



Best Practices, Productivity Tools Are Key to Higher Patent Returns

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Today's innovation and brand-driven companies are well aware of the importance of intellectual assets ("IAs"). Few CEOs would deny the fact that a significant portion of their company's value is derived from intellectual property, especially patents. However, IAs represent a challenge for many corporate managers seeking to realize value in a world historically tied to "hard asset" financial measures. Not only do most operating managers lack experience in systematic management of intellectual assets, but also they lack the necessary tools — such as agreed-upon accounting methods and standardized financial reporting for such assets. Not to mention the fact that most companies also lack even the most basic information systems needed to manage how intellectual assets are created, managed, and exploited.

The challenge is made more daunting by the lack of objectivity in identifying, defining, and measuring R&D-generated, patent-related intellectual assets. Management struggles to find actionable directives that will drive bottom line value. With no clear benefit in the form of increased earnings or a higher market valuation in sight, the cost of assigning valuable (and expensive) managers to the task of "managing knowledge" becomes a dubious and unlikely priority. Not surprisingly, most businesses continue to operate within the status quo.

But where some businesses experience frustration, others see opportunity. While many intellectual asset management ("IAM") practices provide less direct "bottom line" impact, there is a wealth of opportunity for more traditionally recognized financial gains. In particular, intellectual property ("IP") intensive businesses — such as technology companies with patents or market differentiated brands — can use their substantial portfolios as a practical, high-payoff starting point for IAM.

A quick IAM "win" can provide both a rapid positive return on investment and spread knowledge of IAM techniques throughout the business. With such an approach, the organization obtains a bottom-line return that easily justifies the investment. And the benefit is visible enough to motivate managers throughout the firm to address the larger, higher value, but perhaps more investment-intensive issues, of IAM. With leadership support, the imperative of IAM becomes a policy and cultural movement across the company.

Identify a Starting Point for IAM

The importance of patented technology is clearly evidenced by the growth curve in the number of patents. Of all the patents issued in the United States since 1836 — more than 7 million — greater than 30% were issued in just the last 10 years. Patent rights, as a government sanctioned

monopoly, and with a strong legal enforcement structure, provide owners a defined framework for defining the business value of patents. As such, in accessing the imperative of IAM, the area of patent management is often the leading, high marginal return starting point of IAM.

The question to corporate management then is: How to do it?

To start, it is imperative that, from the beginning, the process of patent IAM has the strong, well-communicated support of senior management. As patenting is certainly not a new activity for most innovation companies, the IAM champion must clearly differentiate the IAM initiative from current patent operations and practices.

Designing and implementing an IAM program requires a unique understanding of a company's business drivers, operational processes, and organizational culture. While no two organizations will pursue IAM in the same way, as the discipline of managing intellectual assets has matured, a number of best practices have emerged that can be instructive to companies seeking to implement IAM:

- Align patent creation with new product development;
- Provide incentives to participate in the patent process;
- Enable efficient and effective collaboration across business functional roles; and
- Provide business intelligence tools that provide transparent visibility and understanding of patents in the business

Align Patent Creation with New Product Development

Ultimately the value of patents is derived from the product features and premium revenue margins driven by market-differentiated innovation. A company can sell more products, charge higher prices, and/or realize higher margins because of the patents that protect the innovation embedded in their products and manufacturing processes. For many companies, however, there is no link between patent creation and the new product development process. The result is that many products either lack or are under-protected by patents.

For leading IAM companies, the patent creation process starts at the very beginning of new product conception. Product managers actively consider both the competitive landscape and patent white space as part of the broader new product opportunity. By identifying the strengths, weaknesses, opportunities, and threats from the very beginning, product managers are able to factor in the cost and/or opportunity of patent protection to the new product's financial profile.

Strategic patent planning is an important tool used to drive a more structured patent creation process. Initiated at the beginning of the new product development process, strategic patent planning asks key inventors, product and marketing managers, and patent legal professionals what aspects of the new product might generate patentable innovation or require other patent acquisition. A plan is developed which includes the specific technical focus areas and the number of patent disclosures expected. The strategic patent plans can also include budget information, as well as further description about how the project will optimize the intellectual assets. Importantly, the strategic planning process must be linked to the invention disclosure process so that patent creation performance is actively measured.

Provide Incentives to Participate in the Patent Process

The successful patent IAM program is founded on the creation of high-quality, valuable patents that ultimately comprise the company's portfolio of intellectual assets. For many companies, however, would-be inventors — the engineers and scientists — often lack the incentive to

participate in the IAM process. In fact, inventors are often disincented to submit new inventions because of the inefficiencies and time commitments required by the company's patent process.

To overcome these barriers to participation, companies are employing a number of approaches that create a more "inventor friendly" patent process and which reinforce the strategic importance of inventors' contribution.

The use of simple, online electronic disclosure submission systems provides an easy way for inventors to submit new ideas for patent consideration. These systems provide directions, a minimal amount of required information, and the ability to easily collaborate with co-inventors and other patent professionals. The system also eliminates the paper-intensive production process and avoids overburdening inventors with too much information. Some companies have added electronic invention disclosure directly to inventor notebooks and other R&D stage gate processes to create a seamless process. Inventors should also be able to check the status of their inventions through an online system.

Companies are becoming more innovative about compensating researchers and others for strategically important inventions. While many companies employ some type of structured monetary award for invention disclosures and patents, some more forward-thinking companies have instituted special incentive programs that encourage more active disclosure in specifically identified strategic areas or projects. For example, a telecommunication company advertised amongst its inventor community that the disclosure in certain technology standards would be rewarded at 10-times the normal patent bonus rate. These "special incentives" must be actively managed for quality and policy conformance, but can be an excellent tool for both driving business-valuable patents and encouraging inventor participation.

Collaborate Across IAM Functions

Intellectual asset management is an inherently multi-disciplinary, cross-functional activity. Representatives from R&D, business management, finance, and legal are all involved in various aspects of patent management. Many companies lack the ability to coordinate the activities of these roles in a unified, coherent process, and as a result under-perform in leveraging their intellectual assets.

To help create an efficient, effective collaboration environment, IAM programs are beginning to employ the use of online, collaborative IP projects. In the patent area, these include such activities as offensive reviews, freedom to operate projects, and competitive intelligence analyses that are visible and accessible by members assigned from representative business functions. As a distributed process, patent IAM companies are able to leverage their IP project capabilities to better share information and reduce work effort or redundancies often experienced in highly distributed organizations.

Provide Business Intelligence Tools That Facilitate IAM

The first step in practicing IAM for patents is to make up for the deficiency of standard reporting and visibility by creating an explicit, structured patent portfolio that accounts for every patent and that allocates management responsibilities for the patent portfolio — including maintenance costs and licensing income — to an appropriate specific operating unit of the business and its managers. With this done, patents can be reviewed for the first time by operating managers for their financial and strategic importance. Managers then can plan to create immediate, medium-term, and long-term benefits through the patent management process.

We consistently find that the best patent IAM practitioners institute a well-structured categorization scheme that enables assets to be classified according to key business

characteristics. By assigning each asset to categories, the value context is instantiated in the portfolio, thereby creating the basis for IAM business intelligence. With a categorized portfolio, IAM decisions can be made with a more complete understanding of their business impact. To efficiently categorize the portfolio, the process should be integrated into key steps in the broader IAM process and workflow. For example, categories can be assigned or updated during invention disclosure, the patent review board meeting, foreign filing deadline, and annual maintenance review. Automation of these workflows substantially improves the effectiveness of the categorization process.

The categorization scheme should reflect the multiple dimensions of IAM and allow both hierarchical and unlimited many-to-many assignment to assets. We find that the following types of categories are common among best practice organizations:

- Business organizations/business units;
- Budget/cost center codes;
- Products/brands;
- Projects (*e.g.*, R&D project, marketing project, business development project);
- Technologies;
- Keywords;
- SIC codes/industry segments;
- Standards;
- UPC/IPC codes; and
- Trademark classes

In our discussions with leading companies, we find that reporting is often cited as the most critical factor in achieving patent IAM objectives. This includes both internal asset analysis, as well as third-party intellectual property rights. The use of searching and analysis tools covers a range of purposes including freedom-to-operate (including both patent and trademark availability), competitive landscape/intelligence, and operational performance metrics. Of particular note, we are increasingly finding that IAM initiatives are driven in part by regulatory compliance related to Sarbanes-Oxley, FASB rules, and other assurance related considerations.

Conclusion

As companies become increasingly driven by their intellectual assets, patent management, via IAM, has become integral for realizing the strategic benefits, value creation, and shareholder value. While a company's specific program may differ, certain IAM best practices can be instructive to all companies — and especially to senior management — in identifying the key activities that can drive performance and value.

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