

Outsourcing an alternative option for Intellectual Property Management

Cost effective ways to manage third party licensing
costs and build a valuable patent portfolio

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For further information please contact:

Global TechLink Consultants, Inc.

117 West 9th Street

12/F, Suite 1214

Los Angeles, CA 90015 USA

Direct: +1 213 784 6744

Mobile: +1 310 720 4408

Email: aduncan@globaltechlink.com

Web: www.globaltechlink.com

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Intellectual Property Market Trends

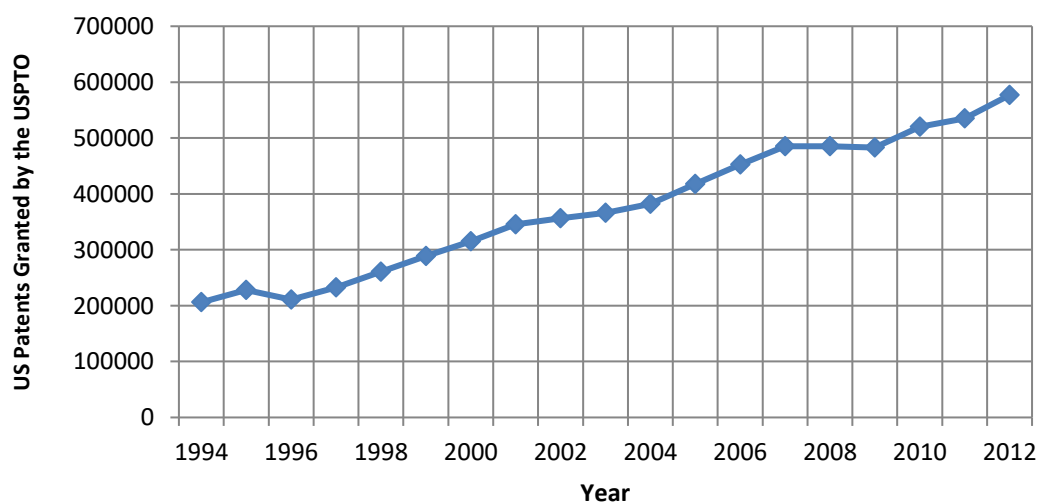
An increasing problem for many SME tech executives is devising an intellectual property strategy that encompasses both internal IP protection, through patent prosecution and protection against potential threats of patent infringement and then marshaling the resources required to effectively manage day- to- day execution. The process traditionally has been managed by outside counsel, or, in larger organizations, by internal council or part time by a member of the executive management or technical team. However as IP has increasingly become a key element of the product and service strategy, both in terms of costs and/or competitive advantage, it has demanded more attention from senior management.

Some firms do nothing with their innovation today and push licensing negotiations off to an R&D department or sourcing department to handle. However there are big risks associated with this policy. Doing nothing may allow a competitor to file for patents and gain a strategic hold in your core business or the company misses millions of dollars in potential licensing revenues.

On the other hand, it is cost prohibitive to patent every idea; even neglecting downstream costs such as maintenance fees, the initial cost (for legal and application fees) in a single patenting jurisdiction is \$10-\$15,000 for a relatively simple patent, and up to \$25,000 for a moderately complex patent. Patent coverage in several foreign jurisdictions will cost between \$35,000 - \$60,000 just for the first few years of coverage. Worldwide patent protection costs are in the range of \$250,000 over the lifetime of a single patent

The overall trend, which is unlikely to change soon, is for companies to develop their IP portfolio by gathering the most extensive patent coverage they can afford. New companies need to make their mark early, or they risk getting left behind, whereas established companies need to maintain and build upon their IP portfolios to remain competitive. The trend in patent applications predicts that the escalation in patenting will continue, applications at the USPTO in 2012 were over 576,700, a 62% increase over 2002 (see figure 1). Global patent licensing revenues are reported to reach over \$110 billion per annum.

Figure 1



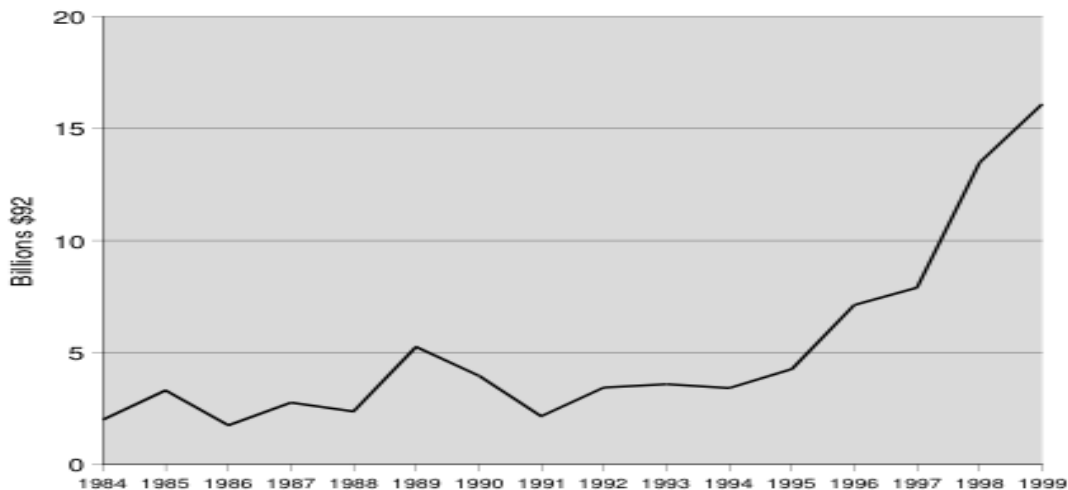
Many companies waste funds, time and energy on unnecessary in- bound licensing costs due to disorganization, lack of experience and/or insufficient knowledge of the licensing environment. The need for an organized and integrated IP department has been made more acute in recent years, particularly in North America, with the rise of the NPE operators (Non Practicing Entity; developing only patent portfolios, no products or services) also known as ‘patent trolls’. A Boston University study reported that patent troll suits cost American Technology companies \$29 Billion in 2011 alone. Despite very thin evidence to back their lawsuits, companies are often forced to settle with NPEs patent disputes out of court because going to court can easily cost millions of dollars in legal fees even if the company prevails and the patent dispute is not complex (see figure 2 below). For this reason 90% of NPE lawsuits are settled out of court. This does not affect only American companies but any company wishing to sell its products or services in the U.S. market.

The passage through the American legal system of the SHIELD Act (Saving High-tech Innovators from Egregious Legal Disputes) may curb some of the NPE’s most egregious behavior by forcing some of them to pay for defendants’ legal costs if they lose their lawsuits. But even the threat of a ‘patent troll’ lawsuit can prove an expensive distraction.

Patent pools under the management of multi- national licensing companies like Sisvel and Technicolor have also grown in number and size on both sides of the Atlantic. Large technology companies like Philips, Sony, AT&T, use these patent pools to achieve the same objective as the NPE, which is to extract the maximum amount of money from potential infringers and users for use of their patent portfolio.

Figure 2

Chart: annual costs (in 1992 \$) of patent litigation to alleged infringers



¹ James E. Bessen and Michael J. Meurer, “The Private costs of Patent Litigation, *Boston University School of Law; Working Paper Series, Law and Economics*, Working Paper No. 07-08.

² “The Current State of Software and Business Method Patents: 2008 Edition,” From the End Software Patents Project, February 28, 2008

IP Roles That Can Be Outsourced or White Labeled.

Clearly it is always useful for a company to maintain a certain amount of confidentiality, skill or intellectual knowhow in house. However in the realistic case of limited funds, companies will need to prioritize as to what they do best and what is best left to others or outsourced. The natural first inclination with Intellectual Property is to turn this role over to in-house counsel or an outside law firm. This might not be the best course of action. A lot of the roles, organization and strategic thinking around I.P. can be and in a lot of case is best handled by someone other than a patent lawyer.

What Needs To Be Done and Who Needs To Do It

1) What to do?

The first task for the company is setting a role for IP in its future; whether it will be a defensive policy, proactive or mixture of both.

Some questions to consider here:

How core is IP to the market environment the company is operating in? How much of the available funds can be allocated or invested in the area ? These decision needs to be made at an executive or founder level.

2) Who does it?

IP activities need to be integrated within the company's short and long term product strategy. Even if that strategy for financial reasons is to do little and file little and hope for the best, it should result from recognition and consensus, not inaction. The better approach is to review the various cost- effective IP tools and options open to the company and vest implementation with one department or senior manager. Dispersion of responsibilities and activities across multiple departments will increase costs and decrease effectiveness. The person managing the portfolio does not necessarily need to be a lawyer but it does need to be somebody with a good understanding of and experience with patent activities.

The responsibilities are not trivial and therefore the costs of hiring a fulltime person (or teams) for such a position might be cost averse for some companies. One alternative: this role can be white labeled or fully outsourced as long as there is a senior internal executive to manage the objectives and overall budget.

3) Inbound licensing costs

Whether identified costs that affect the product and service B.O.M. or unknown, unclear threats that might affect future costs, inbound licensing fees have to be scrutinized and controlled. By centralizing the 'buying' and negotiation of these licenses, the company starts to get a clearer view of its costs and builds a stronger base for negotiation to reduce them. In a controlled environment an outside vendor can bring a number of key advantages over handling this in house:

- i) Through other negotiations they will have a better sense of the market value and going rates for certain patent portfolios.

- Additionally, many licensing agreements start with strict reporting and performance terms. Not all of these restraints have to be agreed to.
- ii) An independent outside IP contractor is there to serve the needs of all and will work across all departments from operations through to finance, without getting caught up in any internal turf battles.
- iii) Flexibility in overhead; once agreements have been negotiated they are normally good for 3 to 5 years. This means that a fulltime person running this activity might be redundant for some of the time. Working with a trusted outside vendor can allow flexibility to increase or decrease the manpower as needed.

4) Building a portfolio

Considering that the cost of filing a patent might run to at least \$15,000 in legal fees, not counting internal staff time, it is not surprising that a lot of companies ignore the need to build a portfolio. Also the idea of using IP to defend a competitive part of a business might be new or not so obvious to some. But it can be a mistake to totally ignore it in a lot of technology market segments where patent activity is strong.

Cost is always one of the biggest concerns but this can be controlled and there are certain tactics that can save cash while still building an effective portfolio:

i) Selecting a cost effective patent filing attorney.

It is important to find a lawyer who you feel comfortable working with and who demonstrates competence in your area of expertise. The mistake is to think that you must hire expensive lawyers from large, metropolitan based law firms to do your patent filing work. In a lot of cases you can find just as competent lawyers based in lower cost areas, who charge correspondingly lower fees. Instead look for the number of successful case filings the lawyer has made and his or her knowledge and experience in your business sector.

ii) Purchasing patents

An often – overlooked tactic is purchasing existing patents that are relevant to your business. When patents for various reasons become less relevant to the company that filed them, they become a marketable asset. It's possible to jump start a portfolio position or fill strategically important holes in an existing portfolio through the careful and skilled acquisition of these external patents.

iii) Selective International patent filing

If your company has international aspirations then you may consider filing your patents internationally. However the process and costs of doing so can be expensive. Costs include the expected patent filing fees in each country and also perhaps unexpected costs such as the fees for expert translations into the local language. There are some areas of cost saving that should be considered:

- The decision whether to file internationally can be put off by filing an application with the Patent Cooperation Treaty (PCT) , which thereafter essentially gives you up to two years to decide whether to proceed with local country filings.

- Select the countries that have most strategic importance. In Europe for example, you may wish to file in only the big five countries of the U.K. , Germany, France, Italy and Spain. You might not be able to protect your business in all countries but strategically you have made it difficult for others to grow a strong pan European business without crossing your patents.

iv) Financial assistance:

It may be worth looking into what kind of financial support local governments offer in the process of filing patents. Many often give companies, particularly SME's, financial aid for filing patents. In Turkey for example, companies are paid a considerable amount of money to file a patent, more than twice the average cost of filing it. In Hong Kong, individuals or SMEs filing patents for the first time can get the full cost of filing covered by local government. There are also a number of tax breaks associated with patent filing and related revenues. Luxembourg, for example, offers very low tax rates on licensing revenues (up to 80% on certain licensing activities under certain conditions) if the patents are registered and based out of that country.

5) Monetizing a portfolio (outbound licensing)

There are at least two ways to generate revenue from a company's patent portfolio:

- i) License the technology to other third parties or
- ii) Use the patents, where relevant, to reduce inbound licensing fees through sublicense or cross license agreements.

There is a temptation to handle this internally by building up a dedicated licensing staff. However it's often difficult and expensive to find the right person with the right industry connections. Therefore there are many advantages to outsourcing or white labeling this activity to specialists in this area:

- a) Lower ongoing overhead risk in case the licensing program does not perform to expectations
- b) Faster and more effective ramp up time, as the external licensing specialist use their network and experience to quickly open doors at the right department and level of decision making.
- c) Broader perspective on licensing business terms, rates and area of growth through the experience of working on different technologies in different market sectors.

Other Tips for How and Where One Can Save Money

- 1) It may not always be necessary to file a patent to protect a business interest. In some cases there is an inexpensive means to protect your freedom to practice your innovation – 'Technical disclosures'. What is a technical disclosure? It is the intentional and purposeful publication of innovation into the public domain. Technical disclosures create prior art that can prevent a related patent from issuing, based on the typical requirements that

patentable innovation be new and non-obvious. With a technical disclosure (also called a defensive publication), your competitor cannot patent the invention and you retain your freedom to practice your innovation.

- 2) If you have a number of patent filings to keep track of across the world, use a patent filing specialist rather than a law firm. They are often more cost effective and efficient especially handling international filings.
- 3) Limit international filing to strategic countries where the legal patent system is tested and protectable. Few companies have brought successful lawsuits in Brazil, China or India for example. And in some countries in the Middle East or North Africa, there is very little to no patent convention so you will not be able to get patent protection. On the upside you should not have to pay any licensing fees to any other third parties either.

Notes on author and Global TechLink:

Andrew Duncan is the founder and CEO of Global TechLink, a technology consultancy specializing in licensing, business development and management for Consumer Electronics, mobile and technology product and service providers. He is a recognized international expert on technology licensing and related intellectual property issues. Mr. Duncan has more than 20 years experience in Consumer Electronics and related core technologies. His past experience includes senior licensing positions within companies like Acacia Research and Gemstar TV Guide International (now part of Rovi). Global TechLink uses its extensive, collective I.P. management and licensing experience to offer various IP related services including 'white label' I.P. department services for technology companies.



117 West 9th street
12/F, Suite 1214
Los Angeles, CA 90015 , USA
T: 1 213 784 6744
M: 1 310 720 4408
Email: info@globaltechlink.com
www.globaltechlink.com