

# IP Licensing Plays Key Role in 'Knowledge Era'

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In our millennial knowledge as a strategic business asset will make a difference between success, failure.

**I**ntellectual property has again taken world center stage in the last couple of months with the convening of the World Intellectual Property Organization (WIPO), made up of officials from 160 different nations, to draft and adopt changes in longstanding international copyright treaties. WIPO, located in Geneva, is an agency of the United Nations.

The focus of the current meeting is to make the necessary changes in the world's three related copyright treaties to deal with copyrights in cyberspace. Online services and telecom companies that are at odds with the press and broadcast media have urged President Clinton to intervene in the discussions that could make carriers liable for content sent via the Internet and increase the royalties paid by North American broadcasters from 30-35%.

The scenario being played out in Geneva is not further evidence of the strategic importance of all forms of intellectual property rights in shaping the global economy. The stakes are very high. The ability to protect inventions, copyrightable works, trademarks, and trade secrets is becoming crucial to companies competing on a global basis.

The new World Trade Organization (formerly GATT) requires member countries to establish a defined baseline of IP protection in their own countries so that an indigenous industry can grow and thrive and as the same time attract foreign investment. Brazil recently started granting patents for pharmaceuticals, and in short order international pharmaceutical com-

panies began investing hundreds of millions of dollars to open Brazilian plants. Patents provide the holder the broadest and strongest form of IP protection.

Patents have been around since the Middle Ages in Europe and in the U.S. since 1790, yet in 1990 approximately \$2 billion in revenues from U.S. patents was allocated to licensing, litigation and settlements. In 1997 that number will rise to a staggering \$100 billion. It seems companies have awakened to the fact that their livelihood can be made or broken by the management of their intellectual property assets.

Several times have covered in the last 30 years to protect intellectual property from an attempt to one of the most strategic assets any organization, large or small, can own today. These times include the global competitiveness that has engulfed industry from high-tech to low-tech, the recent WTO IP provisions signed into law in 1995, and recognition of the importance of patents in forming a separate appellate court specifically for the appeal of all patent decisions.

An example of the critical nature of patents is the E-Data litigation involving 17 companies and 20,000+ others who were notified that they are in violation of E-Data's patent covering business on the Internet. This case illustrates the potential gold mine awaiting any company that properly obtains and maintains strong control of its patents, and by care other companies must take when exploiting the technology of another company to operate their businesses. Case in point: Microsoft was enjoined from further use and ordered to pay Intel Electronics \$120 million in damages for using Intel's patented compression scheme in its software.

In a 1994 article, Fortune magazine chronicled the first steps that some forward-thinking companies are taking to identify what they call "intellectual capital." Intellectual capital is today's counterpart of the more traditional production assets — labor, machines and material — that accountants have long used as their principal yardstick for measuring a company's worth. However, this is largely a new way of thinking for these companies, and placing a value on intellectual property has been difficult in the past.

With so much money being handed, and so much publicity surrounding big name patent cases, you'd think even the smallest companies would be aware of the value of their intellectual property. Not so, Charles Hardy, a fellow at the London Business School wrote in his book "The Age of Uncertainty" that corporations consistently undervalue their intellectual assets. Hardy says that most corporations' intellectual property is worth at least three to four times tangible book value. This is a startling conclusion, considering how today's CEOs and CFOs can identify the exact value of all the warehouses they own, but are unable to ascertain the value of their intellectual property.

On a larger scale, experts say that our global economy is heavily influenced by a nation's ability to protect its intellectual property. Fred Marshakoff said so much in his book, "The Patent Wars: The Battle to Own the World's Technology." He said, "In the war for global economic dominance, the fiercest battles today are over intellectual

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property. Where nations once fought for control of trade routes and raw materials, they now fight for exclusive rights to ideas, inventions, and inventions — what is at stake is the ultimate control of key high-tech industries such as biotechnology, electronics, and communications. \*

**The New Role of CKOs in Knowledge Era**

Many write about the Information Age while, in fact, we have entered the Knowledge Era. With the proliferation of computers in the last 20 years, we are drowning in a sea of raw information. Where it was once the ultimate responsibility of a CEO to maintain some semblance of order in a company's raw data, it is now more and more the case that they are also responsible for disseminating and maintaining the company's intellectual property knowledge base via client server systems.

In an article entitled "Evolution in Distribution — Your Intellectual Property Strategy" published in the 1994 Spring issue of *Intellectual Property Watchdog Outlook*, the author, Greg Nabholz, asks the questions as to whether most companies' IP strategy is back in the 1970s. Some of the questions companies should be asking themselves from a strategic viewpoint in the 1990s are:

- Have you mapped your patents to your products (not to technology)?
- Do you regularly pursue U.S. and foreign patents, no longer being used by licensing or selling them?
- Do you conduct patent infringement clearance before releasing new products?
- Do you know what percentage of your patent filing costs are outside the U.S.?
- Is there a business strategy for where and when foreign patents will be sought?
- Does the company have a patenting strategy consistent with its business goals?
- Do you map competitor's patents to gain a competitive edge in the market?

To turn a wooden 1970s IP strategy into a resilient 1990s strategy, it is suggested that the three steps to follow are: (1) an IP audit; (2) IP guidelines, and (3) an implementation plan. The implementation plan must be concrete and involve an enterprise-wide solution using the appropriate software analysis tools, much like the Total Quality Management concepts pioneered by Professor Deming.

#### ◆ Huge Undertaking ◆

Forward-thinking companies have realized the huge undertaking this new responsibility demands. High-tech companies like AT&T and Hewlett-Packard, have even designated a new position, Intellectual Property Manager, whose job it is to deal solely with their intellectual property and manage competitive research. Patents not only store technical information, but also contain a myriad of strategic business information. These include the inventors of the pioneering inventions, the registered owner of the patent and listing of the number of times a patent has been cited in subsequent patents, aging of patents relative to products, patent clustering and bracketing and numerous other product-related business matters.

In his book "Competitive Intelligence" Larry Kahler says that more than 75% of the information contained in U.S. patents is not available from any other source. It is no small number: high-tech companies are buying the Patent & Trademark Office's entire catalog of high-technology patents. From these troves of information, with the appropriate software analysis systems and methodology, it can be determined which companies are doing cutting-edge work, which countries are leaders in particular technologies and many other types of information which can be cross-functionally analyzed and transformed into knowledge for making critical long- and short-term business decisions.

The task may seem daunting, but

recent innovations have made it much easier to manage a patent portfolio. Previously, patents were only available in paper form making it extremely cumbersome for anyone, let alone qualified intellectual property managers, to manage and analyze their patents. Fortunately, in the last couple of years computer-aided patent analysis systems have become available. They allow numerous complex tasks to be performed on entire portfolios of patents that previously were impossible to accomplish with paper patents. Patents are now available in electronic form together with software tools that provide hyperlinked text and images site-by-site for organizing, searching, and analyzing patent information.

Patents can be searched by library-oriented groupings selected by the user or individual patent filer's association capability allows automatic linking of notes to multiple patents. Mapping your patents to your products and your competitors' products and your competitors' patents to your products can be done quickly. You can easily gain competitive advantage and increase shareholder value by licensing or selling non-core patents.

Leading-edge companies such as AT&T, Lucent Technologies, Intel, Sun, Motorola, HP and others from virtually every industry have already discovered the wide-reaching implications of the smart management of proprietary and competitive patents. Invention- and electronic patent and analysis systems are being adapted within corporations by R&D, strategic planning, business development, mergers and acquisitions, product planning and marketing, as well as legal and CEOs. All are charged with gaining strategic advantage and increasing shareholder value.

As we approach the new millennium, knowledge will be the difference between a company's survival and failure in a global economy. Knowledge-based organizations will use patents as one of their strategic business assets for success.