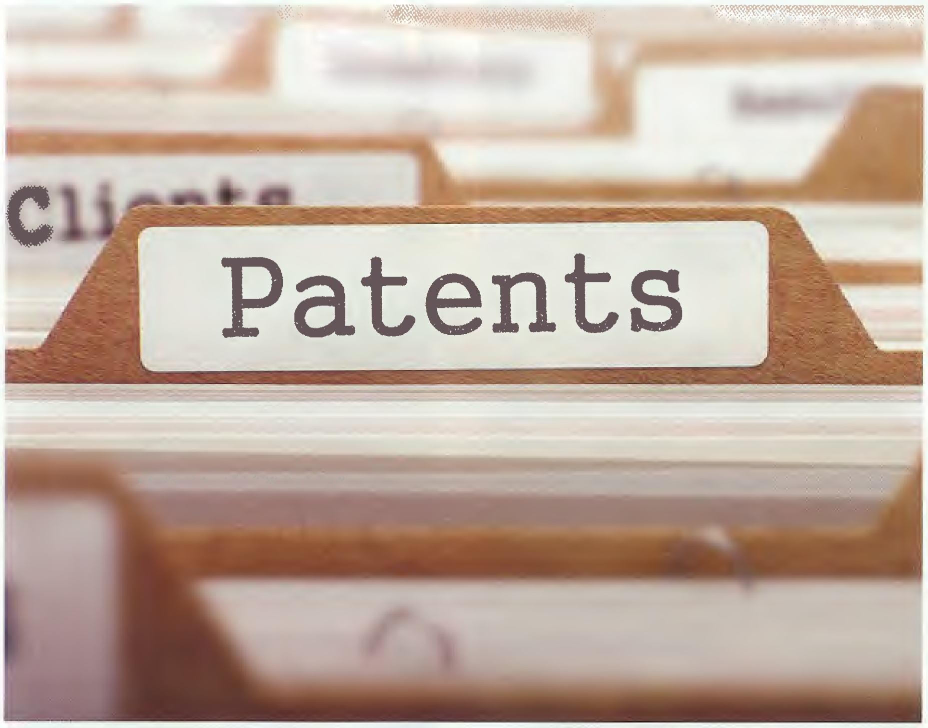
SEMA BUSINESS

By Jeffrey Banyas

MAKING THE MOST OUT OF YOUR PATENT ASSETS



Your business invented a new product and took the time to patent the invention. Now you have a pretty plaque on the wall commemorating your patent grant, but what else can you do with those rights? How does your business realize a return on its patent investment?

Most people know that a patent gives the patent owner the right to exclude others from manufacturing products covered by the patent. However, businesses can use patent rights for much more.

In reality, a patent is a business asset like any other property. A business can purchase patent rights it doesn't own, sell patent rights it does own, or license patent rights from and to other parties. The extent to which a business achieves a return on investment in its patent rights often depends on how the business markets its patent assets. But how does one begin marketing patent assets?

When planning a patent marketing strategy, the business should first define its objectives. Once the business has defined objectives, selecting a marketing strategy will become a more focused exercise. Finally, the business must execute the strategy to achieve its business objectives.

Know Your Objectives Up-front

Knowing the business objectives up-front, before marketing your patent assets, is critical to any successful marketing campaign. Without a firm grasp of the business objectives, the business will often encounter problems trying to execute the strategy. The marketing campaign can end up as an exercise of throwing ideas against the wall, hoping something sticks. A few key questions to ask when setting your business objectives include:

- Are you looking for a quick source of revenue or a long-term return on investment?
- Are you looking to extend your products to a different market (aftermarket vs. OEM) or a different geographic region that you currently do not serve?
- Do you want to retain the right (exclusive or nonexclusive) to manufacture and sell products covered by the patent?

When exclusive manufacturing and sales rights are not a priority for the business, the business may decide to exclusively license or sell the patent outright to another party, which would then have manufacturing and sale rights. However, in all transactions, there is an underlying objective: market certainty. In this instance, both parties (the business and its licensees or buyer) achieve market certainty by ensuring that everyone who manufactures and sells products covered by the patent has permission to do so from the patent owner. Once the players have certainty around the patent rights, they are willing to invest and advance the market.

Select a Marketing Strategy to Fit Your Objectives

Marketing strategies come in several forms.. Once the business knows its objectives, it becomes much easier for the business to select a strategy. Some common strategies include in-house manufacturing and sales, licensing the patent to third parties, selling the patent assets, and negotiating prices with retailers and distributors.

In-House Manufacturing and Sales

When the primary business objective is to retain exclusive manufacturing rights, in-house manufacturing and sales are the business's only marketing option. However, this does not mean that the patent assets are without value.

After receiving U.S. Patent Number 9,376,945 for an adjustable positive crankcase ventilation valve, Gene and Matt Wagner of M/E Wagner Performance Products decided that continuing to manufacture in-house was the right decision for them. Still, the Wagners saw further value in their patent position. As Gene stated, "[W]e definitely could have marketed our product without a patent, but it would have been a very unsound business approach. A patent definitely offers protection for an invention, and it would be foolish not to protect that invention."

Protection wasn't the only benefit M/E Wagner saw from its patent. In fact, Gene said, "I look at the value a patent will build in your company's equity position. The fact that you have a product that no one else can sell gives you a much stronger position than an unprotected product."

When taking on in-house manufacturing, the business should not lose sight of the value provided by its patent assets. Marking your product as "patented" can be a significant deterrent to competitors looking to enter your market and improve your customer's perceptions about your products. Even marking your product as "patent pending" offers deterrence and customer-perception benefits. Deterrence can lead to increased revenue through increased market share and improved profit margins as the product is priced to the next competitive product and not according to who can make the same product cheaper. A patent allows one to price according to product benefits, not production costs.

Licensing Your Patent Assets

Licensing your patents is one of the most popular forms of patent marketing. The licensing concept itself is fairly simple: The business grants another party permission to manufacture products covered by the patent and, in exchange, that party pays the business some amount of money (i.e., a royalty). The payments can be structured in many ways, including up-front fees, royalties based on a percentage of gross sales, and set dollar royalties for each unit sold.

While a business can structure licenses to achieve short-term revenue—usually through up-front licensing fees—licensing generally works best for generating long-term revenue from ongoing royalties. Licenses are also ideal for businesses looking to quickly enter different markets or different geographic regions. For instance, an aftermarket manufacturer may license its patent assets to OEMs for production of OEM components. In another example, a U.S.-based manufacturer may obtain patent rights outside of the United States and license those rights to manufacturers in other countries. In both instances, the patent owner enjoys royalties from sales in markets and geographies the owner would not otherwise access.

Licensing is also preferred over selling your patent assets when the business wants to maintain the (nonexclusive) right to manufacture products covered by the patent. Some businesses will even use licensing to generate revenue from their patented products as they prepare to begin in-house manufacturing. However, in doing so, the business should be careful not to agree to an exclusive license that would prevent even the original patent owner from manufacturing products covered by the patent.

An aggressive licensing program also requires a great deal of time and effort to identify potential licensees, negotiate agreements and manage royalty payments. A business should make sure it understands the resources required before heading down this road.

Selling Your Patent Assets

Offering to sell your patent assets is another popular form of patent marketing. Businesses and individuals can buy and sell patent assets on the open market, much like a car or a building. In general, selling your patent assets works best for generating a quick source of revenue. In the typical scenario, the business is not interested in manufacturing products covered by the patent. This can result from a lack of funding, a lack of manufacturing capacity or other business priorities.

Businesses can also sell patent assets as a way of introducing a product to a different geographic region. For instance, a U.S.-based manufacturer may obtain patent rights outside of the United States and then sell those rights to manufacturers in other countries.

Once the business sells a patent asset, that business no longer controls the manufacturing and sales process. In fact, in many instances, the business that sold the patent is left without any manufacturing or sales rights. While the business can retain manufacturing rights by taking a license back from the purchaser, the purchaser may require the business to pay royalties in exchange for the license.

In a best-case scenario, the business will sell the patent rights but retain a royalty-free license to manufacture products covered by the patent.

Price Negotiations With Retailers and Distributors

Whether your business maintains exclusive manufacturing rights or continues to manufacture products in-house after licensing or selling a patent, your patent assets can improve your market position with respect to pricing. For example, certain retailers and distributors will provide increased pricing for patented or patent-pending products.

From the manufacturer's perspective, the concept is simple: You, as the manufacturer in control of the patent, are the only lawful source for that product, so people should pay more to obtain the product through you.

From the retailer's or distributor's perspective, the patent offers protection for them as well. Ensuring that you, as the manufacturer, have proper patents in place protects the retailer's or distributor's market for that product by ensuring that only authorized dealers have access to the patented product.

There are several ways to structure those arrangements. For example, the manufacturer can negotiate for a simple dollars-and-cents increase in the price once the patent is granted, as opposed to the price while the patent is still "pending." In a more creative scenario, the manufacturer can negotiate for an increased percentage while the patent is pending (a 2% price premium, for example) with a provision that the percentage goes up (a 5% price premium, for example) once the patent is granted.

Executing Your Marketing Strategy

You've identified your objectives and have entered negotiations with a licensee, buyer, retailer or distributor interested in your patented product. Now what?

The most important thing to remember during negotiations is to not lose track of your objectives. Often, a business can get caught in the weeds during negotiations and forget the important objectives it set at the beginning of the marketing process.

If your objective was to introduce your product to a new market, take care to ensure that the market is well defined in the final agreement with any licensee or purchaser. For example, if your objective was to license your patent assets to OE manufacturers while maintaining the right to manufacture aftermarket parts yourself, the OE market should be explicitly defined in the agreement. Patent owners that fail to specify the relevant market in their license or sales agreement can quickly find themselves with an unintended competitor.

Beyond market definitions, it is important for the patent owner to negotiate realistic performance expectations with any licensee, retailer or distributor. If performance expectations are not met, the patent owner can then terminate the agreement, returning control of the patent back to the original patent owner, which can then seek a different licensee.

Conclusion

Patents are a business asset that can be used for much more than just the right to keep others from manufacturing your product. However, achieving a return on investment from your patent assets often requires active participation from the business.

The business must set objectives early in the marketing process and dedicate resources to marketing its patent assets throughout the process. While patents should never become the tail that wags the business dog, thinking about your patents as a business asset to be purchased, sold, licensed or negotiated to achieve market certainty opens a whole new world of financial opportunities for your business.

Jeffrey Banyas grew up involved in all aspects of his family's high-performance racing engine business. He spent 17 years of his life driving a variety of race cars throughout the United States before becoming a patent and trademark attorney. Banyas' practice involves all aspects of intellectual property law, including filing and prosecuting patent and trademark applications, identifying and protecting trade secrets, and drafting and negotiating licensing agreements.