

It's a minefield out there

There may be gold in them there patent portfolios. But not everyone is going to find it when they go a-looking. Over the summer, IAM assembled a quartet of leaders in the field to discuss the opportunities and dangers patent mining presents. By Joff Wild

On the face of it, patent mining is an attractive proposition: patent portfolios cost a great deal to assemble and then to maintain, yet most of the patents they contain are not used in the products of the companies that own them. What could be more attractive to boards and shareholders alike, therefore, than looking closely at portfolios to see if they contain rights that others are infringing or of which they may be in need? If such an exercise is successful, there is licensing money to be made – potentially serious money at that – much of which will find its way directly to a company's bottom line.

But, of course, the reality is not quite so simple. While patent mining is an option for some organisations, for others it may not be. Because there are a host of issues to consider before beginning to mine a patent portfolio – some of which go to the very heart of internal and external culture – such programmes should not be undertaken lightly. Certainly, some organisations have been extraordinarily successful in developing their patent assets as significant contributors to overall value. But for those that get the whole thing wrong, angry shareholders and other investors will pose difficult questions based around wasted resources – both financial and human.

Given the complications, who better to provide a proper perspective than four experts who work regularly at the patent mining coalface? Between them, Simon Fisher, the Associate Vice President of the Semiconductor & Optoelectronics Business Unit at BTG plc; Frederic Farina, Associate Director of the Office of Technology Transfer at the California Institute of Technology; Sumio Kogure, the General Manager of the Intellectual Property

Division of NEC Electronics Corporation; and Kevin Rivette, Executive Adviser, IP, with the Boston Consulting Group, have more than 50 year's patent mining experience. They spoke with IAM's editor Joff Wild about some of the major issues they have to deal with.

Joff Wild: *Patent mining is a concept that many people talk about. Before we get into a more detailed discussion how do you define the term?*

Fred Farina: *I would put it very simply: analysing one's patent portfolio (relative to the marketplace and competitors) in order to extract value from patents that would otherwise be dormant.*

Simon Fisher: *In its crudest form, I see patent mining as a prioritisation task. We deploy many strategies and various practicable approaches but in practice all seek to prioritise a given set of patents in a given situation. For BTG the goal is usually to identify patents with substantial untapped commercial potential.*

To truly grasp the commitment being made by embarking down this route it needs to be viewed as a long term integral part of any IPR-related value creation activity, even if patent mining per se is used more for analysis of the patent landscape in a given field rather than a hunt for the hidden golden nugget. Whatever the goal, however, the process comprises a systematic sieve through various goal-related criteria – for example categorising each patent in terms of technology or market, assessing the commercial and legal scope, considering validity issues. The ultimate aim is a short list of viable candidates on which detailed due diligence and strategy work can be undertaken.

Sumio Kogure: Of course, when looking at patents or a patent portfolio which an organisation owns or controls, one of the prime aims of patent mining is to find valuable rights that will bring economic fruits or advantage. More specifically, among many patents that have not been individually evaluated, patent mining is used to assess the value of the respective patents and to find commercial applications for them, ultimately based on licensing or enforcement.

But there is another purpose that has not yet been mentioned and that is to find valuable patents for protecting your business against competitors.

Kevin Rivette: I define patent mapping broadly. To me patent mapping includes the traditional analysis of the patent landscape to which the specified technology relates. In addition it also involves an exploration of the lateral uses that others have identified for the technology, what known and unknown competitors are working in the technology space, what is the pace of R&D investment that the technology is experiencing, and a timeline view of how the technology has developed. Typically, our clients use this type of mapping in conjunction with science and business network mapping to develop IP business strategies on how to create an IP advantage to achieve a business goal.

JW: It is tempting to see patent mining as a realistic option for all organisations that have an IP portfolio. In reality, do you think this is the case?

SF: Patent mining, in the broadest sense, is central to any process of developing a portfolio of IP rights into a profit-generating asset and integrating that asset fully into a corporate strategy. Whether the objective of finding an untapped asset is a realistic one depends on whether the portfolio has the appropriate attributes and if that is the immediate goal we always look first at those generalities before engaging in a detailed review. I have to add, however, that I think any company with a portfolio of IP must be seriously striving to turn that asset into a significant ongoing generator of profits – those that do not will lose out to companies that are quicker off the mark.

SK: I think this is a very broad trend. Maintaining patents or patent portfolios is costly. To recover such expenses or costs, and further to achieve some income, many organisations are now actively looking at what they own. To my recollection, in the 1980s, ST-Micro acquired MOSTEK, a memory company

with its patents. ST-Micro obtained a huge amount of royalty income through licensing MOSTEK originated patents. The total royalty amount was believed to be more than several times the price of total MOSTEK assets.

The first time the term patent made a particular impression on me was in connection with ST-Micro's success. Later, a similar situation occurred for Thorn EMI which acquired INMOS, a memory company. Encouraged by these successes, many organisations started to pay attention to their intellectual property, particularly patents and licensing out.

That said, it is not that common to hear of success stories in patent mining activities, even though patent mining and other patent oriented asset recognition exercises have been attempted in various organisations.

FF: That's right: patent mining is certainly not the silver bullet for everyone. First, it presupposes a large and diversified patent portfolio. Mining a large patent portfolio requires significant financial and expert human resources and the potential benefits must outweigh the cost of the operation. For most universities and research institutions portfolio mining is not a practical option due to the lack of resources and great uncertainty of a financial windfall. Such institutions are generally risk averse and convincing the administration to invest in this task may be very difficult. Unlike many corporations, exploiting IP is not the main business of a university and IP management does not rank at the top of its priorities. Additionally, supposing a university engages in portfolio mining and discovers a valuable patent (eg, a patent that appears to be widely infringed), the options to exploit this patent would be limited. Indeed, most universities are reluctant to pursue infringement suits, and the only option would be to offer licences to potential infringers. Without the threat of suit looming in the background, the licensor finds itself in a very weak negotiating position. One way around this is to hire a firm to mine the patent portfolio and assert potentially valuable patents on behalf of the university under a licensing deal between the firm and the university. Of course, such arrangements typically involve a revenue sharing scheme and the potential return for the university is less than if it were asserting the patent on its own. However, revenues may be generated under this kind of arrangement from patents that would have remained otherwise unexploited.

KR: For me, the patent mining nomenclature can be misleading. I have heard too many people to use this term to refer only to monetisation of patents. While this can be a good thing I believe it is better to see patent

mining as a process for defining how to derive strategic value from a company's IP assets. Leveraging for strategic value can be a very multi-dimensional issue that could involve many tactics, such as developing cooperative licensing arrangements to help manage a product line supply chain or setting up patent pools to help develop viable company backed technological standards. Even the simple issue around monetising a company's portfolio should be evaluated in light of the secondary effects that a licensing for cash programme may have on the company's brand and supplier/competitor ecosystem. We have found that some of the secondary effects of licensing for cash can be very harmful to the company in unanticipated ways that if understood while setting up the licensing programme, can be negated or at least minimised.

FF: I agree with Kevin here. For a medium size or large corporation, portfolio mining may be an activity that the corporation cannot afford not to engage in. A thorough understanding of one's patent portfolio may provide important strategic information to a corporation. For example, with that knowledge in hand, R&D can be directed to areas of technology that could strengthen a corporation's IP position or in which it wishes to expand. Portfolio mining will also provide information about a competitor's IP position with respect to a corporation's own IP position. This knowledge is necessary for a corporation to determine which patents should be acquired or licensed and will provide a reasonable understanding of the areas in which it has freedom to operate. Further, it is useful to have an idea of who the potential infringers may be. And, as Sumio mentioned, if not as an offensive measure, this knowledge may provide ammunition when sued by a potential infringer.

JW: What attributes does a portfolio need in order to make it a candidate for a successful mining operation?

SK: The attributes include technology areas, number of patents, time when an invention was made and the countries where patents exist.

It is important that a patent portfolio is measured and surveyed in depth bearing in mind these factors. If a portfolio includes broad scope patents as well as many narrow scope patents in a specific technical area, and if it contains early patents as well as recent patents relating to a certain industrial area, it would be generally worthwhile to think about patent mining.

KR: I think the answer will depend on what the company want to accomplish by mining. Depending on the business goal, the portfolio

can be evaluated to determine how successful the mining operation could be.

FF: Again I agree with Kevin. It will depend on the main purpose for mining the portfolio (finding out infringers, provide strategic feedback to R&D, finding out companies/technologies to acquire, etc.)

However in broad terms, a decent size portfolio is necessary so that the operation can actually be called portfolio mining. But, if it is too large the task may be very difficult. Obviously, most patents should preferably have a fair amount of life left. The portfolio should cover areas of technology that have a reasonably bright future, as opposed to technologies that have already seen their brightest days and are being replaced. More importantly, the portfolio should cover areas of technology that have an established strong market and involve large corporations as major players. The deepest pockets will provide the highest returns.

SF: Looking at this from the value realisation aspect, anything that calls into question the credibility of a portfolio should rule it out. This ruling out is key to the sieve process I mentioned before – it's not dissimilar to a venture capitalist evaluating investment opportunities. Both processes endeavour to get to a no as quickly as possible, while those candidates that make it past through a test progress toward the shortlist.

One of the first characteristics that is important at the portfolio level is whether there are any existing encumbrances – eg, existing cross-licensing agreements, joint ownership arrangements and so on. The ideal portfolio would be clean from any of these. Next I would say the median age needs to be broadly consistent with the typical diffusion time for the target markets and the intended commercial use.

We also look for indicators of effective and efficient prosecution across a portfolio – for example have the patents generally been filed in more than one jurisdiction and consequently been examined and searched by more than one patent office? Breadth and depth are additional criteria – a very broad portfolio consisting of one patent in each of a myriad of different areas presents a major resourcing challenge, whereas a moderately broad portfolio grouped around key market or technology themes and consisting of more than one patent family in each theme is ideal. The other obvious one that springs to my mind is the existence, in at least some cases, of pending continuation or divisional applications such that there is a possibility to unlock any inventive value that may have been left unclaimed in the original filings.

Patent mining panel

JW: What factors does an IP owner need to evaluate before it embarks upon a patent mining programme?

SK: Very briefly, the IP owner, either internally or using an outside consultant, should undertake an analysis of technology trends which would involve looking at industrial technology, disclosed technology in patents, the interpretation of the scope of patents, and market information combined with an economic assessment of any possible patent mining programme.

SF: In addition to what Sumio says, I think it is also important to stress that fundamentally the appetite to develop the portfolio into a profit-generator must exist. Often these activities are seen as totally decoupled from an organisation's core business and consequently can end up being under-planned and under-resourced. That decoupling can work to the owner's advantage in tactical mining of an existing portfolio, since it is a straightforward task to outsource, with only project management resourcing required by the owner.

Regardless of the resource question, existing intra-industry relationships and any existing cross-licensing arrangements need to be assessed; as of course must any internal use of the patented technologies. Some quite daunting but necessary questions need to be answered, such as would the owner be comfortable to litigate against anyone infringing on their patents assuming that a licence agreement could not be concluded? An organisation shouldn't kid itself that it's headed for glorious riches unless it is determined to fight all the way if necessary. Similarly, those glorious riches are unlikely to come from limiting the campaign to licensing out solely the non-core, unused patents that have proved irrelevant to the owner's main business.

KR: These are important points but, ultimately, I think it comes back to what I have said before: in my experience the most important consideration, above all others, has to be to define the business goal to be achieved and craft an IP strategy around that need. In situations where the business goal and IP strategy are defined patent mining can be much more efficient, cost effective and successful.

FF: I would certainly advise a basic cost/benefit analysis. Evaluate how long the process would take and what its cost would be. Evaluate the potential benefits, monetary and others. Gain a basic understanding of the markets (and their size), which may be tapped into if important patents are discovered. Ensure support from upper management and, as Simon says, find out whether the organisation is willing to enforce patents

aggressively. Discovering valuable patents and not being able to exploit them would defeat the purpose of the operation.

SK: The patent portfolio must first be classified in terms of the technology covered by the respective patents so that it can be reduced into a technology map. The technology areas covered by the portfolio can then be reviewed or considered in comparison with industry-wide trends. Also, relevant market trends and size should be investigated.

If the relevant market and technology map coincide to a sufficient degree, then the cost of possible investment to achieve a full understanding of the relevant technology and to undertake detailed patent evaluations should be considered. Also evaluation should be made for possible licence incomes. If possible licence income is anticipated to be greater than the envisaged investment, a patent mining programme can be initiated.

JW: How does a company move from deciding it wants to initiate a patent mining programme to actually putting one in place?

FF: First and foremost, hire the right people for the job. Easier said than done! If not already in place, create a separate business unit in charge of IP management. This unit should be the interface between inventors, IP/legal and strategic management. This unit should work closely with engineers/scientist/inventors as they are the best source of information available.

SF: There are a variety of tools and supporting organisations out there. Establishing clear goals for the programme is key to determining the first steps – for example if a company wants to review a portfolio in terms of value opportunities in a particular market then it may be appropriate to look at outsourcing of the mining and execution. If the objective is to integrate strategic patent landscaping into the core of a business then you'd better get the skills in house and seek knowledgeable providers of tools and advice.

KR: The process typically involves four steps:

Developing a business goal that is consistent with the overall company strategy, typically on a product or technology level.

Defining an IP business model that achieves the business goal (this will typically involve evaluation of multiple IP models that range from the fully closed protective approach to the completely open availability of all IP. In our experience most companies that do this right evaluate between four to seven different



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Prior to joining the office, Fred worked for eight years as a research engineer in the GPS field. He subsequently joined a law firm where he prosecuted patent applications on various electrical technologies before the US and European patent offices. Fred holds a *diplôme d'ingénieur* in Electrical Engineering from the Institute National des Sciences Appliquées, Lyon, France, and is a graduate of Caltech from where he received his MS in Electrical Engineering in 1992. He is a registered patent agent.



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Simon joined BTG in 2002 and has 16 years' experience in the semiconductor industry. He worked in a variety of corporate roles from 1988 to 1997, from research and development through applications support into product management and marketing, becoming a freelance consultant in 1997. While consulting, Simon worked with a number of blue chip clients on the establishment of new business ventures and worked with BTG on a number of opportunities and in 2000 became business development director of a small specialist smart card software and consultancy firm. He holds a first class honours degree in physical electronics from Warwick University.

models and craft a model that blends attributes from many approaches).

Defining the patent specifications that need to be held to achieve the IP business model.

Executing the patent mining (typically in conjunction with a science/business network analysis) in light of the defined specifications to determine if the portfolio contains the desired inventory.

JW: What type of expertise does an IP owner need to draw on – both in-house and from outside?

SK: Very briefly, I see four key areas: people with knowledge of technologies; those who are able to read patents and interpret their scope; people with knowledge of the market and its trend; and finally experts who are able to undertake financial analysis.

KR: Sumio is right. The skills set to successfully leverage a patent portfolio for strategic value should include representation for the strategic business units involved, good business understanding of the market ecosystem in which the technology/product is involved, an understanding of company licensing practices and relationships, and a good IP legal team to define the strengths of the patents involved and how pertinent they will be to achieving the business objective.

SF: The most commonly cited ones are probably technical experts, fluent in the given field, an understanding of the marketplace and appropriate legal resources. Something that is frequently overlooked is the deal-making expertise – trading in intellectual property is not merely a question of establishing legal rights and wrongs. Rather, it is a business process driven by business logic and a top-flight transaction team who have the authority and capability to make business-driven decisions in the midst of often fraught and complex negotiations is, to my mind, one of the most critical elements. That is often a skill-set that needs to be brought in from outside, since IP transactions are neither familiar to a product-oriented salesman nor resolvable (excepting litigation which is rarely an ideal objective) by legal debate.

FF: I certainly agree that a good understanding of the markets and major players in the field is important. The inventors will often have first-hand knowledge of who the major players are and what technologies they may be pursuing. The marketing department may also have valuable information in this regard and management consulting firms may be hired for market studies (although one must be very careful when hiring such firms

as the cost may run very high and the knowledge gained may not be significant).

Having said that, a reasonable grasp of the technology is also important. Again, the inventors can be very useful in this respect and it is essential to develop good working relationships with them. Of course, a reasonable ability to understand patent claim language and evaluate the scope of claims is also very important. In-house patent counsel may be helpful with this. A law firm may be singled out as a result of portfolio mining.

JW: What do you see as the most important components of a patent mining programme?

KR: I believe the most important component of any patent mining programme is to understand the business goal and how an IP strategy can help achieve the desired result. In my experience the tactical patent-by-patent evaluation is not the critical determinant in creating a successful patent mining programme.

SF: As Kevin says, the most important component is the objective. If the objective is to identify whether there is a hidden jewel in a given portfolio that can be extracted and used to generate revenues, then a certain set of process steps fall out naturally – as we discussed earlier these all boil down to some form of sieving.

Enthusiasm, at the most senior levels, for the philosophy to robustly exploit and defend the organisation's patents is also a key component. An IP group may be able to undertake some specific tasks on their own but to coordinate with product-oriented business teams and other stakeholders a mandate from the top is essential.

Given that, the tactical components are good project management, access to appropriate independent technical experts, a structured filtering and reporting plan, access to appropriately experienced negotiators and experienced patent - and transactional - attorneys.

SK: From my perspective, reading patents, particularly interpreting their scope and claims, is the most important component. It is vital that a patent portfolio contains strong patents. If a party that receives a licence offer or patent assertion does not recognise the patents in question, or does not accept they were infringed or actually employed by its products, it presents difficulties: either because expensive court action will be the only route to uphold the rights in question or, most disastrously, because they cannot in fact be enforced.

Patent mining panel

FF: I see a number of key points, some of which have been mentioned already.

It is vital to establish and maintain successful relationships with very different people in the organisation, people who speak very different languages: inventors, IP/legal department and upper management.

The ability to integrate technical, business and legal knowledge in the decision making process and effectively provide recommendations to upper management is also crucial.

In addition, those undertaking a programme must have full support from upper management and their willingness to fully exploit/enforce valuable patents.

I also think it there should be an ability to channel some technologies through start-up companies for those promising inventions which do not yet have a market. For example, by having a venture arm in the company.

Finally, it is important to understand that that it may take many years before the mining process generates significant revenues.

JW: Will there be different considerations for companies working in different sectors and, indeed, for universities and research institutions?

FF: Absolutely. You only have to look at the decisions that a university must make – as I described before – to appreciate this.

KR: I agree. This is a very good question and the answer is yes. Market demands and the business ecosystem/network considerations will absolutely shape a patent mining programme.

SF: It would be easy to say yes, but I'm really not so sure that is true. All have stakeholders with interests to satisfy. All have some core activities that are prized. At some level then of course there are differences in execution but I would say that in the engagements I've worked on at BTG the top-level approach has been consistent. There are always specific concerns and interests that have to be balanced but those tend to become more of an issue at the execution/negotiation end of the pipe rather than at the mining and strategising end.

SK: For those organisations such as universities and research institutions, it is very important to recover research expenses and costs by licensing out patent portfolios. This allows them to continue and expand research activities in a positive cycle. In this way, the goal is not monopoly or competition in the industry. Therefore, the portfolio is a useful tool for establishing research alliances or supporting relationships such as patronage by companies.

In addition, universities or research institutes

generally do not have business models which require third-party patents. This means they do not need to consider any cross-licence factors and can therefore ask for high royalty rates.

JW: A great deal of patent mining related software is available now. Is it useful?

KR: As the founder of Aurigin Systems Inc, one of the first companies to offer this type of software, I believe that such systems can be of immense value in understanding the IP landscape. However, I must point out that these tools do require an understanding of the business landscape as well as the technology before they can be used effectively. I believe in the past many people have tried to rely on the tools to get-the-answer. In my opinion, these tools are just that, tools, and business/legal judgement is essential to using them properly.

FF: I have never used any software tools specifically designed for patent mining. A good IP management database is crucial to keep track of the portfolio and also sufficient for portfolio mining. It seems as if many aspects of mining cannot be automated and, as Kevin says, human input is essential. For example, claim interpretation certainly requires a human expert. For very large patent portfolios, a software tool may be useful for an initial categorisation of patents.

SK: Yes, I agree. Mining related software would be useful at initial phase of patent portfolio analysis and evaluation, such as during the process of mapping the portfolio in terms of technologies, classifications, key words or the like.

SF: Like any software utilities this all depends on how you use it. We have a variety of tools for data extraction and analysis. Most of the information is actually available at the various patent office websites but the advantage that some of these tools bring is in the integration of databases, cross referencing and visualisation tools. As the others have mentioned, it is important to remember that these are tools and some level of knowledge and expertise is needed to get the most from them.

JW: Do you see patent mining being part of an assertive licensing programme or is it more about finding technology that would be of use and then contacting companies who you believe will be interested?

SF: Both, and more. The assertion aspect is clearly a hot button in the electronics industry



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In addition, he is the author of Rembrandts in the Attic, the seminal intellectual asset management book.

right now but brokering of tactically important assets can be very valuable for patent owners and licensees and purchasers alike. We see it as an important aspect for filling gaps in portfolios as well and many organisations are identifying this as a key defensive element of a product strategy.

KR: I see the broad definition of patent mining being applicable in assertion licensing as it provides one means by which to understand some of the technology trends in the industry as well as what lateral opportunities might be available and could be overlooked by too narrow a focus.

SK: An assertion-based licensing programme is a typical and positive purpose of patent mining, particularly in the technology or market fields familiar to the patent owner. And while it is also a useful approach to find and utilise patents or technology which are in a non-core business filed for the patent owner but which could be of interest to third parties, the reality is that we do not see much of this happening in reality.

FF: Patent mining is an expensive proposition that is resource intensive. One should probably not invest in patent mining if not willing to use all necessary means to ensure the maximum return. This includes assertive licensing (which is a euphemism for "take a licence or I will sue you"), direct infringement suit or any other creative (legal) way to exploit a patent. Ultimately, a patent is a business tool to make money or not lose money.

JW: Isn't there a good case for saying that in reality patent mining is more hype than reality as there are no real Rembrandts in the attic, and that in most cases a company will already be using any valuable patents it possesses?

KR: This is one way of looking at the Rembrandts issue. I would suggest that in fact many very successful IP strategies find Rembrandts in the attic, as the company is exiting a product line or industry. I believe that IBM's well-documented success with leveraging its patent portfolio for strategic value has been by finding valuable industry patents and using these as they moved away from products that are no longer core to their business. Again, I believe that the best way to find value in a portfolio is to have a defined business goal and then evaluate the portfolio in light of the goal. Many times a valuable patent or patents can be leveraged in geographic regions that the company is not serving by developing licensed distribution partners. In my opinion, this is a Rembrandt in

the attic set of patents. When I wrote the book Rembrandts in the Attic I was using the title to point out to companies the fact that there are multiple ways to derive strategic value from their patents. Monetisation is only one approach and may be counterproductive in some circumstances.

SF: I have seen in my own experience a number of cases where real value has been identified and extracted through a variety of mechanisms, ranging from the sale of an unused portfolio to a party that could extract some tactical value from that portfolio to the identification of misappropriated rights and assertion of those rights to recoup licence and royalty payments. I am sure that there is some truth in the fact that real value will accrue from opening core assets to the risk of licensing; however, I know that in many cases (though clearly not all) there is very real value to be realised from patent mining.

SK: I agree. For patent owners that have a substantial patent portfolio, patent mining is a well-recognised method of finding valuable patents, although the degree of success varies case by case. If a patent portfolio is big, it is likely that there are unfound valuable patents buried away somewhere.

FF: Hype or no hype, the fact remains that mining a patent portfolio is a risky, difficult and expensive proposition that may not generate any significant revenues. The fact also remains that companies such as IBM have been able to generate gigantic revenues from licensing as a result of a thorough understanding of their patent portfolio and impeccable patent management and licensing practices. Patent mining should be viewed as the initial step of a comprehensive long term IP management strategy. Understanding one's IP position with respect to competitors will provide valuable information at every level of the corporation. IP plays an ever-increasing role in technology markets and companies with sound IP management practices are able to gain a competitive edge. When visiting the attic, the primary goal should be to gain knowledge of what is in store and to throw out useless items, not to find the unlikely Rembrandt. But, off course, one must keep an eye open for the Rembrandt or the Picasso...

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