Column: Innovation – A lawyer's perspective

April 1, 2011
By Mark E. Beatty

Successfully incorporating legal strategies to protect innovations often befuddles small businesses. The question arises, "what do we need to protect, and how do we protect it at a reasonable cost?" That question is especially relevant in manufacturing, where competitive margins are often narrow and U.S. manufacturers must pit their innovation and efficiency against lower labor and regulatory costs overseas.

For design and engineering firms, as well as software companies, innovation may mean developing new products and services (whether for utilitarian solutions or aesthetic appeal). For manufacturers, who often don't design the products they produce, innovation often means "agility" – the ability to adopt or adapt new production technologies and methods seamlessly, and the ability to shift production between products and services without excessive disruption and costs.

The answer to the above question lies in a thorough and honest analysis of what your sources of innovation are and where your company's value truly lies. It also comes down to the same consideration as any other decision in your business – return on investment. Perhaps the question should be re-framed to focus less on defensive goals and more on success. For example: "How do we foster innovation, and how do we obtain the maximum value from it?"

From a lawyer's perspective, innovation inhabits the realm of intellectual property (IP) law. All businesses possess IP, though many don't understand how to obtain value from it, and often expend excessive resources to protect marginal value by trying to protect everything. IP falls into four broad categories, which overlap in many areas: patents, copyrights, trademarks and trade secrets. A successful and cost-innovation strategy incorporates all of these regimes. However, in the end, your legal strategy to protect your IP must support your business model, rather than contorting it to satisfy your IP attorney (no matter how brilliant he or she may be). The goal remains obtaining value, not simply protection.

Looking at the cost spectrum, patents are generally the most expensive regime, trademarks and copyrights less so and trade secrets are generally considered the least expensive. The strength of protection, as you might expect, varies inversely to the cost; patents are generally the strongest protection and trade secrets the most easily evaporated. The Achilles' heel is that exploiting innovation often requires public disclosure and use, necessarily limiting the effectiveness of trade secret protection.

The axiom that secrets have a shelf life is a hard truth. Reverse-engineering legally obtained products is legal. Information trickles out over time. You must determine whether you can obtain

full value from your "secret innovation" before the inevitable disclosure. Pursuing patent and/or copyright protection frequently proves a more reliable course for core technologies.

What to do? Start with your business plan, and ensure your IP attorney understands it. Do you intend to exploit the innovation yourself or license it to others? Is this a core product or service, or does the innovation relate to a peripheral or unrelated line of business? Are you intending to build your company into a major player over time, or is the goal a purchase by a larger company? Do you intend to enter overseas markets? Do you have high employee turnover, or a core group which contracts out the labor-intensive work?

If you need access to other technology to exploit your own innovations then cross-licensing agreements (i.e. sharing) may be your best protection. Innovations involving internal processes away from the public eye, or perhaps involving exclusive partnerships, might be adequately protected through strong contractual agreements to preserve them as trade secrets. If you intend to work with many partners non-exclusively, or sell the product in the marketplace, then patent and copyright registration may provide the best protection. Employee agreements provide some protection, and should include clear provisions regarding ownership and assignment of patents, copyrights and other work products. However, draconian agreements can drive creative employees away and courts may refuse to enforce them. Remember, innovation comes from people, so value your employees and give them a stake in the company's success.

In the end, the return must justify expenditures to protect innovation, like any other investment. Killing one's cash flow in pursuit of overly aggressive protection undermines growth as much as failing to protect one's IP. Ambiguous or oppressive employee agreements create conflicts which stifle creative energy. Successful innovators don't merely build walls; they focus on creating "new stuff," understanding its value and integrating this creative process into their business culture.

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