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INTELLECTUAL PROPERTY LAW

Intellectual Property Strategies for the 21st Century Corporation

Summary of Chapter 1: Corporate Strategies, Structures, and Ownership of Intellectual Property Rights

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Statistics over the last decade suggest that a shift is well underway in corporate attitudes toward acquiring, valuing, and leveraging IP rights. Two main concerns that dominate the management of IP are legal and business issues. Ideally, even though a lawyer's skills are useful in determining which IP rights to obtain, maximizing profits from an IP portfolio are not within the realm of a lawyer's expertise. Thus, effective IP rights management strategies must accompany adapted effective management structures.

Recent trends show that companies, to best exploit their IP rights, frequently consider restructuring their ownership and management of IP rights, with for example, a portfolio review. However, an effective IP strategy must consider the intended use of the IP right(s) and the key players who will help develop and leverage it, such as legal counsel, inventors, business developers and marketing professionals.

Business strategies for exploiting IP assets must include the consideration of whether owning the IP right is advantageous or even necessary. In some instances, being a licensee is sufficient. In others, companies may develop their portfolio as a strategy to generate income and also to maximize the return for investors in the event of strategic alliance(s). However, to ensure a viable return on investment, the benefits of ownership must be weighed against factors such as associated costs, relevant markets, the strength of the IP rights, competitive advantage and enforcement strategies.

In cases where companies do seek strategic alliances to maximize the value of their IP portfolio, a multitude of options for developing such alliances exists. One such option is IP licensing. IP licensing generates significant revenues for many major international companies by creating new income streams and market opportunities. However, a licensee should consider certain risks associated with licensing that a licensor might not be obligated to consider. Such risks include return on capital, manufacture and distribution, market shifts in taste, emergence of competition, and rival technologies.

Common types of license agreements include publishing (e.g., for novels), entertainment (e.g., for live performances), technology and patent licensing (e.g., for product development), and trademark licensing (e.g., for co-branding). However, licensing deals may be hugely complicated as they are usually structured to achieve multiple purposes. For instance, the latest trends in technology licensing indicate that companies are actively engaging in cross-licensing and out-licensing agreements to not only avail of the resultant monetary benefits, but also to strategically improve a firm's competitive position. Patent licensing, could be exclusive, non-exclusive, or in the form of cross-licenses. These licenses provides companies the opportunities to create revenue as well as develop new inventions through collaborations. Companies use trademark licensing as a tool to develop and maintain a global presence, create a secondary stream of revenue, and avoid instances of consumer confusion. Since a trademark can only be transferred if it is accompanied by the associated goodwill in many jurisdictions, a licensor must exercise quality control over the licensee's use of the licensed mark. Failure to exercise adequate quality control may result in significant risks to trademark rights. Consequently, licensing contracts should include provisions regarding the licensor's express right to control the quality of the licensee's products.

IP is also often at the center of structural aspects of joint venture agreements. Therefore, great care must be employed to include contractual provisions that address ownership, confidentiality, the rights and terms of transfer, term, territory, and scope.

Another crucial aspect that companies must consider is that IP is a taxable asset. Its management decisions, must therefore, incorporate tax implications. When companies develop intercompany structures for the ownership development and management of IP, they must consider issues that will affect intercompany transfers or cost-sharing arrangements. They may consider the use of Intellectual Property Holding Companies (IPHCs), which may have significant tax benefits. They may also elect to set up organizational arms offshore to take advantage of the favorable taxation policies to develop new funding mechanisms, but such decision brings other issues that need to be cleared by companies beforehand.

Finally, with respect to antitrust laws, companies need to be careful, because despite the seeming uniformity in the spirit of antitrust laws of the United States and the European Union, the differences are such that a merger between two large entities might pass muster in the United States, but fail in the European Union, or vice-versa.

Management and ownership of IP rights are critical to ensuring that companies are properly positioned to be able to successfully execute their business strategies.

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