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Outsourcing monetisation – working with NPEs

Although dominant in R&D, Asian companies still trail the West when it comes to IP monetisation. Strategic allies in the form of NPEs may be the answer

By **Jasmine Kway**, Transpacific IP Group Limited

Following more than a decade of unprecedented economic growth, Asia now accounts for more than one-third of annual global spending on R&D, according to a recent funding forecast published by the Battelle Memorial Institute and *R&D Magazine*. With the focus on R&D attracting an ever-increasing number of researchers, scientists and engineers, Asia's demand for and output of new, cutting-edge technologies are expected to continue to rise.

However, despite the heavy emphasis on R&D, Asia's investment in IP protection – in particular, patents and comprehensive patent portfolio strategies – has not kept pace. This IP gap threatens to hinder the ability of Asian enterprises either to compete or conduct business with their counterparts in the West. As a solution, a growing number of Asian enterprises – eager not only to protect, but also to monetise their innovations – are turning to regional IP strategy firms, or non-practising entities (NPEs), for guidance.

For some, the term 'NPE' still carries the taint of patent trolls – those exploitive enterprises that exist solely to assert dubious patents in bulk. However, this perception does not do justice to most of today's NPEs. Over the past decade, the NPE landscape has evolved to comprise a broad range of sophisticated entities providing a multitude of services in the global IP system. Aggregation (both offensive and defensive), licensing, valuation,

transactions and a broad range of other consulting services are performed by entities that do not actively practise patents.

The need for such service providers has risen steeply, alongside the growing value and risk that are inherent in intellectual property itself. Although giant technology companies have the resources to staff comprehensive IP functions, most companies do not. Even multinationals with large legal departments often do not possess the IP expertise necessary to monetise their patents effectively. That is because in many ways, intellectual property is an altogether different business from developing, building or selling products; it is a complex, esoteric business that only true specialists thoroughly understand.

Because intellectual property is their business, NPEs are those specialists. They have the subjective expertise that is necessary to ensure that companies not only capture and protect their own innovations effectively, but also build comprehensive portfolio strategies that monetise patents in a manner that is consistent with their broader business objectives. Forward-looking businesses in Asia are beginning to understand that NPEs are the IP partners that they need.

Many enterprises underestimate the complexities of managing and monetising intellectual property in Asia, as compared to the rest of the world. To help companies in Asia, NPEs need to have not only an understanding of the international patent landscape, but also – more importantly – a tacit understanding of the client's local market and jurisdiction. That tacit knowledge is the key success factor for a leading global NPE based in Asia.

In many cases, NPEs partner with a

business, providing the IP expertise that is needed to develop monetisation strategies, including patent licensing, commercialisation and sales and acquisitions. Further, the NPE can leverage its international expertise to help client companies not only to attract, but also to negotiate and close deals with international trading partners.

In other words, today's NPEs are ideally suited to bridge the IP gap that exists between Asian enterprises and potential trading partners in North America, Europe and other parts of the world.

Monetisation

Regardless of a company's size and location, patent monetisation – generating additional revenues by selling, asserting or licensing a company's patent holdings – has become a major revenue source. Texas Instruments and IBM are often credited with being the first to monetise their patent portfolios, having generated tens of billions of dollars in revenue since the 1990s. More recently, Microsoft has leveraged its massive patent portfolio in order to generate revenues via deals with major Android vendors.

NPEs can help both large and small companies to monetise their holdings in a number of ways. For example, Taiwan's fast-growing electronics industry is known throughout the world for its groundbreaking developments in everything from LED and LCD

technologies to semiconductors. HTC Corp, currently the world's fifth largest smartphone maker by market share, generated some \$1.42 billion in revenues during the first quarter of 2013 alone.

However, because many of the educational institutions and operating companies that comprise Taiwan's electronics industry develop and own patents that are initially funded by the government, they must comply with regulatory measures that restrict their ability to monetise their patent portfolios outside the country. In some instances these organisations cannot even sell certain products outside Taiwan. Similar regulatory measures are common throughout Asia.

Even if the regulatory restrictions were to be removed, many of these entities still lack the global expertise that is needed to identify and reach out to potential international business partners, or to negotiate corporate, patent and cross-border transactions with large multinationals.

As a result, although many of these entities possess potentially lucrative patent portfolios, which could easily be monetised, they lack the expertise that is needed to overcome Taiwan's regulatory impediments and assess, structure and close an international monetisation deal.

A regional NPE could be the solution for such entities. By maintaining a local branch office in Taiwan, a regional NPE is, from a regulatory standpoint, a local Taiwanese

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company. By combining its understanding of local IP policies with years of building strong relationships with the regulatory bodies that enforce them, the NPE is well positioned to help Taiwan entities to monetise their patent holdings.

Depending on the company and its requirements, the NPE may:

- purchase the patents or the entire portfolio outright;
- serve as a broker and negotiate a patent or patent portfolio transaction on behalf of the client; or
- create a joint partnership in which the NPE assumes ownership of the assets and shares the monetisation proceeds.

Equally important, however, is the ability to attract and guide large, western multinationals – many of which are unfamiliar with the cultural aspects of dealing with Asian enterprises – through the negotiation and transaction processes associated with monetisation.

Indeed, while a high percentage of transaction communications are conducted via email and other means in western countries, Asian deal making requires face-to-face negotiations and relationship building. Meeting and negotiating in person establish the level of trust that is needed to consummate a business transaction. A regional NPE with an international background can help to bridge not only a company's IP gap, but potential cultural gaps as well.

Supporting innovation

Outsourcing part or all of the IP function can be equally beneficial to a pure-play technology start-up – especially when it comes to addressing the corporate IP requirements of large international enterprises.

A typical IP problem with any start-up is that funding is difficult to come by and virtually all of its financial resources are dedicated to product development. As a result, the patent process is often overlooked – at least in the company's early stages. Yet patent protection issues can often appear well before a new product is market ready. For example, protection is required before a prototype can be built and tested, even on a limited basis, or before a potential licensing deal can be proposed.

Take, as an example, a small Asian technology company that developed a new wireless health monitoring device. While still under development, the technology attracted the attention of a number of large group purchasing organisations (GPOs) in the United States and Europe. The GPOs were looking to license the right to sell the product to member hospitals, nursing homes, home healthcare agencies and physicians.

Before being contacted by the GPOs, the company had but a single patent. When advised that it should look at building out its patent portfolio – not only to protect its innovation, but also to allow it to license the product globally – the company rejected the idea.

However, when foreign GPOs began showing interest, management quickly realised that the company would have to upgrade its portfolio significantly in order to meet each GPO's corporate IP requirements. Working through an NPE which understood this early on, management built out the company's patent portfolio to support the licensing opportunity, funding part of the cost of acquiring other necessary patents, and then reaching out to and negotiating with the global GPOs.

By investing in the innovation and taking on considerable risk in the process, NPEs can help start-ups to bring important new products to market. In this case, by the time that the global GPO representatives arrived to meet with company management, a comprehensive IP strategy – one that met all parties' patent protection requirements – was already in place. As a result, the GPOs were able to put an offer on the table and begin the licensing negotiation process.

Growing the portfolio

An NPE can also support a company looking to build out and enhance the value of its portfolio – usually in order to license its holdings to targeted industries or international markets – by searching for and acquiring patents from multiple sources.

Serving in an advisory capacity, the NPE assesses the existing portfolio and suggests potential target markets for it. It then identifies, assesses and acquires additional patents in order to enhance the value of the portfolio, offer it to specific targets within an

industry or market and subsequently assist with the negotiations and actual transaction(s).

For a relatively small company looking to monetise a handful of important patents, the NPE might suggest combining its holdings with a portfolio acquired from a third-party source. In this case, a patent landscape evaluation is conducted and potential acquisitions are identified and secured. The net result is a portfolio that both appeals to a larger pool of international enterprises and delivers substantially greater monetisation revenues.

Asia's focus on R&D makes it an excellent source of technological innovation. A global NPE based in Asia can leverage its relationships with universities and public research entities in Asia that are willing to provide access to invention disclosures. After taking steps to ensure that local government regulations would not impede any potential acquisitions, the disclosures can be presented to international clients and further facilitate the negotiations and patent acquisitions.

These inventions might be undermined if not for the expertise of NPEs, which understand what the IP market is looking for. In addition, the lack of a patent filing budget or a failure to see the importance of allocating budget for the important process of IP commercialisation has been – and largely still is – a challenge for many universities and public research entities in Asia. A global NPE with the appetite to invest in these opportunities would be a good partner for such institutions. A true value-added NPE will not only bear some of the costs, but also share some of the downstream upside. It will also be able to ensure that the institution's expectations are communicated well upfront with licensees, thereby minimising potential roadblocks during negotiations.

An ideal partner

Intellectual property now constitutes a truly global playing field. Companies in all nations must maintain a keen awareness of the international IP market and how it is affected by the legal regimes in important jurisdictions around the world, if they hope to protect and monetise their innovations effectively. This is a challenge for everyone, but particularly so for Asian companies.

Despite their leadership in high-tech R&D, Asian companies still trail the West when it comes to their level of sophistication regarding IP development, management and strategy. They need an ally with the expertise that is necessary to level the playing field and ensure that they make the most of their technology; in this context, it is hard to imagine a better partner than an appropriately focused NPE. *iam*

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