IP counsel: insourcing versus outsourcing

Even companies with in-house counsel often rely on external law firms to handle IP matters. However, experience shows that a combination of the two may be the most effective way to protect your IP rights

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Introduction

When confronted with IP issues, most companies use external law firms and patent attorneys to deal with cases and other issues which cannot be handled internally due to their urgency, or for reasons related to availability, reputation, manpower or costs.

Companies usually have at least one in-house counsel who is in charge of all legal matters, including IP issues. Companies are made aware of the need to seek outside legal assistance from an IP expert when they receive warning letters based on IP infringements. As soon as the volume of IP issues faced by a company surpasses a certain threshold of costs or workload, the need to hire a respective in-house expert becomes apparent.

Similarly, companies hire in-house experts at such time as the company – be it the research and development department, the production department, the design department or the marketing department – has generated an amount of intellectual property which requires protection so as to make hiring an in-house expert more cost-effective than outsourcing expertise.

At the very least, companies must ensure that they have freedom to operate in relation to their projects. This must be secured by performing the relevant searches in order to ensure that a project does not potentially infringe third-party intellectual property.

A company may choose to outsource permanent monitoring services to an IP firm which can reduce the volume of computer-generated hits to a reasonable and manageable stream of information on the activities of the company's primary competitors. At least one in-house counsel should be charged with handling each of the different IP areas (eg, trademarks, patents and designs) from the perspective of the competent company.

While an in-house person may be aware of recent trends, an outside counsel often has a superior overview of the factual and legal developments and trends. If the outside counsel has enjoyed a long-term relationship with the company, he or she understands the behavioural history of the firm's aggressive competitors and has an insight into the relevant market strategies.

History and experience have shown that the survival rate of outside counsel is far greater than that of in-house counsel. In certain cases, consultant firms may request a significant reduction in the input from in-house IP personnel. In other cases, recently hired in-house counsel may favour hiring old friends rather than continuing to use the services of the outside counsel previously used by the company. In these scenarios, valuable know-how and knowledge regarding the history of former issues is lost and, with it, the ability to react properly to similar situations which may arise in the future.

Cutting costs by firing experienced in-house IP counsel in favour of hiring new in-house counsel may contribute to an increase in the value of shares and to short-term cost savings. However, in the mid and long-term, companies acting in such a way have discovered that the resulting losses – in financial terms and in relation to innovation

and competitiveness — are much greater than the short-term gains.

Patents

In patent matters it is extremely important for outside counsel to be familiar with the relevant technology field and the historical development of the products, based on developments in related prior art. Certain patents and utility models may be seen as the closest prior art. However, often, dependence on older but still valid patents should not be ignored. Hits counted by monitoring services should be valued over announced inventions with respect to:

- Relevance.
- Inventive merit.
- Freedom to operate.
- Further investment in research and development.
- Market potential.
- Foreign country applications and country-specific legal requirements.
- Strategic behaviour.

Often, the handling of such aspects is shared by outside counsel, so that the outside counsel's know-how and knowledge gained from a wide range of experience with comparable technologies in dealing with other international clients and associates contributes to more reliable or decisive judgements.

The drafting of patent claims is another decisive ability for those patents which should not only contribute to a high number of patent applications, but also help to ensure a strong IP portfolio, on the basis of which successful infringement claims and cease-and-desist requests can be made, and from which damages and licensing royalties can be obtained. Patent counsel who have gained considerable experience in patent litigation cases in infringements and oppositions are well aware that the wording of specific technical terms may be interpreted broadly in order to cover so-called "design around" features used by seemingly clever infringers. Seminars on how to design around granted patents demonstrate the need to debate the optimal wording of claims between in-house inventors and experienced outside counsel.

In this context, a number of disastrous recent cases have shown that formalistic deficiencies have become the main reason for the failure of IP claims, rather than a lack of inventive merit. It appears that great inventions attract potential counterfeiters, who try to obtain a piece of the intellectual asset. Companies must have knowledge of the relevant formalistic requirements (European Patent Office: "raising the bar") in order to overcome the threat posed by counterfeiters.

Design

In design matters it is relatively easy to obtain a protection certificate once a few requirements have been fulfilled. As a result, it is often left to in-house paralegals to file and obtain design certificates, regardless of whether there are conflicting prior third-party rights or potential claims against counterfeiters. Obtaining registration certificates cheaply (ie, without the assistance of outside experts) often appears to be an attractive option. However, this approach is risky and may play into the hands of clever counterfeiters or may even result in the interruption of a production line.

Again, the selection of the appropriate combination of drawings or pictures of products and parts thereof, in appropriate views and perspectives, is best dealt with by outside counsel who are experienced in design litigation matters.

Trademarks

It is often left to in-house paralegals to decide whether to:

- File for a new trademark as soon as a request to do so is received from the marketing department.
- File an opposition against third parties and conclude certain of the oppositions with settlement agreements.

A whole range of considerations regarding the company's trademark portfolio are all too often ignored, such as the following:

- What is the business purpose of the trademark?
- What is the business purpose of an applicant of a similar mark?
- What kinds of trademark fulfil optimally the business purpose?
- With which list of goods/services can the broadest scope of protection be obtained?
- When should generic terms and when should detailed nominations of goods/services be used?
- How quickly should a registration be obtained?
- Is the envisaged trademark needed for active or passive (defensive) protection?
- Which samples and figures should be collected for a proper prove of use?
- Which deadlines should be borne in mind for evaluating the portfolio and early refilings?

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- What barriers can be built for competitors?
- Which trademarks can be bought or sold in total or parts (divisional) for the portfolio?
- What are the risks and opportunities inherent in the settlement agreements?
- Are there any credits which can be traded to obtain a favourable agreement?
- Which countries should be covered at what cost?
- For which countries should monitoring services be installed and at what cost?
- What are the risks and opportunities associated with national filings versus bundle filings?
- What are the risks and opportunities associated with trademark licences?
- How will the company cooperate with Customs in the battle against counterfeiters?
- What are the features in the white and black lists for the recognition of counterfeiting?
- Has litigation provided feedback with which to improve the portfolio?
- How are the relevant trademarks valued?
- How can design applications contribute to improved trademark protection?
- What are the risks and opportunities associated with adding design registrations to the trademark portfolio?
- What degree of recognition has been achieved for each trademark?
- How are well-known and/or famous marks proved and documented?
- Who is permitted to monitor and add to the IP portfolio, and with what data?

This extensive list shows the wide range of issues to which creative thinking should be applied by both in-house and outside counsel regarding all types of IP right.

Comment

Forward-thinking companies should consider creating a so-called “innovation team”. Such a team should comprise an in-house IP counsel, an international responsible member of the board, a lateral-thinking inventor, a controller, a creative yet realistic marketing person, an outside IP counsel and a well-trained moderator.

Such a team should meet at least quarterly to review the development of the company’s IP portfolio, decide on the future product portfolio and calculate the related expenses for research and development and marketing activities, based on relevant, timely and up-to-date benchmark results. Such a procedure will emphasise the importance of all employees (and not just corporate IP officers) acting in a proactive way in relation to IP issues, not only in the IP departments of larger companies, but across all departments and, on a reduced scale, in smaller companies.

Hidden champions (ie, relatively small companies which dominate a niche market despite a low level of public awareness) typically seek outside IP counsel since they can secure their market position only through strong and enforceable IP rights. As such successful companies are typically highly cost-sensitive, it is helpful to know which IP firms are used by in-house counsel. Typically, those IP firms are efficiently organised and outsource drawing, translation, IT, typewriting, marketing and specialist legal services in a cost-efficient way.

However, IP firms’ favourite clients are entrepreneurs with companies which ignore IP matters, even after they have received warning letters containing cease-and-desist requests, until the situation becomes so severe that employing outside help is the only way of continuing to do business

and/or production, and surviving litigation. Such clients are so desperate that they rarely ask about the costs of such proceedings.

When considering whether to insource or outsource IP counsel, companies should seek to ensure that work is distributed in the most cost-effective manner possible, thereby adding value when compared to the traditional work distribution. In addition, in-house counsel should be prepared to explore any new opportunities which may arise to obtain a better position in the international market.

Outside IP counsel often have a broad and trusted network of associates and colleagues in all the relevant markets worldwide. With the continuous cooperation of such associates and colleagues, outside counsel are more likely to be able to find the most efficient and qualified people to deal with a problem within a reasonable price structure. Large corporations which are famous for long-term, high-quality products know how important it is to maintain such a network. They appreciate all the work done for them, but carefully monitor the development of the IP firms with which they consult.

IP databases are useful not only for monitoring the IP rights of large corporations and hidden champions, but also for finding out which IP firms they are working with.

Given the high economic value of IP rights, it is necessary to obtain insurance to cover potential mistakes and losses by outside IP counsel – something which cannot be done in relation to in-house IP staff.

Companies seeking to protect their IP portfolios should establish fast-moving, high-quality, broad-thinking, proactive and flexible in-house innovation teams and maintain international networks of contacts in order to supplement their outside IP counsel. *iam*



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For many years Mr Wacker has lectured at universities, international conferences and IP seminars in Germany and abroad. He has gained a reputation for counselling clients on German, European and worldwide IP strategy and valuation.

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