

# INTELLECTUAL PROPERTY

PROTECTING IT IS THE SMART THING TO DO.

By Alan Gorman



Intellectual property has become increasingly more critical to the success of small and medium-sized businesses operating across a wide range of industries. Knowledge-based assets such as brands, designs, technologies, franchises, and licenses are playing

an increasing role in generating and sustaining the financial performance of small businesses. Effective management of such assets is vital to any company that seeks to increase and protect its market share, stave off competition, and create new

streams of revenue.

When one refers to intellectual property (IP), what does it mean? IPs are creations of the mind resulting from human ingenuity, creativity, and inventiveness that are protected by law in order to foster competi-

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tion and commerce. Because an IP right is a legal right, its existence can only be derived from satisfying the requirements of the relevant IP law. An IP right is a grant from the government of property-like rights over new creations of the mind. The grant of IP rights, generally for a limited period of time, provides the owner of such assets with the right to prevent others from free-riding on the owner's creations. In other words, IP rights give the owner the ability to prevent all others from using the underlying IP asset for commercial purposes without the prior consent of the holder of the IP right (exclusivity in the marketplace).

The different types of IP rights include trade secrets and confidential information, utility models, patents, trademarks (brands), industrial designs, original works of authorship (copyrights), customer databases and proprietary information, corporate know-how, and website addresses and designs. In a broad sense, IP management is the utilization of the principles of the laws associated with a company's respective IP assets to its competitive advantage.

Skillful control of IP provides companies with many advantages in the marketplace, such as greater efficiencies and lower costs, superior offerings and higher prices, as well as reduced risk and royalty income from potential licensors, while building and perpetuating the company's reputation as being an industry leader. Exclusivity in the marketplace assists companies in growing market share by preventing access to and use of important IP by competitors in the marketplace.

## Increasing Market Share

A company's assets may be generally divided into two categories: (1) physical assets—buildings, machines, etc. and (2) intangible assets—creations of

the mind, brands, designs, know-how, and other creative ideas. Traditionally, physical assets have been responsible for a majority of the value associated with a company. More recently, the situation has changed significantly. Mainly as a result of the impact information technologies are having on the marketplace and the growth of the service economy, companies are realizing that their knowledge-based assets are just as valuable, if not more so, than their physical assets. Knowledge-based assets are claiming center stage and small businesses should develop strategies for protecting and managing these assets.

A company's ability to continue to grow its business and achieve success depends on its ability to develop new technologies and services and exploit these new products and services in response to the needs of the business community. One method of exploiting new technologies is through patent protection. Patents, when understood and strategically developed, can result in increased market share power. For example, imagine that a company in the security surveillance business develops an innovative software product related to home security systems that drastically reduces the costs associated with home monitoring. If the new product is protected with patents, the business owner can use the patents to the company's advantage by working the asset into the ongoing process of building market share and its reputation as an industry leader. The patent will be critical to maintaining and growing market share because it provides the company with the ability to prevent others from making, using, and selling the product.

## IP Management Strategies

While companies should not run out to file as many patents as they can, they should develop an IP management strategy. From a patent

perspective, there are several factors to consider when analyzing whether an IP management strategy should be limited or aggressive. First, consider the company's unique features, methods, and services to determine whether it has something worth protecting. Does the company have technology or business methodologies that it wishes to exclude from its competitor's products or services? Do these methods of doing business or technology give the company a competitive advantage over others?

Even if a company's innovative ideas are not ready for commercial exploitation, if it is developed to the point where it could be commercially implemented, the company may want to pursue patent protection. Keep in mind that patents aren't just for ideas and concepts that are current and ready for the market. Optimally, companies should be looking to use patents to stake claim on future market share. As part of the analysis of whether to pursue patent protection, companies should be assessing the life span of the product or service and its estimated profit margins. Products and services with extended life cycles provide competitors with more opportunity and incentive to duplicate creative ideas. Failure to take advantage of the right to prevent others from making, using, and selling products and services that include a company's creative ideas may cost significant future revenue if its competitors decide to copy its business model and underlying technology.

On the other hand, certain products and processes may have short life cycles or be difficult to reverse engineer. This may not warrant an aggressive patent strategy, because by the time the patent issues, the next generation of the product is on sale in the market and the need to prevent the competitor from using antiquated technology may not be as

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critical. According to the U.S. Patent and Trademark Office, it takes about 22 months, on average, to get a patent issued. Therefore, a patent that can last up to 20 years may not be the best investment for a product with an estimated shelf life of two years.

A prominent issue when dealing with IP management is joint partnerships. New or potential business partners should address IP issues just as they would any other brand of the business. Agreements need to go beyond who pays royalties to whom. For example, who can sue infringers and who maintains the jointly owned intellectual property if there is a split? Further considerations include the costs of policing intellectual assets and which party will cover those costs.

Profit margins are also an important factor to consider when assessing the types and level of IP protection to pursue. Large profit margins will tend to attract more competitors into a specific market space, some of which may knowingly assume the risk associated with copying a business model if it is lucrative. Conversely, thin profit margins may limit the number of competitors that are tempted to enter the market. Notwithstanding, thin profit margins may create a corporate justification for pursuing and protecting IP rights. This margin may warrant suing competitors on the grounds of IP rights in order to remove them from a company's business space entirely.

Another important consideration in managing IP is to determine the level at which competitors are pursuing protection of their business concepts. A competitor that aggressively pursues protection for its current and future technologies should be a red

flag that assists the company in determining the type of IP strategy it needs to implement.

It may seem odd that a competitor's IP strategy will have an impact on a company's own strategy, but consider this: If a company does nothing, it runs the risk of a competitor's mining the entire technological landscape of a business field with its patents, which may severely limit what other companies will be able to do in future growth sectors of their businesses. Failure to keep an eye on the competition and proactively protecting IP can lead to lost market share over the long term and allow competitors to develop a market stranglehold.

### Creating Additional Revenue Streams

In order to create additional revenue streams, a company needs to understand what IP it has, the strength of these assets, and the opportunities for leveraging these assets into new markets or revenue streams. In order to determine what IP assets are available, it's recommended that a company conduct an IP audit and assessment. After determining what assets it has, a company must then determine whether its IP has non-competing applications. If there are non-competing applications, it could generate additional revenue through licensing of the asset. IP rights can also enhance the value or worth of a business to potential investors and financial institutions. In the event of a sale or partnership, IP assets can significantly raise the value of a company as well.

From a licensing perspective, a company may own a portfolio of patents, technologies, trade secrets, and

brands that may be licensed in ways that support a vision. The IP may be licensed for parallel, non-competing use to a third party; to a competitor that is outside of the geographic area in which the company does business; for research and development purposes in order to find other applications for the technology in non-competing industries; or for use by an aftermarket service provider that provides service to the company's products but does not sell products that compete with those of the company.

Some small businesses may not have the resources to conduct research and development at the levels necessary to develop their own IP and may need or want to explore partnerships to gain access to another company's technology. Such partnerships can create new products and services, as well as market opportunities, that would be available for licensing. Technology licensing, joint ventures, and strategic alliances are all IP asset-leveraging strategies which, when incorporated into a company's IP strategy, can be an effective way to enhance its bottom line. ♦

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