Super-charging your portfolio

Michael McLean discusses how to manage your patent portfolio so as to get the most out of it.

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A strong patent portfolio that is utilized aggressively can make a dramatic improvement on the performance of a company. The strong and consistent growth in patent filings in major industrialized nations over the past 30 years is a key indicator of the value that can be derived from patent assets. Realizing the full value of patent assets requires business leadership, from research and development through to the chief executive's office. It requires a shared and holistic understanding of how the innovation used to create a product is captured, protected, and leveraged effectively within the markets it competes in. Good companies build patent portfolios that protect technology in their products. Great companies build patent portfolios that protect technology used across markets and use the resulting position to their benefit.

Executives should care about patents

The extensive media focus on major deals such as Nortel and AOL patent sales and the acquisition of Motorola Mobility by Google have investors asking, and in some cases demanding, that patents provide a significant return to the business. Additionally, industry stalwarts like Nokia and Blackberry, whose products are challenged by upstarts, have spurred market analysts and financial opportunists to speculate on the value of a company's net worth based on to its patent portfolio.

Obviously, the C-suite is focused on growing revenue and profitability, ensuring access to capital and technology required to further the business, and improving the competitive positioning of key products. Executives have a growing understanding that patents can have a major impact on these issues – providing alternative revenue streams that go almost entirely to the bottom line, enabling partnerships that provide capital or innovative technology, and protecting price points and market share. Business leaders still struggle with two key questions with respect to their patent programs:

1) Is the patent program delivering tangible results for the business?
2) How can this performance be improved or even super-charged?

Savvy technology companies take a holistic and systematic approach to their patent programs across the IP life cycle to:

- understand the technical and patent landscape,
- establish a clear patent strategy,
- build and manage the patent portfolio to provide the assets needed to implement the strategy, and
- utilize the patent portfolio to defend the business and generate revenue.

A high performance patent program demands a clear link between each stage of the life cycle as well as consistent collaboration between the business units in the company and the legal/IP team. Understanding the level of performance requires measurement of both activities across the IP life cycle and outcomes identified in the patent strategy. Super-charging the performance requires identifying specific areas for improvement from those measurements and executing a plan to address them.

Managing your patent portfolio

There are many challenges in developing and sustaining corporate IP activities. The foremost challenge is the lack of organization within the company of its patent portfolio. In many cases, R&D departments have filed, applied for and been granted many patents. These are diligently added to the company's library archives and often forgotten. Dues and fees are diligently paid to one or more patent offices to retain a level of currency without looking at the full monetary value or the monetization opportunity of that patent in terms of the current or future market and/or product portfolio.

A key to any high performance business function is measuring both activity and results. This is done by developing metrics for benchmarking your patent portfolio's ability to deliver value. We see the need to create metrics in at least three areas:

- generation of patents to build the portfolio;
- management of the portfolio to ensure alignment with strategy and budget targets; and
- utilization of the portfolio to impact the business.

Typical technology organizations generate one patent per $1m spend on R&D. A higher rate can indicate a very innovative company or one that is not selective with its filings. This can be determined by looking at conversion rates – the number of inventions selected for patents from the total submitted for consideration. It is also important to understand the percentage of patents being sourced from outside of the company – nature of the industry (pharma built on sourcing innovation from smaller research organizations versus electronics where differentiating technology tends to be developed in house), company strategy (growth through acquisition, moving into new product areas), size/maturity of current portfolio with respect to business opportunities will dictate the appropriate proportion.

Activity metrics aimed at the building of a patent portfolio should focus on

- the process for selecting inventions for patenting,
- invention extraction,
- claim improvement through identification of upgradable applications, and
- strategic patenting efforts.

Ensure patent coverage of key product areas: In the effort to get a product to market, product teams may inadvertently side step the patent process leaving the organization vulnerable to competitors. Alternatively, mergers and acquisitions may have a disruptive affect on tracking what patents remain or have been added to the portfolio. A combination of ad-hoc tracking by multiple parties, multiple patent teams with individual mandates and unclear patent agreements between a company and its licensees all can create new issues with unleashing the promised portfolio of a patent and/or its family.

Build a taxonomy for sorting and a scoring system for patent strength: Management metrics rely on establishing a framework for evaluation and comparison. This means having a taxonomy for sorting patents and a scoring system for determining patent strength that is relevant to your business and also allows for comparison and evaluation of competitive patent positions. Management metrics should also look at cost factors such as maintenance fees/patent and the number or percentage of patents abandoned or sold on an annual basis.

Utilization metrics will be unique to your company: Utilization metrics depend on the use case. If patent monetization is a primary use case, then activity to monitor would be portfolio mining efforts to locate valuable assets, identify products that map to those assets and developing evidence that the claimed technology is being used, and initiate patent licensing or sales discussions. Outcomes to measure include licensing/sale revenue per patent, percentage of patents actively asserted, and percentage of patents litigated. A patent strategy focused on establishing partnerships or reducing capital costs would have a different set of measurables.

Building a high performance patent portfolio

Companies looking for a high performance patent portfolio need to have a well defined strategy that identifies the desired outcomes and the programs required to achieve them – understanding the technical and patent landscape, building and managing the patent portfolio to provide the assets needed to implement the strategy, and utilizing the patent portfolio to defend the business and generate revenue.

Priority must be given to establishing a framework for the patent portfolio so that the organization has a clear view on its current position. The framework should include two pieces – a taxonomy and an evaluation of strength or value. The taxonomy groups patents into common areas, such as technology, products, or business application. This provides a quantitative view of the coverage of the portfolio by demonstrating areas with significant numbers of patents or areas lacking in patent depth. The taxonomy also provides a triage or selection function that allows the organization to easily identify sets of patents for more detailed analysis or those that might be relevant to a particular threat or opportunity.

Evaluating the strength of individual patents or groups of patents requires the selection of criteria that are important to the company based on the desired use of the patents. This evaluation can be automated, based on certain metrics like citation analysis, maintenance status, number and length of the claims. However, the true strength of the patent comes from the ability to enforce the claims. Properly evaluating this aspect requires an individual or team skilled in the area of technology and understanding of how to read a patent to make a judgment on the potential use of the claimed invention, the ability to detect or prove this use, and the ability to enforce the patent right.

Combining such an evaluation with a well structured taxonomy allows for informed decision making in areas that will drive performance – streamlining the portfolio through divestiture or sales to improve overall quality and manage costs, identifying areas for investment in terms of more active patent filings or acquisition of third party patents, locating pending applications in areas of strategic importance with potential for claim improvements, and building a set of assets for active use in defending the business or monetization. Having a defined structure also allows for effective benchmarking of competitive portfolios and due diligence of portfolios and/or companies under consideration for acquisition.

Sequencing the decisions identified above is also critical to performance. Some companies have abandoned or sold assets without a clear understanding of what the business will need now and in the future. It is important to first determine what assets are needed to maintain a freedom to operate, protect key products and markets, and drive licensing programs. That allows you to identify patents that can be sold as they have value but are not needed for the ongoing activity of the business or come from areas with significant depth and will not impact the required position of the company in that area. Finally, identify patents that can be abandoned – those that have no licensing or defensive potential but still require payment of maintenance fees.

Patent portfolios contain key assets that need to generate return for the corporation. This requires a systematic management approach to ensure results are consistent with the business strategy. Establishing a framework for decision making at each stage in the process and maintaining ongoing activity is key to consistent long term success.

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