# Proactive Steps for Driving Successful Joint Development Relationships

**Intellectual Property**

**Career Development**

## CHEAT SHEET

- ***Complimentary collaboration.*** Joint development (JD) relationships may be a good choice if the company needs certain expertise for its product development or access to a different geographic area for marketing.
- ***Diverse portfolio.*** A global, diversified portfolio with patents and non-patent classes of intellectual property can make a JD agreement more attractive to other parties and present more options for future collaborations.
- ***Anticipate the end.*** When approaching a JD relationship, consider what issues may arise in the future and how both parties will deal with the end of the collaboration.
- ***Take inventory.*** Document early ideas and identify your company's previously developed intellectual property to avoid disputes down the road.

Imagine you are meeting with the CEO.

As a member of the executive team, you're expected to contribute solutions to what's on the organization's "worry wall." How is the business going to drive top-line growth? How can it raise additional capital? How can the company beat — or keep up with — its competition? Should anyone be

concerned about those tariffs?

The answers to these questions, and many others, vary across industries, companies, and individuals. Yet, there is a common force influencing C-suites globally: acceleration.

While a bit cliché, the pace of change will never be as slow as it is today. Given increased pressure to bring new products and services to market quickly, there is a growing focus on accelerating technology development. For enterprises large and small, this often sparks an interest in exploring collaborative, or joint development (JD), opportunities.

By considering external support, companies have an opportunity to tap into a broader community of innovators. But collaboration is often not as straightforward as it seems. In-house counsel must take strategic steps to ensure success in their JD relationships. This article will showcase best practices for a JD project, including using the appropriate contract terms, recognizing pain points, and how to communicate with your counterparty throughout the relationship.

## Why collaborate?

It often feels like the discussion of entering a JD relationship arises suddenly, with an immediate need to align with a third party to meet technical or commercial goals. Regardless of whether the JD strategic vision is foreseeable, there are operational best practices that can be implemented to strengthen a company's ability to effectively negotiate and form the desired relationship.

First, identify the need behind the collaboration. A JD relationship may be the response to the company's creation of a product development plan or a product commercial/marketing strategy. For example, in situations where a company's in-house engineering team does not possess the technical expertise necessary to complete a design project, the company may jointly develop the technology with a third party that possesses the requisite expertise. Alternatively, if a company has expanded its global product strategy beyond a specific region or country, a JD relationship may be formed with a partner outside of that market to ensure the product meets the standard requirements of the target country or regional market. Once the need is identified, preparations should begin.

## Anticipate the end

Many collaborative efforts fail or fall short of expectations. Why? The most general explanation is that collaborations require two parties and it is difficult to keep those parties' interests aligned over time. Due to externalities acting on both parties, interests that were united in the beginning often diverge toward the end.

Both parties have a critical role to play in terms of anticipating these externalities and prompting a dialogue to help structure the collaboration for success.

It makes sense to approach any collaboration with an eye toward the unwinding of the relationship. This may seem counterintuitive, but it helps frame important issues that should be discussed openly at the formative stages of the JD endeavor.

Consider a situation where two companies have complementary technology and a desire to work together on a project to integrate these technologies. Typically, the parties would expect to provide each other with a license under the other party's intellectual property (IP) as necessary to complete

the project. And, if the project goes as planned, there would also typically be a licensing framework to support the commercialization of the integrated technologies. But what happens to the licenses if the project doesn't go as planned?

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An obvious approach would be to terminate the licenses granted in the collaboration agreement. While this initially comes across as an equitable approach, it does not address the common need that presumably brought the parties together in the first place. And, in our economy, the idea of "starting over" with a new partner or internal development effort is likely to be problematic. One alternative to consider is an option to license the other party's background IP in the event the parties decide to abandon the collaborative development. While it may be difficult to agree on an appropriate royalty for such a license, even a capped royalty (e.g., LICENSEE shall pay LICENSOR a per unit royalty not to exceed X amount) provides you with the ability to move forward if the JD relationship fails.

Admittedly, suggesting this approach at the beginning stages of a relationship may alarm the other party. However, it is a good mechanism to open a dialogue and test how both parties would approach the end of a failed project. And, while it may be a difficult conversation, it would certainly be more difficult when the relationship is souring.

## Potential speedbumps

Product management is a critical function to bring new products, services, and technologies to market. For a company relying on an internal development model, product management requires managing a series of competing considerations: product definition, timeframe, resource needs, risk retirement, program spend, and more. For a party engaged in collaborative development, managing those same competing considerations takes on added complexity.

Returning to the situation where two companies have complementary technologies and a desire to work together on a project to integrate them, JD projects often include an element of development and/or risk retirement. The question becomes how to address situations that might undermine the common interest that brought the parties together in the first place. For example, what if the cost of developing a working prototype was grossly underestimated by the parties? Or perhaps a third party offers the possibility to develop a lower-cost solution? Or your partner is unable to secure sufficient resources to stick to the original project timeline? At the beginning of a project, parties often work through these challenges, but they can multiply over time.

There is no magic clause to include in an agreement to address the issue of compounding challenges. And drafting to address the many contingencies associated with product development will likely lead to a protracted negotiation and an impenetrable contract. That said, parties are well served to spend time discussing their joint purpose as well as their criteria for a successful collaboration. For example, are there particular cost or performance metrics that need to be achieved for the product to be a commercial success? Developing a shortlist of objective measures of success upfront can help in navigating future challenges. The process of developing these metrics should help build a sense of common purpose between the parties, even if the challenges do not materialize.

## Identifying IP

Many people think the engineering or technology function as the source of patentable ideas. However, in the context of collaborative development, marketing, and business development functions have a role to play in protecting innovation. Because the marketing and business development functions are close to the needs of customers, and often involved at the earliest stages of JD relationships, they are well-positioned to develop forward-looking intellectual property. One practice to consider is pulling together a cross-functional team to document potential inventions prior to entering discussions with another party. While not always practical, documenting each party's ideas early can be helpful to avoid disputes related to ownership down the road.

Beyond documenting early ideas, one of the first exercises that potential JD partners will complete is the identification of previously developed, related IP that each partner would contribute to the proposed relationship. This inventory of IP will need to be developed quickly and accurately. Otherwise, negotiation progress will be impeded. If the list of developed IP is not accurately assembled, and assets are omitted or over-included, it can be quite difficult to modify the previously submitted list after the JD work has begun.

Developing and implementing a process for strategically tagging and identifying the company's IP assets will ensure that the inventory of the company's predefined IP related to the subject of the JD can be assembled with greater speed and accuracy, making their strategic identification a less daunting, imprecise, and time-consuming exercise. Under a tagging methodology, records stored in the company's IP database include searchable fields that allow the related assets to be collected efficiently.

There is no single mean for suitably tagging IP. However, three general categories of information are typically used as IP identifiers or tags: the type of asset (e.g., patent, trade secret, know-how, copyright); the broad technology category the IP relates to (e.g., additive manufacturing, engines, polymers,Internet of Things); and a specific system, part, or technology the IP relates to or in which the IP is — or will be — implemented. A best practice in defining a suitable tagging methodology is to solicit input across the company's related functions (e.g., technology, legal, M&A) so that the system applied will yield useful IP information for all in the company who use it. The identifiers can even be helpful in querying IP unrelated to a JD agreement.

## 5 steps to a successful joint development relationship

### 1. PREPARE TO CRASH

So many collaborative efforts end in failure or hit speedbumps along the way. Approach every collaboration with an eye toward the exit. While it may be a difficult conversation on the front end of a new relationship, it would certainly be more difficult when the relationship is souring.

### 2. FILL YOUR TANK

Structure the terms of the agreement such that your technology is protected. Leveraging effective terms will not only support the impactful execution of the relationship, but also the eventual exit.

### 3. MAP IT OUT

Go in with a plan. Consider developing a cross-functional team to document potential inventions prior to entering discussions with another party. While not always practical, documenting each party's ideas early can be helpful to avoid disputes related to ownership down the road.

**4. STAY THE COURSE**

Maintaining global consistency across an IP portfolio is perhaps one of the biggest challenges faced by JD parties. It's important to leverage the tools at your disposal — think translation agents and outside counsel — to help review rules and ensure compliance across the board.

**5. TAKE A DETOUR**

Having a global, diversified IP portfolio can make a JD agreement more attractive to another party and preserve options if the relationship fails or falls short of expectations.

The tagging methodology should be reviewed regularly — typically annually or after a technical/IP portfolio is acquired or divested — to confirm that the methodology in use parallels the technology roadmap of the company and will continue to deliver valuable information to someone searching the patent database for IP of interest.

## Global patent consistency

One of the qualitative challenges with building a global portfolio is maintaining the global consistency of patent scope for each asset that makes up a patent family. Maintaining global consistency enables JD relationships for at least two reasons. The first is that, independent of where in the world the JD partner "resides," the relative scope and value of the IP contributed to the relationship will be globally consistent. Second, global scope predictability and consistency streamline the task of precisely defining the scope and content of the IP. The following are three means for helping achieve global patent consistency in claim scope.

### Awareness of global patent rules

The person or team in your company entrusted with developing the patent portion of the IP portfolio must be familiar with the rules of patent prosecution in the jurisdictions of strategic importance to the company. Deep global expertise is not required; however, awareness and working knowledge of local rules of practice that will impact claim protection should be appreciated. The ability to draft patent claims and associated patent specifications with the discrete country-specific global rules of patent practice in mind will streamline prosecution and enhance your company's ability to achieve claim consistency.

There are many others that practitioners should be globally aware of in order to best manage application content and enable global claim consistency. In countries or regions of interest to your company, schedule focused learning sessions with experienced outside or local counsel to stay informed of changes in local IP laws. Also, exchange best drafting and prosecution practices to enhance your ability to build quality global patent portfolios.

### Translations

Align with a translation agent who possesses the requisite technical depth and experience. Technical depth will ensure that translations possess technical accuracy consistent with the related specification. Once a quality translation partner is selected, global claim sets should be reviewed regularly during their pendency. One approach to conducting this review is to globally apply priority claim sets against claim sets in non-priority countries. The same language claim sets are compared. For example, an English-language priority application pending claim set, as amended, would be compared to an English-language version of a Japanese claim set filed in Japan. The comparison services could be made by the translation agent with requisite linguistic and technical expertise without the need to obtain additional formal translations. It is suggested that these comparisons be made whenever claims are being amended in a global patent family in response to an official action or before issue fees are paid. Note that asset-specific, discrete claim scope reviews can also be made, using the same approach, but without the need to compare against a reference/priority application.

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## Achieving claim consistency — Global rules of practice to keep in mind

1. **EP PRACTICE** – In European applications, applicants are limited to one independent claim per statutory class of patentable subject matter (e.g., method, system, apparatus). Practice Tip: When drafting a priority application, identify and save in a database the claims per class that are the most strategically valuable to ensure they are included in other later filed global applications.
2. **CHINA PRACTICE** – In China, the Chinese National Intellectual Property Administration (CNIPA), has a strict requirement of antecedent support between claim elements and their recitation in the specification. Practice Tip: Draft claims first, closely refer to the claims when drafting the specification, and use the claim terms in the specification. Also, software programs now check for claim-specification consistency.
3. **CHEMICAL RELATED APPLICATIONS** – Outside of the United States, the scope of claims to chemical-related inventions is limited by the extent of the examples included in the specification. Practice Tip: Actively work with inventors to maximize the number of diverse examples included in the specification. If possible, delay filing the application until a number of examples are provided.
4. **PATENT COOPERATION TREATY (PCT) APPLICATIONS** – Practice Tip: Prosecute claims actively during the PCT examination phase. Amend claims where required to overcome art cited in PCT search reports. Place the claims in a condition for allowance when the PCT application enters the national phase.

### Use of Patent Cooperation Treaty applications

The Patent Cooperation Treaty (PCT) is the international treaty that defines the patent rights granted between the treaty's contracting states. Currently, most industrialized nations are signatories to the PCT. The PCT patent application is a single application filed at one of the international receiving offices that grants the applicant the right to file future national patent applications in any of the PCT's contracting states. The application does not issue as a "PCT patent." After the application is reviewed by an examiner in a designated searching authority/patent office, at the end of the "PCT phase," the applicant can make corresponding national filings in one or more contracting states.

During the PCT phase, the searching authority issues a search report with an assessment of the patentability of the claims as filed. Depending on the assertions made by the examiner in the search report, the applicant may choose to amend the claims. When the national applications are filed, the amended PCT claims would be included in each of the national filings. Thus, the national filings would have claims comprising the same scope. Although national patent examiners are not obligated to follow the PCT prosecution and will make discrete assessments of patentability, the PCT prosecution history can be persuasive and serve as a means for expediting allowance of corresponding national applications, frequently without the need to amend filed claims.

## Portfolio diversity

To place the company in a more favorable negotiating position, the IP portfolio that will comprise IP developed and contributed to the JD relationship should include patents and non-patent classes of IP. The most favorable IP portfolio includes non-patent IP referred to as know-how. This can be defined as closely held information, which may also be confidential (e.g., unpatented inventions, designs, processes, methods, formulae). Know-how is personal to the company and is linked to its people. The confidential information is combined with skills and experience possessed by the owner's personnel, who could then enable a third party to practice the associated technology. A company that possesses technology enabling know-how can result in the company becoming the JD partner of choice.

Lastly, the portfolio should be globally diverse and thoughtfully sized. Negotiations could be impacted by the location where the potential partner resides, the IP culture within the partner company, the size of the portfolio, and whether existing local patents protect the technology of interest. From a practical standpoint, issuing patents in countries where the JD partner may make, use, or sell the associated technology at the center of the JD relationship would require the potential partner to obtain a license, therefore increasing the strategic need to enter into the JD relationship. The larger the number of assets in a globally diverse IP portfolio, the greater the company's strategic bargaining position entering JD agreement discussions.

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## In review

Given the accelerated pace of technology development today — with no sign of slowing down — it's

never too early to start preparing your portfolio for the next big thing. JD relationships present a unique opportunity to capture value and gain market share, but they can also present additional challenges and risks.

By implementing operational best practices that support the building and managing of a JD-ready IP portfolio, as well as strategically leveraging agreement terms to support the effective execution of and exit from a JD relationship, companies can successfully build diverse global IP portfolios. Further, recognizing the pain points commonly associated with JD relationships can help IP professionals and legal counsel adequately prepare to address them in advance.

There are a number of different joint ownership and collaboration structures to consider that offer various benefits and advantages. However, what's most important is having experienced counsel who can reflect on past experiences and provide creative solutions to maximize your return throughout the lifecycle of the relationship.

## ACC EXTRAS ON… Successful collaboration

### *ACC Docket*

10 Tips for Preparing for and Managing a Private Equity Investor Relationship (Oct. 2019).

Earn Your Seat at the Table by Maximizing Business Relationships (May 2019).

Collaborate to Innovate: How Outside Perspectives Advance Legal Tech (Dec. 2018).

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