

## BUILDING PATENT PORTFOLIOS

### I. Introduction

Have you filed a portfolio of patent applications designed to protect your company's market niche? Some of your competitors have. Many companies in traditional industries that never filed patents (e.g., insurance, banking, services, distribution) are now building powerful patent portfolios. As these traditional industries undergo rapid transformation, broad strategic patent portfolios can block the ability of competitors to adapt effectively. At the other end of the spectrum, a number of companies (especially in high technology) are still filing patents solely on technical or scientific merit. They spend large sums of money for a collection of patents that have a small impact in the marketplace. Competitors quickly design around such patents, and the courts are increasingly construing patent claims narrowly in accord with the plain meaning of claim terms. Such high-technology companies are and will suffer from a "triple whammy": (1) the money spent on patent prosecution was wasted, (2) the money spent on litigation was wasted, and (3) valuable time to adapt was wasted because the company relied on the patent portfolio to protect against encroachers.

### II. Three Major Trends

Three major trends suggest that both of these types of businesses need to focus rapidly on building a patent portfolio with high impact on market share.

First, patent law is shifting to support patents that protect the economic value of a business. The example is *State Street Bank & Trust Co. v. Signature Financial Group Inc.*, a decision that swept away an ancient doctrine that prevented patents on "business methods." While many argue that *State Street* goes too far, that decision merely represents the most recent and furthest extension of a trend that has been building for years. An increasing number of court decisions approve of (and issued patents claim) systems engineering and/or systems integration enabled by (and/or embedded in) computer software.

Second, for tangible items, the price is dropping and the quality is rising simultaneously and rapidly. Moore's law (performance of computer processors will double every two years) is taking effect in tangible goods. More and more waste in the cost of physical products can be eliminated by properly managing information, e.g., quality control, logistics and product configuration. The complexity of the information needed to enable these cost reductions requires software at the levels of component, system, enterprise and supply chain. As the software becomes more capable, more waste will be eliminated more rapidly. The intellectual capital (not the cost of raw materials or manufacturing) invested in physical goods is an ever-increasing percentage of their value/cost.

Third, many companies have far more competitors than the existing obvious ones. To sell to customers, a business must offer increasing multi-modal functionality. This means that in order to survive and prosper, businesses apparently unrelated to your own must offer customer satisfaction that displaces your revenue stream. "Convergence" and "creative destruction" are amusing academic abstractions until one's customers are spending money elsewhere. While this trend has been slower to take hold in service industries, these industries will increasingly experience this phenomenon.

### III. Create a Strategy, Budget and Schedule

To develop an intellectual property protection strategy for a company's ideas, there must be participation from top management, lawyers, marketing, manufacturing and creative talent. The company probably has a written business plan. That plan should discuss important business strategies and identify the source of profits. You should focus on where the market will be in two to five years, because that is when the company's patent portfolio is likely to have maximum impact. Use that plan to shape and focus the intellectual property protection.

Once the strategy is developed, each of the company's groups must understand and execute the strategy. Patents, copyrights, trademarks, industrial design and trade secrets are the tools to protect the company's ideas. For each line of business, combine these tools to protect the firm's competitive advantage. The approach to intellectual property protection should focus on the anticipated keys to economic success. The company needs to identify new standards taking hold in its markets. Patenting ways of implementing such standards can assure the company's role as markets evolve.

Standards for connecting proprietary components to create complex systems are becoming increasingly important. Patent claims written in simple, understandable language that cover connectivity can be extraordinarily powerful. Narrow claims that completely cover the standards may be more valuable than broad claims, because narrow claims are less exposed to attacks based on prior art. Concentrate new patent applications on the growing complexity and importance of computer systems to success in the marketplace. Your company may use the highest-quality custom software (enabling order fulfillment, customer support, just-in-time manufacturing systems, statistical process controls, logistical distribution and inventory controls) replacing a set of separate systems. Consider concentrating the company's patent portfolio to protect the multi-function aspect of its system rather than simply claiming improvements in system components such as statistical process controls or customer support. Innovative systems integration and systems engineering is often overlooked when companies seek patent protection.

The competitive advantage of each significant line of business should be protected in multiple ways. One patent marginally related to the commercial success of a lucrative market invites litigation, while two or three patents covering key features discourages litigation. Overprotection revolutionized 20th-century chess. This concept applied to patenting will discourage competitive attacks and dramatically increase the odds of winning when litigation is the best available option.

From the outset, sit down with your lawyer and prepare a written budget for each step of the protection process. Companies often hurt their interests by trying to force a particular dollar outcome without hearing the assumptions underlying the strategy. In far too many instances, years of relatively inexpensive legal work result in no real protection.

You should develop a draft budget with recommendations for two or three approaches (e.g., low cost vs. maximum protection). Then use that draft budget to identify staffing, approach, timing and differences between the two options. You should be prepared to spend a substantial amount of time and money designing the strat-

egy (10 percent to 20 percent of the overall budget), because a poor approach will necessarily deprive your company of many of the anticipated benefits.

The company should tell its lawyers any special scheduling demands at the outset. Concepts rapidly move to production, a “hot” product and/or Internet offering may need protection only in its first season on the market. A lawyer will not necessarily anticipate this accelerated need for protection. For example, you cannot enforce patent applications – only issued patents – and, for the Internet, delays in obtaining a patent can be disastrous. A company cannot afford large legal bills on every new product or system, but if it does not spend early, it will have no protection when needed. You must coordinate schedules and budgets so that economical protection is available when needed. Consider provisional patent applications for opportunities that mature more slowly.

#### **IV. Emphasize Consistency Coverage and Clarity**

The company should select one person in its organization to coordinate efforts and measure the results. Clear responsibility for implementation will mean that important items are not forgotten, thereby keeping the company's strategy on schedule and on budget. The company must also review its creative planning and intellectual property portfolio on a regular basis to make certain that coverage matches the marketplace. Too often, patent claims are not designed to cover the visible trends in the marketplace. The company needs to review its trademarks, package design and trade secrets, to make sure it is protecting what is important. It should “pull the plug” on legal expenses associated with unprofitable activities quickly. Through such a review, the legal budget can be promptly shifted to new and/or profitable projects.

Juries, many judges and television audiences share much the same level of comprehension as to science and engineering. A company's patents should thus be written so that a TV audience can understand substantial parts of the patent, e.g., summary of invention, one broad claim, or one drawing. If the patent requires a Ph. D. to understand it, the company has purchased a lottery ticket in court. With a clear explanation of the invention in plain, non-technical language, the company can build a patent portfolio to protect its market share. Now is the time for your company to start patenting its business strategies. With luck, skill and consistent effort, the company can protect its markets and win without litigation

**CONCEPT LAW™**