

Mention the word "resources" in Australia and you immediately conjure up images of a booming ASX market led by commodities and instant recognition for our major global mining companies in BHP and Rio. And yet there's another type of *resources* that allows these companies to successfully compete in global markets and deliver attractive returns for their shareholders. We collectively call these type of resources – intellectual property.

Every company owns intellectual property (IP) in one form or another, whether brands, patents, licenses, trade secrets, business processes, leases, trade marks, domain names or copyright. These IP assets create growth opportunities. Well known examples include the 3M Company, which generates over 80% of its new business internally over any 5-year period, and IBM, which adds over \$1 billion each year to its bottom line through licensing its software IP. In the case of BP and Rio, part of their intellectual property is used to mine, process, and deliver commodities to global markets at competitive prices.

Equally significantly, failure to adequately manage IP assets creates risk for the company and its shareholders. A quick read of the global financial pages shows how much is at stake when IP is lost or challenged. For example, US company Medtronic will have to pay about \$US1.35 billion to settle a patent dispute with a Los Angeles doctor who previously won a lawsuit against the medical-device company.

Shares in digital media company Lexar doubled to \$US7.15 on Nasdaq after a jury found Japan's Toshiba guilty of stealing trade secrets from Lexar and awarded \$381 million in damages to the company. CIBC World Markets analysts called the decision a watershed event that set the stage for a complete overhaul of Lexar's business model. The broker upgraded the company's shares to 'sector outperformer'.

In Australia, intellectual property, or its piracy, is very much in the news with the announcement of a pending Chinese FTA. Similar issues surfaced as part of the US-Australia FTA negotiations, highlighted by the aggressive stance of the global (read US) pharmaceutical industry.

In particular, anecdotes abound of Australian companies coming off second best when trying to assert their IP rights in dealing with what they perceived to be aggressive US companies. Since the Reagan administration, US corporates have used courts to enforce IP rights as a competitive advantage in protecting market share. Preventing the import of 'Taiwanese clones' in the early days of the PC revolution was a classic example. In an environment of global competition, markets are largely defined by IP rights. Whether within Australia, which has similar laws to the US, or globally, Australian companies can expect to be increasingly involved in IP mediations in the future.

The ownership, character and scope of a company's IP are frequent sources of dispute leading to litigation and significant loss of asset value, and the costs and delays involved can be staggering. For Australian emerging businesses seeking to raise venture capital or to go global, this can often be a 'bet your company' event.

However, a survey by AGSM/Freehills published in 2003 confirmed that the vast majority of Australian companies neither recognised the benefits, nor the need for effective IP management and protection.

The IP survey highlighted BlueScope, Fosters and ANSTO as examples of three Australian firms utilising solid models for the discovery, management, exploitation and protection of IP. One reason for these three success stories is the holistic and global approach they take to IP management with BlueScope and Fosters both building on (and protecting) well-recognised global brands.

For most Australian businesses, the basics of IP management and the associated commercialisation process commonly called 'technology transfer', are generally not very well understood, yet the consequences can be far-reaching as we have seen above.

Ensuring a corporate IP policy is in place is a strategic must for a CEO and Board. A sound IP policy can not only mitigate future liabilities but, more importantly, positively impact on business by creating new revenue, business and project opportunities based on an 'unfair competitive', yet legal, advantage. Such advantages are typically created through the monopolistic advantages of IP rights under registered brands and patents for example.

With the waterfront covered on the need to manage IP, let's develop a broad brush checklist to help CEOs decide how and when to play the IP game. For illustration purposes, let's consider the elements of a basic IP policy for a business enterprise identified as Allbiz Co ("Allbiz"), with comments in italics.

**The Policy Statement:** "Intellectual properties developed or owned by Allbiz are sensitive, proprietary, confidential, and of great potential commercial value. They will be developed and protected through appropriate staff, consultant, vendor, and corporate agreements to assist Allbiz in reaching its strategic and operating objectives and in such a manner as will preserve the good reputation of Allbiz in the marketplace.

Allbiz is adopting this policy to encourage the identification, development, and commercialisation of potentially valuable intellectual property to develop Allbiz's core business interests, provide additional revenue sources, and maximise shareholder return."

*This is a long-winded way of saying that we will protect, manage, and develop our IP to enhance our strategic and financial opportunities and reputation.*

*We also want to clarify the rights we want, and the obligations we will accept, in doing business with other organisations in which intellectual property rights may be involved.*

**Staff Incentive:** "To facilitate the creation of new business opportunities for Allbiz, the employees whose efforts contributed to the creation of valuable intellectual property will also share in any financial benefit that results from the commercialisation of such property. This will provide tangible rewards for the creativity of the individuals involved, and will add to Allbiz's financial resources, thus enhancing its business interests."

*Sharing the wealth created through IP created by our staff is a great way to boost morale, retain staff, and encourage additional talent to join us. Given we have many options to commercialise our IP, a good starting benchmark is to share a percentage of the 'net economic value' created by the IP for the company.*

**Business Development Incentives:** "Allbiz seeks to build a world-class investment portfolio of technology-related products and intellectual properties available for commercialisation through licensing, sale or spin-off companies. Allbiz also seeks to license or acquire technology and intellectual properties strategic to its business, market, and financial interests."

*We are seeking to 'replicate' the 3M experience as well as highlighting the appropriate business processes.*

**Scope:** "This policy applies to every member of the management, the professional staff, technical employees, clerical employees, and other employees of Allbiz. This policy also applies to consultants, contractors, and others who create or participate in the creation of intellectual property during the course of contracts or activities in whole or part sponsored or funded by Allbiz."

*So it's not just our staff and employees who need to be covered!*

**Covered Property:** "This policy applies to every invention, discovery, composition, computer program, data base, process, design, literary work (except nonscientific works of fiction or nonfiction), and other items of intellectual property, whether patentable or copyrightable or not, conceived, reduced to practice, made or created by staff and contractors.

Intellectual property created by staff and contractors will be presumed to fall within the scope of this policy unless they can establish otherwise by objective evidence."

*To guard against possible misunderstandings about what is and, what should be covered!*

**Disclosure:** “To allow Allbiz to make a determination as to whether or not inventions or discoveries may or may not be patentable and should or should not be patented, every staff member or contractor who makes, conceives or reduces to practice an invention or discovery that the member believes is or may be patentable or might have commercial value should promptly notify the CEO, Allbiz and describe the invention or discovery in writing.”

*But first we have to have a disclosure mechanism to learn about what IP is or might be developed and how and if we might want to protect it.*

**Ownership:** “Inventions and discoveries made, conceived or reduced to practice by staff and contractors shall be the property of Allbiz.”

*And let’s not forget to state that we actually own any inventions or discoveries.*

**Management:** “Allbiz shall establish an IP Management Committee (IPMC) to manage this policy and the evaluation, filing, prosecution, and commercialisation of Allbiz’s IP under the direction of the CEO. The CEO may delegate his/her duties under this policy to such other officers or employees of Allbiz as he/she may find appropriate.

IPMC members may be employees or, as required, qualified persons external to Allbiz who are bound by confidentiality undertakings. Selection criteria for members will include their experience in the management of innovation, their interest in developing Allbiz’s patent portfolio, and/or their particular expertise in certain science and technical fields.

IPMC will decide whether to seek patent protection for an invention or discovery of which it is notified. If Allbiz decides to seek patent protection for an invention or discovery, each inventor will be notified of the decision, including the countries in which protection will be sought. Each inventor shall provide necessary assistance in the preparation and prosecution of all patent applications and execute any related documents.

This policy may be amended by Allbiz from time to time at its sole discretion”.

*Likewise we need to establish a flexible business process to manage our IP. And given peer-review of science and technology development is best practice, setting up a dedicated committee with the appropriate talent is recommended. Alternatively, for smaller companies, sometimes this function can be handled by competent counsel and the management team.*

**Licensing and Commercialisation:** “Allbiz shall be free to license or otherwise exploit or not exploit, at its sole discretion, any intellectual property it owns. Allbiz may grant licenses on a royalty-bearing basis or otherwise sell, transfer, acquire, dispose of any intellectual property to the best interests of Allbiz and its shareholders.”

*And how can we make money out of our IP? Note – most firms develop related policies which define the circumstances, and strategic interests, under which it will act as either a **Licensor** or **Licensee**.*

**Publications:** “Allbiz believes that its business development activities are enhanced by contributions to trade and other scientific publications. Where staff or contractors believe that a proposed publication may contain information concerning an invention, discovery, or other intellectual property that may be patentable or that should be otherwise protected, such individual must submit copies of the manuscript to the CEO prior to the submission of the manuscript for publication or prior to disclosure orally (at a conference, meeting or otherwise) or in a private communication. Allbiz will notify the individual in writing of its decision on whether it wishes to publish the information or to take other steps to protect such intellectual property.”

*We need a publication policy to stop IP from inadvertently being lost by being published while at the same time having a mechanism to ensure minimum interference to scientific staff seeking career development through publication.*

Hopefully, a broad brush checklist such as this can serve as a starting point with your fellow Directors to at least begin discussions on developing a corporate IP policy to better protect your interests.

However given the results of the AGSM/Freehills study, you should expect to have to overcome some objections from your Board and senior management team. Here's a quick list of typical questions (and answers) that you might expect to receive:

**How does IP create wealth?** Just like real property, IP can be sold, licensed, franchised, acquired, bartered, pledged, or exchanged for cash, equity, stock, services, other intangibles, or a preferential bid position. Margins created by IP-based businesses are typically multiples of the traditional 3 - 8% returns for most companies.

**What benefits will we gain?** We will benefit both in the short and longer term. Short term, apart from enhancing our reputation as an innovative company, we can increase our competitive advantage by introducing proprietary products and services to both existing and new customers. Longer term, we can develop additional revenue, business and project opportunities through our IP.

**What benefits will our shareholders gain?** IP is a wealth creator. IP offers a competitive, and defendable, market position. As we read above, new technology developments for listed companies often make them a hot commodity on global stock markets.

**What benefits will our employees gain?** By encouraging our staff to actively develop IP and by sharing the rewards from the commercialisation of their "intellectual property," we can make our company an even more exciting and rewarding place to work. More importantly, we can create additional career opportunities to retain and motivate current employees and even attract better talent to join us in the future.

**Which companies and industries use this type of approach? Why?** According to some estimates in the US, 75% of the assets of the S&P 500 are now made up of IP and the proportion is indeed higher in the emerging business and venture capital sectors. IP is quickly emerging as a primary driver of corporate valuations, however it is often an Australian company's most undervalued business asset.

IP is fast becoming the currency of global business. Failure to protect our IP can have drastic effects on our companies' profits and even our continued survival. A good understanding of IP, its management, and strategic advantage is essential to a CEO and their Board.

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**Robert Muir, May 2005**