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The need to lead: IBM under the microscope

Obtaining large numbers of questionable patents has been more effective for some companies than maintaining a handful of really good ones. Patent count leader IBM will need to be more creative to stay ahead

A perennial leader in obtaining new US patents, IBM is also acknowledged as a successful licensor. IBM is not content merely to win the annual US patent count; it believes that it must dominate it in dramatic fashion, as it has every year since 1993. Until recently, few questioned the implications of this strategy. However, with perspectives on patents and performance evolving, portfolio size and effectiveness are being questioned and volume filers can expect more scrutiny.

Companies closest to IBM in the patent race – HP, Microsoft and Intel – have each generated thousands fewer patents than Big Blue over the past decade. In fact, 2.5 to four times fewer. Companies with comparably huge global patent portfolios, such as Samsung, Canon, Hitachi and Toshiba, tend to deploy their intellectual property more defensively. That three of these businesses are focused on consumer electronics makes business-to-business leader IBM's fixation on annual patent counts that much more unusual.

Brody Berman Associates compiled aggregate totals for US patents granted to leading IT companies from 2000 to 2011. Over this period, IBM (46,292) was granted more than two-and-a-half times as many patents as Microsoft (18,120), HP (17,699) and Intel (17,484) – visit IPCloseUp.com for graphs depicting patent leadership. For 2011, IBM is four times as great.

Lapse rates are difficult to discern, but IBM elects not to maintain between one-half and one-third of the patents it obtains, many within 24 months of issuance. The company also generates direct annual licensing income from patents, trade secrets (know-how) and software-based copyrights, variously described as being worth from US$500 million to over US$1 billion. This accomplishment is especially meaningful given the reputed quality of the company's 34,000 active patents, only about one-third of which are US rights.

Strangely cynical

IBM's approach begs the questions: what is IP performance and how is it best measured for a particular type of business?

Large numbers of patents are thought to be better for providing IT businesses with the freedom to sell products, dissuade enforcement from others and facilitate licences. Bigger also sounds better. IBM's 'more is more' strategy when it comes to obtaining rights has become a dubious distinction of sorts. In fact, the company allows many more patents to lapse than it maintains. It also makes broad use of defensive publications to ensure that certain inventive ideas remain unpatentable and stay out of the wrong hands. With what amounts to a volume strategy, IBM is strangely cynical about patent quality. Originally a hardware company that evolved into a software and services provider, IBM's main business is no longer computing. While it still sells a lot of mainframes and peripherals, how many patents does a consulting firm need to compete? Few of the most innovative businesses maintain tens of thousands of patents, and none of the most successful consulting firms do.

High patent counts impress those in the C-suite and on Wall Street, and may keep some competitors at bay. A portfolio of patents that may not be special individually in quantity may comprise a sufficiently dense thicket to be effective – and you never know when a claim may read on someone else's product, possibly even a client's. Intellectual Ventures has certainly taken a page from this playbook. Some patents are made more meaningful with volume to complement them, reputation to support them and commitment to use them. Patents with claims that read on successful products are more meaningful, but may need to be enforced – a risk that most large holders are still reluctant to assume.

IBM has a history of helping to enable businesses. Its experience and know-how (trade secrets) are valuable resources. In combination with the right patents, they can be extraordinarily effective. Securing a disproportionate number of patents gives a company an aura of prowess that helps to maintain both clients and shareholders. While quantity is not everything, in information technology it frequently means a lot. Whether used as a defensive shield or a revenue-generating sword, a large, diverse portfolio in the right hands commands a certain respect. For individual or families of patents to have real value, they must not only be extraordinary, but must often be enforced.

Top dog

When IBM sold patents to Google and Facebook earlier this year, it was believed that those rights could be worth as much as US$1 billion. Sources knowledgeable about the transaction told me that the amount of the Facebook transaction was more in the range of between US$30 million and US$50 million. What Google and Facebook likely secured, in addition to apparent cover from a small part of IBM's portfolio, was a positive relationship with an IT superpower. This may have more to do with public relations than intellectual property, but it was a small price to pay.

The power of cross-licensing, as IP strategist Marshall Phelps explained to Lew Gerstner when the latter was named IBM CEO in 1993, is not readily reflected on a balance sheet. Using cross-licences instead of cash to secure freedom to operate can be highly rewarding to the right company.

For the past 20 years, 'bigger is better' has propelled IBM's patent portfolio strategy. It remains to be seen whether the company has become trapped in its own image as IP top dog, striving for dramatic patent counts at a cost to quality and real return. Securing patents should not be seen as an arms race or blocking exercise. It also should be seen not as an end, but as a means.

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