

# From Innovation to Commercialisation 2007

Intellectual property – a strategic asset and a strategic threat  
**Bawden & Associates**

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# Intellectual property – a strategic asset and a strategic threat

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Intellectual property – and its effective generation, exploitation and management throughout the world – is often the lifeblood of an enterprise, especially in the pharmaceutical and biotechnology sectors. One person's right is nonetheless another's restriction and the threat of competitive IP may present a looming spectre ready to erode business value. Active management of both opportunities in creating and developing an IP portfolio to support a business and identifying, assessing and acting to minimise the risks presented by competitor IP is crucial in supporting a business.

While the effect of IP is no more important to the performance of a business today than it has ever been, awareness of the criticality of IP has never been greater. Increased general awareness of the impact of IP on business, global trade and markets with perceived greater economic threats from emerging economies or specific experience of IP matters may have contributed to this.

But an appreciation of the importance of IP in generating value or avoiding value erosion due to the impact of competitive IP is only a starting point, and there are many competing pressures for budgets and executive management attention. In a technology-based environment, activities such as research, development, marketing, manufacturing, sales, personnel and the other indisputable essential planks of a business all require funding, attention and a strategic approach. Thus, heightened awareness or sensitivity to IP, and how to manage and fund it, must be viewed in this broader context affecting business leaders. Viewed in this context, IP may be seen as an important but not necessarily top-tier business priority.

The effect of not paying appropriate attention to IP, however, may be dramatic.

Failure to secure optimum IP protection runs the risk of ineffective or incomplete protection for markets, enabling technology and next-stage developments; unnecessary costs in maintaining ineffective rights; lost enforcement opportunities; and competitor product encroachment through ineffective protection, brand dilution and general erosion of what could have been a powerful business asset. Unless properly understood and managed effectively, competitor rights may similarly have a direct impact on business performance – through exclusion from a product or geographical market, payment of licence fees, threats to plant operation and sales, inferior products through the need to design around competitive IP, curtailment of freedom in research and development affecting next-generation technology and customer leverage on pricing. Were value to be eroded through poor research, lacklustre marketing, manufacturing inefficiency or the like, this would rightly be viewed as a matter in need of urgent remedial attention and action. Failure to understand and manage IP effectively runs the risk of directly affecting business performance in the same way.

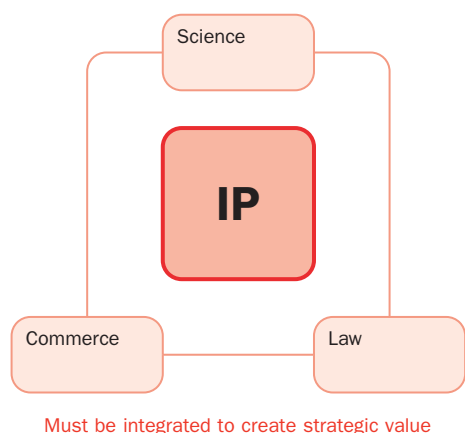
Effective management of IP, as with other essential business functions, is paramount in generating real value and reducing serious risks to the wellbeing of a business. This requires IP to be viewed as a top-tier strategic priority and for the approach to its management to form a part of the cultural identity or make-up of the business. In short, IP must be an integral part of the fabric of a business, along with other essential functions.

How can this be achieved?

## **An integrated approach**

IP may deliver value only through supporting the key objectives of the business. Viewed another way, the business objectives define the goals for, and so determine, the IP

Figure 1



strategy. In seeking to achieve this, key aspects of the technology supporting today's and future business must be adequately protected and protection of pipeline developments secured through continued active management. For the IP to be developed in the most advantageous way, an appreciation of the direction of not only your own business and research and technology strategy, but also those of your competitors around the world, is essential. The identification of competitive threats at an early stage, coupled with effective planning and action to sweep the planned business and research path clean, is equally important. As well as requiring awareness of business and research and technology development strategies, awareness of the differing global legal systems, practices and law is also essential, so as to be aware of differing local circumstances and to be best able to utilise them to advantage. It is the integration of these factors that enhances the opportunity to create value through IP.

Business objectives may differ widely depending on many factors including the nature of a business, its maturity, its position in the global market, scale, financial health and the like. For example, a start-up company or academic spin-out may have a cornerstone product or technology upon which business is built and the entire future rests. Unless these objectives are supported by appropriate scope of protection, filing strategy and ensuring resilience to attack, both in preparing and in developing a patent position as global prosecution evolves, full value will not be realised. As a business grows, the patent position ideally evolves to

reflect the developing business position. This may be achieved through informed portfolio development in patent offices around the world, prosecution to establish a robust patent position and follow-on filings. It also should reflect developing research, development and market opportunities, while shadowing the evolving competitive business. The significance of a such a wide range of factors emphasises the need for an integrated, proactive approach to creating and developing a patent position, with the patent specialists being closely involved with technology and business development and having a business mindset.

As the IP position supports a business, it is important to observe the protection afforded from the business or product point of view, utilising and within the bounds of the legal framework, rather than decisions being led by narrow legal considerations. This ensures the IP position grows with the business and supports the business objectives rather than developing a life of its own, as often seems to happen. IP portfolio management is more to do with shaping an IP position to protect the short and long-term business positions and how best to optimise the protection rather than the mechanics of administration of the IP position – whether the IP position comprises one case or many is not, of itself, important.

Protection of the business by a business-led portfolio (whether it be one or many patents) emphasises the importance of preparing and developing patent cases around the world from an informed standpoint and with full awareness of other strands of or cases within the portfolio. Developing an IP position with a piecemeal, case-by-case approach to asset generation, without the guiding light of supporting business objectives and without proactive management of competitor IP issues, significantly heightens the risk of missed opportunities, enhanced risk and ultimately erosion of value.

For smaller enterprises, particularly at an early stage in their life, there may be one or a small number of key enabling technologies which underpin the business. Growth – and indeed the viability of the company – may be severely compromised by failure adequately to protect such key technologies, and so may undermine the foundation of the company and the platform for future development. Funds may be scarce in the early life of a company and unless IP is viewed in the same strategic sense as other matters, adequate consideration of the IP

Figure 2

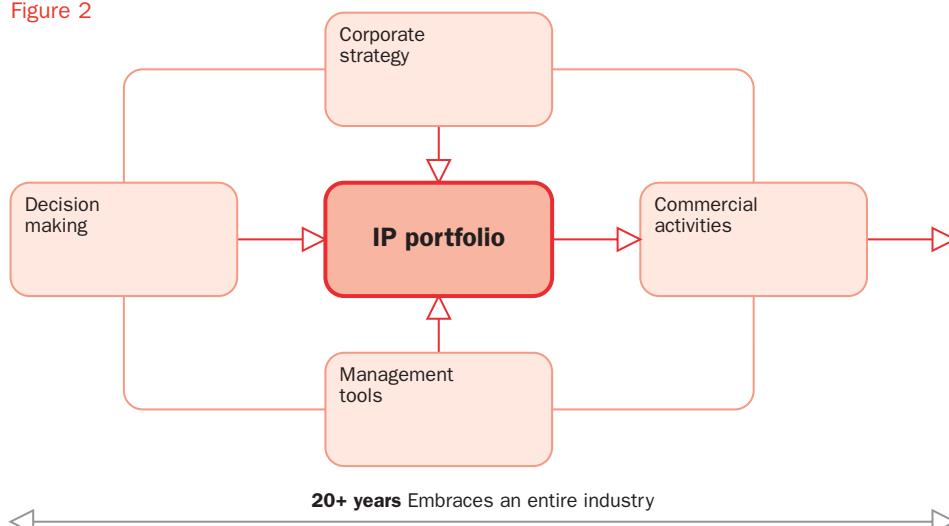
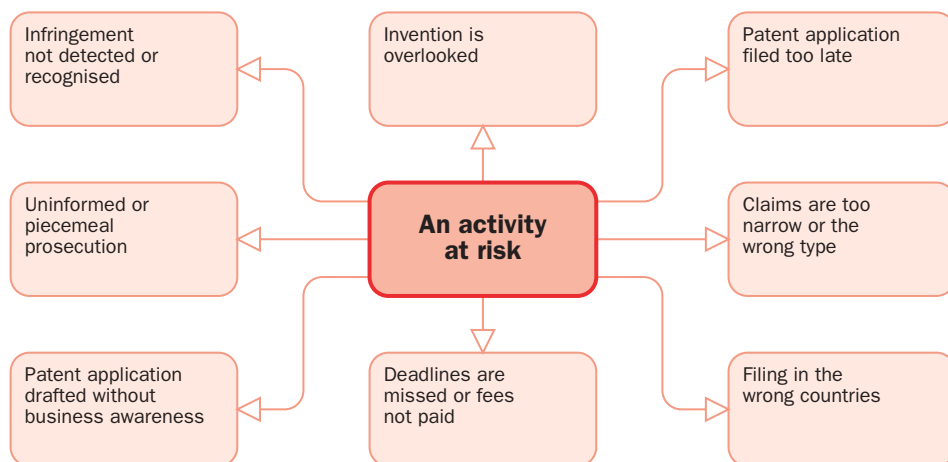


Figure 3



position may be overlooked due to perceived higher funding priorities, potentially causing impairment of a cornerstone asset. Also, funding of an IP position at an early stage may represent proportionately a much higher investment than for a mature company and this may act to constrain IP activities. Alternatively, one may view this as all the more reason to ensure that the IP put in place fully protects the strategic interest.

The IP position of a technology company often plays a central role in determining whether funding may be provided by investors and is subject to scrutiny through due diligence. Adequate investment in adopting a strategic approach to IP at the outset, often in the face of severe financial pressures, is therefore essential to the long-term health or survival of a new company and also potentially to securing further investment. Understanding the cost implications of this activity and budgeting accordingly, while understanding the implications of not adopting a strategic approach to IP, form a key part of effective business management.

The value of IP may not be fully appreciated until some years after its acquisition – for example, when a competitor appears on the market – followed by a rapid realisation that the infringement position is not as clear-cut as previously believed. The development of a business in the first few years may be dramatic and take unexpected turns, and developing the portfolio and shaping cases to fit the evolving business needs are crucial.

Successful IP management requires an understanding of the pitfalls and a structure

that reduces the associated risks. Some of the key pitfalls are highlighted in Figure 3.

### Establishing an IP culture and implementation

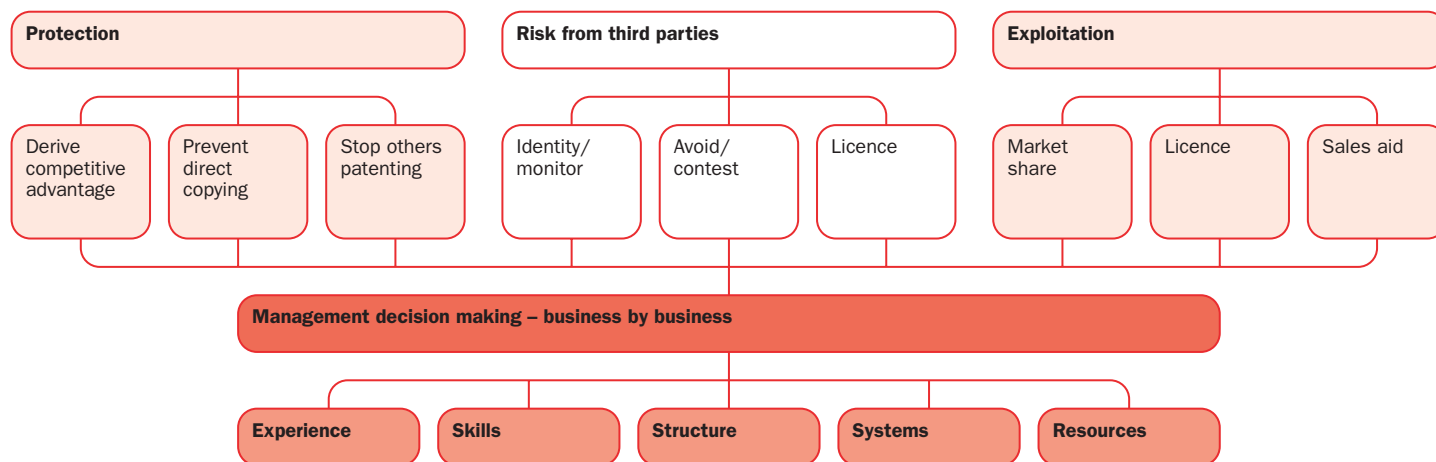
Putting an IP strategy in place involves management of a number of factors and ongoing stewardship to ensure the IP strategy maps to and evolves with the developing business position. Bringing together the right mix of skills, experience, resources, systems and management processes for IP allows the integration and effective harnessing of the professional capabilities of the IP practitioner with the business and its objectives. An important part of the mix includes nurturing an understanding of the effects of IP in business and technology leaders such that IP is viewed as part of the business rather than an expensive or unwanted diversion and IP practitioners have a “business” mindset. Processes for managing IP may then become a part of the fabric of a company and an “IP-aware” culture may develop.

The issues to be addressed in developing an IP policy and how they can be used to develop an appropriate culture and organisation are illustrated in Figure 4.

Effective integration of IP activities with business and research programmes requires synchronisation between research and technology development and business development such that offensive and defensive decisions are both informed and taken at an optimum time. Linking research funding and IP development can be a useful coordinating tool.

As candidate technologies for

Figure 4



commercialisation emerge from research activities, it is imperative that those technologies are assessed with a view to securing IP protection. A decision as to whether and, if so, which technologies to protect requires an awareness of the research strategy and business goals and allows IP resources to be targeted to those options of potential interest to the business. This streamlines the resources and costs associated with optimising the portfolio under development. While the research and development function may identify candidate technologies, the IP professional is best placed to identify opportunities for patenting those technologies to develop protection of optimum scope. So-called invention mining may thus be viewed as a collaborative, ongoing process between the IP professional and the research and development function. As candidate technologies develop, further inventions may be made, allowing the generation of a portfolio of assets.

In assessing inventions and opportunities for useful patenting, an awareness of the prior activity in the field provides a backdrop against which such an assessment may be made. This provides a window on the activities of competitors and provides an insight on both the competitor interests and how the patenting activity may best be shaped to have maximum impact. It also provides an early warning of possible competitive patent threats which may need to be evaluated more fully.

As the candidate technologies develop, it is essential to assess them against competitor patent rights. By selecting the appropriate time for this review, the

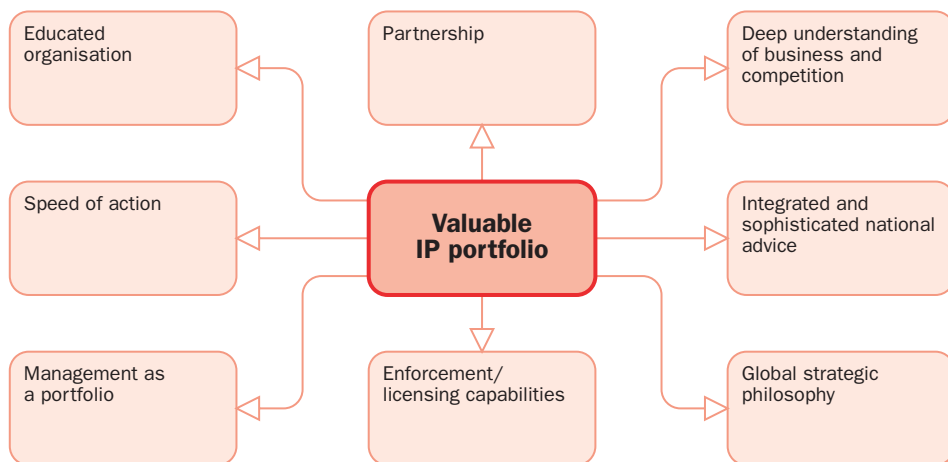
technologies may be sufficiently developed and few in number to allow a meaningful comparison with the competitor patent position, yet still sufficiently early in the development process so as not to incur wasted effort and expense in running into third-party patent obstacles. An awareness of the markets into which the technology may be introduced enables a full assessment of the potential risks at an optimum time.

In addition, as patent law and practice in gaining and enforcing protection vary widely around the world, an appreciation of the markets allows the IP professional to advise as to opportunities which may arise in some markets or be denied in others. In shaping a patent portfolio in this way through close involvement with the business objectives, the value of the protection sought may be enhanced.

Full infringement risk evaluation of final candidate technologies allows identification of key risks not previously identified in earlier broader reviews. Timely assessment of those risks allows preparation of plans to chart a course through challenging competitor rights, licensing or technology modification, or identification that no acceptable course is available.

As candidate technologies are filtered, reviewing IP for discarded or lower-priority options and pruning a portfolio accordingly, whether by technology or market, provide a means of focusing IP expenditure on those areas where the portfolio may be expected to underpin the final commercial interests. Consideration should be given to retaining IP in areas which approach the areas of interest to competitors, as leverage may provide

Figure 5



opportunities for licence revenue or cross-licensing or prevent competitors from utilising similar technologies embodying the technical benefits derived from your research activities.

The key aspects of generating an IP-aware culture are illustrated in Figure 5.

#### Summary

Through managing IP in an interactive way, integrated with science and the company's business interests, resources may be focused on those areas of genuine commercial interest, minimised in protecting areas of low interest and employed in identifying risks at an appropriate time in the innovation process, to avoid wasting funds in development areas fraught with difficulties. In this way, integrated IP management not only delivers the highest-quality IP support for a business, but also optimises costs and can focus them to where the IP investment provides a maximum return and, ultimately, enhances business value.

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