



From Freedom-to-operate to Freedom-to-lead

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From Freedom-to-operate to Freedom-to-lead

Troubled economies continue to put pressure on our global corporations. Within these organizations, IP departments, often viewed purely as cost centres, are facing increased pressures to justify their existence and to demonstrate a return on their companies technology and IP investments.

This continued pressure, though at first unwanted, will push IP departments to shape their understanding and definition of patent quality and it will lead to closer inspection and evaluation of the processes and culture that are in place to ensure patent quality

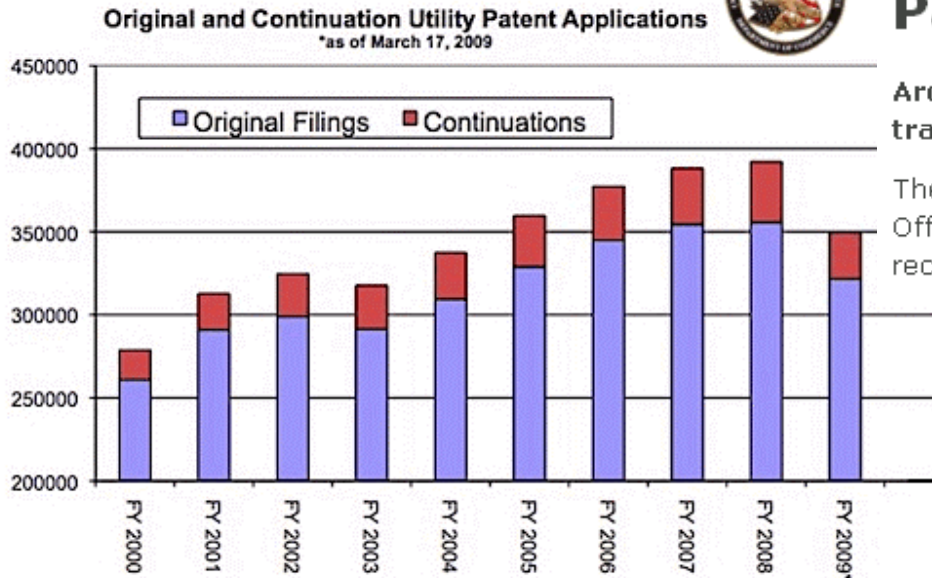
Patent information and patent research have a pivotal role to play in providing your business with external focus, empowering the workforce and enabling increased patent quality. Proactive patent research can help to transition your IP department from a perceived cost centre to a highly strategic unit that facilitates company growth

From Freedom-to-operate to Freedom-to-lead

- **IP department pressures**
- The need to demonstrate a return on IP investment (ROI)
- The solution – improve patent quality
- What does quality mean (especially in the context of ROI)?
 - Patentability and quality
- How can an organisation increase patent quality?
 - Building an IP culture across the organisation
- What is the role of patent research in enabling patent quality?
 - Understanding the external environment
 - Transitioning from freedom-to-operate to freedom-to-lead
 - The myth of the fully comprehensive search
- What are the returns on proactive patent research?
- Conclusions

IP is not completely recession proof

⇒ Economic Downturn => Downturn in Patent Filings



Source – PatentlyO blog 12th April 2009



Patent office faces 100 post cuts

Around 100 posts are under threat at the office where patents, trade marks, copyright and designs are registered.

The Intellectual Property Office, in Newport, formerly the Patent Office, blamed a fall in patent applications, the weak pound and the recession.

Source – BBC News 17th April 2009



Patent application growth slows amid crisis

(Xinhua)

Updated: 2009-04-23 22:05

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BEIJING -- The pace of patent applications in China slowed down in the first quarter amid the financial crisis, State Intellectual Property Office (SIPO) Director Tian Lipu said here Thursday. Source – China Daily 23rd April 2009

IP department pressures

Pressures

- Recessionary pressures
 - Pressure to reduce costs
 - IP budgets flat or decreasing
- Increasing costs
 - PTO costs
 - Prosecution costs (decreased allowance)
 - More onus on the applicant
 - Outside counsel costs
 - Globalization costs
 - Compound effect of filing ramp
 - Portfolio management costs

Traditional Solutions

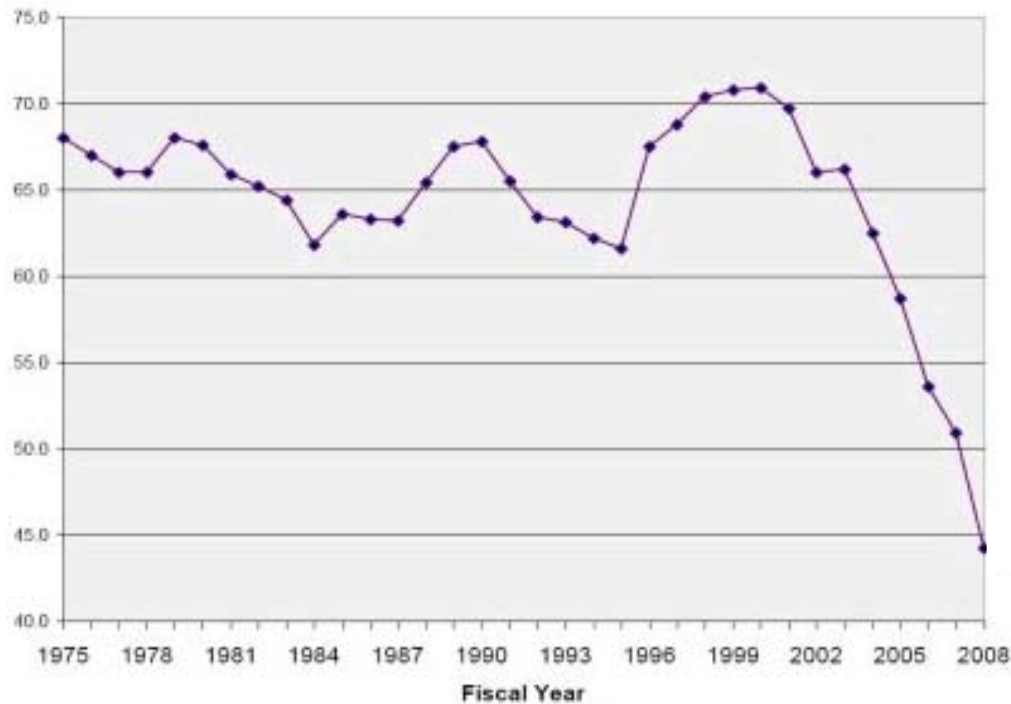
- Reduce portfolio costs
 - File less
 - Review foreign filings
 - Aggressively cut portfolio
 - (immediate savings?)
- Reduce staff costs
 - Reduce staff
 - Manage outside counsel costs
 - Consider outsourcing
 - (improve quality?)
- Look to monetize portfolio
 - (additional resource?)

It has never been more difficult to obtain a patent

Allowance rate at all three Trilateral Patent Offices below 50%



Allowance Rate



= 49.5%
(2008)



= 49.5%
(2008)

= 44.2%

Source: <http://inventivestep.net/2008/12/15/patent-allowance-rate-continues-to-drop/>

The cost of globalization

Yesterday: Typical costs for a patent family covering the US, DE, JP:



Year 1: \$15K

Lifetime: \$78K

Tomorrow: Typical costs for 1 patent family in US,DE,JP+CN,IN,RU:



Year 1: \$25K (+67%)

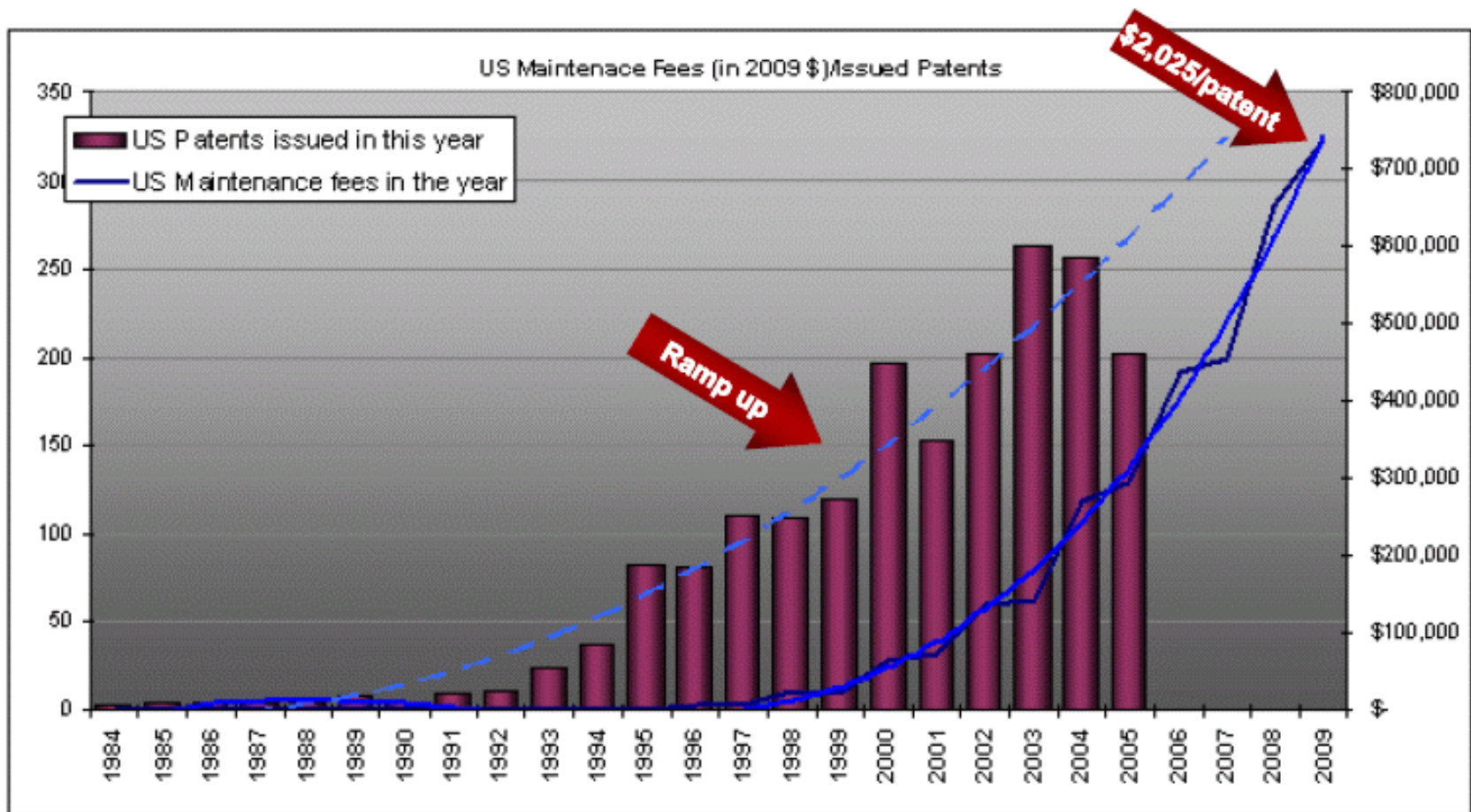
Lifetime: \$134K (+72%)

Yesterday's filing are effective vs. traditional competition but may not be against emerging competitors

Holes in patent coverage can leave you exposed in growth markets

DE=Germany, JP=Japan, CN=China, IN=India, RU=Russia, US=USA

Compound effects of previous filings



Source: C.P Opperman, ReedSmith, changing the way we get patents

Reduce costs (Knee-jerk reaction)

Pressures

- Recessionary pressures
 - Pressure to reduce costs

Traditional Solutions

- Reduce portfolio costs
 - File less

How can the IP department minimise the effect of the knee-jerk reaction to reduce costs now and in the future?

Need to demonstrate that the IP department is more than just a cost-centre

- Compound effect of filing ramp
- Portfolio management
- Look to monetize portfolio
 - (additional resource?)

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Demonstrate a return on IP investment

1) Business leaders need to understand their return on IP investment

- What does IP do for the organisation?
- How can the IP department justify their existence?
- Is IP protecting the organisations technology investment?
- Why don't we make more from our IP?



2) Often it is only negative events that draw attention to the IP department

3) How can we demonstrate ROI, how to convince management that IP has a bigger role to play in the organisation?

- Monetization – most obvious contribution & easiest to demonstrate
- Risk mitigation (traditional role of IP)
- Internal growth (innovation, exclusivity, access to new markets)
- External leverage (increasing perceived value to the external market)

4) How do we improve ROI (learn from previous success)?

From Freedom-to-operate to Freedom-to-lead

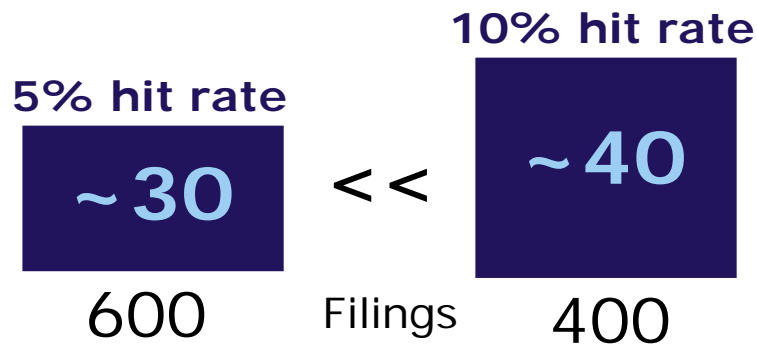
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Increase patent quality (process change)

- For ROI need to be filing quality patents
- What does quality really mean?
- Focus on quality rather than quantity
- Quality requires additional upfront effort & long term commitment
- Can we really reduce patent filings? (paradigm shift)



Can we cut filings & still increase portfolio quality?



Increase relevance of filed patents
Increase success of filed patents
Improve the innovation process

- Strategic filing approach can save 30-40% of portfolio costs over 20 years¹

¹ C.P.Opperman & C.M.Tan "Getting less for more" Intellectual Property Magazine, Dec 2008

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What does quality really mean?

Quality = combined legal + commercial strength

Legal Strength

Strong claims

- Supported
- Different claim types
- Broad & narrow claims
- Difficult to design around
- Covers a technology not just a product feature

Clean file history

- Differentiation from prior art
- No harmful statements

Full disclosure

- Sufficient
- Enabled

Commercial Strength

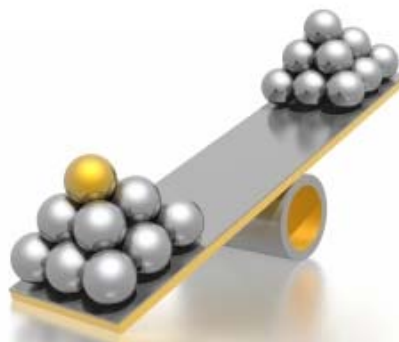
Likely to be infringed

Relevant (who cares?)

Filed early

Business aligned

Easy to detect infringement



Can be a difficult balance between legal & commercial strength

Patentability \neq Quality

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How do we generate quality patents?



Establish an IP culture across the organisation

- Improve collaboration with R&D & commercial colleagues (build into business process)
- Get high level support, make patents relevant to the business (demonstrate ROI)
- Be proactive not reactive, encourage an IP-savvy workforce (tools / process)

- Learn from an objective review of your current portfolio
- Allow time for innovation & the patent process, hold focussed innovation events
- Rate innovations & adjust filing strategies accordingly, involve commercial input
- Know the external & competitive environment
- Define the organisations overall IP strategy & strategy for each business
- Create metrics, measure quality & improve

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The role of patent research in enabling quality

Patent research will play a pivotal role in:

- Allowing understanding of the external & competitive environment
- Facilitating collaboration between legal, commercial and technology groups
- Improving the proportion of quality 'hits' in the portfolio
- Encouraging informed R&D and business decisions
- Shaping IP strategies
- Helping to understand the external impact of your patents
- Identifying opportunities to realise a return on your IP investment



Lower barriers to proactive search



It's getting easier to look

Fast internet access to millions of patents

- Powerful full-text patent databases
- Increasing global coverage
- Simplified access for end-users
- Next generation analytics tools (meaningful analysis)

Research tools are improving



It's OK to look

Seagate – (Federal Circuit decision) Aug 2007

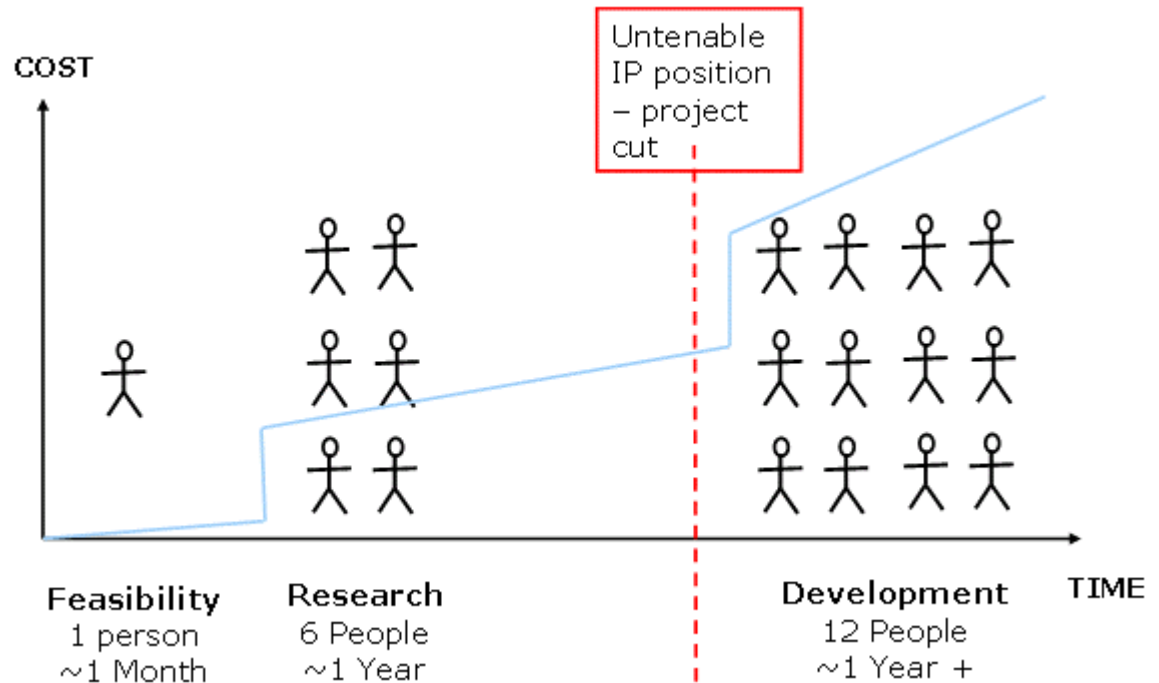
- Duty of due care abolished
- No affirmative duty to obtain advice of counsel
- Implemented recklessness standard
- Much less risk of exposure to 3x damages

Opens door for proactive research

Avoiding the roadblocks, early FTO

Early IP awareness saves money

Need to know we have a clear path for project development, last minute surprises could be costly!



Lack of IP consideration can also erode predicted profits e.g. stacked royalties

From Freedom-to-operate to Freedom-to-lead

Reactive

Proactive

**Reduce risk /
exposure**

Freedom to operate
Validity

Early & continued FTO
Patent alerts
Counter assertion ID

Organic growth

Novelty searches
(rated-to-file)

Target/inform innovation
Improve R&D disclosures
Identify adjacencies

**External growth /
leverage**

Due diligence
(acquisitions)

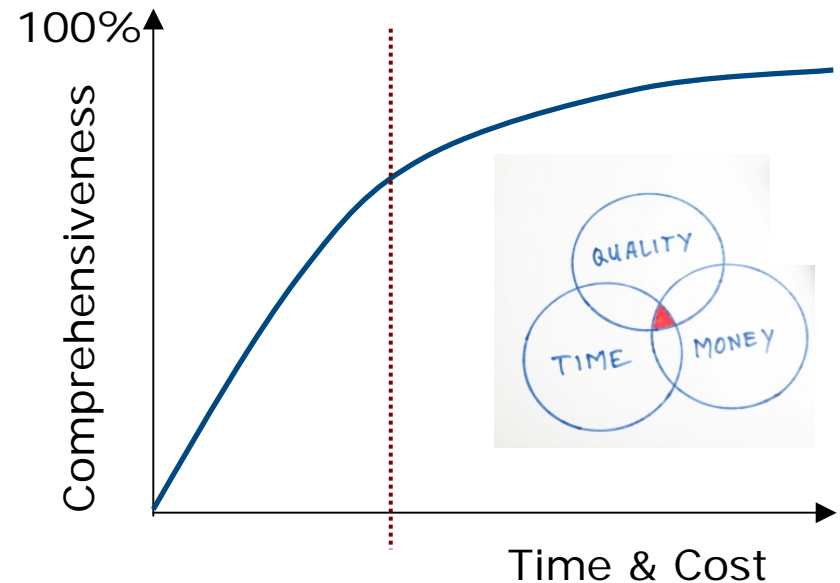
M&A target selection
Open innovation targets
In-licensing opp's

Generate revenue

Monitor for infringement
Key internal patents ID

The myth of the fully comprehensive search

- Novelty/patentability searches require a review of all patents & non-patent literature in the public domain
- Limitations to both classification and keyword search strategies
- No one database is complete, multiple databases needed to aid comprehensiveness
- FTO searches give an indication of FTO at a particular time, new patents may publish or grant the day after an FTO is completed, ideally need to be updated
- Near impossible to ensure FTO in all potential markets
- Difficult to predict application progress & probable successful claims
- Search activities need to be cost effective



However, search costs are relatively minimal when the output is used effectively to inform R&D spend and to generate a quality portfolio

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The return on proactive research

Novelty searches

Pre-filing search cost likely to be **< 5%** of total filing cost, selecting the best inventions to file can greatly increase allowance rates and hence filing efficiencies (CPA study showed an increase of 20-25%)

FTO studies

Average cost of US patent infringement case = \$5M

An FTO study is likely to be **< 0.1%** of this cost

Proactive, early FTO studies have the potential to save \$M's in improving R&D efficiency and reducing exposure to late stage royalty payments

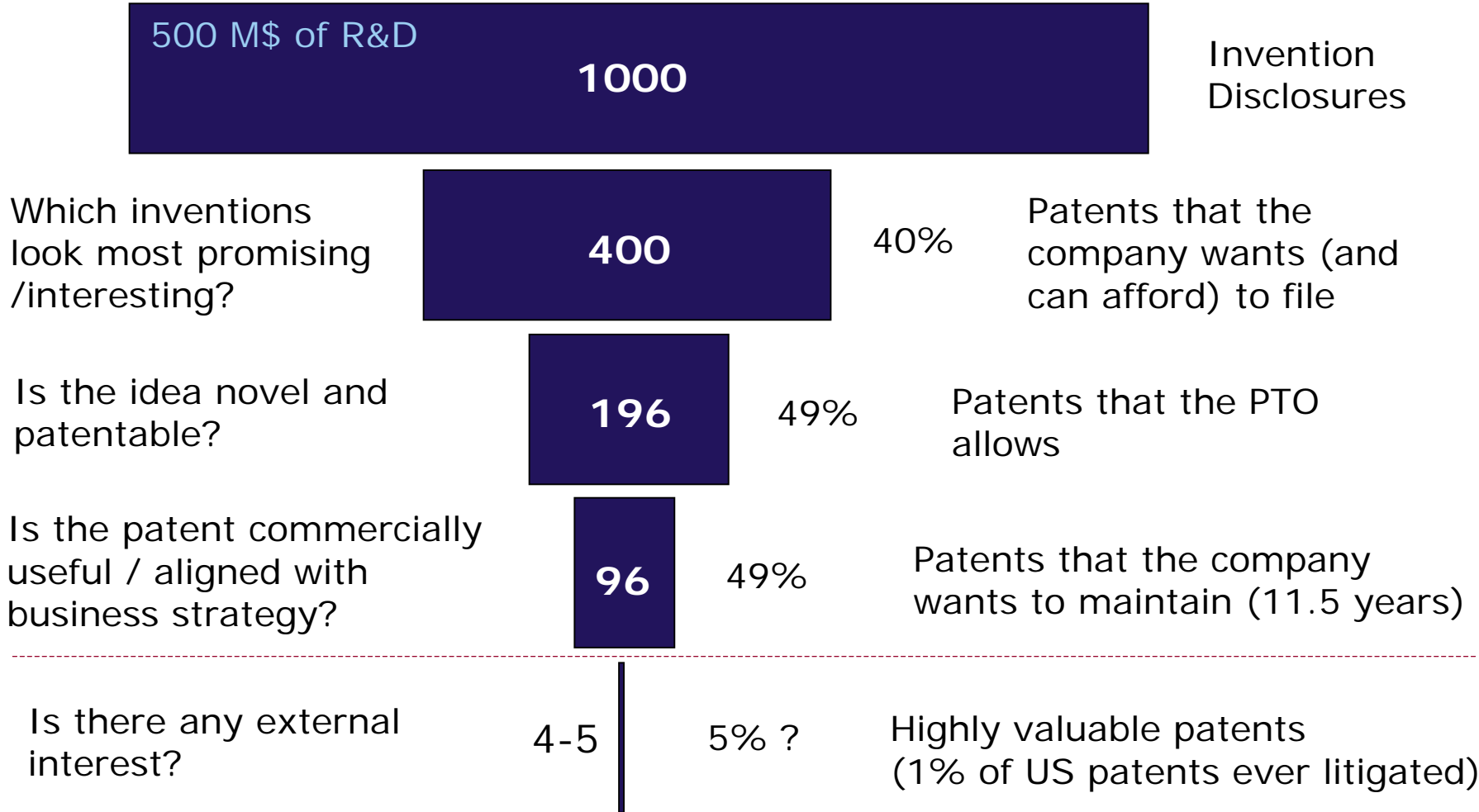
Validity studies

Normally commissioned in response to external threat of litigation or request for \$M's in royalties, search costs likely to be **< 0.1%** of exposure

Landscaping

Difficult to quantify but will be a small upfront investment if it generates actionable intelligence (potentially huge savings in R&D efficiency)

The innovation funnel



The return on proactive research

\$500M of R&D

1000

2% R&D efficiencies,
(less reinvention, more
informed & valuable
innovation) ~ **\$10M**

Selected
filings

400

Cost of drafting & filing 304 patent filings
(~ **\$3M externally**), \$10k per filing
(~ **\$1.5M internally**), \$5k per filing

Allowed patents

196

49%

Maintained patents

96

49%

Highly valuable
patents

4-5

5% ?

Increasing % of quality patents
Reducing FTO risk
Increasing monetization
Owning a new technology space

~ **\$??M**

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Conclusions

- Economic pressures likely to continue for some time
- IP department success/growth may hinge on being able to demonstrate ROI
- To increase ROI need to measure & improve patent quality
- A detailed review of your current portfolio can help
- Patent quality definitions (for a corporation) should include indications of commercial strength
- Generating quality patents requires an external focus
- Proactive patent research is essential to external focus and patent quality
- Patent research and access to patent tools can empower the workforce
- Upfront costs of patent research are very small when compared with the potential benefits

Thank you

CPA Global Services

Legal Process Outsourcing



- Contract Management
- Document Review
- Legal Research
- Deposition Summaries
- Litigation Documents

Patents



- Patent Renewals
- Patent Analytics
- IP Support Services
- Data Verification
- IP Recordals
- Patent Research

Trademarks



- Trademark Renewals
- Trademark Watching
- Data Verification
- IP Recordals
- Digital Content Watching
- Trademark Search

Domains



- Audit
- Management
- Digital Content Watching

Software



- Memotech
- Inprotech
- FoundationIP

IP Consulting



Solving challenges in IP for nearly 40 years, CPA Global has the largest collective IP portfolio in the world. Learn more about what CPA Global's **IP consulting services** can do for you

Risk Management



IP portfolio management risk is a growing concern for both law firms and in-house IP departments. See how CPA Global can reduce your risk.



Understanding the external environment

Landscaping can be used to provide insight that will help you to create & shape a quality patent portfolio & guide / support business strategies to ...

Protect organic growth

Targeted innovation

- Business alignment
- Adjacencies
- White space
- Managing expiries

Enable inorganic growth

Open innovation

- In-licensing
- Research agreements
- Joint ventures
- IP acquisitions, M&A

Mitigate risk

Investment protection

- Early clearance/FTO
- Competitive threats
- Competitor leverage
- Litigation support

Generate revenue

Return on IP Investment

- Commercialization
- Out-licensing
- IP divestiture
- Assertion

Barriers to actionable IP research & strategy

People & Culture

- IP still undervalued (need to demonstrate ROI)
- Change in mindset required: reactive → proactive
- Risk can feel counter-intuitive for the IP community
- Conflict between long term IP strategy & short term budgets
- “Not invented here” syndrome
- Ownership (not my job)
- Wilful infringement concerns



IP Data & Tools

- Database limitations (need to use several sources)
- Limited information on IP value & commercialisation
- Intensive pre-processing of the patent data is still a pre-requisite for meaningful analytics
- Asset ownership & status is often unclear
- Traditional information providers not meeting the needs of new-users of patent information