Column
IP Investor

Written by
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Flatter and faster

For companies pursuing open innovation, providing access to IP rights is about business, not good citizenship

Investors are trying to sort out how open innovation (OI) makes sense to intellectual property owners. The geography of innovation has shifted, but companies remain uncertain about how best to map it.

In a flatter environment, ideas are exchanged readily over wide spaces. Profit and speed, not control, are emerging as key enablers. But while OI sounds more politically correct, and while it may facilitate a leveller playing field, it also means more opportunities for a wider range of patent holders.

Despite this, *The Economist*, which usually does a good job of identifying technology trends, recently wrote that patents have become less important. In an otherwise thoughtful special report on innovation that all but ignored IP rights, the magazine said that shifts in information and ideas, such as those that Tom Friedman popularised in *The World is Flat*, have made IP less meaningful to developing and developed nations.

Transforming entire industries

In one of the supplement's six articles, "The love-in" (http://www.economist.com/specialreports/), correspondent Vijay Vaitheeswaran contends that the move towards open innovation is beginning to transform entire industries and it is minimising the role of patents.

"For one thing," he writes, "patents are becoming much less important than brands and the speed at which products can be got to market. It is true that some of the rising stars in developing economies are beginning to take out more patents, but many of their innovations are still kept quiet as trade secrets. So fluid are their markets, and so weak the historical patent protection in them, that bosses often prefer to keep things in the dark – and come up with the next innovation as necessary to stay ahead of the competition."

Vaitheeswaran fails to point out that more brands today are based on or complemented by proprietary technology, namely patents and trade secrets. Individual inventors and small businesses in developing nations can compete successfully for patent rights in developed ones, where the pay-off can be more significant than it is currently at home. Japan had little interest in patents in the 1960s; Korea in the 1980s. Today, they are among the world's most active filers, especially in the US.

"Even in developed markets, the acceleration of innovation is making patents less relevant," Vaitheeswaran continues. "What is more, say brand experts at P&G (which claims not even to count patents any longer), the dizzying pace of change today confuses consumers with a baffling array of choices. Such firms are increasingly turning to trusted brands to simplify things."

Selective collaboration

Yes, accessibility to innovation and collaboration are more appealing than exclusivity or monopoly – words often associated with patents. But players still must be discriminating. Open innovation means selective collaboration. Doing more and broader in-licensing, joint ventures, patent purchases and standards setting works only if it makes business sense for parties to do so.

An early proponent of open innovation was Gillette. In the early 1900s it decided to establish a standard by giving away perfectly sellable razors to move more blades. Today, Gillette (now owned by P&G) still is open sourcing the razors and selling the blades. In the same way, companies such as IBM and Microsoft give customers, vendors and even competitors more access to certain innovation assets. The reasons include setting standards to speed products to market, providing the basis for know-how licensing or lucrative consulting contracts, saving R&D costs, and (yes) engaging in patent licensing activity.

Good ideas today are more likely to come from diverse sources, especially India and China. Companies are just starting to learn how to tap these veins of innovation.

In one of *The Economist* articles, Unilever executive David Dunce says: "Twelve years ago, when I joined [the company], we were very closed, vertically integrated and owned more of the value chain – even the chemicals and software we used … Now, [Unilever] is much more receptive to ideas and services from outside, even posting challenges on the Internet for people to come up with new ideas."

More than 40% of the new products P&G launched in 2006 have key elements that originated from outside of the company. By comparison, the amount was 15% in 2000.

Bringing down costs

Open innovation is not charity, nor should it be. Large companies need to encourage broader collaboration because it brings down costs and creates more opportunities. But they still need to manage their patent estate closely. If anything, patents are more important today, because of increases in in- and out-licensing, joint ventures and collaboration.

The pharmaceutical industry may be somewhat ahead of the curve on collaboration. It learned decades ago that spending, say, US$3 billion in annual R&D expenditures to ensure a pipeline of blockbuster drugs is a lot, but nowhere near enough. Even US$30 billion would not do it. Hence, drug companies tend to use their research dollars efficiently, identifying areas of interest, inventions they may need to in-license, and which patents or companies it makes sense to buy. They know they can not survive without partners.

The day of the self-contained R&D engine – such as Watson Research Center and Bell Labs – may be drawing to a close. The geography of innovation, fuelled by more and cheaper researchers and high-speed communications, is reshaping the avenues for new ideas. By drawing upon the best work from a variety of sources, OI creates a more robust market for business and for IP rights alike.

OI also means that inventors and companies had better learn how to protect their ideas before deciding where, how, and with whom they want to share them. It is no mystery why companies that are bastions of proprietary innovation are now also promoting collaboration.

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