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Strategic Intellectual Property Planning

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The recognition of intellectual property as an intellectual asset, and an asset generally, is paramount to successful strategic intellectual property planning. Intellectual property should be thought of as having the characteristics of an asset, and should be so managed. An effective strategic intellectual property plan will therefore prompt the development, acquisition, maintenance, and exploitation of intellectual property assets, just as a traditional business plan would do with tangible assets. Each piece of intellectual property should be viewed as something that furthers company goals and confers value to its owner. That value may be independently and discretely recognizable, or may be an embedded part of a comprehensive business strategy.

Companies often fail to understand why they should obtain and enforce intellectual property rights. For example, it is common for established companies to have dozens of patents without knowing their value. This is an unfortunate outcome, and leads to corporate legal departments and outside counsel being viewed as cost centers rather than value-producers. The recognition of intellectual property as an asset of the company should be recognized not only by a company's legal department, but also by corporate management.

True strategic planning requires a robust understanding of intellectual property, as well as the characteristics and goals of the company. The specifics of an intellectual property plan will vary widely from company to company, and it would be impossible to provide a single derailed recipe for successful strategic planning that would be applicable to all companies. Therefore the approach here will be to identify several important goals for establishing a viable strategic intellectual property plan.

View the IP Organization as a Profit Center

Corporate legal departments are generally viewed by management as cost centers rather than profit centers.

Simple economics dictates that this should never be the case, and generally such a perception is incorrect. Benefits provided by legal departments are often overlooked. For instance, the cost of writing and negotiating a well-reasoned contract clause may be a known number of attorney hours, but benefits such as the absence of litigation may be difficult for management to recognize and value.

Regarding intellectual property, many companies claim annual licensing revenue of hundreds of millions of dollars; indeed, IBM is reported to have recently generated approximately \$1.5 billion in annual licensing revenue. Moreover, licensing revenue is just a part of the potential value contribution of intellectual property. Others include access to otherwise unavailable technology through cross-licensing, leverage in joint development agreements, and prevention of lawsuits by competitors. Accordingly, it is readily accepted that intellectual property has great value-producing potential, so corporate departments that develop intellectual property should be viewed as one of the many value creating enterprises of an organization.

Create an Appropriate Organizational Infrastructure

The organizational infrastructure for managing a company's intellectual property assets will vary greatly with company size. For example, smaller companies will often wholly delegate the intellectual property asset management function to outside counsel. Larger companies usually have sophisticated legal departments, which often include separate units for handling intellectual property development, litigation and licensing functions.

It can be especially difficult for these larger companies to organize an integrated strategic plan. Although the value of intellectual property on the whole is clear, lower level management will often focus on the short-term bottom line for their particular business unit, and be reluctant to fund the development of intellectual property. For this reason, many larger companies will budget intellectual property

development efforts and manage developed assets in a centralized fashion. This allows the company to leverage the full portfolio in licensing negotiations, in lieu of piecemeal approaches by numerous smaller business units, and allows central control over licensing determinations. Even if these functions are centrally managed, it is critical to integrate with and use the contributions of the individual business units, as 'local knowledge' is often critical for making decisions in the intellectual property management process.

Establish a Culture of Innovation

Efforts to develop intellectual property assets should be integrated throughout an organization. Since developing intellectual property naturally requires intellectual contributions, it is critical for companies to establish an entrenched culture of innovation.

There are many ways for companies to overcome the difficulties in establishing a company-wide innovation culture. For one, high-level management must express clear interest in and support of an intellectual property development program, and indicate that many if not all employees are expected to substantially contribute to the program. This expression should be reinforced with the involvement of multiple levels of management, and the necessary budget and human resources to process potentially inventive contributions.

Several tools can be used to establish the culture of innovation. Aggressive internal promotion using existing vehicles helps to give intellectual property development efforts notoriety and respect within the organization. For example, intellectual property development efforts can be given a prominent presence on the company intranet. Regular, company-wide innovation contests, with monetary awards, prizes and special recognition for winners also help to establish the culture. Even external advertising can help—the Hewlett Packard 'Invent' campaign being a notable example.

Incentive programs are also important for establishing the culture of innovation. Such programs are numerous and varied. For patents, incentives include monetary awards for submission of inventions, and at subsequent milestones. Other incentives, such as providing plaques to employees who are named as inventors on granted patents, are also helpful. Intellectual property development efforts should also be an important element in the employee evaluation process.

'Implementation' awards are also a good incentive, plus they assist in collecting information helpful in valuing intellectual property assets. These awards are given where intellectual property is used in company or competitor products, or is an important part of a revenue-generating license. They provide a natural incentive for employees to submit information about use and potential infringement of intellectual property assets.

Establish a Body for Making Strategic Decisions

A crucial component to intellectual property planning is the establishment of a body for making strategic decisions, preferably in the form of an intellectual property committee (often called a patent committee). The committee may be variously composed, but should incorporate the input of intellectual property attorneys, inventors and managers. Often, the actual committee will include the manager of the intellectual property development program, a number of patent attorneys who respectively handle particular business units whose inventions are being considered, and administrative staff for organizing and recording the results of patent committee meetings. The input from inventors and managers is typically sought prior to an actual patent committee meeting, often using specialized forms that solicit information such as expected potential for obtaining broad patent coverage, pertinence to company products or a previously designated 'key' technology, implementation plans, etc.

Regardless of the composition of the committee, each invention must be carefully and broadly considered, in light of all forms of intellectual property protection. For example, a manufacturing process that is not detectable in a finished product may merit trade secret protection in lieu of patent protection, because infringement would be difficult or impossible to detect. Indeed, a patent would be counterproductive in such a case, as a patent application becomes public when it is granted (18 months after filing in many instances), which means that it would teach competitors how to use an important process to make competing products that would not contain evidence of infringement.

Other developments will merit copyright, trademark, trade dress or other forms of protection. Analogizing once again to other business investments, diversification is essential to the long-term value of an intellectual property portfolio. Consider a company that has taken great precautions to protect the confidentiality of its trade secrets. Even if all of the company's recommended precautions are taken, trade secrecy remains inherently fragile and limited in

scope. Therefore, the company would be wise to consider complementary and supplementary forms of protection. In a product's early development, trade secrecy may provide reliable protection, but later in the product life cycle such trade secrecy may be eroded by reverse engineering or unintended disclosures, whereupon patent protection can remain available. Both published and unpublished works may also be protected by copyright. Therefore, a confidential manual describing a manufacturing process may enjoy copyright and trade secret protection, and the underlying process may also merit patent protection if possible and desired.

Surprisingly, the antithesis of trade secrecy—full public disclosure—may in some situations provide a company with benefits that far exceed those provided by trade secrecy. Many companies choose to disclose immediately fundamental aspects of their technology, and even publish those aspects, in the hope that their technology will be adopted as an industry standard, and in the hope that their publications will prevent or dissuade others from seeking patent protection for identical or similar technology. Typically, these companies rely on their head start in developing the technology and seek to protect themselves from potential competition by providing superior quality and developing market demand for their goods and services. In such situations, trademarks and service marks may be used as legal protection for the goodwill generated by the company in promulgating such technology. As a notable example, Intel, recognizing the existence of 'clone' microprocessors from competitors, developed a program by which computer makers who use Intel microprocessors may label their machines with a stylized logo stating 'Intel inside.'

Intellectual property assets also must be maintained, and should be subjected to regular consideration of whether protection should be sustained, expanded or terminated. For example, a patent committee may reconsider an invention when international patent filings become due for a previously filed patent application. The committee (or another body) may also be responsible for managing ongoing intellectual property development efforts. When patent maintenance fees become due, an assessment can be made as to whether the patent remains useful to the company. The costs for determining the scope of coverage and maintaining patents or other intellectual property should be considered in an intellectual property asset management plan.

Similarly, a company should anticipate possible intellectual property disputes as far in advance as possible. That may entail periodic searches of federal records to discover the patent and copyright activities of competitors, seeking licenses from those developing interesting technologies before the company has a specific need for such technology, and designing around the patents held by companies known to aggressively assert their patent rights.

Develop a Value Extraction Scheme

It would be senseless for a company to develop and acquire a strong intellectual property portfolio without expecting and ultimately receiving some return on its investment. An important part of exploiting value is being able to identify and articulate what the value of an asset is. An intellectual property audit can be used to identify and categorize intellectual property assets and may contribute to a foundation of additional knowledge that is used to exploit the assets.

The most common form of value extraction is through a licensing program. 'Carrot' and 'stick' approaches are often used to describe two basic types of program. In a 'carrot' approach, attractive intellectual property assets are marketed to potential licensors, often bundled with other technology or know how. This offering may be made in areas that the company is not interested in pursuing from a product perspective. Alternatively, they may be presented in light of a strategy to extend a core competency of the company, such as through a joint development agreement. In a 'stick' approach, intellectual property assets are asserted against other companies, often without technology bundling or the expectation of joint development. The stick approach can be used to strictly build a licensing revenue stream, but may also be part of an attempt to gain a competitive advantage in the marketplace for a particular product or service.

Licensing revenue may also be established through the formation of strategic alliances with other intellectual property asset holders. Alternatively, a company may participate in a formal standards setting environment, and submit essential patents for a share of licensing revenue pertaining to the standard.

Value may also be realized through intellectual property asset donations, such as a charitable donation of an intellectual property asset to a qualifying entity for a corresponding tax write off for the fair market value of the asset. Alternatively, an intellectual property asset may

be sold outright, in lieu of licensing, where the covered technology is no longer in an area of company interest. Still further, the property may be used as collateral for financing a product development, possibly in the same field in which the intellectual property was initially developed. Finally, a strong intellectual property asset portfolio confers value by providing recognition as a technology leader, providing a broad bargaining chip for large scale cross licensing negotiations, and acting as a deterrent to aggressive litigation by competitors.

Consider All Asset Management Issues

There are many other intellectual property asset management issues, beyond development, valuation, and extraction. Again, many of these issues are analogous to those confronted with tangible assets. Such concerns are too numerous to catalog exhaustively here, but a few are mentioned as illustrative examples.

One issue concerns where assets will be held. An important and complex issue is whether a separate holding company should be established as the owner of the organization's worldwide intellectual property. Complicated taxation issues will also arise for many intellectual property transactions, both domestically and internationally. Additionally, as accounting standards further recognize the contribution of intellectual property assets to the overall assets of companies, there will be an increasing burden on quantifying that contribution, and a need for expertise as to the treatment of such assets pursuant to a company's financial accounting and reporting obligations.

Allocate Resources Appropriately

It would be foolish to implement an intellectual property plan without considering the level of resources that will be invested to apply to that plan. A proposal for an intellectual property budget should be based on realistic goals rather than an unattainable wish list, with recognition that intellectual property programs often take years to produce an appreciable benefit, and that unanticipated expenses may arise.

Just as 'get rich quick' and 'lose weight fast' schemes often fail, abrupt changes in intellectual property practices often cannot be implemented due to natural constraints imposed by an existing corporate culture. Intellectual property budgets should take this into account by incorporating realistic goals that gradually move the company to better and better procedures.

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