Monetization is the buzzword that describes a way that companies and institutions can obtain value from the patents they’ve acquired—especially in cases where they aren’t otherwise exploiting them.

Any organization that innovates and invents new technologies has likely developed a portfolio of patents over time. It’s expensive to obtain those patents and maintain them over the 20 years or so that they remain in force. Some of these costs, however, can be offset if the patents are exploited to generate revenue, usually by selling products that incorporate the patented technology or by licensing the patents themselves.

In some cases, patent owners don’t get much value from their patents. This can happen when, for example, technology isn’t commercially developed due to changes in corporate strategy or other contingencies. Patents that covered that technology might be ignored and left on the shelf, only to be revisited when periodic official fees are due to maintain them.

Monetization is one way to get value from these underused patents. It’s a process that creates income from assets—the patents in the portfolio—that would otherwise go untapped. However, there are challenges to monetization, including how to assess and value the patents in a portfolio and how to identify potential licensees.

For an expanded discussion on this topic, be sure to visit the IEEE Computer Society’s website for the podcast that accompanies this article: www.computer.org/portal/web/computingnow/computing-and-the-law.

ASSESSING YOUR PORTFOLIO

The first step in monetizing your patents is to understand what’s in your patent portfolio. This can be a daunting task, particularly for patent owners such as universities that have large portfolios that include patents on many different technologies.

There is, however, a simple process for handling this based on clustering and prioritizing. The result is an organized portfolio that more clearly shows candidates for monetization.

Clustering

Clustering a portfolio involves defining various categories into which the patents will be placed. One approach is to cluster the patents around the named inventors. In other words, there’s one category for each inventor, and all of the patents in the name of that inventor are placed into that category. Patents can appear in more than one category when they have more than one inventor.

Representing this clustering graphically provides a depiction of the extent of the collaboration between the inventors. In addition, it quickly shows the relative level of patent activity across several research and development groups and sometimes segments the different technologies being patented. This information helps identify patenting hotbeds within an organization. These clusters are fertile places to look for monetization candidates.

Another clustering approach is to define categories based on the type of technology. A starting point for this can be the classification code, which appears on the face of an issued patent and describes its subject matter. For US patents, the US Patent and Trademark Office used its United States Patent Classification (USPC) system to assign codes until January 2013, when it and the European Patent Office transitioned to the new Cooperative Patent Classification (CPC) system.

Although you can use the USPC or CPC codes to define the categories,
the large number of these codes can cause you to establish too many categories. The resulting clusters will be too finely grained and won’t offer any significant insight into the portfolio. If you choose to use these codes, limit yourself to a handful that more broadly describe the technologies in your portfolio.

Prioritizing

Once you have your portfolio clustered, either by inventor or technology, the next step is to prioritize the patents. The purpose of this is to put each patent into a “tier” that reflects its relative value. The criteria defining each tier vary depending on overall market conditions and changes in the law.

One criterion is usually the patent’s priority date—the date the inventor filed the application that resulted in the issued patent. The priority date helps determine the patent’s age, and older patents are sometimes less valuable, particularly when they relate to fast-moving technologies.

A typical prioritization scheme has three tiers, with tier 1 reserved for the most valuable patents and tier 3 for the least valuable. Patents eligible for tier 1 could include those relating to computer science or general electrical and mechanical devices, as long as the priority date is within the past five years. Patents that relate to biotechnology or medical devices could be in tier 1 if their priority date is within the last seven years.

Patents with older priority dates—between five and 10 years for general electrical devices, for example—would typically be in tier 2. Patents older than that, particularly if the patented technology was never commercialized, usually belong in tier 3.

Defining the criteria for each tier is a complicated process. The patent’s subject matter and priority date are just a few examples of these criteria. A complete prioritization effort would include other specific types of subject matter and additional ranges of priority dates. Although the criteria are subjective, they aren’t arbitrary. Proper criteria are the result of a patent attorney’s careful analysis of the patent owner’s overall technical direction and an assessment of the competitive landscape.

IDENTIFYING TARGETS

After organizing your portfolio through clustering and prioritization, the next step is to identify the companies that might be using the technologies described in your high-value tier 1 patents, or who have at least demonstrated an interest in these patents.

A starting point for this is a citation analysis. This involves compiling a dataset of the high-value patents and cross-referencing it against a dataset that includes all issued patents and published patent applications worldwide. The result of the cross-referencing is a list of all occurrences in which an issued patent or published patent application refers to one or more of the high-value patents. The list should include the names of the owners of those patents and applications.

A histogram is prepared using this information to show which owners are most frequently referring to—or citing—your patents. These owners, who could be your competitors, are operating in your technology space and obtaining patents similar to yours.

Next, you target these owners by investigating their patent portfolios and the products they sell. This should reveal which of your specific patents are of most interest to these owners. Also, your patent attorney should provide an initial assessment of whether any of the products sold could infringe your patents.

An alternative approach is to expand the analysis by cross-referencing all of your patents—not just those in tier 1—against the worldwide patent and application dataset. An in-depth analysis of the resulting histogram will reveal which of your patents are most frequently cited. Those should be your high-value patents and, if you’ve prioritized your portfolio correctly, they should already be in tier 1.

Regardless of whether you identify target companies by analyzing all of your patents or just your tier 1 patents, an advantage of this data-driven method is that it simplifies and facilitates the monetization process. It’s not uncommon for organizations with large patent portfolios to have difficulty identifying companies to approach about monetizing their patents. Depending on the technology at issue, there could be hundreds or thousands of such companies, and deciding which ones to approach can be time-consuming. The process described here avoids prolonging this effort and provides a quick way to focus on those companies that are likely to be receptive to your approach.

LICENSE OR LITIGATE?

After organizing your patent portfolio and identifying targets, your next step is to decide how to approach those targets. Assuming that your objective is still to generate revenue from your patents as opposed to preventing others from using your patented technology, your goal should be to license your patents to one or more of the target companies.
The initial approach to a target company is usually to send a letter that invites the target to take a license. You must write that letter carefully to avoid giving the target a basis to file a lawsuit against you seeking a declaratory judgment on whether your patents are invalid or infringed. If you choose this approach, it’s imperative that a patent attorney with experience in patent litigation prepare the letter to minimize the likelihood of your company being drawn into a lawsuit.

Sometimes the cooperative invitation to license approach doesn’t work because the target ignores you. Sometimes you can’t use this approach because, for example, there’s a strained relationship between your company and the target company. In either case, the alternative is litigation. If you choose to litigate, you must be prepared to contend with the ensuing costs and distractions.

The particulars of litigation are too numerous to address in this column. However, it’s important to note that before filing a lawsuit, your patent attorney needs to conduct an adequate investigation to support an allegation that the target’s technology infringes your patent. Because the vast majority of patent infringement lawsuits settle before trial, the likely outcome of the litigation is an agreement to license the patent in return for some payment. Consequently, the litigation approach usually results in generating revenue for you as the patent owner, albeit after an extended contentious period.

Monetization is a vital and underused technique for obtaining revenue from largely forgotten intellectual property assets. Pursuing monetization can be complex, particularly for the uninitiated. Indeed, mastering the steps of monetization takes time and requires a certain degree of business savvy.

The procedures described here are designed to provide a road map to successful monetization. You should, however, discuss your unique needs and other factors, such as patent valuation and the merits of exclusive versus nonexclusive licenses, with your patent attorney before embarking on your monetization journey.

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