

Hooking the corporation on the value of intellectual assets

It's a three-step process to persuade a company that it can prosper and grow through investing in intellectual asset management

By Sharon Oriel

Many companies are focused on creating and obtaining patents, but do not realise the significant income they are missing by ineffectively managing their patent portfolios. Corporations rely on intellectual property attorneys for getting patents and managing them. But they really don't care enough to manage patents strategically in order to have an impact on bottom or top-line revenue. Exhibit 1 illustrates the magnitude of dollars that decision makers should be aware of.

As an intellectual asset (IA) professional who knows the company can creatively make money from intangibles, how do you get things moving? You have gone to the consultants, read the books and brought in the conferences. Nothing seems to change. The challenge is to capture the attention of very busy executives. In my experience, it takes a three-step process to change that state of affairs.

Step 1: Find an IA business problem (the hook)

First of all, find an issue – one that you and your team can resolve. It may not be a multimillion-dollar problem, but the solution must be visible and have value to a business.

Sometimes finding the hook is as simple as using the words that your listener understands. As intangibles professionals, we must be able to communicate with researchers, attorneys, business directors and even sales and marketing professionals.

Using intellectual property (IP) jargon to explain why a label licence is important to a person selling a railcar of polyethylene is not a satisfactory experience for anyone.

A number of years ago, Dow Chemical acquired Upjohn's polyurethane business. Along with the business came a significant patent portfolio. As Dow business directors sorted out what products they were going to make and sell, they determined that a portion of the acquired technology was not essential.

As the IA manager for the acquired business, I did an assessment of the patent and trademark portfolio. I knew which patents and trademarks were in use by Dow and which ones were lying idle.

The next step was to schedule a meeting with the business director with the expected outcome of abandoning the unused patents and trademarks. Based on an assessment of the marketplace and competition, I had been unable to identify realistic licensing opportunities. The following is an example report and does not contain actual numbers for the subject portfolio:

- Patents practised – 20
- Unused patents – 77
- Practised trademarks – 5
- Unused trademarks – 12

I did not get the expected outcome from the meeting. The business director loved technology. After briefly discussing each patent portfolio, he made his decision. He wanted to keep the patents just in case he decided to start making the protected products.

Within a few months of my meeting, there was a change in business directors. I now had an opportunity to try again to clean up the unused portfolio. Clearly, a different approach was needed. The business paid the IP bills. I ran the numbers on maintaining the

portfolio for its complete life. The numbers showed that Dow would be spending in excess of US\$3 million dollars to keep a global patent portfolio which it had no plans to use internally or to license. Also, that number would probably go up as countries raised patent maintenance fees to generate cash flow.

This time, I would talk dollars, not protected technology, to the business director.

Sharon: "Randy, how would you like to save US\$3 million?"

Randy (jokingly): "Is it legal?"

Sharon: "Yes."

Randy: "Then let's do it. OK, now tell me what I just agreed to do."

We then used data similar to that in the bullet points and I pointed out that the costs did not include attorney time to maintain the patents and trademarks. Also, there were no planned dollars for patent defence. We agreed there did not appear to be any licensing prospects. We also agreed that the technology was not strategic to the business or to the corporation. The business director was comfortable with the facts and very pleased that he did not have to read hundreds of patents and numerous agreements.

Sometimes, the hook is very small. You may think you are just doing your job, but the person you are helping may have another perspective. By helping them to solve a problem, resolve an issue or avoid a problem, you will win an ally who will assist you with your next big IA project or transaction.

A business decided to stop selling a product line which had been acquired more than 10 years earlier. The products were not performing in the field and customers were unhappy. After appropriate analysis involving research, production, sales and legal, the decision was made to exit the business. The functions went to work doing their part to appropriately wind down the business.

Remember that word acquired in the preceding paragraph? Dow had acquired the technology to make the soon-to-be-discontinued products from another party, which had acquired the technology from yet another party. The current business director was vaguely aware of this, but did not know any details.

As the IA manager, I made a point of reading all of the original acquisition agreements. In consultation with the legal function, we agreed that we could not shut down the business without notifying the companies from which we had purchased the technology. If Dow did not notify the organisations, they had the right to take action against Dow.

The bad news was that I had to tell the

business director that there was at least one more box to be checked before the business officially wound down. The good news was that the box could be easily checked. The business team was able to proceed with the shutdown with no encumbrances.

In this example, a problem was avoided. The team charged with exiting the business learned that by having an IA person as part of their team, they could avoid IP issues by being proactive. It is worth making the point that in most large companies, team composition changes frequently as people are promoted, take new jobs and so on. In contrast to the changing human capital, the intellectual properties (patents, trademarks, copyrights, service marks and relevant technical agreements) associated with a product or business unit have a long life. One of the responsibilities of the IA manager is to have access to and an understanding of the intangibles portfolio. The IA manager can proactively inform the business team of decisions that need to be made or identify IP associated risks they should consider when making strategic business decisions.

Step 2: Make sure the solution to the problem has a dollar impact

Try to hook multiple stakeholders with the dollar impact. This is exactly what happened in the first example above. The business director clearly understood the short and long-term impact to his business. Who are the other stakeholders? The next most obvious one is the intellectual property law group. They will save costs associated with patent prosecution and record keeping. If you need to get extremely granular, you could calculate the cost of attorney time spent on filing new cases versus time spent maintaining patents that are not being leveraged or monetised.

Using a hook with very large dollars as the outcome will attract the attention of the most senior corporate leaders. The bigger the dollar return, the greater the stakeholder understanding, as the next example illustrates.

Successful business partnerships can be formed with relatively small amounts of dollars changing hands when both parties recognise the value of their tangibles and intangibles. Dow and Dupont each manufactured and sold elastomers. DuPont was well established in the marketplace. It had brand names which were well known. It had a strong marketing and sales team and loyal customers. It also had multiple manufacturing facilities. However, DuPont's elastomeric technology was ageing.

For Dow, elastomers were a small

Exhibit 1: Patents equal real money

- Total asset value of patents worldwide is estimated at US\$1 trillion.
- Licensing revenues in the US increased from US\$15 billion in 1990 to US\$110 billion in 2000.
- Expected licensing revenue by 2015 is expected to be US\$500 billion.

Exhibit 2: How to find the IP hook for your company

- Seize the opportunity to help solve an immediate IP problem.
- Show the monetary results of the solved problem.
- Build on the success to find the next monetary hook.

business. There were limited resources committed to growing the product line. However, breakthrough polyethylene catalyst technology could be applied to the manufacturing of Dow-produced elastomers.

The usual Dow approach would have been to start using the new technology for elastomerics without really committing sufficient resources to sell and market the improved products. After about five years, the company would get frustrated and start cutting costs and saying the products were not making money.

Because there were senior Dow leaders who understood both the value of the company's catalyst technology and the value of DuPont's established strong presence in the market, discussions were initiated with Dupont about forming a joint venture. The result was the creation of Dupont Dow Elastomers. This was a 50-50 partnership with an immediate US\$1 billion in sales. Dow brought only intellectual capital to the partnership: patents, know-how, people. Dow immediately starting getting a real dollar return on its R&D investment and intellectual assets.

Edison in the Boardroom (Davis & Harrison, 2001) and *Rembrandts in the Attic* (Rivette & Kline, 2000) contain examples of companies discovering, with the guidance of informed employees, they had real money to be made from their intangibles. Both books are written so senior leaders can understand the value of actively managing intellectual property. When key leaders read their colleagues' IP success stories, they start asking how they can do the same thing. To set the hook internally, often the best way is to point to external examples.

The external PR for companies featured in books and articles typically is a positive influence on continued support to managing and realising value from intellectual assets. By telling success stories both internally and externally, companies can identify new intangibles opportunities. Procter & Gamble (P&G) shares its Develop and Connect strategy and stories with all kinds of audiences: AUTM, LES, the ICM Gathering and at numerous IP and IA conferences. The company wants to be known as a partner which values IP and provides good value for the IP of others.

Today in the high-tech sector, the publicity is often about NPEs (non-practising entities) which are acquiring patents to enforce, license and/or sell. Whether the model is financially successful or not, it has attracted investors, partners and publicity. The hook for companies is that they cannot afford to be left out of the game.

Because of the vast numbers of patents associated with products, defensive patent aggregation can be used for risk mitigation.

Step 3: Find another problem. Repeat 2 & 3

One success could just be luck. The company still thinks that intellectual property is a legal asset. Executives listen to the legal words used by their well-meaning intellectual property counsel. Risk avoidance is what the lawyers are very good at. They know how to defend a company's IP interests. No one wants to lose customers, shut down production or spend years and millions of dollars on IP court cases. Fear replaces dollars as the bait on the IP hook.

The defensive position is often the place where companies start their IA value extraction journey. The hook may be telling executives in business words, not legal phrases, how they can defend their IP rights while continuing to do business as usual. The flipside of this is maintaining or creating a corporate culture that respects the patents and copyrights of others. In turn, if a company is spending money to obtain intellectual property, it must be prepared to defend this. Defensive dollars and actions are a very legitimate hook. The current activity with defensive aggregators and NPEs illustrates that the defensive strategy/level should not be thought of as just an entry point to extracting value from patents. Depending on the industry or market segment a company is in, it may be the key operational way of making money, particularly from patents.

As illustrated in the IC pyramid (Exhibit 3), companies often move from playing strictly defence to cost cutting. They realise that their defensive IP line requires significant human and monetary resources. There is a real opportunity for companies to save money. Again, as in the defensive play, here companies avoid costs by pruning their IP portfolios of unused patents, trademarks and copyrights. Using the cost-cutting hook also starts to expand the understanding of the value of IP beyond the legal function. To cut a patent portfolio, the IP legal department needs input from the business associated with the portfolio. In turn, the business needs to understand the strength of the issued and filed patents. Input from research is also important. R&D can provide a perspective on what competitors are doing.

Money, money, money

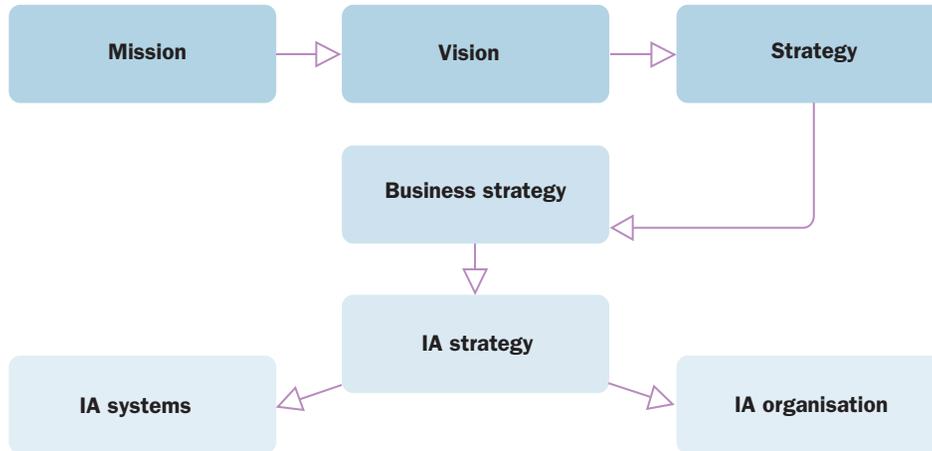
The Dow Chemical Company became

Exhibit 3: **Developing IC management capacity**

The IC pyramid from *Edison in the Boardroom* (Davis & Harrison, 2001)



Exhibit 4: Corporate strategy alignment of IC



serious about extracting value from its intellectual assets when senior executive learned they could save millions of dollars annually by dropping non-strategic patents. Other companies have similar stories.

Now the fun begins! When a company or a business unit has learned to play IA defence while controlling costs, it realises that it can begin actually bringing in new money using its intangibles. It is hooked. Texas Instruments was really the first company to systematically make a profit from its patents. Its efforts started in 1989. By 1998, it had generated more than US\$2 billion in patent royalties. While most companies no longer report royalties as a separate line item in their annual reports, it is worth noting that Texas Instruments continues its very disciplined approach to this day. For a detailed description of TI practices, read “Patents, Standards, and Licensing-Working (Well) Together at Texas Instruments” by Lawrence J Bassuk, deputy general patent counsel at Texas Instrument, published by the AIPLA in 2010.

The other company that put patents for profits on the agenda of CEOs was IBM. While consistently one of the top patent generators in the world, its annual licensing revenues in 1993 were only US\$30 million. When Lou Gerstner became CEO, he sponsored an aggressive licensing programme which was quickly generating more than US\$1 billion dollars annually. While this amount may seem trivial given total IBM revenues, one must remember that there are higher gross margins for licensing revenues. Gu and Lev (*Markets in Intangibles: Patent Licensing*, May 2001, NYU) estimated that royalty income accounted for 13% of IBM’s pre-tax net profits.

Moving beyond legal

Again, referring back to the *Edison* pyramid, the next move for a company would be to integrate its practices: defence; cost control; revenue (profit) generation. When a company has integrated IA practices, the management extends across multiple functions. IP is no longer a purely legal asset. One could say that each function that is involved brings its unique hook to help catch the available IP value. IA costs typically flow directly to the business which is benefiting from the intangible asset. When the asset is shared, the costs and any income are shared between the benefiting businesses.

With an integrated approach to managing the IA portfolio, a business really understands what its intangible advantage is in the marketplace. If there are gaps in the portfolio, the business is able to fill the gap strategically.

When Dow was planning to offer a new polymer via a technology acquisition, it was offered the standard licensing package of the licensor. When the package was presented to the IA team for the business, the team started asking questions. A thorough assessment of the licensor’s patents and technology was presented to the business. The analysis showed exactly what Dow needed to license and also estimated the value of the package. With an integrated team approach to the negotiations, Dow saved tens of millions of dollars in licensing fees and royalties.

When the management of IP is integrated across multiple functions, money is saved as in the preceding example and is also made in a strategic manner. Companies no longer spend time extracting value from intangibles which cost more to manage and support than the revenue they return. Many stories are told of firms that spend millions

on maintaining their IP only to generate hundreds in income.

Future focused

At the top of the Edison pyramid is the visionary management of corporate intellectual capital. What is the hook that makes a company visionary? As George Pake, founder of Xerox PARC, is remembered for saying: "The best way to predict the future is to invent it." The successful companies in today's chaotic business environment are the ones which understand clearly their current place in their markets. They understand their competitors. Most importantly, they anticipate customers' needs. With this deep understanding, a company can make informed strategic decisions. Will it continue to participate in a business? If the answer is yes, it can chart a clear path to profit by creating new rules using intangibles.

Unlike finite resources, such as raw materials, intangibles can be renewed in a sustainable manner. A company truly can continually invent its future by hiring the right people, creating the needed products and appropriately protecting the relevant inventions, copyrights, trademarks and, in some cases, methods of doing business. A visionary company can create intellectual capital that will influence a market for years. If the company chooses to exit the market in the future, it has created corporate assets which it can successfully sell.

The visionary company can internally report on what products and processes are protected and what kind of margins they return. This data can be used to compare with what is known about competitors. Decisions can be made about future investments in R&D, manufacturing, sales and marketing using financial information which reflects the impact of intellectual property.

Companies such as Rambus are future focused. Rambus works very hard to understand what will be needed in its markets. It patents and then it licenses. To quote from the company's corporate home page: "Rambus' technology and products solve customers' most complex chip and system-level interface challenges enabling unprecedented performance in computing, communications and consumer electronics applications." Sony Playstations contain Rambus technology. When Playstations' market share jumps 31%, as it recently did, Rambus is a direct beneficiary. While Rambus litigation is often in the news, it is a company which constantly invents its future-based on intangible assets. It has a well-defined internal process for doing so.

Old manufacturing companies can also be IP visionaries. DSM, formerly known as Dutch State Mines, is no longer the mining company which was founded in 1902. Today it presents itself as a life and material sciences company. DSM offers products in the biotech and healthcare markets. Wim Klop, the head of IP at DSM, is not an intellectual property attorney. Klop has experience in research and business. Innovation is one of the lead headings on DSM's home page. Research, venturing, licensing and intellectual property are all part of the corporate innovation portfolio. DSM also has a very clear strategy which it updates every five years. Innovation, including IP, is aligned with the corporate strategy (Exhibit 4).

Create the opportunities

There are three easy steps to creating value from intellectual assets. First, find the hook; second, show the money, and third, repeat steps one and two. You will know you have hooked your company on making money from intellectual assets when you have more opportunities than you and your team can handle. **iam**

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