

Call the consultant

Catherine White provides a guide to IP consultancy services



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Knowing where the value to a business lies can be a complex task. This is made even more difficult when the value lies in IP – an intangible asset which does not show up on balance sheets. Nevertheless, IP protection and IP understanding is fundamental to the success of a business. The Hargreaves review indicated that “global trade in IP licences alone is worth more than £600bn a year: 5% of world trade and rising¹”. But what happens if a company does not know the value of its IP or its competitors?

IP consultancy services

So how can IP consultancy services help? IP consulting can cover a range of services such as client support and advice relating to one or a combination of the identification, capture, management, protection and commercialisation of IP in a manner which has a commercial perspective. The service can also provide business development, patent landscaping and mapping², patent portfolio management, patent mining³ and due diligence.

Michael Ellis of the IP consultancy firm Ellis IP said that consultants are hired to help point companies in the right direction, “An IP consultant should help shape a client’s IP strategy and implement it – the IP strategy being shaped in a manner that helps achieve and is in line with commercial objectives of the client eg, support and guidance in using IP, broadly, as a value-adding business tool,” he said.

So who uses these services? The list is exhaustive and includes universities, government research organisations, investors, accountancy firms and companies big or small. Essentially, it is anyone that would like guidance on how to maximise their IP by understanding which patents should be sold, what IP should be licensed, understanding the market and negotiation deals.

Ellis pointed out that small and medium enterprises (SMEs) can benefit from IP consultancy because such a service helps to shape an IP strategy for the company to enforce, “SMEs may have a reasonable quantity of IP that needs managing. An IP consultant can help shape the

appropriate IP strategy for that company and advise whether or not to invest in the various forms of IP that may be available.

“We have worked with several SMEs on IP consultancy projects – these have included conducting an IP audit to establish the relevance of IP in a portfolio to the business objectives and proposing how to improve it and assisting in presenting IP matters to investors. Very small companies can certainly benefit from some minimal amount of IP consultancy support – that could be simply an awareness exercise to help understand IP, but perhaps would not retain an IP consultant.”

Why use IP consultancy services?

One reason why people use this service is because of a capacity issue, IP Pragmatics’ Rupert Osborn said. “A company’s employees may be too busy to perform such tasks themselves and so look for hired and experienced experts. The main reason, however, is the knowledge consultants can bring; companies do not have consultancy knowledge in-house or the combination of commercial, IP and business development skills,” he added.

People are beginning to realise and view IP as an asset and leverage this asset, whether this is a big company looking to out-license or find additional value in the IP they have. Television programmes reinforce the perception that IP knowledge is growing. “The BBC programme *Dragons Den* highlights that there is a growing culture of people thinking up ideas and building businesses – and IP is always behind this, such as trade secrets, designs, patents or copyright,” Osborn stated.

Why is IP consulting important to a business?

Some consultancy services are very specialised and only offer IP valuation, patent landscaping or due diligence. Others will only do certain business development services such as finding a partner for a client’s technology. However, other IP consultancy services work across all spectrums and look at helping clients understand IP valuation, the markets and who they should speak to about their IP or technology.

An outside view also helps a business gain perspective of its own IP.

There are several benefits to this which include:

- Improving understanding of the key differentiators of the business and what bits of intellectual property relate to that.
- Improving discipline and understanding of IP in the business at the highest levels and, depending on how things are implemented, throughout the organisation.
- Making informed decisions about the protection, management and commercialisation of IP assets.

The last step is what all companies should aspire to Ellis said. "You can equate it to making informed financial decisions—you need to understand the financial drivers in your business in order to know whether a cost-cutting exercise is sensible or to properly understand the most profitable activities – they are not always what they may seem hence management accounting. Whether that end goal is enabled or facilitated by the IP consultant depends on the relationship with the organisation and how much the business managers want to control this area.

"I also think the role of an IP consultant should diminish over time in an organisation and move from a detailed involvement to a less intensive role where they may be used for their expertise or for specific projects. This means the company has adopted the disciplines and understanding of IP management effectively."

Patent rating system

Some consulting services use a patent rating system. Ocean Tomo is a US-based company which assists governments, corporations and law firms in realising the value of their IP. It has several practice groups such as investments, strategy services and a PatentRatings® system to help companies assess patent quality. The patent ratings system is specifically designed for assessing patent quality – a proxy for value, as well as technologies, competition and trends.

The system rates the quality of all issued US utility patents. It does this by using an IPQ scoring system, which is similar to the IQ score of human intelligence (median value set at 100). The IPQ score is a quantified measure of patent quality. It is a computer generated numerical ranking or score based on an analysis of over 50 identified predictor variables (patent "metrics") determined to have significant statistical correlation to patent maintenance. Some of the metrics used are: type of prior art cited, number, length and type of patent claims and patent prosecution history. A patent asset's IPQ score is then used by investors and IP professionals to determine the value and quality of a patent. In addition, the system calculates patent relevance, a numerical score of 0.0 to 1.0 that links each US patent to every other US patent and shows their relatedness. The IPQ score and relevance score allow fast creation of targeted patent landscapes.

James E Malackowski, president and chief executive of Ocean Tomo said, "Patents are one of the most reliable and critical indicators of a company's strategic intent. Furthermore, companies holding valuable patents in sufficient quantity are likely to shape industry direction and out perform their peers with respect to equity returns.

"The ultimate value of a patent portfolio is not the rating or even licensing income; both are indirect effects. The ultimate measure of value is the portfolio's effect on earnings and stock price."

Osborn noted, however, "Patent scoring is good for when you have a large number of patents and you want to assess them quickly. We find though, that the clients we work with, want a more specific answer and choose to value patents by other methods, such as looking for competitors or using revenue-based and royalty-relief methods to value IP.

Valuing IP

Understanding the value of IP is becoming increasingly important, so rightsholders need to understand what IP they have in order to achieve maximum value from it.

There are generally three ways of valuing IP and a product:

- The cost of producing.
- A market comparison (eg, the IP or company sales that are largely based on IP of a similar size/type to yours.
- The royalty rate (if you want to in-license, how much would it cost).

Ellis said, "I do think evaluating IP is important. Through extensive evaluation, a company can establish the relative and incremental importance of IP. This, I think gives you a basis for managing your IP and decision making – how a decision relating to IP can impact upon your business now and in the future."

Additionally, the UK is going through fundamental changes in regards to the patent box⁴, which will help to drive a very different use of IP. Osborn said, "For the first time, the opportunity for people to use patents as a valuable asset for tax benefits, instead of viewing them as a monopoly right or something that is too expensive to protect your IP with, is about to change. As competition grows, IP will become even more important to them."

A rising trend?

IP consultancy services will definitely be something to look out for as more rightsholders seek experts who not only offer business development strategies, but also offer a higher level analysis of market and competitive trends. So could this be the beginning of the end for law firms which focus solely on a single practice? Osborn thinks so, "Traditionally there is a big divide between patent/trademark attorney firms and IP law firms. Both of these may offer some wider services such as commercialisation and valuation, but primarily, they are still focussed on their respective core legal functions.

"If you look back to 50 years ago, accountants just balanced a business's books. Today, they act more like management compliance companies and offer other services such as management consultancy along with the auditing and book keeping. I see the IP world moving in this direction. It is no longer good enough to have a patent firm which just files patents – there must be a bigger offering. In the middle, there will be true IP asset management companies which can do everything, so not only file and manage patents but understand your business and advise you on all aspects of IP that relate to the business and creating value. Overtime, I think the patent/trademark profession and IP law profession will start to migrate into this middle ground."

Ellis agreed adding, "Increasingly, company managers are realising that there is value to be gained from expertise in IP management. It is not for everyone and it is not terribly valuable for everybody, so an IP consultant ought to be chosen according to the specific requirements of the client since there is a relatively broad range of skills. The reasons for using IP consultants will vary – for example to help monetise an existing IP portfolio or to gain cost-effective but commercially useful IP protection."

Footnotes

1. Digital opportunity: a review of intellectual property and growth <http://www.ip.gov.uk/ipreview-finalreport.pdf>
2. Patent landscaping and mapping enables companies to identify patents in a particular space, verify the patents characteristics and allocate any areas of infringement.
3. Data mining is the process of finding correlations or patterns among fields in large relational databases. Essentially, the practice sorts through data to identify patterns and establish relationships.
4. The patent box regime is designed to provide an additional incentive for companies in the UK to retain and commercialise existing patents and to develop new innovative patented products. Under the proposed model, companies can elect to tax profit generated as a result of patents held in the UK at only 10%, as opposed to the current 20% and 26%.