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IP Management: Creating, Maintaining and Advancing Your Portfolio to Increase Your Company's Bottom Line

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Intellectual property portfolios commonly rank as one of the most valuable assets within a company's corporate arsenal.[1] Protecting the company brand, internal know-how, and innovation plays a crucial role in maintaining a competitive advantage in today's global marketplace. However, the costs associated with procuring, preserving, and advancing intellectual property rights can affect the company's bottom line. This can put pressure on the company's decisionmakers. Outside of the ability to halt the disingenuous efforts of infringers and obtain monetary damages when asserting IP rights, there are other creative and less litigious ways to extract additional value from your portfolio.

According to the "Intellectual Property and the U.S. Economy: 2016 Update," the licensing of IP rights totaled $115.2 billion in revenue in 2012, which included 28 industries deriving revenues from licensing.[2] By way of example, IBM has enjoyed a successful licensing program. Although IBM may spend several billion dollars a year on research and development, it is able to recapture approximately $1 billion a year through an effective licensing strategy. Implementing a tailored approach to IP monetization can enable companies to realize additional value from product development efforts and recover a portion of the development costs. Patents, for instance, commonly serve leveraging purposes and can lead to advantageous terms when negotiating contracts for the business. Licensing patents to vendors can open the door to competitive pricing and more favorable contract terms, and develop cross-licensing opportunities to help reduce the scope of the company's risk of infringement. Alternately, patent rights can be sold off, act as collateral for financing, and may even be used to obtain tax deductions. Patent rights also may be employed as marketing tools. By touting a product as patented, this may foster the public perception that the company is innovative and that the product is superior, which can also help secure equity backing.

Similarly, it is well-settled that trademarks frequently act as a critical driver of value.[3] The value of a trademark usually is linked directly to the mark's earning power and goodwill. While acting as a source identifier to facilitate consumers' purchasing decisions, trademarks engender the inherent ability to rapidly appreciate in value. If properly safeguarded, marks may potentially live in perpetuity. By maintaining strict quality standards for their goods and services provided in connection with the mark in addition to advertising to inform consumers of these qualities, trademark owners invest in their marks. In turn, this investment leads to greater profits and source recognition. As a result, developing, managing, and advancing a trademark portfolio has transitioned from a primarily legal issue into a strategic agenda. In 2017, according to Brand Finance,[4] the most powerful and valuable brand was Google. The Google brand was valued at more than $109 billion and surpassed Apple, which held the title as world's most valuable brand for the last five years in a row. Exhibit 1 catalogs the top 10 most valuable brands according to the "Annual Report on the World's Most Valuable Brands."

Traditionally, IP portfolios are assigned value based on one of the following methods: (1) the income approach (value based on previous and future income streams under the asset); (2) the cost approach (value of the asset should not exceed cost of replacing the asset); (3) the market approach (value of the asset based on comparing publicly available similar asset transactions); and (4) the royalty approach (value based on cost to license).[5] While these approaches can be useful in informing a company's decision on

Exhibit 1

2017 Rank: 1; 2016 Rank: 2 Google **Brand Value 2017: $109,470m** **Brand Value 2016: $88,173m**	**2017 Rank: 6; 2016 Rank: 7** SAMSUNG **Brand Value 2017: $66,219m** **Brand Value 2016: $58,619m**
2017 Rank: 2; 2016 Rank: 1 **Brand Value 2017: $107,141m** **Brand Value 2016: $145,918m**	**2017 Rank: 7; 2016 Rank: 5** verizon **Brand Value 2017: $65,875m** **Brand Value 2016: $63,116m**
2017 Rank: 3; 2016 Rank: 3 amazon.com **Brand Value 2017: $106,369m** **Brand Value 2016: $69,642m**	**2017 Rank: 8; 2016 Rank: 8** Walmart **Brand Value 2017: $62,496m** **Brand Value 2016: $53,657m**
2017 Rank: 4; 2016 Rank: 6 AT&T **Brand Value 2017: $87,016m** **Brand Value 2016: $59,904m**	**2017 Rank: 9; 2016 Rank: 17** f **Brand Value 2017: $61,998m** **Brand Value 2016: $34,002m**
2017 Rank: 5; 2016 Rank: 4 Microsoft **Brand Value 2017: $76,265m** **Brand Value 2016: $67,258m**	**2017 Rank: 10; 2016 Rank: 13** ICBC **Brand Value 2017: $47,832m** **Brand Value 2016: $36,334m**

whether to maintain or procure IP, these approaches may be difficult to apply and may not always account for the company's vision.

Accordingly, in order to appraise the commercial and competitive value of intangible assets—whether patents or trademarks—it is important to first blueprint how the asset is being represented (or should be). With increased cost pressures and complexities in asset protection, it is critical that rights holders appreciate the total value from the company's IP portfolio. In order to extract additional economic rents, it is essential to take a holistic approach by mapping and prioritizing assets when developing, acquiring, and pruning the IP portfolio.

Enlisting a Diverse IP Committee

Recognizing the shift to a globalized business environment, the ability to traverse the nuances of maximizing, controlling, and extracting value from an IP portfolio requires continually evaluating IP rights throughout their lifecycles. For instance, focusing too heavily on volume may result in a breadth of rights; however, these rights may not be aligned with the underlying goals of the business. Company objectives often pivot, the technology may change or become obsolete, or the company may no longer be selling the particular product. If the cost of keeping the rights exceeds its expected value—under the cost or income approach—consider reevaluating the need to retain those rights. Under these circumstances, companies often consider abandoning or trying to sell off that segment of the portfolio. In turn, this will reduce maintenance fees, renewals expenses, and ongoing prosecution costs.

For a comprehensive approach to combating IP management issues, consider enlisting an IP committee (which can include engineering, business development, marketing, and legal professionals) to prioritize certain filings and manage portfolios. An IP committee helps ensure the company is focused on rights critical to the business strategy while confirming that the company has a consistent prosecution strategy. In short, the committee helps answer the question "why do we own this asset" while realigning IP procurement efforts with the business strategy.

Prioritization and Portfolio Mapping

Once the committee is assembled, it is critical to discern the landscape of the IP rights in the portfolio.

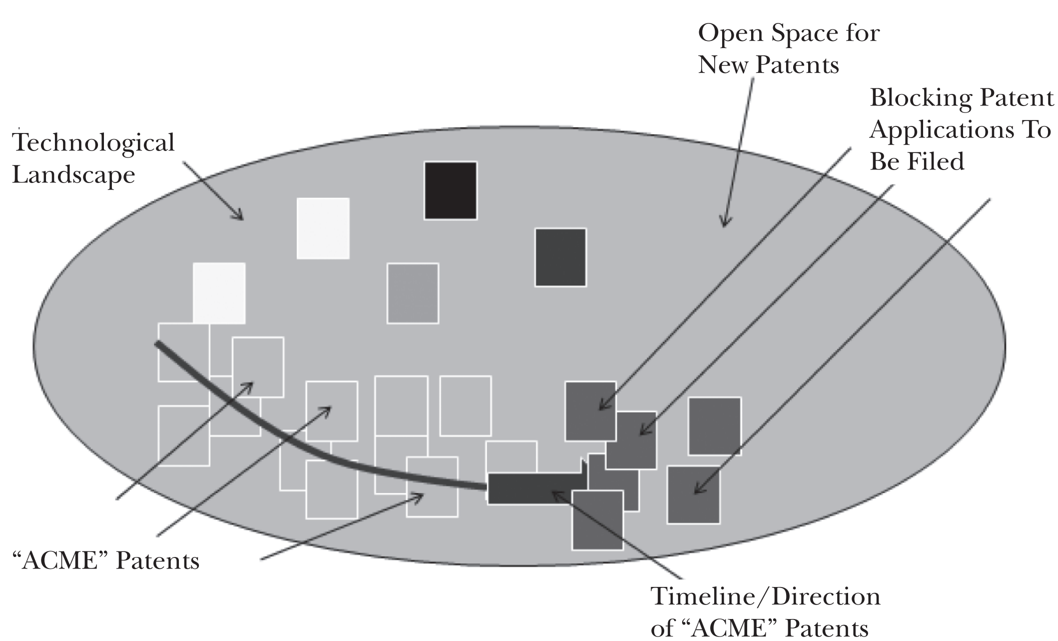
Mapping key patents and future trends can help companies see opportunities, threats, strengths, and weakness of patents that are proprietary to the business. This form of information proves to be incredibly valuable in any IP analysis. Determine whether the patent covers core products, whether it has current use or exists for defensive purposes, or whether it can be used for leveraging. One of the primary benefits of auditing a patent portfolio is that it affords companies the opportunity to take a step back, see certain trends, and block competitors from moving into a desired space.

Exhibit 2 illustrates an example of mapping patents and future trends. In this example, the gray area represents the entire patent landscape, and the boxes represent patents. Potential patent filings (brown boxes) may have the opportunity to block competitor ACME's patents (green boxes) from moving into a particular space.

Likewise, when auditing a trademark portfolio, whether domestic or international, it is critical to map the process of how, why, when, and where a company creates and adopts each mark. These are questions the IP committee is well-suited to address. From core brands to marks with limited use, the IP committee must plan the audit and outline prosecution strategy while considering key and emerging markets (*e.g.*, Cuba and Iran), jurisdictions where products are manufactured, and countries where counterfeiting is common. Further, instituting an IP committee ultimately will generate a fundamental understanding of the underlying process and interaction between legal and other departments, which affords the opportunity to better advance the portfolio by identifying and eliminating inefficiencies.

When evaluating an existing trademark portfolio, IP committees may consider implementing a four-tiered approach ranging from most important marks (first tier) to least important marks (fourth tier). These rights can be ranked and prioritized accordingly, and the business subsequently can focus on the rights more central to its core business. First-tier status can be assigned to marks that are used in multiple markets and in connection with the brand's full range of products and services. The second tier traditionally houses secondary brands that represent individual products or services across a range of jurisdictions. Customarily, the third tier is reserved for marks used with the provision of limited or restricted goods or services, such as sub or regional brands. Finally, rank non-traditional marks, slogans, common law marks, and marks intended to be used for a limited time under the fourth-tier umbrella. Also, in order to realize additional value and fill in coverage gaps, it is critical to chart the nature of each mark, the goods and services covered, what rights are included, and whether they align with business strategies. An annual audit enables companies with substantial portfolios to find value in marks that have been otherwise overlooked while anticipating future needs.

Exhibit 2 Example IP Landscaping



By mapping a trademark portfolio, the company also can identify gaps and new opportunities to expand the portfolio. These checkups often unearth legal exposures by uncovering failures to seek registration of important marks in relevant markets, registrations inadequately covering goods or services used in commerce, and applications that lack commercial value. Armed with a clear picture of their assets, rights holders can realize additional value and protection through more creative means, such as identifying opportunities for non-traditional marks, licensing, and new uses for existing marks. Equipped with this knowledge, the owner can more confidently prosecute marks for new or existing goods and services in order to fill voids and prune the portfolio.

Traversing New Markets

With the information derived from the IP audit, a company entering a new market is better equipped to forecast its IP needs and the associated costs. When exploring new markets from a trademark perspective, companies can examine the IP landscape to determine whether to obtain additional registrations and defensive registrations to preempt squatters. When expanding to new markets or applying for new marks, a modicum of forethought often pays dividends. Preempt squatters by acquiring social media handles and domain names that reflect the brand and key variations concurrently when filing applications. Whether domestic or abroad, value can be added to existing marks through diligent and meritorious enforcement efforts because mark owners are shouldered with the affirmative obligation to police violations of their IP rights. Additional value also is realized by recording registrations covering primary brands with customs offices in key regions to assist in the seizure of counterfeit goods and halt the efforts of counterfeiters that trade off the brand's goodwill.

From a patent perspective, international rights can be a fairly large line item for companies as they can get prohibitively expensive if a particular invention is filed in many different jurisdictions. It is important to make sure that your foreign filings correspond with the company's international business ambition. For example, decisionmakers should consider the viability and likelihood that the company would ever enforce IP rights abroad.

Take, for instance, Europe. In terms of patents, it can be prohibitively expensive because the patent must be validated in each of the desired countries. In Europe, all applications are initially examined at the European Patent Office and once the application grants, the applicant must decide where to validate the patent. If a single patent is validated in all of Europe, the costs could amount to hundreds of thousands of dollars in annuity fees. One strategy might be to select only key European economies (*e.g.*, Germany, France, and the United Kingdom), which may often afford sufficient protection. For example, if a competitor can be halted in one of these jurisdictions, it can have the effect of blocking the competitor throughout Europe. The competitor is not likely to redesign the particular product for the specific country in Europe; rather, they only will have one product for all of Europe.

Moving Forward

In a globalized marketplace, strive to become proactive as opposed to reactive. Legal intricacies of creating, maintaining, and advancing a comprehensive IP portfolio commonly are not addressed until confronted by an impediment. In order to enjoy a vibrant and profitable portfolio, whether patents or trademarks, rights holders must realign IP assets with business strategy in an age of increased complexities in asset protection. Participation and interaction between lawyers, executives, marketing departments, business units, and product development teams is critical to developing a strong IP strategy while promoting a secure IP culture. Aggressively develop, prosecute and advance IP and meticulously reevaluate the portfolio annually in order to extract additional economic rents.

1. *See* Louis Carbonneau, "IP Strategies for Changing Times," *IPWatchdog* (April 7, 2015) (estimating that "in excess of 85 percent of the valuation of the Nasdaq Index companies (and of the new global wealth being created) lies in intangible assets.").
2. *See* Intellectual Property and the U.S. Economy: 2016 Update, United States Patent and Trademark Office, *https://www.uspto.gov/learning-and-resources/ip-motion/intellectual-property-and-us-economy*.
3. *See, e.g.*, Brand Finance, *The Annual Report on the World's Most Valuable Brands* (2017) (valuating Google as the most valuable brand of 2017 at more than $109 billion and valuating the second-ranked Apple brand at $107 billion).
4. *Id*. (evaluating the top brands based on brand strength index (*e.g.*, brand investment, brand equity, and brand performance), brand royalty rate, and brand revenues.
5. *See* International Trademark Association, "Assignments, Licenses and Valuation of Trademarks," (April 2015) (emphasizing that goodwill is an "intangible asset that provides added value to the trademark owner's worth.").