

HOW TO EXPLOIT PATENTS FOR PROFIT

IS BUYING AND SELLING PATENTS PRUDENT MANAGEMENT OR TRADING THE 'FAMILY SILVER'? **PETER SPOURS**, EXECUTIVE VICE-PRESIDENT OF THINKFIRE, OUTLINES THE PROS AND CONS OF TRADING IN IP



PETER SPOURS IS EXECUTIVE VICE-PRESIDENT OF THINKFIRE. HE WAS FORMERLY HEAD OF PATENT LICENSING AT BT GROUP PLC.

Patents may have existed for the last 500 years, but the last five years have seen a major shift in their use. Recent trends in corporate accounting have placed the spotlight firmly on the use of corporate assets; and intangible assets, such as patents, are no exception. CEOs and CFOs are asking simple, but vital questions about their worth, such as: Why do we need to hold patents? Can we realise value from them? Are they even relevant to our business? Increasingly, IP specialists and in-house counsel are being called upon to provide answers to these difficult questions; often generating unexpected answers in the process.

A dynamic portfolio

Historically, companies have defensively registered patents in order to deter competitors and, where possible, build up rights that could be licensed to a competitor. Major companies would license patent rights from one another and occasionally a 'star patent' would emerge, generating a windfall for the owner.

Gradually, however, this traditional view of a patent portfolio as a group of static legal rights is being replaced by a more modern notion. IP is now considered a dynamic asset that requires regular and skilled review and decisive action if it is to be optimised. But how can those patent rights be exploited for maximum profit and market gain?

In their simplest form, patents serve two purposes. They provide a measure of protection for a company's business activity and, where appropriate, can be used to generate income. However, they will only protect a business's bottom line if that business carefully manages their use. IP portfolios are dynamic and ever-evolving; companies need to ensure that their patent rights remain relevant and financially valuable, and that they can be used without risk of retaliation from a rival company.

Freedom of action

Once a company recognises that its portfolio is dynamic, its first step is to ensure the proper management of its rights. The clear goal of portfolio management is 'freedom of action'; the ability to pursue normal business activity without being pursued by others for patent infringement. This may include freedom for trading or freedom to alter business goals as dictated by corporate strategy.

Yet many patent portfolios tend to be historic, reflecting the company's past, rather than its current or future aspirations. In many cases, the patents owned reflect the results of a previous research and development (R&D) programme, or have been inherited from past mergers and acquisitions. On the whole, they do not align with the corporation's current business aims, nor do they provide adequate protection for future business plans.

Such a situation can arise for many reasons. Often, it occurs when a company is too large to drive IP strategy from the boardroom level or when a company is too small to invest in in-house IP experience. Sometimes a company's market success outpaces its ability to organically grow a patent portfolio and to provide a plan for freedom

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of action. At its root, however, it reflects a failure to align the work of the IP department with corporate and marketing strategies.

Aligning IP with business goals

Such a situation can be corrected if the business follows a set of simple steps. The first task is one of analysis: each patent in the portfolio needs to be matched to the current and future aspirations of the business, and those that are no longer vital need to be isolated. It is at this stage that any gaps in protection will quickly become apparent. A careful analysis of a company's patent portfolio will determine the extent of the existing defensive (or should it so choose, offensive) arsenal. It will also reveal where the current portfolio is deficient.

The next, and somewhat harder step, involves checking the portfolios of competitors. Rival portfolios should be analysed not only for their patent rights and market share, but also to assess the impact should that competitor launch infringement actions against key products in your own portfolio. Companies with potentially threatening patents should be highlighted, to the extent they are operating companies (as opposed to 'patent trolls' which generally have no products), and a careful analysis of their existing patents and emerging patents must be undertaken to determine any clash.

At the end of this phase of this research, it should also become clear in which areas additional patents are needed and which existing patents are surplus to requirements. These findings need to be acted on quickly. There is, at least, a three-year pendency before patents are issued and perhaps several years of R&D before patents can be filed.

However, in most cases, businesses do not have the luxury of waiting five years before they move in the market place. In these cases, companies need to look elsewhere to fill the gaps in their patent portfolio.

Buying-in patents

Buying patents to plug the defensive gaps is easier said than done, as few companies will wish to expose weaknesses in their portfolio by trying to buy patents openly. Fortunately, they can use agents with the right experience and global reach to 'broker' transactions for them. But, what should these vulnerable companies look to buy?

The obvious choice is to purchase patents that fill the holes. However, in a highly competitive market, such patents may not be available quickly, or even at all. A more realistic option is to purchase strategic patents – patents that are strong enough to be asserted against a competitor's other business lines for maximum leverage. Such patents will provide material for a counter assertion against a different area of the competitor's business.

Once identified, the next step is to approach the rights holder to see if a sale is feasible. The approach needs to be carried out with care if both parties are to be protected and a realistic price achieved. However, it is possible. In one example case, a medium-sized Japanese company found itself blocked from the US market. It had been supplying a range of products in south-east Asian markets for several years, but wished to expand. Analysis showed that its major US competitor held key patents that could prevent or at least hinder market entry. After a review of options, it discovered that a US university held patents relating to another major product line of the US manufacturer. The US manufacturer had been offered a license some time ago, but declined. The patents were purchased by the Japanese company and asserted against the US company, resulting in a cross-license with a payment that defrayed some of the patent purchase cost. Freedom of action was achieved for the Japanese company.

Selling patents

As companies audit their patent portfolios to analyse the full extent of their IP Rights, a market is developing for the trade of patent rights. Just as companies wish to purchase patent rights to plug gaps in their IP strategy, others are seeking to off-load patents that no longer serve their business needs, and which could finance their purchase of IP

However, this developing market is geared towards the trade of high-quality patents that will help bolster a company's business plan; in many cases, it is the university and R&D establishments that are proving to be the biggest winners; their work is often carried out at the early stage of a product's development – at the very stage where patents are developed and registered.

There are many key reasons for selling patent rights: it extracts value from non-core or unused patents; it gathers profit from a portfolio more quickly than a licensing programme would achieve; it offloads patents where the ability to undertake technology transfer has been lost; and it enables the seller to pass on the rights to a buyer who is better able to extract licensing revenue – increasing the fee paid in the process.

In another example case, a service provider company held a single patent family that was core to an industry standard. Licensing the right



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was proving slow and litigious, as potential licensees held large patent holdings in the field. However, to a new entrant, the single patent held greater value. The patent was sold and the buyer recouped its cost in reduced cross-license fees. This generated a freedom of action for the buyer.

Ensuring market freedom

The proactive management of patent portfolios is vital to market freedom. Never before has it been so important for the IP department to play such a vital role in providing the freedom of action needed by the marketing and sales teams. Businesses must recognise the link to corporate and marketing strategy and regularly review their portfolio for weak links in the chain if they are to survive in the global marketplace.

Auditing IP portfolios in this way can be an intricate and often costly business, requiring technical, legal, market analysis and business strategy skills. However, the ultimate rewards can pay back that investment many fold.

