Written by
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Penny wise, patent foolish

Businesses adept at generating inventions from R&D frequently fail to recognise outside patent opportunities. Who or what is to blame?

"Millions for defense but not one cent for tribute." That is what a feisty Federalist said in 1790 in response to the French threat to seize American ships.

This statement is reminiscent of what is said today by any number of technology giants: "Billions for R&D, millions for legal fees, but not one cent for outside patents."

It is amazing how companies adept at identifying and securing their own invention rights are slow to recognise opportunities to capitalise on others'.

The "not invented here" syndrome is a disease that runs rampant in good IT businesses from Japan through Europe and to the US. Companies worldwide share a kind of hubris about having all of the inventions (and rights) necessary to compete. Spending literally billions on R&D and maintaining tens of thousands of patents will tend to do that. So will senior managements that are uninformed about how the business of innovation actually works and which IP executives are really doing their job.

Navel gazing

The mantra for most IT companies goes something like this: (1) we have what we need to practise our inventions; (2) we can always design around a problem, if we have to; and (3) if we do infringe someone will need to catch us and prove it in court. That's costly, time consuming and risky. Besides, if the infringed party is a practising entity we may be able to neutralise their nastiness with counter-claims on one of their products.

Peter Detkin, co-founder of Intellectual Ventures, tells an illuminating story about patent preparedness. When he was head of patent litigation at Intel in the 1990s he would meet annually with the company's CTO to discuss performance. One year the meeting did not go so well. After an exhausting discussion of costs and returns the CTO turned to Detkin and said: "Your department is the beneficiary of more than US$3 billion in R&D; we also spend well over US$100 million in legal costs and patent filing fees, and you mean to tell me that the company still doesn't have all of the rights it needs to sell its products without interference?" Peter looked up from his spread sheet and deep into the CTO's eyes. "No," he said. "The products we sell are not necessarily the same ones our patents were intended to cover."

Invention is a complex and iterative process that requires constant adaptation and fine-tuning to make products possible and patents meaningful. As a result, a patent portfolio is not a stagnant bundle of legal rights. It is a living, breathing, changing organism in need of constant nurturing and cultivation. Those relying on an IP portfolio for protection should be as sceptical about the reliability of the coverage it affords as a competitor might be. Few are, and even fewer C-level executives want to think about IP at all.

An ounce of prevention

Most companies have grown to understand that they cannot generate all of the inventions or rights they need to compete. They may indeed conduct huge amounts of expensive research and receive thousands of carefully prosecuted patents, but that does not assure freedom or success. IP-centric companies frequently need to acknowledge, internally, at least, that they likely lack some of the patents they need. Confronting this reality is more daunting to some than others. The solution may require a business to in-license, cross-license or buy patents; and it also may need to purchase whole companies under the right terms. Adapting to the marketplace is often smarter than attempting to satisfy all of a company's innovation needs independently.

Companies as diverse as P&G, Microsoft and IBM all rely on in and cross-licensing to bolster their businesses. So why then do companies which spend so many billions annually on R&D refuse to reserve say US$50 million for acquiring patents they need or may require down the road? I think this paradox may have more to do with ego and job security than budget. It also has something to do with the fear of letting competitors see where a business may be weak.

Former MCI and Silicon Graphics chief IP counsel Tim Casey once told me that at a certain stage in MCI's development it was a lot more cost-effective for the telecom company to in-license good patents at the right price covering inventions they definitely use than to come up with the costly alternatives or gamble about not getting caught stealing. Safe passage is costly to procure. However, it is an investment in the future that few companies can afford to ignore.

Embrace opportunity

A better connected and informed — or flatter — world makes it more difficult to infringe competitors' inventions. It also makes it easier and frequently more efficient to acquire innovation from diverse sources. No matter how astutely a company deploys its R&D and its legal resources, it can never be sure if the patents it secures are going to read on the products it actually sells. Often they do not. The emerging marketplace for invention rights provides an opportunity to hedge that risk and improve their IP position. Embracing opportunity is not the same as admitting defeat — GCs and CTOs take note.

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