A Strategy for Monetizing Intellectual Property

BY GERALD B. HALT JR. AND ROBERT I. SOLOMON
Special to the Legal

The recent economic downturn has forced businesses to take a close look at all aspects of their operations, with a critical eye toward maximizing the return on every dollar spent. Because of the severity of the downturn, even parts of a business that have historically been spared from cost-cutting initiatives, such as legal departments, have not gone unscathed. In the recent past, legal departments have represented an ever-growing expense — an unenviable position when a company’s balance sheet is being scrutinized.

The news is not all grim, however, for those companies that have invested in intellectual property. When handled as part of a comprehensive IP strategy, a company’s IP can further the business and marketing strategies of a corporation as well as generate revenue.

As the United States continues to move away from a manufacturing economy and toward a knowledge-based economy, IP will continue to represent an increasing percentage of a corporation’s assets. Can your business continue to ignore this untapped resource? Maybe. But you can be sure that your competitors are not.

A comprehensive IP strategy can significantly enhance the value, both strategically and monetarily, of a business. This strategy should consider all forms of IP, which include:

- Patents — a limited monopoly to exclude others from practicing a particular novel invention.
- Trademarks/Service Marks — symbols, words or slogans that identify and distinguish a source of goods or services.
- Copyrights — protect an author’s creative works: original works of authorship fixed in a tangible medium of expression.
- Trade Secrets — information that derives independent economic value from not being generally known or ascertainable by others and is the subject of reasonable efforts to maintain its secrecy.
- Know-how — confidential or closely held information (designs, drawings, procedures, etc.) together with accumulated skills and experience that may assist a licensee/transferee in the manufacture or use of a product.

Determining all of a company’s IP seems simple enough, but surprisingly, there are many types of IP that are not effectively tracked (e.g., IP acquired via mergers or acquisitions, or IP developed, but overlooked, as part of a research effort). An IP audit should be implemented to systematically review, categorize and evaluate every IP asset that a company owns or controls, (via licenses, contracts, merger and acquisition activity, etc.) An IP audit should also identify potential sources of IP assets, such as ongoing research activities or joint ventures. The result of the IP audit is a catalog of all IP and the status of each and any encumbrances thereon.

Once the IP is catalogued, it is necessary to determine both the strength of each individual IP asset and the coverage of all of the identified IP. First, the strength of each IP asset is determined by ensuring that all of the appropriate legal formalities were taken during prosecution and that the IP asset is valid and enforceable. For example, upon reviewing a patent’s claims in the context of other related patents and publications, it may be determined that the claims of the issued patent were narrowed more than was legally necessary. In this case, it is possible to broaden a patent by filing a reissue application. In essence, one must ensure that each IP asset is as strong and broad as possible. If any defects are discovered, they must be corrected immediately.

Second, the coverage of the IP is determined by “mapping” the IP to identify any “gaps” in coverage. This mapping must be viewed in the context of the company’s current and future business strategy and the markets within which the company operates.

At the very least, the key aspects of existing and planned products must be adequately protected. Preferably, a company should attempt to establish a wide zone of protection around key technology areas or market segments. By doing so, a company can achieve market dominance in these areas. This strategy is similar to
the process of strategically acquiring parcels of real estate; disparate, unconnected parcels are worth far less than contiguous, strategically located parcels. Furthermore, constructing a strong fence around the property keeps intruders out.

Once the IP has been identified, it must be reviewed against the corporation’s business plan and current and future market strategy, to determine whether the IP is core IP or non-core IP. Core IP is critical to the success of the corporation. The following factors help to determine whether IP assets are core assets (i.e., whether they core players) and, thus, are important to the success of a corporation:

- Is the IP currently used and will it be used in the future, or is it related to a product that is obsolete or a part of the business that has been sold?
- Does the IP support a program (either marketing, legal or research and development) that provides the corporation with a competitive advantage?
- If the IP were lost, would the corporation be negatively affected?
- Do your competitors have IP that will negatively affect your business or impede your ability to freely operate in the marketplace?
- Does the corporation need additional IP in order to cover most of the important aspects of the corporation’s business plan?

There are many different types of IP, and thus it is difficult to generalize the scope of protection for each type of IP. However, each type of IP typically has multiple levels of protection and these multiple levels, in turn, have different corresponding price tags. Core IP should be given the broadest scope of protection as it is critically important to the corporation.

Non-core IP may be given minimal resources or may even be abandoned to save money. However, it is often the case that even though the IP is not core to your business, it may have significant value to another company. If such valuable uses by other companies exist, companies doing business in these areas may be interested in licensing or even purchasing your company’s non-core IP. These companies may be identified by performing appropriate market-based or technology-based searches.

Once the gaps are identified, appropriate IP searches should be performed to determine if any other entities have related IP that might fill the gap or present an obstacle to closing the gap. If it is discovered that important related IP is held by another entity, attempts may be made to acquire this IP through a variety of different means, such as licensing, cross-licensing or even outright purchases in order to close the gaps as much as possible. In-house development is always another option to fill IP gaps.

With the gaps closed and the IP put into the strongest possible position, the company is ready to monetize its IP. First, competitors will be effectively blocked from entering the company’s markets. This enables the company to sell products at the highest possible profit margins. Second, those who try to enter the market will be subject to payment of licensing fees, or in the alternative, face specific legal action. Licensing provides another valuable stream of revenue above and beyond the sales of products and services. In this manner, an IP portfolio can be a significant strategic weapon when used offensively against competitors.

The basis of this strategy is the threat or actual use of an infringement suit. There are several issues that should be considered when deciding to aggressively pursue a strong offense:

- Are your competitors litigation-averse; (i.e., do they have a history of settling litigations quickly)?
- Are your corporate management and board of directors willing to use the threat of litigation (or actual litigation) in order to enforce your IP or gain a strategic advantage over your competitors?
- Are you willing to monetize your unused IP through licensing, franchising or even selling them, perhaps in the course of licensing negotiations or litigation settlement discussions?
- Are you willing to develop or acquire additional IP assets solely for the purpose of buttressing a monetization effort?

All of these measures should be considered carefully when crafting a winning offensive strategy. The most aggressive offensives make most of these measures a central part of their strategy, often with great success. However, corporations should carefully weigh the risks and benefits prior to embarking upon an IP strategy that incorporates an aggressive offense. Such a strategy will only be successful if it has the full support of management and directors, as it may take a large portion of corporate resources to be successful.

Another IP monetization approach is the use of IP to facilitate relationships with companies that have potential synergies with your company. By cross-licensing your IP with IP from these “partner” companies, each partner company may become insulated from costly future litigation. Used in this manner, IP becomes akin to an insurance policy protecting the company from future IP litigation; albeit only from those partner companies.

Once a company’s IP has been sufficiently monetized, a company may also be able to access some value indirectly. For example, it may be possible to obtain venture capital at more favorable rates based on the value of the company’s IP. Similarly, it may be possible to obtain favorable debt financing based on the value of IP. If the company is the target of an acquisition or is acquiring another entity, the value of IP assets may significantly affect the ultimate transaction value. In a worst-case scenario, such as bankruptcy or liquidation, a company’s IP assets may represent the bulk of remaining value available to creditors and shareholders.

Whether a corporation has only one IP asset or a large portfolio, through strategic IP monetization, a company may have access to a significant source of additional revenue. One should be careful not to overlook this untapped potential in these difficult economic times.