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The Evolution of IP Management

Roya Ghafele (OxFirst) · Tuesday, October 20th, 2020

Building the Patent Fence

The practice of IP management is a recent discipline. Traditionally, IP departments have been run by members of the legal profession. Often, they are under the supervision of General Counsel. As such, their role has historically been defined from a risk management perspective. ‘Help the firm stay out of trouble and your job requirements were kind of met,’ states one legal professional who prefers to stay anonymous.

Patents were either used to build a fence around a product or seek to avoid stepping into another firm’s fenced territory. This made the invalidation of patents or the filing of oppositions to someone else’s patents a principal activity of patent professionals.

Rarely did such activities catch the attention of senior management. At best, the Chief Financial Officer had to deal with the red numbers produced by the IP team. Such activities were usually seen as a ‘costly, but necessary evil.’

Costs significantly increase if in house counsel requests the support of outside counsel. Why a host of lawyers in a company, require a host of lawyers outside the firm to be functional, may seem to lay people a bit of a mystery. For sure, it does not help to mitigate cost.

Over the course of the 1990s a series of litigations resulted in important damage awards. These caught the attention of the public at large and IP started to become known beyond expert circles. A more recent of these cases is probably Apple vs Samsung, where more than a billion dollars were at stake.

The Business of Licensing

At the same time, U.S. companies started to try out new business models and sought to understand what else to do with their IP. Some inquisitive minds launched the Licensing Executive Society, which focused on the commercialization of IP. Large tech companies, such as IBM experimented in the mid-1990s at a large scale with new revenue generating models such as licensing and selling IP. In the early ‘noughties’ also a new generation of IP mangers were brought into Microsoft to solve their ‘IP problem’ of having no collaborations. This was done by changing the IP protection from copyright to patents. Generating income from IP allowed these IP departments to revisit their standing within as well as outside the firm.

Core to these changes was a change in the way these early IP managers looked at IP and how they defined themselves. In other words, IP departments started to understand themselves as IP management practices, rather than simple IP administrators. This triggered a change in perspective and gave way to defining a novel business model for intellectual property.

In particular, companies discovered that they do not only have the potential to generate income from selling products, but also from licensing their intellectual property. This constituted a separate value proposition to firms. Rather than do everything in-house, invest in production facilities, warehouses and sales channels, a major short cut became possible. You could just simply license the rights to the underlying technology and conquer a market without devoting yourself to building a physical infrastructure.

This was an important stepping stone towards building an economy driven by intangible assets rather than physical infrastructure. The further sophistication of economic exchange meant that rights to a technology could be potentially more valuable than ownership of extensive production facilities.

Such trends were accompanied by an overall integration of global economic activity and a further specialization of firms. Rights in a technology were invariably easier to ‘ship’ around the world than the actual technology itself. Vast markets could be established without bothering too much about the ‘tangible stuff’. Interestingly, this created more rather than less work for lawyers, as the licensing of IP required sophisticated contracts and qualified licensing professionals.

Yet, and here lies perhaps the pitfall, these activities have also been compromised by anti-competitive behaviour and forced companies to pay significant sums in damages for such behaviour. The interaction between the IP and anti-trust legal teams is now a vital part of many IP-rich companies.

Patent Assertion Entities have also entered the arena. Other undesirable side effects are that licensing transactions have been interwoven with litigation and the risks associated with injunctions.

Overall, the licensing of IP has not established itself as an instrument of open, collaborative exchange of technology. Rather, it has remained a rather disputed area, which has left some firms to argue that the good old times were more preferable than the current IP monetization era.

Creating the Future

The leap from ‘patent fencing’ to developing markets for licensing was accompanied by a further differentiation of business models. As companies continued to specialize in a given area, the need to license technology from other firms increased. At the same time, the patent space itself saw an important revolution of its business model. Astute managers sought ways to work their IP harder. Being lawyers by trade, their understanding of their business model remained strongly interwoven with the instruments of their trade. Litigation has massively increased.

Against this background, the important question to ask, is what direction the practice of IP management will take in the future. For me, it is a shift in the motivation for licensing that will be the greatest game changer. I predict that better technology will allow to improve the quality of patents and enhance validity rates.

At the same time, I expect the IP business model to undergo further innovation. The current litigious practice can be replaced by Open Innovation perspectives, where IP forms the cornerstone of mutual exchange, joint ventures and transfer of technology. Across the board, new technologies will change humanity. The underlying rights to these technologies will continue to play an important role.

But how we think about these rights and how we construct their function is likely to change in the future. Litigation is not exactly an instrument of IP management; it is a last resort in case companies can't resolve a conflict. Instead, I expect that we will see increasingly more firms in the market that will make the commercialization of intellectual property the core of their business. In this novel world order, IP will take up its role as the currency of the knowledge-based economy and its value proposition will be strongly interwoven with business practices, which are consistently driven by Open Innovation. In this era, the valuation of IP will play a critical role.

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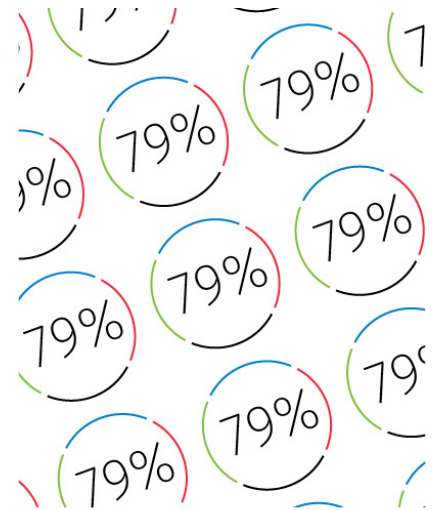
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