Novagraaf

Best practices in trademark auditing

A practical guide

About Novagraaf

For more than 130 years, Novagraaf has been helping iconic brands and innovative organisations around the world drive competitive advantage. One of Europe's leading IP consulting groups, Novagraaf specialises in the protection and global management of IP rights, including trademarks, patents, designs, domain names and copyright. Headquartered in the Netherlands, Novagraaf has 18 offices worldwide and a powerful network of more than 330 specialists. Part of the Questel group, Novagraaf is unique in our ability to provide tailored legal expertise, efficiency-gaining administrative services and proactive commercial insights across the full life cycle of clients' IP rights.

Find out more at **www.novagraaf.com**

Identifying what you own and checking records for accuracy is an important first step in laying the foundations for maintenance, consolidation and IP growth.

Many companies estimate the health and relative worth of their IP portfolios based on size alone. However, those IP rights will be worth far less if the checks and balances set out in this white paper aren't also considered. A thorough audit of your trademark assets could help you to identify ways to streamline and exploit your portfolio, saving you money while also improving the efficiency of your assets.

Why undertake an IP audit?

While IP professionals understand that trademarks are valuable assets, the challenge comes in quantifying that value for the wider business and using it as a springboard for growth. Part of this is due to the difficulty of accurately capturing the value of a trademark or portfolio of trademarks to a business. After all, if you are unable to put a figure on the financial value that you derive from that asset, how can you convince colleagues elsewhere in the company to prioritise IP in their business or product strategies? The difficulty of truly capturing added value has led many organisations to consider trademarks to be a cost centre, rather than an asset that drives value and profit to the bottom line. This is despite the fact that it is possible to turn the cost of IP acquisition into a profit by realising the value of the resultant IP on the balance sheet.

Before you can value or exploit IP, however, you need to first know what it is that you own and also verify that those rights are valid and enforceable; for instance, by checking that they are in use and their records (title) have been kept up to date. Just as importantly, audits will also identify any potentially damaging gaps in coverage, such as products or services that haven't been properly protected, geographical coverage that may be missing or, opportunities to update the existing portfolio in light of legislative changes (e.g. EU trademark reform) or, even, political changes, such as Brexit.

Undertaking an IP audit will also enable you to consolidate your rights and agreements by providing you with a clearer picture of your IP assets, and their respective strengths and weaknesses. Similarly, it will provide the opportunity to refocus IP holdings in light of your future business strategy; for example, by ring-fencing key (or 'core') IP rights and identifying less strategic or unused rights that may no longer justify the renewal fee.

Other reasons to undertake an IP audit may include:

- The purchase and/or sale of (individual) business units (due diligence);
- Setting up a licensing programme;
- A substantial change in legislation (e.g. Brexit);
- An initial public offering; and
- The desire to centralise your assets.

Breathe new life into your trademark portfolio and management strategies with an IP audit.

How to approach an IP audit: a step-by-step guide

We typically find that many companies can reduce their spending on IP matters and ring-fence the strength of their rights by auditing their IP portfolios, using the following three-step process.

STEP 1: Review your IP records and data for accuracy

The data in your IP portfolio needs to be accurate and up-to-date, otherwise you may find that you don't quite own the rights that you think you do. Taking the time to cleanse, update and rationalise your IP data can save you both time and money in the long-run, as it will identify potentially costly errors in the records.

The extent to which companies are diligent (or are able to be diligent) in the maintenance of IP and IP records can vary considerably. If your company has followed best practice, either as a matter of ongoing routine or as part of an acquisition or sale, then your portfolio should be in good shape. If rights have not been kept up-to-date, however, then they could be at risk in terms of validity and enforceability.

Of course, updating records is generally a time-consuming and often costly process, bound as it is by the cleanliness of the existing records and the vagaries of each jurisdiction's recordal system.

However, there are steps that companies can and should follow to smooth the process and minimise the demands on their internal resources. To achieve this, the audit should ideally answer the following questions in relation to the IP assets being acquired:

- Exactly which entity is recorded as the owner of each right?
- What is the status?
- Are the rights in force?
- Are licences in force and recorded against any rights?
- Are charges or other interests recorded against any rights?
- Do the registered rights match those used in the business?
- Are there any unregistered rights?

Obtaining the answers to these questions in advance enables effective planning for any record updates that are required.

STEP 2: Audit your IP portfolio for ROI – and efficiency

The next step of the IP audit should be to assess the value of an portfolio against the costs involved in growing and maintaining the IP rights it contains. It helps to identify, for example, trademark rights that are being renewed despite never being used, as well as gaps in protection, which might leave a company exposed.

To undertake this part of the audit, we would first recommend:

- Reviewing your trademark strategy to ensure that it takes into account your strategic business goals (for additional guidance, please see our white paper 'Best practices in trademark management: A practical guide');
- Prioritising your IP rights (e.g. between 'core' and 'non-core'), and markets (countries and goods/services) based on current branding/product strategy and future plans;
- Auditing licensing and royalty agreements to ensure that the rights have been correctly maintained and the revenues received; and
- Reviewing your supplier list to see if it is possible to generate further cost savings by consolidating your IP portfolio with one provider.

Now that the Brexit transition period has officially begun (ending 31 December 2020), it's crucial for businesses with a presence or activity in the UK to identify any rights that may be impacted by the country's exit from the EU. Although EU trademark and design rights will be cloned automatically (and at no charge) to equivalent UK at the end of the transition period, there are still steps that brand owners will need to take. Knowing which of your rights – including unregistered rights, and associated IP assets, such as contracts and licensing for example are likely to be affected is the crucial first step to putting a strategy in place to ensure your rights aren't affected once Brexit is complete. *(For further guidance, please download our 'Brexit and IP Checklist' at publications.novagraaf.com, or speak to your attorney for up-to-the-minute advice.)*

STEP 3: Put a timeline in place for regular IP health checks

Completing an IP audit is only the first step in what should be a regular programme of portfolio reviews. By conducting audits at regular intervals (ideally at least every six months), you can ensure that your portfolio continues to evolve as your business does, and it could also identify additional savings in the future; for example, by:

- Merging registrations;
- Allowing possible duplicate (local) registrations to lapse; and
- Identifying unexploited rights that could be sold, licensed or allowed to lapse.

This last step will also be crucial in light of possible changes to trademarks and designs in the UK and EU in the future, as well as additional risks and opportunities offered by territories that may become important in the future; for example, should you wish to expand your activities in countries such as the US or the People's Republic of China.

For further information or support, contact us at customerservice@novagraaf.com.

Need to know: IP audits

Why undertake an IP audit?

IP portfolios typically include:

- Rights that are no longer active, e.g. acquired:
  - for products that have been discontinued, renamed or redesigned;
  - during merger or acquisition;
  - by previous heads of IP or R&D.
- Oversights which leave the company vulnerable, e.g.:
  - IP acquisition has not kept up with business activity;
  - Core rights that are isolated/not monitored;
  - Rights that are out of date or incorrect.
- Duplicate registrations that could be consolidated to save budget.

How will undertaking an IP audit help?

Audits address key concerns, such as:

- Do you own what you think you own?
- Are you paying to maintain rights you no longer need?
- Are your core rights appropriately protected, maintained and enforced?
- Are there gaps in coverage that may leave you vulnerable?
- Are there deficiencies in the records that may undermine the validity of your rights?
- Are you missing out on IP licensing royalties?
- Or... are you in breach of in-licensing terms?
- Do you have the information at your fingertips if you need to react to infringement or infringement actions against you?
- Does your IP portfolio reflect the state and future plans of your business?

Key benefits include:

- Cost control:
  - Identify unwanted/duplicate registrations;
  - Centralise your assets.
- Certainty:
  - Shore up holes in protection;
  - Correct errors in records.
- Get your records in order:
  - Act quickly once infringement is spotted;
  - Prepare for due diligence, e.g. sale/merger/IPO.
- Make your rights work harder:
  - Set up a licensing programme;
  - Link your assets to your business plan.

Where to start

1. Inventory your assets:
   - What are they and where are they held?

2. Prioritise your assets:
   - 'Core' rights: deserving the highest levels of protection/investment (e.g. your company name/key products)
   - Non-core rights (e.g. nice to have)
   - Duplicate rights (e.g. between national and EUTM)
   - Unused or isolated rights (should be sold/licensed or allowed to lapse)

3. Check your records:
   - Are they up-to-date and appropriately maintained?
   - Is the data correct and the chain of title clear?
   - Begin with core rights and move through the portfolio in order of priority

4. Plot against your business:
   - The markets in which you manufacture, trade and transport your goods
   - Your product and service areas (old, existing and future launches)
   - Areas of risk (e.g. counterfeiting/grey market; competitor activity)
   - Your strategic business goals

5. Identify gaps in protection and vulnerabilities:
   - Prioritise action to fill gaps/ring-fence core rights
   - Update associated watching/monitoring and infringement strategies
   - Audit licensing and royalty agreements to ensure rights have been correctly maintained and revenues received

Look out for:

- Opportunities to save budget:
  - Duplicate registrations that could be merged
  - Unexploited rights
  - Large sums spent on non-core assets
  - Potential to benefit from economies of scale (e.g. by consolidating your portfolio with one provider)

- Areas where you may be vulnerable:
  - Key markets where you are not protected/your rights are due to expire
  - Assets that have not been, but should be, protected (e.g. important design features on product packaging)

- Core rights that may be exposed, e.g.:
  - unused/isolated trademarks
  - no watching/monitoring activity
  - competitor/infringement activity that has been left unchallenged

- Rights that are inaccurate – e.g. not updated following transfer

- Rights that need to be transferred from another party, e.g.:
  - who registered your domain name
  - who designed your branding/logos/website/brochures/packaging etc.

- Rights that are vulnerable to infringement action, e.g.:
  - unused trademarks
  - trademarks registered without trademark searching (likewise patents)

- Licensing/joint ownership contracts where:
  - rights have not been appropriately maintained
  - contracts are not being enforced
  - royalties are unclaimed

- Manufacturing/distribution contracts, e.g.:
  - ensuring safeguard of trade secrets
  - adherence to licensing terms etc.

- Problem zones - e.g. countries where counterfeit goods are being manufactured/transported

Next steps:

- Review audit findings and prioritise your activity
- Update/create your IP strategy
- Review/create your IP budget
- Focus on key problem areas, e.g.:
  - Create a plan for action should your IP rights be infringed (if you have had a problem with copying in the past, start with that)
- Schedule regular IP 'health checks', so that your portfolio and planning evolves as your company does

How Novagraaf can help

- We work with our clients to help them to audit and rationalise their portfolios:
  - We employ a structured audit methodology to assess the value of a portfolio (see p8)
  - Covers all forms of IP right
  - Can be tailored to specific needs, e.g.:
    - cost cutting
    - due diligence ready for purchase/sale
    - change in ownership
    - IPO
- Able to check against official records to ensure accuracy of rights
- Kick-start your audit using our client audit questionnaire

Adding value to trademark audits

The next step in any trademark auditing process should be to put an actual value on your brand assets. We all know brands are important and valuable to a business, but in today's budget-focused boardrooms, trademark attorneys need to show that the legal rights that protect those brands aren't unnecessary costs, but instead add value to the business. Of course, that's easier said than done.

Defining the what

In measuring value, the first step is to define what we are seeking to place a value on. In this context, a brand is a marketing-related asset that may include names, terms and logos intended to identify goods, and create distinctive images and associations in the minds of stakeholders, thereby creating economic benefits for the owner.

How we measure that brand's value depends on the purpose for the valuation. Purpose dictates the premise (or basis), and that, in turn, dictates the method – and different methods produce different results. For example, is the valuation driven by strategic planning, financial reporting, dispute resolution or due diligence? Each of these will result in a different valuation premise and methodology – for instance, the desire to capture market value, as opposed to investment value or liquidation value.

Legal protection through trademark (and other) registrations has touch-points throughout valuation calculations, no matter which methodology you use; the stronger and better managed that the trademark portfolio is, the higher the value of the brand may be.

The question of why

For trademark attorneys involved in valuing brands (as opposed to accountants), the 'why' should come before the 'how'. Some of the most common reasons for undertaking a valuation exercise include: portfolio disposal or acquisition, preparation for an initial public offering (IPO), transfer pricing, IP licensing and IP securitisation. Each of these will require a different valuation method, or combination of methods.

But brand valuation is important at any stage of a brand's life cycle, not just when it comes to a restructuring or sale. Any company needs to see that it is getting a return on investments made, and investment in IP protection is no different to an investment in new plant or manufacturing capabilities. It's just more difficult to articulate or quantify.

Of course, investment in protection is only one aspect of outlay in a brand, which could also include, for example, marketing and PR activities to increase awareness. Although a brand valuation will not necessarily prove that the investment in protection is the factor increasing or decreasing brand value, it will always be a factor.

There are instances where a strong brand protection policy has been undermined by bad publicity, which has a negative effect on brand value. Equally, a strong brand can be undermined by an inadequate trademark protection strategy that prevents the brand owner from, for example, expanding to new countries or new product ranges because someone else owns those rights. There are also cases when the value of a company acquisition rested almost entirely with the IP assets being acquired.

Trademarks matter

As with many industries, the functional differences between products and services have been narrowed to the point of near invisibility. It is intangible assets, such as brands, that provide the basis for establishing meaningful differences between apparently similar offers. Of course, a brand is more than just a trademark but, without trademark protection, a brand is potentially worthless.

There are numerous methods of analysing the strength of a trademark portfolio. For valuation purposes, it is important that the method used can be replicated and that an awareness of competitor behaviour is incorporated into the methodology. For example, Novagraaf's 4W methodology *(Who, What, What for, Where?, see p8)* measures trademark value by assessing the extent to which a company's core brands are strategically protected by trademark registrations in key markets and territories, as well as the comparable strength of those registrations.

Trademarks – cost or investment?

Trademarks and associated forms of IP are the one constant in brand creation. A product's name, the design and colour of its packaging, and the corporate logo are not just marketing tools – they are legal rights which can bring great benefits and growth when nurtured and used properly. Yet, they can often be overlooked in the rush to market, or simply considered a drain on resources – an outgoing cost to the business that seems to bring in little return.

That's why it's important for a business to be able to showcase the contribution made by trademark assets to brand strength. We all know that a strong, well-managed registration portfolio has a direct influence on brand value, and therefore business value. Valuation of that asset can also unlock its true worth, and show that the right trademark registration strategy is an investment, not just a cost. ■

4Ws: Who, What, What for, Where?

Novagraaf has developed a tried-and-tested methodology (the 4Ws) to undertake IP audits and measure trademark value, assessing the extent to which a company's core brands are strategically protected by trademark registrations in key markets and territories, as well as the comparable strength of those registrations.

The approach also covers such factors as scope of coverage, effective use of trademark registration systems, ownership and portfolio consistency. The service has been specifically designed to provide businesses with greater insight and clarity into the brand and trademark valuation process, via a robust and transparent methodology, and clear advice on how to identify and remedy the issues that may be undermining asset value.
Find out more at **www.novagraaf.com**.

Get in touch

Novagraaf regularly undertakes IP audits for customers, helping them to assess the efficiency of their rights, to identify gaps in coverage and to highlight areas where they could save costs. You can find out more about this service and our methodology by speaking to your Novagraaf consultant or contacting us at **customerservice@novagraaf.com**.