

AN IP STRATEGY FOR CORPORATE SUCCESS PART I: BUILDING A WINNING IP STRATEGY

[2021] SAL Prac 11

Mark **CHENG**

LLB (Hons) (Singapore Management University);

Advocate and Solicitor (Singapore);

Counsel, Ella Cheong LLC.

I. Introduction

1 Intellectual property (“IP”) assets have become the cornerstone of the modern economy in the last 20 years, accounting for as much as 90% of today’s business value.¹ This is reflected in the rapid growth of registered IP filings over the same 20-year period, with IP offices around the world recording prodigious growth rates of between 100% and 400% increases in filing rates.²

2 This increasing focus on IP in the boardroom should come as no surprise, given the complex challenges caused by globalisation and disruptive digitalisation today. Trade wars, unbalanced market entry conditions, new competitors, new technologies and new business models are all posing increasingly complex challenges to corporations. Securing innovation and assets through IP protection has therefore become an essential aspect for continued business success.

1 “Intangible Asset Market Value Study” *Ocean Tomo Intellectual Capital Equity* (2020) <<https://www.oceantomo.com/intangible-asset-market-value-study/>> (accessed 1 December 2020).

2 See Amina C Mohamed, “Harnessing the Benefits of IP for Development” *World Intellectual Property Organization* (June 2019). Further statistics are available from the WIPO IP Statistics Data Center at <<https://www3.wipo.int/ipstats/>> (accessed 23 February 2021).

3 Beyond keeping competitors out, IP is increasingly also seen as a tool for preserving and enhancing business value. Savvy corporations today understand that IP has a key bearing on the value of the business itself, opening up opportunities for mergers and acquisitions (“M&A”) and investment, and generating new revenue channels through collaboration and licensing.³

4 Unfortunately, the IP game itself can be complex and full of pitfalls. Thus, despite the record-breaking number of patents granted each year, it is estimated that only 3% to 5% of patents in corporate portfolios are actually generating value.⁴ How then should an astute corporation play to win in the IP game, and where do IP practitioners fit in this puzzle?

5 The answer lies in developing and implementing an IP strategy that effectively maximises the value of the business’s IP assets. A company that innovates without an overarching IP strategy is navigating without a compass. Failure to do so will increase the company’s exposure to risk, blindside it to potential opportunities, and potentially hinder innovation and collaboration with external partners. Counsel are also increasingly expected to play a larger role in supporting corporate strategies, beyond the mere filing and enforcement of IP rights.

6 The first in a two-part series, this article will discuss the importance of a winning IP strategy, and some commonly applied strategies. Part II will discuss some of the challenges in the implementation of an IP strategy, and best practices for ensuring efficacy in implementation.

3 In a recent survey conducted by Legal 500, a sizeable 86% of survey participants acknowledged that IP has a role in quantifying the value of the company and 59% believe it has a role in making it an attractive target for M&A. See “The GC’s Guide to Profitable IP Strategies” *Legal 500* (2020).

4 Terry Ludlow, “Trends in Technology IP Licensing” (10 December 2014) at p 2 <https://ipo.org/wp-content/uploads/2014/12/IPLicensingTrends_TerryLudlow1.pdf> (accessed 1 December 2020).

II. What is an IP strategy?

7 Any business worth its salt must have a sound business strategy. At a macro level, this involves charting the overall direction of the company, setting out the organisation's goals and performance metrics, and allocating the necessary resources with which to achieve those objectives. IP, however, cannot be divorced from these considerations. The deeper one dives into an organisation's business decisions, the clearer it becomes that IP is a necessary consideration each step of the way. This includes questions surrounding the choice of markets in which the business intends to compete, the branding and positioning of the company's products and services within that market, pricing strategies and product differentiation, and other decisions to ensure the competitiveness of the enterprise.

8 Seen in this light, an IP strategy is a plan – that is consistent with the organisation's wider business strategy – to help a business capitalise on and maximise the value of its IP. Counsel would be wise to recognise that an IP strategy is not just about legal considerations but considers wider factors affecting the company's technology, markets and operations. IP strategy therefore cannot be viewed in silo but must be a critical part of a firm's overall business strategy. When IP strategy is successfully synergised with business strategy, the organisation gains answers to important questions, including:

- (a) What drives the organisation's competitive advantage, and what is the most cost-effective way to protect that competitive advantage?
- (b) Should the organisation enter a new market, and what steps should it take before doing so?
- (c) Should the organisation invest in developing a new product or service in-house, or should it seek out existing solutions?
- (d) How can the organisation increase the value of its business and technology to make itself a more attractive target for investment?

(e) How should the organisation assess the technology of a potential investment target, and what are the risks involved?

(f) What is the most effective way for the organisation to achieve the successful commercialisation of its technology, product or service?

9 The following section will examine some commonly applied IP strategies, and how they support an effective business strategy.

A. Adopting surgical IP protection

10 From entrepreneurial ventures to large multinationals, it is well understood that IP is key to keeping competitors out of the market. This is especially so today, given the unrelenting march of digitalisation and increasing technology convergence, all of which have flooded traditional industries with a swathe of new competitors. Against this backdrop, the importance of high-quality IP protection has never been clearer.

11 However, adopting an indiscreet approach to IP protection can quickly lead to ballooning costs and ineffective value capture. Smaller enterprises – for whom “cash is king” – can ill afford to be collecting IP like trophies or for mere bragging rights.⁵ Instead, practitioners should aim to build an IP protection strategy that focuses on surgical and targeted IP protection for smaller enterprises. This means working with management to identify the company’s competitive advantage, and prioritising protection for IP assets that drive that advantage. This keeps costs low, while maximising the value of protection derived.

5 Seth Fiegerman, “In Tech, Patents are Trophies – and These Companies are Dominating” *CNN Business* (19 June 2018) <<https://money.cnn.com/2018/06/19/technology/tech-patents/index.html>> (accessed 1 December 2020).

B. *Be holistic about IP protection*

12 Many companies equate IP protection with registered IP such as patents and trade marks. While both can be incredibly powerful barriers to entry, they are not the only tools available in one's arsenal. Adept counsel must also equally consider other forms of non-registered IP, such as copyright, data, and confidential information and trade secrets. Even more so, counsel would be well advised to conduct in-depth IP audits to uncover not just the IP assets within the organisation, but also other intangible assets – such as branding, domain names, data, regulatory approvals, and key contracts – which, although outside the scope of traditional IP, may nonetheless play a vital role in generating value for the business.

13 Adopting a holistic view towards IP and intangible asset protection often creates stronger barriers to entry and builds a “thicket” of protection that makes it harder for competitors to break through. An effective IP strategy should therefore avoid losing sight of the forest for the trees in its approach towards protection.

C. *Strategic use of registered IP*

14 If registered IP must be filed, counsel must ensure that the organisation has effective IP processes and tools to ensure that they are filed in time, and create meaningful protection with well-drafted claims. Companies with larger resources and greater technical expertise can also leverage IP strategy to file “offensively”. Counsel may advise organisations to file patents and trade marks to “defensively” cover their own products and brands, but may also consider filing “offensively” over future inventions and brands which competitors may intend to develop or use. This creates a strong roadblock in the development path of competitors, while also opening a potential pathway for monetisation beyond the business's own products and technology.

15 As practitioners, counsel will frequently also advise companies to leverage the international IP system strategically.

This includes utilising the various procedural systems (*eg*, the Madrid Protocol,⁶ Patent Cooperation Treaty,⁷ *etc*) to allow the organisation to save costs when filing for IP protection in multiple jurisdictions, while also potentially extending the runway for market entry.

D. Controlling the distribution of ideas

16 In today's economy, any meaningful competitive advantages are derived from ideas, knowledge and expertise. In its nascent form, before such knowledge is translated into successful products, technology or brands, it is protected as IP in the form of confidential information and trade secrets. Indeed, some products, such as Google's search algorithm or Intel's manufacturing process for its integrated circuits, continue to be protected as valuable trade secrets even after the products themselves have come to dominate the market.

17 Unfortunately, confidential information and trade secrets are often the least well-managed form of IP within organisations. The alleged misappropriation of confidential information and trade secrets has gained significant media attention over the last two years,⁸ and is one of the major instigators of current trade tensions between the US and China. With several countries introducing new trade secret legislation,⁹ and trade secret litigation gaining increasing traction, there have also been increasingly large damages claims and verdicts in

6 Madrid System for the International Registration of Marks, based on the Madrid Agreement Concerning the International Registration of Marks (1891) and the Protocol Relating to the Madrid Agreement (1989).

7 Effective 24 January 1978.

8 Phillip Bantz, "Why Trade-Secret Theft Prosecutions vs. China Are Trending: Lawyers Explain" *Law.com* (9 November 2018).

9 The Defend Trade Secrets Act was enacted in 2016 in the US, while there is also increasing implementation of the EU Trade Secrets Directive (Directive (EU) 2016/943 of the European Parliament and of the Council of 8 June 2016 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure) across Europe since 2018.

other jurisdictions.¹⁰ The Singapore Court of Appeal also appears to be placing greater emphasis on the protection of confidential information, with its recent decision in *I-Admin (Singapore) Pte Ltd v Hong Ying Ting*¹¹ introducing a modified approach to the determination of breach of confidence claims.

18 To protect its confidential information, counsel must help organisations implement reasonable measures to preserve the confidentiality of their assets. Beyond just signing an NDA, an effective IP strategy will also mandate processes such as proper document labelling, periodic staff awareness and training, proper succession planning and capture of key know-how, and implementing proper access controls and sharing procedures for such information.

E. Open innovation and collaborative partnerships

19 The importance of an IP strategy is especially critical for firms that adopt an open innovation model towards research and product development. Unlike closed innovation, where ideas and information are kept within the confines of the company, open innovation encourages access and exchange of information, technology and IP.

20 A meaningful IP strategy must therefore balance the need to protect the company's confidential information and IP (including all the novel, patentable aspects of an innovation) against the need to exchange and access external ideas and external paths to market. While it is certainly important for an organisation to protect its ideas, an overly pedantic approach to IP protection could potentially scare away the very people the organisation is trying to collaborate with. Excessive patenting or overly restrictive information-sharing policies will only cause potential collaborators to look elsewhere. Instead, counsel must

10 "Lex Machina Releases New Trade Secret Litigation Report" *Lex Machina* (18 July 2018) <<https://lexmachina.com/media/press/lex-machina-releases-new-trade-secret-litigation-report/>> (accessed 1 December 2020).

11 [2020] 1 SLR 1130.

likely adopt a lighter-touch approach to licensing negotiations and IP ownership and rights of use.

21 That said, registered IP can still be a useful facilitator for collaboration and product development. For example, large multinationals like P&G often aggressively mine scientific literature and patent databases to search for third-party IP that can be incorporated into their product pipelines.¹² Having such granted IP allows the company to better understand what the technology is and how it works. On the flip side, inventors are also likely to be less wary of collaborators misappropriating their inventions, as the patent provides a means for seeking recourse in the event of infringement.

F. Using IP for financing and revenue generation

22 IP rights are not only effective barriers to entry against competitors, they are also important financing and revenue generation tools. IP practitioners are therefore often called upon to help organisations increase the company's valuation and generate additional revenue through out-licensing opportunities.

23 In many industries, IP is one of the primary considerations for investors.¹³ Investors will be looking to ask how the business model is supported by IP. In turn, innovations and know-how that are well protected will increase the likelihood of a company being an M&A target or receiving investment from other companies or venture capital. An effective IP strategy will therefore help the company drive M&A and investment opportunities.

24 Additionally, many companies are also looking towards IP licensing as a means to open up potential new revenue streams. Companies like IBM have done so to great success, earning the technology giant and global patent leader US\$1.2bn in revenue in

12 Larry Huston & Nabil Sakkab, "Connect and Develop: Inside Procter & Gamble's New Model for Innovation" *Harvard Business Review* (March 2006).

13 John P Ogier, "Intellectual Property, Finance and Economic Development" *WIPO Magazine* (February 2016).

2017 alone.¹⁴ However, effective licensing of IP requires proper IP processes and tools to be successful. Counsel therefore need to work with management to implement processes that identify the right IP assets that are suitable for licensing, identify and evaluate licensing opportunities that may arise, and track and manage such licences once they have been granted. In addition, careful consideration must also be given to the terms of a potential licence, including the grant clause, access to improvements, due diligence, and indemnities and product liability.

G. *Protecting the company's brand and reputation*

25 While younger companies are often hyper-focused on product development, mature companies know that brand and reputation are critical to protecting their hard-won market traction. After all, the value of new technology and products will only erode over time through obsolescence and competition, whereas the value of a successful brand continues to increase over time. Today, the value of the world's biggest brands reaches stratospheric levels upwards of US\$200bn.¹⁵

26 So, while protection of a firm's technology and products is important, IP counsel must be conscious of the long-term game and work with organisations to maximise the value of their brand and goodwill accrued over time. This includes conducting appropriate due diligence and trade mark searches when selecting a new brand, and choosing a name that is distinctive and therefore more easily registered as a trade mark, as well as watching out for any unintended cultural implications for the organisation's brand in foreign markets. Measures must also be put in place for the active monitoring and timely enforcement of the organisation's marks, especially in overseas markets and on online marketplaces.

14 Ted Pigott, "IBM Patents: You No Longer Have to Fear Large U.S. Patent Portfolios" *InQuartik* (3 May 2019) <<https://www.inquartik.com/inq-large-us-patent-portfolios/>> (accessed 1 December 2020).

15 Marty Swant, "The World's Most Valuable Brands" *Forbes* (2020).

III. Conclusion

27 Ultimately, IP must be seen as a business asset, and not merely a legal cost-centre. Seen in this light, business owners can then work with astute counsel to begin unearthing the true value that their IP assets can bring. This includes not just the ability to keep competitors at bay, but to also open new windows of opportunity for licensing, collaboration and investment.

28 In many corporations, however, there is still a significant disconnect between IP strategy and business strategy. Many corporations still exist in a reactionary state towards IP – choosing to deal with IP only if and when a problem occurs. Even businesses that have an inkling of the importance of IP may only see it as a purely legal concern, relegating it to an annual IP portfolio review.

29 It is the hope of this author, however, that the above article has demonstrated how IP must be seen as an integral part of the wider business strategy and cannot be divorced from the latter. Failure to recognise the intersection between the two can only increase a company's exposure to risk and result in missed opportunity costs. With the pace and competitiveness of today's modern economy, companies can ill afford to make either of these mistakes.