

The CIPO toolkit

Intellectual property is an asset that can create real value for the businesses that own it. But convincing a board of directors that this is so is not always easy. Chief IP officers from a variety of companies explain how they did it

By **Sara-Jayne Clover**

“You can’t just scream and shout every time something goes wrong and expect you’ll suddenly be given all the recognition and resources you need to be a chief IP officer. It will take time and a lot of patience from your side” – Andrew Sant, director of IP strategy & licensing, Crown Technology, UK

While most *IAM* readers will be in no doubt of the value that a chief IP officer (CIPO) can bring to an organisation, what many are perhaps still wondering is how certain individuals have managed to promote IP so that it is a board-level issue, while the messages of so many others continue to fall on deaf ears. At the IP Business Congress in Munich, *IAM* caught up with a number of CIPOs and asked them to share their experiences of trying to get their voices heard in the C-suite.

Create value, not patents

Before even considering approaching senior management with ideas for the strategic use of the company’s IP assets, the aspiring CIPO must have a clear understanding of what specific role intellectual property should play within the company. “The IP function within an organisation must be fully focused on creating value,” states Ruud Peters, the CEO of Philips Intellectual

Property & Standards. “So many IP departments are focusing on creating intellectual property without good reason.”

Creating IP value comes in various forms, from obvious revenue generators such as licensing deals to less obvious strategies such as providing the business with the tools it needs to embark on a successful joint venture. Understanding which fit best with your business model is key. “You had better make sure your IP strategy matches the business strategy and is not in conflict with it,” states Marshall Phelps, executive advisor and board member at Article One Partners and former head of IP at both IBM and Microsoft. “If you can’t get that done, even if you have the support of the CEO, you’ve got a very tough job ahead of you.”

Once a clear strategy has been devised, the next step is to convince the board that it needs to invest more resources in an area that, quite often, has been ticking along nicely, relatively unnoticed. Bill Elkington, senior director of strategic technology at Rockwell Collins, devised an extensive research project to highlight the gaps in his company’s IP strategy.

He approached the vice presidents responsible for the company’s financials with his theory that there was a lot of value in IP transactions that the company didn’t have people knowledgeable about IP working on. In order to put this theory to the test, Elkington was commissioned to establish a cross-enterprise team to investigate. The group – which was named the IP Value Capture Team – consisted of engineers, product line managers, contract managers and people from the finance department. They put together a dozen questions to test knowledge of IP value capture in the company and identified 45 individuals involved in IP transactions to



interview. “After consolidating the results it became clear that the people involved in IP transactions didn’t actually know that much about IP,” explains Elkington. “They couldn’t identify it regularly and systematically, and there weren’t any processes that were regularly followed.”

Elkington took the team’s findings to the company’s strategic leadership council – which reports directly to the CEO – and its members agreed that there was significant room for improvement in the way that the company handled its IP transactions. During an internal process mapping event, Elkington and the IP Value Capture Team came up with some specific recommendations. These included making the processes around the pursuit of new business more IP-centric and becoming more aware of all IP that Rockwell Collins and its business partners bring to a deal. “The centre of value of our IP is shifting,” explains Elkington. “Traditionally, we’ve given away software to sweeten hardware deals, but now we’re starting to rethink that and realising that a lot of our value is in software and we should be licensing that in a systematic way.”

As the senior management’s perception of IP has changed, so too has Elkington’s position within the company. Whereas previously his role had been primarily focused on patents and on licensing IP outside of the markets that Rockwell Collins serves, in light of his research he has now had approval from the board to hire two more people specifically to help him undertake IP valuation, provide IP deal construction guidance and develop and implement training among the people within the company that regularly handle IP transactions. In return, Elkington will be expected to demonstrate a return on the board’s investment by keeping track of the



transactions that his team conclude and the value associated with those transactions.

Money talks

Béatrix de Russé, VP of licensing, research and innovation at Technicolor (formerly Thomson SA), decided that she needed to speak in terms of hard cash in order to convince senior company management to invest in IP. “When I first joined Thomson in 1993 I had to push hard for internal support and recognition, which came with the licensing financial results,” she explains. Then, in 1997, Thierry Breton joined as chairman and CEO. “He was not interested in IP and did not want to hear about it,” states de Russé.

This changed when the company went public and had to publish its licensing income. “Breton then realised that the licensing income we were generating was key to the results of the company,” de Russé explains. Support from the board came in the form of providing the resources to hire more patent attorneys and negotiators, file more patents and purchase patents in areas where Thomson did not do research (or had ceased doing so), increase the number of people on the reverse engineering team, and dedicate a team to negotiate on patent assertions against Thomson products. “This meant pushing our CEO, CFO and CTO respectively,” recalls de Russé. “Plus the business units whose participation in inventions generating patents and selection of patents to be filed or maintained was essential. In a word, I had to be the IP advocate at all levels of the company – and still am.”

Today, de Russé sits on the Executive Committee and holds regular meetings with the board. Her team has grown from 10 people in 1993 to 220 now and comprises a diverse group of patent attorneys, licensing negotiators and engineers, as well as business



Marshall Phelps (left)
Former head of IP at IBM and Microsoft
“You can’t start your mission with the board of directors – you have to start with the CEO or CFO”

Ruud Peters (middle)
CEO, Philips IP & Standards
“So many IP departments are focusing on creating IP without good reason”

Béatrix de Russé (right)
VP of licensing, research and innovation, Technicolor
“I had to be the IP advocate at all levels of the company – and still am”

The CIPO role Marshall Phelps style

Having achieved outstanding success running the IP departments of IBM and Microsoft, Marshall Phelps shares his experiences and offers some advice for those looking to follow in his footsteps:

When I joined IBM in 1992 it was down to 100 days of cash and was on the verge of bankruptcy. I joined the company at a transitory time between CEOs, so there was really nobody watching what I was doing at that time and I was just making it up as I went along. It was obvious to me that we had an underleveraged portfolio and I saw the opportunity to leverage that portfolio and bring in the appropriate recognition and return on it.

By the time new CEO Lou Gerstner joined, we were well along the road to recovering IBM's position as the number one patentee in the US and making a really solid investment return for the company. That continued for six or seven years and we got to almost US\$2 billion annually in return for our IP investment. It took us three years to reach US\$1 billion and when we reached that milestone there was absolutely no question about the support of upper management.

In fact, there was almost no doubt of it from the get-go once we convinced Lou Gerstner that our strategy made a lot of sense. And that's a key point: you can't start

your mission with the board of directors – you have to start with the CEO or CFO. If you don't have their support, you're never going to get close to the board of directors.

So, Lou had come from a company that makes crackers and was very unfamiliar with licensing in the high-tech world. He was typical of CEOs at that time in wondering why in the world anybody would license their technology to their competitors. What we did was show him that inside an IBM computer there were hundreds and hundreds of inventions of other companies. We made the argument that we couldn't even have been able to build an IBM laptop computer without the IP of other companies and Lou got that completely. So we really took the IP engine and leveraged it to the need of the business, which in the case of IBM was cash. It's vital that you manage your IP for the needs of the business rather than IP being the business.

Fast-forward to Microsoft. This was a company that didn't need any cash whatsoever. So if I had followed the same approach as I had at IBM, it would have been widely regarded as a tax on the industry and would have been immensely unpopular with the regulators and everybody else. It was pretty obvious to me that what Microsoft needed were relationships with other companies.

When I joined in 2003, the company didn't have a single cross-licensing agreement. In contrast, by the time I left IBM in 2000 it had 1,826 of them. My idea was to use cross-licensing agreements as opposed to some other draconian contractual methodologies that Microsoft had in place to see whether we could build relationships with other companies that, over time, would put us in better stead with the regulators and with those other companies themselves.

I had to convince Bill Gates that some of the terms that Microsoft was insisting upon were not helping it politically around the world at all. In fact, they were making enemies of regulators and making it easy for competitors to demonise Microsoft with regulators. The only way to change that would be to do a bunch of these cross-licensing agreements which are, in effect, peace treaties. I'm happy to say that Microsoft now has well over 600 of these agreements. If I had been unable to convince Bill Gates that this was a good strategy to pursue, I would never have had the support of anyone in the business, let alone the board of directors.

You can jump up and down and have any title you want, but if the CEO and upper management don't support you, you can't succeed.

development, performance management, licensing-in and patent administration personnel. The operation generates €400 million in licensing revenues each year. In addition, de Russé's department is called upon to review the IP aspects of every acquisition, divestiture and joint venture that the company considers. But with recognition comes expectation. "This means that, like it or not, every quarter I have to reach or outperform the preceding quarter and this is under the constant scrutiny of and pressure by the management."

Cooperation and case studies

The CIPOs interviewed agree that there's no one-size-fits-all solution to achieving access to the boardroom, while no two CIPOs will have exactly the same remit. However, there is agreement that there are ways to expedite progress towards achieving board recognition. "You need to find real-world examples within your organisation where IP solutions have helped the business to gain a competitive advantage or created new opportunities that otherwise would not have existed," says

Crown's Andrew Sant. "The key is to demonstrate to the business that IP is the underpinning foundation of our innovations which means customers come back to Crown rather than turning to our competitors."

Scott Frank, president of AT&T Intellectual Property, agrees that competitive advantage is fundamental to a business's success, and that without innovation it is almost certainly doomed to failure. "When a company's senior management understand that IP is what actually allows that innovation to happen – when they see some examples you provide for them – then the up-and-coming CIPO will stand a fighting chance," he says.

Understanding what a comprehensive IP strategy can bring to the business and how it should interact with the other key functions is vital. Once that has been established, the aspiring CIPO will be able to step in and offer support to the various business functions when the opportunity arises, thus enhancing the position of IP within the company. "It's very important to take examples of concrete cases and circumstances to explain what role



IP can play and what IP can bring to board members and to managers,” explains François Jamet, investment director at IdVectoR and former director of IP and licensing at France Telecom-Orange. Jamet found that the best way to integrate IP with the management of his previous organisation was to engage not just with the senior management, but also to work with peers from other departments to get them onside. “I spoke with the heads of different group functions in order to align our IP strategy with their strategies,” he states. “For example, standardisation is very important in the telecoms business, so I had a strong coordination with the CTO to align our actions in standardisation bodies.”

Convincing the heads of various business functions to lend their support and resources, however, is not always simple. “You need trans-functional teams: people to define the business model, to balance the finance; legal people to define the contracts; engineers to explain the technology to you,” explains Wulf Höflich, CIPO at EADS/Airbus. “But often there are no immediate benefits for middle management,” he continues, “so you have to reassure them that it’s a good use of their resources.” Marshall Phelps did just this during his time at IBM by incentivising cross-unit cooperation. “We gave all those business units working with us financial credit for what was brought in under their name – they effectively became our business partners,” he explains.

Joe Beyers, former VP of IP licensing at HP and current CEO of Ambature, believes that cross-company support of the IP function is in the best interests of everyone involved. “Once division managers relinquished control – which was difficult for some of them – and allowed the process to play itself out, we were able to create value for them and for HP as a whole.”

No I in team?

The ability to draw upon people with complementary experiences and skillsets is, according to many interviewees, a key determining factor in the success of aspiring CIPOs. “Even if you have an IP department with a great strategy and infrastructure in place, you are nowhere unless you have the right people with the right competences who can deliver value within that infrastructure,” says Ruud Peters.

However, such a team – no matter how adept – requires a leader with the drive and vision to approach IP in a strategic, business-minded fashion; and one who can see beyond the law. “The CIPO role is much more sales and marketing orientated than the role of the typical patent attorney,” says Höflich. “While the strengths of IP attorneys are on the legal and technical side, often they are not great communicators.” It was in part this reputation for poor communication skills that encouraged Crown to look for a non-lawyer to head up its IP department. “It’s vital to be able to communicate the rather abstract ideas and language that are awash within the IP community and translate them into the business language of the board – opportunity, sustainable competitive advantage and money,” explains Sant, a physicist by training whose years of experience in technology development taught him how to make a business out of innovation.

As well as being a skilled communicator, the successful CIPO needs to be a diplomat able to balance the needs of different senior executives who are often pulling in opposite directions. “Internal negotiations are just as difficult, if not more so, than the external ones,” states Phelps. “You can’t be a shrinking violet, but neither can you be arrogant. You have to be a pretty good negotiator and politician.” Beyers agrees that diplomacy is important and recognises

Joe Beyers (left)

Former VP of IP licensing at HP

“The problem isn’t pleasing any one person at any one time; it’s trying to please them all at the same time”

Bill Elkington (middle)

Senior director of strategic technology, Rockwell Collins

“The centre of value of our IP is shifting”

Andrew Sant (right)

Director of IP strategy & licensing, Crown Technology

“The key is to demonstrate to the business that IP is the underpinning foundation of our innovations”

the difficult position that CIPOs have within the infrastructure. “As CIPO, I can please anyone,” he states. “The problem isn’t pleasing any one person at any one time; it’s trying to please them all at the same time!”

Be careful what you wish for

So, assuming that the CIPO has all the right attributes, the right team and the examples with which to convince senior management that IP is an issue worthy of their consideration, it should be plain sailing, right? Wrong. Next comes the hard part. “If you really want to play the CIPO role and be involved with the board, then make sure you are ready to deliver on your promises,” states Peters. “Once you’re in the boardroom, there’s nowhere to hide because they will ask you to come back and demonstrate that you’ve really delivered.”

While the expectations of each board of directors will differ, what they will all have in common is that those expectations will be high and their watchful gaze unrelenting. For Phelps, a successful CIPO must be able

to meet – and handle – the constant call to justify themselves and prove their value: “I don’t care what your title is while you’re doing that – it could be ‘god’ – but if you don’t constantly demonstrate your worth either you’ll be ignored or you won’t have the CIPO title for very long.” **iam**

Sara-Jayne Clover,
Reporter, *IAM* magazine

Want to plug into a law firm

with the knowledge

and insight of

Canada's leading thinkers?

Plug into Bennett Jones.

Your lawyer. Your firm. Your business advisor.
bennettjones.com

Bennett Jones LLP

CALGARY • TORONTO • EDMONTON • OTTAWA