Marketing product ideas can be risky

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Statistics show that at least half a company's profit usually derives from the sale of products less than five years old and that the independent inventor has historically been a major source of technical innovation leading to new products. Yet many companies will not even consider an unsolicited product idea.

The reason, in a word, is risk. When a company considers a new product proposal, numerous obligations are often imposed automatically by law—even though the company may not have intended to assume them and may have been totally unaware of their existence. Worse, it is often difficult to predict what a court may later conclude those obligations to have been.

At the very least, the company will likely be obligated to protect the confidential nature of the new product disclosure. Solicitation of evaluations from its customers or suppliers will probably not be acceptable. The company might also be obligated not to make unnecessary copies of the disclosure and to utilize reasonable security measures to protect copies that are made. Following evaluation, return of all materials might also be prudent. Conceivably, a court might also obligate the company to render a careful appraisal of the idea and to disclose related in-house work in progress.

Greatest risk. The greatest risk is when the idea is rejected but the company later decides to utilize a similar idea obtained from a wholly independent source. In this instance there is a chance that a court might prohibit use of the related idea, thus placing the company in a worse position than if it never had considered the product proposal in the first place.

The risk that any particular obligation might be imposed can be minimized by agreeing before the disclosure that such an obligation is not to be imposed. This preferably should be done in writing—oral agreements are enforceable but hard to prove. The agreement might also allow uncompensated use of the idea if patent protection for it is never secured. In case the company is willing to pay to use an unpatented idea (which is not infrequent), the agreement might specify that the payment obligation ceases the moment the idea becomes public.

The company is not the only party shouldering risk in the product idea market. If the seller discloses his idea without making clear its confidential nature, he risks total loss of all legal rights to it. Even when confidentiality is emphasized, there is still the risk the company will inadvertently disclose the idea to an outsider, without in turn imposing on him any confidentiality obligation. As a result, the secret nature of the idea might be lost along with all legal rights to it. Alternatively, the company might later be discovered utilizing a similar idea, refusing to pay compensation because it claims the idea it chose to use came from a wholly independent source.

Predisclosure agreements can reduce the risk of accidental disclosure by clearly setting forth detailed security measures the company must take to protect the product idea, including clauses prohibiting duplication of submitted materials, limiting their distribution to named individuals, and requiring their return within a stated number of days. Such limitations might also be conspicuously marked on the materials themselves, including a clear statement that the contents are confidential.

Obligation to pay. The predisclosure agreement can also be employed to clearly define the company's obligation to pay for use of the idea in the event it is later disclosed to them through an independent source. If the company is unwilling to commit itself to such an obligation (and very few are), the agreement can at least impose upon it the burden of establishing that the idea in use did, in fact, come from an independent source. Without such a clause, the seller might well be required to disprove the company's claim of independent acquisition, a frequently insurmountable task.

Problems arising from claims of independent acquisition can be totally eliminated if the product idea is patented, because a claim of independent acquisition is no defense to patent infringement. Alternatively, the seller would be wise to submit his idea only to companies of known reputation.

The column sets forth basic principles of law and is not intended as a substitute for personal legal advice. Questions and comments are invited and should be sent to Mr. Brown in care of Electronics.