How to manage your company's IP during COVID-19

Arun Hill, IP Analyst, PatSnap, with insight from industry veteran Jason Resnick, Senior Director of Global Client Services, PatSnap discuss the ways firms can protect their IP in the current global climate.

With a global recession officially declared in March, COVID-19 has impacted organizations of all sizes. While dwindling profits, stripped-back operations, and market restrictions can be curtailed to varying degrees, even the most stable of businesses have found themselves in precarious financial situations. A key question for today's innovators is how to continue to innovate, if possible, under these circumstances. Despite recent instability, there remains a strong case for intra-pandemic R&D investment and an opportunity to streamline company assets, so long as the strategy is justified by data, logic, and common sense.

If there's one thing to take comfort in, it's that prosperity has, and will always, return. Moreover, we possess a key advantage that separates us from our predecessors and can help to offset volatile market conditions – Intellectual Property Rights (IPRs). Patents were once thought to be the most lucrative and economically significant IPR, so much so, that being granted an exclusive right to an invention was enough to securitize an entire business. More recently, however, the notion that these rights are valueless without effective exploitation has been defended by legal service providers, patent attorneys and in-house counsel everywhere, but the issue rarely comes to light in the boardroom. With the recent hits to R&D productivity that some companies are seeing, it's a smart time to evaluate how you're managing with what you have.

So, what exactly is a well-managed patent portfolio? It's inherently difficult to pin down but certain general attributes can be identified.

Effectively managed in-house portfolios are usually "The 4P's":

- **Policy-backed** by a framework that covers acquisition, exploitation, monitoring, and enforcement of all types of intellectual property.
- **Proportionate** to the maturity of the business.
- **Proactive** in responding to market conditions.
- **Precise** in measuring its effectiveness.

An *ad hoc* or defensive approach to the acquisition and maintenance of patent rights often leads to spiraling legal costs, which leads less advanced users of the patent system to believe that this is a game for only the heavyweights of the world. An effective patent

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Résumés

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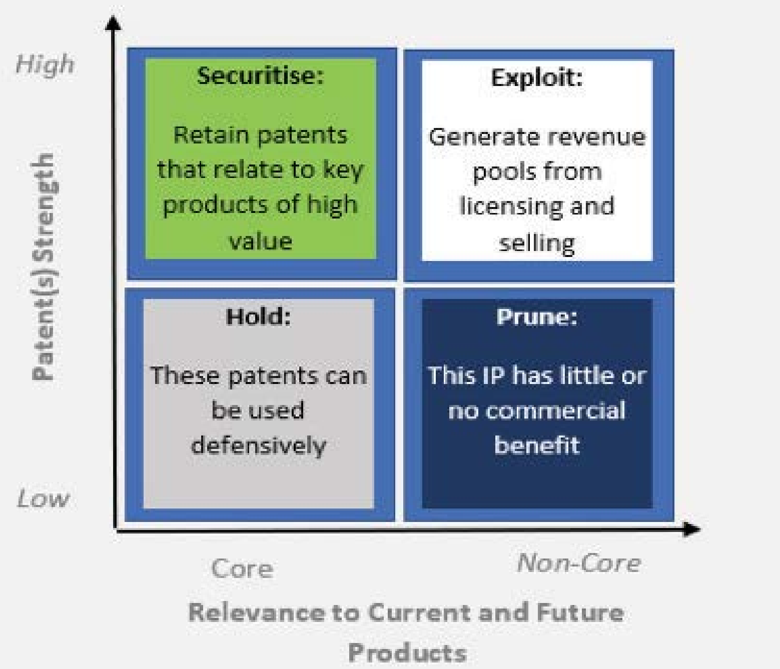
portfolio audit allows businesses to measure and evaluate their IP through a strategic lens, often exposing underutilized and costly patents that can be isolated from the portfolio.

Unfortunately, a haphazard, scatter-gun approach to pruning patents based on uninformed decision-making becomes the norm during financial crises. Just like a seasoned investor would not respond to financial difficulties by unsystematically axing parts of an investment portfolio, the same should apply to your patent portfolio. There is a more informed, strategic approach to pruning backed by data and the proper use of advanced analytical tools, that supports a more proactive commercial strategy.

FIGURE 1.1 The Portfolio Management Quadrant



Three steps to an effective portfolio audit

1. **Gather:**
   Aggregate all patents within the current portfolio, ensuring that all subsidiaries and any other assignee variations are captured, including those that may have been acquired but did not have a proper reassignment conducted. Determine the importance of each patent to the current and future capabilities of the business to ascertain core and non-core technologies from the portfolio. This is likely to be a manual exercise if no previous review has been undertaken. For larger portfolios, it may be beneficial to categorize the patents into buckets reflecting product line, business unit of origin or another type of market segment. This taxonomy can at least be automated in part using semantic searching of patent documents. Depending on the depth and breadth of the portfolio, it may also be necessary to build sub-categories which collectively create an ontology of the portfolio.

2. **Prioritize:**
   a. A first step to prioritizing your patents should be asking yourself the question of what not to prune. For example, prioritizing patents which are tied to cash flows or core activities, patents which may have strategic defensive value in blocking competitor's freedom to operate or are critical to the Porter Five Forces model, such as suppliers, customers and substitutes. These should all be bucketed as items to keep at all costs.
   b. Secondary priorities could include patents which may not be core to your operations but highly valuable to others outside of your industry or vertical. Such patents could be monetizable. The difficulty in assembling this group is that to an untrained eye or inexperienced patent analyst, it's hard to figure out what patents may be of less value to you but highly valued by others. Use of patent analysis, valuation and specialized tools can help guide an analyst in identifying patents in this group.
   c. Tertiary priorities relate to groups of patents not valuable to anybody; those related to antiquated or outdated technologies or are known to have been part of endeavors which are now abandoned from a business perspective. This group represents a clear cost-savings opportunity and should be monitored on an ongoing basis as part of general portfolio reviews.

3. **Evaluate:**
   The next logical step after separately identifying patent assets is to undertake an index of the relative composite strength of patents within the portfolio. Strength scoring is deployed in a wide variety of contexts, but often, management of IP or needs for strategic finance will be triggered internally. Here, a distinction is made between an assessment of the strength, (i.e. the quality of the patent relative to the portfolio), and value (i.e. an estimated monetary figure which is attributed to individual patents). These two attributes are closely related but not the same thing, as not all patents will require the time-intensive task of valuation. Think the 80:20 rule; even though measuring the strength of a patent is not conclusive of its value per se, it allows you to pluck the low-hanging fruit based on objective meta-data obtained directly from the patent document. The standard set of indicators correlated with patent value are well-established, and models for valuation vary in their complexity based on the number of indicators that have been used, along with the statistical techniques that have been applied. By obtaining a score, at least for a representative of each patent family, the patents can be ranked from highest to lowest based on the composite score of the indicators.

Subsequent steps include dividing the portfolio into quartiles and assigning a "high", "medium", and "low" tag based on where they fall within the 25th, 50th or 75th percentile, respectively. There are an almost infinite number of ways to slice and dice the data in a way that enables more informed decision-making.

To obtain a more sophisticated monetary valuation of the portfolio, it requires a move beyond the quantitative indicators found in the patent, to looking at more qualitative criteria usually based on market factors, patent term, prior art, and significance. It usually requires a holistic blend of disparate data sources, from market size to the extent of cross-licensing, litigation, and filing velocity in the technology domain.

Should we continue to acquire new patent rights?

For those organizations that are compelled to slow the patenting process, it will be important to protect ideas that fall short of patentability with non-disclosure agreements (NDA) and trade secrets where appropriate. Selling-off non-core patent assets and exploring alternative revenue streams for licensing can also be used to secure funds. Some organizations may even be in the position to leverage capabilities in adjacent industries. All companies can make improvements by investigating royalty payments and license-out activities along with tracking expiration and renewal dates.

By performing more stringent filtering of R&D disclosures to only those ideas with the highest probability of making their way through pendency and the application process, cost-savings on less promising ideas could be achieved. This increases grant success ratios and saves enormous wasted costs. In this case, it is critical to employ as strong of a patentability assessment as possible, and with today's advanced AI tools, this is entirely achievable. The other benefit is that by having the best prior art, claim drafting can be done more effectively so that patent strength is increased while prosecution expense in the form of office actions is decreased. This allows for more focused R&D efforts when budgets are tight.

Industry experts are acutely aware that fostering IP awareness at all levels of an organization is not just a process change, it's a cultural one. Even before we start to democratize patent information, we must start from the top-down with alignment between IP and business strategy at the board level. IP decisions can also be made based on how they will impact the company and CEO's fiduciary responsibilities to maximize profit.

Where possible, counsel should try to re-think resource allocation, including outsourcing IP tasks to external providers to support pruning portfolios and examining renewal costs. Of course, patents are not a 'silver bullet'. However, the rewards of market exclusivity post-pandemic are abundantly clear, and for those with already established portfolios, a spring-cleaning is likely long overdue.

> **"An effective patent portfolio audit allows businesses to measure and evaluate their IP through a strategic lens."**

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