



Patent Strategy and Portfolio Building

Which new ideas are worthy of a patent application?

How should the applications be drafted and prosecuted?

When should they be filed?

Where in the world should they be filed?

How long should applications and granted patents be maintained?

A systematic answer to these questions is provided by a patent strategy. A patent strategy is part of an overall intellectual property (IP) strategy. It is usually the most important part of such a strategy for technology-based companies. The IP strategy should follow the company's R&D strategy which in turn should follow its overall business strategy.

Developing a Patent Strategy

The development of a patent strategy must take into account the specific situation and circumstances of the business. It is, however, possible to set out some general considerations.

The primary consideration is the rights that you will obtain with a granted patent. A patent will not give you a positive right to exploit your technology, but rather the right to exclude others from doing so. Thus the first question to answer, with reference to your business strategy, is this: what would you like third parties to think you are able to stop others from doing?

This might be very different from what you want to do yourself. Also, in some situations -where there is a licensing agreement in place, for example - the last thing you want to do is to stop others. What you want is the ability to do so.

Third party knowledge is important because patents are not only useful as weapons to be brought out and applied when necessary. They may be useful simply to demonstrate value in your business, of which more below.

The business strategy of a company that is likely to be interested in patents can perhaps be expressed most broadly as the use of new technology to obtain an advantage in the market place. The way in which you attempt to do this will determine the way you deal with patents. We will look at three broad situations.

Example 1: Focus on Products

The simplest situation is where a company produces new products in direct response to customer requirements. Product development is driven by factors other than IP, and products will be made and sold whether or not they are patentable.

Each product innovation can be reviewed in isolation after it is made, and a patent application filed if the cost seems justified at the time. The value of a patent filing would be to discourage the customer from going elsewhere for the particular product in

question, and perhaps to allow you to control second sources if the customer's policy requires multiple sources.

Patents need be of only narrow scope, and filed only in countries where you sell. Little or no money needs to be spent on prior searching, as you will sell the product whether or not the invention is patentable. You can often save money by abandoning the initial patents as the product evolves.

Example 2: Focus on Technology Area

The second, more complex situation is where your business strategy involves a deliberate attempt to build a proprietary position.

You might wish to do so for a variety of reasons, most obviously if you are a research-based business and you need to prevent competitors from benefiting from your technology without incurring the costs that you incurred as a result of your R&D. You force the competition to go away, or to incur comparable costs either in designing around or in paying a licence fee.

In this situation you must search for opportunities that are patentable. The first part of the strategy is broad searching to understand the prior art both in terms of technology and in terms of competitor strengths and weaknesses. Searches should be regularly updated, and the results reviewed together with internal "invention disclosures" which bring to management's attention all new ideas from R&D and elsewhere, such as from sales and product support.

The hurdle for submission of an invention disclosure to management should be low, at least initially. This allows potentially patentable ideas to be identified early and technical patent support work undertaken to produce the evidence that might be needed to prove patentability. It also provides time to consider proliferation of the technology outside the initial product application.

A patent review procedure should become part of regular business management meetings. It is important that the correct people from both the technical and the sales and marketing parts of the business are involved and support the process.

In contrast with the situation discussed under Example 1, in this situation the focus is on an area of technology rather than individual products. If the new technology does not merely provide an improvement to an existing product of yours, if in other words it is to be considered in its own right, it might be decided that the level of patentability has to be higher if further money is to be spent on R&D and on patenting. It might also be decided that a broad scope of patent protection is necessary because initially the nature of the product would probably not be known. The geographical scope of patent filing might also need to be broader.

The best way of protecting your investment over an area of technology is initially to file several patent applications, each covering a different aspect of the technology, and then file on new developments as they arise. The new patent applications that you file should be directed to those features that determine success in the market, rather than to other features that your products embody merely because that happens to be the way you developed them. Different views as to what is important will often be expressed by R&D on the one hand, and by sales and marketing on the other. Input from both groups is important in operating your patent strategy.

In this situation, you will have achieved your commercial aim if the competition fears that any one claim in any one of your patents or applications is likely to be held to be valid and infringed. For the competition to have a clear run, they must be confident that all of your claims in all of your cases are either invalid or not infringed. That asymmetry provides the value of a portfolio of patents and applications, rather than a single patent case, covering a given area of technology or product group.

This approach might be thought to be expensive both in external costs and in management time. However, it can be done to a budget and the close attention to the market and to competitor activity that drives it means that you can direct expenditure to where it serves your business strategy. It need be no more expensive than the common, and rather lazy, approach of filing patent applications on all technically interesting developments in all countries where you do significant business.

An important part of your patent strategy relevant here is to include not only patent drafting and initial filing decisions, but also foreign filing decisions and regular portfolio reviews in the management meetings referred to above.

Patent applications often remain pending for many years and during that time they can have considerable commercial value. They may well have more commercial value as pending applications than the patents do when they are subsequently granted. This is because the competition will often be unable to predict what scope of protection you will obtain, and they may be deterred from a broader range of activity than later turns out to be covered by the granted patent. This means that you should set the bar low when filing new applications.

Decision points will later arise regarding geographical extent of filing and possible later abandonment. Cases may be abandoned either before some of the expense associated with prosecution is incurred, or during the life of the granted patent when renewal fees become significant. Decisions here will take account of changes in the market, so you can abandon cases that relate to features that have ceased to be required by the customer.

During the life of a patent or application you may be able to reduce geographical coverage by selective abandonment. You might initially file in all countries where there seem to be significant opportunities for sales. Later, when the market matures and you can identify all likely competitors, you might maintain patents only where necessary to make it uneconomic for the competitors to enter the market. You might therefore switch from a foreign filing programme based on possible sales to one

based on competitor manufacturing capability.

A further reason for pruning your portfolio is to maintain only those cases over which it is thought you would be prepared to take some action if you discover infringement. You want to develop and maintain a reputation for enforcing your active cases. If you are found to ignore infringement too often you will eventually be forced to litigate when it really matters.

Example 3: Focus on Adding Value to the Business

The third broad situation is more nebulous. It applies often to startups and to companies seeking alliances. Here the aim is not, or not solely, to protect specific products or even specific areas of technology around existing products. Instead the aim is to enhance the company's value or reputation.

Initial broad searching needs to be carried out in areas of interest to confirm that they are not too crowded with prior art and that competitor rights do not dominate. After patent filings have been made on a first invention, an attempt will be made to build on the basic idea, both to proliferate it to other products and to look at other inventions that might be made to enhance the products in other ways.

Many patent applications may be made in quite a short period of time. The patent applications will often relate to a variety of technologies and might well be rather speculative at this stage. The aim is to create an impressive portfolio that will indicate your importance and serious intentions in the new field. Later on the value of individual patent cases can be assessed properly, and useful pruning carried out.

Often at this early stage of a business project patent cases are counted, rather than weighed, and the precise scope of the patent claims is not critical. Patent portfolios of this type can serve to add value to balance sheets, can enhance the technical reputation of new companies, can help you obtain funding, and can be part of the disclosure in IPOs. They are also valuable when entering alliances, for example to create joint ventures. Here the precise products to be sold by the alliance or joint venture might be unknown, so the precise scope of any patent claim will not be determinative. However, the relative strengths of the negotiating parties will be affected by a general assessment of the IP that each brings with it.

It may be the case that you wish to act independently, but require licences under competitors' patents. A broad patent portfolio in the relevant market area might allow you to negotiate useful licences as part of a general cross-licensing agreement.

Conclusion

These three examples serve to illustrate broad situations that typically arise requiring the development of a patent strategy. They also illustrate factors to consider in determining the extent and nature of the patent portfolio needed to further a business strategy.

Every business is different, and any company that makes use of patents will devise its own strategy. It may well include elements of each of these broad situations, for different aspects of the firm's operations and at different stages in the business cycle.