

# Mining Intellectual Property for Profits

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A proverbial gold mine may be buried within your patent portfolio. Here's how to capitalize on those assets.

Innovative organizations of all sizes have begun to place a strong emphasis on obtaining intellectual property (IP) protection for new products and methods, usually by seeking patents for new innovations. But while many companies have mastered the aggressive pursuit of patents and have built large IP portfolios, most of these businesses do not realize that buried within these portfolios is a potential gold mine that can provide significant and varied benefits. Unfortunately, many great ideas go unused because they are inconsistent with long-term corporate objectives or they fail to promise enough profits to be worthy of pursuit.

## The benefits

Developing and implementing a strategy for unburying and exploiting these hidden assets can yield thousands, or even millions, of dollars to an organization's bottom line. One private study found that 67% of U.S. companies own technology assets they fail to exploit, and that the value of these wasted assets is over \$115 billion. Thus, firms that develop an IP strategy can see a healthy return on investment. For example, after IBM began mining its IP portfolio, it saw an increase in patent royalty income from \$30 million in 1990 to \$1 billion in 2000. Similarly, Xerox's royalties jumped from \$10 million to \$100 million in just two years, while Texas Instruments brings in more than \$800 million per year in patent revenues.

# Intellectual Property

This additional revenue goes directly to the bottom line because it is obtained without adding a large sales force, new R&D or product development capabilities, or other infrastructure typical of developing new revenue sources. Indeed, the investment in research and development has already been made, and patent mining is simply obtaining a profit on those previous efforts. Boosting the return on this investment increases the value of a company's ongoing research effort, and also helps validate decisions to maintain or even increase research.

The benefits of patent mining go well beyond royalty income. Companies that understand the potential of their patent portfolios are in a better position to negotiate with owners of patents that are of interest to it. For instance, Dell Computers used its patents as collateral in a \$16-billion cross-licensing deal with IBM. As technologies become more entwined, the ability to negotiate cross-licensing deals can be a huge competitive advantage. This is particularly true of the chemical field, where the same material or composition can have various non-competing applications across industries. For example, a company in the automotive coatings industry might not realize that its products have applications in the construction industry. Similarly, a polymer used by a tire manufacturer may have significant utility in sporting goods.

Patent mining also puts underutilized innovations to effective work. As companies spin off products that don't match their core business objectives or don't provide adequate revenue-growth opportunities, patents provide a valuable protected market. In the past, peripheral product lines have sat unused, or underused, within large enterprises. It now makes increasing sense for businesses to spin off these products, often to existing customers.

Identifying the value of a company's patents and increasing royalty income can also add to the firm's "enterprise value." In a knowledge economy, the enterprise value, market capitalization, buyout or leverage value, or other measures of a company's worth are positively impacted by the demonstrated value of its patent portfolio. A well-developed portfolio, particularly one that is generating profits, helps give an enterprise the resources to stay independent. Alternatively, these profits can contribute directly to valuation of the business, ensuring maximum price in the event of a buyout or merger.

Reducing risk is yet another benefit of careful IP management. Effective analysis and management of a patent portfolio can help guide R&D and merger-and-acquisition efforts around infringement and due-diligence obstacles, as well as help identify and plug holes in existing patent coverage through continuation applications. Awards and settlements for patent infringement cases can range from millions of dollars to hundreds of millions of dollars. Certainly, prudent navigation through the patent liability minefield when developing new products or making acquisitions can be quite rewarding.

Finally, the creative use of patent assets that are not of central interest to a company can yield large, unexpected dividends. For example, many organizations are realizing the benefits of donating unused or underutilized patents to universities and thus eliminating the fees required to maintain the patents. Such generosity can also result in large tax write-offs. Dow Chemical, for example, saved over \$50 million in taxes and maintenance fees, and DuPont saved \$64 million by donating patent rights.

## Sounds great — how do we do it?

Many large companies have considerable patent expertise and resources to draw upon, including in-house patent counsel, to help implement a solid patent-mining program. How, though, can small and medium companies, as well as research institutions, gain the benefits of patent mining?

The steps for implementing a patent mining program will vary depending upon the type of business the organization is in, the nature of its intellectual property, and its objectives. However, the following simple guidelines will get the process started.

## Approach patent mining proactively

A proactive cost-benefit approach can greatly increase the likelihood of success. A sound patent-mining strategy should seek to generate revenue from an existing patent portfolio without sacrificing the ability to exploit that portfolio internally. For example, licenses can be tailored so that they have geographic limitations or are nonexclusive, giving the patent owner opportunities to also sell products within a marketplace.

A key element of proactive implementation is to control legal costs on an ongoing basis in order to lower the break-even point. This can be best accomplished by retaining counsel able to deliver effective and proven strategies, at reasonable hourly fees, while working with an appropriately sized team.

Early development of simple, understandable and deliverable themes helps position a potential infringement case for early settlement and lays the foundation for a victory at trial.

Another proactive key to success is to start with "low-hanging fruit" — *i.e.*, those patents that are easy to enforce. This will help to establish early wins and revenue streams.

## Make sure you've got diamonds in your mine

If you don't have an intellectual property portfolio, you can't mine it. Today, any innovative organization must have a patent portfolio if it expects to maintain an enduring competitive advantage.

The primary reason for obtaining IP protection is the ability to protect new products and processes from rapid copying by competitors. In order to take that to the next level — mining a patent portfolio — companies should keep several rules in mind.

First, avoid limiting patent protection to one narrow field of use. A company may develop a new engine lubricant that performs well at high temperatures. That lubricant should not be limited only to patent coverage of high-temperature applications if it can also be used under other conditions.

Second, take care to maintain patent rights. In most countries, if an idea has been publicly disclosed before the filing of a patent application, rights may be lost. (The U.S. has a more-forgiving policy under some circumstances by allowing up to one year to pass between public disclosure and filing.) Make sure inventors and sales personnel understand that intellectual property managers need to be informed and involved before making disclosures.

Third, portfolios should be managed so that important patents are enforced for their entire term, while unproductive patents are pruned. Most nations require the payment of maintenance fees to keep a patent valid for its entire statutory term. These payments can add up over time. Before the payments become due (roughly every four or five years in most countries), make sure the patents are thoroughly reviewed to determine their value to the company and to outsiders. If there is a credible, profitable application of the patented technology, keep the patent in force.

### Build your internal resources

One of the most important tasks for any innovative enterprise wishing to maximize profits from an IP portfolio is to make sure the organization has the people in place to implement a mining strategy. Whether an organization has patent managers, patent liaisons, or some other agents, these people need to understand the potential of a patent portfolio. Fortunately, most of these folks are quick learners because they understand that successful patent mining can be critical to their career and job security.

### Look beyond your current markets

Patent mining is often most successful from a financial standpoint when an organization looks beyond its primary market for potential sources of revenue, as this avoids cannibalizing current products. A current client has taken an existing chemical formulation that has a well-established use and found many ways to use the formulation in numerous other applications. This company had for a long time been seeking innovative new products to improve service

to its mature core market, but soon found that it was able to serve this core market while also building a presence in other markets. Successful patent mining can help existing businesses while building new ones.

### Develop an enforcement list and plan


The next step is to develop a plan that includes solid estimates of potential revenues and costs, thereby identifying the most attractive opportunities for the greatest return on investment. This is done by matching up patent portfolios with target areas, perhaps starting with a single business unit, and then analyzing the competitors' offerings in those areas. Then rank the target products by factors such as strength of infringement position, size and strength of target competitors, potential revenue to be gained, strength of patents to be asserted, and potential need for cross-licensing.

Next, an enforcement plan for each target should be created. The first action generally is to send one or more letters inviting licensing discussions. If this does not obtain positive results, lawsuits can be filed as appropriate. It is often possible to establish a contingency fee arrangement with the lawyer so that any legal fees are paid by the incoming royalties. As revenue is obtained, it can be reinvested in new enforcement efforts, and the entire program can become self-funding while providing ongoing contributions to the bottom line.

### Seek selective help when needed

As one would expect, a number of small companies specializing in patent mining have emerged in recent years, generally with the objective of promoting patent licensing, but also finding success at advising clients on issues such as mergers and acquisitions. Such services are most useful to large clients with extended patent portfolios that are too difficult for one person or a small team of persons to individually understand. Law firms specializing in intellectual property or with an intellectual property group can also provide such services. Don't be afraid to find a partner willing to work on your terms.

### In conclusion

Patent portfolios represent a significant investment for any company, large or small. By systematically managing and exploiting a patent portfolio, a company can realize the full benefits to which it is entitled to as a patent owner. 

### Further Reading

**Heines, M. H.**, "A ChE's Guide to Patents," *Chem. Eng. Progress*, **96** (10), pp. 92–96 (Oct. 2000).

**Helmer, S. J.**, "Work Effectively with Your Patent Attorney," *Chem. Eng. Progress*, **99** (4), pp. 70–74 (Apr. 2003).

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