

**AN OVERVIEW OF INTELLECTUAL
PROPERTY RIGHTS
(A MANAGEMENT PERSPECTIVE)**

**PART II
INTELLECTUAL PROPERTY AUDIT AND
MANAGEMENT**

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INTELLECTUAL PROPERTY AUDIT AND MANAGEMENT

It is often a decimated and underappreciated fact that virtually every business generates Intellectual Property (IP) and as well obligated to efficiently protect and manage such generated and owned IP. IP protection and management, in other words, IP audit, commences with the awareness of owned IPs and the proprietary rights that emanates from the same if properly enhanced. Business names and ideas, brand/trade name, identity and styles, domain names and addresses, and certain trade information forms part of a company's intangible capital, hence its IP asset.

Traditionally, A business worth is the summed-up estimation of the assets owned and under its control. Before the digital economy, more reliance and focus were placed on a business' physical/tangible asset in estimating a business's worth, with negligible attention to the intellectual capital of the business. However, the advent of the digital economy has awakened the consciousness of businesses and brands to the enormous wealth, rights and competitive advantage associated with their intellectual capital. This awoken consciousness also calls attention to the need for the efficient preservation, enhancement, valuation, protection and adequate management of these intellectual capitals as well as due care to avoid or mitigate possible risks and liabilities accruable from poor IP portfolio management or infringements on others intellectual assets, hence, the need for every business and brand to have processes and procedures in place for an efficient IP audit and management strategies.

IP Audit is a systematic and comprehensive review of the existing IP assets owned, used or acquired by a business, to assess and manage risk, ensure regulatory compliance, provide advice and guidance towards identifying and maximising the value of the existing IPs, properly identify and manage potential IP assets, remedy problems and implement best practices in IP asset management. Currently, an IP Audit is an indispensable tool for successfully managing a knowledge-driven business by aiding the process of creating or revising its IP strategy.¹

An IP audit is also the process through which a company understands the breadth and depth of the intellectual property assets it owns or controls. It facilitates a greater understanding of how these assets relate to the core business. As importantly, the audit uncovers assets that do not contribute to the financial well-being of the company and unnecessarily consume valuable corporate resources. Depending on the scope of the audit, it may also include a look at embryonic ideas and ongoing innovation. In other words, the audit can identify and inventory potential intellectual property. This in turn can lead to improved innovation management processes and the revelation of hidden value.²

A breakdown of the scope of an IP audit entails:³

- a. A systematic review of the IP owned, used or acquired by a business to assess and manage risk, remedy problems and implement best practices in IP asset management.
- b. Undertaking a comprehensive review of a company's IP assets, related agreements, relevant policies and compliance procedures.
- c. Helps a business to make an inventory of its IP assets or update it and analyze:
 - i. How the IP assets are used or unused.
 - ii. Whether the IP assets used by the business are owned by the company or by others

¹ https://www.wipo.int/export/sites/www/sme/en/documents/pdf/ip_panorama_10_learning_points.pdf

² <https://www.innovation-asset.com/the-audit-and-management-of-intellectual-property>

³ Ibid

- iii. Whether these IP assets are infringing the rights of others or others are infringing on these rights
 - iv. Determine, in the light of all this information, what actions are required to be taken with respect to each IP asset, or a portfolio of such assets, to serve the relevant business goals of the company.
- d. Seeks to uncover unused or under-utilized assets, identify any threats to a company's bottom line, and enable business managers to devise informed business and IP strategies that help maintain and improve its competitive position in the relevant market(s).

Worthy to note is the fact that it is never too early to conduct an IP audit. This is contrary to the common misconception that a company must be relatively mature or possess a formidable portfolio of IP assets before it is required or necessary to conduct an audit. Even pre-revenue start-ups would do well to demonstrate a serious and sophisticated approach to managing their IP. This would include, from an audit standpoint, a clear understanding of the myriad nondisclosure and invention assignment agreements they tend to have in the early days. It would boost the confidence of funding sources such as angel or venture investors, and help ensure that any gaps are closed.⁴

Types of IP Audit and Importance

There are different types of IP audits and the classification is determined by the purpose and rationale for the audit. Some IP audits are strategic and some are necessitated by particular events to expose the company's IP status, weaknesses as well as strengths. The various types and rationale behind IP audits include:

- a. **A General-Purpose IP Audit:** this is a comprehensive review for purposes of self-awareness and evaluation of both existing and potential intangible assets of a business, policy and strategy formulation, market approach and planning. General purpose audits help start-ups and established companies to not only assess and protect their IP, but also identify IP development needs, opportunities, and risks.⁵
- b. **An Event-Driven IP Audit:** the main rationale behind an event-driven IP audit is for purposes of due diligence. It is aimed at accessing and evaluating the financial, commercial and legal benefits and risks associated with the intangible assets of a target company prior to capital investment, financial reporting/security, merger and acquisition, Joint Venture, partnership, insolvency/bankruptcy proceedings of the target company or regulatory compliance.
- c. **Limited-Purpose IP Audit:** This type of IP audit is narrower in scope and situational to justify certain legal positions or valuations of a company's intangible asset. The rationale behind such a situational audit may be to ascertain and secure the status of the company's intangible assets; foreign IP filing; a significant change or development in IP case law or statutory law in a relevant market; litigation purposes, IP risk management and liability avoidance; amongst many other reasons.

⁴ "Auditing and managing Intellectual property" available at: <https://www.innovation-asset.com/the-audit-and-management-of-intellectual-property>

⁵ <https://www.corporatecomplianceinsights.com/ip-audits-what-are-they-why-are-they-important-what-do-they-cost/>

Clarity about the purpose is a necessary precondition before the actual commencement or conduct of an IP audit. It must be clearly understood by all concerned why the audit is being conducted, the situations that prompted the audit as well as the nature and scope of the audit. An IP audit can be triggered by a company's need to:⁶

- i. Access, protect and evaluate existing and potential IP assets;
- ii. Business strategy formulation;
- iii. Identify IP development needs, opportunities, and risks
- iv. Assess the impact and potential value of obtaining or selling IP, or licensing IP in or out;
- v. Assess IP rights and risks involving the acquisition or launch of a new product or service;
- vi. Assess IP rights and risks involved in expanding into new markets or channels of trade;
- vii. Determine whether its licensees are complying with the terms of a license;
- viii. Help ensure that an R&D program is designed to best capture future business opportunities;
- ix. Identify risks involved in adopting a new trademark or new product claims and warranties;
- x. Assess the integrity and strength of trade secret protection procedures and agreements;
- xi. Assess the impact of a key employee's departure on IP rights and value;
- xii. Assess a third party's infringement claims and the possible consequences;
- xiii. Assess and deal with the consequences of the expiration of IP rights;
- xiv. Assess and deal with the consequences of a change of status in a competitor's IP rights;
- xv. Demonstrate the company's value to obtain or provide financing or investment capital; or
- xvi. Demonstrate company value in preparation for a merger, joint venture, or sale.

Corporate Value of IP Audit

The importance of IP assets to corporate value has increased, and companies have begun to investigate whether all of the value from IP assets has been mined. IP audit can reveal opportunities to save money, create new revenues, increase efficiencies and improve competitiveness.⁷ IP audit and asset management helps to maximise corporate value, serves as the starting point to achieving corporate objectives and provide valuable business planning information. Dynamic IP asset managers have used IP audits to build corporate value in many different ways. Some of the more popular approaches entail:⁸

- i. Building value in IP asset creation, existing IP assets, corporate transactions, and from product markets using IP assets
- ii. Reducing costs of third-party IP claims, unused IP assets and new product development costs (product clearance).
- iii. Creating additional revenue through core business licensing as well as non-core revenue streams.
- iv. Receiving tax deductions for IP asset donations.
- v. Evaluating the IP assets of an acquisition or investment target (due diligence).
- vi. Assessing business direction and strength.
- vii. Discovering unclaimed business opportunities and business expansion opportunities.

At the end of an IP audit, the company will have a detailed understanding of its IP profile, as well as a better sense of existing risks, deficiencies, gaps, areas and processes ripe for improvement,

⁶ *ibid*

⁷ *ibid*

⁸ http://www.buildingipvalue.com/n_us/146_149.htm

and, importantly, its strengths. Depending on the nature of the particular IP audit, the resulting report may cover:⁹

- a. Inventory issues: A catalogue of issued, pending and potential intellectual property assets, including invention disclosures, patents, trademarks, copyrights and trade secrets.
- b. Timing issues: An understanding of any time-sensitive matters such as filing deadlines and best practices regarding public disclosures and usage.
- c. Ownership issues: Does the company have clear ownership over these assets? Are there proper assignments in place? What is the scope of its rights? Are there securitizations/collateralizations? Government reach back rights? Joint rights? Copyright termination rights?
- d. Maintenance issues: Are maintenance fees (annuities) being timely paid? Are products being marked properly? Are trademarks being properly used? Are trade secrets being reasonably protected? Have there been Customs and Border Patrol registrations? Are royalties being collected and paid as required?
- e. Liability issues: Is the company making appropriate use of IP rights? Is there a process for monitoring possible infringement of the company's IP?
- f. Commercialization issues: How is the company's IP deployed? How is it generating revenue? Is it dependent upon certain license agreements?
- g. Strategic issues: Are these assets being properly managed and exploited in alignment with the strategic objectives of the company? Are there restrictions to their use? Does the company lack certain IP rights that it needs to build a new product?

IP MANAGEMENT

Generating IP assets and obtaining IP rights is never enough and does not assure the IP owner/holder automatic access to the accruable proprietary and economic benefits of such IPs. Efficient management of a business IP portfolio is inevitable to derive optimal IP value, adequately protect and enforce the business IP assets, minimize risks and avoid IP liabilities as well as ensure compliance with internal IP policies and strategies and regulatory compliance.

IP management entails the formulation, implementation and timely review of IP policies and strategies; analysis of competitors and an analysis of risks; and taking into account the company's long-term commercial objectives¹⁰. The main four pillars of IP management include creation; evaluation; protection; and exploitation.

IP strategy may be viewed from two perspectives. In the first perspective, the focus is on the process of developing IP and deciding on the appropriate protection strategy. The second focus is directed at all the functions and objectives relating to the commercial application of the IP for creating a competitive advantage. The commercial world determines the specific IP strategy required to engage in a particular business sector or market, and this is very much focused on optimising IP for specific business uses and objectives.¹¹

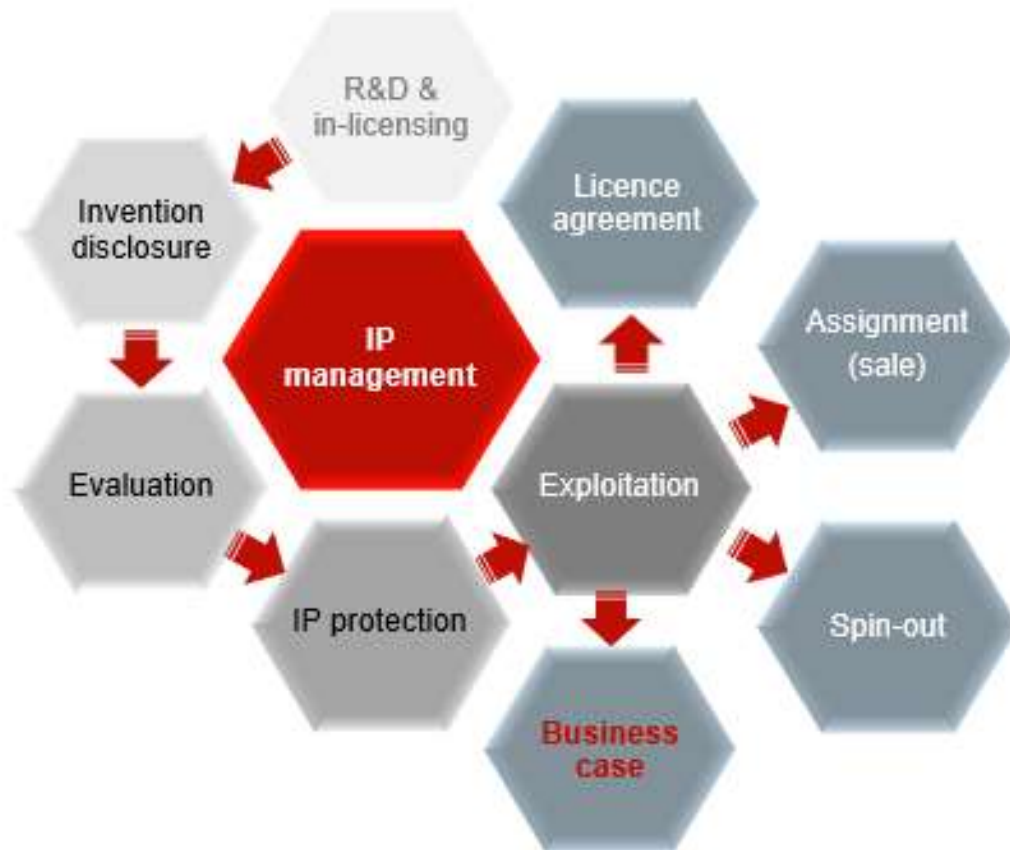
⁹ *ibid*

¹⁰ [https://www.rsgmedia.com/term/i/intellectual-property-rights-management/#:~:text=Intellectual%20property%20management%20\(IP\)%20is,and%20rights%20against%20unfair%20competition.](https://www.rsgmedia.com/term/i/intellectual-property-rights-management/#:~:text=Intellectual%20property%20management%20(IP)%20is,and%20rights%20against%20unfair%20competition.)

¹¹ EUIPO - Intellectual Property Teaching Kit IP Management available at: https://euipo.europa.eu/knowledge/pluginfile.php/60047/mod_resource/content/1/IPTK_Management%2006_2016.pdf

A business IP management should provide efficient policies and strategies on the following:

- a. IP acquisition
- b. IP commercial goals and Exploitation
- c. IP Monitoring and competitiveness
- d. IP protection and enforcement



*infographic*¹²

1. **IP Acquisition:** every business must consider the optimal protection package available to its IP asset and ascertain that all the accruable rights associated with its IP assets are acquired as early as possible. In the case of Patents, the business must keep in mind that there is a considerable investment involved in creating a comprehensive IP portfolio. Hence, the business must carefully examine and analyse the costs and benefits of patenting and formulate a strategy for patent acquisition that is sensible considering the business' budget.¹³
2. **IP Commercial Goals and Exploitation:** setting a commercial goal is paramount in achieving efficient IP management. The set goals and objectives dictate the directions of the business IP policy and strategies to create a competitive advantage for its business. Upon identifying the business' goals and its IP assets, the business will be able to consider how IP may assist a particular strategy or evaluate how valuable a particular IP asset is for

¹² Ibid - EUIPO - Intellectual Property Teaching Kit IP Management available

¹³ <https://blog.ipleaders.in/ip-management-skills-needed-ip-management/>

your organisation. This way IP can be used to block competing products, generate income from licensing or sale, and attract investment.¹⁴

In setting the IP commercial goal, policies and strategies can be created as to how often the business creates new products or brands, determine the product lifecycle, and ascertain where the ‘value’ is in your IP (e.g., blocking competitors (attack and defence) or actively generating income through licensing, franchising, etc.).¹⁵

IP assets may be exploited in various ways and in each case, every business needs to consider how to optimally exploit and identify their IP-related assets. This connotes value generation from owned IP assets, that is, everything related to the use, sale, marketing, advertising, technology transfer, licensing and other activities that may generate an economic return for the business from its IP assets.¹⁶ IP exploitation can take the form of commercialization of IP-protected products and services, entering into licensing or franchising agreements, selling IP assets to other entities, creating joint ventures, using IP to get access to another company’s technology via cross-licensing agreements, using IP to get business finance.

“A business’s IP strategy will be led by its commercial objectives and business plan. Whether the source of the income is a technology, a product, a process or a service, the company will need to identify key IP it uses in all areas of the business and ensure that it has the appropriate form of protection in place, including patents, design rights, trademarks, copyright and database rights. Securing other important properties that it relies on to carry out its business, such as know-how, trade secrets and domain names, will also be very relevant. The strategy should focus on optimising these IPRs for the best possible advantage in the marketplace.”¹⁷

“When developing and protecting IP there are a number of strategic objectives you should consider. Firstly, you should decide whether you wish to “monopolise” or allow free access to your technology. There are three options here. One is to publish and make the technology available to everyone. This prevents anyone from having a monopoly. Wider application of the technology stimulates further innovation and hopefully further improvements to it for the benefit of everyone. The second objective is to protect the technology with patents and other forms of IP. This might create a “monopoly” for the owner, as a patent grants the right to exclude others from using the protected technology. The third is to maintain the technology as secret know-how, either because a strong patent may not be granted, or because you do not want the workings of the invention to be publicly disclosed for others to copy.”¹⁸

¹⁴ <https://www.wilsongunn.com/resource/ip-insights/5-steps-to-developing-an-effective-ip-management-process>

¹⁵ *ibid*

¹⁶ <https://www.mondaq.com/copyright/596808/value-generation-from-the-exploitation-of-intellectual-property>

¹⁷ *Ibid* - EUIPO - Intellectual Property Teaching Kit IP Management

¹⁸ *ibid*

- 3. IP Monitoring and Competitiveness:** IP monitoring commences with a system and comprehensive IP audit to gain a snapshot insight into the business IP assets, and capture information relating to what types of IP protection are already in place and how each is contributing to the business. The audit gives insight into existing and potential IPs, their status, contribution and commercial usefulness to the business and insight into decisions to be made and actions to be taken. IP monitoring helps to uncover new technologies and technical developments, zero in on new licensing partners or suppliers, monitor competitors' activities, identify infringers and stay away from infringing the rights of competitors.¹⁹

“...clearly identify IP which is central to your business (“core” IP), IP which you may own, but which is no longer needed (“surplus” IP) and any gaps where IP is necessary to further your business strategies. It will also allow identification of whether your strategy is defensive (to avoid or at least reduce IP risks to your business), or offensive (acquiring and/or protecting IP that gives your organisation an advantage over its competitors).”²⁰

This help in developing an understanding of the IP landscape (that is, management team, awareness process, training, communication of organizational policy and implementation and developing standard contract) in relation to the business, in terms of the business IP and the IP of its competitors. Awareness of the IP landscape enables the identification of potential IP obstacles and develop an IP strategy to address those obstacles, insight into the IP contributing to revenue, competitive advantage in price action, and IP valuable from a funding point of view.²¹

- 4. IP Protection and Enforcement:** every business needs to have in place policies and strategies on how to secure the business IP assets, ensure regulatory compliance, monitor the market and competitors to prevent infringement of the business' IP rights as well as prosecute infringers and seek legal remedies. The goal of IP protection policies and strategies is to prevent IP infringement and reduce risks, while that of enforcement is to seek and obtain the best legal remedies against the infringers as well as deter the reoccurrence of such infringement. Proper IP management is needed to ensure optimal rights protection, exploit maximum value, deter replication of assets, counterfeiting, theft of IP, and unlicensed/abusive use among other forms of IP infringements.
- 5.

CONCLUSION

The digital economy has proven more than ever the enormous significance of protecting and exploiting intellectual assets and the roles of an efficiently managed IP portfolio in economic returns, market gains, advantageous competitive positioning and business expansion among many others.

¹⁹ ibid

²⁰ ibid

²¹ ibid

It has therefore become pertinent that to maintain an efficient IP portfolio, it is prudent to formulate and have in place policies and strategies for routine IP audit; adept analysis, understanding and roadmap as to harnessing, exploiting and efficiently managing both the existing IP assets and the potential ones.

From the management point of view, it has become pertinent and prudent that merely obtaining formal IP rights is never enough, the same must be properly followed with effective IP management and adequate exploitation of the business' IP portfolio to enable the business to derive optimal benefit from its IP assets, protect the company's data, mitigate risk, avoid liability accruable from potential infringement of third party rights, develop adequate IP strategy and policies, and enhance compliance with global legislation.