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Why your Intellectual Property isn't generating cash flow—

You may be leaving money on the table

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Companies sometimes find themselves in possession of large portfolios of Intellectual Property (IP)—sometimes the result of product development efforts that did not result in internal commercialization. In this article, the authors provide a process for assessing the value of these assets and unlocking their value.

Product development is the primary source of revenue and organic growth for most corporations. Millions of dollars are spent each year to train employees, purchase design tools, and optimize processes for the development of products that drive growth. Many companies are beginning to realize that opportunities are no longer rooted solely in the commercialization of new products and that there are untapped sources of income available

to them. Companies that lead in the strategic utilization of their intellectual property (IP) are bringing in millions—and sometimes billions—of dollars in additional revenue year after year.

Executives at Dow Chemical were able to

leverage their patents to increase licensing revenue from \$25 million in 1994 to more than \$125 million in 2005. They did this by mining the IP portfolio and by capitalizing on the intrinsic value of the company's patents, trademarks, and trade secrets.

Many companies lack standard tools

A primary reason that many companies are failing to leverage their IP is the lack of standard tools and methods for value extraction. Product development is well understood and has been studied and improved for decades. IP strategy, on the other hand, has been left to corporate legal groups, whose focus is generally on protecting the corporation's intellectual assets, not on extracting value or generating revenue from them.

Another reason that many companies have a difficult time leveraging their IP is that many business people simply do not know what they own. Mergers and acquisitions increase the challenge of assessing portfolios. The IP portfolio may contain hundreds or even thousands of patents that may be dispersed across multiple divisions. Without an organized effort to catalog and categorize the portfolio, it is very difficult to assess its intrinsic and extrinsic value.

Finally, it would be unusual for a company to have knowledge of unmet customer needs across multiple industries. Identifying potential alternative commercial applications for an invention

requires a broad understanding of many markets. Often, the greatest opportunities for reapplication are far removed from the inventor's core business.

How can companies regain control of their IP portfolios and extract the value that resides in those dust-covered documents?

At our firm, we have developed a four-phase process that we believe is one of the best ways to identify the hidden value of a corporation's intellectual assets: *Portfolio Screening, Market Assessment, Concept Development, and Concept Marketing*. (See box on this page.) The process can be applied to an entire company or to one division, and the methodology works regardless of the size of the corporation. In many cases, companies hire outside providers to lead them through the process; but at other times, they do this with internal resources. Companies we know that have used this or other similar processes include Dow Chemical, Proctor & Gamble, and 3M.

The *Portfolio Screening* phase begins with a review of existing IP assets to identify and prioritize those with the highest value and the most easily developed commercial applications. Commercialization strategy interviews are held with executives to develop an understanding of the strategic business drivers that are specific to each company. A complete inventory of intellectual property and technology assets is created and organized. An initial assessment of alternative commercial applications is performed. The IP inventory and the preliminary list of applications are then reviewed by a panel of internal and external experts, who are brought together for a brainstorming session. The participants use this information as a basis for developing a comprehensive list of licensing opportunities within the same industry and in other industries. Prioritization of the different opportunities is done by selecting those with the broadest patent protection, highest revenue potential, and lowest required investment levels. The opportunities can be graphed to communicate where the greatest potential value lies (see Exhibit 1).

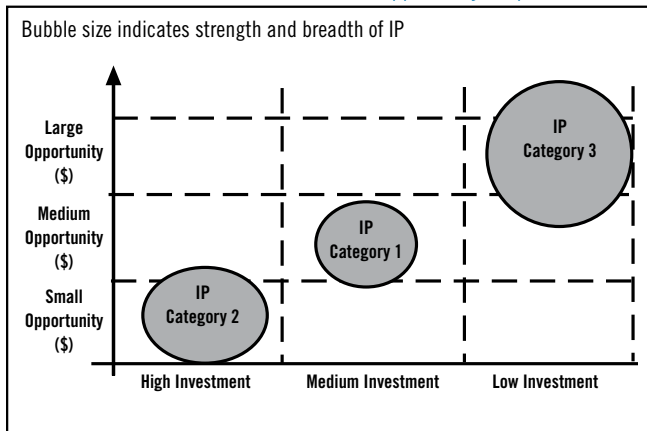
The *Market Assessment* phase involves an evaluation of the alternative commercial applications, essentially looking at the protection level and the market potential of the different opportunities. The patents are reviewed for validity and breadth of coverage and a technical feasibility study is performed for each potential application. The patent claim advantages are compared

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The Four Phases of the Value Extraction Process For Corporate Intellectual Assets

- Portfolio Screening
- Market Assessment
- Concept Development
- Concept Marketing

Exhibit 1: Commercialization Opportunity Graph



against existing products and services in the target markets, and subject matter experts in the industries related to the opportunity are identified and consulted. Finally, companies that might be interested in licensing the IP are identified and profiled.

In the *Concept Development* phase, companies targeted for licensing are ranked according to their suitability and revenue potential. A comprehensive plan for technical validation of the market

application is developed, and a “pitch package” that describes the value of the technology to the target company(s) is created. Typically, the pitch package is then enhanced by obtaining feedback from a panel

of top industry experts.

The *Concept Marketing* phase involves valuation of the IP using income-based, cost-based, and market-based estimating methods. Contractual terms are negotiated with the target company, and a licensing arrangement is initiated. There are a number of options for companies that want to commercialize their IP, including outright sale, donation to non-profit organizations (which can lead to tax benefits), and traditional licensing arrangements where a stream of royalty payments linked to some metric is collected.

The value extraction process described above has been used to help many companies generate revenue from their intellectual property. A recent example involved a Fortune 500 company with innovative imaging technology that was looking for additional commercial applications for its IP. Several concepts were developed and the lead concept, which involved pipeline leak detection, was launched as a joint venture with private equity backing and has become a lucrative commercial success.

Goals of commercialization projects may change

Many commercialization projects begin with the goal of licensing IP, but once the technology application is studied and understood, additional opportunities are identified. These can include using the technology to expand into adjacent markets, broadening the patent coverage to protect key technologies, and, in some cases, initiating patent infringement action when it is found that proprietary technology is being illegally used by another company.

Exhibit 2: Overlapping IP Commercialization Opportunities

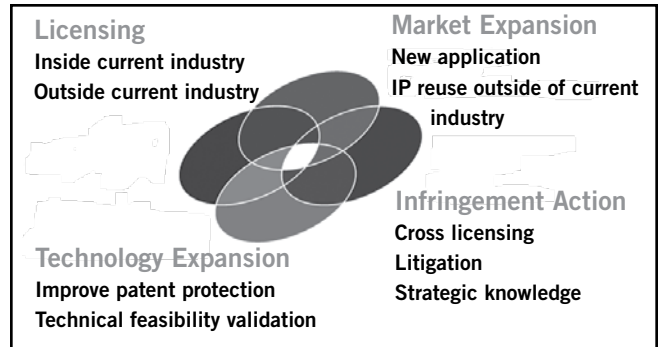


Exhibit 2 shows some of the overlapping opportunities that are often uncovered during an IP commercialization initiative.

Although the process is not complex, successful commercialization depends on skill, experience, and broad knowledge of many industries. It also depends on access to an extensive collection of industry contacts that can be leveraged to get an audience with executives at companies targeted as licensing candidates. This value extraction process can be performed either by using internal personnel or by obtaining external assistance from companies that have experience with evaluating patent portfolios. The process can be applied comprehensively across the vast holdings of an international conglomerate or it can be used selectively to evaluate a small group of patents. Either way, by using these IP tools and procedures, a company may find other sources of revenue at a time when it is reaching for ways to improve its cash flow and bottom line.

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