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Reaping Revenue from Your Intellectual Property

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As the importance of intellectual assets has increased dramatically in recent years, the strategies for maintaining and leveraging intellectual property – including patents and patent portfolios -- have changed significantly. By understanding how those strategies have evolved over time – and knowing where they're going – you can help evaluate your company's current strategy and how it might be improved for financial gain.

Software and patent portfolio management
Up until about 1986, patents were not a major consideration for many companies. Software companies mostly sought copyright protection. The formation of the Court of Appeals for the Federal Circuit in 1982 provided a forum in which patent-related grievances would be heard. Within about four years, patent cases from the lower federal courts were being heard and the resulting decisions were affecting how patent owners came to view their patents.

Software generally was not considered patentable until a 1994 decision which set the precedent for the patentability of software. It took still more time before the patent office recognized software on a disc as patentable.

Over the following ten years, as more corporations came to rely upon patent royalties to sustain growth, patenting activity boomed. Companies began patenting everything that applied to their technology regardless if those patents would be used or needed. They had a vague idea that they could license the technologies to other entities, but they rarely pursued it or negotiated successfully.

In recent years, because managers generally view IP as an overhead function, portfolio managers began pruning patents deemed unnecessary. The first to be cut were patents not related to their market space – sometimes referred to as "blue sky" patents, and then the patents that were on the periphery of their actual niche. This would save money on fees related to maintenance, further patent prosecution, and overseas filing.

In the software world, the patent office continues to change its policy, testing the boundaries of what is considered "patentable subject matter." Supreme Court and Federal Circuit case law trumps PTO internal policy that contradicts. So some software IP portfolio managers, aware of these circumstances, might be reluctant to invest in patents for software outside the (relative) core of the company's business. They sometimes figure it's not worth the potential huge fight – along with the time and money involved – over whether the invention is patentable in the first place.

Current requirements and challenges
Now that intellectual assets are considered a key component in a corporation's value – and in some cases **the** most important component – companies face new challenges and requirements:

- The Securities and Exchange Commission now requires reporting on income for intangible assets, which includes patents, copyrights, and trademarks sales and licensing. For software companies, copyrights still are a key source of protection and potential income, in addition to the newer realm of patents.
- Start-ups and young ventures face angel investors and venture capitalists who want to see evidence of strong IP portfolios. This not only shows proof of stability and predisposition for success, but a revenue stream that better diversifies and balances funding sources, as well as a defensible position to prevent intrusion into their market space.
- Companies themselves have been motivated to be more

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Internet Professionals SIG

July 18, 2007
ITIL Executive Overiew
Oregon Training Network

July 19-20, 2007
Internet Strategy Forum Executive Summit
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July 23-27, 2007
OSCON 2007 - Open Source Convention
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self-sufficient during a phase of limited investor interest and support, and lower revenues periods. They are also feeling pressure to make IP more self-sustaining, with publicly held corporations in particular trying to demonstrate a more concrete and direct connection between expenses and returns on investment. As a result, their efforts to seek licensing revenue has increased.

Emerging patent portfolio strategies

Recently, innovators of emerging technologies have utilized new and different strategies for managing their patents. With a goal to generate revenue directly from IP that can help pay to acquire it, they're elevating IP from an overhead function to a cash cow. Leading the revenue-generation success are licensing agreements. While it's long been common practice to license technologies to competitors, especially in cross-licenses, now companies are looking sideways – to other market segments that might have use for their technologies. They're maintaining competitive edge and finding new revenue sources. Big software companies such as Microsoft are prime examples of this.

Best practices

Companies on the leading edge of generating more revenue directly from their patents are setting some examples worth following and adapting to your own company's potential.

- Increasing the efficiency of your patent portfolio is wise, but don't over-cut it. Focus it. Find a happy medium between patenting everything under the sun and patenting only what applies to your direct niche.
- Know what your competitors are doing…and not doing.
- Involve your marketing, market intelligence and technology staffs early on to round out the analysis.
- Carefully analyze your technology. Is there a portion that could be useful to another industry?
- Thoroughly brief yourself on those other industries. Understand where they're going. Particularly in the software industry, there may be companies out there that have a need and don't want to reinvent the wheel, but don't know that a solution already exists. If you make your solution known, it may be very useful to them and financially beneficial to you.
- Determine how a piece of your technology could apply to them.
- Choose something distant enough from your own industry that it won't help your competitors.
- Identify specific companies in another market space to which you could license that technology.
- Maintain patent protection for the part, or parts, of your existing technology that would be useful in another market space, to allow for easy licensing.
- Ideally, know your licensing strategy before the patent application is submitted, so this can be taken into consideration in the protections you're securing.
- When licensing agreements are drafted, structure them so you glean the amount of revenue you deserve and maintain control of the relationship's future.
- Ensure that you don't end up as direct competitors by utilizing field-of-use grants or cooperative arrangements. A field-of-use grant limits the scope of the license grant to a particular technology, market space, channel, etc. A cooperative arrangement can be viewed as a teaming approach, where both companies get access to jointly developed IP, and limited access to the other partner's unique IP.
- Make sure you're in control or have equal control, with a well-planned exit strategy.
- Utilize the licensing revenue to boost your bottom line, and help fund development and marketing of the larger product line.

About the author

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