

IP Strategies for Start-ups



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Start-ups have often been recognised by their creative visions, out of the box thinking and bold strategies. It has been observed by industry experts, that start-ups are more likely to take a strategic market risks as compared to a well-established Fortune 500 company. Owing to this tendency, business model of start-ups tends to be more innovation centric.

Intellectual Property (IP) becomes a core asset for many of these start-ups and protection of the same takes paramount importance thus pleading the need for an efficient IP strategy and IP Management thereunder.

IP Strategy as depicted in Fig 1 is a step by step process starting with creation of IP, identification of the Portfolio, monetizing IP, valuation and IP Audit, structuring the IP assets bearing in mind the long-term targets of the organization as well as market dynamics.

It is prudent for start-ups to maintain and grow their IP portfolio post identification, protection and valuation of the same.

Speaking of the Indian patent scenario pertaining to start-ups, it becomes essential to refer to the criteria laid down by DIPP (Department of Industrial Policy & Promotion) for any entity to be qualified as a 'start-up':

1. more than five years have not lapsed from the date of its incorporation or registration;
2. the turnover for any of the financial years, out of the aforementioned five years, did not exceed rupees twenty-five crores; and
3. it is working towards innovation, development, deployment or commercialisation of new products, processes or services driven by technology or intellectual property.

There are however, certain limitations also placed on these criteria one of which being that if an enterprise/entity qualifying the

above-mentioned criteria is formed by restructuring or demerger of previously existing entities, the same would not qualify as a start-up. Under the amended Patent Rules 2016, several provisions have been introduced to encourage patent filings and in turn innovation by start-ups. Some of these are –

- **Discount in official fees:** Start-Ups are provided an 80% rebate in filing fees of patents vis-à-vis other companies.
- **Expedited examination:** Expedited examination can be requested by start-ups and entities for whom India is the International Search Authority. In expedited examination, it has been witnessed that after filing request for examination, applicants have received the First Examination Report just within a span of around three months. This in turn, accelerates the grant of patent and the right underlying thereunder.

Given that a lot of start-ups are focussed on innovation and technological advancement, it is advisable to file a provisional application in order to secure priority over the claimed inventions. In a scenario where there are multitude of competing technologies evolving every day, securing priority rights gives a considerable edge in the relevant market. It should be borne in mind that when the underlying invention relates to the field of life science or biotechnology, it is essential to showcase that the product or process invented is not a mere discovery. Emphasis must be put on the human intervention that led to such an invention.

In addition to filing an Indian provisional application, attempts can be made to secure patent rights in several jurisdictions, via either Conventional route or PCT (Patent Cooperation Treaty) route. It should be noted that start-ups, while opting for the PCT route, may consider selecting India as their International Search Authority (ISA) and International Preliminary Examination Authority (IPEA) owing to relatively lower official fees. Additionally, a start-up may look at filing regional application for cost-effective protection. For example- One single patent application for European Patent Organization (EPO) would render patent protection in more than 40 countries including major markets like United Kingdom, Germany, France, Italy, etc. Similarly, a single application made under African Regional Intellectual Property Organization (ARIPO) would secure protection in 19 countries in the same way as a single application under Gulf Cooperation Council (GCC) would in 6 countries.

However, before using any new technology for commercial use, it is essential that a thorough analysis of its freedom to operate (FTO) is undertaken. Freedom to Operate (FTO) is the ability to proceed with commercialization of a new product or process with a minimal risk of infringing the unlicensed intellectual property (IP) rights of third parties. FTO is usually used to determine whether commercialising a product can be done without infringing valid intellectual property rights of others. Since IP rights are specific to different jurisdictions, a “freedom to operate” analysis should relate to particular countries or regions where a start-up wants to operate.

It is further required to be aware of many regulatory compliance requirements with respect to Biological Diversity Act, 2002, Competition Act, 2002, etc. For example - Grant of patent in certain situations is subject to approval from National Biodiversity Authority or existence of certain restrictive conditions in a license agreement can be possible defences to infringement action. Compliance to these allied enactments is crucial as non-compliance in certain cases can lead to commercial loss.

Considering that for most of these start-ups, the major assets creation is that of intellectual property, carrying out thorough IP valuation would give an in-depth idea of the net worth of the technology created. IP Valuation is conducted using various methodologies including:

- **Quantitative Methodology**
For Example – Cost based method, Market based method, Income based method, etc.
- **Qualitative methodology**
Depending on life cycle of technology, geographical/ jurisdictional coverage, SWOT (Strength, Weakness, Opportunities, Threats) Analysis.

Further, it is a prudent idea to have multiple layers of IP protection. For example- For a novel device; the technology can be covered by patent protection, its aesthetic appearance can be covered by design protection, while its manufacturer can be recognized by trademark protection. It is pertinent to note here that with respect to software based inventions, copyright registration is usually not recommended owing to a requirement of disclosing the source code. However, existence of inherent copyright in certain works can be leveraged for enforcement in case of infringement.

An effective IP strategy would go a long way in increasing the valuation of an entity’s IP assets. Higher the value of IP assets, higher is the bargaining power an entity would have in any acquisition or merger. There have been numerous IP strategic acquisitions in the recent past. It is hence advisable for start-ups to develop a certain critical set of patent portfolio for effective traction and valuation.

Further, one of the best modes of commercializing IP for start-ups is to license it out. The License-out business model has gained a lot of traction for many of these start-ups. In this kind of business model, an inventor obtains IP protection but then licenses it out and the licensee is required to carry out the commercialization activities. Hence, start-ups themselves need not engage in activities like production and distribution. In this manner, inventor enjoys royalty based on commercialization carried out by the licensee. It is however essential to be wary of certain crucial aspects that come tagged with this model, the most important one being clear title of the IP licensed out. Although seemingly an obvious aspect, various potential litigations can crop up in cases on unclear title.

Lastly, it should not be forgotten that if there ever was an age of innovation and intangible assets, it is this! ■

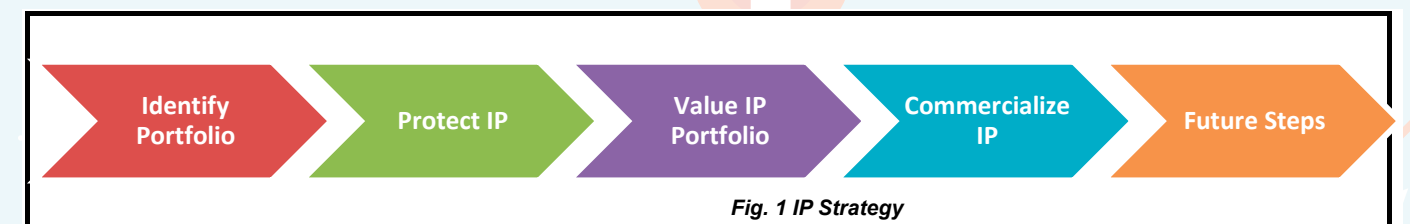


Fig. 1 IP Strategy