



Intellectual Property: The Start-up and Scale-up Guide



Introduction

Dragon's Den frequently sees promising pitches derailed by an IP bombshell: the business has nothing patentable, or the intellectual property it does have isn't properly protected.

High-profile cases such as Monzo Bank's forced rebranding highlight the problems IP can cause a growing business, but still too few understand how IP is generated and protected, and its importance to modern businesses.

Most businesses will have a general risk management strategy, but few will have even identified risks relating to IP, let alone factored them into that strategy. Yet for companies seeking private equity funding to support their growth, IP can be just as valuable an asset as talent or customers.

IP is a core consideration in investors' due diligence, and weaknesses in an IP portfolio can see them walk away entirely, or renegotiate the valuation at which they invest – we have seen startups lose as much as 70% of their pre-money valuation.

IP strategy must be baked into a company's business plan from the outset. The risks associated with IP are largely hidden, requiring a systematic approach to identify them and manage them responsibly and cost-effectively.



“Companies need to consider carefully from the outset how best to exploit their IP from both a domestic and international perspective”

IP Glossary

There are several types of IP protection, but what do they all mean, how much do they cost, and how long do they take to secure?

| | What it is | How much it costs | How long it takes |
|-------------------|---|---------------------------------|-------------------|
| Patent | Protection for inventions, such as new products or processes | £5,000-£10,000 | 2-3 years |
| Know how | Trade secrets | There is no registration system | N/A |
| Trade Mark | Product or service name or logo (your brand) | £800 | 4-6 months |
| Registered Design | Appearance of a product | £400 | 3 months |
| Copyright | Literary works, computer software, databases, web content, etc. | There is no registration system | N/A |



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advantage. The alternative – keeping the invention secret – won’t always be feasible.

It can be useful, sometimes necessary, to acquire IP from third parties. But this can be hard to value, and it can be difficult (and expensive) to find out whether the target IP is even valid and enforceable.

Companies must carefully assess the costs and benefits associated with creating or acquiring IP on a case-by-case basis and regularly review previous decisions to ensure they remain valid.

2. Exploitation

How can IP provide commercial advantage?

Fundamentally, IP protections give the right to ‘exclude’ others from creating or using a product or process, ensuring exclusivity.

This is sometimes labelled the ‘right to litigate’. But litigation is generally beyond the financial reach of a startup unless they have taken out specific IP insurance.

An alternative is to license IP in return for a royalty, creating an additional revenue stream. But there are complexities. What terms to offer? What happens if the licensee’s performance doesn’t justify the licence? IP can also be acquired expressly to be sold. But how to ensure such IP is correctly valued? Companies need to consider carefully from the outset how best to exploit their IP from both a domestic and international perspective.

What are the risks?

IP-related risks to a business broadly fall into four distinct areas:

Creation, Exploitation, Monitoring, Enforcement

1. Creation

There are various forms of IP rights, each covering different aspects of a product or service. These rights include patents, ‘know how’, registered trade marks, registered designs and copyright. Companies must understand how each of these are created, what protection they offer and how much they cost.

The lifespans of the different IP rights, and the time it takes to acquire them, vary considerably. It can, for instance, take several years following an application for a patent to be granted. If the technology covered has advanced in that time, making the protection offered redundant, the patent may have little value.

What’s more, a formal patent application requires full written disclosure of the invention, and this will be publicly available when the application is published, potentially affecting competitive

3. Monitoring

So much information about IP is publicly available online. How can this information support IP risk management?

Published applications and granted patents can be searched and downloaded. The status of a particular case, and the documents held by the patent office, can be checked. Details of the cases owned by a specific company can be obtained. A watch can be placed for new patent publications in a particular technology area, or for publications in a competitor's name.

Patent database searchers can assess the novelty of an invention ahead of filing, or establish 'freedom to operate' by identifying patents that a new product launch might infringe. Searches can also reveal potential infringements of your own patents, helping police your IP portfolio or provide leads for an IP licensing programme. Publicly available information on registered trade marks can be used similarly.

4. Enforcement

Is IP worth it if you don't enforce your rights? Litigation may form part of your strategy, if you have the funds and appetite for the fight, but a cost-benefit analysis must be carried out before commencing any proceedings. What are the likely costs – if you win, but also if you lose?

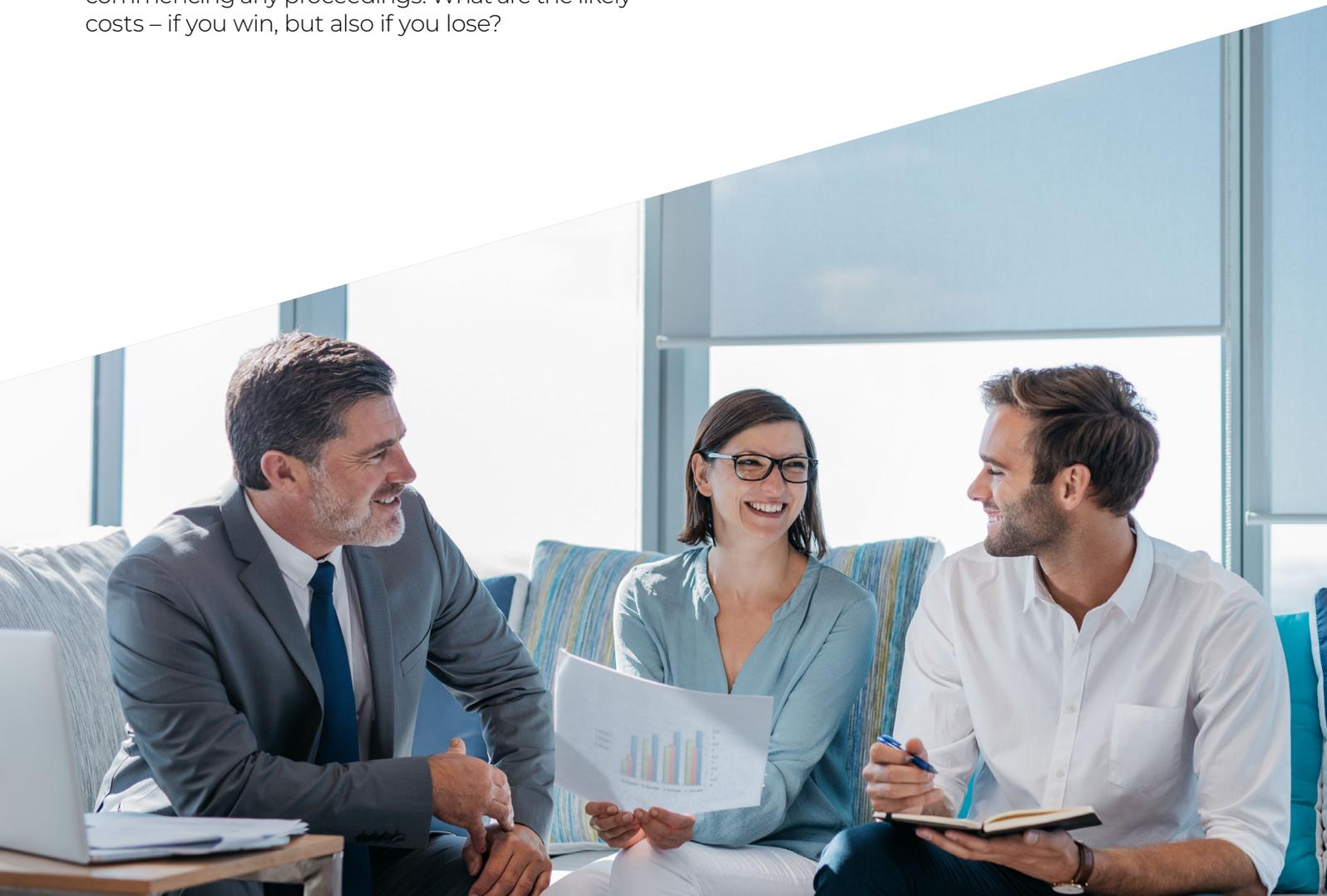
How much could be won in damages? How much management time will it take up? In short, will it pay for itself?

Expensive litigation isn't the only way of enforcing IP rights: mediation or arbitration represent useful alternatives. Whichever route is taken, the high cost makes a clear IP enforcement policy a necessity.

Protecting IP abroad

If your business plan involves manufacturing or selling products abroad, you should generally obtain equivalent protection in at least some of your key markets. Most countries allow you to file in the UK first and defer filing abroad for up to 30 months, by which time it should be apparent where will be best to file.

Alternatively, if the business plan involves licensing companies abroad to make or sell the product, those plans will determine a suitable filing strategy. There is no global patent – you will have to obtain protection in each country, which requires considerable financial commitments and will take time, typically several years.





Can you keep your IP secret?

Sometimes, your invention will be disclosed the moment your product hits the market. For example, an innovative closure for a drinks bottle will be obvious as soon as you ship. But other aspects of the same bottle aren't so apparent: the composition of the plastics, or the manufacturing processes. You can either file patents to protect these elements, which would eventually make the invention public, or keep the information as secret 'know how'. Similarly, running software does not necessarily disclose the underlying secret algorithms, and it would be difficult to reverse engineer without direct access to the source code. But there is always the risk that an employee or contractor takes the know how to a competitor.

Creating an IP strategy

Many companies pay IP little attention, pursuing patents and trade marks for their own sake rather than to enhance their business plan and growth prospects. It's not just startups – it is estimated that fewer than half of all major European businesses have documented IP strategies. Good management of IP risk starts with building a strategy (covering IP creation, exploitation, monitoring and enforcement) into the overall business plan. The strategy should be explicit, aligned to commercial aims, and reviewed regularly.

How should that strategy be developed? Key steps include:

- Understand how IP can support the company. How will it be exploited to add value? How does the planned exit strategy affect this?
- Define processes to identify innovation early and determine whether to seek registered protection, and keep an up-to-date internal register of company IP. Don't overlook IP in the rush to bring products or services to market
- Develop a formal patent, design, and trade mark filing strategy that dictates where, when, and how to file
- Produce support documentation alongside inventions and filings that can be shown to board members and investors
- Start monitoring for patents applied for and obtained by competitors to identify IP infringement risks and opportunities
- Review key staff contracts to ensure IP issues – especially duty of confidentiality – are addressed
- Actively police your IP portfolio. If you do not maintain exclusivity by enforcing your IP, licensing it, or selling it, you are squandering the investment in securing it
- Agree an IP budget, and monitor the impact of IP-related costs on cash flow

Great expectations

Investors are discerning when it comes to selecting the companies they back. But what level of IP strategy and kinds of protection do they expect startups to have in place at each stage of their growth?

Pre-Seed

- Demonstrate good understanding of the IP landscape
- Have an IP strategy as part of the business plan

Seed

- Have conducted a formal review of 'freedom to operate'
- Have initial IP protection in place
- Be executing on IP strategy

Funded

- Have robust IP protection in place
- Be executing and reviewing IP strategy

Exit

- All of the above ... on steroids!

Due diligence

A wide range of IP-related issues can affect the process of securing investment. Here are some real-life examples from our work for both companies and investors during due diligence exercises. All should have been foreseen by the companies involved but were overlooked or not identified at all because they lacked a systematic IP strategy. Don't get caught out the same way.

- The importance of the IP to the future success of the company was oversold, leading to a significant devaluation of the company when the true strength of the IP emerged
- IP was not related to the current business plan and therefore of no apparent value, but represented a significant ongoing cost
- The opportunity to protect an innovation key to the success of the business plan was missed because there was no coherent policy for identifying and protecting innovation
- No international novelty searches had been done, so investors could not support the company's claim that strong patent protection was available, reducing their valuation
- Patent applications were written without regard for the business plan, so did not support the planned exploitation of the technology



- No ongoing watch of published patent applications or patents by competitors had been put in place to give an early warning of potential risks.
- A simple infringement search of competitor patents revealed several infringement risks not previously spotted because of a lack of monitoring, holding up investment and undermining the valuation
- No trade mark applications had been filed, even in the UK, and no trade mark clearance searches had been conducted
- The company was not free to use its trade marks in the key US market, having failed to check early on whether they had previously been registered and used there by another company

Conclusions

The hidden risks associated with IP can have an enormous commercial impact for startups, especially when it comes to securing investment. A risk-management approach, built on an explicit IP strategy that is aligned with the business plan from the outset, will repay the time, effort, and expense in the long run.

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