

# WIPO MAGAZINE

## Risky business: the five biggest IP mistakes startups make

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Starting a new business is a daunting task, and not something for the faint of heart. Entrepreneurs require passion, drive and a stubborn perseverance borne of a determination to succeed. Entering my 25<sup>th</sup> year of legal practice, I have the great privilege to represent many startups and to witness the trials and tribulations associated with launching a successful business.

Sometimes these businesses grow beyond expectations and achieve great success, but sometimes they fail. There are a multitude of reasons why promising startups don't make it, but the most common ones may surprise you.

When it comes to businesses and their IP, many young companies fail to recognize the breadth of their potential IP assets or to appreciate their importance. Although wholly avoidable, there are a number of persistent errors that hamper startups from the capital raising process to launch, and beyond. Here are five of the biggest mistakes, in descending order, that I have witnessed in practice that others should not ignore.





## 5. A piecemeal, "do-it-yourself" approach to IP

This silent killer of young companies is understandable. For some startups, funding may be scarce, or in its infancy, forcing the entrepreneur-founder(s) to take on tasks with little or no capability (or experience) to handle them. For others, the race to market trumps a more methodical approach. A "do-it-yourself" (DIY) approach is risky at best. [Intellectual property](#) (IP) rights require a deft hand and appropriate guidance from qualified IP counsel. Experienced entrepreneurs usually understand the importance of such guidance and anticipate their IP needs.

But for young, less experienced companies, it can be quicksand. Startups need to engage qualified IP counsel to help identify needs and guide solutions from the outset. And believe it or not, this is not terribly expensive! There is no excuse for not having an initial consultation with a qualified IP attorney. Without question, such a consultation will help lay the groundwork for the IP rights the startup may have (or seek) and its attendant IP needs. At the very least, it will equip the company with an understanding of what it needs to do so it can plan accordingly.

## 4. Improper document foundation

This problem plagues most startups, for a variety of reasons. Whether the result of "forms" received from other colleagues or a natural extension of the DIY approach outlined above, failing to keep company documents in order is dangerous. And when it comes to IP, it can be fatal. For example, the founder of a technology startup may seek to use a *pro forma* non-disclosure agreement (NDA) with prospective investors or, better yet, potential developers. All too often, the startup gives little or no consideration to how such a *pro forma* agreement defines "confidential information," its terms, and indeed, what it includes, what it excludes and its duration.

Does the NDA limit use of the confidential information it covers to an expressed purpose? And what about provisions that prevent any implied license for IP under the NDA, and the return or destruction of such information in the possession of the recipient? In some cases, assignment provisions may be necessary to ensure that any concepts that naturally flow from the recipient as a result of discussions covered by the NDA (such as improvements to underlying IP disclosed under the NDA made by the recipient) are captured by the disclosing party. Standard forms rarely work, and this is an area where qualified legal counsel is absolutely necessary.

## 3. Ignoring standard IP practices in the race to market

This is one of the most dangerous mistakes a startup business can make. As outlined above, IP rights protect different things and, in some cases, cannot be acquired unless specific steps are taken. For example, a startup cannot benefit from protection of its trade secrets unless it takes specific steps to protect the secrecy of such information. In the United States, this usually requires both physical and technical measures to protect such valuable IP capital. Moreover, US-based businesses may eliminate foreign patent rights in an invention if there is a public disclosure (even though there is a 12-month grace period after disclosure within which to file an application for US patent rights).

Where trademarks are concerned, at the very least, startups need to ensure they have performed a trademark search to see if their proposed mark is already being used by (or is confusingly similar to) that of another company. Often, such practices are standard operating procedure, but for many startups, the principals ignore these practices at the outset, either because they do not know or are because they are too busy moving forward with product or service launch.

Addressing these needs later (rather than sooner) is a risky proposition, and usually resembles triage of IP assets – when a startup has no choice but to focus on protecting higher value assets – rather than a coherent IP strategy. Ignoring standard IP practice is never a good solution, and usually results in limited (or even eliminated) IP rights. The bottom line: be proactive in implementing standard IP practices throughout the pre-launch process. Not doing so may even run afoul of representations to accredited investors.

## 2. Failing to implement appropriate confidentiality controls

This is a recurring issue. As outlined above, although most startups use some form of NDA, such *pro forma* documentation rarely meets their actual needs. A bigger problem, however, is inconsistent use of appropriate documentation and a failure to initiate (or enforce) controls. For example, a technology startup may inadvertently disclose confidential information to a contract developer without a signed NDA in place. Or, the company may have a development agreement for use with the developer, but fail to incorporate a finalized statement of work outlining development requirements and milestones as part of the executed agreement. The results of ignoring such reasonable controls are almost always painful. The last thing a young company needs is litigation that could have been avoided by implementing (and enforcing) reasonable internal controls. Litigation is a costly process, yet eminently avoidable.

## 1. Failure to create and implement an IP strategy

The failure to develop (or execute on) a well-thought-out IP strategy often proves fatal to startups. This is the biggest mistake startups make from my perspective. Young companies commonly develop all kinds of plans – business plans to obtain investment capital, marketing plans, recruitment plans and even search engine optimization strategies – so why do they commonly ignore a plan to address some of their company's most valuable assets?

A number of reasons come to mind, but the most common one is their zeal to get to the market. In their haste to commercialize their product, most startups don't take the necessary steps to identify and protect their IP assets. A piecemeal approach to IP protection almost always costs *far* more than anticipated to effectively protect much *less* than expected. Startups should always – *always* – take the time up-front with qualified IP counsel to outline their existing *and contemplated* IP assets and to develop a plan of action to acquire and protect them. In so doing, a company can reap significant value from the IP assets it creates, and can shield itself from potential exposure to third-party infringement. Simply put, if you fail to plan, then plan to fail.

Whether you are part of a startup or advising one, these problems are real. But they can be avoided if appropriate proactive steps are taken. The key term here is "proactive." From the outset, startups need to take reasonable steps to help lay the foundation for their future success and avoid problems with IP assets. Yes, there are costs associated with this, but those costs pale in comparison to the costs of *not* taking appropriate action. Take the time to engage qualified IP counsel, create an IP plan and execute it over time. The success of your business depends on it.

*\*Tom Kulik regularly writes on technology-related legal issues. See his weekly column at [AboveTheLaw.com](http://AboveTheLaw.com) and his blog at [www.legalintangibles.com](http://www.legalintangibles.com).*

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