

Exiting the patent annuities business: A guide for IP law firms

Clarivate™

Introduction

IP law firms are changing their service offerings, with many exiting the patent annuities business. In this white paper, we explore what law firms need to know before making this decision.

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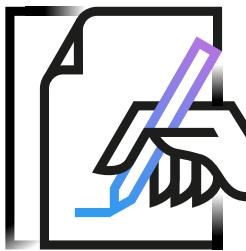
**law firms in the U.S.
are helped by our patent
maintenance service.**

IP practices are expanding their services beyond prosecution and litigation support, offering expertise in areas like IP due diligence and transaction support. Meanwhile, many law firms are shifting away from traditional business areas, opting to focus on more profitable, high-value services with lower risk. Managing client annuities is perhaps one of the biggest practice areas

that firms are looking to divest themselves of. In fact, our patent maintenance service caters to over 300 law firms in the U.S. alone.

In this paper, Clarivate examines what forces are driving the trend to move away from providing traditional annuity and renewal services. We also explore the key considerations that firms should weigh before following this route.

**While the decision to exit annuity
payments may be relatively
easy for an IP firm, managing the
practicalities associated with
this without negatively impacting
client satisfaction can
be extremely challenging.**



Reasons to get out

The first consideration is understanding why an IP firm seeks to exit the end-to-end annuities process. These “whys” are called drivers and vary based on each firm's specific situation.

Despite the nuances of each firm, these drivers typically fall within three main categories. Many firms are driven by a combination of these concerns.

They are:

- Business efficiency drivers
- Financial impacts
- Management risks associated with client annuities

Let's explore each of these areas in a bit more detail.

01

Business efficiency drivers

Profitability

Managing and paying client renewals across the full client base represents a large amount of cost and effort for very little return. These revenue numbers may look good in total. However, a firm can be left with a very small margin once PTO fees, foreign agent charges and renewals service provider costs are removed. When this revenue stream is examined at the individual account level, profits may appear even smaller. This is particularly the case for firms who are maintaining an existing client's small portfolio which may have little or no new filing and prosecution work for the firm.

Non-core activity

Many law firms outsource the reminder and payment part of the annuity management process. When this work is done outside the firm, a firm's attorneys and staff may have little expertise in international IP renewal laws and procedures. As a result, the firm unintentionally becomes an administrative center that hands out reminders and collects inbound instructions for onward forwarding to the external service provider. This additional administrative burden can take away from core activities.

Drain on resources

Further, the administrative burden of managing annuities leads to greater inefficiencies. The law firm acts as a communications hub between clients and the back-office service provider. As a result, law firm attorneys and staff are inundated with low-level administrative processes, passing client queries back and forth and handling reminders, instructions, and invoices. This ultimately drains firm resources that could be focused on higher-value activities.

02

Financial impacts

Cost of capital and cash flow is a major potential issue for law firms providing annuity services to their end clients but one that many firms don't fully realize. Quite often, firms pay third-party renewal service providers the full renewal fee (including the non-refundable official fees, which is the biggest single element) before receiving individual payments from clients. In some cases, these

fees are paid out before invoicing end clients to ensure the final costs are reflected on the invoice.

This billing model means that the law firm must use its own capital to fund annuity payments until clients pay their invoices. This not only directly impacts the firm's profitability in terms of capital costs but can also impact a firm's cash flow. Additionally, law firms are also exposed to the

administrative costs of issuing invoices and then chasing payments.

For some firms, these costs are never recovered. If even a relatively small client defaults on their payments, a firm can be out thousands of dollars. Unlike other areas of IP practice, the financial risks with annuity payments are disproportionately higher due to the non-refundable nature of official and local agent fees.

03

Management risks

Eradication of risk is perhaps the biggest single reason that many firms make the decision to get out of the annuity payment process and outsource the entire process to an experienced provider.

Financial risks have already been touched on earlier. Bad debt and payment default is a major risk to law firms involved in providing renewals. This can extend to local agents where even larger aggregate fees can be involved. These agents will invariably be taking large amounts of money upfront to fund the payment to the local PTO. There is often little in the way of guarantees or

assurances in place should the local agent not carry out the renewal.

The risk of client malpractice litigation, although infrequent, is a constant concern, particularly for firms located in or servicing clients from the United States. Although errors are rare, should they occur, the impact could be catastrophic not only for the IP-owning client but for the firm too. Damages settlements can run into the tens or even hundreds of millions. This risk only grows if errors are compounded over several years before being identified. In these circumstances, the rights are almost always unrecoverable.

Even if such errors are uncovered relatively soon, there are substantial restoration costs and official fees to pay. Plus, damages may be sought due to loss of rights and competitor activity for the intervening time when a case was not renewed.

Most firms carry insurance to guard against such eventualities. However, the cost of carrying this insurance to cover potentially large settlements and court costs can be extremely high. Getting out of the annuity payment business can eliminate these risks and remove the substantial insurance premiums that come with them.

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Exit process

What are the options for law firms looking to exit? Regardless of the route, firms need to manage the transition with their clients and ensure they are properly cared for.

Firms can choose to do this alone. They can draw up a list of potential third-party service providers and manage each client's decisions individually. Or they can work hand in hand with a service provider, like Clarivate™, that manages the full end-to-end process. Clarivate has helped over 300 law firms in the United States with our patent maintenance service.

Working with an end-to-end service provider makes this decision easier for the firm. The provider informs clients of the proposed change, explains the real benefits that they will realize from such a change, and provides the contractual terms and conditions. The provider also sets up accounts for each client, transfers and verifies all client case data and supplies the ongoing data reporting options available to firms that follow this route.

Firms that try to manage this transition on their own face a number of issues. These include the burdens of working with multiple third-party

providers, each with different client and data handover processes and timelines. Added to this, each annuity provider is likely to have different service options and cycles. All of these will need communication with individual clients, so they understand the changes from the current law firm process to those of the chosen new service provider.

There is also a possibility that some smaller clients or those with problematic portfolios are not taken up by third-party service providers. Instead, some providers may cherry-pick the most profitable client accounts. To prevent this, firms can choose to partner with one service provider.

By choosing one end-to-end provider as their dedicated annuities partner, a firm can ensure that all clients and cases that the firm wishes to transition will be taken on as part of the exit process. This partnership also provides a clear and simple process for any new clients the firm takes on.



Exit options

Even when a firm has understood the need to exit the annuity management process and has chosen an annuity partner, some important decisions remain.

The firm needs to decide how this transition will be phased and whether it will apply to all clients, case types and jurisdictions. They also need to decide where client data reporting responsibilities rest between the firm and clients.

There are various types and degrees of exit from annuity management. For example, at one end of the scale, firms can set a date for handover and exit all renewal activity from that date. Or they can follow a more gradual approach, transferring different client types or even different case types over a scheduled period to phase in the changes.

Data reporting is another key option that needs to be decided. Firms will still be managing their clients' cases and associated key data through the prosecution phase. A firm will need to decide if they will report granted case data directly to their annuities service provider on behalf of their clients. This is particularly the case

and easiest to achieve if the firm is already using the renewals provider's IP practice management software, as the transfer of granted case data to the external renewals system can be automated to maximize efficiency and reduce risk.

A total exit

Some firms, however, may choose a total exit strategy and hand over all data reporting responsibilities to their clients. Under this model, the firm passes on case data to the end client once a case has been granted, and then the client has the responsibility to pass this information on to the renewals service provider.

This second option certainly reduces the firm's liabilities and can run smoothly, particularly if the third-party service provider has tools available to streamline the process for each client to submit data. For example, if they have an online tool to upload case data and verify data.

The background of the image is a close-up, low-angle shot of a modern building's facade. The facade is composed of numerous sharp, angular, and reflective blue panels that create a complex, geometric pattern of triangles and lines. The lighting is bright, reflecting off the surfaces and creating highlights and shadows that emphasize the three-dimensional nature of the structure.

**There are a range of different
types and degrees of exit
from annuity management.**

Retaining strategic clients

While some firms may choose a total exit, other firms will want to retain some clients in-house from a strategic relationship point of view. This may be true for larger clients with complex ongoing prosecution caseloads.

Of course, the firm retains a degree of risk and costs for these clients, but this is often acceptable against the overall profitability of the client account.

Even for these clients, a firm can work with an annuities service provider to help lessen the administrative load. For example, a firm may manage sending renewals reminders, taking instructions and invoicing for renewals while the actual renewal payment process can be handled by the annuities service provider.

The following list is a useful guide to the decisions that firms need to make.



Timescale to an exit

How long between first notifying clients and final handover?



Phasing of the exit

A single cut-off date or a phased approach?



Data reporting

Will the firm continue to have a data reporting responsibility or is this handed over to the individual clients?



How comprehensive should the exit be

Does it cover all clients and all cases or does the firm wish to retain the management of certain clients, case types or jurisdictions?



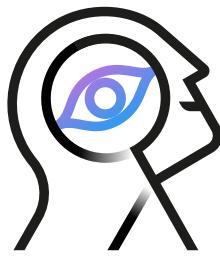
Client notification and sign up process

Does the firm wish to manage this all themselves or do they introduce the new service provider to clients and then let the service provider manage the transition?



A single or multiple supplier solution

While multiple suppliers may appear to provide more client choice, it dramatically increases the complexity of the exit and ongoing process of case data handoff for the law firm.



Conclusion

As IP firms seek to differentiate themselves and stand out from the crowd, they are inevitably restructuring and reprioritizing their client services.

Smart firms will avoid the pitfalls of trying to make the transition alone and instead seek to work with an expert to assist in these changes.

In doing so, firms will be more likely to achieve their goals of increased profitability and reduced risks to the practice without alienating their existing client base.

Clarivate has helped many law firms across the U.S. and the world transition to an IP maintenance solution that meets their specific needs while also providing an enhanced level of service for their clients.

Let's talk

Contact us to find out how Clarivate could do the same for your firm.

To learn more visit
[www.clarivate.com/products/ip-services/
patent-and-trademark-maintenance-services/](http://www.clarivate.com/products/ip-services/patent-and-trademark-maintenance-services/)

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