Strategic Patent Management: An Introduction
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The traditional method of conducting patent management tends to focus on the four aspects of handling patents – prosecution, corporate, transactions, and litigation – separately. Bradford Schmidt argues that this method fails to take into account the cross-disciplinary impact of each aspect on each of the others, and consequently, is both limited and is liable to miss issues, solutions and problems where a more holistic approach would not. Truly effective patent management is in fact a synthesis of know-how from each of these aspects. The article considers how this works for each of the four aspects, with practical examples of the real life commercial benefits of such a holistic approach.

I. INTRODUCTION

When they hear the phrase “strategic patent management,” most technology businesspeople probably think of the advice they may receive from their patent prosecutors about patentability, prior art searches, and the latest changes in the patent office rules. However, true strategic patent management is something different and altogether more powerful; it involves the generation, harvesting, acquisition, and use of patents to enhance competitive position and further strategic business goals and it is something that no technology-based company can afford to do without.

The traditional focus of the patent programs of many technology companies has been on protecting their current and next generation of products, generally to prevent piracy of technological innovations by those who want to sell products without making a comparable investment in research and development. Such a strategy is fine as far as it goes, but it fails to maximize the value of a company’s patent portfolio. Among many other things, a technology company that is thinking strategically will also consider patenting technological innovations that are not used and never will be used in any of their commercial products because such patents may have great value in terms of market foreclosure and defensive assertion against competitors.

For example, suppose a biotechnology company creates a next generation automated gene chip analyzer. As part of the development process, your company considers three alternative innovative approaches, “A,” “B,” and “C,” before deciding on approach A because it provides excellent results and high-throughput and will integrate nicely with the company’s related product offerings. The company should obtain patent protection not only on approach A because it provides embodied in the next generation analyzer, but also on approaches “B” and “C” if it appears that those alternative approaches may be suitable to a competitor – especially a competitor who might prefer one of those approaches because it integrates nicely with its related product offerings. Thus, thinking about patents strategically can raise barriers to market entry by competitors and effectively promote a company’s business objectives.
But raising competitors’ barriers to entry into the market is only part of the value of the “B” and “C” patents in the illustration. Patents are useful assets in many other ways. For example, venture capitalists these days are taking a much harder look at the patent positions of technology companies, focusing on the strategic value of the company’s products and patents in terms not only of product protection, but also in terms of market foreclosure, freedom to operate, negotiation strength vis-à-vis competitors and strategic partners, and liquidity. So, if the company in the illustration needs financing or expects to need financing, patents on approaches “B” and “C” would be useful for attracting investment.

As discussed in more detail in the next section, there are many potential value drivers that should inform a company’s approach to patents. A strategic patent plan must take those value drivers into account, consider them in context of a company’s short-term and long-term business goals, and work proactively to identify and harvest innovations that will maximize the value of the company’s patent position.

II. STRATEGIC PATENT MANAGEMENT: A CROSS-DISCIPLINARY APPROACH

Strategic patent management stands at the crossroads of patent prosecution, technology transactions, corporate practice, and patent and trade secret litigation. This strategic vantage point provides an excellent view of where a particular technology fits into the company’s business objectives and the relative benefits of pursuing a patent on that technology. The strategic vantage point also helps proactively to identify areas where patent protection should be sought and what kind of protection will be most effective in promoting business goals.

True strategic patent management requires cross-disciplinary expertise in all patent-related matters, including managing patent prosecution, intellectual property due diligence, patent litigation, licensing, and other technology transactions. Cross-discipline expertise provides the broad experience and information base to effectively direct and manage the company’s various patent-related activities, to recognise and act upon the relationships and interplay among those activities, and ultimately to use patents and patent strategy to effectively promote the company’s overall business objectives.

The following sections discuss the cross-disciplinary approach as it relates to each of the four roots of strategic patent management, with an emphasis on how the cross-disciplinary approach, which integrates all four roots, is necessary to effectively use patents to support and promote business objectives.

A. Intersection with Patent Prosecution

One aspect of strategic patent management is patent portfolio management, i.e., devising strategies to obtain the best and most cost effective patent protection possible. These goals are not achieved by the traditional approach of reactively filing patent applications after engineers and scientists bring a potentially patentable invention to the attention of management. Thus, among other things, the strategic approach determines what should be patented by proactively
identifying the innovative aspects of a company’s technology and determining the potential value of patents on those technologies.

For example, in determining the potential value of a patent, a **strategically**-thinking company should consider how the proposed patent fits into the following scheme of patent value-drivers:

- Protection of current and next generation products;
- Foreclosure of markets to competitors;
- Defensive assertion, should your company be sued by a competitor;
- Revenue generation as part of a licensing program;
- Leverage in joint development, licensing, or other negotiated transactions;
- Marketing and public relations; and
- Investor relations.

Other factors that must be considered include the prior art landscape (especially that of litigious competitors), the availability of design-arounds, the detectibility of infringement, and the staying power of the invention. The availability of design-arounds and the detectibility of infringement may depend on intrinsic features of the invention as well as the claim drafting strategy – and it is crucial to distinguish between the two because the latter often can be corrected while the former cannot. “Staying power” refers to how long the innovation will be useful in light of the pace of technological changes in the company’s field of endeavor. If the innovation relates to a solution to a temporary problem (e.g., making two devices work together until you are ready to start shipping your new product that combines the two devices on a single platform), there may be a staying power issue.

Once the company has determined that a patent on an innovation will have value and that infringement is detectible and not easily avoided, issues of patent claim drafting strategy and where to seek patent protection must be considered. Even in the realm of routine patent prosecution important strategic considerations abound. Many patents have been seriously weakened or rendered impotent by failure to include the appropriate claim types or to follow an appropriate claim strategy. As discussed in greater detail below, litigation, corporate, and licensing issues and their interplay with the preparation of the patent specification and claim drafting must also be considered before filing the application and during prosecution to maximize the value of the patent.

**B. Intersection with Corporate: Investment and Acquisition Due Diligence and Target Valuation Removal Of Private Company Directors**

Another aspect of strategic patent management is analysis of the patent position of prospective target companies on behalf of investing or acquiring companies (also known as “intellectual property due diligence”). This is not just a matter of making sure the patents and applications have been properly assigned to the target company or that the claims appear to be directed to the subject matter and are as broad as the target company says they are. It is further a matter of analyzing a target’s patent portfolio from the same **strategic** vantage point as a company should be analyzing its own patent portfolio.
Intellectual property due diligence in the corporate realm involves analysis and synthesis of many disparate issues from patent prosecution to licensing to litigation relating to both the target and the acquiring company. Although some patent prosecutors may have some exposure to patent litigation, and some licensing counsel may have some experience analyzing patents, etc., the breadth and depth of experience of patent prosecutors, licensing counsel, and corporate counsel outside of their respective specialties is usually limited. Thus, traditional approaches to intellectual property due diligence, including use of separate counsel to review the issues in their area of expertise or employing counsel with expertise in one area to conduct the reviews of all of the areas, often leave gaps in coverage, fail to synthesize the various issues, and fail to identify potential problems and value drivers. Depth of expertise across litigation, prosecution, and licensing issues is therefore crucial to maximizing the value of intellectual property due diligence.

In addition, in many cases, an analysis of a target’s patent portfolio will reveal significant deficiencies in the scope of protection (which will have implications for litigation, licensing and future corporate activities relating to the target’s patents), which deficiencies can have a substantial effect on terms of the deal and, in particular, on the price paid for the target. Notably, the analysis may also suggest corrective action that can be implemented to maximize value during the integration phase or after the investment is made. Other issues to be considered in analyzing a target include patent or trade secret litigation threats against the target, freedom to operate (e.g., third party patents that the target may infringe), and third party rights to the target’s technology including licenses and government march-in rights (which is an important consideration where work was done at or in conjunction with a university, publicly-funded institution, or national laboratory).

Of course, if you happen to be the target, a self-analysis of your patent position can help make you much more attractive to potential investors and buyers. Because of the importance of patents to the biotechnology field and the need for multiple rounds of financing to support biotechnology companies, a strategic approach to patent management is crucial.

C. Intersection with Technology Transactions: Negotiations and Royalty Bases

In another aspect, strategic patent management includes evaluation of risks and benefits of licensing others’ patents and intellectual property and granting licenses on your own patents and intellectual property. A thorough understanding of the patents and technology at issue and their real-world value is crucial to negotiating the most favorable terms. Understanding the real-world value of patents requires a cross-discipline understanding of strategic issues.

As an example, not too long ago one of my clients was trying to establish a mutually beneficial business arrangement with a large pharmaceutical company. During the negotiations, the pharmaceutical company’s representatives handed my client a few patents and said that licensing the patents needed to be taken care of as part of the business arrangement. It might have been a nice negotiating tactic except that we found that one patent was already licensed by my client through another licensee and that statements made to the Patent Office during the prosecution of the other two patents made the pharmaceutical company’s infringement arguments against my
client’s products untenable. The pharmaceutical company’s failure to do its homework in advance, and to consider the possible existence of other licenses and the effect of the prosecution history on the scope of the claims resulted in the balance of power in the negotiation shifting towards my client.

As another example, the doctrines of implied license and exhaustion of patent rights must be considered before patent applications are filed and during prosecution because they can dramatically affect the royalty base in a licensing program. Suppose that you have a patent claiming a particular component and you license that patent to a component manufacturer. If that component manufacturer sells the licensed component to a systems manufacturer, then under the doctrines of implied license and exhaustion, the systems manufacturer may be able to integrate the component into a system and sell the system without infringing your patent (i.e., because your patent rights were “exhausted” when you received your royalty from the component manufacturer or because the sale of the component to the systems manufacturer license carries with it an “implied” license under the component manufacturer’s license). The types of claims in a given patent (e.g., component level versus system level claims) and the company’s licensing strategy (e.g., licensing systems manufacturers first, then going to the component manufacturers) can dramatically affect the exhaustion and implied license analysis and can therefore result in dramatically different royalty returns. Thus, strategic consideration of your company’s licensing issues at the patent prosecution stage can help ensure that the patent prosecution process adequately supports the licensing program down the road.

In the biotechnology area, patent protection for “research tools” presents a substantial issue that implicates both patent prosecution and technology transactions. Generally, research tools are things that a biotechnology company uses in developing an end-product that is actually sold to the customer. For example, suppose you are biotechnology company that markets recombinant expression systems that are used as a research tool by pharmaceutical companies in the development of new drugs. How do you value your expression system for purposes of licensing it to pharmaceutical companies? From a licensing perspective, your company would probably prefer royalties on the valuable end-product developed by the pharmaceutical company (i.e., a so-called “reach-through” royalty) while the pharmaceutical company typically prefers a materials transfer agreement or other flat fee structure. The terms that your company can negotiate will depend on a number of factors, including the scope of patent protection you have for the expression system. The patent prosecution challenge is to develop a patent application capable of supporting claims to cover multiple aspects of the research tool and its use and to reach as far as possible towards the anticipated end-product. Having claims that come as close to end-product as possible (or that actually cover the end-product, if you have a really well-prepared specification) will provide substantial bargaining power in the license negotiation. But note that license negotiations usually occur long after a patent application is filed, which means that the strategic interaction between patent prosecution and future licensing must be recognized and explored at the outset.
D. Intersection with Litigation

It is in real-world patent litigation that a patent’s claims are construed and infringement, validity, and enforceability decisions are made. An understanding of how those decisions are made can inform a company’s overall patent strategy as well as individual negotiations. For example, an understanding of the types of claims that are most likely to survive summary judgment and get the case before a jury can help ensure, at the drafting, filing, and prosecution stage, that a particular patent contains the most valuable claims. As another example, understanding the claim construction process before a U.S. Federal District Court Judge and the arguments that will be effective and the arguments will be ineffective in attacking and supporting patent claims are crucial considerations in evaluating the strengths and weaknesses of a given patent in licensing negotiations, acquisitions, investments, and prelitigation analysis. Understanding real-world claim construction also informs the evaluation of the strengths and weaknesses of a given claim during prosecution, beyond the typical and more narrow analysis of whether the Patent Office will issue the claim. Thus, depth of experience in patent litigation has crucial implications for all areas of patent strategy.

Strategic patent management also involves litigation and pre-litigation analysis. For example, every technology company needs to have counsel to which it can turn when it receives “notice letters,” which are letters from competitors or others identifying a patent or two and suggesting that the companies should discuss licensing. Ideally, the counsel that analyzes the patents and helps prepare an appropriate proper response to the notice letter should have substantial litigation experience and knowledge of, or facility with, your company’s and your competitors’ technology and patents. A proper response to a notice letter also requires taking business objectives into consideration, further implicating strategic business issues.

Likewise, if your company is thinking about suing one of your competitors, your company should seek assistance of counsel to analyze the patents, trade secrets, or other issues, the probability of success (i.e., that your company’s patents will be found valid, enforceable, and infringed), and the potential downside exposure when the competitor files counterclaims against your company for infringement of its patents, misappropriation of its trade secrets, or other issues.

III. CONCLUSION

To enhance their competitiveness, technology companies must strategically manage their patent portfolios to maximize value in every patent-related activity in which the company engages (which, for technology companies is virtually every activity). As should be clear from the preceding discussions and examples, the intersections of strategic patent management with prosecution, corporate, transactions, and litigation do not exist independently. Indeed, strategic patent management must be viewed as transcending each of its four roots and existing as a seamless net that integrates all of a company’s patent-related matters. Thus, true strategic patent management requires cross-discipline expertise and is not effectively or efficiently provided by the traditional model of relying on a set of separate licensing, litigation, corporate, or patent prosecution specialists. Indeed, an effective strategic counselor typically is directly
involved in managing patent prosecution, patent and trade secret litigation, intellectual property due diligence, and licensing and other technology transactions. A strategic patent plan is a cross-disciplinary approach that is designed and implemented to maximize the value of technology companies’ innovations and patent portfolios to assist technology companies in achieving their overall business goals.

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