Intellectual Property Ontario

A strategic IP audit is a stock-taking exercise that can identify all the IP a business needs to operate. The identification process should keep the business strategy in mind at all times, to ensure that the exercise remains focused and value-driven.

An audit should reveal:

1. Assets the company uses that drive value. These could be anything from proprietary formulae to datasets to customer lists to employee know-how. Anything intangible that the company uses to do business and differentiate from competitors.
2. IP the company owns. Part of the exercise should involve reviewing contracts and collaboration agreements to determine ownership and use rights of shared projects.
3. Assets the company has already protected. Even early-stage companies have a name. Has this been trademarked? Does the company website have a copyright marking? Are there inventions in use at the company that have been patented?
4. IP owned by others that the company needs to do business. This could involve equipment licenses, software, datasets collected by others, or inventions created by others that have licensed out the rights of use.

Assets the company uses that drive value.

Audits can be an overwhelming process. Identifying company IP is not an exercise limited to your R&D team. As the person leading this exercise, you should be connecting with every business function to identify what IP those functions intersect with.

This requires having a more expansive definition of IP than what we mean by “IP rights”. IP is much more than just patents or trademarks. That’s why it’s important to start with identifying intangible assets without limiting yourself to just identifying registered patents.

Why would a company perform a strategic IP audit?

There are external pressures that warrant an audit, including preparing for an investment round, merger or acquisition. The level of scrutiny and accompanying valuation of the company’s intangible assets generally require a third party to assist you. We will cover this in a different module.

There are also many valid internal reasons for going through this exercise, including strategy setting, risk evaluation and mitigation, and deciding to take an invention to commercialization. This kind of strategic IP audit can be used to support or generate an IP strategy by connecting intangible assets to business outcomes, identify what assets you should protect, and how to allocate your budget according to priority assets.

Identifying IP the company owns

You will need to identify what IP assets are actually owned by the company to enable you to establish proper measures to protect these IP assets. This will involve reviewing employee and contractor agreements to check for ownership clauses. Companies should include provisions in these agreements to ensure IP created by the company is owned by the company.

Similarly, particularly for projects funded in collaboration with other companies or academic / research institutions, you will need to check whether or not you actually own the IP created via this partnership. Never assume that just because you’ve invested resources in IP, you own it.

An IP audit starts with listing all of the intangible assets that come to mind. For example, perhaps you've heard from a colleague that your company's mailing list is quite high compared to what they're used to. This could put you on the radar of potential partners who are interested in your reach. For that reason, this database of customers is an intangible asset that could drive future value.

In another example, your R&D team averages 5-7 inventions per year. Not all of them become products, but the ideas could still drive value if resourcing becomes available. For that reason, add these to your spreadsheet.

IP rights

This identification exercise should surface all patents, trademarks, copyrights, and trade secrets owned by the organization, along with all relevant information about each IP asset (e.g., applicable jurisdiction, expiration date, maintenance costs, etc.).

The IP audit will also indicate weaknesses or gaps in IP ownership that should be addressed with timely corrective actions.

Let's look at an example. Let's say your company has co-developed a widget through a research partnership with a university in Ontario. You've built this widget into your next product but before releasing it, should determine you have the rights to commercialize it. How would you go about checking? Look through your partnership agreements. What did you sign off on? How about your employee and contractor agreements: do you have an IP clause in those?

Similarly, where website development is outsourced, organizations often assume they "automatically" own all the IP rights associated with the website. However, this is typically not the case. Works contracted to independent service providers (such as a company creating a website) are owned by those service providers unless the parties agree otherwise in writing. Not owning the rights could hinder the organization from challenging a third party for unauthorized copying of material from the organization's website.

Licensed IP assets

In this global economy with heavy competition and consolidated services, it's quite common for start-ups and scale-ups to leverage IP created by third parties up and down the value chain. An IP audit should include an analysis of the IP assets that the organization licenses to other entities, as well as IP assets that other entities license to the organization. Periodic analysis can support ensuring the organization complies with its own policies, as well as with its contractual obligations, based on the IP assets licensed to or from other entities.

In-licensed: The IP audit should reveal which IP assets are licensed in for use in operations of the organization and the obligations of the license terms with which the organization must comply. These obligations may include key dates, payment schedules, payment amounts, royalties, etc.

Out-licensed: The IP audit also reveals which third parties are licensed to use IP assets of the organization and which IP assets are licensed out in this way. The IP audit may also reveal if any entities are licensed to perform certain tasks on behalf of the organization and any terms or conditions associated with the performance of these tasks.

IP assets owned by others

The IP audit may also cover IP assets that are owned by an organization's competitor(s) or potential partner(s). Left unchecked, third-party IP assets have the potential to create risks for the organization. Accordingly, it is beneficial to identify third-party IP assets to ensure that the organization does not run the risk of infringing the IP rights of others.

The IP audit may also reveal whether a competitor is using similar types of IP assets, creating a risk for costly disputes. By anticipating potential disputes, effective resolution or avoidance strategies may be created prior to any such dispute being initiated.

The IP audit may also provide valuable information for developing future business strategies. Exemplary strategies may include:

- "designing around" a competitor's IP asset(s)
- entering into a licensing agreement with a third party to access their IP asset(s)
- a determination to legally challenge a competitor's asserted IP rights or use of an IP asset