

The recipe for CIPO success

There are 12 essential ingredients needed to create the perfect chief intellectual property officer

By **Rob Sterne** and **Ron Laurie**

The corporate best practice of assigning 360-degree responsibility for maximising shareholder value from investment in intellectual property to a single senior executive has gained substantial momentum since the start of the new millennium. While the general concept of the CIPO (chief intellectual property officer) position now receives support from many circles, as yet there is no consensus as to the precise formula for success. There have been some trailblazing initiatives undertaken by CIPOs at corporate titans such as Hewlett Packard (Joe Beyers), IBM (John Kelley), SAP (Tim Crean) and Philips (Ruud Peters) that raise the question: what are the essential ingredients for CIPO success? This article offers some answers.

Ingredient one – board-level and CEO support

Perhaps the most important ingredient for CIPO success is an IP mandate from the board of directors, as well as full support and involvement from the chief executive officer. The board must enthusiastically embrace the need for a well-articulated, comprehensive, corporate IP strategy that will maximise IP value, minimise IP-related risk, provide direction to management on how to implement the ROIP (return on IP) strategy and measure whether the implementation has been successful. Management in turn needs to support and implement the IP strategy and make it part of the DNA of the enterprise.

This board mandate and top management embrace of IP are just what occurred at HP and SAP. HP's board

mandated the CIPO position in January 2003, in response to the post-merger integration of four IP-intensive companies over a relatively short period of time: Digital Equipment, Tandem, Compaq and the legacy HP. According to urban legend, SAP got IP religion after its founder read the seminal book *Rembrandts in the Attic* by Kevin Rivette and David Kline and heard Rivette speak on IP asset optimisation at the World Economic Forum in Davos, Switzerland.

Ingredient two – reliable performance metrics (see box overleaf)

Ingredient three – business unit buy-in

The third essential ingredient is the ability of the CIPO to develop buy-in for the IP strategy and implementation from the heads of the important profit centres in the enterprise. The CIPO must be an adept communicator and consensus builder, able to identify grounds of shared interests and opportunities. It is critical that such business managers fully understand and support the IP strategies being pursued to increase the profitability and asset creation of their centres.

In the real world this takes time, patience and an accumulation of successes that can be leveraged to obtain profiles of optimised IP models. This is a continual, cooperative effort between the CIPO and such managers that requires trust, real dialogue, accountability, follow-through and responsiveness. To establish this relationship of trusted adviser to the business units, the CIPO must possess the right personality traits, domain expertise, managerial skills and ability to deliver results.

Ingredient two – reliable performance metrics

The second essential ingredient for CIPO success involves the development of metrics for measuring the success of an integrated corporate IP strategy. Recent celebrated flame-outs of high-profile CIPOs illustrate the dangers of over-promising IP returns and inability to quantify IP success.

The HP experience has been successful in no small part because of the company's ability to demonstrate dramatic increases in IP return. HP claims that it now enjoys a more than tenfold increase in IP return since its CIPO position was created four years ago. HP employs three measures to quantify IP return:

- The actual revenues obtained from IP licensing. This includes both front-end licence revenues and net present value of predicted licence royalty streams (aka tails).
- The quantification of in-kind value obtained from IP. For example, this could include lower cost of products and services, and expanded business relationships (such as joint ventures or strategic partnerships).
- The elimination or reduction of IP risk resulting from exposure to actual or prospective infringement claims by competitors, reduced royalty payments due to leverage of the HP IP portfolio and the ability to move into new technology areas and markets without facing crippling infringement exposure. This measure imputes value to such reductions of IP risk, which, though sometimes difficult to quantify, represent bottom-line (cost savings) rather than top-line (revenue generation) value.

Ingredient four – adequate resources

A fourth essential ingredient is the resources given to the CIPO to plan and execute the IP strategic plan. One approach employed successfully at Philips, SAP and other companies is to give the CIPO a separate stand-alone organisation with assigned people and allocated resources necessary to carry out all aspects of the IP strategy. This requires major reallocations of personnel and responsibilities in most established enterprises, because the various IP functions usually reside in various parts of the organisation, such as legal, R&D and finance, assuming they are being addressed at all.

Having a separate CIPO organisation is resisted in many enterprises because of institutional impediments for this change and because historically the IP function has resided in the office of the chief legal officer (general counsel or VP law).

Alternatively, the CIPO organisation can have strategic oversight over certain IP professionals or functions which reside in the office of the GC or CTO, such as patent protection or IP litigation, as is done at HP.

Ingredient five – involvement in all IP-related transactions

A dramatic increase in IP return can occur if the CIPO is given review responsibility for the IP aspects of all corporate contracts and transactions. This creates the opportunity for IP to become a value driver in every deal, which is often missed using the conventional approach of having IP review only in limited circumstances (eg, licences).

As IP is usually present in nearly all contractual contexts, typically as a mix of the four modes of IP protection – patents, copyrights, trade secrets and trademarks – the CIPO can optimise the deal in ways that create substantial added value. This IP optimisation is critical for obtaining the overall enhanced IP return mandated by the board.

Staffing plans can be created to process effectively the hundreds or thousands of contracts a year that are typical in many enterprises so as to eliminate review bottlenecks and reduce transaction costs. HP claims that since the creation of its CIPO position, this IP review has been applied to over 5,000 proposed contracts and has resulted in substantive IP changes in over one-half of these, which has produced significant benefit in IP return.

Ingredient six – direct access to top management

Direct access to the CEO, or perhaps an

executive VP in very large enterprises, is an essential ingredient of CIPO success. The message from the CIPO, who must constantly address a full-spectrum view of IP across the enterprise, should not be filtered by the perspective of other C-level personnel such as the general counsel (whose primary focus is risk management) or the CTO (whose primary focus is product development).

The IP dialogue with the CEO is critical both strategically and tactically, and should be frequent and informed. Whether this direct reporting structure should be formal or *de facto* (ie, dotted-line reporting) will vary from company to company because CEOs typically already have six to nine direct reports. But even if the reporting structure is *de facto*, it is essential for the CEO to engage fully in regular briefings and dialogue with the CIPO for mastery of the key IP issues confronting the enterprise, and for oversight of the lesser IP issues and corporate processes.

Ingredient seven – facility with all IP protection modes

The IP domains that most critically impact on corporate value depend on the business model of the enterprise. Utility patents usually are most significant in enterprises engaged in the design or manufacture of industrial products, communication services and prescription drugs, to name a few. Trademarks or design patents often dominate in business models involving consumer products and services, and copyrights are most important for content-focused enterprises. But in each business model the effective mix of the IP modes creates the greatest value. The CIPO for each different type of business model must master all of these IP modes and optimally integrate them for maximum return.

Ingredient eight – working knowledge of all relevant technologies and markets

The technology focus of the enterprise drives its IP return. The CIPO must have a working understanding of all relevant technologies in order to map the IP to them and to the business model effectively. Often, larger enterprises have a mix of related or disparate technologies embedded in their products and services.

Additionally, the business landscape of the enterprise needs to be understood along with the competitive forces at work and the emerging technology, market and industry trends. This requires a deep understanding of the technology and business sectors of the enterprise, and how they interrelate and map to

the IP. Because this is key to IP success, some of the most effective CIPOs to date have come from business or technology organisations and not from the legal profession.

Ingredient nine – IP litigation competency

IP litigation poses a significant IP risk in many contexts and the possibility of an injunction can bring the affected activities of the enterprise to a standstill. While the CIPO does not need to be a trial attorney to provide sufficient oversight into the IP litigation function, a practical, informed understanding of the realities of IP litigation is absolutely required. IP litigation can often be resolved in a deal context, requiring the CIPO to marry IP litigation skills with transactional expertise in order to settle a difficult case.

Ingredient 10 – deal-making expertise

The CIPO must be a shrewd negotiator and adept at doing deals. This requires the CIPO to possess skills and attributes usually honed in the M&A world. These skills are usually developed by CIPO candidates who come up through the corporate development side of the enterprise and not through the legal function, although legal training does not necessarily preclude success on the business side and many an in-house IP lawyer has migrated to the corporate development or strategic planning group.

However, many excellent IP experts do not possess the necessary business skills, background and/or talents to become an effective CIPO. Real-world experience and natural talent are what really matter in this context. They are also important to the CIPO to assist in building consensus within the organisation and buy-in to the IP strategic plan. These skills help the CIPO deliver on what is promised from the IP function and help close opportunities that produce IP value-add.

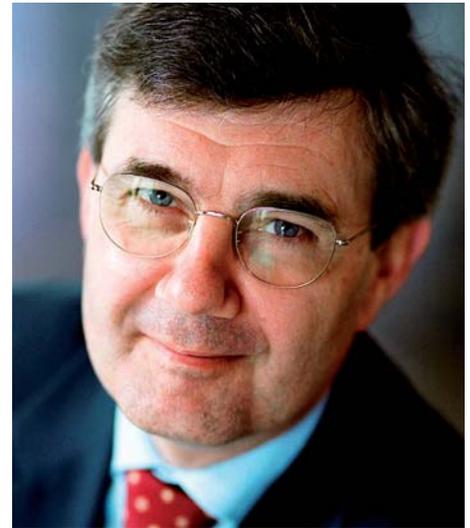
Ingredient 11 – people skills

The CIPO must be an excellent manager of projects, processes and people. The myriad tasks that the CIPO must ensure are addressed and properly completed can quickly result in failure for an otherwise highly competent CIPO.

It is a challenge, to say the least, for a CIPO to be a highly effective IP strategist, tactician and evangeliser, while at the same time being an efficient, effective and trusted manager of the IP function. These critical abilities often are honed in the engineering manager ranks and not in the legal or deal-making functions.



Joe Beyers
VP IP, Hewlett Packard



Ruud Peters
CEO Philips IP & Standards

Ingredient 12 – leadership

As the CIPO position is new to many enterprises, the credibility of the person holding the CIPO position to superiors, peers and subordinates is critical. This requires the CIPO to have the characteristics of a great leader in order to be successful.

The CIPO has to be trusted and respected, and viewed as a team player, looking out for the best interests of the enterprise. The CIPO cannot be viewed as having a parochial IP agenda that transcends other conflicting corporate objectives in a manner that produces a result skewed in the IP direction but not in the overall best interest of the enterprise.

CIPOs can be found

These essential ingredients for CIPO success must be taken into account by the board and senior corporate management in the creation of the CIPO function in the enterprise, the selection of the appropriate CIPO candidate and the ongoing evaluation of the CIPO and the results obtained by the CIPO's organisation. The upside potential for increased shareholder value and for optimal management of the IP assets is great if these essential ingredients for CIPO success can be found in a single individual. They are few and far between, but they do exist. ■

Robert Sterne is a founder and a director of Sterne Kessler Goldstein Fox, Washington DC

Ron Laurie is co-founder and managing director of Inflexion Point Strategy, Palo Alto