entering foreign markets. It involves taking a serious risk, requires significant investments, management and production resources and presents complex business challenges. Outsourcing can be seen in two directions:

- exporting the enterprise's *product* to a foreign market (outsourcing);
- exporting the enterprise's *production* to a foreign market (outsourcing offshore).

1. Exporting the enterprise's product to a foreign market

The business decision to enter foreign markets is an initiative that does not lack risks and challenges. The export requires a significant investment in financial, managerial and production resources, which is related to careful planning and implementation. In solving these tasks, enterprises often underestimate the issues connected with the intellectual property they use. This can become a costly misjudgement, which involves a serious loss of investment, market positions, positive reputation, and last but not least, a loss of extra profit. Therefore, when the enterprise plans to export its products to other countries, it should take the necessary measures in order to protect its intellectual property on the export markets.

⁷ Non-monetary contribution to the enterprise's capital upon its establishment or non-monetary participation in another enterprise as its shareholder.

⁸ A business trust with significant market power bordering a monopoly position that controls and mediates the use of patented technologies.

Intellectual property issues that the enterprise should resolve before undertaking the export are related to some special circumstances:

- Intellectual property protection is not universal.

The intellectual property protection of a territory does not extend its effect automatically to all the other territories in which the enterprise wishes to expand its market. The protection is territorial, as is indicated in the protection document – the patent. For all other countries, not listed in the patent, the object is not protected and any third party can use it freely. The protection of copyright objects operates on the territory of their territorial dissemination.

- The intellectual property of an enterprise may be owned by another enterprise operating in the export territory.

Before making a decision to export a product, the enterprise must verify that its intellectual property is not registered in the export territory by another enterprise. If so, export activity should be suspended or certain terms of use have to be agreed upon with the intellectual property holder for the export territory. The violation of others' rights may lead to serious litigation costs.

- There are regional or international protection systems.

Any enterprise engaged in export activity, after assessing its economic interests, should examine the possibilities of extending the protection of its intellectual property to its target territories.

- Laws and procedures for protecting intellectual property may vary from country to country.

Although intellectual property legislation is harmonized, there are differences with respect to some objects. For example, in some countries computer programs are patented, while in others they are protected under the same law as literary works.

- Prior disclosure of product-related information without signing a confidentiality agreement.

The prior disclosure of information about a product innovation or a new design to potential trading partners, export agents, distributors, or any other potential partner prior to applying for object protection and without signing a privacy agreement may lead to the loss of intellectual property.

- Licensing an object which is unprotected on the licensed territory.

Due to unawareness, many enterprises are licensing objects for territories in countries where the object does not have protection. Such a mistake can be detrimental to the enterprise as licensing as it reveals the essence of the technology, making it free to use by the user who may then proceed with patenting it in bad faith.

- Use of a trademark that is inappropriate for the export market – trademarks and industrial designs in one country may have a completely different and unacceptable meaning in another country.

Given all these circumstances, it may be summarized that a successful business requires prior research and planning in order to properly manage an enterprise's intellectual property business on local and international markets.

2. Exporting the enterprise's production to a foreign market

It is common practice for conglomerates that own intellectual property which is applicable in a particular business segment, which goes beyond their basic business, to look for different forms of business concentration with enterprises whose business is in the same segment. Such conglomerates often take actions to acquire the main share package of the targeted local enterprise in exchange for their intellectual property. In this way they use their intellectual property with the necessary production and management resources, material and technical facilities, raw materials and materials, distribution, logistics and market positions owned by the local enterprise.

Outsourcing can be applied in different ways according to the business interest of the conglomerate. For example, the exported production of a separate part of the product for which specific professional skills are not required, or the exported production of the whole product or the research activity carried out.

Regardless of the conglomerate exports production, the local enterprise uses its intellectual property in its activities, most often on a licensed basis. It is possible that outsourcing has been created between several local enterprises from different territories. Such a situation raises a number of issues related to the intellectual property management in terms of the legislative differences and the intellectual property objects created as a result of the joint activity in the outsourcing. The solution to these issues is the application of the licensing business model, where negotiation is a priority approach to establishing the legal rules as well as a means of clearly identifying the intellectual property holder of the objects created in the outsourcing process.

For example, when licensed production is applied, enterprises are not allowed to export their production without the permission of the licensor. Otherwise, they may violate his rights by trading the same production on the target market and thus realizing the so-called parallel import. Parallel import is an unacceptable market phenomenon leading to the formation of serious market failures that can significantly harm the licensee's economic interests, manufacturing and trade structure (Calboli and Lee, 2016). This phenomenon is characteristic for markets outside the European single market because there is no import and/or export between the countries in the single market – only when the products are exported or imported outside the single market. Parallel import can be realized with any intellectual property object, the most commonly used of which are trademarks.

Parallel import of a product occurs when, for example, a product with a trademark, which has already been exported and sold to a foreign market and which is then re-imported for subsequent sale in the territory in which it was produced and from which it was exported. The import is realized by a distributor, who is most often not part of the contractual chain between the licensor and the licensee. The imported product is therefore considered part of the so-called "gray market products", despite the fact that by origin the product is original. The problem with parallel import lays not so much in the imported product, which may be

differently packaged or named, but rather in the "parallel" distribution channel existing outside the license agreement.

In the case of parallel import, intellectual property rights are not actually violated, since the principle of "exhaustion of the dissemination right after the first sale" applies to the product that is being sold. This means that once the product has been sold, the enterprise cannot control its subsequent resale, lease, etc. This makes parallel import a problem of a rather an economic nature.

These grounds determine the settlement of intellectual property issues in problems such as:

- seizing control over the production;
- knowing, using or disclosing a trade secret;
- producing and selling counterfeits of the original product;
- operating on markets that are part of the gray market economy of the country;
- implementing parallel imports.

Joint venture (JV)

A joint venture is created on the basis of a business agreement between two or more creative or innovation enterprises to set up a new venture enterprise (Smith and Parr, 2004), joining their businesses in order to optimize the economic potential of the intellectual property. Creative enterprises are strong in their research activities, innovation enterprises are strong in their industrial activities, and other enterprises are strong in the marketing of the product. Their grouping aims at closing the chain "from the idea through the innovation to the market". Each of the enterprises participating in the new joint venture is responsible for the profits, losses and related costs.

This unification is a separate enterprise with different business interests from those of the enterprises that form it. A joint venture can also be used to enter new local markets by merging with local enterprises. The unification can often be done solely in order to expand the distribution network, which aims to supply the local business with the manufacturer's products. This form of business agreement is extremely successful for markets in countries whose legislation is restrictive with respect to the entry of foreign producers.

An example of a joint venture is Sony Ericsson, which joined businesses in 2000 to become world leaders in mobile phones. Another example is Merck & Co. and Johnson & Johnson. In this unification, Merck & Co. use their high-tech research center to develop a line of prescription-free medicines. Merck & Co. have expertise in medicines development and in obtaining the necessary permission from the appropriate control administration over food and medicines. However, they do not have a recognizable trademark or a distribution network that would allow them to distribute the product. Johnson & Johnson can offer the necessary additional intellectual property, the well-known trademarks and the well-developed distribution network that Merck & Co need.

The advantages of joint venture unification can be expressed through the following:

- constant access to the intellectual property of other enterprises;
- unification of the expertise of several enterprises;
- reduction in the risk of failure;
- increase in research expertise;
- increase in production capacity;
- increase in product distribution capacity;
- use of developed trademarks;
- use of developed distribution channels;
- increase in the customers list.

The business assets that drive the business success of joint ventures are the long-term intangible assets, i.e. the intellectual property – not the financial capital or the tangible assets such as machinery, equipment, etc.

Patent pool

In the presence of business relationships between enterprises in one economic sector in connection with the production of a product on the basis of related patent technologies, such as a basic and dependent patent, it is possible to sign an agreement between them to create the so-called patent pool. The Patent Pool is a business trust with significant market power bordering on a monopoly position that controls and mediates the use of patented technologies. The outstanding remuneration under the licensing agreements for the use of the business trust's technology is collected by it and distributed amongst the enterprises that have established it or are investing in its research activity. In cases when, as a result of joint research, a new technical solution is reached and patented, the ownership of it is common.

The economic effects of intellectual property consolidation

The reasons for the formation of business concentrations are important for the choice of target partners for the future expansion of the business. In this regard, besides the strategic motives and reasons, the decision to consolidate the business is also based on the achievement of certain economic effects, the leading one of which is the profit.

The leading objective in the formation of business concentrations is the multiplication of the profit, which is made possible by generating the so-called *synergistic effect*. The following circumstances are the reasons behind the realization of the synergy:

- the individual value of the two enterprises is smaller (Smith, 1988) than the value of the enterprise that is the result of the merger, takeover, or acquisition;
- the cost of forming the business concentration is short-term;

- the extra profit for the shareholders of the new enterprise is higher.

Many enterprises, driven by market demand for new products and high competition, proceed with the consolidation of the business with start-ups or with small or medium-sized businesses specializing primarily in research and/or development. In this way, they reduce the cost and timing for conducting research, for the selection and recruitment of highly qualified staff, for the development of new technologies, their patenting and their imposition as a new product. In such business concentrations, enterprises have the same or similar production processes and are in a competitive relationship. Although this is an asymmetric form of competition, they operate on the same or on a similar market.

In terms of intellectual property, business concentrations in the telecommunications industry are the most widespread. An example of such a concentration is the Norwegian telecommunications operator Telenor, which acquired 74.3% of the Hungarian Panon GSM.

Similar is the case with the media industry (electronic media) where intellectual property business in a corporate structure such as "bTV" is made by its own media enterprises (its channels "Fox Crime", "Fox Life" and "GTV") who promote each other's films or broadcasts; all three channels advertise the show "Music Idol", which runs on "bTV", while at the same time there is an advertisement for radio "Z-Rock" or radio "N-Joy", etc.

In the field of innovation industries, the strongest business concentrations are in the pharmaceutical industry, such as Merck or Glaxo Smith Kline, which consolidate their businesses with biotechnological enterprises that conduct science, research and development activities (clinical tests) in order to create new substances for innovative medicinal products.

Apart from the synergy effect, the economic effects of business consolidation are:

- economies of scale in business;
- rapid economic growth – sales growth, market expansion, price increase, reduction in competition, profit increase;
- consolidation of production capital – restructuring and specialization of production; upgrading the material and technical base and reducing staff; use of common distribution channels, etc.;
- acquisition of new technologies, know-how, trademarks, industrial design and other intellectual property objects;
- elimination of inefficient management;
- formation of free cash flows;
- tax advantages – keeping capital at the expense of taxes in the case of a business concentration between economically unequal enterprises; high tax preferences for holding structures; export preferences for reorientation towards export activity, etc.;
- restructuring of the market in the relevant branch – for example pharmaceuticals, telecommunications, etc.

Despite the positive economic effects, the consolidation of the business may lead to some market effects, such as the actual imposition of a monopoly, for example.⁹ Another negative effect is the separation of the economic interest between the owners (shareholders) and the managers of the enterprise.

It should be borne in mind that any consolidation of the business is related to a preliminary assessment of the intellectual property of its parties (Bryer and Simensky, 2002). The assessment of intellectual property is necessary for the correct accounting of intellectual property in the enterprises and for overcoming the differences in the taxation of transnational corporations. Particularly characteristic of the intellectual property objects as a business asset is the fact that the higher the value of the asset is, the greater its competitive strength is.

*

Intellectual property is an essential business asset of the enterprise that management applies to both the object for which it occurs and the intellectual property right. As a business asset, the intellectual property forms commercial relations concerning the economic realization of the object by exercising the intellectual property right under the conditions of different business models. The economic characteristics of intellectual property guarantee business in an environment of a trade monopoly and excess profit, which is a serious prerequisite for the formation of business concentrations. In these cases, intellectual property increases the effect of synergy by generating additional value for the business.

References:

Bader, M. (2006). *Intellectual Property Management in R&D Collaborations: The Case of the Service Industry Sector*. Physica-Verlag, Springer Company.

Borisov, B. (2003). *Licensing trade with Intellectual property object*. Sofia: UNWE (in Bulgarian).

Bryer, L., and M. Simensky (2002). *Intellectual Property Assets in Mergers and Acquisitions*. John Wiley & Sons Inc.

Calboli, I. and E. Lee (2016). *Research Handbook on Intellectual Property Exhaustion and Parallel Imports*. Edward Elgar Publishing.

Harvey, C., and J. O'Brien (2016). *Parallel Importation of Branded Goods: An Update*, Norton Rose Fulbright, <http://www.nortonrosefulbright.com/people/24724/cameronharvey>, June.

Howkins, J. (2002). *The creative economy: How people make money from ideas*. Penguin UK.

⁹ Because of this probability for the EU territory, there is a policy adopted against monopolies applying the so-called Bray ratio, which determines the percentage of business concentration, which does not lead to the establishment of a monopoly situation.

Glass, A. (2004). Outsourcing under Imperfect Protection of Intellectual Property. – Review of International Economics, 12(5), p. 867-884

Gordon S. and R. Parr (2005), Intellectual property valuation, exploitation and infringement damages. John Wiley & Sons Inc.

Gupta, O. and G. Roos (2001). Mergers and acquisitions through an intellectual capital perspective. – Journal of Intellectual Capital, Vol. 2, N 3, p. 297-309.

King, K., J. Sykes (2003). Valuation and exploitation of Intellectual Property and Intangible assets. EMIS professional publishing.

Lemley, M. A. (1999). Beyond Preemption: The Law and Policy of Intellectual Property Licensing, Vol. 87 Cal. L. Rev. 111.

Smith, G. (1988). Corporate valuation: a business and professional guide. John Wiley & Sons Inc.

Smith, G., and R. Parr (2004). Intellectual Property: Licensing and Joint Venture Profit Strategies. John Wiley & Sons Inc.

Smith, G. L., R. Parr (2005). Intellectual Property valuation, exploitation and infringement damages. John Wiley and Sons Inc.

Yang, D. (2012). Understanding and Profiting from Intellectual Property – Strategies across Borders. Palgrave Macmillan UK.

17.XI.2017