Monetising the Rembrandts in the attic

Joe Beyers and **Wayne P Sobon** describe some pitfalls and benefits of patent licensing

Back in the early 2000s, "patent monetisation" was considered a "best practice" in corporate America. C-suite executives publicly touted their efforts to unlock the value of their "Rembrandts in the attic" in the hope of replicating IBM's success in earning an astonishing $2bn annually in patent licensing revenue.

Those days are now gone. With the emergence of abusive patent trolls and the resulting loss of public confidence in patent licensing business practices, global product companies with reputations to protect don't like to talk about patent monetisation anymore. This despite the fact that many of them may earn tens or even hundreds of millions of dollars a year from licensing patents not used in their products. They prefer to keep those activities confidential because they don't want to be labeled a "patent assertion entity" in the minds of Washington policymakers or their own shareholders.

Still, the lure of patent gold continues to attract companies with untapped value in their IP portfolios, especially global product and service companies with significant value in the patent portfolios they have developed over the years as a byproduct of their R&D investments. At many of these companies, IP has traditionally been used only defensively or in cross-licensing arrangements, but not actively monetised for their bottom-line.

And the amount of underutilised value in these portfolios is hardly trivial. According to Navi Radjou of Forrester Research, "US firms annually waste $1 trillion (1,000 billion dollars) in underused intellectual property assets by failing to extract the full value of that property."

This appears to be changing, however, as more and more operating companies become interested in tapping the hidden value in their IP treasuries. Because many of these firms don't have the resources, industry contacts, or singular IP licensing skills needed to do the job effectively in-house, however, outsourcing the task to a third-party licensor can sometimes be a very attractive option.

All told, according to industry experts, roughly 50% of product and service companies surveyed said they would consider using a third party professional licensing firm to monetise their patent portfolios.

And therein lies both great danger and great opportunity. Consider, for example, the public and industry backlash – and the resulting damage to your company's brand – that could result from partnering with a licensing firm that takes your patents and uses them to start threatening indiscriminate lawsuits against individual end users and small businesses.

Or imagine what could happen if you choose a third-party licensing partner that fails to do proper due diligence in selecting which patents to license – and which prospective licensees to focus on. Not only could the patents managed by that partner wind up being neutered (ie, judged non-infringed or invalid), all your remaining patents could end up tainted as well.

Then there's the legal risk and reputational damage that could result from partnering with a licensor that employs indiscriminate or abusive patent assertion tactics. Legally, you might jeopardise your own company's ability to defend itself against inbound patent infringement suits if a plaintiff's attorneys can counter your protestations of victimisation at the hands of an abusive "patent troll" by revealing your own history of using such trolls against others. And just imagine how working with a reputed "patent troll" to monetise your patents might affect your brand.

For operating company executives, these are all very real concerns, especially with the growing calls from industry and policymakers to curb abusive patent assertion behaviours. Thanks to the often-negative image of patents, patent licensors, and the patent system itself in the press, product and service companies must tread carefully to ensure that their choice of monetisation partner does not damage their brands or further weaken public confidence in the patent system.

Given all that, it's hardly surprising that in addition to a licensing company's actual track record of success, research shows that the single most important criteria operating company executives use in selecting a monetisation partner is the licensor's brand and reputation.

We understand why this is so because we were operating company executives ourselves for many years – myself as head of the IP business at Hewlett Packard, and my coauthor Wayne Sobon as the IP chief at Accenture. For both of us, the reputation and past behavior of the licensing companies that approached our companies was a key factor in whether we choose to engage with them or not.

For example, if the licensing company had a history of acquiring patents and then suing right away – or had a history of going after nuisance fee settlements – then we'd assume they had weak assets or that their licensing practices would do damage to our brand if we chose to work with them. If the licensing company had a history of ethical and responsible behaviour, however, we'd be much more likely to engage.

We learnt some valuable lessons during many years of experience at global leaders Hewlett Packard and Accenture about how to tap the value of corporate IP assets without incurring the competitive, legal, and reputational risks that no company wants. Here are a few words of advice:

- Don't work with a third-party licensing firm that has a reputation for acquiring poor-quality patents and quickly suing.
- Avoid like the plague third party licensing companies with a history of seeking nuisance settlements or overtly settling claims for far less than the cost of litigation.
- Shun licensing companies that send out "demand letters" willy-nilly to dozens of companies with little or no real evidence that these companies are actually infringing its patents.
- Stay away from licensors who operate through hidden shell companies.
- Don't work with any licensing firm that has been the subject of state regulatory action or a consent decree concerning abusive patent assertion behaviour, sanctioned by courts for frivolous behaviour.

If any of the above are true, the licensing firm is probably not a good monetisation partner, and any bottom-line gain you make from working with them is more than likely to be outweighed by the legal and reputational costs of associating with them.

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Instead, select a licensor who has made a public commitment to transparency and ethical business practices – and make sure that you speak with several of its licensees and partners to verify that this commitment is real in deed as well as word.

Make sure the patent monetisation partner you select seeks licences from appropriate technology users (rather than small retail businesses, or individual end-user customers). Be certain also that this licensor comes prepared to negotiations with substantive claim charts and other evidence of use of your patented technology in the prospective licensee's products or services.

Choose a licensor who takes active steps and commits material resources to ensure the quality of its patents and vet them prior to licensing. Not enough patent owners understand the damage that poor patent quality is doing to public confidence in the patent system and those who participate in it. Doing more to ensure the quality of licensed patents is important.

Try to make sure that you only select a third party licensor who truly understands the needs and concerns of operating companies like yours regarding the legal and reputational risks of patent value creation in today's controversial patent environment.

And most of all, only work with a licensor that owns and manages high-quality patent assets developed by product or service companies with reputations for innovation, like you.

A little due diligence in choosing the right licensing partner will go a long way in ensuring that what you generate is value rather than legal risk or damage to your brand. But as a company, you also have to take active steps to explain your monetisation programme to shareholders, the press, and the public.

Talk more about your company's R&D efforts. Describe the important inventions your employees have developed and how these enable you to better serve the needs of your customers. Explain how patents for new inventions benefit the world by encouraging the development of new products, new services, and new medical treatments. And show how patent licensing, a venerable 224-year-old industry created by the US's founders, disseminates those inventions appropriately and legally to those companies best equipped to commercialise them into their own products and services.

With a little due diligence in selecting a licensing partner – and a much more active branding effort to explain to the public as well as shareholder benefits of licensing – patent monetisation might even become a respectable corporate "best practice" again.

Authors


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