

Is My IP Losing Me Money? Part 2

Leading Practices, Tools and Metrics for IP Commercialization

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In [part 1 of this series](#) on how intellectual property (IP) can help you from a business standpoint, we discussed the scope of IP management and how to effectively develop an IP strategy. Particular attention was given to incentive structures and the global component of an IP strategy. Here in part 2, we cover leading practices for IP commercialization and tools & metrics. The discussion concludes with a look into current IP trends and next steps.

Leading Practices for IP Commercialization

Realizing business value from intellectual assets is core to IP management.

Business value from IP can come from:

- **Licensing revenue** - licensing your company's IP to another business in exchange for fees
- **Infringement actions against competitors** - taking legal action against a competitor that has infringed upon your company's IP and receiving a settlement or compensatory damages
- **Leveraging IP to expand into new technologies and markets** - using and reusing IP assets to expand into adjacent markets, new customers, and new revenue streams
- **Licensing IP from other companies to acquire new technologies and capabilities** - acquiring complementary manufacturing or technical capabilities that would otherwise be too expensive to develop

Recent trends in IP monetization show that less than 50% of patents are used to generate external income and less than 3% ever generate any licensing revenue. Furthermore, 1% of IP assets will generate 90% of a company's licensing revenue¹. Many companies have limitations in their processes to identify licensing and revenue opportunities for IP assets. Others tend to be reactive, only responding to licensing opportunities that present themselves. Some wait until the IP has reached end-of-life for their product lines before looking to license or monetize IP assets. A reactive or undisciplined approach to IP management and commercialization results in unrealized value from intellectual assets.

Licensing Revenue

To determine which IP assets are targets for licensing revenue, companies need accurate and consistent metrics along with standard processes for evaluation. Leading companies use the following metrics to determine licensing potential:

- **Technical metrics:** assess strengths and weaknesses relative to comparable patents in the industry, including claim length, cite velocity, forward vs. backward cites, and index-based measurements on originality and generality
- **Legal metrics:** assess opposition and litigation, uncited prior art, pending prior art, and other legal roadblocks
- **Geographical metrics:** investigate patent counts, invention counts, and claims in various geographies

Establish a regular process to review these metrics to continuously identify leading candidates for licensing revenue.

Infringement Actions Against Competitors

To identify and act on infringements, start by establishing claim writing processes and reviews that ensure stronger claims for defense. Enforcing infringement claims is difficult and expensive, especially if claims are vague or poorly written. Proactively monitor various channels, employ competitive analysis, and understand customer trends across multiple geographies to identify infringement activities. Also, certain infringements are more difficult to enforce than others. Material composition of matter claims are more likely to be enforced than process or design claims, so resources should be devoted to areas that have a higher likelihood of a favorable outcome.

Leveraging IP to Expand into New Technologies and Markets

Leveraging IP assets to expand into different markets and technology development platforms is an excellent way to extract business value from IP. Identify market adjacencies that reuse existing IP assets to multiply the value extracted from existing IP. Use data systems and cross functional reviews to identify realistic areas of reuse for existing IP, and rotation programs for inventors and development staff to encourage cross-pollination between platforms and business groups. Similarly, portfolio development views and collaboration between R&D efforts encourages business groups to prioritize technology expansion investments and identify upstream innovations that can spur downstream development opportunities.

Leading Practices for IP Tools and Metrics

Tools and metrics enable both quantitative and qualitative analysis of IP strategy and performance. In order to improve processes, companies must be able to assess performance and set a baseline for improvement. Here are some common tools and metrics that leading companies use to measure IP management performance.

IP Tools

Leading IP tools enable a strategic view of the IP landscape. The ability to connect IP to products, revenue, and profits generates concrete financial data and lends a monetary perspective to IP performance. Important elements of these tools include databases for patents, litigation, publications, and ownership, as well as the ability to search, analyze citations and create analytics pertinent to business needs. Visualization tools show IP statistics, trends, lists, networks, and maps to enable quick discussions and analysis.

Some leading tools to analyze and track IP include:

- Innography – patent searching and IP analytics
- Thompson Innovation – international patent coverage, collaboration, and analysis
- MaxVal – patent portfolio, lifecycle management, and patent-related services
- Patent iNSIGHT – research, charts, mapping, landscape analysis, citation analysis
- Startgrid – manage innovation networks and discover, monitor and collaborate with IP providers

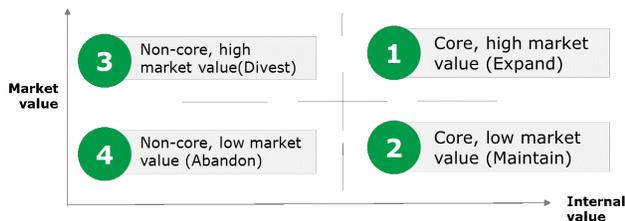
Please note - this is not a comprehensive listing, but a representative sample designed to illustrate the spectrum of tools available. Each has its own capabilities, strengths, and weaknesses the each company should evaluate relative to unique business challenges and needs.

IP Metrics

Metrics are critical to measuring IP performance. Leading companies use metrics to monitor IP portfolio and strategy performance. Some metrics include:

- **Product Coverage or Revenue Coverage** – the percentage of products or revenue that are protected by IP
- **IP Reuse** – percentage of IP assets that are reused across the portfolio and the number of products that a single asset is reused in
- **Profit Coverage** – the profit of individual or aggregated products on a per-patent or per-trade secret basis
- **IP Financial Report**
 - IP balance sheet listing IP assets and liabilities (infringement actions)
 - IP income statement quantifying IP income, cost, and overhead
- **IP Valuations** – assess internal and external market values of IP. This helps determine future development actions, and dispositions on existing IP, such as what to keep, what to discard, what to divest, and where to intensify protection

IP valuations can be based on the two-dimensional chart shown below, with market value on the Y axis and internal value on the X axis. Assets with high internal value are core IP assets that should be expanded or maintained based on external market forces. Assets with low internal value are non-core IP assets that should be divested or abandoned.



Another important metric that leading companies use to measure IP performance is **Categorized IP Spend**. IP spending can be split into five categories:

1. **Gathering IP Intelligence:** identifying business needs, analyzing the IP landscape and competition
2. **Defining IP Strategy:** tying IP development to business needs
3. **Maintaining IP:** maintaining the existing IP portfolio
4. **Creating IP:** building the IP portfolio through the development of new IP
5. **Monetizing IP:** leveraging IP to create and protect revenue streams encompassing current and future usage

Of these five categories, creating IP demands a majority of IP spend. However, comprehensive IP management does not ignore the other categories. Each category is critical to enabling business value from IP.

Emerging Trends in IP

The IP landscape has undergone dramatic changes in recent years. High profile litigation between technology giants Apple and Samsung have shown how high the stakes are. Business leaders should be aware of the following trends:

- Leading companies **unify around a corporate-level IP strategy with executive buy-in**. This allows companies to focus on a single strategy, standardizes metrics, and provides executive support and leadership to IP activities
- **Trade secrets are more regularly included in IP strategy**. The trade secret path is promoted by leadership and written in IP policies. Employees are trained on the value of both trade secrets and patents. Trade secrets are often ignored and unrepresented in IP strategy, but have advantages that should be considered
- IP research, filing, and acquisition **strategies are changing**
- There is an increase in **forward IP innovation** that looks into IP needs 3-5 years down the road, and speculatively develops IP not only to protect product revenue, but to also fence off competitive areas that others may leveraged against you. This provides both offensive and defensive IP tools
- Never-ending patent reform legislation and declining patent values causing leaders to **focus attention on patent quality**, and companies are leveraging new tools to innovate faster and at higher quality, focusing on the business advantage of the invention
- New **international considerations**, including China, the EU unitary patent, and Patent Prosecution Highway are forcing companies to reevaluate existing processes and strategies

Conclusion

As IP business needs change, more companies realize the need to secure, leverage, and expand IP capabilities to adapt to ever-changing market conditions. To continue to drive business value from IP, this must be done with an active management focus and grounded in a defined IP strategy. Extracting business value from IP should be the focus, covering everything from commercialization and licensing to infringement actions and leveraging IP to expand technological capabilities and market reach. Proper tools and metrics are required to identify, measure, and improve on key IP performance capabilities. Building these competencies will allow you to answer the question: Is my IP losing me money?

[1] http://www.wipo.int/edocs/mdocs/sme/en/wipo_insme_smes_ge_10/wipo_insme_smes_ge_10_ref_theme03_01.ppt

More Reading

[In My IP Losing Me Money? Part 1](#)

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