

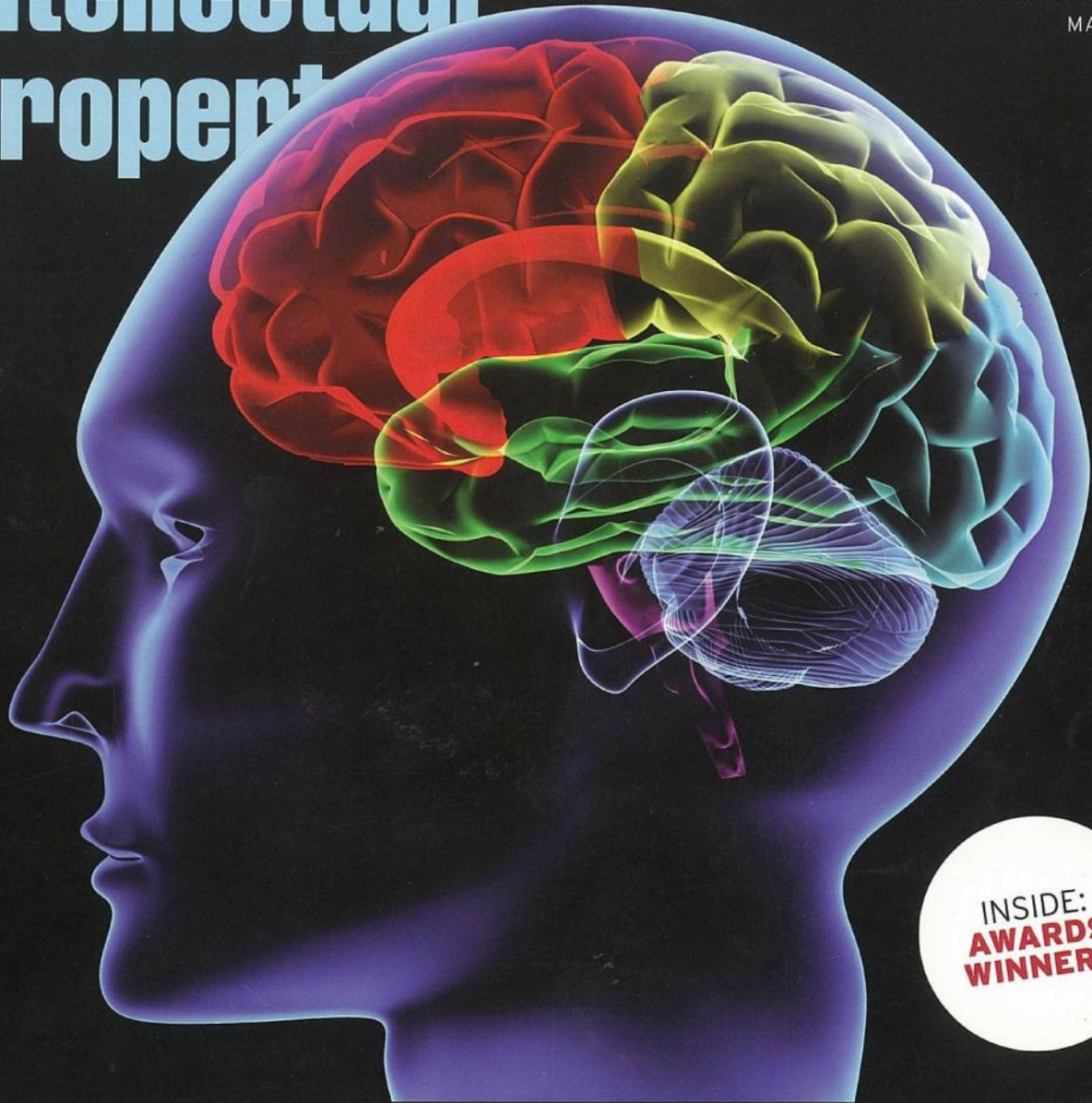
Managing Intellectual Property

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Companies worldwide have been affected by the global credit crunch. **Karen Abraham** and **Jyeshta Mahendran** of **Shearn Delamore & Co** look at what strategies brand owners can adopt to weather the storm

Managing IP in the credit crunch

When Malaysia welcomed the Year of the Ox, there was the hope that this would usher in a bullish market. As companies grapple with the financial and legal complexities that emerge from the global recession, they can see that if these complexities are corrected they can enhance the value of their IP portfolio. While corporations work on restructuring the business, IP owners should focus on strategy.

With the massive transformation of economies from manufacturing-based to knowledge-based, IP has become increasingly recognised as a key business asset of a company. There is increased appreciation of the value of innovation and of intellectual assets as a catalyst for economic growth. From the smallest of companies to the biggest multinational corporations, practically any industry depends on IP for sustainable growth.

Needless to say, innovation tied in with a strong IP management strategy is the main way to create a real competitive advantage in the market place. With the recession and deepening financial crisis facing countries around the globe, companies are under increasing pressure to cut costs and IP budgets are not immune from such measures. Companies often see IP as a cost centre and are more inclined to implement cost cutting measures to their IP portfolio including slashing research and development and IP protection budgets. Rather than scaling back on innovation and IP activities, companies should devise an IP management strategy which is more efficient and cost effective and at the same time maintains the competitive edge that it derives from its IP portfolio. This will strengthen the company's position when it recovers from the current economic turmoil.

The economic downturn has not spared Malaysia, with many small- and medium-sized companies and even the bigger conglomerates facing serious financial cutbacks and resorting to streamlining operation costs. In this shifting economic terrain, there is a need to reevaluate your IP portfolio and merge it strategically with your business. This will help identify IP assets that are relevant to its core business, prioritise innovations and inventions that are income generating and at the same redirect resources towards R&D activities that are more aligned with the company's business goals. Although the economic climate has pushed companies to operate within stricter economic boundaries, focus should still be on the long term business needs of the company. Possible ways for companies to strategically manage their IP portfolio in the current economic climate include: conducting IP audits, adopting an IP protection and registration strategy, looking out for commercialisation opportunities and tightening up enforcement methods.

Conducting IP audits

As the credit crunch continues to restrict budgets, an IP audit can be a good starting point for companies to identify and prioritise the IP components that are to be protected, maintained, exploited and enforced. An IP audit should extend beyond an ordinary legal exercise. Audits should be carried out periodically and should have the legal, technical and commercial strategy of the business in mind. It is essential that commercially exploitable IP is not compromised when downsizing or restructuring a business

Karen Abraham



Karen Abraham is an advocate and solicitor for Malaysia and South Australia. She jointly heads the intellectual property and IT department of Shearn Delamore & Co. She is president of the International Association for the Protection of Intellectual Property (AIPPI) Malaysia Chapter. Abraham's practice covers both litigation and advisory matters relating to IP and IT. She has crafted brand management programmes for leading multinational companies throughout the world. Abraham has also designed anti-counterfeiting and anti-piracy programmes and strategies for some of the largest local and global IP brands. She has actively advocated mediation of IP disputes in Malaysia and has been appointed to INTA's Panel of Neutrals. Abraham is also an accredited mediator of the Malaysian Mediation Centre and an associate member of the Chartered Institute of Arbitrators (UK). She is the author of several international publications and has been invited to speak at conferences organized by leading international IP organisations and associations, including ACG (UK), ASEAN IPA, AIPPI, ASIPI, APAA, INTA, IPBA, LawAsia and MARQUES.

Jyeshta Mahendran



Jyeshta Mahendran is an advocate and solicitor in Malaysia and has been called to the Bar of England and Wales (Lincoln's Inn). She is a partner of Shearn Delamore & Co and has wide experience in advising clients on IP related matters and in the prosecution of patent, trade mark and industrial designs for both local and overseas applications. She focuses primarily on all aspects of trade mark prosecution, trade mark searches and advises on registrability and trade mark opposition proceedings. Mahendran is a committee member of INTA's Trade Names Committee and is also a member of the Asian Patent Attorney's Association (APAA) and the Malaysian Intellectual Property Association (MIPA).

during a downturn. An audit will identify the tangible and intangible asset value of the IP assets of the company including the patents, trade marks, trade secrets and copyright that are core to the business.

At the same time, some of the assets of the company may have experienced a downward turn in value or may have no apparent value at all to the business and may be a waste of resources to maintain. Conducting an audit should help narrow down and provide a good indication of the assets that can be leveraged to generate additional revenue such as licensing,

services as a cost cutting measure, subject to the presence of any similar or conflicting marks.

This is also an opportune time for Malaysian companies to take advantage of government subsidies and grants. The market development grant and the brand promotion grant from the Malaysia External Trade Development Corporation (MARTRADE) are grants provided for the development and promotion of brands for products and services originating from Malaysia and for promotional activities in the export market. The MSC Malaysia Research and Development Grant Scheme provided by the Multimedia Development Corporation is another type of funding which is available to Multimedia Super Corridor status companies for R&D projects for the development of new information, technology and telecommunication products.

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franchising and exploitation through sales and joint ventures. Companies would therefore be able to better manage and optimise the intangible assets that are of value to the business.

Adopt an IP protection and registration strategy

Many companies fail to realise that the cost of protecting and maintaining their trade mark or patent rights may merely be a fraction of the product development, R&D, survey, marketing and branding costs that would have already been invested in developing the product. Although the economic climate will result in companies taking a more cost conscious approach by reducing defensive IP filings and maintenance fees, a balance should be struck by weighing the initial cost of developing a product or even a brand name against the risk of losing IP rights that may later prove to be valuable to the business once the company weathers the financial storm.

As commodity prices plummet amid the global financial crisis, the cost of filings and prosecuting IP rights may also see a conservative approach, as firms seek to encourage brand owners to maintain their IP portfolio.

Cost cutting measures put in place by IP owners can only be constructive upon examining the entire IP portfolio and evaluating the commercial value and relevance of the existing IP registrations in relation to the business. Pruning patent and trade mark registrations by identifying those which may be obsolete would not only reduce annuity cost but would indirectly reduce the administrative cost of monitoring the registrations. Foreign filing costs may be reduced by taking a more cautious approach, so that filings are carried out in selected countries depending on their future market potential, which includes factors such as size, effectiveness of enforceability and the presence of competition.

Although Malaysia is not yet a member of the Madrid Protocol, protection through the Community Trade Mark is a possible cost saving alternative to secure protection in the European Community countries. Patent filings through the Patent Cooperation Treaty (PCT) will also allow a company to stagger the filings in foreign countries depending on the growth and development of the specified market in relation to which the product will be marketed.

Malaysia has a unique situation whereby trade marks filed prior to September 1 1983 were registered under three separate registers of Malaya, Sabah and Sarawak. Trade mark owners having registrations in the three registers should reexamine their registrations and may choose to renew their registration in one of the three registers by selecting the registrations with the earliest priority date and with the widest coverage of goods or

Look out for commercialisation opportunities

IP assets can be monetised and turned around to generate revenue in the form of royalty payments and through assignment and licensing of trade marks and patents that have not been exploited. A patentable idea or know how can generate revenue streams not just through traditional routes such as sales of the products, but by leveraging on the licensing revenue of the product, by manufacturing and developing the product further and through branding and marketing efforts. A company may wish to divest its responsibility to manufacture and market its brand through licensing whereby the brand owner can focus on managing the brand, whereas the licensee can look after the operational and distribution aspects of the products or services.

Venturing into overseas markets may also be more cost effective through licensing arrangements by minimising cost and by widening the market. A licensing arrangement would allow the IP owner to retain ownership and maintain the necessary degree of control over the use of the IP by the licensee and at the same time extract some value from it.

An economic downturn may also present opportunities for companies to acquire IP at a lower price as many businesses and start-up companies with limited resources may discard their valuable IP in order to increase cash flow. As an alternative commercialisation strategy, IP owners may wish to consider commercialising and transacting the IP components within their IP portfolio instead of collecting royalties through the licensing of their IP. The purchase price of the IP would take into account the direct and indirect cost of developing the product or technology and should present a profit element to the IP owner, depending on market value of the IP.

Tighten up enforcement efforts

It is understandable that companies may take a more selective approach in being vigilant about enforcing their IP rights during a financial crisis that is shrinking legal budgets. This may set a bad precedent in the market place as to a company's recognition of the value of its IP. Counterfeiting and infringement activities very often escalate during these times as offenders try to make a quick commercial gain at the slightest opportunity. A relaxed attitude in enforcing IP rights can result in the company losing value in its IP as income leveraged may be lost, not to mention the dilution of the company's brands from unauthorised use of its trade marks.

IP owners should be prepared to invest in a vigilant enforcement strategy and not wait for infringement or counterfeiting activities to occur before reacting. A complete inventory of all the IP rights forming the company's intellectual capital should

be maintained in order to detect any unlawful violation of its IP assets.

Rather than embarking on a litigation suit at the first instance, which may be cost prohibitive during these times, IP owners can opt for preemptive measures like publishing warning notices in the media to publicly declare their proprietary rights. This forewarns the trade and public of the owner's seriousness in protecting and enforcing its IP rights. Sending a warning letter to the wrongdoer to immediately cease and desist from continuing the offending activities is another pre-contentious measure that can result in a self-funding exercise as damages and costs may be sought.

It is wise to keep a watch on market trends and to keep ahead of competitors. IP owners can conduct their own surveillance and investigation internally to secure evidence of exploitation of their IP assets. Brand owners can pool their resources by conducting joint raids as one of the means to share enforcement costs and attain favourable results.

The traditional route of enforcing rights through a civil action can cause protracted delays in the courts and high legal costs. A civil suit is appropriate when the identity of the offending party is known and would only be a wise option if the financial worth and assets of the infringer or counterfeiter are more than sufficient to pay out the damages and costs sought by the IP owner. Criminal sanctions may be a relatively economical option to IP owners whereby one can rely on the Ministry of Domestic Trade & Consumer Affairs whose officers are vested with the powers of search and seizure both for trade mark matters under the Trade Description Act 1972 and for copyright cases under the Copyright Act 1987.

If a trade mark used by an unauthorised entity is identical

to a protected trade mark, the Ministry can at its own discretion conduct raids based on a complaint by the owner. The Ministry can choose to prosecute offences under the Trade Description Act or may exercise its discretion to compound offences. In 2008 alone, the MDTCA conducted 2,537 successful raids under the Trade Description Act and 668 cases under the Copyright Act.

The Royal Malaysian Customs, the Ministry of Health and Town Councils are available enforcement arms which are also entrusted with battling counterfeits. IP owners can seek assis-

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tance from these government aid bodies in enforcement activities.

In surviving the current economic climate, companies should try to prioritise their IP according to the short- and long-term goals of their business strategy. Innovation still needs to be at the heart of a company's existence in order to sustain market share when the economy recovers. Companies can either respond by adopting a defensive wait-and-see approach or take a more proactive approach in search of opportunities: IP that may not have immediate value to the company can still be leveraged in order to strengthen the company's position in the future. Despite companies facing cuts in R&D, branding, protection, registration and enforcement budgets, the economic climate is still conducive for companies to capitalise on the cost saving and income generating measures that present themselves during difficult times.

Shearman Delamore & Co.

Advocates & Solicitors, Notary Public, Registered Patent Agents, Trade Mark Agents & Industrial Design Agents

Shearman Delamore & Co. is one of the oldest law firms in Malaysia and has evolved over the last 10 decades into one of the largest providing a comprehensive range of legal services to a broad scope of clients from private individuals to the largest multinational conglomerates. As pioneers in the field of IP in the country, we pride ourselves as having one of the largest and most established IP and Technology departments in Malaysia. Our legal team of 19 deals with a wide spectrum of IP and Technology law and undertakes both contentious and non-contentious work. Our Partners and lawyers in this area of practice maintain a close rapport with the relevant government officers enabling us to conduct swift and effective anti-counterfeiting and enforcement programmes throughout the country. Our law journals bear testimony to our role in precedent making landmark decisions in the High Court and the Appellate Courts in this Country.

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- Telecommunications
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