

# DEVELOPING AN IP STRATEGY

The “To Do List” of a typical seed-stage company overflows with mission-critical tasks. To many, considering IP in its corporate strategy might seem premature or a luxury not permitted by the available time and budget. However early consideration and deployment of a well-formulated IP strategy can assist your organisation to plan, capture, track and protect the outcomes of its investment in innovation. It positions your company to attract and retain investment at any stage of the growth curve, generate returns from the IP developed in the course of your business and lays the groundwork to protect markets from competitors.

It is worthwhile pursuing these outcomes and allocating appropriate resources to supporting them from the outset. This Chapter offers guidance on how to develop and deploy an IP strategy that is appropriate to support your venture.

## WHAT IS AN IP STRATEGY AND WHAT IS ITS PURPOSE?

Ideally, IP should be integrated into your business model canvas. Having an IP strategy means considering IP when developing your business strategy and goals. An IP strategy:

- articulates how to use IP to protect and grow your business, capture market share and deter competitors from encroaching on your rights;
- captures and categorises your enterprise’s IP; and
- allows intelligence and insights to be fed back to your core operations.

Having an IP strategy assists a growing organisation in a variety of situations.

During market discovery, an IP strategy can be used to generate market intelligence around competitors’ positions in the market or highlight opportunities to secure rights in markets of interest by registering relevant IP.

When raising funds to grow an organisation, or when commercialising IP, having a well-considered IP strategy and “IP schedule” (which is a form of register that lists your organisation’s IP) can de-risk venture capital. Well-defined IP rights and obligations also facilitate risk management when defining partnership or joint venture agreements (where the seed-stage organisation often ends up the disadvantaged junior partner).

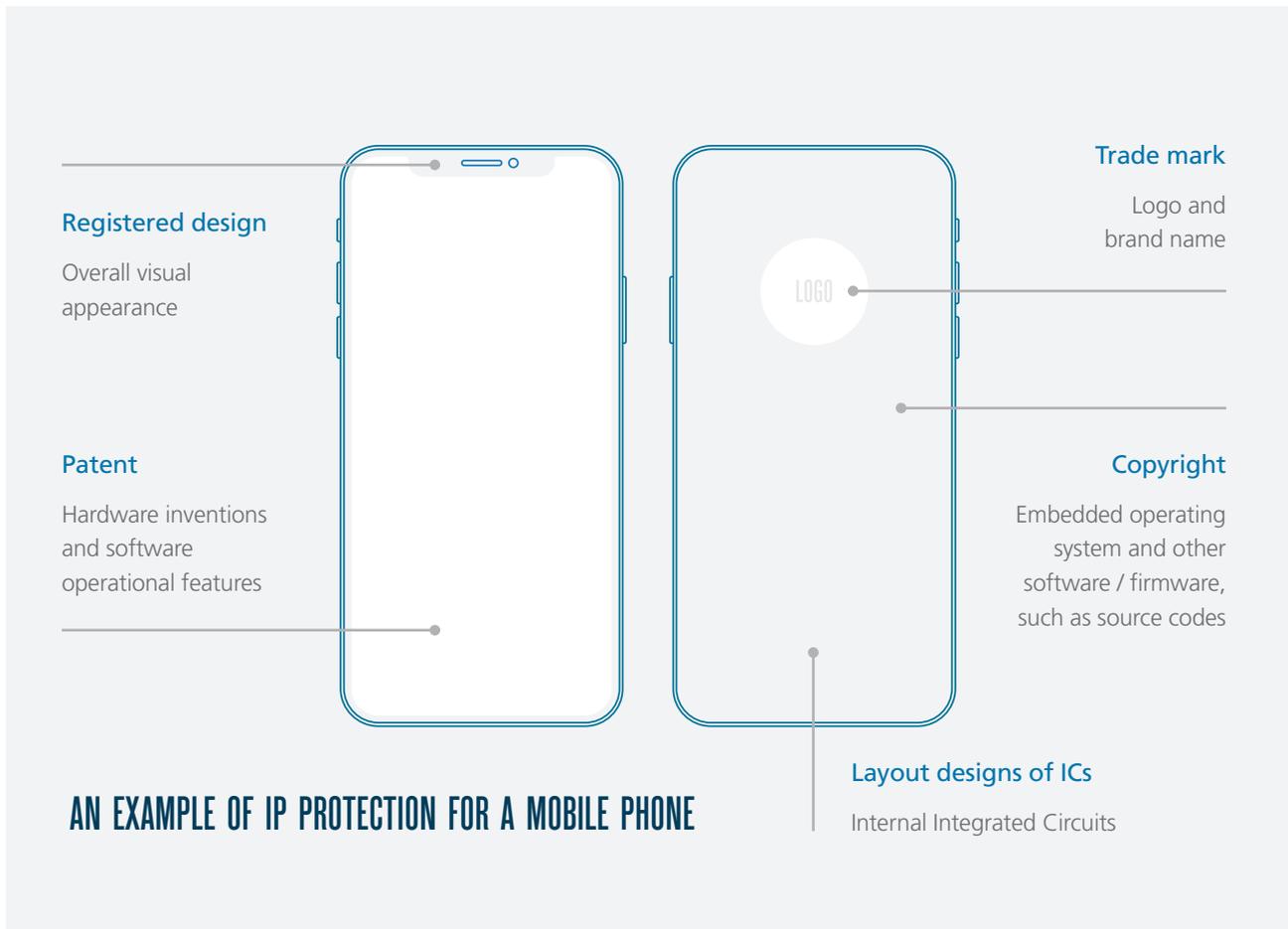
While these eventual outcomes may appear daunting or far on the horizon, a relatively modest initial investment of time and seed funds to consider IP in its corporate strategy can reduce the overall costs incurred in growing a company.

## IP STRATEGY DEVELOPMENT BASICS

As yet there is no off-the-shelf IP strategy solution. This is no surprise. IP is not a goal in itself but a means to achieve the commercial goals of an organisation. Each IP strategy necessarily depends on the unique position, objectives and risk appetite of each organisation. There are, however, some essential aspects that should be considered in the development of any IP strategy.

The process usually starts with introspection. Set aside a few hours to perform a topographical review with your co-founders, floating and capturing your thoughts around each of the issues flagged below:

- **IP leadership.** Consider who within your organisation will be responsible for driving, reviewing and updating the IP strategy over time. Depending on the skills available within your organisation, and the importance of IP to your core activities, this may be yet another hat for an executive or a dedicated position. It may be that this role is supported by an IP professional or advisor with good access to and knowledge of your core commercial activities.



- **Your products and services.** Consider the products and/or services that your organisation is offering and the extent to which they may be protected by IP (the graphic below illustrates the different sorts of IP protection that may be available in respect of a mobile phone). Estimate the likely lead-time for your products or services to get to market and their lifecycle once they arrive, as this may impact your priorities when it comes to IP spending. It is advisable to include all current, in-development and ‘pipe-dream’ activities as part of this process so that the IP strategy is appropriately forward-looking.
- **Geographic footprint.** Identify where your products or services are manufactured or provided and whether the processes of manufacture or service provision will be undertaken directly by your organisation, contracted out or undertaken pursuant to a joint venture. Consider whether confidentiality provisions or IP ownership positions may be necessary to protect your interests in these relationships.

Also identify your key sales markets and rank them based on anticipated returns, projected launch timing and whether the market is business-critical or more of a “nice to have”. Tier 1 markets would typically be high-value markets into which you have concrete plans to operate (including your home territory). As IP rights are territorial in scope, the laws governing the requirements for protection and enforcement of IP tend to vary from country to country. Matters where local law may have a large impact, such as branding selection, freedom-to-operate in light of prior rights, parallel imports of your products by licensees, and industrial standards that may apply must therefore be considered on a market-by-market basis. This may affect the growth and sales strategies of your organisation and should be considered in the market discovery phase of your company.

- **Licensing and distribution.** Consider what your distribution network will look like if all goes to plan. Identify those outside your organisation who will be, or might be interested in being, licensed to utilise your IP in undertaking marketing, promotional or sales activities. Consider product markets and geographic markets beyond your immediate focus which could generate revenue for your company through IP licensing.

Having conducted an introspective analysis based on the above factors, you will be better-placed to determine which IP is core to your business, which non-core IP could be used for tangential revenue generation at a later stage, and the markets in which you intend to protect and exploit that IP.

You should then consider the broader competitive IP landscape in which you operate. This will position you to make an informed selection between minimalist, defensive or offensive strategies for the use, management, protection, commercialisation and enforcement of your IP.

- **Competitors.** Identify your competitors, what their IP portfolios look like, the aggressiveness and sophistication of their IP strategy (so far as you can ascertain this), and what available intelligence sources say about challenges they have faced in securing or enforcing their IP, including disputes to which they have been a party.
- **Tendency for encroachment/litigation and appetite for risk.** Consider the extent to which players in your space tend to keep their distance from the IP rights of others. If possible, get a sense of the incidence of IP litigation in your field and whether parties to disputes tend to be large and well-resourced. Relatedly, consider the value proposition of your IP to potential infringers (i.e. the costs of licensing relative to the costs associated with infringement proceedings). These factors are likely to influence the IP cost/benefit equation which is at the heart of determining your company's appetite for risk.

## IP GOAL SETTING

Once you have completed the introspective analysis and considered the topographical industry-specific issues, you can determine the value of IP to your organisation and what approach to take to protect and exploit your IP. Your organisation may take a strictly minimalist, defensive or offensive approach to IP. Typically, however, a well-formulated IP strategy adopts elements of all three approaches to support the company's commercial priorities.

### The minimalist approach

It may be that, based on the information gathered so far, you form the view that IP is unlikely to shape or significantly impact decisions regarding product or service development, manufacture, supply or distribution. You might consider that a worst case IP scenario is unlikely to emerge, or if it does, that your company is well-placed to escape relatively unscathed. In this case, you might opt for a fairly minimalist strategy that emphasises risk-management over the pursuit of a robust rights portfolio.

To avoid or manage risks, one must know where the risks lie. Professionally-conducted clearance searches can be undertaken to identify prior rights that may pose risks to your planned operations. The results of those clearance searches should provide a realistic picture of the obstacles in your path. It is valuable to retain these insights in a simple IP schedule to avoid confusion or double-spend down the line.

Clearance or name searches conducted as part of a minimalist strategy should also be fed back to commercial decision makers, as the intelligence could be useful in planning sales strategies or identifying new opportunities.

Armed with knowledge of the obstacles lying ahead, you can consider appropriate risk management strategies such as obtaining legal advice on any infringement risks that were identified, negotiating licences from holders of prior rights, developing contingency plans in case a worst case IP scenario does arise, and designing around any IP obstacles arising in a particular market.

### The defensive approach

Enterprises in which IP supports actual or planned revenue generating activities usually adopt, at minimum, a defensive stance with respect to their IP. Defensive strategies utilise IP as a shield to fend off allegations of infringement by third parties and to deter the incursion of would-be infringers. For most organisations seeking capital investment, a defensive strategy is a must to de-risk the injected capital.

Any effective defensive IP strategy is underpinned by a well-articulated IP protection program. The key here is to know what protectable IP exists within your organisation. This means identifying the nature, scope and strength of each relevant IP right and, critically for nascent corporations, knowing who owns what. A well-articulated IP protection program does not necessarily call for all identified IP to be registered, but means that the decision whether to proceed with protection is structured for, and informed by, your organisation's commercial goals.

All forms of IP should be looked at, including patents, trade marks, designs, copyright and trade secrets and the ownership positions of such forms of IP ascertained. If your organisation did not begin life with an IP schedule, now is the time to create one. Collecting information in an IP schedule allows grouping of IP rights and facilitates decisions made at a strategy level to be quickly implemented.

You can easily search publicly-available databases for IP rights in the name of your organisation. You can also canvass your organisation's collective physical and mental memory to check for any IP rights (registered or unregistered) that may exist. If the information proves elusive, IP service providers can be engaged to conduct an audit which:

- (a) summarises all identifiable IP rights in existence; and
- (b) identifies possible gaps in protection.

Armed with a clear picture of existing IP within your organisation, a protection plan can be formulated and recommendations made regarding the registration of rights for defensive purposes.

By this stage, you should have secured all necessary company and business name registrations and domain names licences. These are not IP rights per se and they do not confer enforceable rights against competitors. However, it is convenient to consider these registrations species of "quasi-IP" which are worth documenting in an IP schedule.

Defensive IP strategies typically incorporate the "due diligence" aspect of the minimalist model, namely, clearance searches to identify prior conflicting rights which might present risks to your organisation. That same information can now be used to identify and develop strategies for surmounting obstacles to the use or registration of your organisation's IP.

### The offensive approach

An offensive IP strategy focuses on acquiring and protecting IP that gives your organisation an advantage over its competitors. Therefore, IP is part of the ammunition that drives your commercial goals. In general, an offensive IP strategy requires a robust set of rights supported, if possible, by the resources to enforce them. Ideally, the IP rights block likely 'design around' alternatives, so far as this is possible having regard to the existing prior art.

An offensive IP strategy aims to rigorously defend core markets. It incentivises others to bring themselves within the fold of a licensing program rather than risk the wrath of your organisation should they infringe, or even come close to infringing, your IP. A good offensive strategy is one that is visible to the world because of your preparedness to execute on it. To that end, it is prudent to undertake routine maintenance of your IP schedule and to monitor relevant markets for competitor activity.

In order to develop an offensive IP strategy, you will need to assess the extent to which your product and your sales channels can be protected in relevant markets and the strength/enforceability of your IP rights. The IP schedule, already being maintained as part of a defensive strategy, should identify your IP rights. However, an IP schedule maintained as part of an offensive strategy will typically be a more sophisticated document which includes data on IP-related spend and income.

The table on page 5 provides a "menu" of options for minimalist, defensive, and offensive IP strategies.



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## APPROACHES TO IP DUE DILIGENCE, PROTECTION AND ENFORCEMENT

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**Minimalist** Be aware of IP considerations during initial design and development.

Check that works created for the company (e.g. website content, images, software code) are not copied.

Conduct clearance searches against IP databases in core markets and consider competitor searches/watches.

Develop a basic IP schedule determining who, within and outside your company, owns what IP and consider necessary assignments.

Ensure that potentially patentable methods and future products are communicated to IP decision makers.

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**Defensive** Ensure IP developed for the company is owned by or otherwise licensed to the company. This is especially important for copyright in works created by independent contractors or other individuals who were not employees at the time works were created.

Seek protection of critical IP, where available.

Ensure that persons handling confidential information are aware of disclosable and non-disclosable details of your operations and train these persons to use your IP schedule.

Enforce IP where necessary to safeguard your monopoly, prevent confusion or protect a product/service category from incursion by competitors.

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**Offensive** Seek protection in respect of less critical IP. Consider broad and/or defensive filing programs.

Maintain watches on IP databases and core markets.

Monitor competitor activity, oppose problematic IP filings and enforce IP to thwart competitor activity, stymie market incursion, or capture of market share.

Send letters of demand and/or letters putting competitors on notice of your company's IP.

Register copyright where applicable.

Conduct routine portfolio reviews and take steps to fill gaps in protection.

Have a robust distribution network underpinned by appropriate agreements with IP and confidentiality provisions.

### SUMMARY – STEPS TO KEEP YOUR IP STRATEGY ON TRACK

A typical seed-stage company may think that considering IP in its corporate strategy to be more trouble than it's worth. That sentiment is understandable, particularly for companies with shoestring budgets that simply do not accommodate deployment of some of the more advanced strategies discussed above. However, decisions at the seed-stage lay foundations for what will become a world-class IP strategy during the growth and expansion stages of a company. Like many other commercial decisions at the seed-stage, a small commitment early on can more than pay for itself down the track.

Here are some simple, cost-effective measures that can be taken by any venture to get on the front foot with its IP:

1. **Assign responsibility** – someone should take the lead on considering and keeping an eye on IP in its corporate strategy and adjusting the level of resource commitment to the organisation's needs and changing circumstances.
2. **Keep records** – maintain a "schedule" of the IP related to particular business activities. As the company grows in sophistication, the schedule may be used for other purposes such as registration prioritisation or market development. At a minimum, an IP schedule should identify the form of IP, ownership of such IP and the territory in which it exists.
3. **Clarify ownership** – while this is nominally part of keeping IP records, a seed stage company often has some catching up to do in clarifying, centralising and recording ownership of IP assets. Failure to appropriately record ownership can result in protracted conflicts with departing founders, employees or investors.
4. **Build IP currency** – it is impossible to capture IP that is not being brought forward by the IP generators. Ensure that technical and creative staff understand what sorts of intellectual output may be registrable IP or worthy of being internally designated as a trade secret. Educate your staff as to the "dos" and "don'ts" to effectively protect your IP.
5. **Keep the IP strategy alive** – your IP strategy should be not be rigid. It is important to conduct periodic reviews and to adapt your IP strategy to reflect changes in commercial priorities, appetite for risks, competitor activity and other matters.
6. **Information feedback** – inform appropriate decision makers in your organisation of significant shifts in the IP landscape. A major filing program of your competitor may significantly affect the roll out or target markets for a product or service. Similarly, a highly litigious competitor might affect pivot decisions during market discovery.
7. **Involve IP professionals** – good IP professionals understand the commercial constraints on seed-stage companies and work with you to develop appropriate budgets for advisory and other IP work. Early involvement of IP professionals can prevent costly mistakes that may otherwise only present on, and grow with, the success of your company.
8. **Sell your hard work** – including your current or projected IP position (edited for disclosure management) in press releases, website material, presentations and reports builds your reputation as an organisation on top of its IP. At the very least, this can be attractive to investors and make competitors think twice before wilfully infringing your rights.

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