

# Value for money

**Martin Bijman** explains how to understand and determine a patent portfolio's worth



## It's a question all patent owners want to answer: "What is the potential value of my portfolio?"

There are obvious metrics like licences or patent sales, or when a portfolio is leveraged for other purposes. Otherwise, determining the value of a patent or a portfolio of patents is often subjective and complex. It starts with an inventory of assets and requires an analysis of key factors, and the professional knowledge of subject matter experts (SMEs).

Only when a portfolio owner understands the value of their portfolio, can they create strategies to refine and leverage it to advance and support their corporate business goals. Let's start by what we mean by value, as that in itself can be subjective. For this article, value means anything that advances the goals of the business.

### Look inside

Portfolios typically include a mix of assets including patents, active licences, claim charts that are ready to be used when needed, and a knowledgeable team. A baseline value can be established simply by looking at the patents and counting the number in each jurisdiction where you make and sell your products and where your competitors operate. Then, add the number of pending applications and how many granted patents have continuations underway.

To leverage a portfolio for business purposes requires a more accurate valuation. This includes detailed, relevant analytics where parameters that correlate to demonstrated market success are validated. A variety of patent tools are available, which report on a multitude of parameters. Before selecting the tools and determining how best to use them, the portfolio owner must know which parameters are needed to give an accurate indication of value *vis a vis* specific business objectives and reporting requirements.

For example, consider how the age of a patent and any forward

citations can reflect value. TechInsights create evidence of use as the validation data set, and found that the average age after priority date when evidence of use is produced follows a bell curve. The curve is centered at 12 years. This implies that the average revenue stream of a patent is seen during the second half of its lifetime. However, when target technologies that are adopted early in the patents' lifetime, they may have a higher value and generate more licensing revenue. These include patented technologies like LEDs, mobile phone control panels, integrated circuit stacking, layout, and architecture. Forward citations, and preferably non-self-citing forward citations, have been found to be higher for patents that have documented evidence of use.

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### Foundational patents

Foundational patents, which are filed early in the technology timeline, are also valuable. These are innovations that create new technologies and enable differentiating features, which motivate customers to buy these products. Foundational patents can be identified by comparing a portfolio to other similar portfolios and observing trends in clusters of

patents spread throughout the dataset. The earliest technology patents in these clusters are potentially foundational patents.

For analytical purposes, you can score all the early patents by their priority sequence in each cluster. How are the clusters created? International patent classifications could be used, but it is also effective to use semantic clustering of the concepts in the patents so that the patents speak for themselves.

## Subject matter experts

The best way to create a truly strong assessment of the potential value of a patent portfolio, is to use an SME to complete the patent assessment. Keep in mind that the SME's expertise must be on par with the technology included in the portfolio and include an understanding of patent rights and industry practice. Even a modest technology portfolio will include diverse technologies and require an equally diverse group of experienced patent analysts.

The most common areas evaluated by SMEs include provable use, workaround, economic value, and validity. Of these, patent use, and the ability to prove it, is probably the most compelling attribute to generating patent value. There are other motivations that go beyond the value of individual patents, such as filling white space, consolidating patents into a pool, and improving a company's innovative reputation.

## Improving portfolio value

Over time, patent portfolios adapt and change due to changes in technology, the market, and other outside factors. Putting an effective strategy in place ensures that these adaptations and changes align with and support the company's objectives. These include the product roadmap, research and development, corporate acquisitions, portfolio maintenance costs, and IP revenue goals. In addition, a comprehensive strategy will account for the direction of the market, market protection, and freedom to operate.

Strategies should include plans for continuous refining and improvement of portfolios. For example, a plan may include a licensing schedule regarding companies of interest, defensive preparation for companies that are expected to serve notice, plans to leverage the portfolio as new technologies and high revenue markets emerge, and periodic maintenance to balance portfolio costs.

A sound strategy should also include a plan to proactively secure inventions from research and development. Two effective ways of capturing this IP include innovation disclosure incentives and regular interviews with design groups about recent product developments. These should occur well in advance of announcing the product to the public so there is adequate time to file applications.

## White space and over-patenting

Frequently, portfolio analytics or assessments indicate that a portfolio includes both white space (fewer or no patents in a technology area) and crowded space (over-patenting in a technology area). Identifying and understanding these discrepancies allows portfolio managers to proactively manage innovations in a crowded space and offer incentives for innovation within the organisation for disclosures in the white space.

## Patent strengthening

Identifying means of patent strengthening on a consistent basis must be part of a sound IP strategy. Patent prosecution activities in many companies are often done in isolation from portfolio monetisation. It is becoming more common for companies to pursue indication of use for their applications of claims that are not yet allowed. This can be beneficial for several reasons: the prosecution team can spend more time focused on certain patent applications that have an indication of use; the claim can be adjusted to improve the indication of use; and

when the patent is granted it is immediately available to leverage.

In addition, ensuring that continuations are pursued for applications with important unclaimed additional inventions in their disclosures will also strengthen the applications. This can be undertaken at any time in the prosecution timeline before the current claim is granted.

## Continual portfolio maintenance

Ongoing portfolio maintenance is critical to managing and containing costs while preserving potential value. The likelihood of use of a patent should be assessed regularly. Since the likelihood of use declines as a patent ages beyond 12 years, it is prudent to consider whether or not to maintain a patent later in its lifetime.

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## Patent acquisition

Another way portfolio managers can improve their organisation's position in a technology or respond to an assertion is to acquire patents. There are a wide range of portfolios for sale, which can be mined for hidden gems. Alternatively, companies may identify and proactively acquire patents in a particular area of technology.

## Summary

Understanding the patents within your portfolio, the value they represent in general, and the value they represent in a negotiation or other patent action are best achieved with the right approach at the right time.

Developing strategies for regular portfolio maintenance, assessment, improvement, and valuation ensures you have access to the information you need when you need it.

Applying the right team of subject matter experts armed with the right tools is necessary to ensure the information you have about your portfolio is accurate, relevant, and effective.

## Author



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