Strategic Licensing in the New Economy

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ABSTRACT

What should your intellectual property concerns be in the "New" Economy? Besides providing a brief practical tutorial on legal intellectual property rights that concern you and your enterprise, this paper shall discuss how your intellectual property can become profitable. Learn how to make wise decisions concerning what to patent, as well as how to make patenting more affordable by speeding up the application process. Also learn how you can make intellectual property pay off by weighing the pros and cons of business acquisition, litigation, and strategic licensing. Learn how to create a licensing strategy that enhances your existing business plan. Finally, this paper will show you how to get the most out of your license agreement.

MAKING IP PROFITABLE

Intellectual Property, collectively defined as patents, trademarks, copyrights, maskworks, and trade secrets, is an important asset to any company in the new economy. IP can add value to your business through acquisition, litigation, or licensing. However, to maximize your profits, it is crucial to make wise, informed decisions concerning IP management. This paper will step through the various aspects of IP management, and at every turn will propose guidelines to increase your return.

Although this paper will focus primarily on patents, many of the strategies disclosed are also applicable to other types of intellectual property.

DEVELOPING YOUR PATENT PORTFOLIO

General Patent Strategy for the New Economy

In today's economy, possessing a strategic patent portfolio is more important than ever. However, it is increasingly important to make intelligent choices when developing your portfolio. Opt for quality rather than quantity--holding a few key patents will be incredibly useful from a strategic standpoint. To this end, it is beneficial to make wise decisions concerning which patents to pursue. Furthermore, expediting the patenting process will make patenting more affordable.

Deciding Whether to Patent

Today, smart companies apply for patents for three reasons. The first is to exclude others from using its technology to compete against it in the marketplace. The second is to use as a bargaining chip in cross-licensing situations, either in a proactive manner or as a response to charges of infringement by others. The final reason is to increase the companies profits through royalties paid by others. If none of these justifications are valid, applying for a patent is a waste of money and engineering/management time.

In evaluating a prospective patent, the following questions may help determine the value of the patent:

- Is there demand? If the invention represents a significant breakthrough, such as dramatically decreased manufacturing cost or significantly improved performance, a patent covering the invention will be extremely valuable.
- Is it likely that others are developing in the same technical area and could potentially exclude your participation through judicious patenting of their own? If so, you have little choice but to patent as quickly as possible.
- Is the invention fully developed? If not, the cost of implementation may be unclear, or innovative developments may not yet be discovered. If there is little chance that a competitor will file a similar patent application, it is prudent to wait until all aspects of the invention are fully understood.
- Are there available alternatives? If alternatives exist, the invention must offer benefits that offset the cost of pursing a patent.
- Is demand limited? If so, how big is the niche? If the market for the invention is small, or the invention is related to an obsolescent

technology or standard, the cost of patenting must be weighted against the potential profits.

- Can the invention be maintained as proprietary? If related inventions are already known, can claims be made which are narrow enough to be patentable, but still protect the invention? Does someone else own technology that is needed for the product?

Expediting the Patent Process

In order to lessen the cost of patent prosecution, several steps can be taken to simplify and expedite the process. Furthermore, because the duration of a patent is 20 years from the filing date, shortening the time between filing and issue extends the useful life of the patent; this extended lifetime translates to increased revenue from the licensing or sale of the patent.

Several strategies should be employed in order to minimize the time to issue. Firstly, provisional patent applications should be avoided unless absolutely necessary (for example, if the competition is working on a similar project or if the details of the invention need to be publicly disclosed). With a provisional application, you are able to lock in a early filing date, however, the USPTO does not review the provisional until it is converted to a non-provisional. Since inventors have a year to activate, they often wait until the end of the oneyear period to activate and thus, adding a year to the prosecution of the patent. Furthermore, the inventor should submit Invention Disclosure Statements to the US Patent and Trademark Office. These IDSs should contain all relevant information, including sources for ideas, articles regarding similar technologies, competitive ideas from other companies, or any previous technologies that the invention builds upon. Submitting this information to the USPTO will expedite the Examiner's search and response, which in turn will expedite the issue of the patent. In many cases, a patent may also be submitted with a Petition to Make Special, which will make the application high-priority within the USPTO. It should be noted, however, that this Petition should be submitted concurrently with the application, as submitting the Petition later may actually slow down the patenting process.

Furthermore, there are several steps that can be taken in drafting the application to minimize the communication between the Applicant and the USPTO. The specification should be comprehensive; this also gives you greater flexibility to add claims at a later date. The claims section should include both narrow and broad claims, and none of the claims should be so broad that it encompasses prior art. Furthermore, the drawings that are initially submitted should be the drawings that will be published; this saves the time of submitting first informal, then formal drawings.

In addition, ensuring that responses to Office Actions are filed promptly within the statutory period will eliminate unnecessary fees.

STRATEGIC LICENSING

How Licensing Can Add Value to Your Business

Licensing technology may provide a low-risk way to capitalize on your intellectual property assets. Due to the high cost of manufacture and the comparatively small investment of a licensing program, many of the risks that a company would otherwise face in exploiting its intellectual property are transferred to the licensee. Depending upon the exclusivity of the license, there are varying degrees of risk involved for the licensee and licensor; however, an effective license strategy will minimize risk for both parties. Before a company considers licensing out its technology, however, it should consider whether other ways of taking advantage of its property, such as joint ventures and strategic alliances with other companies, would better compliment its economic position. Once licensing is decided upon, the nature of the company as well as the particular property it wishes to utilize should be carefully considered before deciding the architecture of the license.

Alternatives to Licensing

In deciding how to most profitably mobilize intellectual property, a company should consider a wide range of options.

- New Venture – If the product and the supporting business-structure exist in the company, though the risks are high, beginning a new venture of developing, marketing, and selling a product provides an opportunity for the highest reward for the intellectual property.

- Acquisition – Buying a new company is less risky than beginning a New Venture because much of the costly development has been completed and the infrastructure for a successful production line is in place.

- Strategic Alliance – If two companies share mutual interests, it may behoove both to consider forming an alliance that would enable profit-sharing. Through an alliance, firms may either use each other’s manufacturing skills to take complete advantage of a market, or one company may agree to market and sell products manufactured by another company.

- Joint Venture – When two companies have more than a few ideas in common, they may wish to consider forming a third company as a joint venture. If the skills and resources of the participants are particularly complimentary and both sides are willing to diplomatically deal with the risks, rewards and operation of the company, then this is certainly an appealing option.

The Benefits of Licensing

By licensing out its technology, a company may generate income from unused portions of its intellectual property. In addition to making this potential energy kinetic, licenses enable a company to exploit other markets by allowing the licensee to apply the existing technology to a different market. When an invention is useful to several industries, licensing can prove profitable to both the licensor and the potential licensee as experts in separate fields.

Licensing out is not only a good way for a company to enable its invention to reap the benefits of other industries but also a way to capitalize on the potential of foreign markets. Licensing to firms for production and distribution to different populations can enable a company to further profit from its technology while protecting itself from the overhead required to participate in foreign markets.

Licensing out offers the additional benefit of allowing the licensee to advertise itself better as well as to make improvements (which can give the licensee varying degrees of liberty, thereby making the license more desirable) upon the invention.

In today's environment, enforcement of intellectual property rights has become common. Companies actively mine their patents and analyze activities in the marketplace to determine if any of their patented technology is being used by others. In major markets, the royalty value may be quite large. If infringement is found, a company can determine whether to attempt to license the infringer or immediately file a lawsuit, an action that can be quite expensive.

Before licensing in technology, a company should ask itself whether the invention is something it can develop in-house and, if so, whether the time and cost involved are worth the expected return and whether or not it can do this in a manner not to infringe on any one else's patents. When looking at potential technology to license in, the company should carefully consider whether the property in question fulfills its production and marketing needs.

The terms of the license are the most important aspect for the future licensee, and he must look carefully at these terms, negotiating with the licensor until issues such as long-term profitability/room for growth as well as royalties are resolved to suit both parties. The final consideration for a company to make in acquiring intellectual property through licensing in is whether the licensor is capable of fulfilling its obligations to the licensee financially and otherwise and whether, if additional support may be required later on, the licensor will have sufficient resources to further enable the licensee's production.

Questions to Consider When Licensing

Does the Strategy Fit? - When considering a licensing strategy, a company should look closely at how the licensing program will fit into the overall business plan of the company. The most ideal strategy should not only compliment but enhance a company's product line while providing an even more attractive position for the company vis a vis the market in which it participates. One way of ensuring that interference in this market is minimized is to only license to other markets or for use in foreign economies. Another good piece of advice is to use particularly stringent terms of licensing agreements when dealing with competitors. Additionally, if a company is attempting to license a technology that has been standardized, then it may be wise for it to decide not to compete with its licensees by avoiding the manufacture and sale of products in the markets where it knows it has licensed technology. Making a market or territory restriction in the licensing terms may prove beneficial to both parties as well.

Can Cross-licensing be Used? - When the prospective licensee owns intellectual property of interest to the licensor, cross-licensing is a relatively low-risk way of enabling both parties to exchange intellectual property. When such extensive intellectual property portfolios are involved in an agreement as with large corporations, cross-licensing becomes particularly attractive as rights to intellectual property may be exchanged while no royalty payments are involved or a balancing payment is worked out. However, in this scenario, terms regarding ownership of improvements on the cross-licensed technology needs to be clearly stated in the agreement.

Does the Licensee have the Appropriate Resources? - Ensuring that the licensee has the revenue to carry the product program through is essential for the licensor. After investing the time and money that it takes to sell a license, a licensor must expect the investment in the licensee to be a sound and profitable one that will matriculate as many royalties as possible from the intellectual property.

Determining the Financial Value of a License

At its heart, the value of a license is based on the impact to the licensee should it not be able to use the patented technology. The licensee must determine the implications of avoiding the markets requiring the technology; the cost of finding a non-infringing substitute for said technology or the cost and likelihood of defeating all the patents in litigation. Having said that and particularly in a friendly technology licensing situation where there is no concurrent infringement, some practical issues should be addressed when setting the value of a license.

Both parties should feel that the financial terms of the agreement suit them. The licensor should not expect to earn royalties in excess of the value it can expect a given technology to add to the product of the licensee. Another aspect of a license agreement that can prove prohibitive is the requirement of large initial payments especially of potential licensees who are particularly small and do not have sufficient cash flow to make such a great investment right off the bat.

Are Additional Licenses Required? - The licensor should attempt to foresee any additional licenses that the product of a licensee may require for manufacture. At this point, detecting the benefit of the licensor's particular technology to the product of the licensee is particularly essential in determining the royalty shares of the multiple licensors. Furthermore, both parties should make a careful analysis of all the licensing costs involved, as the total cost of the licenses may drive the retail price of the product up out of the market.

TERMS OF THE LICENSE AGREEMENT

Long-term vs. Short-term Agreements

In a long-term license, the up-front payment is usually relatively small, and the subsequent royalty payments form the bulk of the financial compensation. Such an agreement is usually mutually beneficial if the licensee is a small, cash-poor company. The attendant risk to use of a running royalty versus a larger up-front payment, however, is the chance the licensee may encounter financial difficulties or strategic alternatives leading to a premature exit from the market.

In a short-term license, the bulk of the payment is made in a larger up-front payment. In the most extreme case, this license may consist of one lump payment to cover past infringement. Such a license is suitable with an uncooperative or infringing licensee. This type of agreement is also useful when the licensing company wishes to liquidize its assets.

Exclusive vs. Non-Exclusive Agreements

Whenever possible, the parties should attempt to engage in a non-exclusive license. This provides benefits for both the licensor and the licensee. Firstly, there is less risk involved for both parties; the licensor is not dependent on the success of one product, and the lower licensing fee minimizes the risk of the venture for the licensee. In addition, the licensor retains more control over the product. Furthermore, the reduced royalty fees reduce the cost of the product, which can increase the market share. Lastly, licensing to several companies increases the likelihood that improvements on the technology will be made; these improvements can benefit the licensor and all the licensees.

If the licensee desires an exclusive license, the licensor should ensure that several criteria are met. Firstly, the licensor must consider whether an exclusive license is the best way to exploit the potential of the technology. In addition, substantial research should be conducted into both the technology and the licensee to ensure that the resulting product will be clearly superior to its competitors and will be able to garner a large market share. Finally, the licensor must be persuaded that the licensee has the marketing and production resources to make the product successful, and that the licensee is willing to commit these resources. The licensor may also wish to consider limited period exclusivity.

Improvements on the Technology

Both parties should carefully consider the proprietary rights of improvements made to the technology during the license term. It is beneficial to the licensor to gain rights to any improvements made by the licensee. Likewise, it is beneficial to the licensee to gain rights to any improvements made by the licensor. Furthermore, if the license is non-exclusive, the licensee may also be able to incorporate improvements made by other licensees. The rights to improvements may be included free of charge with the license, or the license agreement may stipulate a payment to be made by either party in return for intellectual property rights for the improvements.

Sublicensing

Unless the agreement specifically states otherwise, the licensee is allowed to sublet to other parties. The licensing party should be aware that it may lose direct control over the technology if the licensee sublicenses the intellectual property. If sublicensing is allowed, the terms and conditions should be explicitly stated in the agreement.

CONCLUSION

A sound Intellectual Property portfolio can prove your company's most essential asset. Knowing how to craft valuable patents for your ideas as well as how to exercise the intellectual property you may already have is critical to maximizing your company's profit.

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