



What is an IP strategy, exactly?

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As a veteran intellectual property (IP) practitioner, Lyco Works was recently honored to join a think-tank focusing on IP strategy development. Among Lyco Works' peers were other respected IP practitioners from AT&T, Kimberly-Clark, GE Power, The Weather Channel, Southwire, Huber, along with several large law firms and a few select consultants. We collaborated to share our latest thoughts and opinions on how companies can implement and leverage a robust intellectual asset management strategy to meet business and marketplace needs. The work product of the think-tank is being written up by the organizers; I don't want to anticipate that work product here.

However, as the morning unfolded, it occurred to us that, because of the form of an IP strategy is different from other types of business plan, someone who is not an IP practitioner might have difficulty recognizing what an IP strategy *actually is, what it does, how it works, or what a good IP strategy should look like*. Not only is an IP strategy tricky to describe to a non-IP strategist, but it's even harder for a (non-practitioner) business leader to know whether or not they have a good one in front of them. The more I thought about it, the more I realized that this topic might make an interesting blog post.

The importance of having an IP strategy:

Most business people are aware of the importance of intellectual property and other intangible assets to business sustainability; an IP strategy is a plan to preserve and grow that value. A commonly cited statistic is that the valuation of a typical company is now 80% due to intangible assets. Some might say that this is due in part to the proliferation of software companies with little in the way of heavy assets. However, I believe that it applies to most companies. For instance, when Philip Morris brought Kraft for \$12.9BN, the tangible assets were valued at only \$1.3BN – around 10% of the value. The remaining 90% of value was considered in the brand equity, goodwill, business practices, patents, and the likelihood of innovation by the employees.



2nd Annual GA IP Think Tank, hosted by Georgia State University College of Law.



So, what is an “IP Strategy” anyway?

An IP strategy is a plan that includes an infrastructure combined with a decision making process and an operating rhythm that directly supports and maps onto a business strategy. It has to be dynamic and organic to adapt to changes in the competitive landscape over time, while disciplined enough to maintain a budget, and focus upon the return on investment of IP. The decision making process drives tactical moves that enable the business goals. The infrastructure provides information that informs decision making, and the operating rhythm is set by the nature of the business.

What it is	What it's not
A rigorous, integrated system that protects the intellectual value and competitive advantage of an organization, and supports the business and innovation strategies.	Something that drives the business or innovation strategy (unless you happen to be a non-practicing entity aka "patent troll")
Specific to each business unit - sometimes to each product	A really catchy positive-sounding statement for the entire enterprise, which sounds good, but is open to individual interpretation.
Strategy comprises: <ul style="list-style-type: none">• A continuous Inventory & Assessment Process (internal and external)• Decision making processes and support systems.• Compliance assurance (internal and external)	Something that only the patent attorneys need to worry about...

What is and what's not IP strategy.



The major aspects of an IP strategy may be grouped into three main buckets: Offense, Defense, and Future Sustainability. The emphasis for each of these aspects is determined by the needs and nature of the business.

	Examples of Considerations:
Offense: <i>(Proactive policing of your existing assets.)</i>	<ul style="list-style-type: none"> • What is your "cease and desist" policy? Under what conditions are you prepared to out-license? • How will you know if another company is trespassing on your IP? • Do you monitor EU patent publications for opportunities to file an opposition to competitive patents?
Defense: <i>(Your responses to your competitors' actions.)</i>	<ul style="list-style-type: none"> • How do you respond to market threats from your competition? • Do you proactively scan the patent landscape to ensure you have the freedom to operate? • How do you respond to licensing letters?
Future Sustainability: <i>(Ensuring IP value is retained and grown over time.)</i>	<ul style="list-style-type: none"> • Innovation: What is your "Build, Buy, Ally" decision making process for new product innovation? • Do you patent? Copyright? Register trademarks? • Do you have the right employee agreements in place to protect your trade secrets and business information? • Are your marks being used appropriately by your licensees so that their value is not eroded?



Establishing an IP Strategy:

There are many things about the business that need to be considered when setting up an IP strategy including:

- the types of products or services offered
- product life cycle
- regulatory issues
- the competitive environment
- how much of your IP is housed in your employees' heads
- the types of IP that are important to the company
- product distribution
- whether there are specific IP problems that need to be solved (e.g. threats from non-practicing entities, or working in crowded patent space.)

This list is *far* from exhaustive. Each company needs to craft their own specific IP strategy (*viz.*, infrastructure & process) that best suits their particular businesses and competitive environment. It's tricky, and the risks can be high if it's not done right. Establishing a robust IP strategy requires a combination of legal AND business knowledge.

The most important aspect of any IP strategy for a business is that it is integrated in such a way that touch-points are established with each and every business function, so that decisions can be made in a timely manner and opportunities are not wasted. This may be achieved through the use of two types of elements included in an IP strategy, *viz.*, establishing an infrastructure, and establishing a decision making process.

Infrastructure:

Infrastructural elements facilitate communication between various functions within an organization and inform timely decision making. These consist of assigning specific responsibilities to certain people, and development of service infrastructure if needed, such as continuous competitive patent monitoring, databases, etc. For instance, specific infrastructure elements to an IP strategy might include assigning responsibility of an engineer in a business unit as a technical point person to interface directly with patent counsel, helping the other engineers to fully document inventions, provide technical input into legal questions, and gather business input to support legal prosecution questions.

Many companies also choose to implement a specifically designed database system as an infrastructure element for documenting IP and later documenting the decisions made with respect to whether or not to file a patent on the invention or keep it as a trade secret, whether to file international counterparts, etc. An essential part of any infrastructure is to empower at least one decision maker with the task of determining whether any particular invention is on business strategy or not. Larger companies may indeed assign an executive charged solely with ensuring that IP strategy supports business and innovation functions.



Decision making process:

Process elements establish an operating rhythm around the infrastructural elements, as well as provide a framework for an agreed upon series of decision making steps. The operating rhythm will be determined by business and legal factors, for instance how quickly the market or technology changes, the litigiousness of the industry, how crowded the patent space is, what is the product life cycle, the rate of innovation, etc. In some companies, domestic and international filing decisions are made quarterly. In others, annually. Making decisions on the entire patent portfolio vs. piecemeal decisions as and when they arise supports holistic decision making and helps maintain a financial budget.

As previously mentioned, the most important aspect of an IP strategy is to ensure that touch points are established throughout the business functions so that as decisions are made, the IP strategy is executed in support – and likewise that IP opportunities are not inadvertently ignored. Of course, R&D, Innovation, production are perhaps the most obvious linkages that need to be established. Here are some perhaps less obvious functions that also need to be addressed. Again, this is not exhaustive, and specific actions will depend upon the type of business:

Human Resources:

- Yes, we may have employee agreements in place, but when did they actually sign them?
- Is there a formal exit interview process to ensure that the leaving employee fully understands legal obligations, and what is and what is not confidential?
- What inventions does the employee own and can take away with them? (German and Korean IP law can have some interesting quirks here...)

Marketing:

Everyone wants the new product to be a sustainable success, right? To keep innovation sustainable, marketing is an essential touch point for IP strategy, as well as innovation and legal:

- How will the competition respond when we launch?
- Is there a small company with a similar capability to the one we have just developed that our competitors can just buy and integrate to rapidly follow up?
- Are there competing products in the market, and if so, are they already patented?
- When is the correct time to announce a new product launch?
- Have the IP practitioners been provided enough time to protect the new product as necessary?
- What does new product collateral say?
- Have we buttoned up everything around the brands that will be used on the product?



Sourcing and Supply:

Hopefully no-one in your organization is out to deliberately sabotage the future sustainability of an employer's market advantage. However, unless educated to understand otherwise, IP bloopers can happen with all the best intentions. Not only are your raw materials and services sources and supply lines part of your know-how IP, but it's crucial that sourcing personnel understand when something is confidential. Vendors are highly motivated to show their customers new ways to use their raw material products; they may be tempted to share your own use of a particular commodity. If that information is to be shared with the raw material provider – perhaps in the spirit of cooperation and long-term relationship building – the matter should be discussed with innovation and intellectual property stakeholders so that a risk-benefit decision can be made.

Accounting:

Filing, prosecuting, and maintaining patents globally is expensive. A decent estimate for the cost of filing, prosecuting, and maintaining one utility patent broadly internationally is around \$250,000 over the 20 year life. Does the return on innovation make for a compelling business case? If you think that you might want to use the patent in a future litigation, do you have funds set aside for that also?

How Can Lyco Works Help You Develop An Integrated IP Strategy?

Here are some hypothetical examples based upon past Lyco Works experiences:

Example: Ink-Lanta Inc.

"I am a small ink manufacturer, who formulates custom inks in niche applications. Most of my IP is in the form of formulation trade secrets. What keeps me up at night is the thought of someone walking off with my best formulas and joining a competitor!"

When considering an appropriate IP strategy, Ink-Lanta Inc. might be advised to begin with a review of employee agreements, as well as manufacturing methods and instructions. To help protect it, the ink formulation could be made in two or more parts. One set of ink makers mix part of the formula to make an intermediate; another set of employees blend the intermediate into a second part of the formula. Also, Ink-Lanta would be well advised to consider patenting certain types of new inventions. Ink-Lanta would have to consider the following in their decision making process:



- a) A process to ensure that formulations are reviewed for patentability in good time prior to release, also taking into consideration:
- b) Their ability to police their invention (if it is patented, it's also published for the world to see... What process and infrastructure is needed to collect and analyze samples)
- c) The cost of enforcement of a patent
- d) The danger that if they choose to use trade-secret protection, another company may coincidentally patent something that also covers their invention. Lots to think about on this one...

One more piece of advice, Ink-Lanta: Relating to item d), please do ensure that you archive the sales and production record of the first use of any new material or combination of materials in your inks. Selling or offering for sale can be considered the same thing as a publication by the patent office, and so, even if your product is a Trade Secret, if it can be show that it was already on the market prior to the priority date of a competitor's patent, then their patent may not be valid. The records you'll want to keep must allow the sale of goods to be linked to a specific formulation.

We once helped a Mom & Pop type ink company document that they were selling an ink formulation long before a patent was filed on the use of a particular ingredient by a much larger company. This gave them peace of mind, and provided a retaliatory paperwork package to toss back at the larger company if they ever got a letter from them about their ink ingredient.

Example: SoftCom.com:

"Our company is a software company operating in the customer data handling space. Our primary form of IP is software code (copyright), and we use a proprietary distribution means. We don't tend to bother with filing patents on our software algorithms. Our biggest concerns are:

- a) larger companies bullying us into handing over our source code,*
- b) maintaining freedom to operate (non-practicing entities and larger company patents.)"*

SoftCom might be advised of the following:

Handing over source code represents a risky proposition. An understanding of the reasons to hand over the code are needed. If the reason is because the larger company is worried that you might go out of business and cause them a business discontinuity issue, then the source code could be held in escrow, and only the runtime code supplied to the larger company through an SDK. There are several software escrow service providers, for instance **Iron Mountain**.

If the larger company needs to integrate your software into an item of control equipment, lets say, then a good robust software license agreement is called for, including notices within the



code itself. At least then the recipient is on notice that it is SoftCom's work product, and not their own. Ownership of derivative works will also need to be considered based upon the business needs of both parties.

In terms of freedom to operate, two suggestions: a) if you don't want to patent, consider publication of some of what your software does, and top line how it works. It might be a little tricky to get the balance right, but it should make it tougher for patentees to obtain a valid patent on the process you are using. Option b) might be to get some patent searches done, and consider pro-actively licensing the patents you are most worried about. Perhaps you can get a deal!

Example: Squirrel Consumer Products Inc.

"We design, manufacture, and distribute semi-durable consumer products. Most of our production is off-shore in Asia. We do have patents in the US, which theoretically allows us to prevent infringing products from entering the country, but nothing in Asia. What should we do?"

This is a good one – and it's a story that we've heard before. It is very difficult to control your intellectual assets so remotely. That being said, there are things that can be done to mitigate the risk, so that Squirrel Consumer Products can continue to enjoy lower labor costs. The process begins with an audit:

- Are the production workers employees, or contractors of the off-shore manufacturing company?
 - What is their annual employee turnover?
 - Are there other companies in the same area who make similar products?
 - What does the employment agreement look like for the manufacturer?
- Also, consider how Squirrel CP can accelerate their innovation. Despite best efforts, it's most likely that eventually, the products will get ripped off, and let's face it, patent enforcement is expensive.
- What are you doing internally to innovate new products?
 - Are there opportunities for you to file additional patents on new products?

Conclusion:

An IP strategy is a plan, specific to your business that enables the maximum market value to be derived from your products. If crafted judiciously, a well informed IP strategy can not only help mitigate risks and avoid costs, but can allow an enterprise to thrive for generations. With several decades of combined intellectual asset management, valuation, and creation experience, Lyco Works is here to help you evaluate your current IP strategy from a business perspective, and to show you how to better align your IP strategy with your business model.