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Timing Issues Critical to New Product Development

WEB EXCLUSIVE

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The global connectedness of the world economy has seen jobs shift from one continent to another, and it also has seen products, even those from relatively small manufacturers, crossing borders into international markets as never before. While the international marketplace increases the potential for greater sales, it also raises the stakes for protecting intellectual property. A product may be protected by a patent in the manufacturer's home country, but patent protection does not cross borders.

A seller must go through the patent process in each country where protection of IP rights is desired. Under an international agreement known as the Paris Convention, the patent application in each country must be filed within a year of the filing at home.

So if a manufacturer applies for a U.S. patent and a year goes by without filing for protection anywhere else, the intellectual property will be protected only in the United States. The manufacturer has effectively donated the design of the product to the rest of the world. And that's not always good business practice in today's global market.

On the other hand, filing patent applications in all the likely markets of Europe, Asia, and elsewhere is costly, especially if done blindly in the first year, with no indication of success in those markets. Fees for filing in all the major potential markets can easily run into the hundreds of thousands of dollars.

A manufacturer whose budget can't handle that can make good use of that one-year window to target potential markets, and perhaps even to enlist help from potential distributors in pursuing foreign patents. There are a number of critical timing issues that new product introducers should consider as they attempt to capture intellectual property rights and facilitate early sales. A "product," of course, could be any kind of artifact or service eligible for patent protection.

Generally, the drivers for an overall IP protection strategy for a new product are:

- (1) The existence of the one-year Paris Convention, which allows patent applicants to file in other countries within one year of the domestic filing date;
- (2) The potential to attract foreign purchasers or licensees within the first one-year period after filing; and
- (3) The provision of a more rapid and, hopefully, more efficient license or sale of the product in each country.

The time periods to be considered are centered around the patent filing date, and include: the period preceding the filing by more than two months (Phase I); the period preceding the filing by two months or less (Phase II, the time for a patent attorney to complete drafting a patent application); and the 11-month period following the filing (Phase III, the end of which leaves one month to file foreign applications before the one-year deadline expires).

There are many things that can be done. And even in a global market not all of them may be practical for one company to carry out. Some steps will have specifics which will vary greatly depending upon your product and service. Some may be beyond the reach of your company's budget, and may result in loss of income you will

never realize.

The most important goal is to make contact with marketers at home and in other countries who can help you sell your product.

During Phase I, the following tasks should be completed:

1. Completely finish the product. This may include developing different versions, such as economy and luxury models, base and fully accessorized models, permanent and disposable models, retail sales versions and imprinted give-away versions, and home and foreign country versions (taking into account possible peculiarities of foreign environments); addressing packaging issues, including individual and bulk sales packaging, sales display designs, racks and shelving, free-standing cardboard displays, and the like; and considering type and placement of any trademark name and other information on the product or packaging.

2. Complete a comprehensive business plan, taking into account foreign and domestic production costs; packaging; overhead (including, at a minimum, patent insurance, corporate entity formation costs, product liability insurance, and inventory financing); costs associated with the product pipeline; cost variations based on projected sales channels such as distributors and distributor programs, direct Internet sales, and contract sales to catalogs; and costs of selling or manufacturing in foreign countries, including import/export efficiencies, tariffs, sea-container packing densities, and foreign tax effects of direct marketing or sales-agent licensing, just to name a few. A comprehensive and carefully detailed business plan including at least these indicators is a prerequisite to determining the true value of the product. Without this level of information, the value of the product simply cannot be known.

Production costs will depend upon the advances in your production area. Overhead will be determined by the type of facility needed and salaries to be paid, or plans for contract manufacturing. Packaging costs can be determined without revealing your invention by inquiring like this: "How much for a 5-ounce sterile pack disposable in a container less than 5 inches tall and 4 inches wide based upon a volume of 20,000 per month?" Patent insurance in the U.S. is handled by one carrier, Intellectual Property Insurance Services in Kentucky.

3. Gather all information needed to promote the product. Much of the information gathered will also be useful in activities directed toward selling the product to consumers or selling the product and associated intellectual property rights to another manufacturer. Ask: What are buyers of a particular product using to guide their purchase decision? If it is energy saving, you need to make charts showing load factors, current energy costs, etc. If the product is a new article of clothing, you need diagrams, figures, and a gorgeous model. If the item is a baby item, you may want to show a baby using it.

4. Identify competitors, customers, and related entities. This information can be turned up in Web searches and in trade encyclopedias in libraries. The identity of persons and organizations even remotely associated with the product should be recorded, including:

(a) Product-related trade associations;

(b) Product-related professional associations;

(c) Related government branches, elected officials and bureaucrats, including test organizations and standards-setting groups (local, state and federal);

(d) Related trade shows (very important for Phase III activities after filing);

(e) All trade-related magazines, including paid and free subscriptions, trade sales, and trade-related product publications, especially those which may carry a news story relating to the product after the patent is filed;

(f) All newspapers and magazines in any way related to the applicant or product, including those associated through geography or language, for example;

(g) A list of product endorsers, particularly those who might endorse without compensation, and even local elected officials, comedians, radio personalities, and other public figures. In the case of products seen as

socially beneficial, celebrities have been known to endorse products at minimal cost for the favorable publicity.

These efforts should not be limited to home country or home language. Where the product admits to use anywhere, the entire world should be considered the potential market and the information database should be expanded accordingly.

5. Integrate information gathered in Steps (1) through (4) to determine which markets to enter. Using all of the above information, make a list of why the product is better than others currently available, comparing all versions of the product (both high-end and basic) to the next-best alternative. This information will be used by the patent attorney in drafting the case.

To begin Phase II, submit all product information, especially the information outlined in Step 5 above, to the patent attorney and allow two months for the patent to be completed (both first and final drafts), executed by the inventor and then filed.

During Phase II, make no disclosure or transmission of information, but fully prepare all media which can possibly be used to market the product so that it will be ready for dissemination immediately after the patent application is filed. Preparation of every sort of media kit, including long story and short story, color and black & white photos, drawings, diagrams, videos. In short, prepare in advance all forms of media that are practical and relevant that a potential publisher might want.

Your new product or invention is only born once and you may be able to pick up free advertising if a publisher runs the story as a news or special-interest item. This media preparation will also be useful in preparing materials for trade shows.

Trade shows should be scheduled **during Phase III,** only after the patent is filed, yet you should try to attend trade shows in the first year early enough so that you have enough time in the year left over for negotiation, but not so early that the publications won't have time to publish your news items. The trade show will then be able to attract potential distributors of your product, including many from foreign markets. This sequence of actions is a very inexpensive way to focus your international efforts without having to fly overseas, especially if the trade show is based in your country and internationally attended.

You should choose shows early in the Phase III cycle to allow sufficient time to determine what foreign distributors are interested in your product, and therefore to identify the markets where you have the highest potential of sales success. You will obviously want to concentrate your foreign patent filings in those markets. And you will need to make all the relevant foreign filings within your deadline—one year from the home country filing date.

Keep in mind, too, that every truly good, new, and non-obvious invention is a news item. Each publication that showcases the product as editorial content may be worth a thousand dollars or more in advertising costs. During Phase II, projected plans for Phase III should be completed and ready for execution immediately after filing so that all time spent post-filing can be exclusively devoted to promoting and selling the product.

Other tasks in Phase II include:

- (1) Setting up a limited liability corporation or C-corporation for marketing and selling the product;
- (2) Securing a source of product to meet sales activities;
- (3) Contacting a patent insurance carrier to complete insurance application forms necessary to put protection in place immediately after filing;
- (4) Ensuring that the sales entity purchases commercial product liability insurance;
- (5) Selecting and applying for a trademark after the filing for and identification of the sales entity is complete (including the home country and all foreign countries where the product is planned to appear). Trademark power is based upon the movement of product closest to the consumer in each locale, and not upon who had

the idea for the name. Foreign trademarks can be expensive too, so if you elect to wait until you have secured distribution in a given country (at the risk of someone else taking the mark), make sure that you (a) apply for the mark in that country at the time you set up your license or distribution agreement; and (b) include a loyalty provision in the licensee/distributor agreement in which they admit that your trademark belongs exclusively to you.

Conversely, when a large marketing firm considers a mark, the company searches all countries before introducing it. It's a calculated risk to start selling under a name and then to try to go to country X where someone may have squatted on the trademark after seeing you at a trade show.

(6) Ensuring that the sales entity registers for an internet URL (which may be the same as the trademark) intended to be used to sell the product; and

(7) Setting up the HTML files offline to allow the Web site to go live as soon as possible after any patents are filed. The primary goal is total preparedness prior to filing the patent so that marketing and selling can begin as quickly as possible after the filing without delay or interruption.

Filing the patent is a prerequisite for beginning Phase III; absolutely no activities in Phase III should take place until it can be established with certainty that filing has occurred. To do otherwise would forfeit rights in other countries. It may be preferable to devote a few days after the patent filing to secure a postal or computer filing receipt or other proof of filing in hand.

Once the patent filing can be established with certainty, begin Phase III:

(1) Sell the product.

(2) Acquire floor space at trade shows which relate to the product;

(3) Send out the media kits and news releases to all magazines and newspapers worldwide, making certain to provide material in as many formats as possible to meet each publication's requirements. In addition to article length, quantity and type of photographs and video, consider foreign-language versions;

(4) Follow up by phone with editors to confirm that they have received news releases and to offer further information. Do not push your product or argue its worth to editors. They do not like hard-sell and may avoid taking or returning your phone calls in the future.

(5) If it is practical to do so, provide samples to publishers to further interest, either on demand or in media packets;

(6) Contact local media people who may feature the product;

(7) After securing trade show space and booth number, forward media kits to likely foreign licensees, local country distributors, and other entities who may be interested in purchasing the product and IP rights. Follow up to schedule meetings during the show and make sure to have sufficient booth coverage so that all appointments can be accommodated;

(8) Set up a newsletter by e-mail or regular mail announcing the product and highlighting its progress, including news about distributors, publications running news stories, and any other tidbits, even including a grant of patent insurance when it occurs (design patents will likely be examined quickly; allowance and issuance are news-worthy announcements);

(9) Secure product endorsers and have news conferences and events where the endorsements are formalized;

(10) Arrange to test-market the product in retail stores which will allow for a display, possibly on consignment, and carefully record the sales per unit time, and the types of products sold;

(11) At the trade show, be certain to (a) get the product in the "new products" pavilion, (b) meet with foreign licensees, sales agents, and buyers, and plan to close deals within six months after the filing of the design

patents and trademarks to enable foreign filing within the six-month deadline; and

(12) Generally inject sales into each and every market segment possible. The interest generated by the time the trade show takes place will depend directly upon the market acceptances earned, the gross numbers of products sold, and the positive publicity and popularity surrounding the product.

The object of these critical timing procedures is to give others a chance to pay for your intellectual property protection rather than having to bear the total burden of fronting the funds yourself. It is desirable to have each potential licensee or buyer provide double the amount of funds to cover the costs of drafting the license, filing both a patent and a trademark in the licensee's or buyer's countries of operation.

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