



Safeguarding your intellectual property in consulting service arrangements

By Albert Ferraloro

Companies are more readily recognising that intellectual property (IP) is a key business asset that needs to be managed just like any other important asset of a business. When properly managed, such IP has the ability to safeguard proprietary technologies, help maintain a competitive advantage, attract interest and investment, and often enable different income streams to be realised.

Whilst the value of IP is often more easily appreciated in companies where technology development and manufacturing activities are prevalent, companies in the consulting and service provision space should not underestimate the importance of IP to their businesses. For example, the ability to apply a core IP solution or process across a range of clients or to establish a sustainable competitive advantage over rivals can be key to the long term success of a specialist consulting firm.

Different service companies will of course face IP issues specific to their areas of expertise, client base and business circumstances. There are however some simple practices and considerations that such companies should note when entering into service arrangements to ensure they maintain control of and can continue to extract value from their important IP assets in future business endeavours.

- Service terms and conditions (T&Cs)

Carefully review any service T&Cs a client puts forward or which may exist as fine print on the back of contract documents and understand the rules that apply around ownership and access to IP rights that are relevant to a project. Whilst a client's 'going in position' may be to strongly suggest that their IP T&Cs need to be accepted, such terms are typically negotiable, so don't be afraid to stand your ground and negotiate more favourable provisions.

Be particularly wary of T&Cs that require an assignment of all IP in any project deliverables as this by default may include rights to some of your proprietary background IP. Ensure that any subsequent contractual documents are also reviewed as these sometimes include different T&Cs that may supersede formal or informal arrangements that were previously agreed (e.g. T&Cs that accompany subsequent purchase orders as these may issue from a different department than that which requires your consulting services).

- Background IP

Take steps to suitably document the nature and extent of any existing IP that will be used on a project before the project kicks off. This is effectively an IP identification and capture exercise and may involve formal invention disclosure documents, design notes and an IP register to record the existence of relevant proprietary IP assets at a particular point in time (NB. a good IP management practice to adopt more widely). Such an exercise is particularly important where different or perhaps less favourable ownership or access rules may apply to any subsequent project IP that is developed.

Where possible, access to any background IP required to enable the client's subsequent application of project IP should be restricted to use in a specific project.

- Project IP

Certain project IP that is developed may have significant value for your business and so automatically assigning any rights in this IP to a client may not be in your best interest. Accordingly, be sure to understand the IP ownership and access rules that apply in respect of any project IP that is developed as a result of the delivery of your services. Even in cases where a service agreement is silent about IP ownership and the underlying principle that '*improvements belong to the improver*' appears to apply in your favour (even where the improvements are made within the scope of an agreed engagement), it is preferable to explicitly clarify any expectations around IP ownership and access so these are clear for all parties. Project IP arising as a result of creative input from multiple parties is a particular circumstance which benefits from clearer explicit provisions around IP ownership and usage.

Some clients will initially perceive they require ownership of all project IP arising, when in fact all they actually require is the freedom to use the project IP (and sometimes some related background IP) to realise the benefits of project outcomes in their commercial activities. Such a distinction may offer some way forward in negotiations about who should own project IP. Any such negotiations do however need to be had in the context of the commercial significance of a project as relinquishing some IP ownership and access rights may be acceptable to a service provider in specific circumstances.

Similar to background IP, any project IP developed throughout an engagement should be captured using suitable means, taking particular note of the people involved and the circumstances that lead to a solution being conceived, such that there is an accurate record of the IP assets developed as part of an engagement.

- IP warranties and indemnities

It is always beneficial to understand the nature of your IP landscape as this will help identify risks and opportunities for your business (NB. ongoing monitoring of the IP landscape can also help highlight subsequent misuse or misappropriation of proprietary IP assets and is another sound IP management practice worth adopting more widely). Be sure however to understand the ramifications of any IP warranties and indemnities that are imposed in respect of your understanding of third party IP rights. Such provisions may necessitate onerous searches and monitoring of different IP rights relating to aspects of project deliverables and it may not always be possible to achieve conclusive review results.

Infringing third party IP rights may be particularly damaging to a business and its relationship with a client, and so any IP warranties and indemnities agreed need to be given careful commercial consideration. The same is of course true for any warranties and indemnities which may apply in respect of the commercial application of any project IP by a client.

Hand in hand with such considerations should be an underlying awareness of the different rights that exist for safeguarding IP assets (i.e. recognising that IP means more than just revolutionary inventions and patents) and of course knowing when to seek specialist IP advice. All of these practices typically form part of a broader IP strategy for a business which more widely addresses issues pertaining to the identification, capture, evaluation, protection and exploitation of a company's valuable IP assets.

Recognising that IP typically represents anywhere between 50%-85% of the capital value of a company, it is imperative that managers and directors adopt a proactive approach in respect to IP issues such as those highlighted above. Not only will such an approach ensure clarity and preferred terms when entering into important consulting engagements, but it will assist in mitigating a range of significant risks for a business which may otherwise result from a poorly considered or reactive approach to IP matters.

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