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IP service: Make or Buy

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NB: the following paper is based on the author's various experiences in several major international companies as regards IP management in particular trademarks; however it does not apply to patent services since the author has not been in charge of such issues.

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Many industry IP Lawyers would state that the answer to this Make or Buy question is obvious for them since this is an almost daily matter; however if you ask them to formulate a structured 5-10 minutes summary designated to explain to non IP practitioners – such as the general management of a company – how they arbitrate between Make or Buy and why, you can bet that many of them would not be able to do it on the spot. Indeed this exercise should be practised from time to time and this Make or Buy question is a good opportunity to do this.

This is all the more relevant nowadays since there have been significant evolutions. For several decades this Make or Buy issue could almost be summarised as follows: as soon as an IP/TM portfolio would reach around 5'000-6'000 units it was admitted that its owner should seriously consider setting up an IP Department to switch from external to internal IP management which would handle as many issues as possible.

However 10-15 years ago this became much more complex since many more parameters and criteria were progressively taken into account such as:
- Efficiency: a company must focus on its core expertise and one should wonder whether IP management is one of them
- Cost control and saving: they are an ever increasing constraint and outsourcing is one of the most usual ways to address this issue
- Decision: are lawyers the best qualified persons for selecting external counsels according to financial criteria?

To consider this with an overall and consistent view, I will first briefly remind the main permanent features and constraints (I) before setting forth the main principles to arbitrate between Make or Buy (II) and finally adding a few considerations about the cost issue in this context (III)

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I – <u>Main permanent features and constraints</u>

A – <u>Long term and stability internally for defining and implementing an IP policy</u>

Much of the activity handled by an IP department is long term: in many countries even in the absence of difficulties (official objections, oppositions, etc.) 2 years at least are necessary to obtain a TM registration which is then valid for 10 years. Unlike in many other legal departments there are multiple files in dozens of countries making the activity of an IP department similar to the weaving of ropes or nets from many interacting strands. Setting up an IP protection and defence policy takes at least several years.

Consequently many files cannot be promptly closed unlike when terminating a contract. In many cases they are like super tankers which need several miles to stop completely and with which you would not try to make a U-turn: to be kept in mind when non-IP decision makers ask an IP department to “cut the budget by 30% before the end of this year” or even to “stop everything” including on-going applications.

B – Complexity of the selection and management of external IP services

The core responsibility and expected expertise of an in-house IP department is the ability to consistently implement the company’s IP policy by coordinating multiple and heterogeneous files in various countries including managing the differences between the various laws, practices and mentalities across the world. Last but not least an in-house IP department must have a good internal network within the operational officers to ensure that IP activities are fully in line with the company’s needs.

Take the case of an IP counsel network. One will easily understand that you need more than a few months to set up efficient working relations with a range of foreign counsels so that they understand the “profile” of the company and its brands, its working method and how these counsels work, in order to know well what can be done or tried in each country and the “human factor” cannot be neglected. Only by regularly exchanging, discussing and meeting with counsels whenever possible you can ensure a good cooperation which I like to call “partnership”; after all, generally within approximately ten years many IP lawyers will have been working internally with 3 or 4 successive marketing officers for the same brand whereas this trademark is still handled in Korea or in Sweden by the same external counsel.

A kind of “human sedimentation” is most necessary as long as it does not turn into routine. This is all the more true each time a company grants a certain autonomy of decision to its external counsels. This can only work if one is certain that the external counsel knows what he can decide alone, whether he should revert to the client in some cases without wasting too much time on both sides.

To sum up one must be aware of the high need for continuity and the complexity of a proper IP management and we shall see now what how these issues can be addressed internally or not.

II - Main principles to arbitrate between Make or Buy

A – Permanent vs. “exceptional” tasks

The first criterion addresses the issue of the appropriate number of in-house IP specialists, assistants included. A priori only the permanent tasks – provided that their volume justifies the existence of in-house staff – should be handled internally (“Make”) whereas “exceptional” tasks such be externalised (“Buy”) because it would not make sense hiring in-house staff for which there will not be enough work once these “peaks in activity” are over. In other words externalisation is and remains first of all a tool to “absorb shocks” and avoid “overstaffing”.

B – Strategic vs. “low value” tasks

Another criterion is the added value of the tasks to be performed and their relevancy vis-à-vis the core activities of a company. Now one must be careful when defining the “strategic” nature of an activity: for example certain decision makers – usually no IP specialists – state that only the “noble” constituent of IP e.g. enforcement/litigation should be managed internally whereas the “administrative” – not to say "dusty" or "unglamorous" – part e.g. the constitution of the rights (filing, registering, renewing,…) should be dropped and subcontracted for the lowest possible price.

However constituting IP rights in particular daily completing and "reshaping" a portfolio is in my opinion strategic first of all because this enables the in-house officers to have a real knowledge of these procedures with their opportunities and constraints, including the costs, as well as a continuous contact with the external counsels and the real situation in various countries. If not there is ultimately a loss of knowledge making it increasingly difficult for the company's IP department to remain able to correctly interpret what the external counsels tell and progressively the subcontracted management of an IP portfolio becomes a pure financial matter with almost the sole aim to spend as little as possible.

Disputes are won or lost at the stage of the filing of the rights on which the company's argumentation will be based and it is not uncommon to regularly amend the management of an IP portfolio further to the results of disputes: of course one can give as often as one wishes instructions to the external IP firm managing the company's rights to take this into account; but experience shows that this is done only in "blatant" cases and that less dramatic but more frequent advisable adjustments are not integrated as it is the case if the portfolio is managed internally.

A better example of a non-strategic activity is the recordal of an assignment or of a change of the owner's name as regards a whole portfolio or a significant part thereof: this time-consuming task incurs a temporary peak of activity with low legal expertise level and it should be therefore subcontracted to an external counsel.

C – Respective roles of Head office and subsidiaries

Another often overlooked issue related to outsourcing is to adopt logical and efficient principles and ensure their consistent implementation as regards the involvement of the subsidiaries in IP management.

One could think that such a "niche" activity can be only performed by trained specialists and that non IP staff should not be involved to avoid mistakes and contradictions, not mentioning the emergence of uncontrollable additional costs. Yes and no. Whereas it is very risky to let non IP staff directly manage "technical" matters such as filings or litigations, the IP department does regularly need information and assistance at a local level and this can be very diverse: collecting evidence of use, reporting imitations, providing information on the business context, sometimes directly liaising with the local external IP counsel selected by the central IP department, etc.

Not involving or systematically snubbing local subsidiaries logically incurs demotivation and a possible risk of "parallel hidden" IP activities. Thus the central IP department must make sure that its global policy is understood and its local implementation jointly defined with the subsidiaries. This means that one must make some "time investment" and keep regularly in touch: an internal central IP department can do this not an external counsel.

There can even be cases where IP management can be decentralised; but this must be very carefully considered and organised in a manner ensuring that there cannot be any serious contradiction between the company's overall IP policy and the local practices. For example if a group purchases a company owning a specific brand portfolio which will continue to be used separately from the group's brands, why not keeping the existing organisation e.g. an autonomous management in particular as regards filings and defence, and keep the local IP structure? Of course, said structure will be "integrated" into the group's IP network to ensure coordination and synergies. But things would be different as soon as there is no more strictly local and separated character as in the following examples:

- double brandings because there is a recurrent risk of filing “composite” TMs associating a brand belonging to the group with a brand and/or other elements belonging to the local subsidiary: whoever the applicant is such filings diluting the ownership of one entity on its trademarks must definitely be avoided;
- a local brand becomes global for the group thus a strategic asset with a much wider use: should it still be managed locally? Most probably not.

The preceding – and I could write much more from my various personal experiences – means that this is a changing and delicate issue not to be taken lightly.

D – <u>Risk evaluation and management</u>

Here the choice between Make or Buy is particularly sensitive: it is commonly admitted that zero risk options are almost non-existent (even if some persons tend to forget this in case an envisaged risk does actually occur) and that Manageable risk is requested as a result of legal analysis and advice. To answer this request properly the lawyers must very precisely know the company’s culture, in particular as regards its propensity to take risks or to avoid them as much as possible: this is a most difficult exercise for external counsels who do not live daily within the company; and to have this done internally a company must have real experts, including as regards “boring” matters such as prior rights searches: if not, it will totally depend on the expertise and advice of an external provider.

Whatever decisions are taken one must not bypass the following questions: Sort out the permanent tasks (i), Identify the strategic/added-value activities (ii), Think about the respective role of the head office and the subsidiaries (iii) and Ensure that Risk evaluation actually meets the company’s expectations (iv).

III – <u>Cost management: is it an appropriate criterion to choose between Make or Buy?</u>

As initially stated the Make or Buy dialectic is closely related to cost control issues. During the last 10-15 years more and more decisions within companies are taken according to financial criteria: “value for money”, “return on investment”, “fine tuning”, “cost control” and its twin brother “cost cutting” became established as golden (although “iron” could often be more appropriate) rules in all sectors… including IP departments.

Of course it is per se common sense to use as efficiently as possible one’s available resources and avoid wasting money; and some budget constraints or cuts can spur on the lawyers to more creativity and make them reconsider and drop “obsolete” activities or find cheaper alternatives with the same quality level.

The point is to determine who should take decisions implementing cost saving in IP management, in particular as regards the Make or Buy issue, and how far one can go without endangering the company’s rights further to an “only low-cost policy”.

In some companies the sharing out between Make and Buy, the negotiation of the fees of external counsels and even the selection of these counsels has been taken away from the internal IP department and handed over to “expert buyers”. In that case this means that the only driver is the quest for the lowest possible price – as one would do when purchasing sugar, oil barrels or cleaning services – without paying much consideration to the content and quality of the services since the decisions are taken by persons who do not and cannot know what an suitable IP service is and thus what its appropriate price might be; and one often notes that in such companies there is a related will to externalise IP management as much as possible since this activity is considered as a cost rather than an investment the amount of which should be lowered as much as possible.

One can easily figure out the dangerous medium and long term consequences of such policies: whereas the whole above orientation is (still?) uncommon, some elements thereof tend to be more frequent than before in many companies and this can be a real danger for the durability of IP rights and strategies.

Finally, before outsourcing – in particular for cost-cutting reasons – one must be aware that external providers will at best stick to the terms of the agreement signed with the company meaning that should any unexpected event occur (ex: the need to record a change of name before renewing a trademark) the choice shall be either paying often significant extra charges – whereas an internal department would, more or less easily, cope with such "accidents" – or abandoning rights, actions, options only for budget reasons. More than one rose garden can then turn into thorny bushes…

Giving (absolute) priority to financial considerations is a common trend those days; but facts are stubborn and ignoring the specificity and complexity of IP management can incur negative consequences on the medium and long term.

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In conclusion this Make or Buy issue should definitely not be considered as a pure administrative and cost management matter: it can be addressed properly only if the persons who take decisions have a clear, global and consistent IP management strategy for the involved company; in this spirit, even if they must be adapted to circumstances, the following principles are appropriate guidelines: (i) Permanent tasks should rather be performed in-house, (ii) Keep strategic/added-value activities in-house (iii) Define clearly the respective role of the head office and the subsidiaries and (iv) Ensure a proper Risk evaluation.

The biggest challenge is to avoid the prevalence of "dogmatic financialisation" and of short-termism in an area where continuity and consistency ensured by in-house experts still remain the best guarantees for an appropriate IP strategy safeguarding the company's business by maintaining its rights. The choice between Make and Buy must be made only according to the company's needs, priorities and possibilities and not because of today's "business fashions".

THE END

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