

Intellectual Property - Five Common Mistakes that Most Businesses Make

by Michael Buck

INTELLECTUAL PROPERTY (IP) ISSUES ARE TOUGH FOR SMALL- TO-MEDIUM BUSINESSES

You may not realize that over ninety five percent of businesses in Australia employ less than twenty people.

Being a small business owner is tough in many ways. Some of the difficulties are summed up in the following quote by a small business owner in the transport and storage sector, (taken from a paper by Dr Rowena Barrett of Monash University entitled "Are Small Business Jobs 'Good' Jobs"):

It is extremely difficult for small business proprietors to be able to both 'work on' and 'work in' their business. Overhead costs, which have increased significantly over the past 10 years hinder expansion and development. Small business operators cannot afford to pay fees to attend courses and have to also pay additional staff to cover their time away from business.¹

Being a co-owner of a small business myself, I realize that it is only natural to do the most

straightforward tasks first. The more difficult business building tasks - including looking after the business' intellectual property (IP) - often get left on the back burner.

In this article I want to explain why it is dangerous to neglect IP issues and what steps can be taken to improve the IP position of your business.

SOME EXAMPLES OF PROBLEMS THAT ARISE

Looking after your IP position is more important than you probably realise. Here are some examples of the sort of problems that can arise. These are based on situations similar to those I've actually encountered in my work as a patent and trade mark attorney:

Example 1 - An engineering company spends tens of thousands of dollars developing a new tool for use in the medical electronics industry. Their major client is very interested in the tool and wants to buy the patent rights. Negotiations progress nicely until an employee that had a major inventive input points out that he is under no obligation to transfer ownership of the invention. He refuses to sign the invention over and the deal, worth a few hundred thousand dollars, falls through.

Example 2 - An importer and distributor of health products

loses significant business when its leading salesperson leaves taking copies of the company's supplier and client lists. The salesperson contacts his former employer's clients and sets up business in competition. The importer loses over fifty percent of its sales.

Example 3 - A vehicle parts company registers a number of trade marks in the name of its holding company. Some years later a competitor applies to have the trade marks removed from the trade mark register on the grounds that they haven't been used for over three years by their registered owner. It turns out that the operating company, not the holding company, is the entity that has actually been using the trade marks and they are indeed vulnerable to removal.

Example 4 - An electrical equipment manufacturer develops a new meter housing and mistakenly relies on copyright to prevent competitors from copying it. Too late, and with the market flooding with Chinese copies, it learns that copyright doesn't apply and that the housing should have been protected by design registration or a patent.

Example 5 - A new business takes care to get its business name registered and builds up a reputation in its name but doesn't obtain trade mark registration. Subsequently it

finds it very difficult to stop another company from setting up with a very similar trading name.

THE COST OF NEGLECTING IP

In each of the above examples there was a significant monetary cost to the business ranging up to hundreds of thousands of dollars in the case of the first example. It's impossible to quantify the cost of the lost opportunities, distractions and false starts that are associated with each of the above scenarios. In short, failure to do IP housekeeping costs a company momentum as well as money.

COMMON MISTAKES AND SOME GUIDELINES FOR OVERCOMING THEM

MISTAKE No. 1 - Paying people to develop IP that you won't own.

In the running of your business employees and contractors will generate IP. For example, your employee may come up with a new product, or an improvement to an existing product, which is potentially patentable. You might hire an industrial designer to develop housings, that are potentially design registrable, for a console that you sell. In each case it's important that relevant employment and contractor agreements are in place that

clearly transfer ownership of the IP to your company.

If your present employment contracts don't mention IP ownership then get them revised and re-signed. Whenever you involve an external contractor make sure you have a written agreement in place that clearly sets out who will own the IP arising out of the work the contractor does for you.

MISTAKE No. 2 - Not getting a trade mark registration clearance done before launching a new brand.

It is very important to take this step before you commit time and money to marketing and promoting your new brand. If you don't check that your brand is clear to use then you may end up facing an allegation of trade mark infringement which ultimately could have serious ramifications including pulping your brochures and rebranding.

As discussed in an earlier *Boating Business* article, bear in mind that business name registration is for the benefit of consumers, not the benefit of the business owners. Business name registration, and company name registration, is of little help in preventing others from using your trading name. For that you need to register your trade marks.

MISTAKE No. 3 - Leaking confidential information.

Documents containing confidential information that would be helpful to your competitors should be marked "confidential" and kept on a restricted circulation. Such information might include lists of customer and supplier details, salespeople bonus incentives and pricing structures. Manufacturing processes that are not readily reverse-engineered should also be documented and kept confidential.

Check that your employment agreements contain clauses requiring employees to maintain secrecy of confidential information. Brief your employees, and any others having access to your confidential documents, so that they understand that the information is proprietary to the business and is to be kept secret.

MISTAKE No. 4 - Being blind to new IP in your business

Every time you make an improvement to a business process, product or service there is a possibility that new IP will have been created. If that new product, process or brand is going to help you to attract new clients then it's valuable.

If you develop a new brand think about trade mark registration. If you invent a product that has an improved functionality over your existing products then think patents. If you have written a new manual or brochure then think copyright and if you have improved the look and feel of your products then consider design registration.

MISTAKE No. 5 - Sticking your head in the sand.

Just because you may not have been active in the IP area doesn't mean that your competitors aren't. It isn't difficult to find out what your competitors are doing in the way of patent, trade mark and design protection. The IP Australia website at www.ipaustralia.gov.au provides access to a number of databases that can be browsed for free. By keeping a watch on competitor's activities you can

gain answers to the following questions :

- are they seeking IP rights likely to threaten your business activities?
- what new products are they bringing out?
- who are the creative people in their organization?
- are they trying to obtain IP protection for something that they don't actually own? (If so you may be able to overturn their application)

The Value of IP Housekeeping

Suppose you were looking to invest in one of the two following companies.

The first company has a register showing that its trade marks are registered and its leading products are covered by patents.

Its manuals and brochures are marked with the "©" symbol to indicate copyright ownership and it also has confidentiality and IP ownership clauses in its employment agreements and has its confidential information documented and marked confidential.

The second company has not done its IP housekeeping and though it has developed some good products there is nothing to prevent competitors from copying them or employees from walking away and setting up in competition.

Which company is more valuable? Which company would you prefer to buy or prefer to be a franchisee of? It's clear that the first company, all else being equal, is in a stronger position. If you're not already doing so, reposition your business so that it more like the first and less like the second.



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