Running like clockwork

BP recently announced that it has scrapped its head of trademarks role. *IAM* examines the thinking behind this decision and wonders what it says about how corporations can align their trademark practice with the core business strategy

Feature by **Adam Smith**

In-house trademark teams are striving to ensure that it is business as usual despite the recession. But the downturn has thrown a spanner in the works. Budget cuts have forced brand owners to reduce trademark filings and renewals, and restructure their IP teams. One casualty of this process is the head of trademarks at BP. In August, the energy giant announced the "de-layering" of the trademarks team and the removal of its head. It is presumed that directing trademark strategy will now fall to the head of intellectual property. That role's incumbent, James Trussell, was originally hired for his patent expertise before more recently taking on responsibility for all IP protection.

It is a bold move. As a head of trademarks entwines trademark strategy with the business, scotching the role may be a bad commercial decision. On the other hand, it eliminates a layer of management, positioning trademarks closer to the level at which overall business strategy is decided. It is too early to predict exactly how BP's new regime will function in practice. But meanwhile, the provocative tactic has prompted *IAM* to examine how different brand owners work their trademark strategy into the business model.

In business

For consumer-facing companies, the most obvious method of doing this is assigning responsibility for the trademark team to the general counsel. As a senior-level strategist, the general counsel is immersed in the company's business plan. "It's vital to have this connection," says Emmanuelle Ragon, head of legal trademark department at Sanofi-Aventis. "Trademarks are important for the lasting growth of a product, particularly those of a healthcare company because marks are the product's image. When patent protection expires, the trademark lives on." Innovative pharma products benefit from a patent monopoly, granting them an exclusive place in the market. But companies launching products without this bonus period have a more urgent need for a business plan underpinned by a brand strategy that is bolstered by trademark rights.

Food and beverage companies, for example, have to build a strong brand that can rapidly gain traction in a fast-moving market. In his role as general counsel for global intellectual property at Diageo, Bruce Proctor integrates his company's IP practice with its worldwide business strategy. To do this, Proctor's team breaks with convention by spreading a diverse range of functions evenly across its members. "Diageo has a highly distinctive structure," he explains. "The IP team comprises people who handle trademarks, technical IP rights such as patents, and marketing and advertising law." With the exception of two dedicated patent lawyers, every member of the team is capable of dealing with any of its functions. Crucially, this ensures that trademark experts are not just technically minded: because their practice also covers the marketing and advertising landscapes, their application of IP law is market driven.

Sanofi-Aventis does things a different way. The pharma giant allies its trademark function with the corporation's commercial activities by assigning individual lawyers to product lines. This makes any given trademark lawyer an expert in the market for a specific treatment. "We need to have a detailed knowledge of the business," explains Ragon. "So we devote lawyers to specific therapeutic areas. For instance, we have trademark lawyers dedicated to oncology, cardiovascular or generic products. It's much easier for clients to identify which lawyer has knowledge of the context, the market, the research and development (R&D) aspects, and the regulatory issues affecting that product." Structurally, the Sanofi-Aventis trademark group sits within the legal corporate department; patents have their own distinct group. For an innovative company that depends heavily on these two kinds of IP right, it makes sense to keep them separate. As patents and trademarks each present diverse technical challenges that demand dedicated, specialist expertise, combining them could prove cumbersome.

Brand value

But this is exactly what BP did a year ago, merging its patent and trademark functions into a combined IP practice. The difference under the new regime is that a single person will be in charge of both the patent and the trademark side. The company will not explain how the new model will work in practice; it stated: "We don't comment on the specifics of our internal organisation." Presumably, the chief IP counsel must be skilled enough to supervise effectively and get his hands dirty when it comes to the day-to-day activity of the trademark function. Anne Gundelfinger, former vice president and associate general counsel at Intel, says that this is analogous to how high-tech companies that sell business to business often run their IP teams. "This structure tends to reflect where trademarks fall in the company's legal priorities," she explains. "When trademarks are just not as much of a priority, they will tend to be managed one level down [ie, by the chief IP counsel], because the general counsel has limited bandwidth and has to make the cut somewhere in terms of delegation."

Where the general counsel must indeed make this cut, how much value he or she ascribes to trademarks is key to the company's success. Most brand-owning companies wrestle with this daily. Some, such as Intel, build up impressive brands by keeping the pistons firing in the trademark practice. As a result of strong legal protection, and in spite of selling a product that is essentially invisible to the consumer, Intel now has one of the strongest brands in the industry. BP has a similarly outstanding record. During the last decade, it has been at the forefront of the green energy re-brand revolution with its new helios logo and 'Beyond petroleum' campaign. Behind this is an award-winning trademark department: in addition to other accolades, BP won a *World Trademark Review* Industry Award for Trademark Team of the Year in the energy sector in 2007 and 2008. So BP's latest move, which may reduce the overall brand protection resource, is somewhat mystifying. It is a choice that risks underestimating the value built by consistent trademark protection simply because trademarks are viewed as requiring less technical expertise than patents.

But trademark people know that specific expertise is essential – if a company recognises that its brand is of utmost value, it must also recognise that the people who work to protect the rights in that brand are crucial. In their book *Intellectual Capital in Enterprise Success*, Lesley Craig and Lindsay Moore highlight the commercial importance of protecting a brand, pointing out that brands are what everything in intellectual property – including patents – is geared towards. "Strategic brand management, the art and science of brand building, is an often overlooked intellectual asset management practice," state Craig and Moore. "But given that the brand is often the most valuable intangible asset within an organization, its strategic management can produce the greatest of gains." As the legally protectable assets behind a brand, trademarks are key to any brand management strategy. Bob Boad, BP's former head of trademarks, declined to comment on the developments at BP. But he did say that "no matter how it is organised, effective trademark protection is a critical part of any successful brand management strategy". Boad added that "some companies instinctively understand the enormous value of building strong brands, and demonstrate vision in setting such goals and inspiration in organising their IP operations to achieve them." Research In Motion, for example, could have licensed off its BlackBerry patents to great gain. "But instead," says Boad, "it implemented them into an IP strategy that quickly created Canada's most valuable brand." Thanks to the efforts of the trademark team behind it, BLACKBERRY is a powerful mark, recognized all over the world. It should long

Bob Boad, former head of trademarks at BP

Anne Gundelfinger, former vice president and associate general counsel at Intel

outlast the patents, thereby delivering shareholder value indefinitely.

There is a clear argument in favour of the head of trademarks role to deal with the legal aspects of brand building. But Diageo – the owner of many of the world's most famous drinks brands – is another market leader that does not have such a position. The beverage company divides responsibility for the trademark team between Proctor, in his global IP role, and his IP leadership team. "Technically I'm head of trademarks," explains Proctor, "but that's only by default because in fact I'm head of intellectual property. The trademark team is jointly owned by me and my leadership team." This flat structure reduces the levels of management between the business strategy and the trademark function, which can only ever be a good thing. In fact, this may be what BP hopes to achieve. "Historically, or at least in the last 10 or 15 years," observes Gundelfinger, "most large brand owners have had an in-house chief trademark counsel who formulates legal strategy in line with the business. But that's not to say that's the only way to do it."

However it is achieved, the key requirement is to have a focal point for trademarks appropriate to the business. A patent-reliant company, for example, will need both a patent centre and a trademark centre; given the breakdown of its own intellectual assets, Diageo functions best with a single, global IP function. "A ruthless focus on our brands and their integrity is essential," says Proctor. "We want that to have a voice at a senior level for all IP rights and the areas of cross-over law, such as marketing and advertising." Elevating any discussion beyond the legal nuts and bolts of the brand to a senior level can help the business calculate how best to monetise its product.

Finding the funds

That said, revenue is never simply folded back into the trademark team. Naturally, the positioning of the group within the overall corporate structure is the central factor determining budget allocation. If, in a high-tech company whose business hinges on its patents, trademarks are viewed as having a purely legal function (separate from brands and marketing), the trademark team will report to the chief IP counsel. In this example, says Gundelfinger, "funding almost always comes from the legal department budget". This often means less money, for three reasons:

- Trademarks are low on the company priority list.
- There is little or no opportunity for funds from the client base (since intellectual property is viewed as a purely legal function).
- The scramble for funding is happening a level down in the organisation, with the trademark team competing against the patent team for resources from the umbrella IP group.

On the other hand, if the executives know that they must push a lot of money at costly patent protection, trademarks may benefit from the legal department's deep pockets, which can come in handy if the trademark team goes a little over budget at short notice.

However, reporting directly to the general counsel typically means that the trademark team has access to larger sums. The trademark group can appeal for funds straight to the general counsel and, crucially, there is greater opportunity for funds to come from the commercial side of the organisation as trademarks are viewed as directly supporting business operations.

As Gundelfinger notes, this scenario may "often be true", but it is a generalisation. In fact, for a company whose business model relies solely on brand, it can be more beneficial to move the trademark people away from anything remotely legal. Realising this, Coty Inc transferred its global IP protection group to the commercial side of the business. This meant that the budget for the global IP protection group of a company licensed to produce and sell some of the world's most famous fragrance brands from Calvin Klein to Vera Wang, was increased significantly. "I used to report to the general counsel," recalls Guido Baumgartner, director, global brand

Bruce Proctor, general counsel for global intellectual property at Diageo

Emmanuelle Ragon, head of legal trademark department at Sanofi-Aventis

protection. "But we decided that the trademark function was more commercial than legal so I now report to the senior vice president commercial."

Most companies' legal regimes, however, still retain trademark teams under their remit. Keeping every legal function independent from the commercial side can help to make the department more efficient. Under this system, lawyers are forced into treating their commercial colleagues as clients, which helps to foster a service culture among them, thereby maximising efficiency. For example, in some pharma companies, patents are a sub-function of the R&D group; within Sanofi-Aventis, R&D is a client of the patent lawyers. "We are fully dedicated to our main clients," says Ragon, "mainly, R&D clients for patents and marketing clients for trademarks."

The perfect blend

Gundelfinger believes it possible to have the best of both worlds. Before Intel, she spent five years running the trademark department at Sun Microsystems. There, she explains, "the trademark group was combined with marketing legal (under my management) and dual-reported to the chief IP counsel (who had a patent background) and to the chief business support counsel". At Intel, where branding is a bigger priority, the trademark and marketing legal support constitute a single integrated group and report directly to the general counsel. "I view the trademark

Trademark team structure: product versus region

For companies with multiple brands operating across major global markets, trademarks often pose a conundrum. Marks are specific to goods or services, which in turn are relevant to specific markets only. Branding usually differs from country to country. Meanwhile, only those people within an organisation who have developed and nurtured a product or service fully understand the relevant consumer base.

This is why NBC-Universal, the media company behind television networks such as the recently rebranded SyFy and the film company Universal Studios, ensures that its trademark contingent is closely entwined with the business of managing a product. "If you said to the heads of our networks that they were in the business of managing a trademark, they would look at you as if you were from Mars," says Rick Cotton, NBC-Universal's general counsel. "But if you then ask them if they think about the name, profile and characteristics of their network, they'll tell you that they spend more than half their time preoccupied with these issues."

In the entertainment industry, brand management dovetails with the running of each line of business. Movie studios' marketing spends are so high because each new picture needs a strong, consistent brand. NBC-Universal has a small team of trademark lawyers to cover the legal intricacies, but it is the network managers' responsibility to build distinctive and legally robust brands. This is hardwired into the company structure.

In contrast to NBC-Universal, Diageo manages its IP assets along geographic lines, not product lines. This was a major change enacted 12 months ago, after the company realised that the most effective way for it to grow its business was on regional, not brand, terms. At the time, Bruce Proctor, general counsel for global intellectual property, said: "The previous structure involved focusing resources and legal professionals principally on our brands and having the regional work flow from what was happening with our brands in the various regions." Diageo has now restructured to create so-called "centres of excellence" located all around the world. A senior lawyer with a specific expertise relating to one of Diageo's brands is positioned inside each market. "For example," Proctor elaborates, "our senior whisky lawyer is also our senior IP lawyer for Asia-Pacific." Her team handles all the brands in that region. But if someone in North America has a question regarding whisky, that person will go to her. "Resources are being dedicated to both the brands and to the regions," he adds.

> "A trademark team not aligned with the business strategy will exist in its own bubble, forgetting the bottom line and making non-commercial decisions"

group as both a pure legal function and as business support," explains Gundelfinger, who is now hired by in-house trademark teams to advise on how to maximise their assets, run efficient departments, manage outside counsel and win bigger budgets. "It is possible to make the case for a deeper understanding of trademark teams' dual role successfully from an organisational and a budget perspective," she adds.

Based on this theory, the driving force behind any restructuring should be an examination of the ongoing treatment of trademarks by the corporate structure. The purpose of a trademark can change over its lifetime. As Craig and Moore observe, as intellectual capital becomes more critical to a business, the decisions and management governing these core assets should migrate up the organisation to board level. At first, a mark is used to capture consumer attention, to spark interest as part of an overall distinctive brand. Trademark prosecution, then, is classic business support. A launch budget from the business is large enough to accommodate clearance and filing costs. Plus, with the business side paying, it has skin in the game when making decisions about how much risk to take, such as how many alternative marks to clear. Later, the trademark acts more as a guarantee of quality for that product and as a tool with which its owners can fight both legitimate and illegal competitors. The trademark can now move under the auspices of the legal team which is charged with protecting and enforcing it. Only the legal team can make the call when it comes to enforcement. "Consistency and a long-term view are critical in enforcement," explains Gundelfinger. "You don't want the enforcement budget and associated decisions being made by the client base. Yes, get their input, but do not let them have the final say operationally."

Decisions

Getting the decision-making process right is key to a company's success. And deciding where to position the trademark team, how to manage it and with whose money is a major challenge. There are various methods to approach this but one thing is crucial: integrating the trademark practice into the business plan should never be avoided. A trademark team not aligned with the business strategy will exist in its own bubble, forgetting the bottom line and making non-commercial decisions. "I have generally found that aligning decision-making authority with budget authority leads to better decisions," says Gundelfinger. Determining how to do this exactly can be tricky. But it is crucial to keep the corporate machine running like clockwork. *iam*