10 Key IP Strategy Insights for Innovative Companies for 2016 and Beyond

[The Hutter Group LLC]

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As 2016 begins, I am entering my 8th year (!) of writing about IP strategy insights from a business value creation perspective, both here on my IPMaximizerBlog.com and, more recently, on LinkedIn. While there were quite a few IP lawyers writing blogs in 2008, no one else was then writing about IP strategy. Today, there are even more IP lawyers writing blogs about IP law, but still almost none writing that address IP strategy topics that are meaningful outside of the IP monetization and large IP portfolio context. Over the years, it has sometimes seemed like I was the proverbial "lone voice in the wilderness" who speaks frankly (or as one of my regular readers said to me last year "bravely") about how innovators can take charge of their IP strategy to create value and reduce risk. But I don't feel this way any longer: in the last year, the growth of my consulting practice, as well as the much larger audience for my periodic online ruminations, has demonstrated that my message about how IP strategy can not only protect, but also maximize, the fortunes of innovative organizations is becoming embedded in business culture.

Since there is probably no one (other than my Mother) who has read all of my posts, I thought the New Year signaled a good time to consolidate some of the key principles under-girding my process of using IP Strategy to create and maximize business value in innovative organizations. I'd also like to hear comments from readers about whether it would be valuable for me to expand these concepts into an e-book format for those seeking to learn more. So, without further ado, here's my **10 Key IP Strategy Insights for Innovative Companies Seeking to Maximize Business Value in 2016 and Beyond**:

1)**Rethink what patents should "protect:"** If you are an innovator, the customer solution you provide is far more important than the product you are making. Full stop. This means that if you call a patent attorney before you have defined your invention in terms of the value you are providing to customers, the patent you obtain will likely be too narrow to protect your company's value proposition from pinching by your competitors. This not only wastes resources, a false sense of security will arise. I can't tell you the number of times I have had to tell people that the patent upon which good money was spent actually did not provide adequate protection. One example of this situation is discussed in this post. *Critically, your competitors do not care about your product, they care about your customers.* Your investment in technology and customer development may largely be for the benefit of competitors if your patent rights cover only your product. In short, you must ensure that

your patent covers not just your *invention*, but also your *innovation*.

2) **Rethink the people driving your company's patenting efforts**: The typical situation where the technical staff is the primary contact with the patent attorney is almost certainly guaranteed to result in a patent that covers the invention, but misses all or part of the innovation. By "innovation," I mean the customer solution addressed by the that drives customers to buy your product. It is often forgotten that a patent is nothing more than the government's acknowledgement that the invention claimed meets the legal requirements for patentability. The grant of a patent is undoubtedly a validation of skill for a technical person, as I can attest to as a named inventor on a patent that was granted from my work as a chemist many years ago. (I got a nice check, too!) But, a granted patent says nothing about the underlying business value of the claimed invention. The only way to ensure that a granted patent holds business value is to incorporate the business team into the patenting process at all stages. Alternatively, companies that are "best in class" in IP Strategy have IP specialists (who may or may not be IP attorneys) who report directly into the business group to ensure that any patenting decisions are made with a proper emphasis on business value, not just technical merit. The technical team certainly holds a significant role in any company's patenting, but business relevance of their technical insights must lead their efforts. This means that the business team must actively engage with the patenting process at every stage. Heck, that's why they call it "IP Strategy", right?!

3) **Rethink the invention**: When considering what you want to "protect" with patents, get outside of the product you make and think about the value chain in which your product resides. Almost always, innovators seeking patent protection characterize their inventions in terms of their own products. When speaking to a patent attorney, he will then say "I invented a product/process that works like x and is different from the prior art for y reasons." Certainly, obtaining broad claims to his invention can provide value, but in such a case, he is only "protecting" his product. There may be many other ways of providing the same benefit to consumers, and once the business opportunity is validated, it is likely that competitors will endeavor to provide the same benefit in an non-infringing manner. When taking the "value chain" approach to patenting, we look at the entire product cycle. Often, we will see that the actual value of his invention may be an enhancement of the value of another product in the market. This is illustrated by the famous BASF marketing tagline "We don't make the products you buy. We make the products you buy better." If the enhancement provides a previously unavailable functionality in the existing product, that enhanced product may now be patentable in relation to its enhanced functionality. An example of this is a current client that makes software that is incorporated into hardware: rather than patenting the software (which itself would be narrowly patentable, if at all), we are pursuing a strategy where we claim the hardware itself that now has improved functionality because of my client's software. With such a strategy, it may be possible to prevent customers from using substitute software that also enhance the product's functionality, but would not necessarily infringe my client's software process if we were to obtain a patent on that software (which is doubtful under today's patent law). Moreover, being the source of improved product functionality may make it more possible to generate a lucrative license (or exit) from a customer that seeks to gain access to the

product enhancement to better serve its customers. For my client, this means that the hardware companies would not only be strong customer opportunities, but these Fortune manufacturers will more likely be interested in acquiring my client's business to add differentiated innovation to better serve their existing customers.

4) **Rethink patent searching**: Innovators should conduct a search of the patent literature before starting on a technology development path. Knowing whether someone else has sought patent rights at an early stage can prevent innovators from taking a development pathway that will result in infringing of third party patent rights. Moreover, knowing where in the patent landscape may be available to obtain patents can allow modification of the development pathway in a way that ensures broad protection. As I spoke about many years ago, slight changes in navigation early in the innovation pathway can result in significant innovation outcomes. This means that the earlier innovators include patent landscaping in their decision-making frameworks, the better the protection of their innovation investment. There is a lengthy discussion of what I call "innovation prior art searching" here, and several years ago I wrote a case study for Innovation Management Magazine on this topic.

4) **Rethink why you're getting patents in the first place**: "IP strategy" is not an end unto itself. Before any thought is given to "IP strategy," a desired business outcome(s) must first be defined. Like many things, in life, defining the end point first makes the necessary path forward visible, and the likelihood of achieving the end point much more likely. Notably, there are a many potential business outcomes as there are innovators, and it is not enough to say "licensing" or "exit." This blog post goes into much more detail on this concept.

5) **Make IP a process, not just an event**: Innovators also must avoid the typical "set it and forget it" notion of IP. For all companies where IP Strategy should form a driver of business value (and there are few where IP Strategy should not form a key aspect of the business), IP must become part of ongoing business processes, as opposed just being an occasional event where you pick up the phone and call your patent attorney. This means that you should not file a patent and sit back and wait for the attorney to contact you months or years later about it. Rather, any business strategy planning must also include the query of "how does our IP Strategy currently align with our business strategy planning?" Moreover, everyone on your team should be able to articulate your company's IP Strategy. As an example of this, for several years as a law firm attorney, I represented a large chemical manufacturer with a global IP portfolio. When a patent office action came into our firm, we would contact the company's paralegals who would look up on a spreadsheet to see not only whether the subject patent was still relevant to the company's business strategy, but also how important it was, and how much legal expense should continue to be expended on the matter. Not only did this make my job much clearer and more certain as outside patent counsel, the legal and business teams did not have to interact with me on ongoing patent decisions (which would have taken them away from more pressing tasks and likely would have not been made in the context of the company's overall strategy). The company was also assured that each individual decision made about patent prosecution aligned with the overall strategy of the business or, put another way, that specific IP *tactics* aligned with the previously defined IP *strategy*. Of course, there is more work on the front end to set up a functional IP Strategy operation within an organization, but companies

that expend this initial effort can be virtually guaranteed that the patents they obtain align with their company's overall business strategy. And, as a bonus, it will be a lot less of a pain in the future because business people will not have to address long-forgotten patent application specifics on a piecemeal basis.

6) **Patents rarely matter, but when they matter, they matter a lot–know the difference**: The vast majority of patents do not create any value for anyone other than the patent attorney. (As a corollary to this: the only person who NEEDS a patent, is a patent attorney.) The key for business leaders is to know whether and to what extent they do matter. If patent protection will likely operate as a strong driver of premium profits to your company, then one must ensure that any coverage obtained aligns closely with maintaining this revenue stream. This means that the business team must oversee the patenting efforts as part of the business strategy or, alternatively, ensure that there is someone–like a business savvy in-house IP counsel or IP savvy business person–minding the content and progress of the patenting process on an ongoing basis. Such strategic efforts require a visibility that outside IP counsel is unlikely to gain (or understand). In determining what investment to make in patent protection (and the attendant personnel costs), business leaders at innovative companies need to do the math on what value patent protection brings to their businesses, especially as related to the loss of value associated with competitive products that might enter the market t serve the same customer set. For example, if revenue without competition is $100MM over 5 years, and revenue with competition over 5 years is $50MM, then the value of strong patent protection to the company's bottom line over 5 years is roughly $50MM. Looked at this way, most business people would decide that it's worth the extra effort and expense to ensure that these revenue projections are correct by making the investment to get patent protection right. Or, as a client of mine insightfully indicated last year, it's necessary to make sure that the right patent protection is in place to mitigate business risk. On the other hand, if the company's revenue projections do not rely on patent protection that makes it difficult for competitors to serve the same customers, then you should not overthink (or overpay) for patent protection. In this circumstance, patents are merely a "nice to have," if they are desirable at all. This means that you should not pay $10K for a patent that creates only $10 or 20K of value.

7) **Effective IP Strategy has been done before, so don't reinvent the wheel**: You should mirror your IP Strategy on best in class companies that have effectively written the book on how to maximize value from IP. To this end, I have written previously about Proctor & Gamble and, as a negative example, Keurig/Green Mountain and the company that makes the blockbuster drug ANGIOMAX. Creation of an IP Strategy that allows innovators to capture and maximize the value of their innovation investment is really not rocket science. To the contrary, there are established procedures that are proven to work to create robust patent portfolios, and others that most certainly do not. However, business people seeking guidance from IP attorneys need to realize that many practitioners have not been exposed to these methodologies because they do have not represented clients with strategic patent portfolios. Note that client size does not matter here: I have worked with Fortune companies where the patent portfolios were devoid of strategic focus, and I have worked with startups where the founders had a clear vision of the business outcome that they desired from their patent effort. The point here is

that there is nothing magical about creating an IP Strategy that creates and maximizes business value, but innovators must not assume that the skills to do so are in the wheelhouse of all patent practitioners because they do not teach business IP Strategy in law school.

8)**Law firms are businesses, and the rules of business apply:** While it might feel great to have a "name brand" law firm work on your patent, realistically, unless you have $50K, $100K or more a year in business with a prestige firm, you can't expect attention from a patent partner. In short, small clients are almost sure to be relegated to a junior person with minimal supervision because the IP group partner would not be able to bill her high rate to service the smaller client, nor would her firm's compensation structure likely incentivize her for spending time nurturing a client that does not generate a substantial profit margin. Lawyers at law firms don't want clients to "see behind the curtain" like this, but it's like any sales situation where the company's business model dictates the customers that are right for it. Unfortunately for smaller companies, most lawyers would rather not turn down the legal work than admit that the client would be better served by going elsewhere. Also, smaller companies are great training for young associates. I see this all the time, sadly, and my recommendation is invariably to move the work to a firm where your business makes a difference in the bottom line and where you can afford to get the attention of an experienced partner.

9) **Sometimes, two IP advisers are better than one**: If IP is important to your business fortunes, consider bringing in two types of patent experts. Big companies certainly do this: most larger companies incorporate in-house IP counsel on their legal staffs. As I learned when I left my law firm partnership to join a corporate law department, the advice one gives regarding IP in an in-house environment is often entirely different than what is done as a law firm attorney. At a minimum, the visibility one obtains to a company's business goals is often wholly transformational to the way an experienced IP attorney like myself views my role as an adviser and my responsibilities to my client–which is now also my employer. Instead of keeping my eye on the prize of getting a patent as I usually did as a law firm lawyer, when in-house, my advice became focused on developing an IP Strategy that protected the investments that my company made in innovation. Without this profit stream, my company's revenue would suffer and, therefore, so would I. Cost is usually the first objection when I suggest establishing a dual IP adviser setup to clients, but cost does not need to be a barrier. The almost-guaranteed improved ROI from innovation investment certainly outweighs the cost of bringing in a second IP adviser. Moreover, smaller companies do not have to hire someone full time; an effective IP Strategy consultant (such as myself) can efficiently work with a business team on a regular basis to establish and see to effective execution of the IP Strategy plan on an ongoing basis. Additionally, I have repeatedly seen that with just a bit of upfront IP Strategy consulting, the business team becomes so much more competent in driving their company's IP efforts, which more than once has put me out of a consulting gig. (Indeed, after I worked with the innovation leader profiled in this post in 2010, he went on to establish himself as Global VP of IP Strategy at her Fortune company. We can definitely put me in the "teach a (wo)man to fish" category of consultants.")

10) **There's a lot more to IP Strategy than patents**: People tend to think about IP as centering on patents, and to a lesser extent, trademarks, copyrights and trade secrets. This is because these are forms

of legal rights that are legally recognized by the various governments of the world. Moreover, IP lawyers "do" these things, and so when one asks one of these specialists how to "protect" an innovative company, the focus is invariably on what I call "the Usual IP Suspects." In this regard, we can recite the old saw of "when all you have is a hammer, everything looks like a nail." There are countless other ways to "protect" an innovative company, however, many of which are not is the practice wheelhouse of **typical** IP attorneys. Indeed, the legally recognized forms of IP (*i.e.*, patents, copyrights, trademarks and trade secrets) are merely a small subset of the larger protection framework known as "intangible assets." Often, these familiar forms of IP create little to no overall value in a particular business model, while cultivation of one or more forms of intangible assets can magnify the fortunes of a innovator. There is no "one size fits all" answer, of course. Those leading business strategy of companies making investments in innovation must take steps to become familiar with all of the possible strategies for creating and maximizing corporate value. Fortunately, it's not that difficult: best (and worst) practices abound that can provide guidance to those just learning about creating and maximizing business value using IP. It is incumbent on innovation leaders to become familiar with these or else they bear the risk of leaving themselves open to their competitors being able to copy their innovations and business models.

In reaching these 10 points, I realized that I have another 10 or 15 in me, so I guess that means that there is an e-book on **How Innovative Businesses Can Create and Preserve Business Value Using IP Strategically**. (But I think I just put myself to sleep with that title, so I'll have to work on something better.) I will continue to try my ideas out on this audience, and I greatly appreciate your indulgence in this regard. In the meantime, feel free to reach out if you'd like to discuss any of these and other topics with me.

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Jackie Hutter, MS, JD *is a globally recognized Intellectual Property Strategist, business couselor and Registered Patent Attorney. In 2008, Ms. Hutter established herself as a pioneer in the emerging area of Intellectual Property Strategy consultation. She quickly became recognized by her peers for her unique voice and perspective on how innovative companies can enhance value capture from new product and technology development using IP in more strategic ways. She has almost 20 years experience counseling corporations, universities, entrepreneurs and investment professionals in all facets of IP protection. Ms. Hutter is Founder and Principal of The Hutter Group LLC, an innovative legal services practice model for forward-thinking small and medium enterprises that recognize that when IP protection is key to creating durable competitive advantage, an alternative to the traditional outside IP counsel model is needed. Ms. Hutter provides in-house IP counsel services on a part-time (or "fractional") basis for a variety of clients ranging from a Fortune 500 consumer hardware company, a large alternative energy provider, a computer vision startup, and a number of medical device companies.*

*For each of the last 7 years, Ms. Hutter was named one of the 300 top IP Strategists in the world by **Intellectual Asset Management** magazine. In addition, Jackie was named a **SuperLawyer® in IP** in Georgia in 2004, and she is a frequent speaker on IP strategy to business and legal professionals. Prior to founding **The Hutter Group LLC**, Jackie was Senior Patent Counsel at Georgia-Pacific LLC, where she had sole responsible for Dixie® patent matters and, later, the company's Chemicals business. Before joining Georgia-Pacific, Jackie was a shareholder at the prestigious IP firm of Needle & Rosenberg, PC (now Ballard & Spahr), as well as a litigator at a large Atlanta law firm. Jackie earned an M.S. in Pharmaceutical Sciences and she spent several years as practicing chemist at Helene Curtis (now Unilever).*

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