

Key advisory issues

Identifying and managing intangibles: what's in your closet?

Many organisations have a long history of successfully managing the lifecycle of both tangible and intangible intellectual assets, from creation to realisation. However, others are just getting started. This chapter outlines the intellectual asset management (IAM) process for those in the starting blocks who want to move forward.

Within most organisations, intangible asset value now dwarfs tangible asset value and is growing more significant every day. This fact alone establishes the need for an organisation to have an effective framework as to how value is created, protected, deployed and commercialised to obtain maximum benefit. All too often, organisations invest a significant amount of resources – cash, time and opportunity costs – to create intangible assets, only to lose track of them and fail to extract their value.

While protecting patents, trademarks and copyrights is clearly an important objective, there are several additional and compelling reasons why a company should have a strategic IAM programme in place. Poorly managed intellectual assets not only are costly, but can create significant risk. On the other hand, a well-managed and protected intellectual asset portfolio can generate additional revenue streams. With accounting and reporting for intangibles changing, opportunities are emerging to increase an organisation's stock price. Moreover, an effective intellectual asset portfolio is an organisation's competitive sword and shield – particularly with respect to those unique and valuable intangibles that can catapult the organisation to the front of the pack.

Organisations with a sound IAM programme enjoy significant business benefits, including:

- better coordination between business units and functions to deliver new value;
- new bottom-line impact from underused intangible assets;

- leadership in an increasingly competitive market;
- better alignment of research and development and intellectual property with the business strategy;
- protection of the organisation's right to practise its best technology; and
- shorter development cycles and higher-impact IP positions.

With the value of intangible assets growing substantially relative to an organisation's total tangible value and total firm value, robust IAM is critical to the future performance and competitiveness of an organisation and cannot be ignored.

But before a company can effectively manage its intellectual assets and benefit from the advantages mentioned above, it needs to know what it has and how it is being used. This sounds simple, but while tangible assets are easy to identify, intangibles are not always so obvious – and intangibles that have fallen off the radar and sit gathering dust in a closet can amount to significant dollars being left on the table.

Do you know what's in your closet? If not, it's time to conduct an intellectual asset inventory to find out. Why? The inventory will form the foundation on which the above benefits will be built. Before an organisation can move its intellectual assets from a cost centre to a profit centre, it is essential to conduct the inventory or update an existing one. This will allow clarity as to ownership, strategic alignment, development needs and opportunities for incremental revenue streams.

What should IAM look like?

The proven holistic IAM model depicted in Figure 1 promotes a consistent approach that yields results. It consists of five key elements: strategy, creation, portfolio management, realisation and recognition.

The strategy context of the enterprise is where the model begins and ends. The corporate strategy defines

the IAM goals and activities. The creation of intellectual assets is the first stage of the intellectual asset lifecycle and determines what is needed and how to invest to get it. Portfolio management involves obtaining the highest level of articulation and protection that is available. Realisation of the benefit, completely and effectively, is the name of the game. The inventory identifies where intellectual assets are used in the business and strengths and weaknesses in product protection. Finally, the recognition from a successful IAM programme leads to increased share price and market value.

According to Forbes Digital Organisation’s Investopedia®, ‘intangible assets’ are defined as follows: “An asset that is not physical in nature. Corporate intellectual property (items such as patents, trademarks, copyrights, business methodologies), goodwill and brand recognition are all common intangible assets in today’s marketplace. An intangible asset can be classified as either indefinite or definite depending on the specifics of that asset. An organisation brand name is considered to be an indefinite asset, as it stays with the organisation as long as the organisation continues operations. However, if an organisation enters a legal agreement to operate under another organisation’s patent, with no plans of extending the agreement, it would have a limited life and would be classified as a definite asset.

While intangible assets don’t have the obvious physical value of a factory or equipment, they can prove very valuable for a firm and can be critical to its long-term success or failure. For example, an organisation such as Coca-Cola wouldn’t be nearly as successful were it not for the high value obtained through its brand-name

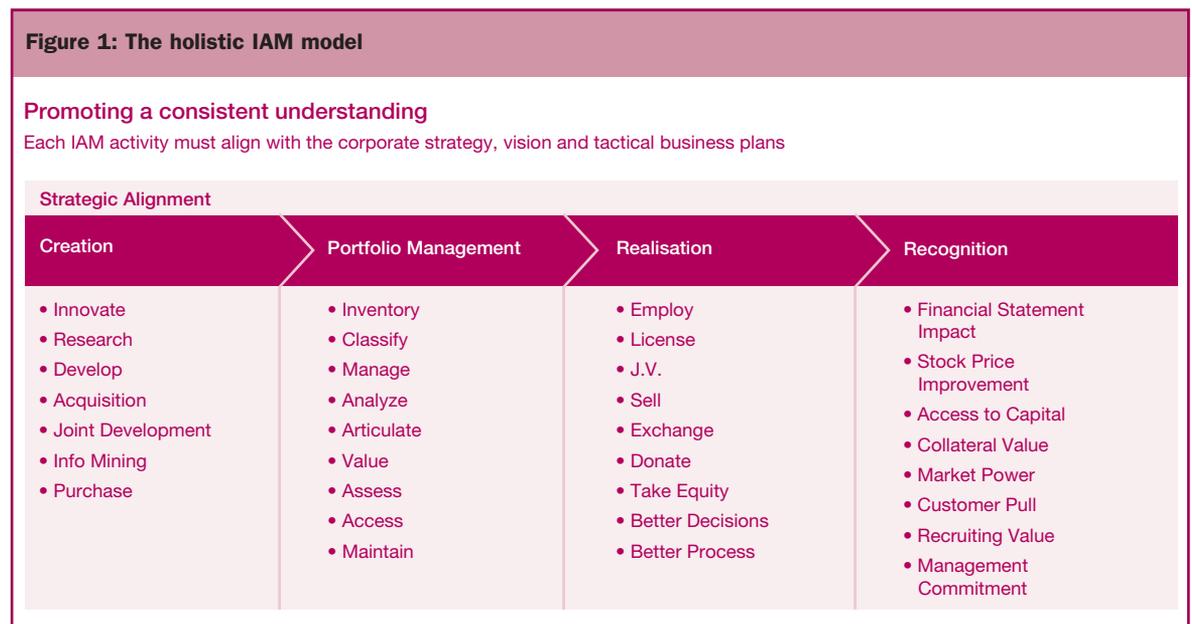
recognition. Although brand recognition is not a physical asset you can see or touch, its positive effects on bottom-line profits can prove extremely valuable to firms such as Coca-Cola, whose brand strength drives global sales year after year.”

Spotting intangibles is not always a straightforward exercise. Intellectual assets include items that you may not think about as intellectual assets (eg, advertising campaigns, department policy manuals, favourable leases, historical documents, marketing/promotional material and production backlogs). Take time to consider the possibilities.

Building an intellectual asset inventory

With the possible exception of businesses that are just starting out, it is hard to imagine an organisation that does not have intellectual assets. In fact, just the name of the organisation alone is an intellectual asset. Therefore, the first step in developing a robust IAM programme is to determine what intellectual assets exist within the organisation. If the organisation has conducted an internal IP audit in the past, or if a partial listing of at least some of the organisation’s intellectual property already exists, that is not a bad place to start. If that is not the case – or if one exists but no one can find it, which is more likely – then you will need to start from scratch.

It is important to determine what information is needed for each intellectual asset to prevent going through the entire process only to emerge at the other end to discover that a critical piece of information is missing, making it necessary to go back to the beginning. Although determining the right information to collect is



critical to the process, the answer is not set in stone. Rather, it depends on several variables:

- the decisions to be made or business objectives to be gained;
- the available budget for internal resources and external consultants and lawyers;
- the desired sophistication level of the existing IAM system;
- the size and complexity of the organisation (eg, number of business units, centralised versus decentralised); and
- the nature of the business and its use of intellectual assets.

Figure 2 is a good starting point for capturing the information required about an intellectual asset.

Locating and identifying the intellectual asset

Once you know what you are looking for, it is time to conduct the search. An effective way to do this is to work through the organisation's main business functions: research and development, marketing, product development, information technology, human resources, finance, tax and accounting, and legal. Certain intellectual assets have formal legal protection – for example, intellectual property such as trademarks, trade names, service marks, patents, copyrights, trade secrets, domain names and software. Given that intellectual assets under formal legal protection are typically well tracked internally by legal counsel, the organisation's legal department is the easiest starting place for the search.

Alternatively, a search can be conducted by external sources such as the organisation's outside IP counsel or organisations like the US Patent and Trademark Office. This begs a word about trade secrets. Although trade secrets are legally protected under specific legal provisions, this is not always sufficient. As you conduct your inventory, you may find that certain processes or formulae should be considered trade secrets but that these are not being properly maintained, thus risking the loss of protection. Such issues should be duly noted and followed up as soon as practicable.

Legal departments are typically responsible for another type of intellectual asset – significant contracts, including employment contracts, distribution agreements, licensing agreements, supplier agreements, non-compete agreements and joint venture agreements. Information concerning these contracts and agreements should be summarised and, where possible, linked to the appropriate core intellectual property. For example,

| Figure 2: IP record | |
|--|---|
| Abstract | Benefit Conferred |
| Class of Asset | |
| <ul style="list-style-type: none"> • Inventor/originator • Assignee/owner • Responsible business unit • Technology • Primary category • Secondary category | <ul style="list-style-type: none"> • Patent • Trademark • Copyright • Trade secret • Knowhow |
| Origin Owned | Costs |
| <ul style="list-style-type: none"> • Result of R&D • Purchased licensed in agreement | <ul style="list-style-type: none"> • R&D • Purchase • Maintenance |
| Status | Product/Financial Information |
| <ul style="list-style-type: none"> • Used in products • Held to prohibit use • Held for future use • Licensed out | <ul style="list-style-type: none"> • Product supported • Products to be supported • Revenue • Profit • License revenue |

an outbound licensing agreement should be linked to the underlying patent or trademark. If an organisation has separate legal departments for each business unit, each of those departments should be involved in the process.

Now it is time to move beyond the legal department to begin the tougher search for more elusive intellectual assets, such as know-how, client lists and marketing. This process, too, will depend on:

- the organisational structure;
- the types of services or products that the organisation provides;
- the size of the organisation; and
- its prior efforts in IAM.

However, the following approach should propel a company well along the road to a complete inventory.

As you move out of the realm of formal, easily identifiable intellectual assets, the challenge will lie in preparing key individuals within the organisation to spot hidden assets. The list of considerations outlined in Figure 2, while not comprehensive, should assist in developing an appropriate line of questioning that will help to identify those hard-to-uncover assets. Depending on the department or function being searched, there is likely to be a wide range of perceptions as to what intellectual assets look like and where they might exist.

All present and accounted for – now what?

Once a company has a complete, or at least nearly complete, inventory of all its intellectual assets, the next step is to determine what role each individual asset plays in the business and its impact on the overall strategy. Based on the intellectual assets record and information collected, it should link each asset to an external product or service or an internal process or function.

To illustrate, take a hypothetical organisation's intellectual assets inventory – IA1 to IA6, as depicted in Figure 3 – and step through the strategy alignment process.

Assume that:

- IA1 is a trademark associated with the brand name for a major product line of the organisation;
- IA2 is a trademark for product A under product line 1;
- IA3 is a trademark for product B under product line 1;
- IA4 is a patent for a specialised circuit used in product B;
- IA5 is a trade secret relating to the unique combination of ingredients in product C; and
- IA6 is a patent used in a unique packaging design for a product that is no longer made by the organisation.

Now that each individual intellectual asset is linked to a product, we can gain more insight into how the hypothetical organisation is using its intellectual asset. For instance:

- IA1 to IA5 are linked with a particular product or product line; however, IA6 is not linked to a product

currently being sold by the organisation;

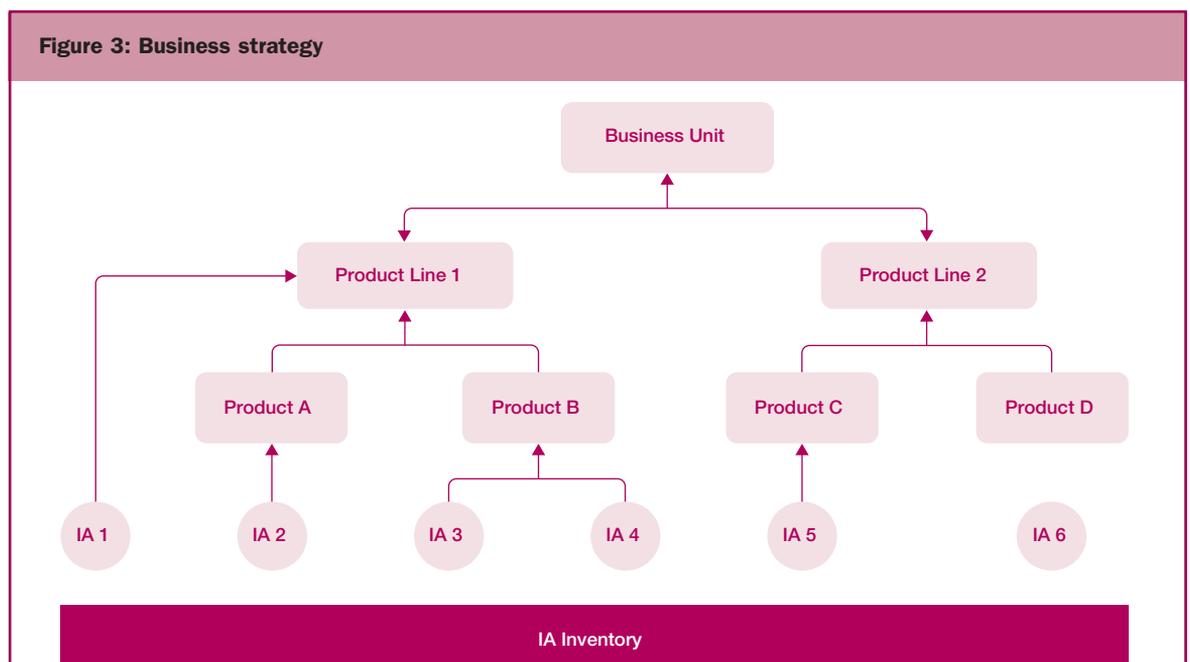
- product A, although it has a trademark associated with it, has no other intellectual asset linked to it; and
- product D has no intellectual assets linked to it at all.

Armed with this additional insight, the following questions should be considered:

- Does IA6 have an alternative use in another product currently being sold? Can it be further developed or contributed to a joint venture? Should it be sold or donated, or is there a defensive reason to hold? Can it be licensed out, generating additional revenue?
- Product A has a trademark associated with it but no other intellectual assets. Is there anything unique about the product and how it is produced that could be considered an intellectual asset and possibly legally protected as a trade secret? If not, is it viewed as a commodity by the market, and is it therefore not in alignment with the strategy of having products with unique features?

The map to future intellectual asset creation

Having completed the mapping, the organisation should know precisely which assets link to which technologies and, more specifically, to which products. The map reveals where technologies and products are well covered and where there are gaps in protection that need attention. This process drives new intellectual asset creation, contributing to the core intellectual asset strategy, and aids in the identification of intellectual assets which may create



greater value through usage in other products or incremental revenue through licensing or sale.

Instances of companies reinventing and re-solving a problem that may have already been solved somewhere else in the organisation are not unusual. Therefore, gaining knowledge of what the organisation has can be of tremendous benefit in terms of reduced costs and increased speed to market. Further, identification of incremental value or revenue streams may emerge. In addition, the ability to sell, donate, license or develop further assets that clearly do not fit within the organisation strategy are options which were not apparent prior to conducting the exercise.

Maintaining the inventory

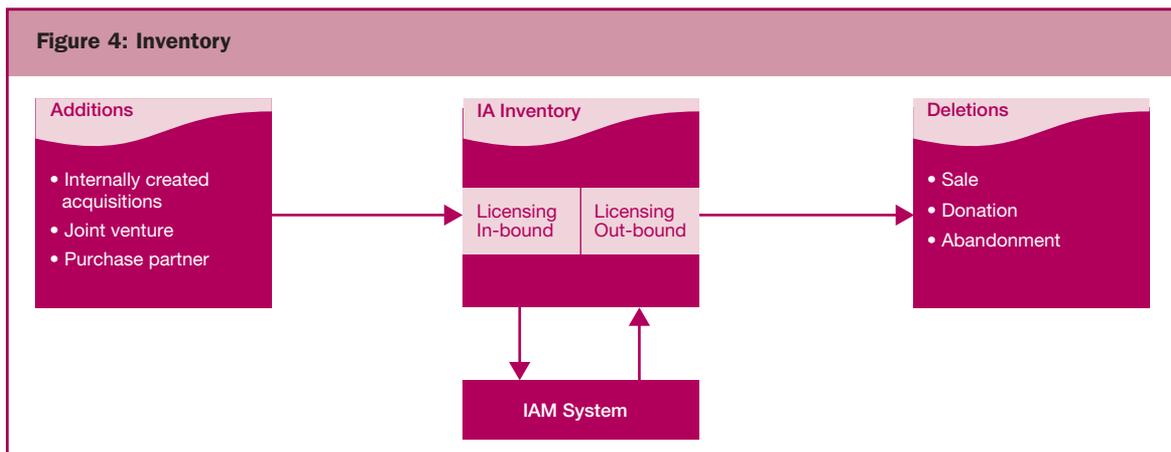
Now that you have successfully organised your closet, linked intellectual assets to your strategy, developed a plan around what to do with intellectual assets that no longer fit and identified gaps in your inventory, what comes next? Just as with tangible assets, you need to embed the practice of maintaining the intellectual asset inventory into corporate practices. With the results of the intellectual asset inventory process as the starting point, policies and procedures should be developed that will allow for the tracking of changes to that balance and also any ancillary activity relating to the intellectual assets, such as licensing as outlined in Figure 4. Based on the information learned from the IP inventory process, the corporate activities that affect the intellectual assets are likely to include research and development, marketing, mergers and acquisitions, licensing and human resources. For each of these activities, the policy and procedure should clearly describe:

- the individuals responsible for implementing the procedure;v
- the nature of activities that need to be tracked; and
- information that should be entered into the IAM system.

A robust system that can effectively and efficiently manage the activity around the intellectual assets is critical to a successful IAM programme. A well-executed IAM programme gives an organisation the ability to recognise and unlock value through increased revenue streams, improved profitability and greater competitiveness. It can provide insight into what the key drivers of value for the organisation are and how its intellectual assets are aligned with the corporate strategy. However, to get to that state, knowing the intellectual asset inventory is a critical first step. Only when a company gets there will it be able to reap the rewards of having organised its closet.

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