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The differences in the intellectual property needs of companies highlighted

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Managing the intellectual properties of a well established company with budget approvals always relatively easily secured, created visions of a smooth ride into distant retirement. Not that our employer was prepared to dish out intellectual property funds without proper justification. But it all seemed so easy working with bricks and mortar, clearly understanding the nature of the products and services offered within our Group of Companies. After all, this had been going on for the past 50 years. Even the company board of directors understood our needs, our suggestions and had over many decades demonstrated an extremely comfortable relationship with intellectual properties as if part-and-parcel of the fundamentals of Group asset management. To put it mildly, our IP team set up base in a comfort zone where not even a killer hurricane would spring a surprise on us.

The daily routine consisted mainly of filings, prosecution and renewals, all within set parameters, established, tested and approved over the years. Some litigation too, but blessed with the insights of our management, we could always rely on the best outside legal counsel to assist. This was of course all intended to ensure the best possible outcome for the employer, not merely to minimize our risk as a legal team of advisors! But nevertheless very comforting.

However, as John F Kennedy stated many years ago “change is the law of life”. Winds of change blew into our company 5-10 years ago. Our Group of companies decided for good reason, I guess, to create more and direct value for its shareholders and perhaps, to do things somewhat differently in the future. It thus disposed of some of its major investments (yes, those comfortable brick-and-mortar types) and decided to create new wealth by establishing a global venture capital company with South African expertise, expressing a preference for direct involvement, as opposed to simply taking an interest in local companies.

Following a major company re-organisation over a period of months (and implemented over the years to follow), what emerged was a smaller stream-lined version of the previous bricks-and mortar Group, and standing next to it, a newly created company with its focus, broadly speaking, on active investment and management expecting returns materially in excess of the cost of capital, searching for (the ever evasive) high-growth investment opportunities and certainly inclusive of the commercialisation of unique and protectable intellectual properties with the emphasis on international scope and opportunity.

And we discovered very soon at legal, that our perceived protective shield had faded.

The Challenge

In the past we had often been confronted with difficult decisions pertaining to trade marks, patents and copyright. Dealing with trade mark rejections by intellectual property offices, managing trade mark objections, securing local and international patent as well as domain protection, constituted daily practice. Do we litigate, be it in respect of infringement, passing off or unlawful competition or do we settle? Preparing cases for advertising complaints to and hearings at our Advertising Standards Authority happened regularly. But somehow, all these matters seemed to be resolved and finalised in some familiar way (been there, seen it all and got the t-shirt feeling). Protecting the intellectual properties of a Group of Companies operating in the fields of beverages, foodstuffs, electronics and healthcare with a portfolio of approximately 15 000 pending and registered trade marks in South Africa and internationally, was both satisfying and rewarding. In this regard, as mentioned previously, we were afforded the luxury of adequate funding and proper time management.

Then the new challenges began to emerge. Before our Group would approve of any involvement in a "high growth investment opportunity", our legal team had to issue an intellectual property clearance, based on an intellectual property due diligence investigation conducted. Things changed dramatically: no longer clients communicating with us electronically and receiving our punctual responses from the comfort of our air-conditioned offices: we had to go out to visit the premises where the potential start-up investee operates from, premises abuzz with lots of ideas, optimism, energy and alas, no funds. Searching for an intellectual property inventory where the invention is still an idea, not even properly formulated, created new challenges.

All of a sudden we were called upon to explain that there was no such thing as a world wide patent or that an international trade mark did extent to all corners of the world!

However with the structured experience back in the minds of our legal team (more than a century of shared experience at the same employer), we realised very quickly that, simply speaking, the answer was to consult, assess ideas and then to propose the protection plan, i.e. an impressive roll-out of an international patent filing programme together with proper branding and international trade mark filings so as to convert the idea into something more tangible and, by the way, costing tens of thousands of dollars. So far so good.

Conveying the message, we would do a presentation to a keen new "start-up" audience, explaining the pros and cons of IP protection.

However, for the first time we are confronted with a reality: not all clients have adequate funding available. Must the idea first be allowed to develop into an income generating vehicle, or do we initiate IP- protection on borrowed money? We chose the latter and set an incredible intellectual property protection plan in motion, with the hesitant co-operation of the inventors. And then, with all intellectual property protection mechanisms in place, from Cape Town to Cairo, Seattle to Moscow, the investee folded. Its funds dried up. And the intellectual properties worth nothing, because the idea was not commercially viable.

This was one of the first lessons learned by our team: an invention is not necessarily a guarantee of commercial success. Even if the commercial and financial investment considerations fall outside our domain, we are still required to understand that our recommendations should be balanced against constraints such as finances.

Learning fast

Following a number of near hits and real misses, strategy planning sessions, briefings and dialogue with all players, and lots of research, a number of valuable guidelines were identified.

Transforming the mindset of our IP personnel

What was required was an understanding of the changing work environment and acceptance of the need to adapt. While it was not difficult to brief our paralegals and support staff on the changed working environment, it was certainly a challenge for all of our lawyers to accept that intellectual property responsibilities in fact extended far beyond the well-defined and the more specifically structured field of trade marks, copyrights, patents and designs i.e. in future to view the broad based concept of intangibles as a point of departure and furthermore, to revive all the IP skills tucked away for so long. After all, it requires a firm effort to begin to do things differently.

A few training sessions and presentations by outside experts in the field of skills and skill-development was the perfect starting point. It basically confirmed that we were looking at latent skills to be deployed differently and very often, that challenges created new rewards, values and self-esteem.

Defining a new IP vision

It was appreciated that the venture capital ("VC") market displayed some very specific characteristics. These were new businesses hoping to being acquired while the predator was looking at an aggressive optimisation of the new business value. At this stage the new company is unlikely to understand IP let alone producing an IP inventory.

It was soon realised that there are two pre-requisites for our team's engagement, namely;

- The target company or inventor to disclose and identify exactly what it believed to represent its IP values, and
- That we could only deal with the intangibles of a VC, i.e. identify, inventorise, expand and manage IP if there was total buy-in on the part of the VC.

Subject to the above, and what follows, we believed that we would be better equipped to effectively manage a VC IP portfolio, with a view to quantify its value without promising increased returns.

Developing new business practices

It should always be remembered that the purpose of a due diligence is aimed at revealing the value of the intangible assets of the VC, and that it involves a thorough investigation of the strength and scope of the IP. This investigation should take place long before any VC company deal is finalised and certainly not on the basis of a last-thought signing-off process.

The due diligence involves a substantive investigation, collecting literally thousands of bits of information before providing an assessment of the results or strengths of the IP. And only then can the IP risks or benefits be quantified or measured in the context of the proposed transaction.

For this reason our team had to ensure, somehow, that there was early involvement by our team in any new investment proposal. In this regard we were quite fortunate, in that our investment client had decided at a very early stage to view our IP team as an integrated part of the overall investigation.

Going paperless?

Within a few months of involvement in the field of potential new clients, investments, new experiences and a deluge of information, we realised that our paper records filing system was inadequate. It became extremely difficult to recall particular matters, specific intellectual properties and precedents and our filing system which had worked so well for many decades, was under severe strain. At that stage, I should mention, we already had access to a very effective electronic IP management system.

It was then decided, after thorough research, to convert to a so-called entirely paperless environment where modern technology could assist us in sorting matters in user friendly manner, provide access to all files for all lawyers and ensuring that files and information never disappear: to establish a mechanism for the retrieval of information on the basis of a well-organised electronic system, supported with an indispensible search function.

This conversion from conventional files to paperless, with a portfolio where trade marks alone run into many thousand properties, was not painless and indeed required many months of training-on-the job. Looking back now a few years down the track, we realise that this was certainly the only option available to us and where even from the client's premises, it is possible to extract a proper electronic record for each and every transaction.

Working knowledge of relevant markets

No meaningful due diligence of a target company intangible assets can take place unless a comprehensive checklist is developed and applied. This is intended to organise the IP in respect of the various categories of assets (trade marks, patents, copyrights, designs, non-disclosure, employment, secrecy and other agreements etc.), systematically assessing the strengths and shortfalls/vulnerabilities of such assets and, broadly speaking, creating a platform for our client company to understand the role and value of IP in the proposed transaction.

However, our team of lawyers quickly came to realize that a thorough knowledge of the law and IP expertise in particular, was not the primary skill required when undertaking a due diligence. It just became virtually impossible to identify and quantify IP assets unless there was a real understanding of technology and the business of the target company (enterprise) in question. And this was even more relevant in circumstances where such enterprise consisted of a combination of related or disparate technologies relating to their products or services. It therefore became a prerequisite for our lawyers to get to grips with a particular target technology before we would dare to involve ourselves.

Involvement and integration

An essential ingredient in the conduct of the successful due diligence, is the relationship of the legal team with the inventor or target company. In this regard it should be noted that the legal team leader must display authority and expertise, while being an efficient and trusted operator, known to do whatever is in the best interests of the client, i.e. to ensure that any latent distrust in the involvement of the legal team (who is often easily seen as a derailing factor), is replaced with a dependence on direction and guidance provided by the IP experts: an understanding that well-formulated IP strategy will unlock IP values and identify opportunities and risks.

None of this can happen unless the legal team becomes involved in all negotiations, heads of agreement or contract proposals. Simply put, legal must become the first item on any investor company checklist when considering new investment opportunities. This will only happen if the legal team earns the respect of his clients over time.

Understanding Value

Smart executives and Fortune 500 companies are often inclined to mistake patent rights or licenses as real financial assets. Lawyers too are guilty of the same mistake. For instance high-tech companies hold patents for different reasons, eg bargaining leverage, future uses or even as a mere deterrent. Only a minute portion of patents will have real value.

Likewise, the existence of trade mark rights internationally, in respect of a brand being used, fully registered and maintained through over the world, is no guarantee of its future commercial value.

The message here for us was not to be overwhelmed by an impressive well –organised inventorised IP portfolio: the responsibility is to expertly analyse the portfolio for its strengths and weaknesses, but to leave the commercial consideration to the financial experts.

IP Due Diligence

All of our lawyers have had previous experiences with non-disclosure agreements (NDA's) though, only from a theoretical point of view. Now suddenly required to undertake an urgent due diligence and signing a NDA to cover the fears of a target company, eagerly awaiting its execution, left us flabbergasted. We would have preferred a few days to consider, discuss and propose modifications to the NDA! However, here we immediately realised that the only solution to speed up the process was for us to develop a draft NDA on our terms and conditions, with some room for modification to accommodate special requirements from a target company.

We all appreciated that the due diligence would consist, broadly speaking, of a process where it was necessary to identify and inventorise the IP, test the IP for strengths and weaknesses and finally, to have the IP qualified. However, much more than pure IP was involved and we realised soon that not only did we have to look at a broadly defined and unstructured intangible field of assets (including aspects such as general business information, personnel, benefit plans and employee contracts, legal matters and environmental issues), but that we had to work hand-in-hand with say the financial discipline looking at financial and tax issues.

Once again, it became very clear to us that our legal team was truly integrating into our company set-up whereas previously we were running a somewhat separate or even isolated operation.

The Road Ahead

It is hugely rewarding and stimulating operating within a top Group of Companies where our responsibilities include the protection of the intellectual properties of well-established companies with familiar IP portfolios, a client in-depth understanding of IP – needs and adequate funding available to support and strengthen the overall integrity of such IP portfolios. We deal continuously with wide-awake brand managers who are forever looking at ways to improve brand values and developing markets throughout the world.

On the production side, whether it is mobile technology or the wine industry, new products are continuously being developed and our responsibility is to secure protection within existing parameters. These are challenges that are well defined and where we often rely and are indeed dependant upon the assistance and guidance extended by the legal advisor situated at the client –offices. We meet frequently, discuss needs, expectations and budgets and then get the job done.

On the other hand, we deal with the so-called new investment opportunities, on an increasing basis. Especially now, with the whole world caught up in on economic crisis of unimaginable proportions, clever companies and inventors are jumping at the chance of doing things differently, finding solutions for old and new problems and generally believing that a new wave of opportunities are now emerging.

A legal team cannot produce a credible and comprehensive support service unless there is buy-in from both management and the target company. Our preference is that unless we acquire full control of the target company IP from day one, our investors should not get involved, unless sound reasons exist eg. as an “own” team of IP professionals already taking care.

However, very few inventors or potential investee companies have had the luxury of thorough IP treatment.

The inventor can so easily lose the plot. Our venture-capital operation is not interested in “cool” prototypes or a winning design award of an inventor rushing from invention to product and skipping essential IP-steps in the process. No, ultimately its objective is to provide an exclusive rewarding service or to have a product on the shelves that sells and makes money for all parties involved.

In this regard I do hasten to add that our management has been successful in identifying inventors and potential investees that have come to the table well prepared, extremely knowledgeable and more importantly, understanding the interplay between IP, funding and commercial focus.

So how do we match the expectations of the inventor or investee company with those of management (the investor) as far as IP is concerned? Once we finalise an in-depth due diligence and the results, together with the finances and other disciplines, seem potentially favourable, we commence working on the roll-out of an IP-protection plan, with the emphasis on affordability. Our protection plan will be based on funding available and of course future product markets. While the branding-side is relatively easy and cheap/affordable to introduce and where countries (new markets) can be introduced over a period of time, the difficulty lies with patents where it is a pre-requisite that we secure filing opportunities in all relevant markets without compromising novelty and securing secrecy until funding approvals are obtained.

In this regard we are forced to examine the ultimate goal of all the parties concerned, which could be preventing others from using the invention, to profit through licensing or securing protection while the invention is being further developed for financial gain. Obviously, these goals will affect the overall patent strategy and throughout be influenced by costs considerations.

Conclusion

While it is much more comfortable to manage IP portfolios of old and existing clients, the emergence of a global venture capital client company has introduced an exciting challenge for our legal team. We now know that it is possible, (even for legal people!), to adapt to new circumstances, that there is a wealth of untapped skills and knowledge lurking under the surface, provided you create tools to unleash these talents and finally, that technology could be deployed very successfully to assist in a changing world.