

Protecting hidden value

With company budgets under pressure, IP owners are rethinking their protection strategies. Cutting costs in this vital domain may prove not merely a false economy but a fatal miscalculation

Vandana Chatlani reports



With corporate budgets slashed, intellectual property rights holders are facing tough decisions about IP protection levels. India's IP lawyers, meanwhile, are witnessing a surprisingly diverse range of responses to the financial crisis by their corporate clients.

"Touch wood, at K&S Partners we have found absolutely no effect of the downturn," says co-founder and senior partner Jyoti Sagar. "India will be on the filing map of any important patent ... IP filings are on the rise."

It is even a growing field for some. "People have started focusing on registrations, patents and structural engineering," notes Dipak Rao, a partner at Singhania & Partners. "Every other day we have an infringement or opposition."

Echoing Rao is Titus & Co partner Rai Mittal: "We've seen new work in the last six months. We're cleaning up IP portfolios in order to discard IP properties which have no value. Trademarks and patents with little value the world over are being surrendered to the registration office."

"Companies are challenging the imitation of trademarks and names because it's so cheap to get registration and filing done," says Chetan Thakker at Kanga & Co. "Registration costs about Rs5,000-10,000 [US\$100-200] so offices are flooded with applications."

Rahul Chaudhry, a partner at Lall Lahiri & Salhotra, says his firm is receiving an increased number of instructions. "We have been affected to some extent on the filing side. But our growth has been 170% – that's 19.5 crores [US\$3.8 million]."

"We're doing the biggest litigation ever for Coca-Cola and a major filing for Sony," continues Chaudhry, whose firm also handled a recent filing for cosmetics giant Estée Lauder, its first case in India. "The non-contentious side has been somewhat affected," Chaudhry concedes, "but big players like Novartis and Nike won't be affected."

Lall Lahiri & Salhotra is still hiring and Chaudhry is a bullish mood: "We're poaching the nice talent at other firms ... I will hit them where it hurts the most," he says.

Becalmed but not beaten down

Not all observers share Chaudhry's optimism. According to Amarjit Singh, managing partner at Amarjit & Associates, IP work from overseas has come to a halt. "The slowdown in the economies of the US and European Union has considerably reduced the outflow of IP work to India," he says.

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Rahul Chaudhry
Partner
Lall Lahiri & Salhotra



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Amarjit Singh
Managing Partner
Amarjit & Associates



"In the US and in Southeast Asian countries, IP activity is not moving up, it's at a standstill," agrees Sunil Krishna, a partner at Mumbai-based IP boutique Krishna & Saurastri. "Our clients are saying instead of protecting 10 brands, protect five, six or seven. Instead of going to 50 countries, go to 30. We're trying to generate more business from existing clients. Large clients are cutting costs but we have a good domestic client base."

"Those firms that have a strong relationship with clients will be least affected," says Nick Redfearn, head of Asian business development at Rouse & Co in Hong Kong. "General practice firms with IP departments may struggle."

Sumes Dewan, a partner at Delhi-based general practice firm KR Chawla & Co, shares Redfearn's pessimism. "Pharmaceutical companies are investing less in research and development and in clinical trials. That has long-term implications," he warns. "Companies are focusing on their core businesses; 2009 to 2010 will be stagnant."

"Work is peaceful and slow," says Zarni Patel Thomas, a partner at Mumbai-based Udvardia & Udeshi. "There's a fair amount of slowdown ... a trickle of transactions and we're holding on – we're not downsizing. No one's hit the panic button yet."

However, managing partner Darius Udvardia strikes a somber note: "I've never seen this in 45 years. We're hit terribly by all of this."

Deferred but not abandoned

What seems the consensus is that clients are economizing wherever possible. Companies across the spectrum are revising budget allocations and assessing potential cutbacks. Resources previously earmarked for IP protection have not escaped.

"Budgets are being reduced for filing and prosecution work," notes Redfearn. "Some companies in serious financial trouble have cut their IP department staffing – along with many other departments," he adds. "IP departments that failed to show economic value and revenue generation were worst affected. Anti-counterfeiting is one area being cut back ... as in-house lawyers are forced to focus on other areas."

Lawyers note that clients may be implementing measures to postpone enforcement actions rather than abandoning

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Nick Redfearn

Head of Asian Business Development
Rouse & Co



them altogether. “This has directly resulted in deferment of enforcement actions,” explains Chetan Chadha, a partner at Chadha & Chadha in New Delhi. Chadha suggests utilizing any available cost rescheduling strategies, especially where fees are non-negotiable. “Patent filing costs may be deferred by using the Patent Cooperation Treaty route,” he explains. “Countries like Canada allow a one-year extension for filing patents, while other countries are allowing late filings on the grounds of economic crisis. All such information should be put together to form a strategy to defer costs as much as possible and save important IP.”

Negotiating fee packages

While Indian firms such as Titus & Co have offered a 20% discount to reward their long-standing clients, international firms such as Fulbright & Jaworski have introduced special packages, promising clients a bouquet of services at a fixed price for an entire year. “We have arranged an annual fixed fee with certain clients in which we agree to manage their IP portfolio, including preparing and filing an estimated number of new patent applications, responding to office actions for pending patent applications, etc., which allows those clients to know what their IP budget will be for the year,” says Jody Bishop, a partner at the firm who focuses on US patent preparation and prosecution. “This has been an attractive billing arrangement for several clients who are seeking certainty with respect to their IP budgets.”

Dangerous decision-making

“Everybody is hit by the downturn,” remarks Ameet Datta, head of the IP practice at Luthra & Luthra. “But we see this as an opportunity to know our clients better and show our solidarity by engaging them with proactive advice on how to better manage their IP [and] cost concerns.”

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Darius Udwardia
Managing Partner
Udwardia & Udeshi



Boom time for pirates

Economic adversity spells opportunity for counterfeiters

The financial downturn presents an opportunity for counterfeiters to exploit patents, trademarks and copyrights left unguarded due to weakened enforcement regimes. The savings-driven policies of clients who opt for minimal IP protection are likely to be punished, with pirates’ plunder creating a vicious cycle of losses that is further exacerbated by the prevailing economic instability.

“During this time one would see traders taking advantage of market conditions and consumer sentiment to push counterfeit, lookalike and cheaper versions of the original products,” says Ranjan Narula of Ranjan Narula Associates.

“Another possibility that cannot be ruled out is that the factories in China and India that have made massive investments to produce, on contract, products for brand owners, may find it tempting to utilize spare capacity to produce their version of original products,” adds Narula.

Chetan Chadha, a partner at Chadha & Chadha, is quick to point out that the marketability of counterfeited consumer goods varies widely across product types. “From the consumer’s point of view, the scenario is quite different from industry to industry,” says Chadha. “Irrespective of the economic condition, no consumer would be willing to buy counterfeit medicine.”

In the downturn, companies are seeking advice on how to curb infringement, discard useless registrations and capitalize on existing assets while maintaining a strict budget. Companies need to identify the greatest threats to their businesses and decide where to bolster IP protection and where to discard assets so resources can be reassigned to protect others. A number of lawyers suggest reducing the number of classes in which a trademark is protected and being cautious about frivolous filings.

However, most lawyers agree that the hasty disposal of protection tools solely to save money is perhaps the most serious hazard companies face. Dangerous measures range from carelessness in renewing registrations to the abandonment of brand building in light of waning consumer demand.

“Companies that take their eye off the ball run the risk of incurring lasting damage to their IP,” warns Kim O’Connell, a partner at Australian firm Mallesons Stephen Jaques. “Any changes should be as minimal as possible,” she explains. “[It cannot] be assumed that all problems or threats can be readily ‘fixed’ later on when the business picks up.”

Jordanna Popli, a senior solicitor at Wragge & Co in Birmingham, UK, strongly agrees. She advises companies to resist the temptation to discard protective shields for the sake of reducing expenditure. “It may be easy to slash costs

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Kim O'Connell

Partner

Mallesons Stephen Jaques



by letting IP protection and enforcement measures go, but retention is incredibly important to stand businesses in good stead to recover from any economic slowdown," she says. "Once IP owners let go of their monopoly, in most cases it is difficult – if not impossible – to take back the reins."

Pravin Anand, managing partner at IP specialist Anand and Anand in New Delhi, bemoans what he calls classic "downturn" behaviour – requests for discounts or rollback of fees, reduction of portfolios, filings and lawsuits. In Anand's experience, cost-consciousness is not always an indication that a company is suffering; some clients take advantage of the financial turmoil to bargain for competitive prices, simply because the time is ripe to do so.

Yet others have little choice but to scale back: "I would say some companies are very badly hit so they aren't even covering their core business," says Anand, whose clients range from media production houses and pharmaceutical

companies to Indian fashion designer Tarun Tahiliani.

He echoes the warnings of others: "Some are just giving up. But after a couple of years, when things are back to normal, the rights will have already been abandoned and they would have lost it forever – that is bound to happen."

Threat to creativity

"The main threat is reduction of spending on IP creation ... fewer trademarks and patents are filed," explains Redfearn. "This is already evident in the US and Europe. Big litigation with major competitors may thrive, but anti-counterfeiting and lower-level speculative cases will reduce."

Redfearn identifies important trends emerging. "Commercial transactions will inevitably [decrease], but in Asia the focus on IP in the transactions that do proceed will intensify as investors realize they have to squeeze more value from assets, not just rely on the inexorable market rise as happened in recent years."

O'Connell at Mallesons also emphasizes the need for market foresight, even in troubled times where future business expansion seems a low priority. "Companies should always be mindful that if they do not take their brand global, someone else will," she warns.

"The lesson of the last recession was that innovation was the key driver for the differentiation you need to survive," notes Popli. "Companies that cut innovation were not as successful at coming out of a recession as those which maintained investment in research and development."

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Realizing value

Dev Robinson, a partner at Amarchand Mangaldas, says companies will be monitoring their competitors' activities very closely. "It's not easy pickings anymore," he says. "People are going to try to acquire technology portfolios if those fit in snugly with their business plans. IP plays a significant role in increasing shareholder value at the end of the day."

But to realize the hidden value in a company's intellectual property, corporate managers must know how to unlock it. Vivek Vashi of Bharucha & Partners in Mumbai observes that while domestic and small to medium-sized enterprises (SMEs) in India are very cautious and aware of trademark-related IP, they need legal guidance to learn how to unlock value of their trademarks.

Aditya & Associates partner Vipul Bhuta sees progress in terms of Indian SMEs' understanding and exploitation of IP. "Awareness is increasing," he says, and he is not alone in this belief. "We're getting enquiries from private individuals before the launch of a website or book," notes Sumita Singh, a partner at Singh & Associates. "That's certainly not something we would have seen five years ago."

Nikhil Krishnamurthy, a senior partner at Krishnamurthy

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Pravin Anand
Managing Partner
Anand and Anand



& Co, suggests that companies use the downturn as a time to generate revenue by focusing on their core assets, "to look to dormant properties in their IP portfolio and evaluate opportunities to monetize them".

"The value of intangible assets should not be forgotten," says Popli. "IP assets can be leveraged and can provide a real boost to a company's bottom line. A growing number of our clients are focusing on the strength of their international IP portfolios."

Active protection, practical steps

Lawyers are advising companies to actively safeguard their brands, services and technologies. "Aggressively protecting IP and research and development around core business areas and concentrating on IP commercialization opportunities should remain the focus of any IP strategy in the downturn," advises Datta.

Portfolio reviews should also be undertaken regularly as an IP maintenance strategy. "Take stock of your trademarks, designs, patents (and other IPRs) while renewing them to see if there is duplication," advises Ranjan Narula of Ranjan Narula Associates.

According to Kalpana Merchant, a partner at AZB & Partners, the trend now is for trademark and patent applications to be filed more selectively than in the past. Understanding the core focus and direction of a business in the medium term is vital to creating an effective protection strategy. "How are they looking to expand and in which area?" asks Merchant. "You can count on IP to be a revenue model."

Anoop Narayanan, partner and head of the technology and IP practice at Majmudar & Co, suggests a careful review of jurisdictions when deciding where to file an application. "An assessment of the most lucrative IP destinations must be carried out and companies should register their IP in such jurisdictions only," he says.

Similarly, O'Connell advises rights holders with international portfolios to evaluate the benefits offered by different jurisdictions; some countries afford greater protection for certain inventions than others. She also believes that a company's more important IP assets should be protected in numerous countries, while lower-priority assets can be assigned more selective protection.

Outsourcers to the rescue

Cost-conscious IP owners turn to LPOs for assistance

"Cutting costs seems to be the main mantra," notes Shamnad Basheer, professor in IP law at the National University of Juridical Sciences in Kolkata. "Costs can be cut by outsourcing the drafting of patents to countries such as India. Having spoken to some of the legal process outsourcing units or LPOs, it would appear that the number of applications coming in from the US and EU has in fact increased."

Several experts believe LPOs in India stand to benefit from cost-cutting measures, as documentation, application and licensing work move offshore.

"Traditionally, the main roadblock for this sector was a cultural one," explains Basheer. "Many large companies were extremely conservative and didn't want to ship their patents to India. The downturn will force them to consider approaches that might have never [been] considered earlier."

To those who need to economize yet still fear that outsourcing is a risky option, LawQuest proprietor Poorvi Chothani suggests that sensible selection of legal counsel can meet the need for both savings and quality. "International IP portfolios can be managed with the assistance of a combination of large and small firms," she explains. "For instance, trademark registration does not need a magic circle law firm, while IP litigation would require expert senior counsel."

Data protection dangers

Data theft is another serious threat that companies must actively address. Several lawyers suggest that employees who are being made redundant may steal confidential information and supply it to a competitor.

Precautions include making contracts airtight and eliminating any external email access and data storage facilities. Sophisticated coding can be utilized to make company information accessible only from the workplace and prevent its removal or transfer to external hard drives.

“Rights owners may also want to re-evaluate company documentation, including contracts with employees and outside contractors with an eye to protecting IPR,” says Krishnamurthy.

Adds Popli: “We have noticed an increase in clients coming to us to formalize supplier arrangements or reinforce written contractual relationships with ‘credit crunch clauses’ focused on the risks of insolvency, default and breach.”

When vigilance fails

Infringements may occur even when exhaustive protections have been implemented. Prosecuting infringers is not always easy, but there are ways to minimize the risk of a heavy litigation burden should safeguards fail.

Datta believes that the efficient and creative use of anti-piracy resources is key. He suggests a “multi-layered” approach: “Look at working with the excise tax, sales tax

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Jordanna Popli
Senior Solicitor
Wragge & Co



and local municipality authorities to address illegal (and unreported sales) activity along with traditional channels like law enforcement agencies and the courts,” he says.

Raids should be conducted systematically and frequently, says Karnika Seth at Seth & Associates, who argues that a business can suffer insurmountable losses by the time a lawsuit is decided.

“The cost of seeking patent protection in India is

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prohibitively expensive if the market is not considered important to the company's product or service offerings," adds Bishop at Fulbright & Jaworski. "Further, there is a perception that the Indian patent law is not sufficiently developed to provide sufficient predictability as to the enforceability of patents in India."

Slow progress

Redfearn at Rouse & Co agrees: "The uncertainty of the patent rules now and inefficiency ... at the IP office [in India] overall creates a weak legal system. Closed monopolistic attorney rules still exist, so there is a lack of foreign firms to help develop the [Indian] legal system."

"The prosecution of matters at the trademark office is slow and there is a huge backlog," laments Narula. "The database of trade mark registry has several discrepancies and no well defined procedure to correct them. Thus one is not confident when doing brand clearance searches. The examination procedure lacks uniformity with different criteria used by examiners."

Many observers blame the problems on a lack of understanding of intellectual property, even among India's enforcement agencies and the judiciary. "It is an uphill task to provide education on IP at the root level of the police, magistrates and government attorneys, for whom IP is not part of their day-to-day operation," says Mahua Roy Chowdhury, a partner at Solomon & Roy in Mumbai. "The Indian government has already opened IP cells in the police departments in major

cities; however, the same model is yet to be replicated in small cities and towns in India."

"The big issue is awareness about IP and piracy," concurs Anand Desai, managing partner at DSK Legal. "It would be helpful if awareness is spread during the downturn when people have more time to listen!" ■



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