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## ESIGN RIGHTS FOR START-UPS: DRAWING A LINE OF PROTECTION

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### ABSTRACT

Designs are considered as one of the imperative aspects of a business. Design rights as a branch of Intellectual property rights that plays a crucial role in protecting unique designs from copying and infringement. In this regard, design rights have become increasingly important for designers and businesses all over the globe. Primarily, this article provides an overview of design law and registration process in Australia with an emphasis on Start-ups and SMEs. Further, the article provides preliminary steps to be followed before going for design registration in Australia. In addition, the article provides how drawings and images should be developed for design registration. Secondly, this article delivers insights on design registration trends of Start-ups and SMEs in Australia. Analysis of design registration data revealed that that most number of design applications have been filed by SMEs residing in Victoria region followed by New South Wales and Queensland. Moreover, the study provides the importance of designs as an intellectual property for Start-ups and SMEs. Further, the study sheds some light on how registered designs can be used as collaterals.

**Keywords:** Designs. Design rights. Intellectual Property. Start-ups. SMEs

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## INTRODUCTION

Design is a configuration, pattern, or ornamentation which when applied to a product gives the product a unique appearance. A novel and distinctive design can be registered for design rights that would provide monopoly rights to the owners of the design for a specific period (IP Australia, 2016).

For example, the unique shape of Coca Cola bottle is a registered design in some countries (Design Patent, n.d.). Design rights are a branch of intellectual property rights that plays a crucial role in the development of every organisation (What are Design Rights, 2013). Specifically, for organisations such as start-ups and SMEs (Small and Medium sized Enterprises), intellectual property stands as an essential tool in raising capital and investments (Lehberger, n.d.).

Registered designs are considered as one of the major intellectual property rights that create an impact over a company's growth (IP in the creative world, 2016). In comparison with the other intellectual property rights, designs rights were given minimal preference due to multiple factors (Russell, 2012).

However, in the recent days, different start-up companies are using registered designs as a tool not only to attract the consumers but also to attract investors. As designs have become increasingly important in the day-to-day human life, their importance as an intellectual property has also raised.

Specifically, the design rights help designers protect their creativity before others take advantage of their designs by copying and replicating the related products in market. Ignoring the registration of designs would really affect the revenue of an organisation especially in the case of start-ups. Most of the times, individual designers and start-up companies who are unaware of the facets of Intellectual property and its limitations believe that their works are automatically get protected through copyright protection.

However, keeping the limitations of specific Intellectual property in mind it is recommended

that the individual designers and start-up companies should consult registered IP practitioner who would help in identifying the right mix of IP, which would lead to protection creative works more efficiently. An article written by a Designer Gillian Serisier provided a better picture of this issue. In her article, Gillian opined "Design registration and copyright legislation are complex aspects of the law and policing is even more difficult".

Similarly, James Samargis, an intellectual property lawyer stated that, "It is the law in Australia that three-dimensional products manufactured and offered for sale lose their copyright. Designers have nothing to hang their hat on unless they have the design registered before they have offered it for sale or manufactured 50 products" (Design rights, 2016).

## Methodology

The process of Design registration and other information regarding Design registration in Australia has been identified through literature review from different research articles and the Australian Intellectual Property webpage. Analysis of registered designs have been performed based in the filing data which has been retrieved from IP Government Open Data (IPGOD) (IP Government Open Data, 2016) published by IP Australia. In addition, further sections of the article are developed through research analysis and review of relevant literature.

## Results and Discussion

### Design law and Registration process in Australia

Designs are usually responsible for overall appearance of the product. Specifically, the overall appearance can include the shape, configuration, pattern and ornamentation which, when applied to a product, give it a unique visual appearance. One of the main aspects that have to be considered before design registration are that the design rights does not protect the functionality of the designed product. There are other intellectual property rights such as patent, which would protect the unique functionality of a product.

## Preliminary Steps before going for Design registration

There are multiple things to be considered before proceeding towards Design registration. Specifically, for the start-ups and SMEs where there are usually limited resources, it is highly recommended to go for a basic online search, to identify if there are any similar designs already available in the market. As most of the start-ups and SMEs have low funds and capitals it is recommended that they can you open databases such as Australian design search (Search for a Design, n.d.) and other International design databases (WIPO Global Design Database, n.d.).

Secondly, make sure that the design, which you are going to apply for protection, is owned by the organisation or by the designer of the organisation.

As most of the start-up companies in designing industry work in contract basis for some other organisations, it is quite important to ensure the ownership of the designs before going for design registration.

Section 13 of Australian Designs Act 2006, provides details on “Who is entitled to be registered as the registered owner of a design”. Usually, in the absence of any contractual agreement, the designer will be entitled to be entered on the Register as the registered owner of a design (See, Australian Designs Act (ADA), 2006, Section 13 (1) (a)). However, in some instances, the presumed first owner of the design will be the employer if the designer worked under an employer-employee contract (See ADA, 2006, Section 13 (1) (b)).

Considering that, the start-ups and SMES have a higher risk on investments and capital; it is recommended that the organisation should consider IP insurance (Goyal, 2017). Ian McClure, an intellectual property lawyer in his article provided a brief overview of the importance of IP insurance for start-ups and SMEs (McClure, 2010). Ian opined that most of the start-ups or SMEs are falling back during IP litigation with big companies due to high litigation costs. In this scenario, an IP

insurance would help the start-ups to cover the costs of litigation. In addition, the start-ups and SMEs should have a practice of signing confidentiality agreements with their staff members that would help the company to avoid any disputes in future.

One of the major practices made by start-ups and SMEs is to display their design to the investors and try to explain the impact of their design in the market. However, this practice of displaying the design without prior confidentiality agreement would lead to loss of newness (Design must not be identical to any design previously disclosed anywhere in the world. This includes anything published anywhere in the world or publicly used in Australia) and distinctiveness (Design must not be substantially similar in overall impression to any design previously disclosed anywhere in the world. This includes anything published anywhere in the world or publicly used in Australia) of the design. Section 15 of Australian designs act clearly details that the design should not be publically disclosed before the application for design registration (See ADA, 2006, Section 15).

## Working on Drawings and Images

Drawings and images are the ones that determine the bounds of a design (scope of protection) and are considered very crucial for a design application to be registered. The drawings or images must of a good quality and should precisely visualise the ornamental features of a design. Australian design act does not restrict the applicant on providing number of views of a design. Considering this as an advantage, the applicants can use any number of views to perfectly visualise his/her new and distinctive design. IP Australia usually prefers traditional views viz., top, side and front.

However, the applicants are also allowed to submit their designs in perspective as well as isometric views. Line work is usually recommended to visualise the design precisely.

Moreover, broken and dash lines can be used for highlighting elements of the product other than those bearing the visual features of the design; parts of the design that are referred to in

the statement of newness and distinctiveness; boundaries, such as a pattern applied to part of a surface, stitching and perforations; features that establish an environmental context.

### **Registration process and expenses involved**

Expenditure and costs are one of the important things that are considered by start-ups and SMEs as they have limited amounts of funds. Once the design represented with good drawings is ready to go for submission, the applicant can lodge the application where the application will be processed for a formality check. The formalities check would ensure that IP Australia has enough information with regard to applicant as well as design to go for registration. Once the application has gone through the formalities check, the design will be registered and published in Australian Official Journal of Designs (Australian Official Journal of Designs, n.d.) and will be openly available in Australian Designs Data Searching (ADDS) database.

If the applicant has not requested the IP Australia for registration of design during application phase, the applicant has a period of 6 months to request IP Australia for registration of the design. In addition, the applicant can request IP Australia to publish the design if the design has failed to be registered.

If the applicant wishes to protect the design in different countries, the applicant can file applications in interested countries before 6 months of the day of Australian application filing. This will allow applicant to take advantage of the priority date of the Australian application. In Australia, the term of design registration is for five years from the filing date of the application.

In addition, there is a possibility for the applicant to renew the design registration for a further five years by paying a renewal fee of \$320 AUD (Design time and costs, 2016) if the application of renewal is made using online services. However, the design would be ceased if the applicant is not interested to renew the registration.

A design can be acquired registration by following up with the application process in two modes. The preferred submission procedure is Online where the filing costs are \$250 AUD where a design application can be filed online with the help of eServices. The second mode of design filing is Offline or Paper submission where the applicant should submit a hard copy of design application to IP Australia. However, the filing costs of a Paper application is more costly (\$350 AUD) than an online application. It seems to be that IP Australia had taken a step forward to reduce the paper use and to make the country eco-friendly.

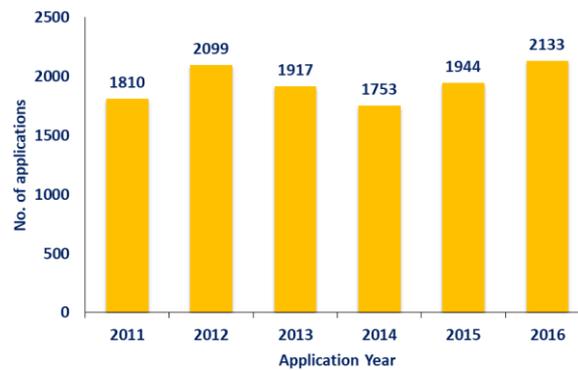
The next step of the design registration process is examination. The uniqueness of Australian design registration system is to provide registration to design without any examination. Even though, the design is registered, the applicant cannot legally enforce the registered design without certification. In this scenario, an applicant may apply for examination (Examination fees \$420) of the registered design that would further provide enforcing rights to the rights holder if the design is new and distinctive. The design registration costs are comparatively Start-up and SME friendly. However, it is recommended that IP Australia should take steps to practice reduced filing costs for SMEs and Start-ups (DCC IP News, n.d.).

### **Trends of Designs registered to SME's in Australia**

Design applications filed by start-ups and SMEs has been gradually increased in the past five years. This section analyses and visualises trends of design applications filed by SMEs from 2011 to 2016. The filing data has been retrieved from IP Government Open Data (IPGOD) published by IP Australia. Design filings by SMEs have been increased in 2012 in comparison with the previous year.

Further, the filing trends has dropped down a bit in the years 2013 and 2014. However, the filing status has escalated up in the years 2015 and 2016 bringing a uniform increase of design filings by SMEs in Australia.

Fig. 1. Design filing trends of SMEs in between 2011 and 2016.

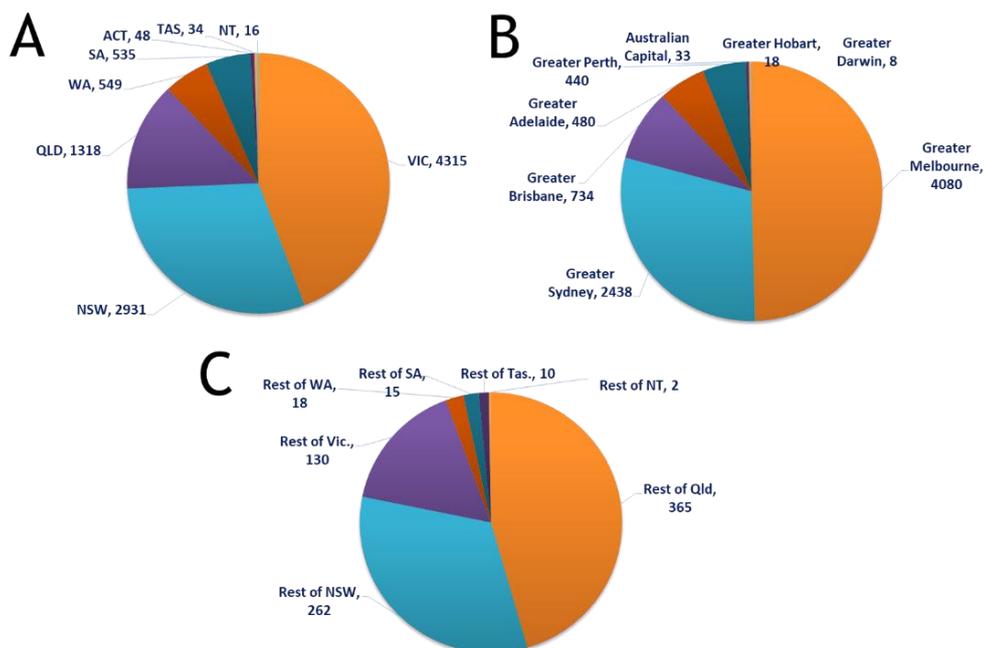


### Geographical distribution

Geographical distribution view of design applications filed by SMEs in the years 2011 to 2016 revealed that most number of design applications have been filed by SMEs residing in Victoria region followed by New South Wales and Queensland (Fig. 2A). Moreover, city specific view of design application filings suggest that most

applications have been filed by SMEs from Greater Melbourne followed by Greater Sydney and Greater Brisbane (Fig. 2B). The design applications filed from rest of the regions are comparatively less in number however, comparison between the filings from rest of the regions revealed that most of the design applications have been filed by SMEs in Rest of the Queensland (Fig. 2C).

Fig. 2. Geographical distribution of Design applications filed by SMES in Australia. A. State wide distribution of design filings in Australia. B. Design filings from Australian city regions C. Design filings from Rest of the state regions in Australia.



## Assignee trends

A company can have special impact over the market if it tries to protect its intellectual property. Specifically, industries such as fashion, clothing and furniture will have huge impact over market if they try to protect their intellectual property in

the form of design registrations. Assignee analysis of designs filed by Start-ups and SMEs in the years 2011-2016 suggested that most number of design applications have been filed by Forever New Clothing followed by King Furniture Australia and Australian Fashion Labels (Fig. 3).

Fig. 3. Bar graphical representation of Top assignees based on their filings.



The costs of maintaining a registered design portfolio of a company depends on the number of registered designs the portfolio holds. According to the provided assignee analysis, Forever New Clothing holds a design portfolio of 1349 registered designs. In this scenario, the company Forever New Clothing and other start-ups may develop their respective businesses by selling or licencing their registered designs and earn royalty on their sales (Yang & Maskus, 2001) or may adapt other ways that would fetch income (Industrial Design Rights, n.d.).

## Why are Designs important for Start-Ups?

A start-up largely relies on capital investment and attracting investors to invest in a Start-up is one of the major challenges for a start-up. Developing creative designs and protecting them through design rights brings innate value to a start-up and is a better way to attract investors to get the investments. A recent study conducted by a venture capital organisation revealed the

importance of a design in Start-up by looking into different aspects such as the perceived value of design in start-up and tangible impact of a design on start-up's success (Future of Design, n.d.).

Almost 400 start-up companies have participated in the study where almost 87% of them agreed that design is an important part for a start-up. According to the responses of the companies participated in the study, they have been classified into two major classes Design centric and Design mature. Design centric companies are those who believed that design is important to their business. Design mature companies are those who believed that design is very important for their business and raised more than \$20M in venture capital funding. Responding to the questions related to the impact of designs on business, almost 87% of Design mature and 61% of Design centric start-ups agreed that better design leads to higher sales. Moreover, 83% of Design mature and 67% of Design centric start-

ups responded that good design leads to higher customer retention.

Design protection is one of the crucial aspects of a business success. Procter and Gamble (P&G), the world's largest consumer products company has topped the list of most design applications filled through WIPO's Hague system in three consecutive years 2009 to 2011 (Record International Trademark Filings, n.d.). Moreover, it continued its filling trend by holding a place in top 5 with 348 design application filings in 2016 (Who accounted for, n.d.).

The company believed that design adds value across the entire spectrum of a product's development. Moreover, the company believes that design protection is crucial to the company to differentiate its brands from the other brands in the market, which would create better views in the minds of consumers.

Getting adapted to different designs is also helpful in some occasions where counterfeiting increases. P&G has a good strategic approach before going for international or national filling of their designs for design registration. After developing a design and before going to submit it, the design team meets their IP attorneys and discusses the major features of design that has to be emphasised during filing. The major goal is to enhance the scope of protection and to decide on several strategic elements such as to identify the countries to file.

The major objective of this study is to explain the importance of design rights to start-ups and SMEs. Rajamäki and Linda, research scholars from University of Turku has worked on "Why should startup companies protect their intellectual property?" in her research thesis. In her thesis, the author opined that the startup companies needs to be aware of the functioning of the IPR system and might need to apply for appropriate protection as early as possible (Rajamäki & Linda, 2013). Similarly, a recently study conducted by a group of researchers from University St. Kliment Ohridski detailed the importance of innovation for the competitiveness of companies and for improving the macroeconomic performance

(Rocheska, Nikoloski, Angeleski & Mancheski, 2017). Amit Aggarwal, an intellectual property lawyer in his recent article opined that, intellectual property plays a crucial role in protecting innovations at different levels of business starting from product development to product design, raising financial resources and developing competitive strategy (Aggarwal, 2016).

### **Registered Designs as Collaterals**

A property is considered as an asset and the same applies to the Intellectual Property and Designs. Intellectual property is considered as an intangible asset where a security interest can be granted over it (Cen & Wei, 2011). Individual designers and Start-ups can take advantage of their registered designs by using them as collaterals. This is a recent practice, which allows registered rights owner to get loans from banks or financial entities using their registered designs. Most of banks around the world are interested in granting a loan over a registered design if the design has a great innate value (The Securitization of Intellectual Property, n.d.).

IP Australia, allows registered design rights owners to record a mortgage over registered designs and this should be recorded by the secured party on the Personal Property Securities Register (See, ADA, 2006, Section 114). Moreover, there are no fees applied by IP Australia to record a mortgage on a Registered Design. In this scenario, it is recommended that the individual designers and start-up companies can evaluate their registered designs, approach banks, and financial entities to know if their registered designs can be used as collaterals to get loans that can enhance their venture capital.

### **Conclusion**

A start-up sprouts out on an innovative and creative work where design would be one of the most crucial parts. Innovation is vital for a start-up or SME to stand ahead in the market. In this scenario, it is indeed necessary that such innovations should be protected through possible intellectual property rights. The preliminary

design protection would help start-ups and SMEs restrict big multinational companies in using novel designs to take advantage in the market. Owning design rights over a good design allows start-ups to enhance its value and profits that may lead to profitable franchising.

In essence, it is highly recommended that prior protection of design rights would enhance a company's commercial value and reliability in the market place and would help establish a stable platform specifically for start-ups.

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