The Case for Developing an "Executable" IP Strategy in 2010

By John Cronin, Managing Director and Chairman, ipCapital Group

Introduction

John has spent 22 years developing Intellectual Property (IP) strategies, both in his tenure at IBM running the IBM Patent Factory and over the last 12 years running ipCapital Group (ipCG). At ipCG, John has had the opportunity to lead the development of IP strategies for over 500 companies, ranging in size from $100 billion down to $½ million in revenues, for all ranges of technologies.

As I started to think about the New Year, I asked myself "what could be changed from an IP perspective in 2010". I commonly hear "objections" to developing or modifying a company's IP strategy in my every day dealings with clients, whether they believe developing a strategy is irrelevant to their business or an existing one does not need an update. I realized that I could focus on these objections to help provide a fresh perspective in the New Year for clients to consider when deciding how best to manage their intellectual property.

So I decided to write down the <u>objections</u> I usually hear and to highlight the typical <u>results of discussing these objections with clients</u>. Below are some responses to consider as you plan for an IP strategy for 2010 and perhaps find you or members of your company raising objections to this increasingly critical business tool. I hope the discussion of these objections help to provide a "call to action"!

1. The economy is poor and investing in an IP strategy seems like an "unaffordable luxury."

With the poor economy, lay-offs and cost-cuttings continue. Although these actions makes sense for a company, the general consensus of most of the companies we work with is that innovation is the only way to prepare so that the company "can be ready" to capitalize ASAP when the economy starts to grow again. Missing a growth cycle could be disastrous behind surviving a poor economy.

The very basis for innovation is developing new products and services, which logically means that more IP will be generated and thus increases the need for protection. Further, when these new innovations go to market, copycats are so fast that it's hard to have any market barriers, unless the IP is owned.

In a down economy, a focus on developing an IP strategy is the development of the *"Intellectual Plan,"* with its associated budget. Companies don't plan to fail; they just *fail to plan* when it comes to IP. If they don't properly plan and develop an IP strategy, the company may never truly enjoy the benefits of a well-executed IP strategy as the next upturn occurs.

2. *Most don’t realize that other companies are starting to use very different IP Strategies!*

Amazingly, many of the companies we are working with are doing very different things in regards to their IP. Historically, companies filed patents resulting from their “Ad Hoc” development of inventions from technical people. Companies now are realizing that they cannot afford this non-systematic approach to developing IP, because too much is at stake and it’s too costly to leave the IP strategy up to inventors. So companies are now developing strategic plans as to both (a) where they want invention and then (b) what resultant IP they want to create.

Many companies are realizing that if they are going to spend any money on IP, it better be IP that has value to the business. As a result, companies are now strengthening the few patents they will file by focusing on “inventing around their own IP” before filing it. This has become one of the top new IP processes of 2009 and bound to continue in 2010. The process to “invent around” needs to be systematic and robust. One of the best practices is an “invent around checklist” that companies are using to maximize the invent-around practice.

A third change in the way companies use their IP is that they are filing fewer patent applications and spending more time figuring out how to ensure they can maintain trade secrets. This may appear trivial, but it is not. More and more has been written on how to maintain trade secrets, for instance: (a) how to patent a portion of an invention and hold the rest as a trade secret, (b) how to integrate a trade secret practice at the Human Resource level, and (c) how to make products more difficult to reverse engineer.

In working with such a large volume of different companies, we see these shifts taking place at an increasing rate. Taking these shifts into account has become crucial to an effective IP strategy.

3. *Most executives running companies have never seen an IP strategy anyway.*

If you ask most companies the question, “do you have an IP strategy?” the answer will likely be “yes.” However, the definition of an IP strategy is ill-defined. If you ask more probing questions, like: (a) is the IP strategy documented, or (b) is the IP strategy developed from inputs across the organization, or (c) is the IP strategy based upon sound competitive patent data or (d) is the IP strategy executable and measurable by sound Intellectual Asset Management (IAM) processes, I know you will find, as we routinely do, that the company really does not have an IP strategy. Further, I think you will discover that the company never really had one. Our data indicates that 95% of the companies claim they have an IP strategy but less than 2% actually have one when further questions are asked that require a more robust definition of an IP strategy.

If most executives have really not seen an IP strategy, then they “don’t know what they don’t know.” If you’re an executive reading this, you have to realize that if you don’t know what an IP strategy is, the way to start an IP strategy is to simply just start asking questions. However, you might ask yourself, “how is it possible for my company to have survived without an IP strategy?” as we are starting to define it here. It really is similar to having a “competitive disruption” you didn’t know of, or being unaware of the stage gate processes before the rest of your industry did. Prior to these major shifts, you felt that you knew you were fine in monitoring competitive forces or optimizing innovation development processes. You simply will not know about a “real IP strategy” until it hits you by surprise or that you discover you had not realized other companies were getting benefits you were not aware of. Indeed, the 2% of the companies we see who really had a good IP strategy when we first met them, started because they were disrupted by some level of an IP situation (litigation, trade secret theft, etc.,) or we see that an expert IP Strategist from another company joined the company and started worked to close the gap of not having an IP strategy. I can also tell you that the 2% that do have an IP strategy have had much more product innovation success stories to tell as well as higher margins for their products along with far less IP disruption.

An IP strategy is a business tool that is not taught in companies or in universities and seems to be only known by those who have real-life exposure to its value. The question you may ask as an executive is: “do you want to have more leverage and fewer concerns running your business than you do now”. It has been said that the definition of insanity is “doing the same thing over and over again and expecting to get different results.” Maybe 2010 could be a year when an IP strategy gets developed in your company!

4. An IP strategy isn't thought about as having real value or return on investment (ROI).

If developing and using an IP strategy was so good, why haven't we heard about it, or why are others not beating down our door demanding we create one? This is an interesting question and I have considered it for years. One thing for sure is that the direction for an IP strategy often starts from the top. Most Boards of Directors or Investors have no clue about what an IP strategy is or how to get leverage using one. The consequences of not having an IP strategy are similar to not having a healthy lifestyle; you don't see the negative consequences day by day, but slowly, more negative things happen to you as you get older. You have less energy, more ailments, you get sick more often or you may die earlier.

In terms of running a business, not having an IP strategy means that you may (a) not be able to break out of developing meagerly differentiable products, (b) you may have a portfolio of patents that has never been valued, (c) you may suffer from losing key technical people who desire more interesting work, (d) you may have lost an IP lawsuit, (e) you may have lost trade secrets and not known it until it was too late, or (f) your customers, suppliers or partners seem to leverage on you, rather than vice versa. There are many symptoms to poor IP health, even the eventual death of a company. The question that should be asked is why the lifetime of 75% of all Fortune 500 companies is only 75 years?

As you look into the future of this year and the next five years, developing an IP strategy can provide higher “intellectual” health as well as business health for the organization. Indeed, when we “audit” the health of the IP processes of most organizations, there are often many basic, quick and inexpensive fixes that can lead to almost immediate better health for the company. Inevitably, the benefits of healthy IP changes will eventually work their way up to the executives, the investors and the Board of Director levels.

5. Most CFO's don't realize it is expensive **<u>not</u>** *to have an IP strategy!*

In most of the companies we have worked with over the last ten years, I have been absolutely surprised that the CFO's become the strongest proponents of developing an IP strategy, especially after they have become instituted. We have found the CFO's really care about expenses and have no “handle” on the “patent stuff.” They see ever-increasing budgets on IP and no potential direct ROI. They see their relationship with the technical and IP community as being a stressful one, since they don't see many measurements or controls.

Regardless of your position in the organization, if you can ask the CFO one of the two key IP questions, (a) “do we know what our most valuable IP is” or (b) “do we know which patents we don’t need”, you may get very interesting responses. The responses usually are, “I did not know this could be done,” or “I had no clue that this has not been done.” In essence, assessing the value of the IP portfolio and logically pruning it as needed, has not been done in almost all the companies we have worked with. What would be the answer to this question for your company?

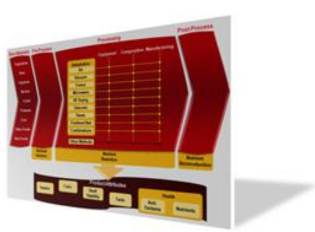
When CFO’s get involved in asking these questions, assuming they can find knowledgeable help, the results are almost always that the company ends up with getting a reduction in IP expenses (since significant percentage of their IP can be abandoned). Beyond that, CFO’s may find they can reduce or divert the existing IP budget to a higher-quality IP Portfolio. They also find, unexpectedly, that there could be patents that could be sold or licensed. This creates a gain that goes directly to the bottom line, a big win for a CFO!

So, in planning 2010, it would make a lot of sense to start with the simple basics of an IP strategy, such as an IP portfolio valuation. Ninety-five percent of the time the cost of doing this is easily justified by the savings, beyond the fact that it can further develop a higher-value IP portfolio.

6. Most R&D and technical managers have never used an IP strategy.

Technical people solve problems; technical managers direct the focus of the problem solving utilizing the supporting technology. R&D managers search for advanced technologies and their combinations to obtain workable new technologies to create new product or services, provided by marketing insights. Together, R&D and the technical managers are driven by marketing, as it should be. However, we have seen that there are a few key IP strategy insights that are rarely used by R&D and technical managers that could provide efficiency and leadership, such as ensuring a new technology is developed that is: (a) free and clear of others IP, (b) that can be protected with new IP to obtain sustainable competitive advantage, and (c) that minimizes re-invention to save time and money in development.

There are those that say that our technical people should not look at patents because they may contaminate the organization for willful infringement down the road. Due to recent and new U.S. Supreme-Court-level case law, this is now a false belief.



There are those that rightly would say that the technical people cannot really analyze the patent literature to determine the assurance sought after above. We would agree, however, the ability to do proper analysis of the “IP landscape” can provide much deeper insight into resolving these assurances above. With a little help and direction, getting proper IP landscapes set up is both quick and done at reasonable costs and later is very inexpensively updated. These IP landscapes can help the technical people find out who has invented what, how the key technical problems have been solved before, and which problems are still open to be solved in unique ways. Certainly, the IP landscape analysis can help the technical managers and R&D organization find out where there are opportunities to meet the free and clear IP landscape areas and also where protection is possible.

In 2010, developing technology roadmaps informed by marketing and IP landscapes really becomes the best way to plan ahead and set the best possible R&D direction. If done right, these IP landscapes inform the IP strategy in order to obtain the results needed in this down economy, and put the technology development work in sync with the IP strategy so it doesn’t occur in an "ad-hoc" manner. Wouldn't your organization be much better served with a data-informed IP strategy?

7. In-House attorneys see IP strategy as only a budget issue and filing strategy.

It has always made complete sense that an IP strategy has a legal component to it in which the IP attorneys need to ultimately decide on what is patentable and where to file the resultants patents based upon product make, use, or sale directions. However, we have found that many attorneys are starting to ask for more business input. We think that in 2010, business will start to take more ownership for the IP strategy direction, with legal input, versus the other way around.

We have watched many of our clients start to move in this direction and we have seen many talks and papers highlighting the fact that an IP strategy needs to be owned and driven by the "business folks." More sophisticated thinkers start to recognize that the IP strategy needs a lot more input from the companies overall organization, as well as include analysis of its historical agreements and contracts, and, as mentioned, the IP landscape. As the company moves from the idea that the IP strategy is not just a budget issue and filing strategy driven by the attorneys, it finds unexpected opportunities, such as: (a) it can reduce some of the filing it thought it needed, since management doesn't feel patent protection will work in certain markets, (b) it can develop IP in new areas to leverage a certain supplier or customer relationship, or (c) marketing can use the new IP direction "in-market" to leverage its marketing plan. These are a very limited few of the unexpected opportunities found by developing and executing an IP strategy.

In-House (or outside) attorneys have always been the final guardians of the IP strategy, even when business did not recognize it needed an IP strategy. For this we should be extremely thankful. In 2010 and beyond, enlightened companies are calling for a more business directed and holistic data driven IP strategy, to be more inclusive and have ownership be adopted throughout the organization. Wouldn't you want this approach so that you can lead your company to the many unexpected positive opportunities and to provide a peace of mind that the company has done as best for its IP strategy?

8. An IP strategy is thought of as a "big-company luxury," or is thought about as only being relevant to a small company where the IP issues are simple.

Because we work with all sizes of companies, when we first engage in discussing the IP strategy with a firm, we often get the reaction that companies seem to think that a different-sized company is better fitted for developing an IP strategy. We worked with a company that had over $50 billion in yearly sales that thought they were too big to have a meaningful IP strategy because the task of getting buy-in across the organization, as well as the data collection to set it up, would be overwhelming. The suggestion was that IP Strategies are best done by smaller companies and that at best, as a large company, the IP strategy was best left as it existed: growing the total number of patents and maintaining the inventor recognition program. On the other hand, smaller companies suggest that they did not have the budget to do a meaningful IP strategy, in that it takes a given amount of resources and dollars to even begin having an IP strategy, and that they were not big enough to invest in one.

What we found was that most companies missed the idea of "pro-rata investment" in the topic of IP strategy. That is, that large companies need to spend more, small companies need to spend less, and basically the size of investment in developing an executable IP strategy is only what is required, not unlike a marketing or R&D budget which is a pro-rata investment.

The basics of developing an IP strategy are always the same: first, get input across the business. For large companies, more people need to get input and it takes longer to coordinate. For small companies, fewer people are involved and therefore it is accomplished more quickly. Second, the IP landscape of the space needs to be evaluated. I think it is easily seen that smaller companies develop less complex products and, therefore, their IP landscapes are smaller than larger companies (in general). Third, the IP strategy requires actionable processes to be put in place and measured, based upon the IP tactics chosen. You would expect a larger organization to need to invest far more in its IP processes than the smaller companies and obviously the smaller companies deal with less process and a smaller volume of work.

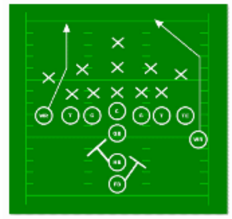
So, as we look to 2010 and beyond, it makes sense that a company adopts "proper-scale" IP strategy efforts and not let size be a deterrent. It may be somewhat of a relief to smaller companies knowing the table stakes of the cost of starting an IP strategy are not what they would have imagined. It may also make sense for a larger company to get the dose of reality that an IP strategy is not an overwhelming task for the organization; it's just a matter of scale, like anything else they do. Shouldn't the discussion in your company be how to "do the right" IP strategy for the size of the company, rather than whether you are too big or too small to have one?

9. ***No one owns the IP strategy and those that think they know what IP strategy is, are generally wrong.***

The two considerations of ownership and insight are fundamental to thinking about an IP strategy in 2010 for your organization. First, if there is no owner, then how can an IP strategy even get started? Second, those that think they already have an IP strategy that is "good enough" may be misled because their definition of an IP strategy is too basic or, in today's world, too antiquated.

Interestingly, every time we embark on IP strategy work, the ownership issue comes up, that is, who owns it? The pat answer as one becomes sophisticated is that the business owns it. The reality of more sophisticated efforts show that as the IP strategy gets developed, it will be owned by the organization that gets the largest impact from proper execution of the IP strategy. For instance, if a company is prone to lots of litigation, the general counsels own the IP strategy, since most of the important processes are about controlling divulgation of information outside the company. If the IP strategy is heavily developed from a commercialization aspect, that is, leveraging the IP from either licensing or marketing, you find the business development folks owning the IP strategy. However, if the IP strategy is focused on owning a platform of technology, then the R&D folks may own the IP strategy. Finally, if the IP strategy clearly impacts many areas of the organization, the company at times hires an IAM manager to own the strategy execution and measurements for the key stake holder, reporting to all the needed functions. It makes sense that ownership gets defined only after the IP strategy gets developed, rather than the ownership being defined first. In many cases, trying to pick the owner of the IP strategy before it is developed will cause enough infighting and confusion to stop the effort towards developing one. Where is your company on assigning ownership for the IP strategy?

As the saying goes, "you just don't know what you don't know." This is true in an IP strategy. We made a breakthrough a number of years ago in how IP strategy is defined. After working with hundreds of clients, it dawned on us that each member of the organization had a unique perspective on what an IP strategy meant, and further, if you asked them separately (versus in a group) you would get these unique perspectives. The technical folks were interested in which invention to document, the business folks were wondering about leverage, the financial folks were wondering about ROI, and the executives were worried about employee retention and the CEO was worried about managing the Board and Wall Street. Of course, when you start to develop the IP strategy, you realize all the definitions are correct. The IP strategy process itself is all about developing the specific IP strategy definition for your company, by understanding the company's unique business issues. These all-inclusive inputs must be reasonably prioritized. This is why we say, "You just don't know what you don't know," in that, you don't know the forces and opportunities of everyone else.



On a final note, even the most sophisticated IP Strategies we found are limited by the knowledge the strategists have on what IP end states they know of and what associated IP tactics with which they are familiar. Because, just like you don't know what everyone else is thinking, you don't know all the industries' and competitors' strategies and tactics. A quick test might be to ask yourself if you know what "offensive publications" are or what "Pied Piper" tactics means? These now-industry-standard terms may be very foreign to you. We got to the point where we literally had to keep a playbook of these IP end states and their associated IP tactics to keep track of all of them. Wouldn't it make sense for your IP strategist to have a process that allows getting all the input needed as well as a playbook to help make the best informed IP strategy decisions possible?

Summary

In considering the case for whether you need to start work on developing an "executable" IP strategy in 2010, I took the approach of considering what I have learned over the last 22 years, and considered whether or not companies needed to know anything different about whether they should start, change, or update an IP strategy.

The objections I have found to creating an IP strategy are based upon external factors, like (a) the poor economy, (b) that most do not realize that how companies are starting to use IP is dramatically changing, or (c) an IP strategy is thought of as a "big-company luxury" or is thought about as only being relevant to a small company where the issues are simple.

However, there are also many objections to doing an IP strategy that are based upon internal factors as well, like (a) most executives running companies have never seen an IP strategy, (b) that an IP strategy is not thought of has having real value or ROI, (c) that most CFO's don't realize it is expensive not to have an IP strategy, (d) that most R&D and technical managers have never used an IP strategy, (e) that the attorneys see this as only a budget issue and filing strategy, or (f) no one owns the IP strategy and those that think they know what IP strategy is are limited.

Whether the objections to doing an IP strategy are internally or externally based, the fact remains that these are objections, in almost all cases, are not well-founded. People don't take action if they are either afraid or confused. I have found that most companies are actually more confused about this subject than anything. As you look at the beginning of 2010, now is a great timeframe to understand your own company's objections to having a world-class IP strategy and to get the objections resolved so you can take action and derive the benefits of implementing and executing an IP strategy. I can say with total honesty that when this is done right, many opportunities emerge, large costs are saved and peace of mind sets in. Also, products tend to be developed that have higher margins, business development folks seem to have more tools to leverage using IP and the CEO, and even Boards of Directors or investors start to notice the results. The results are only immediate in the early wins and improved processes day-to-day, but the real results are long-term, just like a healthy lifestyle. I hope you kick off a great 2010 when considering your IP strategy!

See www.ipcg.com for more information regarding IP strategy or contact JCRONIN@IPCG.COM

About ipCapital Group

ipCapital Group, Inc. (ipCG) is a business strategy consulting firm that advises companies on the use of intellectual property (IP). Since 1998, ipCG has delivered over 450 successful IP engagements to companies in a wide range of industries. Our professional services maximize financial results for clients that seek to develop and execute intellectual property (IP) strategies, strengthen and monetize IP portfolios, and establish and implement Intellectual Asset Management (IAM) practices.

