

The state of play

An in-depth survey of both corporate and private practice IP professionals, jointly undertaken by *IAM* and Thomson Reuters, yielded a number of fascinating findings – not least of which is just how dynamic the IP market really is

By **Joff Wild** and **Sara-Jayne Clover**

No one ever said that managing an IP portfolio is easy. But just how sophisticated an operation it has now become is perhaps not appreciated by those who are not intimately involved in doing the job.

During the latter half of 2009, *IAM* and the IP Solutions business at Thomson Reuters worked together to survey close to 600 senior in-house IP professionals, as well as private practice lawyers and attorneys, all of whom were on *IAM*'s readership database. The picture that emerged of the work they are currently doing, the environment within which they are operating and the major challenges which they believe they are facing only serves to emphasise just how complex today's IP world is.

The men and women who are at the IP coalface are doing a difficult job and one that is clearly growing in importance. Slowly, it seems, IP is

beginning to take more of a centre stage inside businesses – although there is still much to do before it assumes the role that many subscribers to this publication will feel it should have.

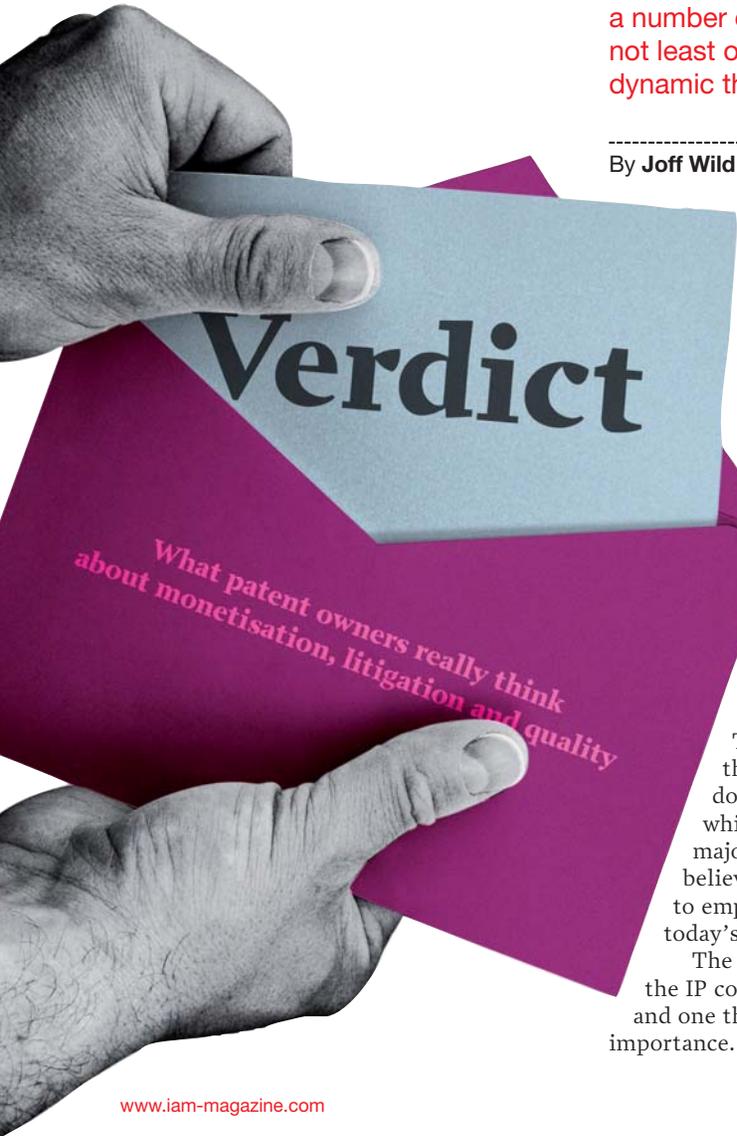
The questions that were asked of respondents covered a wide range of issues, taking in subjects such as litigation strategy, commercialisation, portfolio management, internal corporate relationships and patent quality. On the following pages we look at some of the highlights, focusing in particular on the feedback we received from in-house professionals.

The base

Of the 340 corporate practitioners who responded to the survey questions, 21% described themselves as IP counsel, 14% as general/legal counsel, 11% as chief IP counsel and 7% as chief IP officer. Other titles that cropped up included patent attorney (7%), IP portfolio manager (7%) and president/CEO (6%). A large proportion of those taking part, therefore, held senior positions.

Respondents worked in a variety of industries, but over 50% came from one of the following: pharmaceutical/chemical; professional services; electronics/semi-conductors; telecommunications; and computer hardware/software. Geographically, 41% were based in North America, 30% came from the EU and 29% from the rest of the world.

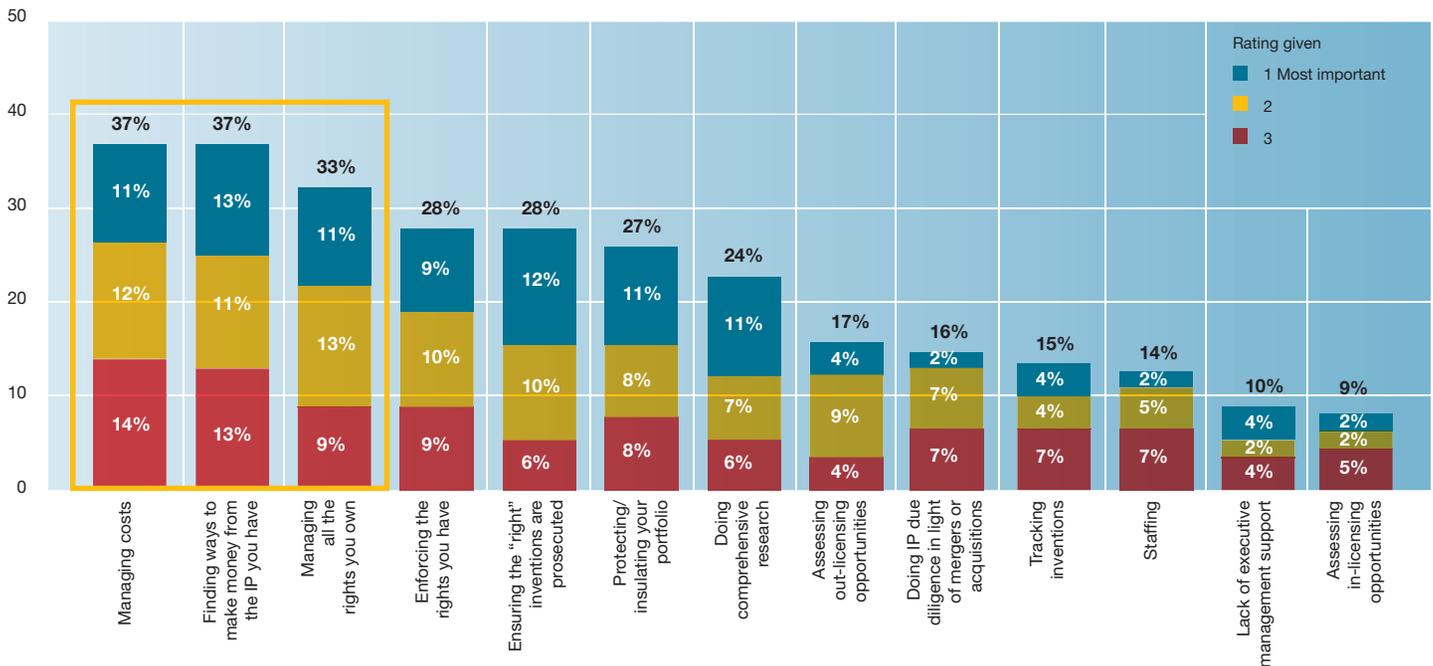
In terms of company size, 42% worked in companies with fewer than 1,000 employees, 14% in businesses with between 1,000 and 4,999; and 44% with more than 5,000. There was also a wide range of patent portfolio sizes. Just less than half of respondents' companies owned under 100 patents, while 20% owned over 5,000; with 31% falling somewhere in between.



General strategy – for in-house counsel

Companies view managing cost, managing portfolios and generating revenue as the three most important IP-related issues.

Most important IP issues



Strategic issues

Respondents were asked a number of questions relating to the overall IP strategies that their companies were pursuing. They were asked to rank which elements of these strategies were most important. The top two were directly linked to cash – managing costs and finding ways to make money from IP. In third place came “managing/maintaining all the rights you own”.

Strategies were being rolled out at a time when 45% of respondents stated that their companies were innovating and patenting more than ever before; while 46% reported that the pace was steady. Just 9% said that there was less activity than there had been in the past. Given these figures, it was not surprising to discover that over 50% of respondents described patents as being extremely critical or critical to the success of their organisations, with another 25% regarding them as somewhat critical.

Given that one of the common complaints of many in IP is that senior management inside companies does not seem to “get it”, at first sight the fact that over 85% of respondents felt that there was at least a good alignment between their companies’ IP strategies and overall

business aims may come as something of a surprise. However, it is important to remember that those contacted for this survey were drawn from the *IAM* readership database. Given that *IAM* is all about maximising strategic IP value, it is to be expected that many of those who take the magazine do indeed work inside organisations where this is seen as a priority. Whether they should be regarded as typical of their profession is very much open to question.

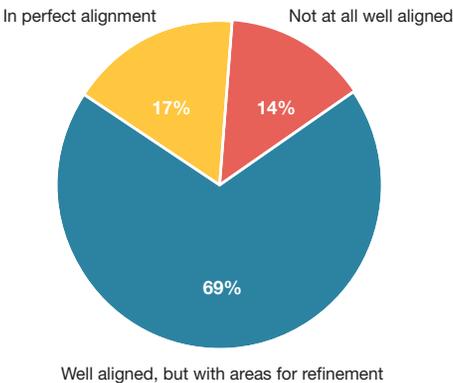
The experiences of *IAM* readers should not necessarily be taken to reflect the experiences of their colleagues in other companies. In fact, it is probably the case that they are not at all typical. While 48% of those taking part in our survey stated that their companies’ leadership “understands the value and importance of IP, and is actively involved in strategic planning related to IP”, it is difficult to believe that this is reflective of general business practice. And even so, that still leaves 52% of our respondents reporting that senior management is not engaged at that intense level. Even among *IAM* readers, therefore, there is still plenty of work to do.

However, what these results do show is that senior executives can be made to see the light; and that, when they do, they

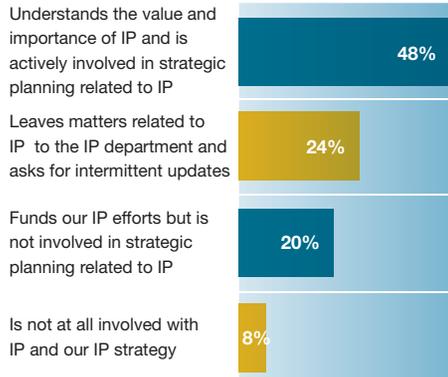
Strategy

86% of the in-house respondents report that their company's IP strategy is aligned with their business strategy, although there is room for refinement. Nearly half of the companies have leadership that is actively involved in planning IP strategy.

How aligned is IP strategy with business strategy



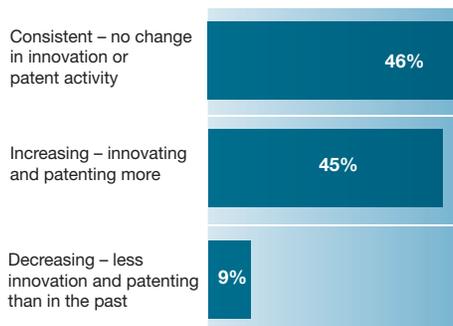
How strongly does leadership value IP?



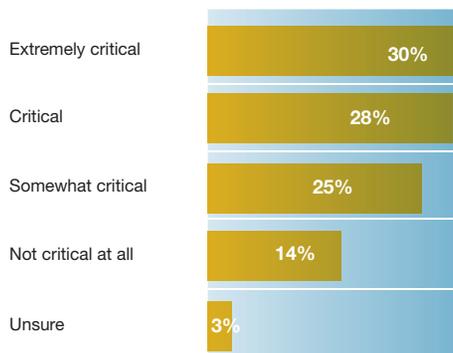
Strategy

45% of in-house respondents report that their companies are currently innovating and patenting more than in the past. For over half of the companies, patenting is critical or extremely critical to their success.

Current state of innovation at organisation



How critical is patenting to the success of the organisation?



are willing to get very actively involved in the important task of ensuring that IP is managed strategically and to the furtherance of overall company goals. Presumably, this is because they can see the benefit. The issue for those working inside corporate IP groups, therefore, is how they get their company leaderships to such a point.

Licensing, buying and selling

Perhaps the quickest way into the C-suite is to talk about money and to show senior executives how IP can be used to generate cash. But although well over 50% of respondents to the survey stated that their companies are actively seeking to monetise their rights through licensing and/or would be happy to speak to third parties about potential licensing if approached, it is striking that 29% believe that their organisations are not ready to take that step. Bearing in mind that the survey was conducted among individuals on the IAM database, that is quite a high percentage of IP-savvy professionals ruling their companies out of what is potentially a valuable source of revenue.

When it comes to monetisation, generally the survey also reflects what seems to be a growing trend among companies not only to look at licensing, but also to consider selling rights. Close to 50% of respondents reported that their organisations either have sold or are open to selling patents, while a similar proportion state that they have been involved in buying rights or would consider doing so. Over the coming years it will be worth keeping an eye on that figures to see

whether it grows. Interestingly, over 50% state that their companies are open to the idea of licensing-in patents – something that no doubt reflects, at least in part, the growing pull of collaborative R&D and open innovation.

With the rise of buying and selling, and the seeming popularity of in-licensing, it seems that the “not invented here” culture of yesteryear may well be in decline – at least in the kind of forward-thinking, IP-owning companies that subscribe to IAM. Where they lead, others may well begin to follow.

Litigation and assertion

While commercialisation and monetisation of patents and other forms of IP are becoming more widespread, creating, managing and protecting rights remain fundamental aspects of many in-house professionals’ job descriptions. After all, you can do very little with IP rights in terms of commercialisation and monetisation if you do not make sure they are properly looked after.

In our survey, 41% of respondents told us that their organisations spend less than US\$100,000 on protection annually; while another 20% spend less than US\$1 million. However, it should be remembered that close to half of participants worked in companies which owned fewer than 100 patents. If litigation is not an issue – and for most companies, most of the time it is not – then small portfolios do not have to cost a fortune to maintain. That said, at the other end of the scale 15% of those taking part in the survey reported that their organisations spend over US\$25 million on protection, litigation and enforcement, with 5% – or 17 of the 340 – saying that they worked in companies that spent over US\$100 million annually.

When eight and nine-figure sums are involved, you are talking about very serious IP protection operations. Under such circumstances it is vital to be absolutely clear about exactly what it is you are trying to achieve. For our respondents, the number one issue when it came to making decisions about protection and enforcement was the value of a right to the company. Clearly, before you can decide whether it is worth investing significant amounts of money in protection, you have to decide whether it is actually worth doing so in the first place; if a right is not of central importance, is capital outlay on

Continued on page 54

The EPO offers the best patent quality

“Many companies consider that they definitely have a strong patent once the EPO has granted it”

A lack of consistency in the quality of granted patents can leave rights owners feeling insecure about the strength and validity of what they have. According to our findings, the quality of granted patents is perceived by both private practice and in-house respondents to be highest in Europe. “Many companies consider that they definitely have a strong patent once the EPO has granted it,” confirms Fabirama Niang, Director of Intellectual Property at the TOTAL Group.

The President of the European Patent Office, Alison Brimelow, is “delighted” with the results of the survey. “To be seen by the users of the system as delivering the highest-quality patents is the best endorsement any office can hope to get,” she states. “This is a sign that our ongoing efforts to maintain high quality are bearing fruit.” But the office is not complacent: “We continue to focus on delivering robust patents – for example, through adjustments to the grant procedure, such as those that came into effect on 1st April, and by constantly improving the quality of out patent literature databases,” says Brimelow.

At the other end of the scale, China is thought to have the lowest levels of patent quality. “One reason may be the poor quality of translations done by many Chinese patent firms,” suggests Yoshi Ryujin, founding partner of Ryujin Patent & Licensing in Japan. However, on the other side of the coin, it is in China that by far the highest number of respondents have seen an improvement in patent quality over recent years: 56% of private practitioners and 57% of in-house counsel state that things have got better.

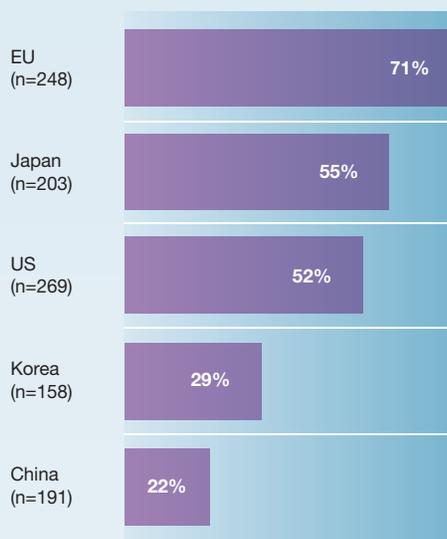
For its part, the US falls short in the eyes of many respondents, with the USPTO ranking third behind the Japan Patent Office. Perhaps most worryingly for the USPTO, 17% of respondents felt that its performance had actually got worse in the year up to the middle of 2009 – a higher percentage than for any other office. To be fair to the USPTO, it should be pointed out that since the survey was conducted a new Director, David Kappos, has been appointed and a number of measures designed to deal specifically with quality issues have been introduced.

“The USPTO recognises that quality is among the highest concerns of patent filers and it ranks among the highest priorities for

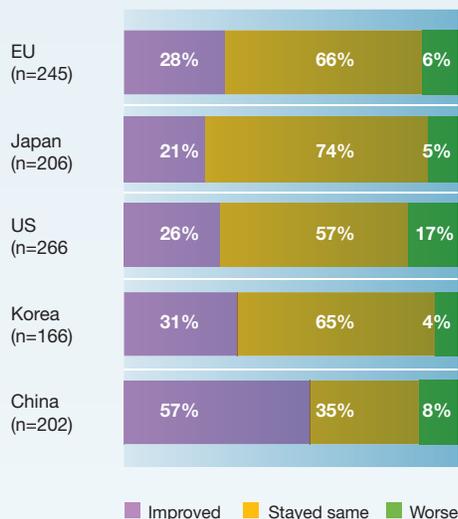
Patent quality

In-house respondents believed the EPO was the patent office with the highest level of patent quality. China is perceived to have the lowest level of patent quality, but has the highest number of respondents who have seen an improvement in quality.

Percentage who feel that patent quality is excellent/very good



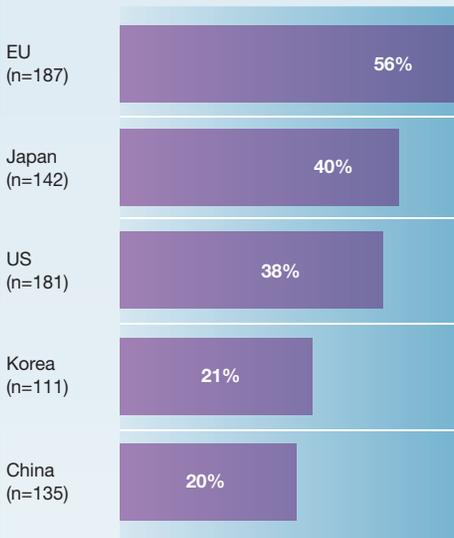
Perceived change from previous years



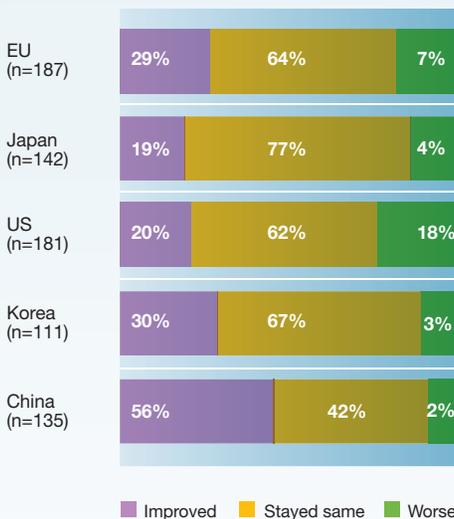
Patent quality

According to private practice lawyers and attorneys, the EPO is the patent office with the highest level of patent quality. China has the lowest level, but has the highest number of respondents who have seen an improvement in the quality of patents issued.

Percentage who feel that patent quality is excellent/very good



Perceived change from previous years



the agency,” states a spokeswoman. “With that in mind, we have instituted a quality taskforce which includes both USPTO executives and members of our Patent Public Advisory Committee,” she continues. This taskforce is holding industry roundtables and collecting input from the IP community to identify just what actions can be taken to improve the system and what metrics should be used to measure quality.

Ensuring that high standards are maintained at patent offices while keeping fees at a level that does not price the independent inventor of relatively low means out of the market is a difficult task. Nearly half of respondents from private practice attribute the current state of patent quality to the pressure felt by patent offices to get examinations done quickly. While 43% of in-house counsel agree that time pressure is responsible, 42% blame an increase in the number of filings.

Patent offices often state that responsibility for the backlogs they face lies in part with less discerning patent applicants who essentially game the system to see what they can get away with. With this in mind, 35% of the in-house and 32% of the private practice respondents report company and firm initiatives to improve the quality of filings. Among the most frequently mentioned initiatives are peer/quality review of applications and internal training.

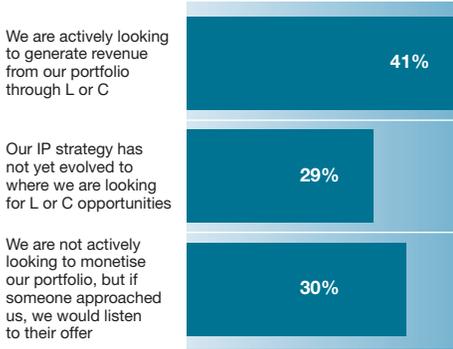
While it is evident that there is still much to be done to improve the quality of issued patents, offices are certainly working towards that goal and, overall, the reaction from respondents should be seen as positive. A significant proportion of respondents reported that their perception of patent quality at each of the world’s largest five offices has increased. According to Jon Dudas, a partner in the Washington DC offices of law firm Foley & Lardner and the Director of the USPTO until the beginning of 2009, this could be the result of increased collaboration and sharing of best practices between major offices over the last few years: “As this cooperation continues in the IP5 [a group composed of the USPTO, the EPO, the JPO, the Korean IP Office and China’s State IP Office] and more results are shared in the patent prosecution highway, I think we will see the perception of quality increase and the differences in perceived quality among the offices will diminish.”

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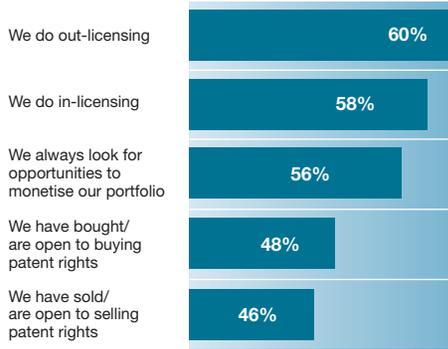
Licensing and commercialisation

41% of in-house counsel report that their companies are actively looking to generate revenue through their portfolio and do so through a variety of methods.

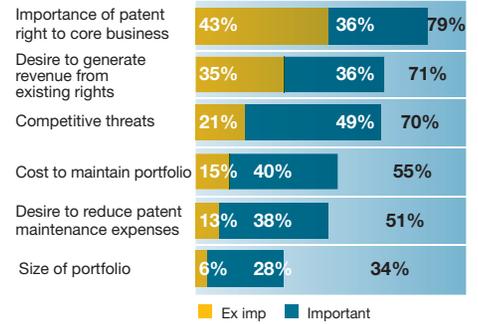
Which describes your organisation?



Which describes your organisation?



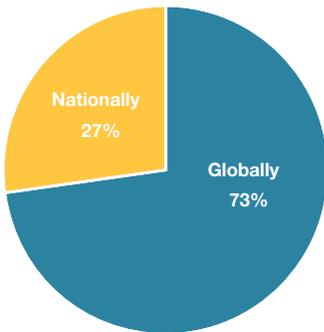
Importance of patent matters – licensing and commercialisation



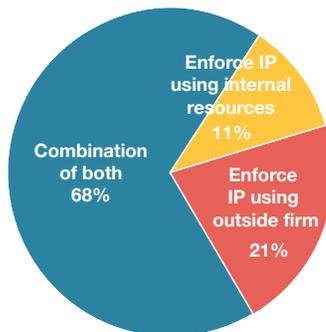
Protection and assertion

Nearly three-quarters of in-house counsel state that their company protects and enforces IP globally, primarily using a combination of internal and external resources.

Organisation protects/enforces IP



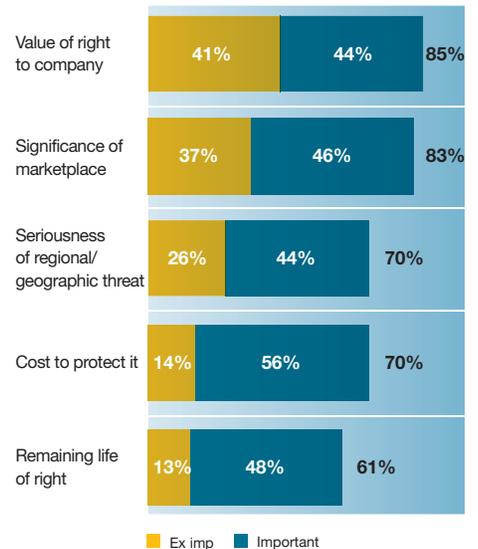
Which applies to your company?



Protection and assertion

Response from in-house counsel shows that when dealing with matters of patent protection and enforcement, the value of the right to the company and the significance of the marketplace are the two most important matters to consider.

Importance of patent matters – protection and assertion

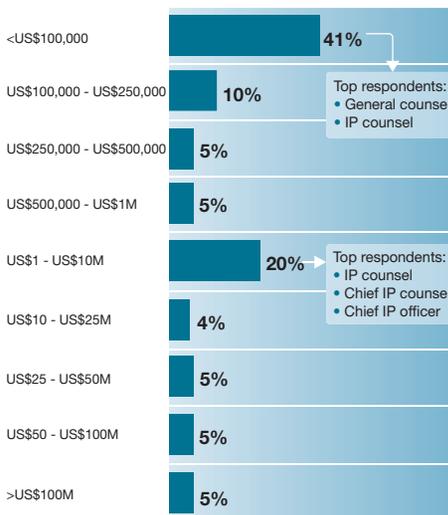


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actively looking after it always the best option? Clearly, this is something that a lot of respondents spend a good deal of time contemplating – with 70% telling us that the cost of protection is either an important or extremely important consideration. Of course, it is also worth asking whether it is worth having a right that you decide you do not want to protect, which may take companies back to the whole idea of out-licensing and selling.

The cost of litigation was considered by respondents to be the biggest threat they currently face. This may well be related to what was identified as the second biggest – a lack of resources. Further down the list of threats – probably because only certain industries, primarily in the US, are affected – was yet another litigation-related issue: the

Annual spend on protection, litigation and enforcement



US tops for litigation

“ Respondents are unequivocal in their declaration that the US ... provides the best value for money when it comes to litigation ”

The cost of litigation is perceived by both in-house and private practice respondents as posing the biggest threat to IP portfolios. Thus, that respondents are unequivocal in their declaration that the US – an extremely expensive jurisdiction in which to conduct a dispute – provides the best value for money when it comes to litigation may come as a surprise to some. However, expense and value are not the same thing. Although the US is a very costly region in which to fight a patent suit, it is singled out by a large proportion of respondents – 63% of those from private practice and 68% of in-house counsel – as offering the most thorough scrutiny of all litigation systems.

That said, with great scrutiny comes the fear of a patent being invalidated. “The best value for money is in the US, but so is the biggest risk,” states Fabirama Niang, Director of IP for the TOTAL Group. It seems that the threat of having a patent held invalid and/or ending up

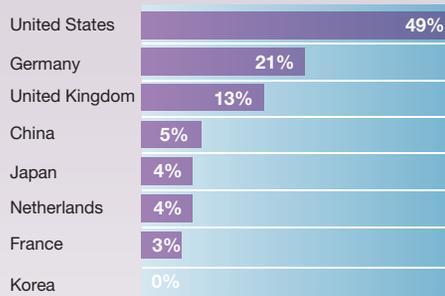
on the losing side in a US litigation is as much a deterrent to US litigation for some companies as the potential to recoup revenue lost to infringers is an incentive for others.

In Europe, the UK and Germany are usually seen as the pre-eminent patent litigation jurisdictions. Our respondents confirm that this is the case, but are clear that when it comes to value for money, Germany is significantly ahead. Given that German litigation costs are so much lower than those in the UK, this is probably not a surprise. British practitioners might argue that you get a lot more for your money in the UK, but it seems not everyone agrees – when it comes to saying which country offers the most thorough scrutiny of patents, there is a split. In-house professionals believe it is Germany, where there are separate proceedings in different courts to establish validity and infringement, while those in private practice choose the UK, where these issues are decided by the same court at the same time.

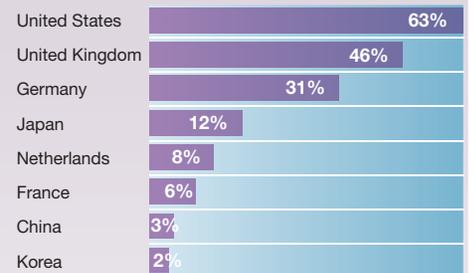
Protection and assertion

The United States is seen by private practitioners as giving the best value for money in patent litigation. It is also the country with the most thorough scrutiny in its litigation system.

Best value for money – patent litigation



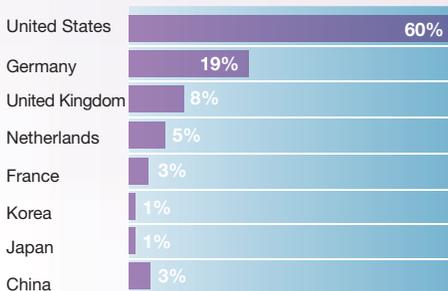
Countries with most thorough litigation system scrutiny



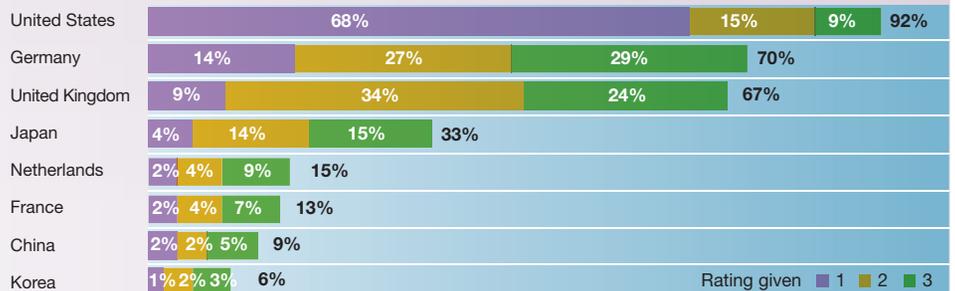
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Best value for money – patent litigation



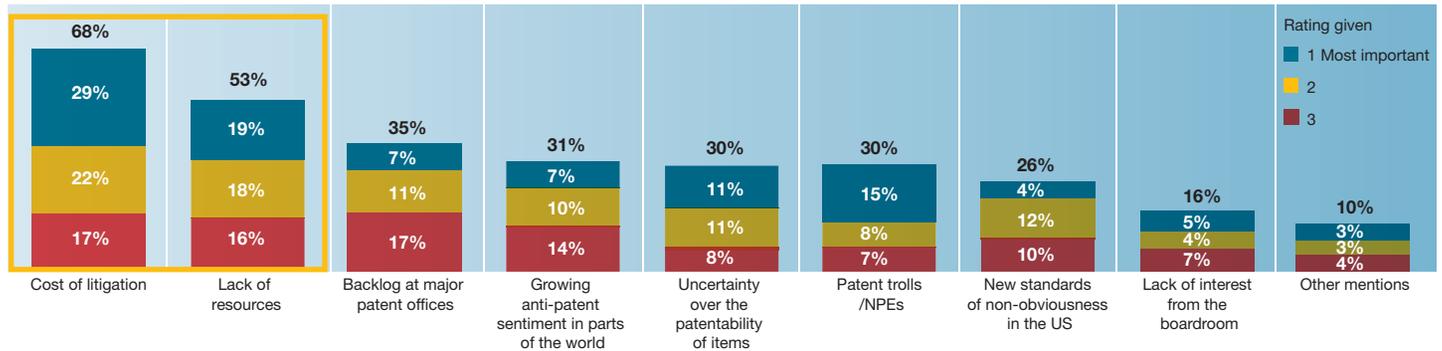
Countries with most thorough litigation system scrutiny



Threats

The cost of litigation and the lack of resources are perceived by in-house counsel to be the biggest threats to IP portfolios

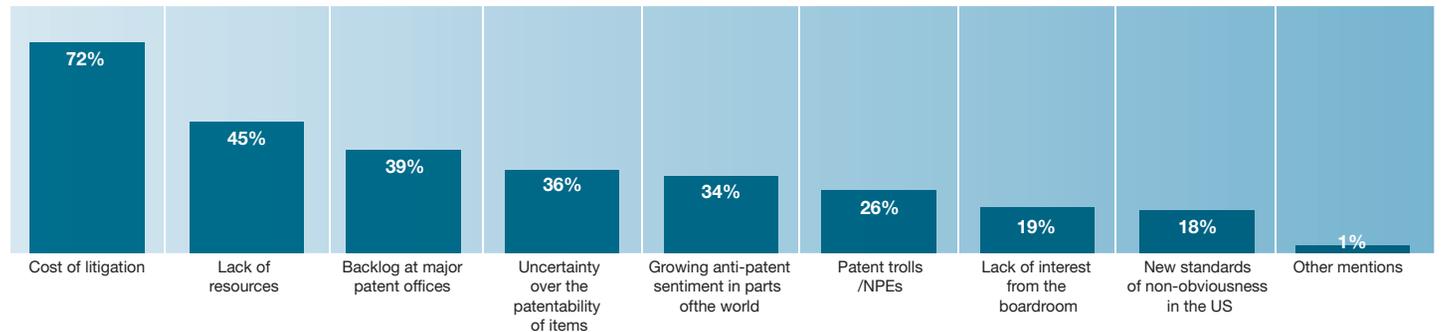
Biggest threats to respondent company's IP portfolio



Threats

The cost of litigation and the lack of resources are perceived by private practitioners to be the biggest threats to IP portfolios

Biggest threats to clients' IP portfolio



challenge posed by non-practising entities (NPEs)/patent trolls.

Perhaps surprisingly, but certainly very worryingly, the fourth biggest threat our respondents felt they faced was growing anti-patent sentiment in various parts of the world. Having identified the danger, it is important to come up with ways of mitigating it. Perhaps one of the themes of the next few years will be the extent to which patent owners prove themselves willing to take on their critics and counter the arguments that they make. Indeed, this may well emerge as one of the defining issues of the decade; if the IP community fails to make its case, it could well end up finding that it has lost rights it once took for granted. Where then for IP-based value creation?

Progress

What we have presented here is a snapshot of some of the findings of the IAM/Thomson Reuters benchmarking surveys. But even a short summary such as

this one reveals just how dynamic the IP market has become for the individuals that make up the IAM readership database.

While the creation and protection of rights remain central issues, it is clear that corporate IP professionals are being asked to do a lot more than they have done in the past, and that they are increasingly interacting with senior management as they undertake their tasks. There is, of course, plenty of work still to do. But things seem to be moving along the right track. Long may it continue. *iam*

For a copy of both the full corporate and private practice IAM/Thomson Reuters IP benchmarking surveys, please contact Joff Wild at jwild@iam-magazine.com