COMMUNICATING THE VALUE OF YOUR INTELLECTUAL PROPERTY TO WALL STREET

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OVERVIEW: Companies and their shareholders stand to benefit from consistently developing and promoting their intellectual property portfolios with a structured IP story. An IP story shows how a company developed IP that supports important products and technologies, with clear linkages from the market opportunities to patents. Companies that follow this approach stand to 1) support higher stock prices, given the incredibly high value placed on intangibles in today's market, 2) maximize return on investment in their IP by supporting strategic technologies that are linked to market needs, and 3) lead the corporate world with best-in-class IP management.

KEY CONCEPTS: intangible assets, intellectual property, intellectual asset management, corporate valuation.

Many companies may be undervalued on Wall Street because research analysts do not factor the true value of intellectual assets into their assessment of these firms. Over the last three decades, intangible assets have ballooned to approximately 85 percent of the S&P 500’s value, up from 38 percent in 1982 (1,2). Because intellectual assets represent such a significant portion of a company’s worth and, typically, intellectual property (IP) comprises the largest part of those intellectual assets, it is important that a company communicate the importance and value of IP to analysts, shareholders and potential investors. However, most companies have neither internal processes for identifying the most valuable patents in their portfolio nor an expertise in communicating the value of their IP to Wall Street.

How are stocks valued? For the most part, a company’s stock price is determined by how investors and analysts believe the company will perform in the future. Value investing, one common way to select stocks, involves the review of financial ratios of comparable firms to find companies whose ratios hint at future success. Often, these ratios do not account for the strengths or weaknesses of IP. A company that uses IP in a strategic way will increase its likelihood of future success, and thus should use its IP strengths to positively impact stock prices.

It is important to recognize that IP can be directly linked to the future success and revenues of a company. When utilized effectively, IP can provide:

- A proper IP story can benefit a company and its shareholders.
- Structures for IP story development can help companies improve their return on IP investments.
- IP story materials can enhance investor confidence and facilitate licensing and asset sales.
- IP story materials can help companies align their IP activities with their business strategy.

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• A unique competitive advantage, which allows the company to secure a market and gain significant market share.

• Significant licensing revenue, both within a company’s core markets and in ancillary markets.

• A stronger negotiating position, which allows the company to secure stronger contracts with suppliers, customers and partners.

Companies can impact their stock prices positively by first synchronizing their IP to their business goals and, subsequently, by communicating the processes utilized to protect their most valuable current and future products. For example, Color Kinetics Incorporated (an ipCapital Group client) develops solid-state lighting systems. The company has spent considerable time and resources to develop a sizable patent estate that consists of about 50 patents and 150 pending applications in its technology space. Color Kinetics’ having done this work to build the estate is good, but what is better is that it consistently promotes the breadth and strength of its IP portfolio to analysts and the public. This message is sinking in. For example:

• Analysts who cover the company have mentioned IP matters as drivers for the ratings of Color Kinetics stock (3).

• Many profiles of Color Kinetics mention its IP strategy in their corporate overviews (4,5).

Color Kinetics’ emphasis on communicating the value of its IP and IP strategy (along with solid financial performance) seems to be working. Since its IPO in mid-2004, the stock price is up about 70 percent, while the overall NASDAQ has been fairly flat (6).

While Color Kinetics has done a good job of putting together pieces of a puzzle that convey how IP supports the business and contributes to corporate growth, it could go a step further. A more structured way of communicating this type of information is to use an IP story, which is a presentation that introduces a company’s IP and links it directly to the value that it provides.

An IP story presentation describes the IP, shows how it effectively protects the key inventions of interest, and shows how those inventions are necessary for developing a superior product that meets a key market need. This links the paper patents directly to the value in the marketplace and the company’s bottom line. To ensure that the IP story is developed effectively, business, legal, technical, and marketing executives need to work together to ensure alignment of their different interests. Additionally, the IP story can include a financial analysis to quantify the contribution a company’s IP may make in the future, based on how the IP will support the company’s ongoing strategy.

Linking IP to Value and Business Goals

The structured relationship between business objectives and intellectual capital requires continual diligence and organization. IP-savvy companies include these linkages within their framework and in their overall IP strategies. Because IP is an intangible asset that increases in value when it is aligned properly with a company’s business model and strategy, the size of the portfolio doesn’t always matter. A company that has 50 valuable patents tied to a profitable market may be in a stronger IP position than another company that has 500 patents that are misaligned with current business goals. Most business managers aren’t aware of which patents are critical or core to their business (and part of their competitive advantage) and which patents should be abandoned or could be monetized via sale or out-licensing.

Beginning from the top of the pyramid in Figure 1, companies lay out detailed strategies for meeting business objectives that allow them to achieve their long-
term goals. The products that a company sells in specified markets have attributes that meet the needs of those markets. For example, the products must have a compelling price/value proposition in order to differentiate and capture market share.

Generally, this differentiation comes from, or is enabled by, some type of technology that is embedded in the product or the process used to create the product. The inventions enable the technology that makes the product possible. Those inventions within the IP portfolio are protected with a mix of patents, trade secrets and publications. Finally, intellectual capital is at the bottom of the pyramid and includes all the knowledge and ideas that are not yet enabled or documented. It is important that there be clear and easily communicable linkages between each piece of this framework. For example, it is important that patents are clearly linked to the specific technologies which enable them, and that there is sufficient IP fully protecting the technology.

The data and analyses that create and explain linkages from the top of the pyramid to the bottom are used as the basis of an IP story. Understanding these linkages should be of critical importance to top business and engineering managers as well as C-level (CEO, CFO, COO, CTO, CMO, etc.) officers and their boards. How many board members or C-level officers know how many patents are critical to their company’s core business? Too often, the answer to this question is zero. When the answer is zero, it is a good indicator that the quality of the communications concerning the value of IP may be inadequate.

If 85 percent of the value in the S&P 500 is accounted for by intangible assets, and IP is a large part of those assets, it is important that a formal reporting structure for understanding the value of those assets be developed. Currently, corporate officers regularly study the balance sheet and income statement at board meetings, but the importance and relevance of IP, above and beyond the number of patents and patent applications, is often overlooked. After a company develops an IP portfolio that is aligned with the overall business goals, the next step is to communicate the nature and the strategic importance of its IP to all stakeholders. Doing so more effectively will promote the company’s strategic goals and advantages and can help to raise the stock price.

**Company X’s IP Story**

Consider an IP-savvy consumer products company, Company X, that successfully introduced a new product into an ancillary market because it knew that certain aspects of its technology enabled several new products in that space. Further, Company X expected to continue to see strong returns in the future, because it has a strong IP portfolio across this new space. Unfortunately, Company

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**Figure 2**—A preliminary IP assessment shows that IP and business goals are not aligned. Company X’s patents only support technologies \( T_1, T_2 \) and \( T_3 \).
X’s stock has underperformed recently, and the company believes that the financial markets do not realize that the market opportunity exists. To communicate this new value, Company X creates an IP story that describes its ongoing strategy and illustrates this new opportunity.

In the development of the IP story, the business goals that led to this market opportunity are identified and explained. Company X illustrated why the market opportunity was growing and would continue to increase in size as well as how a changing business environment defined a specific market need. The size of the market was estimated, along with the description of the market opportunity. Further, the IP story described how its new products address this market need, the key differentiators of Company X’s products, and the estimated percentage of the market share that these new products will capture. The IP story then explained the technologies that enabled this product and, more specifically, the inventions that enabled the technology.

The linkages between the market, the technologies and IP are demonstrated in Figure 2. The new market opportunities are shown as M1 and M2, and these market opportunities are addressed with products P1, P2 and P3 (for M1) and P4 (for M2). The products are supported with technologies T1—T10.

In looking at the distribution of patents across all technologies, and determining which technologies were supported by patents, Company X was disappointed to learn that its patents only supported T1, T2 and T4. This meant that Company X’s previous thinking about the strength of its own portfolio was incorrect. It had a lot of work to do! On the bright side, this mapping exercise allowed the company to understand the gaps in its IP portfolio and develop a plan to fill those gaps, to support the new market opportunity.

Armed with this information about its portfolio, Company X used a variety of different tactics to fill the gaps in its portfolio. By recognizing which technologies supported specific products, it was able to identify technology areas that were most important to the new products. For example, T4 supports all the new products, so it follows that this would be a very important technology to protect with IP. Similarly, other technologies that support more than one product (such as T5, T6) are other important areas to protect.

Because these linkages were identified with such clarity, Company X was able to fill the gaps with inventions in a systematic way. For example, to fill the gap in the patents that support technology T6, the company chose a mix of licensed patents (from an outside source) and inventions protected as trade secrets. In a series of invention extraction sessions, Company X developed new IP across many of the technology areas (T1, T2, T3, T4, T5, T7, and T8), with a particularly heavy concentration of

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**Figure 3**—IP is strategically developed to support business goals. The breadth and strength of the new portfolio is communicated to key stakeholders via an IP story.
inventions in the higher-value technologies (T1, T4 and T5).

This process of filling gaps in an IP portfolio represents a new approach to the development of stronger, resilient IP portfolios. Company X is managing its IP portfolio by directing inventors to develop IP in particular places in the framework. This is in contrast to what happens in many organizations, where inventors develop IP around the “cool technology” that they have discovered. Company X’s inventors develop IP to support strategic goals of the organization.

By communicating the distribution of its inventions across the technologies in a graphical format, Company X readily showed that it has excellent IP coverage across the technologies that are needed to support the products within this new market opportunity. This representation demonstrates that the company has a systematic process for identifying areas that need invention. Additionally, the IP story communicates how this portfolio has been designed to keep Company X’s competitors out of the market.

After the patent applications were filed and Company X publicly disclosed plans to move into the new market, it told its IP story—including Figure 3—to Wall Street analysts as part of its regular communications (quarterly meetings, earnings calls and the like). Telling the IP story for this product and other new product launches conveys that Company X is a leader in the proactive and systematic management of one of its most valuable assets—the potential to lever its IP. As such, the company’s value increases relative to its competitors’ value because of this leadership position.

Three Benefits

Companies and their shareholders stand to benefit from consistently developing and promoting their IP portfolios with a structured IP story. The story described here shows how a company developed IP that supports important products and technologies, with clear linkages from the market opportunities to patents. Companies that follow this approach stand to 1) support higher stock prices, given the incredibly high value placed on intangibles in today’s market, 2) maximize return on investment in their IP by supporting strategic technologies that are linked to market needs, and 3) lead the corporate world with best-in-class IP management.

References

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