

FREEDOM TO OPERATE FOR SMEs

Regardless of whether your business plan involves marketing your products and services directly to consumers, working with third party retailers, or seeking commercial partners to develop your idea from proof of concept through to market-readiness, you need to consider the potential impact of third party intellectual property (IP). Having a realistic assessment of third party rights can prevent wasting resources on a project that has no realistic likelihood of being commercially viable, and will certainly be considered by potential investors in your business when performing due diligence.

For many start-ups and small enterprises, the primary concern is to obtain your own IP to provide an investable asset. However, it is important to remember that IP rights are "*negative rights*" which can be enforced to prevent third party competition – IP rights typically do not provide you with the automatic right for you to commercialise your product or service.

Whilst for an entirely new product or service (for example, development of a new chemical or biological entity) there may possibly be no conflicting third party rights, it is very common that third parties may have rights that co-exist with any rights you own. For

example, a common situation is that a third party may have a patent that covers a general technology, whilst you have a patent that covers a specific and inventive improvement to that technology. In such a situation, neither you nor the third party may be able to freely commercialise your improvement: the third party may well infringe your patent, but you may equally infringe the more generic right. Related considerations apply to other IP rights such as design rights and trademarks.

Such a situation, if handled incorrectly, can present a significant obstacle to your route to market. Conflicting third party rights are typically considered negatively by investors and potential commercial partners, and you will need to demonstrate that you have taken appropriate action to determine whether conflicting rights exist for such partners to be willing to work with you.



Should a product or service be launched despite the existence of a conflicting third party right, the risk of infringement proceedings cannot be excluded, with potential for significant monetary penalties being awarded by the courts. Unfortunately, it is typically not sufficient to plead ignorance of third party rights on the grounds that no serious attempts have been made to identify them.

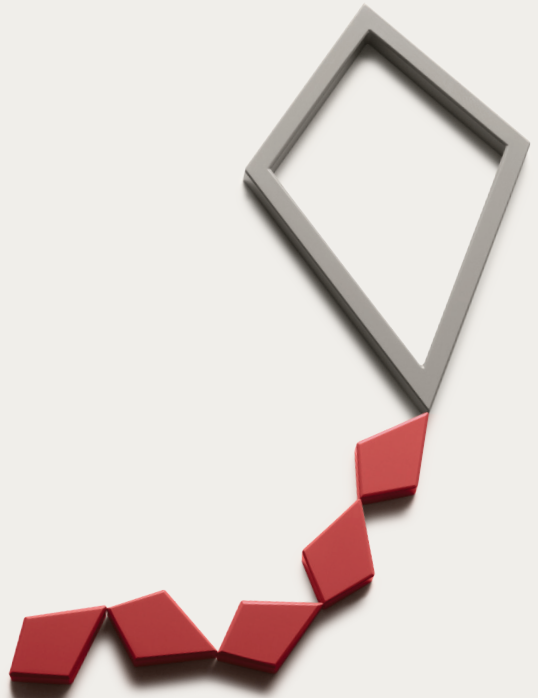
Given this, you need to be confident that your route to market is clear of third party rights, or that any existing rights are understood and accounted for. To do this, a search for any such rights should be conducted, and the results rigorously analysed. This is typically referred to as a "Freedom to Operate" exercise.

Options for Small Enterprises

At the most basic level, a restricted freedom to operate exercise can often be conducted in house, and is the absolute minimum that any business should consider. For example, a cursory search can be made using publically accessible databases, with searches focussed on relevant keywords. Such searches, if conducted by non-IP specialists, are highly unlikely to reveal all relevant rights and should *not* be relied on before launching any product or service. However, they may be useful in identifying any "killer" IP rights that present an absolute barrier to freely entering your intended marketplace, or for identifying potential competitors. Thus, the results from such exercises should be taken into consideration primarily insofar only as to the rights

that they actually reveal, and *not* as evidence of the absence of further potentially-conflicting third party rights.

Given the inherent limitations of non-specialist in-house searches, it is strongly recommended to instruct a formal FTO exercise to be conducted by your IP advisors at a fairly early stage in the development of any product or service. It is far easier to deal with any potentially conflicting rights at an early stage in product development, rather than when final decisions have been taken and resources have been committed.



Instructing an FTO search

We have extensive experience in advising small enterprises on freedom to operate. We know that all companies are different and an approach taken in one area may not be appropriate in another. For example, the concerns facing the developers of a new digital platform are likely to be very different to those facing an early-stage pharmaceutical company. Our attorneys are experienced in all technology sectors and will be able to advise you on how best to achieve the maximum legal certainty possible in view of your commercial objectives and budgetary constraints.

Whilst there is no one-size-fits-all solution, the typical process is:

■ Your attorney will work with you and with a dedicated search specialist to design an appropriate search strategy. Consideration typically needs to be given to the jurisdiction(s) to search, timeframes to search within, and appropriate keyword and/or structure-based search strategies to maximise the likelihood of identifying relevant rights. The goal is always to reveal as many of the most relevant rights possible within the available budget, in order to provide you with maximum legal certainty.

■ Based on the agreed search strategy, a search professional will conduct the search using proprietary specialist resources, and will typically conduct an

initial analysis of search hits, for example categorising them by likely relevance to your commercial activity.

■ A legal professional will review the legal status of potentially relevant rights revealed in the search. Sometimes the most relevant rights are no longer in force, whilst in other cases rights that may seem of low relevance have potential to pose long-term problems.

■ Your attorney will work with you to review all rights identified in the search and will provide you with straightforward and pragmatic advice as to whether or not they pose a significant freedom to operate risk. For any problematic rights that may be identified, your attorney will advise you on the potential action(s) that can be taken and the likely consequences.

■ At the end of the exercise we will provide you with a report in an agreed format. Such a report may be usefully disclosed in confidence to potential investors or commercial partners and in certain circumstances may constitute evidence to support a defence in potential IP infringement proceedings.

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