

# IP SCENARIOS FOR FAST GROWTH

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**Trendsetter or newcomer? IP is a key asset for fast-growing tech, but can often find itself outpaced, says Mathias Karlhuber at Cohausz & Florack in a book inspired by the EPO's and LESI's High Growth Enterprise Taskforce**

There are essentially two fast-growth scenarios: one being the trendsetter scenario with the company successfully developing a new market and facing the risk of copycats; the other being the newcomer scenario where a competitive product rapidly gains market share in an existing market.

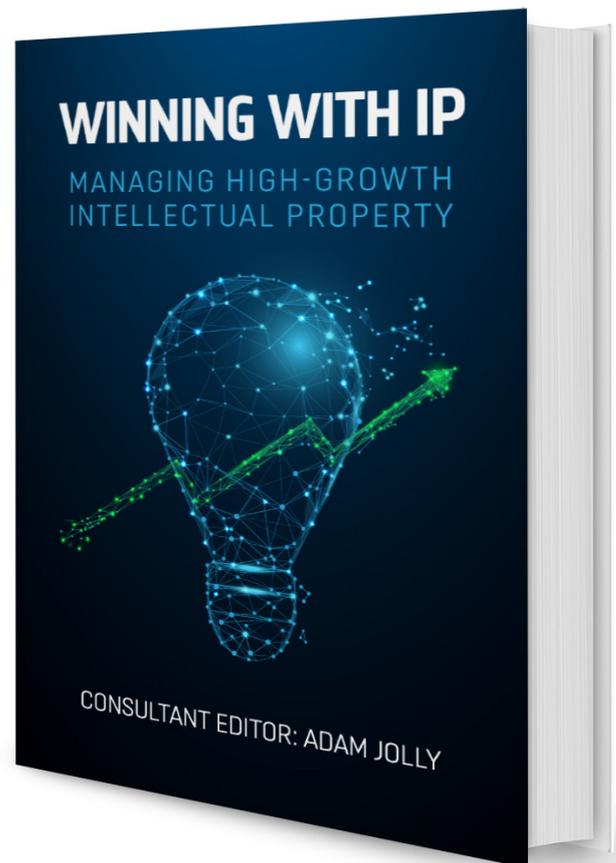
For trendsetters, the primary goal is likely to be covering the company's product. For newcomers, it becomes more important to cover logical evolutions of competitor products, as the company's own IP can only have an economic effect if an aggressive competitor is interested in using it and willing to enter negotiations. The faster it gains market share, the more likely competitors will be motivated to take action against the new player in the market.

Close co-ordination of the IP position with the company's economic growth strategy is essential, although is rarely the case. Far too often, IP remains largely detached from management and treated according to the standard, 'we have to protect our products', which often falls short.

A great deal of misunderstanding exists within the technology industry. It concerns the question: what is an IP right? more precisely, what is a patent? and what can it achieve economically?

IP rights such as patents have a distinctive protective function. They merely grant a negative prohibitive right, ie, the owner may prohibit others from using the protected creation.

However, a patent does not give its owner a positive right of use. If a product infringes a third party's rights, it can be prohibited from sale irrespective of whether it has



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a patent. The implications for IP strategy are far reaching, especially during fast growth.

So where to start? A careful analysis of the status quo can keep the often high investments in IP rights within reasonable limits, depending on how the following challenges are resolved:

The contribution of patents and other IP rights to the commercial goals of the company.

- The initial investment in the patent application.
- The right choice of countries for the patent application.
- The scope of protection of patents in different countries.

### **Company goals and strategies**

In general, the commercial goals and the IP strategy derived from them can affect the entire company including all subsidiaries, but they can also only relate to one business unit or a specific product area, so that a one-size-fits-all solution may not be appropriate. The economically viable IP strategy depends on factors such as the competitive situation, the maturity of both the technology area and the company, and, of course, its financial resources.

#### *Blockades for trendsetters*

For example, for trendsetters, one commercial objective could be to achieve an exclusive market position. The associated, rather aggressive IP strategy is then a kind of blockade strategy, which aims to keep the market as free as possible from competitors and enable undisturbed growth. This goal makes sense, for example, if:

- the company in fact is a trendsetter, ie, a technology leader or the first supplier to a new market;
- there is an opportunity to obtain sufficiently broad IP protection, for example, via basic patents;
- there is financial leeway and the will to enforce these patents if necessary.

#### *Negotiations for newcomers*

In the more frequent scenario for newcomers, the more defensive commercial objective could be first and foremost to secure the company's growth, turnover and economic flexibility. Limited financial resources also speak in favour of setting this more passive and defensive goal.

IP will follow a negotiation strategy, whose more passive or defensive goal is to enter licensing transactions, typically in the form of cross-licensing, in which companies grant each other permission to use each other's IP rights. Here, it is of course crucial that other market participants also have an interest in the technology protected by the company. Striving to achieve this level of attractiveness of the patent portfolio to others is the right way to ensure that investments in IP pay off in the long term.

However, such a negotiation strategy aimed at licensing can also make sense from a less defensive IP position, for example, if a company, despite its subjective rapid growth, cannot or is not willing to meet the demand in a market alone. This may be the case if several levels of product sophistication exist, but the company is only committed to a certain one of those levels, leaving the other levels to competitors who can take a licence. It may also be the case that demand in a new market only gains momentum and enables further growth if there are several suppliers who develop the market.

Finally, the negotiation strategy can also be pursued as an active or even aggressive IP strategy, which actively approaches other companies with the aim of convincing them to enter licensing agreements. However, this approach requires the company's will and financial capacity to enforce these IP rights.

### **Portfolio design and disclosure**

In any of these cases, it is crucial that competitors and potential licensees have an interest in the protected technology. In order to secure a solid negotiating position,



IP rights for solutions that the company itself does not offer, but are attractive to the competition may be particularly useful. Typically, these are technologically peripheral areas of the company's own product development or alternative solutions that were not pursued for internal economic reasons. Such areas adjacent to your own development should not be neglected as far as possible, since they may be attractive to competitors.

In any case, the extent of disclosure in a patent application at the earliest filing date possible is paramount. It should broadly cover the new technology rather than just the specific product. Money and effort is well spent here. It should be noted that, depending on budget restraints, not all the inventions disclosed in an application have to be cast in claims straight away.

Typically, IP protection systems provide so called divisional or continuation applications where inventions can be claimed which were disclosed but not necessarily claimed in the original application. One or more such divisional applications can typically be filed at any time as long as the immediate parent application is pending, ie, before the patent is effectively granted. Hence, to benefit from this pool of early disclosure without having to prosecute several patent applications in parallel, it is worth keeping the patent family open by filing such divisional applications. While such an IP portfolio may not grow at the same pace as your business, elaborate and comprehensive early disclosure may ultimately achieve comprehensive scope of protection over time.

## Select country by strategy

For a meaningful selection of countries in which patents are filed, companies should, based on their objectives, take a close look at their own activities and those of the competitive environment, all keeping the limitations of their own IP budget in mind. The following questions are essential:

- What general IP strategy do I want to pursue?
- Where are my own production sites and where are my markets?
- And where are my competitors' production sites and markets?

Those who pursue a blockade strategy are primarily interested in selling their products undisturbed in their

own markets. Hence, patents have to be applied for in these countries in any case in order to be able to prevent competitor products from being offered there. The production sites of the competition could be worth further consideration to prevent the production of competitor products there. Finally, the markets of the competition might also come into consideration. However, the latter two steps are only advisable if the IP budget is high enough.

If you focus more on the negotiation strategy, the opposite is true: you should put a strong focus on the competition, not primarily on yourself. Only where competition is active is it vulnerable and therefore potentially interested in entering into licensing agreements. Once these countries are covered, you can think about your own markets or production.

Other aspects naturally influence the selection of countries. The question of whether a country is suitable for patent disputes is crucial: is it possible to conduct patent litigation and enforcement proceedings in the respective country with reasonably foreseeable legal and economic risks within a suitable period of time? In crisis regions, for example, the chances of enforcing IP rights are likely to be slim.

Another aspect that chimes into the country decision is the fact that, in some places, legal provisions require that a patent application is first filed in the country in which the invention was made, so that there is no need to decide whether or not to file an application in that country.



## Variations in scope of protection

What protection do I seek? And where should it apply? Answers to these questions help to define the scope of protection for a patent family in a meaningful way. On the one hand, you can strive to obtain a patent family with essentially the same scope of protection in all countries at reduced effort. The numerous Patent Prosecution Highway (PPH) programmes that have been established between one or more patent offices are particularly suitable for this purpose. The patent offices involved use and accept the search and work results of the respective partner offices. For companies, this has the advantage that examination procedures are simplified and that the time until a patent is granted in the respective country can be significantly shortened.

However, another possibility besides this uniform variant is to pursue a different scope of protection in different countries. In this way, under certain circumstances, companies can achieve a high effect with comparatively small investments: competitors active in the same markets can be confronted with different hurdles in each country. They may therefore be all the more challenged if they want to avoid infringement of these IP rights. Moreover, this approach enables you to pressure test different inventions in parallel before different authorities. If a claim is found allowable before one authority, it is likely to also succeed in a later divisional application in the same family before a different authority, so investment in such a further divisional application may be justified.

This variant has a fair chance of considerably increasing the diversity and coverage of your portfolio while keeping the total number of applications comparatively low. Hence, your IP portfolio, in substance, may keep up with the pace of your growth while not having to do so in total numbers right away. This approach can thus be recommended especially for companies with a limited IP budget. In general, this approach can be relatively easily adapted to the company and its financial scope.

In addition to these quite concrete steps, fundamental measures should be mentioned which help strategically to establish and expand the patent portfolio. Companies do well to identify the special features of their products: what is the decisive factor that makes my product sell at all? and what technical aspects are involved? The company's own developments then have to be checked regularly to see whether they have the potential for a patent that is also

attractive to others and thus has a chance to develop an actual economic value.

With all these measures, the commercial goals and the associated IP strategy to blockade or negotiate should always be kept in mind. Those who regularly seek to align their patent strategy with the company's business objectives have created good conditions for their patent portfolio to provide a significant contribution to the company's success and growth.





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