



INTELLECTUAL PROPERTY GLOBAL MASTERS

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ARANCA EVENT REPORT | An éconique Event





PREAMBLE

Innovation and intellectual property (IP) have emerged as the key for the development of competitive advantage. Especially, in the current context of economic turmoil, shrinking sales and falling profits. However, only fierce protection of the innovations and the resulting intellectual property can ensure sustainable success.

Having said that, managing IP is a difficult task. According to one assertion, "97 percent of all U.S. patents have no economic value." Further, research suggests that companies with patent portfolios of more than 250 have about 10 percent of invalid patents. Over the course of the 20-year life span, the average cost of a single patent is about \$25-250,000 excluding lawyer fees, overheads and other costs. And worse, it is estimated that good companies use only 20 percent of their patents while badly run companies use only 10 percent. Given these facts, corporations have a lot to worry about their current competitive edge and future sustainability.

And it's not just the corporations; the law firms are also facing several challenges while providing legal services to the clients. According to Inside Counsel's 19th Annual Survey of General Counsel 2008, 85% of in-house counsel said that economic conditions are increasing pressure to spend less on outside counsel while only 11.6% of the in-house counsels believe that the law firms are seeking active ways to reduce cost of legal services. Given these facts, law firms have to rethink about how to meet their client's expectations in changing global IP environment.

On June 15-16, 2009, over 60 European business leaders and Intellectual Property Managers met in Berlin at the Econique Intellectual Property Masters Global 2009 conference to discuss the challenges and to exchange their experiences in IP management.

Aranca, a leading provider of IP Research and Analytics Services, was the exclusive Research Partner for the Event.

This report presents a summary of some of the burning questions discussed, and highlights some of the breakthrough ideas and insights gleaned from the two-day event. We look forward to your thoughts on the issues in managing IP.

Please write to info@aranca.com.



#1

HOW WILL THE CHANGE IN THE PATENT MANAGEMENT PARADIGM INFLUENCE FUTURE FILING STRATEGIES?

With globalization, the strategic management is increasingly focusing on not just patents but even the quality of patents. Mr. Andreas Gausmann, European Patent Attorney at Inventio AG, said “Quality is important due to megatrends in the business world.” His analysis showed a strong shift in modern patent management approach. While quantity of patents was important in the past, patent managers are now realizing that in a modern knowledge-based society, where innovation cycles are getting shorter and with increasing cost pressures, there is strong need for more quality orientation in intellectual property management. As a patent evolves to its maturity, from inventor over to patent office and finally to the end consumer, it has to meet many different requirements. It has to be technically perfect and create a basis for sustainable market success.

In order to ensure a process of creating not just great innovations but also outstanding patents, Mr. Gausmann described an ongoing process of patent quality evaluation. It consists of four major steps:

Step 1: Evaluation of Technical Quality by Inventor and Developer

Step 2: Evaluation of Legal Quality by Patent Attorney

Step 3: Evaluation of the Strategic Quality by the Board of Management

Step 4: Evaluation of Market Quality by the Reseller/Customer

This process is designed to address all major "quality managers" step by step. By doing so, it ensures that all key quality aspects are considered before filing a patent. However, in order to reach this goal, the patent database has to evolve from a sole data provider to a communication system that connects the "quality managers" and provides not only data but useful information. Majority of experts in the audience concurred with Mr. Gausmann.

ARANCA VIEW:

Given that a significant percent of all patents filed yield little economic benefit and it is prohibitively expensive to maintain them, companies, must re-think their IP management strategies. According to estimates, about 65 percent of all patent applications are rejected by U.S. patent office for various reasons. Unless the patent ideas pass rigorous evaluation criteria and can offer significant economic value during its lifetime, companies are better off not filing them.



#2

WHAT SHOULD A COMPANY EXPECT FROM A SUCCESSFUL INTELLECTUAL PROPERTY MANAGEMENT STRATEGY?

“Without patents, the future of your business may be owned by someone else.” – Kevin Rivette and David Kline. *Rembrandts in the Attic*, Harvard Business School Press, 2000

One of the key topics that garnered a lot of interest and produced lively debate was the strategic role of IP in a company. Two experts, Mr. Gottfried Weidel, Head of Intellectual Property at Nokia Siemens Networks and Mr. Martin Bader, Head of the Institute of Technology Management at the St. Gallen University, were invited to explain their vision of how Strategic Intellectual Property Management should look like. Mr. Bader talked about how innovation can be protected by strategic patent portfolio management. He explained to the audience how different legal and practical protection strategies can help companies to launch their products faster while saving time and costs, and ensure a sustainable competitive advantage by providing them a temporary monopoly position in the market.

However, an IP management strategy is multi-dimensional, and is specific to a company. Yet, according to Mr Weidel, there are four basic IPR - strategies that can be used as a foundation for individual refinements.

First path to use a IPR-Strategy to minimize the risk: Companies that follow this strategy see IP as legal asset. This type of strategy usually is grounded in the legal department. The key activity of this strategy is building up a strong patent portfolio and cross licensing network in order to avoid patent litigation by third parties.

Second path leads to cost reduction: This strategy is used by all companies that face strong cost pressure. They look to maintain the effectiveness of their IPR protection program while cutting the cost of doing so. This involves eliminating unnecessary properties, tightening protection criteria, creating new filing strategies and review internal IP process.

Third path is the path to value: Companies following this strategy view their IPR as a business asset as well as a legal asset. IPR is managed centrally, with the company seeking out business opportunities for its IPR (e.g. out-licensing and use in joint ventures). The companies seek to profit from direct use of the IPR itself, rather than only through the products and services protected by the IPR.

Fourth path is a path to strategic value: Companies following this strategy view their IP as a corporate as well as legal asset. These companies seek to profit from direct use of IP and hence generate revenues from new business opportunities or license revenues. But they also use it as their strategic value, relying on strategic patenting, refocusing R&D and rethinking partnerships.



#2 WHAT SHOULD A COMPANY EXPECT FROM A SUCCESSFUL INTELLECTUAL PROPERTY MANAGEMENT STRATEGY?

ARANCA VIEW:

Companies must remember that effective IP management is not reactionary, a cost-centre, a method to handle output by R&D or a legal matter alone. A good IP strategy clarifies objectives amongst multiple stakeholders and across functions. It is important to have a sustained and vigilant approach to IP management whether it is directionless R&D, patenting a new product, finding out infringements, or hoarding patents even if their economic value is questionable. A strong IP management program can produce outstanding competitive intelligence, provide basis for improvements in R&D and hence, the quality of patents themselves and a basis for generating revenue for the company. As Mr Weidel put it, “Experience has shown that there are only six ways to convert an innovation or an IP directly into cash:

- Sell it
- License it out
- Use it as the basis for a joint venture (to provide access to needed physical assets)
- Use it as the basis for a strategic alliance (to gain access to markets you may otherwise be denied)
- Use it to protect products and services in order to extract premium prices for them
- Create and spin-out a new company based on the IP

Companies seeking to maximize the amount of value extracted from each protected innovation do their best to “turn on” as many of these six cash conversion mechanisms as possible. Few companies are capable of using more than two, but those that can are able to generate significant additional revenue.”



#3

HOW CAN IP MANAGEMENT BE SUCCESSFULLY INTEGRATED INTO THE INNOVATION PROCESS?

In the past decades, companies used their patents in order to preserve their corporate secrets and create long term competitive advantages. This led to a small number of patent filings which could be managed easily. Today however, many companies face the challenge of short innovation cycles and high employee fluctuation. They are forced to co-operate with partners in order to manage the complexity of new products or technologies. The innovation process has transformed from closed and protected activity confined within the company to an open innovation process, which involves collaboration between several partners. A direct result of this is an exponential increase in the number of patents filed, and a recognition of IP as a strategic matter.

Mr. Michael Krengel, Manager - Intellectual Property Veritas AG, and Mr. Thomas Hocker, Manager - Intellectual Property, Vaillant, Germany GmbH & Co. KG proposed a basic concept of how intellectual property can support the innovation process in a mid-sized or a large company. It requires employee training in the basics of IP and is based on three simple steps that can be adopted individually, thus creating a useful road map to IP-integrated innovation. Both Mr. Krengel and Mr. Hocker mentioned that this type of an approach has shown extremely good results at Veritas as well as Vaillant.

Step 1: Generating product ideas: This can be realized by using creative methods such as brainstorming and mind mapping. Therefore, experienced employees (Patent Scouts) who have good knowledge of clients' needs and market conditions, and also have sufficient technical understanding should lead the initiative. They should be able to understand patents and stay updated about ongoing R&D projects. According to Mr. Hocker this is also the stage where a first profitability calculation should be conducted in order to estimate the financial risks the company could take.

Step 2: Compressing product ideas to product concepts: Out of all the ideas, a set of ideas that are likely to be successful, should be selected. All relevant features should be analyzed and a state of the art and freedom to operate study should be conducted in order to find similar solutions that would help in deciding the best way for the development process. If necessary, possible cooperation partners should be contacted or licensing negotiations should be started.

Step 3: It is about taking decisions: This is the most important stage in the innovation process. During this phase, the management makes final commitments about product features, financial expenditures and specifications on what exactly should be patented. This requires solid contract management that includes employee invention compensation, license contracts and non-disclosure agreements.

ARANCA VIEW:

Integration of IP into overall corporate strategy contributes to innovation, and successful and protected products. It also minimizes costly litigation risks.



#4

WHAT ARE THE RISKS AND OPPORTUNITIES OF IP LITIGATION IN THE USA?

When it comes to patent litigation in the US, certain aspects have to be considered by European patent attorneys. In order to understand and analyze the risks and opportunities of US litigation, it is crucial to understand how the "rules of game" look like in the US. Mr. Jürgen Schneider, Global Director Intellectual Property & Litigation, QUIAGEN GmbH, and an experienced in-house European patent attorney, discussed his experiences with the litigation process, especially in the US. According to Mr. Schneider five major steps need to be considered:

Step 1: Everything begins with a thorough litigation preparation: This includes a solid analysis of the scope of protection, validity and consistency of the patent.

Step 2: Litigation Management: Here, the financial resources as well as potential litigation manager have to be identified. First, cost estimations have to be invited and progress reports need to be prepared on a regular basis. It is also important to set up a framework for the information exchange between both parties.

Step 3: Settlement: A settlement should be considered during the entire process. And if both parties come to a settlement, it needs to be negotiated according to the Rule 408 plus.

Step 4: Preparation of Discovery: If a litigation process is expected, no relevant data, whether in electronic or in paper form, should be destroyed. The responsible employees have to be informed about it. It is also necessary to clarify who will be involved in the process and this has to be communicated.

Step 5: Execution: This step is about the actual execution of the litigation and includes preparing and exchanging relevant data. It also includes scanning of paper documents, extraction of e-mails and electronic documents. It is important to classify the data according to US rules.

Mr. Schneider warned the audience against the high costs that are involved in the litigation process in the US. He suggested that IP managers should avoid litigation in the US. However, if that is not possible, then engage US Patent Attorneys who have local knowledge and experience. He also emphasized the danger of the so-called "Patent Trolls". These are US companies that specialize in acquiring patents with the purpose of involving a possible competitor into costly patent litigation processes and force him to pay high license fees.

ARANCA VIEW:

Patent litigation anywhere in the world, can be an expensive proposition. According to one estimate, it costs US\$ 1-3 million in legal fees for the "average" U.S. case. Often, litigations result in resource diversion, lost opportunities, tit-for-tat suits, anti-trust suits and so on. Companies must be careful to ensure that they do not infringe on any third-party patents, and must guard their own patent portfolio diligently.



#5

WHAT SHOULD LAW FIRMS DO IN CHANGING IP ENVIRONMENT

The IP environment has become more dynamic as compared to recent years in past, especially due to the current economic conditions. The companies are re-looking at their legal budgets and IP management strategies. This has impacted law firms as their clients are demanding for reduced fee and more predictable bills. Also, IP management in the current economic situation needs different legal services than the ones traditionally offered by the law firms. To sustain and remain profitable, it's very important for the law firms to quickly adapt to the needs of changing IP environment.

Mr. Deepesh Gupta, Manager Intellectual Property Research and Mr. Paramjeev Sethi, Manager Business Development Europe from Aranca shared their observations on what their law firm clients are doing to cope with the changing IP environment. According to their observations law firms are focusing on four major areas:

Step 1: Creating Savings in Clients Legal Budgets: The law firms are actively helping their clients save on their legal expenses. The law firms are achieving this by identifying new ways to cost effectively manage client's cases. Also, law firms have started offering creative pricing structures such as flat fee instead of hourly billing or sharing risk with the client by offering contingency based on successful outcome.

Step 2: Providing Greater Value to the Client: The law firms are expanding out from their traditional service offerings such a prosecution and litigation and providing more value added services to become an end-to-end solution provider. Through value added services law firms are helping their clients in developing proactive defense strategy against potential litigation, identifying infringers, developing IP strategies and optimizing IP management.

Step 3: Turning Client's IP from Cost Center to Profit Center: The law firms are proactively helping clients in identifying dormant IP and commercialize it through licensing or sale.

Step 4: Reducing Costs: As a long term solution to reduce cost law firms are partnering with lower cost IP research support providers. This way the law firms are able to leverage low cost high quality research with quick turn around times provided by these partners to reduce their costs and still maintain the high quality.

ARANCA VIEW:

Client focused approach and restructuring of cost will not only help law firms to tread through the current crisis but will also help them grow in future.

ABOUT ARANCA'S IP RESEARCH & ANALYTICS PRACTICE

Founded in 2003, Aranca is a global investment, business and IP research services provider. Further, we have extensive experience in private company valuation having executed over 500 engagements.

With our vast and varied experience, extensive research capabilities and industry knowledge, Aranca's IP research and analytics services represent a compelling value proposition.

We offer high quality, cost-effective, quick-turnaround and on-demand IP research solutions to a global clientele. We have worked with global companies, law firms, IP consulting firms, universities, independent research centers and incubation centers of diverse size and types. We have assisted IP managers, strategy heads, CTOs, patent attorneys, IP consultants, R&D departments, venture capitalists, IP deal makers and other decision-makers across all major sectors worldwide.

Our clients save over 40-70% of costs and several days of research time with our support. Our work has helped scores of large and small companies globally to realise their growth plans.

Aranca has dedicated offices in the US and the UK to service our clients. You can talk to any of our marketing managers or email us on info@aranca.com.

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