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Outsourcing Intellectual Property: Do Risks Outweigh Potential Rewards?

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Is your company not large enough to capture the entire global market for your innovative products? Do your proprietary processes have applications outside of your area of expertise? If you think big, but aren't there yet, you may want to contemplate outsourcing the manufacturing of your products or co-developing additional applications for your processes. Of course there are risks and costs, but with sound contracts and strategic patent protection, you'll be sure to reap significant rewards and profits.

Outsourcing can be as close as a neighboring business, or as far as remote regions of Asia. As with most substantial business relationships, a comprehensive contract is imperative to the success of the venture. However, no contract will substitute for personal and corporate due diligence. First and foremost, make sure that you are dealing with an honorable company – one that works well with its business partners. Contacting past or current partners, and conducting personal visits to a potential partner's facilities, can be enlightening – and don't discount repeated personal visits throughout the term of a relationship. No contract or patent can substitute for a personal relationship, and human intuition.

Protecting your innovation through national and foreign patents can safeguard your proprietary products. However, obtaining world-wide protection is simply cost-prohibitive. If your proprietary processes are patentable, obtain patents in countries where the sale of the product is most likely to generate a profit. Note that U.S. and foreign patents protect against not only the manufacture of a product in the country, but also the importation of infringing products. Thus, if you obtain patents in countries where the sale of your product will be profitable, you have little need for patent protection in countries where infringing products may be manufactured but not sold for any significant profit.

Once you have at least determined a strategy for patent protection (if available), a thorough written contract should legally define the relationship between your company and your potential partner. Critical provisions include covenants that protect each party's confidential and proprietary information. These covenants should limit the dissemination of information to only those employees who have a "need to know" the same; furthermore, it is imperative that each party have adequate agreements and procedures in place to ensure that employees with access to the information maintain it in a confidential manner, even after their departure from the company.

To further protect your proprietary information and reduce the possibility and temptation to wrongfully use the information, the parties may agree to covenants not to engage in the manufacture or sale of competing products during the term of your venture, and for a reasonable period of time thereafter. Further, under some circumstances you may be able to withhold information regarding a critical component or step, in which case the partner would have insufficient information to produce competing products.

At times, you may seek a business partner that can commercialize your innovative products or processes in an unfamiliar industry. In such a relationship, each party brings their expertise to develop a new application; frequently, this results in new patentable inventions or other intellectual property. A contract can and should define whether these inventions are owned jointly, or by one party. In business among equals, contracts frequently provide that the intellectual property developed under the agreement tracks the parties' respective area of expertise, with crossover innovation being owned jointly or by the developer with a royalty-free license to the other party. Where one party bears the expense of the innovation, the agreement should provide that the inventions and processes arising from such innovation will be owned by that party. Regardless of what the arrangement is, it must be clearly defined in the agreement.

Finally, in all outsourcing arrangements care should be taken to ensure that employees (or other individuals) developing improvements or innovations are required to assign over their intellectual property rights to their employer. In the United States, rights in an invention first rest with the individual employee – unless there is a written agreement, or an expectation of innovation, the employer may receive no more than "shop rights" to the innovation. In this case, employees are free to license the patented innovation to competitors, for their own profit.

While outsourcing may appear to be fraught with danger, the risks can be substantially minimized with personal relationships, thorough contracts, and strategic patent protection. Once these are in place, the rewards and profits should be limitless.