

Developing IP strategies for emerging companies in Taiwan

After years as the world's manufacturer, Taiwan is beginning to take its place as an IP player on the global stage. However, companies preparing to compete internationally need to have an effective IP strategy in place in order to avoid costly mistakes

By **Guy Proulx** and **Don Merino**

Although Taiwan is a relatively small country, it has long been an industrial powerhouse, known around the world for its high-technology manufacturing capability. Until recently, the island played a supporting role on the global corporate stage. Relatively few Taiwan-based companies traditionally competed on a brand-name basis in the international marketplace. Most were intermediate players – companies that other companies hired to manufacture products or components for brands based in other parts of the world.

This approach contrasts with that adopted in other Asian countries. Japan, for example, essentially excluded foreign companies from its marketplace for decades. Japanese companies built their brands domestically first and then exported them to the rest of the world. To this day, few outside companies have a strong presence in the country. South Korea, to some degree, has followed a similar path.

The Taiwanese, on the other hand, facilitated the development of companies from around the world. When Japanese companies looked to outsource the manufacture of their products, especially electronics, they often turned to Taiwan. As a result, Taiwan became an integral part of Japan's supply chain and played an

important role in helping it to develop what are now highly respected global brands. By embracing foreign investment, Taiwan built a manufacturing infrastructure and the technical capability to produce a high volume of complex products, albeit for third parties. This, to a certain degree, allowed Taiwanese companies to under-invest in intellectual property because as contract manufacturers, the technology that they used was somewhat old and, just as significantly, they were indemnified for the designs of their customers.

Over the past decade, Taiwan's approach to the global marketplace has begun to evolve. While there were almost no global Taiwanese brands 15 years ago, Taiwan-based entities – from small-scale start-ups to global technology giants – have begun to reposition themselves and embrace new, more aggressive business models. Increasingly, they are building their own brands and competing in international markets.

However, this transition has met with a critical obstacle. As contracted manufacturers or mid-chain providers, Taiwanese companies traditionally did not need to develop their own intellectual property. However, to compete in the global market they must amass, maintain and strategically position a comprehensive IP portfolio. This is no small challenge, of course, but companies in Taiwan increasingly recognise the need for strategic IP management and are working hard to catch up with foreign competitors.

Invention gap

Taiwan's transition to international brand building is reflected by a growing number of companies – such as HTC, ASUS, Taiwan Semiconductor Manufacturing Company Ltd and even bicycle maker Giant – which are well known and highly regarded around

the world. But as new brands grow, so does their vulnerability to patent suits. An intermediate player that manufactures products for others can easily fly beneath competitors' radar. More to the point, if a company does not have a brand-name product of its own, patent battles are largely someone else's problem. However, once the company takes the meaningful step of manufacturing products under its own flag, everything changes.

Taiwan's manufacturing capacity and technological prowess have enabled it to bring a range of innovative products to market, and quickly. But given their relative inexperience regarding intellectual property, Taiwanese companies have not been as fast to acquire the patents needed to protect their products in the marketplace. This so-called 'invention gap' – the space between the patents a company has and those it needs – is critical and should be the

primary focus for strategically developing a patent portfolio.

Regardless of a company's size – be it IBM, Apple or Samsung – everyone has gaps in their patent portfolio and must develop ways to overcome them. For emerging companies, this challenge is particularly pointed. They usually have fewer patents, less experience and less money than key competitors. However, if these businesses are smart and use their resources wisely, it is possible for them to protect themselves in the short term and buy time to amass the IP assets that they will need to compete internationally for years to come.

To do so, an emerging company must develop and maintain a long-term IP strategy that reflects and supports its business plan, identifies and minimises IP risks and plots a course to a strong market position. As more Taiwanese companies prepare to enter global

Three ways to build a patent portfolio

As well as building your own strategic patent portfolio, companies can buy it from someone else or partner with other enterprises. Depending on the company's size, industry, personnel and technology, one approach or other may dominate, but all should be considered. Selectively incorporating all three can accelerate timelines, counter competitors' actions or enable entry to new markets. Understanding the full range of options is critical to new or emerging companies that usually have to do more with less and compete against larger players.

Build

Most companies initially build their portfolio through patent applications to protect new innovations or ideas before products enter the market. Unfortunately, this is where critical errors are often made. If the company is working without a long-term patent strategy, it may pursue patents at considerable expense that are ultimately of little strategic value to it. Filling portfolio gaps is more than determining how much to spend on developing a portfolio – it is about ensuring that the resources dedicated to growing that portfolio are spent wisely. The patent prosecution process takes several years to complete. If a company is looking to enter a particular market space in three years, it does not matter how many patents it files now. None of them will issue in that timeframe and, as a result, none will protect the company from, or be infringed by, major

industry players.

A key aspect to building a patent portfolio involves reviewing its internal patent development processes. Deciding what needs to be patented – the step-by-step decision-making process used to determine what applications it will file – is integral to determining whether the portfolio is in sync with the company's short and long-term business strategy.

In order to build its patent portfolio successfully, a company must flesh out exactly what is required in a patent and what it will offer in terms of long-term value. Doing so will help it to focus on exactly what it should consider as it continues

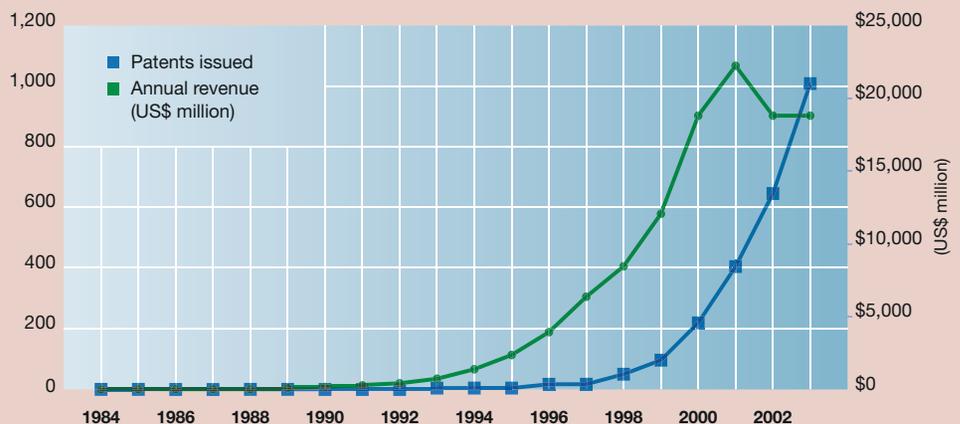
to innovate and/or conduct research and development for future products. This type of self-scrutiny is just as important for small and medium-sized companies as it is for major corporations. Be advised: building a portfolio takes a significant amount of time. The chart shows how long it took Cisco to develop its own 'homegrown' portfolio.

Buy

A faster way for a company to overcome or at least minimise its invention gap is to acquire patents. Doing so buys time to build the portfolio internally and also helps to accelerate the build-out process.

Fortunately, there are plenty of patents

Chart 1. Cisco



markets in their own right, they must assess their patent holdings, compare them to the assets of key competitors and establish a detailed IP strategy.

This is especially important in the global electronics/technology space, which has been supported for decades by Taiwanese suppliers – some of which are looking to combine their manufacturing expertise with recent home-grown technological developments to create new, brand-name products of their own. For some, the ascent to independent recognition can occur relatively quickly. HTC, for example, was able to leverage and combine Android software and a Qualcomm-supplied chip with its own designs to become – in relatively short order – a major player in the global handset market.

Yet for all its success, HTC is also a cautionary tale: the company entered the market quickly, without a robust portfolio

and vulnerable to patent litigation. It was forced to go toe to toe with Apple in a number of costly, high-profile patent infringement suits. Other Taiwanese companies would be wise to heed the example and construct a defensive strategy before entering a new market.

Strategic approach

Almost all IP litigation is defensive in nature. The Apple-HTC litigation – which led to a licensing agreement between the two parties – may appear on the surface to be an offensive measure on Apple's part, but it was actually a defensive tactic. Apple was simply protecting its market share. While HTC certainly deserves praise for the action it took once the litigation was filed – including aggressive steps to buy key assets to help shore up its position – this came at great expense and was difficult to do. Had HTC assessed its competitors' IP holdings

to be had – often at affordable prices – if you know where to look. Around the world, technology start-ups fail every day. Countless factors can cause the failure of a fledgling company, and many have nothing to do with the quality of its technology or its intellectual property. IP specialists with a broad field view, an eye for value and an understanding of a business's strategic needs can help to find and acquire patents that meet a company's specific needs.

Acquiring a targeted patent portfolio can sometimes pay handsome dividends, in addition to the IP protection that this provides. Take, for example, Broadcom Corp, a US-based semiconductor company serving the wireless and broadband communication business. In 2002 Broadcom bought 50 wireless LAN and communication patents from Unova Inc for roughly US\$24 million.

In 2007 Broadcom sued Qualcomm for patent infringement after being hounded to pay licence fees, claiming that it wanted “design freedom”. A number of lawsuits and counter-suits occurred and Broadcom ultimately asserted the patents that it acquired from Unova. After years of legal wrangling, Broadcom came out on top and Qualcomm was ordered to pay US\$891 million as part of the settlement. Without the Unova patents, the case could have easily gone the other way. Equally important, the award also extricated Broadcom from potential follow-up lawsuits by Qualcomm.

Patent litigation is a lot like a duel. In

this case, an aggressor company gets to shoot first and, if it misses, to reload and shoot again. However, if the defending company can buy or develop patents to assert, then it gets to shoot back. Broadcom, armed with the Unova patents, shot and hit. Without that bullet, Qualcomm would have been able to reload and shoot again and again. Broadcom bought the Unova patents to upgrade its portfolio quickly. It worked – and made Broadcom a tidy sum of money as well.

Partner

Partnering with established global entities has been Taiwan's economic driver for decades. One of its best-known global brands – Taiwan Semiconductor Manufacturing Company Limited (TSMC) – was formed as a partnership between Taiwanese government research group ITRI and Philips, the Dutch multinational engineering and electronics conglomerate headquartered in Amsterdam. Philips invested in the company and contracted with it to manufacture its proprietary chip designs. Other semiconductor chipmakers followed suit and TSMC's lucrative chip foundry business was born. What is fascinating about this partnership is that TSMC negotiated to use Philips as a patent umbrella – in that Philips negotiated patent licences that would cover TSMC so long as Philips maintained a certain ownership stake.

There are many other partnership models as well. A company in the same IP

ecosystem can offer its product through a supplier, a vendor or even a customer. Take an Asian company that develops a new handset and wants to enter the US market, but does not have the patent protection to do so. It may, for example, offer the device to US carriers both large and small as a private brand. Since the carrier is likely selling a competitor's device as well, it is much less likely that the competitor would sue its private brand handset maker for patent infringement because it would upset its business relationship with the carrier.

A partnering option well worth exploring – particularly for start-ups and medium-sized companies – is to establish a patent development programme with a university. A common problem with any company is dedicating already scarce resources to patent development. Partnering with a university can speed up the process of filing patents and building out the company's portfolio. A company looking to develop a new product or products, for example, identifies (or has a third party identify) a university or universities with expertise in a particular area. With the company providing the start-up funding, the university then develops patents and intellectual property on its behalf. In addition to funding the research, the company usually agrees to harvest the invention, file the patent applications and, if the project is successful, share a percentage of the revenues – a classic win-win scenario.

and identified potential threats before entering the market, it could have done a better and more efficient job of minimising or mitigating the Apple litigation.

In fact, Apple itself applied precisely that strategy before it entered the smartphone market. Apple had a 30-year history of computer patents to protect the computing functions of the iPhone, but was new to telephony. So, just before introducing the new product line, it negotiated a multi-year licence agreement with one of the world's largest wireless technology companies, US-based InterDigital Inc. The licence agreement, executed in 2007, provided wireless technology for the iPhone and future mobile phones. Instead of leaving itself open to possible patent infringement litigation, Apple thus assessed the marketplace, identified a potential IP vulnerability and resolved the issue before entering that market.

Identifying a company's invention gap and building a strategic portfolio to address it is not easy, but with the right expertise it need not be a totally daunting process. To start with, a company must consider its business objectives and determine how the assets will be employed. A strong portfolio can enhance its market position, protect its R&D programme or help it take advantage of commercial opportunities by entering a new market. If the company chooses to exit a market, it may also choose to assert or license its portfolio to generate new revenue streams.

An intermediate Taiwanese company looking to transform itself and establish a new global brand must assess its current holdings and determine each patent's long-term strategic value. Further, new patent filings should be based on market analyses that identify and rectify IP shortfalls which could hinder market access, present specific jurisdictional concerns and suggest potential alternatives to market obstacles.

Creative planning

Once a company has established what it has – and what it needs – it must hatch a new plan. Strategic portfolio management encompasses much more than just better focusing innovation capture and patent prosecution processes. There are all manner of ways in which an emergent company can parlay even a weak portfolio into market success, but all require vision, expertise and clearly defined goals.

Existing patents or strategic acquisitions that read on competitors' technologies can provide shelter and buy time as a company acquires new patent assets or waits for

new patents to issue. For example, PC-based technologies are increasingly found in tablets and smartphones. A decade ago, the market for these technologies consisted only of PCs and mobile handsets. However, today the industry lines have blurred. Therefore, a Taiwan-based company that supplied the PC industry with components for the past two decades may possess patents that now read on many other products, making them much more valuable than the company may realise.

Strategic patent acquisitions can, of course, be especially challenging. First, the company must outline the specific patents that it wants or needs to acquire and why. That in itself is no easy task and there is no guarantee that such patents will be available or affordable. In some cases, acquiring patents for a strategic counter-assertion is an easier, more practical option.

Consider the global LED market. There are currently three primary LED technologies, each dominated by a different company. Two of the companies are relatively open to licensing, while the third – Nichia Corporation – will license its technology only to certain enterprises. That company obviously wants to maintain its dominant position and limit the number of licensees. But if it will not agree to a licensing deal, an enterprise looking to enter the LED space is essentially shut out of one-third of the market. Nobody will invest in a product line that employs that particular LED technology because of its inherent IP liability.

Therefore, to enter the LED market fully, a company must figure out a way to build out and leverage its portfolio to effectively force the LED firm to the negotiating table. One solution – which is possible, but difficult – may be to identify and acquire patents that read on the LED company's products and then file a patent infringement suit against it. The LED licensing or cross-licensing deal would then become part of the settlement.

Such an approach was executed successfully by Seoul Semiconductor Co Ltd, which acquired IP assets through a non-practising entity (NPE) as a third party. It used this type of approach rather than negotiating on its own to reduce its overall asset costs. Essentially, the NPE was not a well-known, global competitor and purchased the assets at a lower price. Once Seoul Semiconductor acquired the assets, they were used in an infringement assertion that ultimately led to a licensing arrangement with Nichia Corporation in 2009.

A company thus needs to:

- Identify the various potential uses of

Action plan



To minimise IP risks and plot a course to a strong market position, an emerging company must:

- Examine and list its business objectives.
- Establish its invention gap – the space between the patents that the company has and those it still needs.
- Develop an IP strategy, which may include building the patent portfolio internally, acquiring patents, seeking out and executing licensing agreements and/or developing strategic partnerships.
- Continually evaluate and maintain the patent portfolio. Patent acquisition and divestment requirements will almost certainly change as business objectives and markets continue to evolve.

the patents in its portfolio.

- Evaluate the patents it is prosecuting and why.
- Determine what it still needs.
- Isolate the patents it can divest or stop maintaining, as necessary.

In other words, a comprehensive IP strategy must be in place. However, that does not mean the work is over.

Stay proactive

For a truly strategically oriented company, the patent portfolio must be continually re-evaluated and, when necessary, adjusted. This is especially true for any companies looking to enter new international markets. These organisations' patent acquisition and divestment requirements will almost certainly change as their business objectives and their markets continue to evolve – especially in the electronics space.

Portfolio evaluation and maintenance is an ongoing process. If a company is filing patents on its own, either to introduce a new product to the market or to strengthen its

defences before entering a new jurisdiction, it should revisit its portfolio at least once every quarter. Maintenance requirements, especially the often-overlooked patent fees, also require special attention.

As the global IP landscape continues to evolve, Taiwan-based enterprises are taking a more advanced look at their IP strategies and their IP holdings. Many are choosing to improve their portfolios through better patent filing processes, better management of their existing patents and greatly improved patent acquisition strategies. However, they still have ground to cover.

Taiwan's manufacturing legacy and technological sophistication have enabled its companies to emerge as nimble innovators. However, developing and maintaining strategic practice portfolio management practices is what will truly allow them to compete equally on a global stage. **iam**

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