

BUILDING A MOAT AROUND YOUR INTELLECTUAL PROPERTY

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Warren Buffett once quipped: “In business, I look for economic castles protected by unbreachable ‘moats.’” One significant “moat” that a company can build to protect its business is its Intellectual Property (IP) portfolio.

Indeed, IP protects a business in many critical ways: it creates barriers to entry for competitors; it enhances a business’s reputation as an innovator; it encourages internal innovation; it discourages litigation; it increases access to competitor innovations; and it increases valuation. But to build a successful IP portfolio that yields these protections and benefits, it’s helpful to first understand what falls within the universe of IP rights.

What is a Patent?

A patent is a government grant for new, non-obvious products, methods, processes, machines, and designs. To obtain a patent, the applicant must disclose its invention to the U.S. Patent and Trademark Office, with the understanding that the information will eventually be available to the public. In exchange for that information, and if the invention is deemed new and as having not been an obvious change from earlier inventions, the government awards the applicant with a patent on the invention—a right to exclude others from making, using, offering to sell, selling, or importing into the U.S. anything that infringes the patent.

There are two basic types of patents:

- (1) utility patents, which cover new, non-obvious, and useful products, methods, processes, or machines; and
- (2) design patents, which cover new and non-obvious ornamental designs. It is common for products or processes to be protected by multiple patents—both utility and design. Take a modern vehicle, for instance. It may be protected by utility patents directed to the materials, to mechanical structures, to electrical systems, to batteries, to methods of production, and so on. It may also be protected by design patents directed to ornamental features, like the front grill



or the wheels.

A patent is a temporary right. Utility patents, for example, give the patent holder the right to exclude others for 20 years from the filing date of the earliest U.S. or international application priority date. A design patent gives the patent holder a right to exclude for 15 years (14 years if the patent was filed before May 13, 2015) from issuance. Once a particular patent expires, the owner no longer has the exclusive right to the patented inventions in that patent, which is also why it is common to have different patents covering different inventions in the same or similar products or processes.

What is a Trade Secret?

A trade secret is any information that provides a competitive advantage and is kept secret. It’s that simple; it’s that broad. Famous examples of trade secrets include the KFC and Coca-Cola recipes. But there are all types of trade secrets. From confidential manufacturing processes, to products (like WD-40), to client and customer lists. If a business looks closely enough, it will probably find it has protectable trade secrets—

some process or information that is part of its business and that other companies could not easily discover or replicate.

There is a certain natural tension between patents and trade secrets. That is because when a business develops an invention, it has to decide whether to keep the invention a trade secret or seek patent protection for it. That decision often comes down to a balance of tradeoffs. Trade secrets, for example, have certain advantages over patents: they provide a perpetual right (so long as owner takes reasonable steps to keep them secret); they do not require any application or formal filing process and associated costs and fees; and they do not require any disclosure of the invention to the public. On the flipside, competitors can freely copy and use the trade secret if they are able to reverse engineer it, and a trade secret is generally more difficult to enforce than a patent.

What is a Trademark?

A trademark is a source identifier. In other words, trademarks identify and distinguish goods and services from those manufactured, sold, or offered by

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others. At its core, a trademark right is based on use in commerce and prevents others from using trademarks that are confusingly similar or that dilute the distinctiveness of a trademark.

Trademarks include brand names; letters or numbers; slogans; logos; colors; sounds; and even fragrances. Trademarks can also extend to what is called “trade dress,” which protects the look and feel of, for example, products (the Hummer grill), product packaging (like the Coke bottle), buildings, store layouts (like Apple stores layout), and restaurant motifs that have “acquired distinctiveness” (i.e., recognition that the trade dress comes from a single source) and that are non-functional.

There are two main types of trademark rights: common law rights and federally registered rights. A business obtains common law rights to a mark just by using the mark in commerce; it need not apply for any registration to obtain those rights. The common law right, though, is geographically limited—it extends only as far as the use extends (think of a restaurant that operates only in a single city). Federal registrations—where the mark is registered with the U.S. Patent and Trademark Office—convey many important benefits. For example, they provide a presumption of protectability to the trademark holder; they provide nationwide priority (the presumption that you first used the trademark everywhere in the U.S. before anyone else); they prevent others from also registering confusingly similar marks; they provide protections to stop counterfeit trademarks, and they generally provide greater remedies than common law rights.

Unlike a patent right or copyright (discussed further below), a trademark, like a trade secret, is a perpetual right so long as it continues to be used in commerce.

What are Copyrights?

Copyrights protect an original work fixed in a tangible medium—or in layman’s terms: software code; literary works; music/movies/TV shows; art; and even architecture. Like trademarks, a copyright arises simply from the creation of an original work. But to enforce a copyright and to obtain additional benefits under the law, you want to register your copyrights with the U.S. Copyright Office. Like patents, copyrights are granted by the federal government for a limited time.

Why Should You Build a Moat Around Your Business with These IP Rights?

With the various IP rights in mind, let’s take a closer look at how businesses can use the IP universe to build a protective moat.

Perhaps most obviously, IP rights create barriers to entry for competitors or would-be competitors. If others attempt to copy the protected IP, for example, they risk being sued—which means they risk having to spend time, money, and resources litigating; they risk facing potential monetary damages; and they risk damaging their reputation. And if they want to compete fairly, they will have to design around your IP protection. That will require them to spend time, money, and resources on R&D—all to end up with a product or process that is likely inferior to the products or processes protected by your IP.

Businesses that obtain IP also end up enhancing their reputation as innovators and thought leaders. That leads to attracting more talent and customers. And businesses that reward their employees for obtaining IP also see an increase in internal innovation within the

company.

Having IP also discourages others from suing you, at least because they know that if they do so, you may be able to countersue them. That in turn decreases your potential exposure and increases the chance of reaching a settlement on more favorable terms.

With a strong IP portfolio, a business can also increase its access to a competitor’s innovations. Indeed, a business with a strong IP portfolio will have more opportunities to license or cross-license its technology and to enter into joint ventures or joint development activities.

Finally, having an IP portfolio also increases a business’s valuation because IP assets—individually and taken together—have value. An IP portfolio also makes a business more attractive to venture capitalists and private equity, and it increases the amount a business can get in a merger or acquisition.

Given the many protections and benefits that IP provides, the time is now to evaluate your IP portfolio. Talk to key innovators and employees at your company and find out what you have today. Build your moat! ♦

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