Feature
By **Adam Smith**

Rewriting the contract between in-house and external counsel

This year's Global Benchmarking Survey reveals the changing fee structures of trademark legal services and where brand owners are expecting more of their external counsel. For exclusive statistics and enlightening opinions, read on

The hourly rate may never disappear, but the types of work that an attorney can earn for it are diminishing. This is but one conclusion to be drawn from the results of *WTR*'s third annual Global Benchmarking Survey. The project reveals that in-house trademark managers who reined their external counsel into tighter fee structures during the recession two years ago are holding on to that same arrangement now that workloads have rebounded. In-house trademark managers who participated in *WTR*'s survey have also pointed out how external counsel could add more value to the services they provide. So where exactly are the gaps in the services that external counsel offer? And where do in-house teams expect more bang for their buck?

The demand for greater efficiencies from external attorneys increases every year. *WTR*'s previous surveys found this especially to be the case in 2009 and 2010, when the average in-house budget shrank in the wake of the financial crisis. Unilever is one company that continually seeks to work with external counsel more efficiently. "We look to do more strategic management of what is outsourced on fixed rates, so we know what to expect," head of trademarks Katrina Burchell explains. "Then we look to make counsel more efficient by asking them to do more work themselves, such as investigations prior to litigation."

Such efficiency drives are often fuelled by drastic cuts to the in-house team. With fewer people, a group physically cannot cope with all the work. So, even though budget cuts reduce staffing spend for in-house teams, they also force managers to spend more money on external advice.

This contrary effect is acknowledged by Susan Upton Douglass, a partner at Fross Zelnick Lehrman & Zissu, one of the top US trademark filing firms. "I don't know how it works," she told *WTR*. "When in-house budgets are cut, they can't hire more people, so they have to outsource more. It would be cheaper if they hired someone."

Astute external counsel can turn this to their advantage – although to do so they need strong existing client relationships and market nous. Not everyone fits this profile: either they are oblivious to how they could benefit from in-house team changes or they are unable to leverage the opportunity to win more work. As Burchell states: "Many external counsel have not seen the chance for this. If they were more imaginative, they would pick up more work." It looks likely that belts will remain tightened for some time – *WTR*'s survey found that there was no net growth in the average in-house counsel budget this year (49% stayed the same) – but one in three budgets have increased (35% in-house counsel reported an increase in funding). Should this increased funding be used to staff up, it follows that the amount of work outsourced will fall.

Money talks

On the private practice side, the stats show how the recession has impacted on fee structures and what this means for earnings (see Figure 1). In 2009 19.6% of private practice respondents changed their fee structure, a number that peaked in 2010 at 25.1%. The figure for 2011 stands at 14.8%.

Of those who changed their fee structures, we asked how they did so: the shift has been away from hourly rates and towards fixed fees. The average proportion of fees collected through hourly rates dropped from 51.3% before the change to 46.4% afterwards, while the average proportion of revenue raised through fixed fees rose from 41.5% to 46.1% (see Figure 2). Modest changes, but a trend nonetheless.

Within this fee structure reshuffle, a great deal of bargaining is going on between in-house and external counsel as the former calculate how best to pay their advisers, and for what. This tug of war can be illustrated by the familiar negotiations over the task of producing a trademark search report. Anecdotal evidence collected by *WTR* suggests that more and more in-house counsel are requesting a fixed fee for conducting a search – but this may be ill-advised.

Although search appears to be a definite task, compared to litigation, it can still demand more than anticipated. "In this case, my fixed fee would be higher than the relative hourly rate," says Douglass, who would propose a fixed fee calculated by multiplying her hourly rate by the highest number of hours that the task could take. The client wins the certainty of a locked budget. But if the job takes the lawyer less time than the average, the brand owner may end up paying more than it would under an hourly rate agreement.

This is not to say that in-house counsel feel that they have identified all the types of work that could appropriately be undertaken for a fixed fee. Burchell thinks that in this field, "there's

Figure 1. **External counsel: Over the past year, have you changed your fee structure for a significant portion of your revenue?**

2010 response

	Yes	No
2010 response	25.1%	74.9%
2011 response	14.8%	85.2%

more work to be done". She adds: "There's a limit to how it will end, because when you're asking for intellectual services, time still has to be measured. But there's still some way to go, particularly beyond the developed nations – fixed fees are still a new concept in the BRIC countries."

This is true of emerging markets as a whole, although practitioners in some countries would disagree. Agustin Velazquez, a partner at Avah Legal in Mexico, has complied with requests for fixed fees for a number of years. "The trend started in 2009," he told *WTR*, "and was very heavy in 2010. It has continued this year." However, Velazquez predicts that as the marketplace for legal services matures in emerging economies, negotiations will focus less on price and more on quality, as happens to a greater extent in more developed jurisdictions. But for in-house counsel, attorneys' fees will remain a sticking point.

"The cost of outside counsel is so incredibly high that it's prohibitive," comments Pamela Chestek, senior IP attorney at open source software provider Red Hat. "I see dollar signs whenever I pick up the phone."

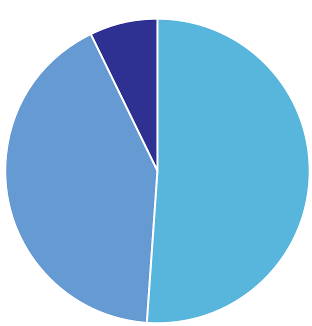
Opening up

Chestek's concern is shared by every sensible in-house team; and shrewd external counsel are aware of it too. Some are thus going out of their way to make it easier for clients to track how much they are spending and exactly what they are getting for it. High filer Foley & Lardner has built its own software to establish transparency in this regard. As explained by partner Jeff Greene: "The system is fed by our time records, so clients can track up-to-the-minute information – not only what's being spent, but case progress too." The software is so novel that it caught the attention of the *Wall Street Journal*, which gave it coverage in a special focus. Jonathan Moskin, another partner at Foley, acknowledges the reasoning behind the software: "Legal services is a buyer's market."

Interestingly, one correspondent in one of the newest EU member states said that his firm had conducted a review to test demand for this sort of system, but abandoned the idea after discouraging results. Some brand owners nevertheless support the idea. Burchell, for one, thinks it's a good tool: "Wherever the client can see how to slow the tap down is useful." However, full fee transparency is far from common throughout the trademark legal services market. One would expect firms in that most competitive of marketplaces, the United States, to be moving towards full transparency. But brand owners report that many firms, if not most, are still opaque.

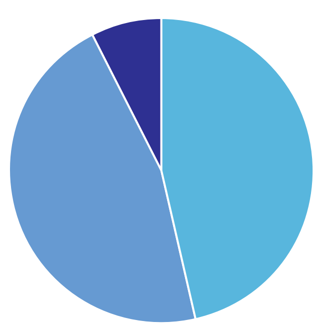
Figure 2. **External counsel: If your fee structure has changed over 2010/2011, indicate the proportion of fee type before and after the change.**

Before the change



Hourly	51.3%
Fixed	41.5%
Retainer	7.2%

After the change



Hourly	46.4%
Fixed	46.1%
Retainer	7.5%

Dividing time

However they are paid, external counsel remain focused on key legal tasks – exactly which and for how much of their time was the subject of a significant section of *WTR*'s Global Benchmarking Survey. Let's compare how practitioners spend their billable time with what they consider to be their main area of practice.

Perhaps unsurprisingly, by far the most common main area of practice among external trademark counsel is prosecution (see Figure 3). Filing and administering trademark registrations has been the bread and butter of trademark attorneys since the profession began, and that will not change.

Indeed, filing numbers have recovered since the recession in 2009: 41.9% of in-house counsel said that they had filed more marks over the past year than in the previous year, a figure that has doubled since 2009 (see Figure 4), when the net number of filings fell. Growth was likewise experienced in Geneva: in April the World Intellectual Property Organisation (WIPO) announced a 12.8% boost in Madrid filings.

WTR's survey data also show that prosecution remains lucrative for trademark attorneys. While 55.4% identified prosecution as one of their main areas of practice, the average amount of billable time

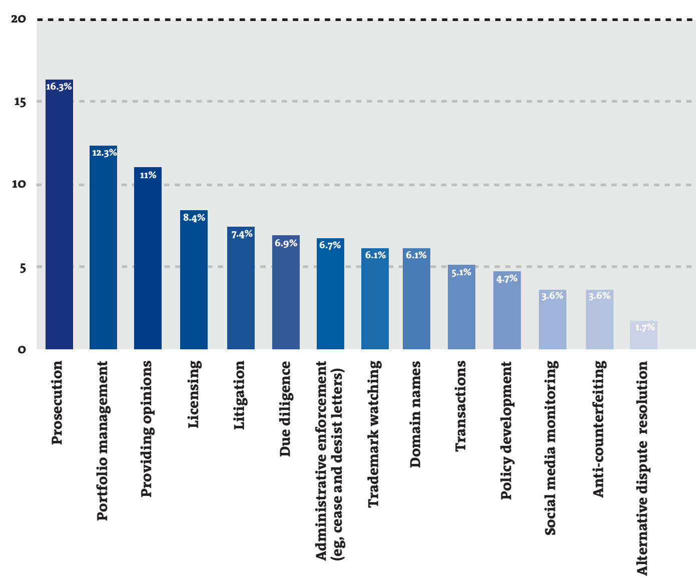
Global Benchmarking Survey 2010: methodology

In February/March 2011 *WTR* teamed up with the IP Solutions business of Thomson Reuters to conduct the third annual Global Benchmarking Survey. The survey form was sent to leading trademark practitioners across the world, both in-house and in private practice, and 796 completed responses were received.

The in-house respondent group consisted of senior trademark counsel from a wide range of industries internationally. These respondents were asked 24 questions on topics ranging from budgets to team structure, trademark portfolio management, enforcement, management of external counsel, registration systems and how their practice sits within the corporate structure.

At the same time, respondents from private practice were asked to complete an online form containing 15 questions on subjects including work volume, work type, income and fees, department staff, department structure, and registration systems. *WTR* collated and analysed the responses, and then set about sifting through the data to identify significant trends and prevailing opinions with an international flavour. Finally, *WTR* contacted a select group of respondents to seek further in-depth comment

Figure 3. **In-house counsel: Average percentage of time spent per activity**



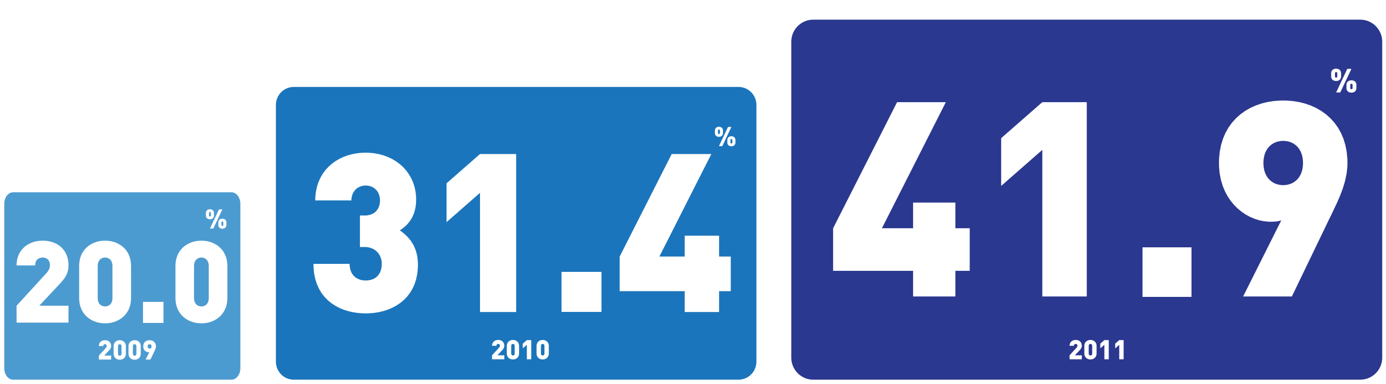
spent on it across private practice is 28%: that's a healthy money-over-time equation. Furthermore, around 50% of external counsel spend only 10% or less of their time on prosecution. Two possible reasons for these results are that the survey was taken by a disproportionate number of litigators or that there are still juicy profit margins in prosecution. Of course, both theories could be true. Another significant practice area is clearance, with almost one-quarter of practitioners citing it as a main focus. The average percentage of billable time expended on this across the industry was relatively low, at 8.3%.

Some industry insiders account for this discrepancy by noting that more and more clearance work may be undertaken by in-house counsel as they become involved earlier than previously in marketing and brand development sessions.

This input helps to weed out bad ideas before they take root and end up on a search list. The survey did not ask in-house counsel how much clearance work they outsourced to external counsel, but 27.8% said that they sent clearance tasks to non-legal service providers (see Figure 5), which many will see as a high figure. For her part, Burchell is surprised that in-house counsel outsource clearance at all. "With watching, you can set parameters and tick boxes, making it much easier once the mark is chosen and registered," she says. "But with clearance, there are so many variables." Some restrictions of the survey may be evident here, in that 'clearance' can be vague, interpreted variously by some respondents to mean the administrative task of data collection and others to include the additional provision of strategic advice, if not actually decisive action.

One source from a large global brand said that when it comes to clearance, external counsel opinions are redundant. "In-house, we know what the business needs are and we are clearing for the business needs," said the respondent. "The person doing clearance needs to know what the business is doing and understand the parameters for advising with regard to risk." However, the truth is that many brand owners with smaller in-house teams cannot handle every aspect of clearance – especially not the actual search process, which can be labour intensive. Anubhav Kapoor, general counsel at

Figure 4. **In-house counsel: Has the number of trademark applications you filed over the past year increased?**



Be aware

One of the biggest internal challenges faced by in-house survey respondents is a persistent lack of awareness in their companies of the importance of trademark rights. Nearly two-thirds of in-house respondents (63.6%) said that their companies suffered from low or medium awareness. The difficulties in tackling this are tied to time. "You spend all of your time on the immediate and urgent matters," notes Pamela Chestek, senior IP attorney at open source software provider Red Hat. "Education, such as explaining to the business staff what a trademark is and how to use it, gets pushed to the bottom."

Other brand owners report similar experiences. Unilever's head of trademarks Katrina Burchell recalls conducting a significant education programme a few years ago. Although this has benefited her team, the fear is that staff churn could undo all her hard work: without a rolling education programme, awareness will tail off. The most common explanation for relatively low awareness levels in companies is a lack of staff or budget in the trademark team, which stands to reason. Nearly half of all in-house counsel (46.7%) cited this as the main block to education.

The head of trademarks for a global entertainment company revealed that she had added new staff to her team over the past year with the aim of rolling out an education programme. However, there is something telling in the detail she provided: she described education as only *one* of her justifications when asking for extra hands, in addition to reducing the work backlog – implying that the latter reason came higher on her list.

Tata Technologies, confirms that Tata is more dependent than others for not just filing, but clearance work also. He says: "Around 80% of the work in this area is done by external counsel. Decision making is still in-house; that is not outsourced."

Although Tata's internal group is growing, the law firms with which it has enjoyed a relationship are still in a good position to continue advising the company. The reason is that because Tata has traditionally outsourced a great deal of its trademark work, its external advisers have had the opportunity to establish strong relations with the company and, moreover, a sophisticated understanding of its business strategy. Anecdotal evidence suggests that these types of relationships are rare. "The roadblock is lawyers who want to get paid by the hour and wouldn't want to invest so much time to understand the business and its requirements," says Kapoor.

It is no coincidence that brand owners are valuing these new relationships now, at the same time as the shift in fee types enters a new phase, with those in-house counsel who insisted on fixed fees or retainers during the recession now demanding that their attorneys preserve the new structure. This could represent a sea change in the provision of legal services, because it goes hand in hand with brand owners' demands for longer-term, more strategic relationships with key counsel. "I couldn't agree with that more," says Kapoor. "The lawyers are getting more focused on corporate work – it's more rewarding in the long term than procedural projects. We definitely see that trend."

"'The cost of outside counsel is so incredibly high that it's prohibitive... I see dollar signs whenever I pick up the phone'"

Of course, many seasoned members of the trademark bar will admit that the question of where counsel can add value has been around for some time. But, prompted by stats from this year's survey, a number of senior in-house trademark managers told *WTR* that their need for stronger, more collaborative relationships is not yet being fully satisfied. In the example of clearance, said one respondent, there is a "mid level" between providing the raw data and making a decision that few external counsel have reached.

Kirsten Gilbert, a partner at Marks & Clerk, one of the UK's largest trademark filers, comments: "Do I think it's ever possible to provide that? I guess so – if the trademark attorneys have a very close relationship with the client and they know the business." According to Gilbert, this type of relationship already exists. Staying with clearance, this closeness manifests itself in the trust afforded external counsel who are relied upon to order marks according to potential risk. It is a system that Gilbert already employs with her clients. "They tend to be big clients for which we do most of the portfolio work," she reveals. "When you watch their marks, you build up a close relationship. So when it comes to clearing, the trust is already there."

However, there is one heavy strain on a client-lawyer relationship with regard to clearance: liability. Some in-house counsel do not see a niche in the market for more strategic partnerships; they argue that external counsel are simply not doing their jobs properly for fear of lawsuits. Says Chestek: "My feeling is that law firms are so concerned about their malpractice liability that

Figure 5. **In-house counsel: Which activities do you outsource to non-legal service providers?**

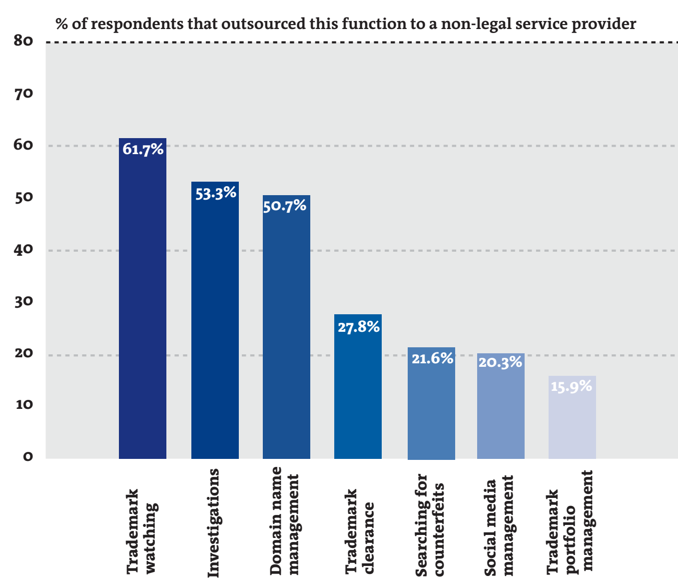
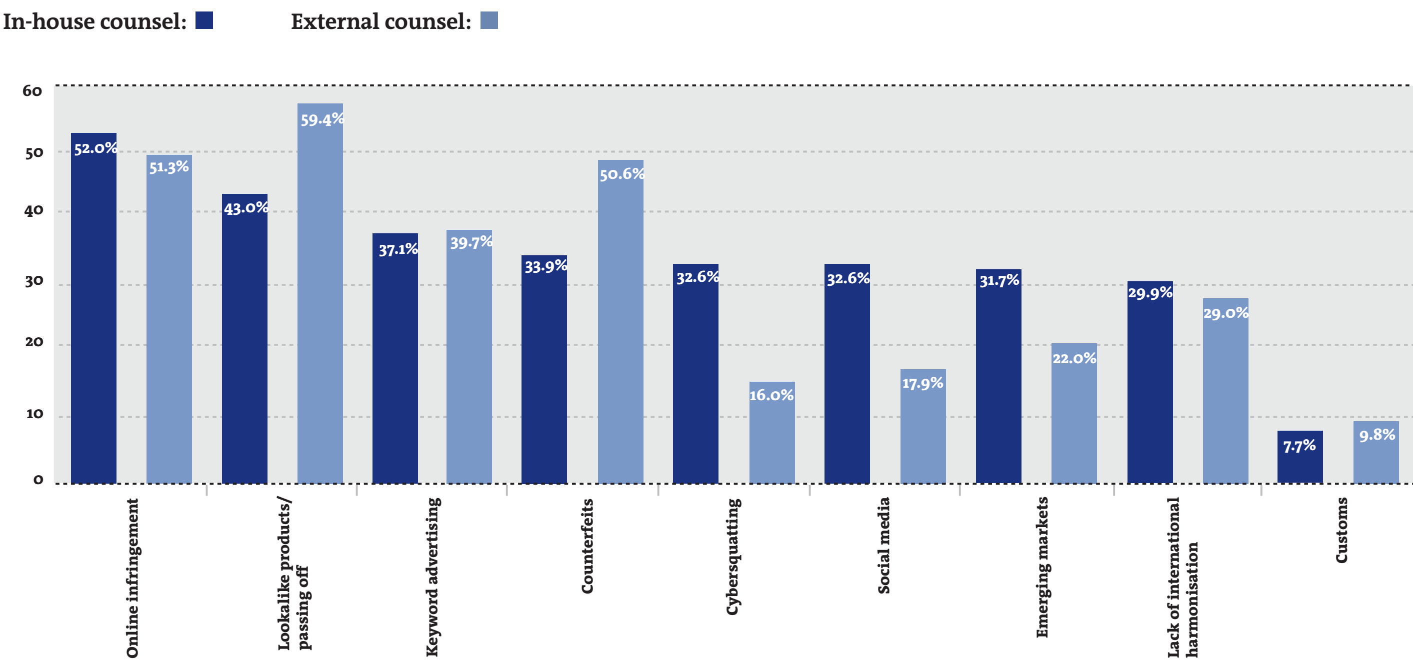


Figure 6. **Which three problems represent the greatest threat to trademarks?**



it interferes with them giving advice that is useful to me." Almost every brand owner will empathise with the frustration induced by search reports so hedged in disclaimers that they make little sense. Chestek demands a definitive 'yes' or 'no' in the first paragraph of a search report. She acknowledges that lawyers are trained to be cautious, but also argues that clients "don't want all the garbage". She adds: "I'd be curious as to how many lawyers were sued for malpractice for providing bad advice during trademark clearance."

The knowledge gap

WTR readers interested in the answer to that question will need to wait until next year's survey. In the meantime, the best strategy for external counsel appears to be, as always, to appreciate the relationship between a client's trademark portfolio and its business plan. Our survey asked a direct question on this point: in-house counsel were invited to select the top three greatest threats to their trademark portfolios, while external counsel chose from the same list the top three greatest to their clients' portfolios. The results are reassuring: the two sides of practice usually aligned. The top two were the same – online infringement and lookalike products; but there was disagreement on cybersquatting, with in-house counsel regarding it as a much bigger threat than did their external advisers.

While one-third (32.6%) of in-house counsel identified cybersquatting as one of their greatest problems, only 16% of private practitioners said the same (see Figure 6). Commentators suggest that this is because the majority of cybersquatting work (certainly the administrative side, such as filing complaints) is handled in-house. External counsel may be unaware of the volume of anti-cybersquatting work, which continues to rise. WIPO's latest figures for Uniform Domain Name Dispute Resolution Policy filings show a 28% rise year on year. So perhaps the *WTR* survey stats reveal a bigger problem: are external counsel out of touch?

At least they are on the same page as their clients when it comes to the greater challenge of online infringement as a whole, although strategies in this regard are rapidly evolving. The dotcom boom of a decade ago saw a large amount of silly litigation that has now tailed off as brand owners have become more aware that not every online problem is worth their time or money. Online infringement may still be a major threat, but it demands a softer approach than first thought. Cease and desist letters and amicable, businesslike communications are the norm now. And counsel have become better at choosing their battles.

Crossing over

But one key element of online enforcement remains a problem: the multi-jurisdictional aspect of online infringement. It is yet another area where in-house counsel are demanding more of their external attorneys. "This is where trademark law has to catch up," says Burchell. "Few things will be jurisdiction based in the future; your issues will cross boundaries and how you deal with them will

"While one-third of in-house counsel identified cybersquatting as one of their greatest problems, only 16% of private practitioners said the same"

Trademark valuation: an essential component of your strategy?

More than one-quarter of in-house counsel (26.4%) said that trademark portfolio valuation is useful when asking for increased budget (see Figure 7). Furthermore, 50.7% said that valuation is an essential component of brand strategy. Emerging global brands seem to agree. "I believe that what gets measured gets done," comments Anubhav Kapoor, general counsel at Tata Technologies, a member of the Tata Group, which this year became the first Indian company to enter the Brand Finance top 50 global brands list. According to Brand Finance, Tata has a brand value of $15.1 billion. Kapoor stresses that valuation is important because it helps to clarify the contribution made by elusive assets such as IP rights. "If trademarks and brands remain intangible and you don't really have any means to measure them, people can't focus on and work towards them."

However, despite the opinions of figures such as Kapoor and every other in-house counsel, portfolio valuations remain rare. *WTR*'s survey found that less than one-fifth (only 19.8%) of in-house counsel had conducted such a project (see Figure 8). Of course, valuation is not appropriate for every industry. Unilever's head of trademarks Katrina Burchell argues that it does not help trademark counsel in, for example, fast-moving consumer goods companies – at least, not when asking for more budget. "I am able to show how much money I've spent and what that has achieved," she told *WTR*. "I'm not sure that valuing the brand would help my argument any more."

For an industry such as Unilever's, what does help to win more funds is explaining the consequences to senior management of not investing to establish stability in the trademarks team. Many technology and science-based companies find this easier, due to the involvement of patents. Indeed, 38% of in-house counsel who experienced low or medium internal awareness for trademarks cited the relative superiority of other IP rights as the reason. This is especially the case in many Western companies. Tata, in contrast to its Western competitors such as Philips and Siemens, has concentrated more on trademark protection than on patent protection. The conglomerate still holds a great many patents, but relatively fewer than its Western counterparts.

Figure 7. **In-house counsel: What are your thoughts on trademark portfolio valuation?**

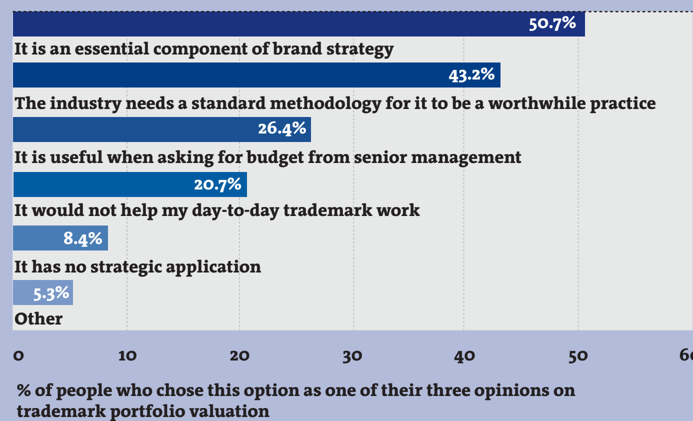
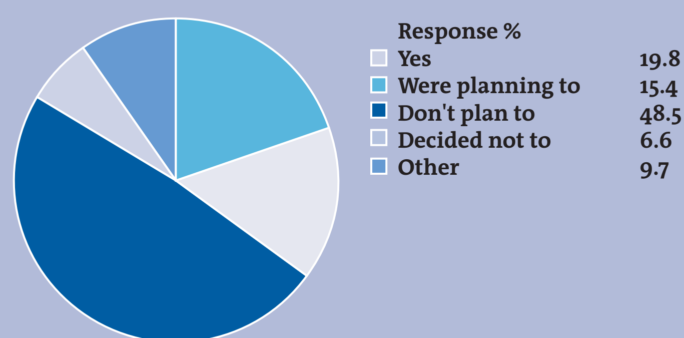


Figure 8. **Have you valued your trademark portfolio?**



change." To some extent, this is already giving brand owners a throbbing headache because it forces them to forum shop in order to take out, for example, a parallel importer. This makes choosing the right external counsel a fraught activity.

Attorneys whose business models are based on territoriality have little incentive to provide cross-border advice. While this issue is flagged anecdotally by in-house counsel, change is unlikely to come any time soon. "The Internet's boundaries are not along territorial or jurisdictional lines," acknowledges Gilbert. "But that's how the law is."

So what do brand owners want? Attorneys who are capable of providing multi-jurisdictional advice – and who are willing to do so when requested. This is something of a holy grail for global brand owners. Clients might not find this such a problem in the European Union, but US lawyers, reports Burchell, are "uncomfortable writing a letter about any law that isn't a US law". A multinational rights holder with a problem in Canada, but closer counsel in the United States, thus has a difficult decision to make. And this matter will persist, as the relevant trademark user associations are unlikely to apply any pressure to force their practitioner members to look outside national borders. Associations large enough to have any political clout are always dominated by external counsel, who can all too easily take a protectionist view.

Concerning multi-jurisdictional advice, the industry is at a stalemate. Without some kind of worldwide, cooperative treaty that attempts to harmonise the procedural and administrative side of trademark practice, the theory of natural selection dictates that one entity will break through with a radical approach. With that in mind, the future of trademark legal services could look very different indeed. Statistics that provide a snapshot over the past few years in the trademark industry are enlightening, but not nearly as fascinating as what the future may hold. WTR

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