

Innovation, uniqueness and IPR strategy

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Identifying unique ideas and turning them into income-generating products, the purpose of innovation, is part of most companies' business strategy. Uniqueness does not necessarily lie in technology; it can also be found in a way to address the market, in a new branding or in a new customer process.

Uniqueness will make the customer return. An organisation should ensure that ownership of unique assets is transferred from the employee's head to the organisation. Otherwise, the organisation may be deprived of clients the day the critical employee leaves.

An organisation needs a strategy, policies, and processes to accompany these generation and transfer processes. That strategy should interfere with other strategies, such as those for HR, R&D, Finance, Branding, Marketing. Also – the strategy needs to build awareness regarding IPR owned by others.

Innovation, uniqueness and IPR

The unique assets of a company are what sets it apart from other companies and hopefully makes it a preferred choice – for its customers, employees and shareholders. The uniqueness can be real – as a measurable set of characteristics of its products or services – or perceived – such as quality of brand, values associated with the company, shopping experience and so forth. Of course these realms are not mutually exclusive, but they do not have to be connected. Real uniqueness can be perceived by the company's customers, or it may not. Similarly, perceived uniqueness does not have to be based in any real quality of the company's products – it may simply be the result of branding, image and marketing strategies.

When it comes to innovation, uniqueness can still exist in the real or in the perceived realm. It is possible for a company to be perceived as innovative without actually contributing anything new, except maybe in the way it presents itself to the public. However, for most companies basing their public image on innovation it is important to actually be creative in the realm of product development and be able to communicate this to their customers. After all, innovative product development should not only result in a strengthening of the market potential of the improved products themselves, but also of the image of the company – innovation should strengthen the perceived uniqueness of the company.

Because of this effect of innovation on the products themselves as well as the public image of the company, protecting the results of innovation does not only protect the products or services, it is also a way of building and reinforcing uniqueness, and – as we shall see – it can also be a way of communicating uniqueness.



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Innovation can take many forms. What most readily comes to mind is probably the improvement of technologically advanced products. But innovation can also involve improvement of the processes used to create the products, the design of the products, the infrastructure used to deliver them, the way they are marketed, and so on. For all these aspects of innovation, IPR gives us tools to protect, encourage and leverage on innovation.

There is a close relationship between innovation strategy and IPR strategy. An Innovation Strategy without an IPR strategy is very bad risk management – you innovate without thinking about ownership and infringement of other's rights. On the other hand, an IPR Strategy without an Innovation Strategy may make sense. A company competing on price only – and not on innovative products – may be well served by exclusively building a strong brand using fancy design and building up (or buying) strong trademarks. Similarly, a company in the entertainment industry may rely exclusively on copyright.

Market leaders have clear IPR strategies: they have identified the unique assets that make them competitive and have made decisions about how to exploit and protect those assets. Patenting may indicate an IPR strategy, but not necessarily: Some organisations have as their strategy not to patent but to publish, while others patent "at random", according to the individual project manager and ad hoc decisions. In the first case an IPR strategy exists despite the lack of patenting, while in the second case patenting may indicate an IPR strategy where in reality there is none. However, to the extent that an IPR strategy leads to increased patenting (and there is no other objective and publicly available indicator) the corre-



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lation between market success and IPR is shown in studies¹⁾ and statistical data is published yearly²⁾.

Consequently, an IPR portfolio, and patents in particular, becomes a powerful way of communicating uniqueness. When you have uniqueness, you are also in a good position for trading and sharing those assets, and that can create even more value.

Gerard Kleisterlee, CEO of Philips, says “We use our patents more and more as a tool for sharing our technology with other companies, for example, by licensing our patent”. A Philips press release complements this with, “In the past, patent applications were mainly filed to safeguard Philips’ exclusive use of its innovations. Nowadays, value creation is the central strategy. Value can be created by Philips’ own use of a patent, but also through the sale, licensing, exchange or pooling of patents ...”

To create value from uniqueness and innovation, IPR strategies must be implemented at all levels of the organisation, not only in R&D, but also in the production, sales and marketing departments.

Understanding value creation and IPR

The Intellectual Capital Model can be used as an illustration of Value Creation Processes.

Human Capital (employees) interacting with suppliers, partners and customers, build Relational Capital (image and brand, well-functioning collaborations, general goodwill) resulting in Structural Capital, e.g. value stored as Customer Relation Management systems, effective work processes, and IPRs. In turn, this increases revenues: Financial Capital.

The Intellectual Capital model, dating from the 1980s, is still used by many companies ranging from Dow Chemical to Norsk Tipping (the Norwegian State Lottery). It helps communicate and discuss value creation dynamics within and outside the organisation. It can be measured in financial reporting, or can be associated with other management control systems, such as Balanced Score Card or Total Quality Management. The model is far too simple to explain how things happen in an organisation; it is even dangerous because it looks as if value creation is a linear process that can be easily measured and managed (so many organisations, including Telenor, have

more sophisticated and non-linear models). A useful approach, however, is to think of the model as a way to discuss where the unique assets are created, how it is transferred to the company, e.g. by using IPR, and where the competitive advantages are.

In this way, it is possible to discuss the IPR strategy based on an understanding of the capacity in the organisation to

- Exploit IPR and transfer it to Financial Capital;
- Create and Acquire IPR.

In addition, when understanding uniqueness is the mindset, such models give some understanding on how Innovation and IPR are related.

Building and anchoring an IPR strategy

An IPR strategy defines the framework and objectives of optimal development and exploitation of intellectual assets essential to a company (i.e. the ones that make the company competitive). It is one of the pillars of sustained growth: you must have strong ownership and control of knowledge.

The following issues will often be part of an IPR strategy:

- Secure current technological and market position;
- Ensure freedom to operate for the future;

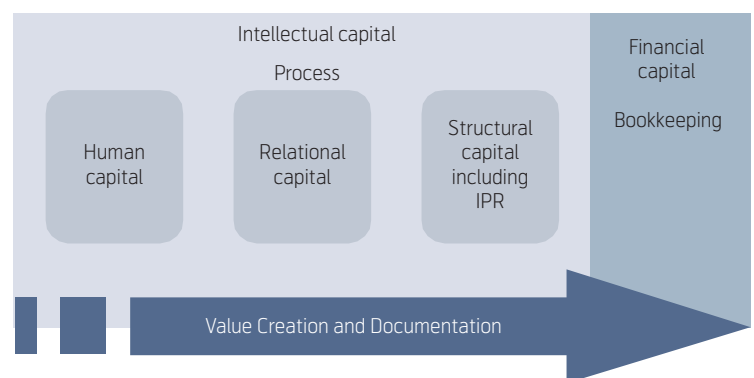


Figure 1 The focus of Intellectual Capital is on the process for creating value. The focus of Financial Capital is on bookkeeping, i.e. documenting the capital. Value is created by bringing human capital towards structure and documentation. This is of course not a linear process³⁾

¹⁾ Tim Jones, *Innovaro: Innovation Leadership: Identifying and understanding the top performers*, 2002.

²⁾ MIT Technology Review Patent Scorecard – http://www.technologyreview.com/scorecards/patent_2003.asp

³⁾ An interesting discussion is at Jan Taug “Intangibles and Capital Conversion” 2003, <http://www.taug.no/article/articleview/92/1/4/>

- Restrict development of competitors in identified areas;
- Conquer new markets (industry sectors, countries);
- Build up portfolio for ‘swaps’ with competitors;
- Increase or create revenue streams from IPRs, e.g. licensing deals;
- Communicate value to owners, funding institutions, investors, employees;
- Convert ‘know-how’ into formal assets: ensure critical and proprietary know-how does not leave the company.

IPR policies give guidelines on how to implement the IPR strategy, define how value is to be created or acquired by the company, and how it is to be exploited and protected. Such policies are essential in order not to waste human and financial resources and can cover:

- The organisation, processes and resources for screening and developing ‘good ideas’ and turning them into IPRs;
- The organisation, processes and resources to take care of the IPR portfolio;
- Exploitation and protection for ‘good ideas’ that are part of the core business;
- Exploitation and protection for ‘good ideas’ that are not part of the core business;
- Ownership and rewards of IPRs generated within the company or in collaboration with other companies.

The IPR strategy requires resources, not just talk. A strategy without an implementation plan and budget is no strategy. ‘Resources’ here refers to time from people that often already are critical to the Company in other areas. It means best practice processes to manage IPR issues and it means money both to formalise IPRs and to defend them.

Defining an IPR strategy

An IPR strategy is by its nature at the core of the company since IPRs are about uniqueness, i.e. about that which makes the company competitive – and should be discussed by the board⁴⁾. Management from all critical functions, such Marketing, Finance,

R&D and Human Resources must therefore be involved in its definition, and it should

- Be initiated and driven by top executive management and/or the Board;
- Involve all critical departments and functions;
- Identify current and future assets ‘unique’ to the company;
- Define principles for exploitation of these assets;
- Explore possible protections for these assets;
- Decide on protection philosophy;
- Assign targets, responsibilities, resources.

IPR in research and development projects

IPRs tend to be downgraded on the priority list of Project Managers (PMs). Why should a PM, rewarded on his/her optimal use of time and resources to deliver a specified product, worry about abstract future-oriented IPRs, knowing that IPRs will probably not be granted before the end of the project anyway?

There are several factors that may help the PM:

- A well-trained and well-informed steering committee can remind the PM of his/her strategic aims with the project;
- The correct incentive policy will not distort the objectives of the PM exclusively towards the completion-budget-product specification trio;
- The correct product development process will give focus to the PM;
- A dedicated IPR budget allowance removes any financial conflict within the project;
- Finally, a well designed organisation taking over the IPR development and management from the project at its completion ensures continuity.

IPR issues in a typical product development process

This process starts with the identification of an idea and, if all steps along the way are successful, ends with commercialisation. Several IPR issues are to be considered (refer to the checkpoints in Figure 2):

⁴⁾ According to KPMG’s Intellectual Gold Report in 2002, only 28 % of companies however “consider IP important enough to be handled by a board member”.

1. Evaluate the idea: Is it new? Is it useful? Can it be developed in-house? Will IPR be of any use, and if so, what types of IPR?
2. Competitors: Is there a risk of infringing their IPR?
3. Contracts with employees/consultants: Who owns generated IPRs?
4. Technology partners: Sharing mode for generated IPRs, exclusion of pre-existing know-how?
5. Funding partners: Conditions attached to funding (ownership, dissemination)?
6. Sales partners: Land/sector/client attribution of rights?
7. Project management board: Will it keep the Project Manager focussed on strategy issues, such as how the product will be commercialised, and thus how it should be protected?
8. Exploitation: Patent and market landscapes for the product?

IPR in company culture

When inventive employees and other contributors are rewarded for their ideas through bonuses (Nokia), lunch with the CEO (ABB), framed IPR certificates in the canteen (Ericsson), or when L'Oréal advertises "493 patents applied in 2001 for your beauty and health", IPR awareness in the organisation grows, increasing the reservoir of employees willing to contribute to value creation.

All employees and collaboration partners (contractors, consultants, suppliers) are potential contributors, whatever their skill-base or hierarchical position, and they must therefore be encouraged and rewarded.

After having defined an IPR strategy and policies, organisations need to implement them on projects, in order to validate and communicate the new strategy. IPR should be incorporated in work and quality processes, so as to secure the position of IPRs in all activities. Finally, the culture of the company should be addressed, through rewards and incentives, recognition for the inventors, policies for spin-offs, and incorporation of IPRs in the values of the company.

Telecom companies benefit from having an IPR strategy

In the telecom industry, operators as well as equipment manufacturers invariably present themselves as innovative; what they deliver to their customers

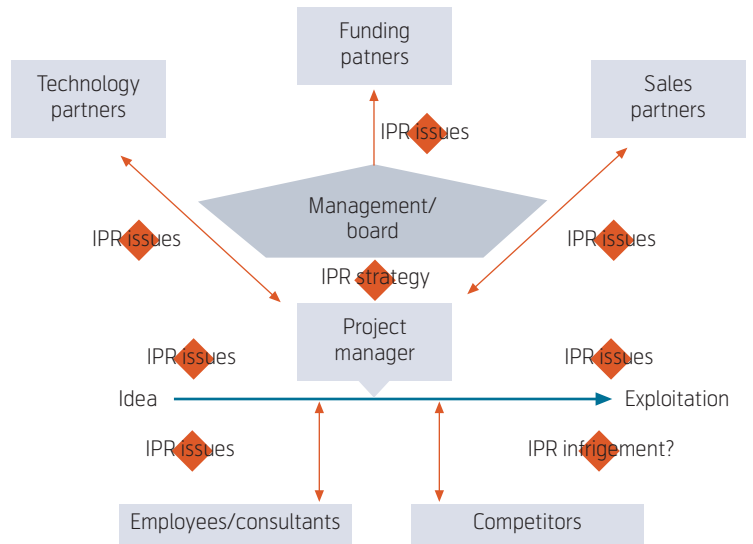


Figure 2 An R&D project with eight checkpoints relevant for the project manager and the steering group or board of that project

is new possibilities and ease of use. Their solutions facilitate communications between people; their technology does not represent hurdles customers have to overcome. Just think of slogans like Nokia's "Connecting people" and Telenor's "Ideer som forenkler" (Ideas that simplify).

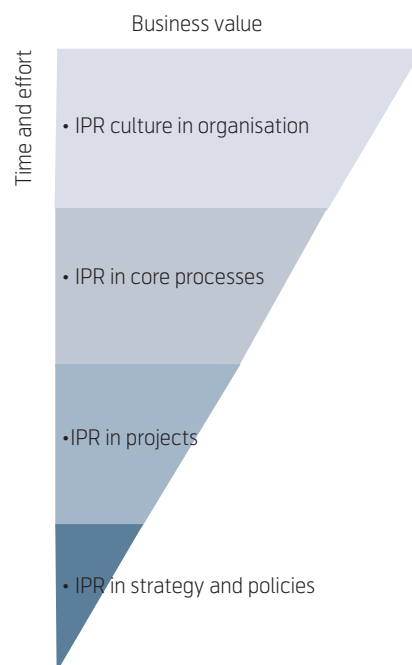


Figure 3 It takes little effort to define a strategy and policies for IPR, and it does not create much value. An organisation needs to implement the strategy in projects and in the core processes. Then the IPR strategy can be sustained by promoting a culture, e.g. by rewarding and talking about IPR

In order for this message to come across as credible, and to be sustained over time, companies will have to deliver. Their customers' experience must be in line with the image the company is projecting. And if this is going to happen, the company must accurately identify and protect the features that are creating customer satisfaction. It could be technical features, it could be service and support, it could be customer experience associated with content or user interfaces.

It could even be qualities associated purely with branding or pricing. But in any case the company must know what it is, improve on these qualities, communicate the improvements to the market and ensure that their success is not easily copied by others. IPR provide tools that can help with all of this, but only if it is addressed at a strategic level through an IPR strategy that aims at protecting, building and communicating the company's uniqueness.

For a presentation of Haakon Thue Lie, turn to page 59.

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