

Actively Manage Patents for Better ROI

By Chris Sommers

A lack of time and resources often undermines the value of small and medium enterprise (“SME”) and individual inventor owned patents. By placing attention and energy on their intellectual property as they do on product development, companies can dramatically increase the value derived from their IP and greatly enhance their overall success.

Strong intellectual property and wise management of it are a prerequisite for success in today’s knowledge-based economy. With more than 80% of most companies’ net value consisting of intangible assets, of which patents are the most notable, careful attention to developing and nurturing these valuable assets is critical. While much has been written about the trapped value of intangible assets in the Fortune 500, the same if not greater entrapment occurs in small and medium sized companies because many SMEs lack the resources to properly exploit IP. Indeed, patents are not just the domain of large companies. Small companies typically generate significantly more patents per employee than large businesses and represent 20%-30% of all active high technology U.S. patents.

To be successful, it is imperative that small companies and individual inventors maximize return on their investment dollars. Unfortunately, lack of time, lack of resources, and a too-narrow focus on product development contribute to a suboptimal return. Broadening the focus to include leveraging intellectual property assets as a supplement to revenues derived from successful products can make the difference between just hanging on and vibrant success. By placing IP on equal footing with product development, new opportunities can be identified to accelerate growth.

A TYPICAL SCENARIO

It is a situation that has played out countless times. An individual or small group conceives a great new innovation. Successful in raising capital, they begin development. Eager to protect their idea, they file for appropriate patents to cover the product they intend to build.

Work continues. Often strapped for cash and lacking deep resources, the small company or individual proceeds with heightened focus to develop the best technical product possible in hopes of commercial success.

As the scenario unfolds, numerous outcomes are possible, but can be categorized simplistically as follows:

a) *The product is wildly successful* — While certainly a desired result, success invites danger in many forms, including competition likely to view the new entrant as an unwelcome visitor potentially infringing its intellectual property.

b) *The product is somewhat successful* — Demanding shareholders are sure to want more. The product has been successful in part, but is the return on investment acceptable?

c) *The product is unsuccessful* — Given product development was the focus, failure seems assured. In desperation, investors may turn their attention to the IP that was created along the way. More than likely, attention now will prove too little, too late.

Even under the best outcomes, return on investment will inevitably fall short. In most cases the small company’s IP portfolio is:

- Too small in number;
- Too narrowly focused on the specific product built;
- Built for defense, without regard to potential licensing opportunities.

As a result, the value of the IP portfolio has been undermined and ROI considerably diminished. Properly defending oneself from an aggressor’s portfolio will prove more challenging than imagined when confronted with a competitor’s arsenal of hundreds, possibly thousands, of patents. Launching an adequate defense with a small, narrow portfolio will be a losing proposition. Turning to IP to generate revenues after a failed product launch will prove equally difficult.

SEEKING MAXIMUM VALUE

Notwithstanding the huge creativity of smaller companies and individual inventors, most economic gain goes to large companies, not smaller ones. A lack of resources, a lack of time, and insufficient leverage are challenges every SME faces, and all negatively impact a company’s return on investment (“ROI”).

Focus, especially for small firms, is critical to preserving precious capital and producing a winning product. But when this focus is solely on the product itself, companies have aimed at the wrong target. The most a company can hope for is “the bottom right-hand corner” as shown in Figure 1, on page 5. Even if one is wildly successful and dominates a market — 10%, 20%, even 50% market share — more than half the market will be excluded, markets where potential licensing revenues could have been earned and significant revenue generated.

A growing number of companies are building their business model with the upper left-hand corner of Figure 1 as their target. Namely, the sole product of the company is the IP, and company revenues can be diversified across many licensees. If designed carefully from the beginning, this model can be successful. Done as an afterthought to the product, the model will undoubtedly prove unfruitful.

More than ever before, delivering maximum value to shareholders involves not only deploying a successful product, but also maximizing the value of the underlying intellectual property. Both product success and IP success should be the goal. Thus, small companies and individual inventors need to change their focus — and their target. Rather than aiming for the *bottom* right corner, they must set the *upper* right-hand corner squarely in their sights.

PREPARING FOR SUCCESS

Maximizing the value of a company’s intellectual property involves much of the same strategy and actions as those associated with tangible product development. Applying such attention and detail will position the company to maximize its ROI. Five key areas to consider include:

- 1) Company Mission;
- 2) Technology;

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- 3) Market;
- 4) Competition; and
- 5) Patent Prosecution.

Building the most appropriate and comprehensive IP plan requires a clear understanding of the company’s strategic vision. “Is the goal to succeed in one geographic area or globally? Is it to eventually sell the company to a larger entity, or if the company is not already publicly traded, is an IPO the end goal? What is the company’s planning horizon?” Only by aligning the company’s IP plan to the company’s corporate mission, can maximum ROI be achieved.

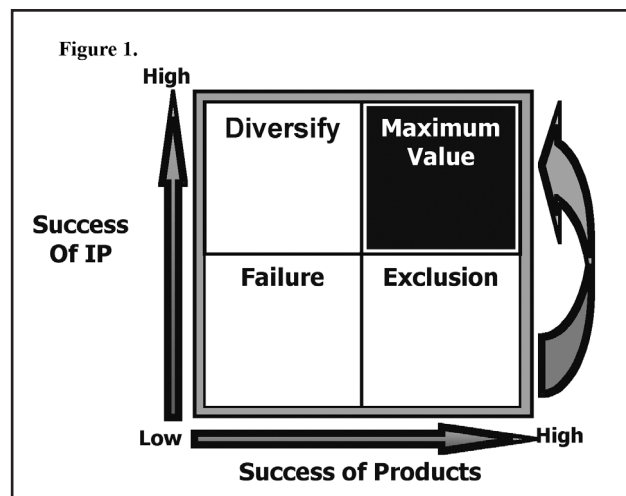
In the same way a company builds a technical roadmap to ensure long-term viability of its product, a company’s goal should be to build a patent portfolio that anticipates the future. “What is the lifecycle of the technology? Are there emerging standards? How is the technology likely to evolve?” Additionally, the patents need not simply be a documentation of the specific product currently envisioned. On the contrary, every effort should be made to have the IP capture the broadness of the innovation conceived, and envision the services it may enable when put to use in the market. An IP arsenal built in this way will help ensure that the full value and strength of the inventions can be properly realized.

Market knowledge is imperative in building a patent portfolio. “How large is the overall market, and what are its projected growth rates? What geographies are the most lucrative? Is the current market dominated by a few large players, or highly fragmented?” These are all questions that need to be considered as the patent portfolio is built. Patent protection is good, patent leveraging is much better. A strong technical patent in a niche market may prove unwarranted. Similarly, with time and money precious resources, especially for smaller companies, decisions on where to file for patent coverage are equally important. Additionally, over time

a company may find patents for which it no longer has need, providing an opportunity to sell them to others, thereby returning cash that can be reinvested in new inventions that will further enhance the business.

A keen eye on current and likely competitors will help define a company’s overall IP strategy, providing better protection against potential future claims as well as positioning the company for future licensing opportunities. Questions to consider include: “What are key competitors’ strengths and vulnerabilities? Are likely IP adversaries limited in scope to products like those our company makes or sells, or more broadly defined? If more broadly defined, what products generate large portions of their revenue?” Answers to such questions will give clear indications of additional areas where one may want to build a patent portfolio, either organically or through acquisition. By having a deep understanding of the competition, a company can build a patent portfolio that documents its own products while also providing freedom of action.

A company’s hard work in understanding technologies, markets, and competition only pays off if the resulting intellectual property truly represents all its inventions. Too often, patent holders are left saying: “Well, now that I look at it closely, my patent doesn’t say it exactly, but what I intended was ...” The best intentions don’t return investment. Strong and sufficiently broad claim language will. A company must work hand-in-hand with its prosecuting attorney, follow the patent prosecution



closely, and be prepared to defend its claims appropriately to ensure they specifically describe the full extent of the inventions.

The above process may sound easy in principle, but is quite complicated and time-consuming in practice. The prosecuting law firm, board members, and company advisers should be relied on for important advice and insight. Companies may also consider engaging firms that specialize in IP and have technologists, market strategists, and business executives with deep knowledge of IP to help provide the company with

sound strategic recommendations and alternatives.

CONCLUSION

Small and medium-sized companies and individual inventors are still very much the foundation of innovation. A lack of time, resources, and market leverage often diminishes their return on investment. By applying the same creativity and energy to developing and managing intangible IP assets as they do to product development, smaller companies and individuals can dramatically increase their return. Today, success depends significantly on how well a company manages its patent estate,

not only its product mix. While time is of the essence to these entities and capital may be in short supply, smaller companies and individuals cannot afford to forsake the best IP management practices that many larger companies are incorporating. Literally, their future depends on it.



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