Acquiring patents to support innovation and value

While there is still some stigma over buying patents rather than developing them in-house, acquiring intellectual property can be a smart way to enter markets later and secure a better return on investment. Both should be priorities for every IP manager

By **Rob Aronoff**

Since Article 8 of the US Constitution gave the legislature the power to establish a system of patents to protect ideas, companies have been acquiring patents from other innovators. For operating companies doing business in the United States, the priority in recent years has been to acquire patents for litigation and defence, mostly to address immediate defensive needs. However, it is becoming apparent that this may be a short-sighted view.

Until recently, businesses that bought patents to secure future innovation options were thought to be somewhat lacking by having to go outside internally developed R&D. This attitude missed out on the greater value of intellectual property — to protect and defend a company's market position long into the future. Businesses need to draw upon all of the resources at their disposal to secure the intellectual property that they need. Knowing what, when and how to acquire selective IP rights can make a big difference to a company's long-term competitive position and valuation, as well as to its profitability. However, the perception that the primary reason to acquire patents is for immediate assertion or defence is evolving. Patent acquisitions are becoming part of a value creation strategy for companies and their shareholders.

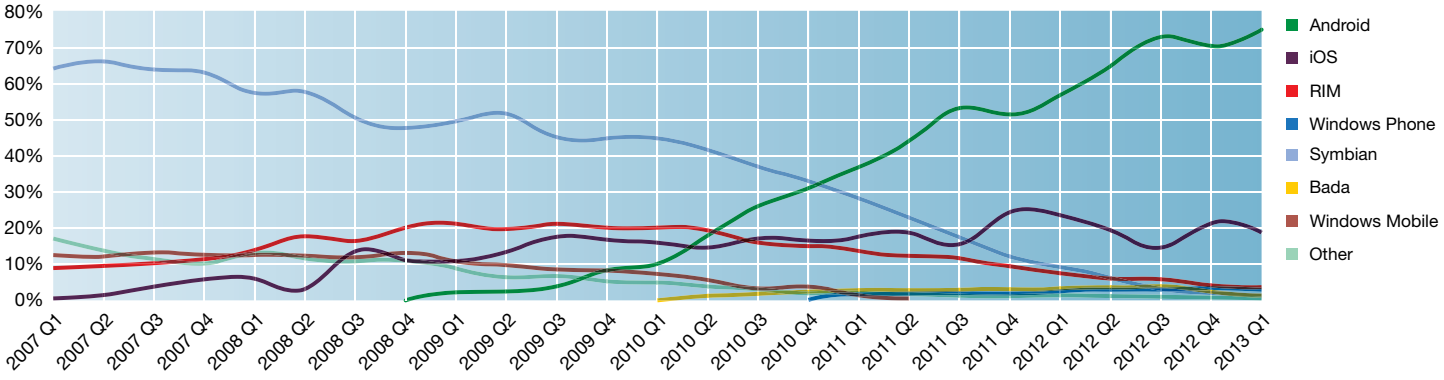
This article examines strategies that motivate current and future corporate patent buyers. While not all patent buyers are alike, operating businesses of all types need to buy from each other and other sources of intellectual property to build an innovation pipeline that complements their R&D and aggregates purchases with their current patent portfolio to create greater financial asset value.

The IT landscape changes by the minute. R&D designed to lead to patents two or three years down the line can result in intellectual property which is no longer relevant to a company's strategic business needs — but which may be relevant to someone else, and vice versa. The strongest tech companies and IP management are taking a long, hard look at their own weaknesses, as well as their strengths. Those that do are better able to take advantage of undervalued assets in the marketplace. It is part of doing business today and a best practice of intellectual asset management. Non-litigation strategic patent acquisitions can add value, provide leverage and increase the value of an enterprise over time.

A dangerous obsession: litigation and trolls

The general attitude of the patent marketplace today is that if a patent is not infringed or of immediate offensive or defensive value, then it is not worth acquiring. This perspective misses the strategic first-mover opportunity — one that not all competitors are going to sit back on. At their core, patents are about protecting the rights associated with innovations, which are most valuable when a company's standing in the marketplace is

Figure 1. **Worldwide smartphone sales (%)**



Source: Wikipedia, 2013 – http://en.wikipedia.org/wiki/File:World_Wide_Smartphone_Sales_Share.png

still evolving and competitors are jockeying for position.

IP departments and C-suites tend to prioritise patents that can be litigated in the here and now. It is hard not to march in step to the constant drum beat of "The trolls are coming; we are at war!" – especially as both Washington and the press seem obsessed lately with the costs of patent litigation to society and the economy. Private or public licensing entities, which can help small businesses to defend and enforce good patents, should be applauded by all. Small businesses are a critical engine to global competitiveness and job growth.

At the same time that third-party patent enforcement is under pressure, there is also pressure to monetise corporate patent holdings. This has made some operating businesses more aggressive about out-licensing in order to turn illiquid IP holdings into much-needed cash and provide a return on investment (ROI). Ever since the Nortel and Motorola Mobility transactions of 2011 and the big AOL patent sale in 2012, which was facilitated by pressure from dissident shareholders such as Starboard, there has been an increased emphasis in boardrooms on how a company is generating return on its IP assets.

Refocus patent strategy on the long term

Short-term needs around litigation and defence should not be the only reasons that companies actively acquire intellectual property. The total value of litigation awards made as a percentage of gross domestic product (GDP) is still tiny in comparison to the US dollars, yen, won and euros up for grabs from every new generation of innovation. The US economy has grown to over US$16 trillion. China is now in second place at over US$9 trillion. Japan (US$5.1 trillion), Germany (US$3.6 trillion) and France (US$2.7 trillion) round out the top five, with Brazil, the United Kingdom, Russia, Italy and India completing the top 10 (all between US$2 trillion and US$2.5 trillion). Collectively, the top 10 economies account for almost US$48 trillion in GDP. Focusing on capturing and growing a share of GDP on a global basis should be more of a priority.

How do companies establish themselves, drive innovation and protect their market position in light of the global marketplace and the ever-increasing speed with which businesses can become also-rans? Established companies can now vanish from the top of the food chain in a mere five or six years. Consider the turnover in technology and market leadership in the smartphone marketplace over the last six years (see Figure 1).

New solutions from smartphone innovators disrupted the market leaders between 2007 and 2012. Innovations in ease of use, performance, cost and open platform software have resulted in more compelling products, which replaced and disrupted the market leaders of the day. Of note is how once-leading vendors such as Palm and Motorola have been gobbled up by new market players – principally for their treasure troves of patents, but also so that acquirers can protect their margins and market positions going forward.

R&D investment does not guarantee innovation

Whether a business is viable in the future depends significantly on its ability to stay relevant and continue to innovate over time. Innovations come from access to new ideas and new inventions. R&D is one of the processes that can generate innovations.

Figure 2. **Companies that spend the most on R&D**

Rank		Company	R&D spend			Headquarters	Industry
2011	2010		2011, US$billions	Change from 2010	As % of sales		
1	6	Toyota	$9.9	16.5%	4.2%	Japan	Auto
2	3	Novartis	$9.6	5.5%	16.4%	Europe	Healthcare
3	1	Roche Holding	$9.4	-2.1%	19.6%	Europe	Healthcare
4	2	Pfizer	$9.1	-3.2%	13.5%	North America	Healthcare
5	4	Microsoft	$9.0	3.4%	12.9%	North America	Software and internet
6	7	Samsung	$9.0	13.9%	6.0%	Asia	Computing and electronics
7	5	Merck	$8.5	-1.2%	17.6%	North America	Healthcare
8	11	Intel	$8.4	27.3%	15.5%	North America	Computing and electronics
9	9	General Motors	$8.1	15.7%	5.4%	North America	Auto
10	8	Nokia	$7.8	0%	14.5%	Europe	Computing and electronics
11	14	Volkswagen	$7.7	26.2%	3.5%	Europe	Auto
12	10	Johnson & Johnson	$7.5	10.3%	11.6%	North America	Healthcare
13	16	Sanofi	$6.7	15.5%	14.4%	Europe	Healthcare
14	12	Panasonic	$6.6	6.5%	6.6%	Japan	Computing and electronics
15	17	Honda	$6.6	15.8%	6.5%	Japan	Auto
16	13	GlaxoSmithKline	$6.3	3.3%	14.3%	Europe	Healthcare
17	15	IBM	$6.3	5.0%	5.9%	North America	Computing and electronics
18	19	Cisco Systems	$5.8	9.4%	13.5%	North America	Computing and electronics
19	26	Daimler	$5.8	26.1%	3.9%	Europe	Auto
20	18	Astrazeneca	$5.5	3.8%	16.4%	Europe	Healthcare
		Top 20 total	**$153.6**	**9.9% avg**	**8.3% avg**		

Source: Bloomberg data, Booz & Company

Companies invest in the discovery of new ways to create and deliver improved value propositions to please customers and reward investors. "R&D is extremely important to innovation," the Brookings Institute stated in a February 2013 report on metropolitan area R&D and patenting. "To illustrate, consider that 66% of R&D performing companies introduced a new or significantly improved product into the market between 2006 and 2008, compared to only 7% for companies that do not invest a great deal in R&D. R&D performing companies are much more likely to rate patents as somewhat or very important to the company (41%) compared to non-R&D performing companies (3%)."

Figure 2 lists the companies that are investing most heavily in R&D.

Yet according to Adam Hartung in *Forbes* magazine (5th November 2012): "Most big R&D spenders are not really seeking innovations. They are spending money on historical programs, following historical patterns and trying to defend and extend the historical business. In other words, they are spending vast sums attempting to sustain (or recapture) historical [past] success. And... largely doing a pretty lousy job of it."

Excellent R&D does not always yield relevant innovations, let alone relevant patents that the business can leverage in the future. Most companies do not secure the kind of yield that they need for a pipeline of innovations and patents to protect and defend their market position for the long term. Even Apple and Microsoft are vulnerable to having their market position upended by competitors such as Samsung and Google, and doubtless other innovators in the future.

Strategic patent acquisitions: necessary for survival

To compete over the long term, businesses need to be buying good patents at the right price that could be the foundation of future innovations. Whatever the level of R&D investment, it is impossible for internal R&D to generate all of the innovation options necessary for the future. Pharmaceutical companies learned this lesson early. They are practised in the art of blending R&D with intellectual property and M&A to secure what they need to perform well. Technology companies will need to develop their own processes for embracing promising intellectual property developed outside of the organisation.

Yet the perception remains among many companies that such strategic patent

acquisitions are excessive and something that they cannot afford.

The Brookings Institute 2013 report describes the problem with that attitude: "Perhaps the most surprising result of our study of the up-front innovation process is how many companies say they aren't very good at it. Just 43 percent of participants said their efforts to generate new ideas were highly effective, and only 36 percent felt the same way about their efforts to convert ideas to product development projects. Altogether, only a quarter of all respondents indicated that their organizations were highly effective at both. Still, considering that 57 percent of respondents say their company is just marginally effective at idea generation, and a similar proportion say their company's culture does not support efforts to come up with new ideas, it is clear that many companies have much to learn about the best processes for generating ideas."

According to Peter Detkin, co-founder of Intellectual Ventures and former associate general counsel for intellectual property at Intel: "As a company, you have to guess the technology and the timing. You can have the right technologies at the wrong time. In that context, having patents on these technologies are like owning options on the future."

Businesses should be buying intellectual property because the fact is that most important innovations will come from outside an organisation. Acquired intellectual property can be used to augment internally generated IP to deliver more options to innovate on future product and solution roadmaps — with some planning, this can be done very efficiently. Buying in also allows businesses to acquire intellectual property more cheaply than developing it using internal resources. Thus, buying in should be seen as strategically supplementing R&D rather than replacing it.

"Having IP rights to potential novel and valuable future innovations can make or break a company," Detkin says. "I know of market-leading technology companies that instituted a practice of projecting out several years on different strategy vectors to understand what markets might be suddenly adjacent which were not adjacent before. Then they could build up their IP rights before entering that future market. By being proactive, they could counter the incumbents in a market the day they entered the marketplace by already having an IP position. By looking out on the product roadmap, they could buy up portfolios while they were still relatively cheap just in case they needed it."

The data supports what many IP professionals know intuitively — that there is an accumulation of patents at the very top of the food chain on the one hand, but also that more intellectual property than ever before is being created by small businesses. The Brookings Institute reports that: "The percentage of patents held by the top 10 patent holders has risen slightly, while the percentage of patents held by the top 50 and top 100 patent holders has actually fallen since 1975." Moreover: "In 1976, 2677 companies were issued 1 patent; by 2011 that number rose to 9909."

Buyers that have purchased patents for their future potential value (eg, their future option potential) include leading multinational corporations such as Intel and IBM, and leading IP innovation businesses such as Intellectual Ventures. Intellectual Ventures' innovation fund has long been focused on innovations several years ahead of where the marketplace is today. Vehicles such as Allied Security Trust, Unified Patents and IPXI also look likely to evolve into targeted opportunities for corporations to acquire such rights early without necessarily having to own them outright.

According to Brian Hinman, chief operating officer of Unified Patents, former vice president of IP business at IBM and Verizon, and founding chief executive officer of Allied Security Trust: "Companies like IBM have been looking out into the future to create and acquire the IP rights they might need for quite some time now. Unfortunately, most companies believe that they do not have that luxury from a financial perspective. That is why the new marketplace, where they can find mechanisms to acquire IP rights to future innovations, is a blessing. Now there needs to be a greater appreciation of the value of these rights in the boardroom as well."

Providing precise values for patents purchased for their future innovation value may not yet be possible, given the unique nature of patents and the rights that they convey. For example, those familiar with the Black Scholes option pricing model understand that the marketplace for patent rights, as they are today, is still a long way from being based on liquidity and other characteristics that would make this model a useful tool for precise pricing. Still, IP professionals can convey both the strategic and financial value of patents in other ways.

Strategically acquired patents which support short and long-term objectives

Patents can be used to deter or delay entry by competitors. They can also be used to

Fine-tune total R&D spend to create more options on future innovations

If a company earmarks a small portion of its R&D budget for the acquisition of targeted patent futures/options, it can gain tremendously while losing very little (given that it could cut or invest less in a marginal R&D investment).

For every US$3.5 million in R&D spent (the amount typically necessary to generate just a single issued patent, according to the Brookings Institute Report), a company can acquire rights to one or two dozen patented innovations, giving it a more robust set of options which can be exercised strategically on the long-term product roadmap.

Best practices in buying patents as options on future innovations

Former Intel head of intellectual property Peter Detkin offered these thoughts on best practices when buying patents to support potential future innovations and product lines: "When buying on the future roadmap, pay close attention to the product plans. That way, when the rest of the world finds out what your next big thing is, you are not playing catch-up. Also, ensure that the IP strategists are fully engaged with the product development people so they can look forward two to three years so they can understand where the company is heading. This enables them to take advantage of that knowledge."

Best practices in buying patent futures include:

- Be self-critical about strengths and weaknesses from an R&D and IP creation perspective. Then move to buttress weaknesses and protect strengths.
- Involve the product development team – find out what kinds of potential options they would like to see the company have rights to on the mid to long-term product roadmap.
- Look for patents which offer early priority and continued prosecution opportunities off broad specifications with good claim construction.
- Be mindful that:
  - It is not about the number of patents owned, but rather about owning patents that offer opportunities to innovate in the future in meaningful ways.
  - The more intellectual property is overlapped – that is, the more of a thicket owned in any given area – the more (statistically supported) IP value imbued in the portfolio.

allow later entrants to enter an established market, lowering their investment risk. Patents allow their holders to wait longer, while the marketplace becomes more stable, before exercising the option to enter and capture that marketplace. It allows them to delay capital and marketing investments longer, increasing the potential for a positive ROI.

This perspective is conveyed by Dr Robert Pindyck, a professor of economics at the Massachusetts Institute of Technology. According to Pindyck, there is value in buying patents for potential future application to product roadmaps. Those looking to exert market power can gain real advantages from so-called 'sleeping patents'. Accordingly, if a business wishes to compete with those market powers, it too should hold some of these patent futures.

According to Pindyck: "Suppose we have a monopolist that has no concern about entry prevention (or alternatively, a group of firms that compete vigorously). Might the firm still want to... get a patent, and then let the patent sleep?... The answer may indeed be yes, once we start to think of a patent as an option. For most technologies and products, the R&D leading to a patent is typically much less costly than the development of the product itself... As with a financial call option, if the payout rate (which is the opportunity cost associated with waiting) is not too high, and if the variance of the underlying asset (the ability to produce and sell) is sufficiently high, it will pay to wait rather than exercise this option immediately" (Sloan School of Management, MIT, 15.013, Industrial Economics for Strategic Decisions, Professor Robert S Pindyck – taken from his published lecture note on R&D and patent licensing (Revised July 2012)).

Pidyck is not alone in his assessment of the value of patent (and know-how) options owned by companies looking to extend their market power. Economists Nicholas Bloom and John Van Reenen have stated that: "From our ...work with the data it became apparent that while patents have an immediate impact upon market values they take time to affect productivity. One potential explanation is that the new products and processes which are covered by the patents have to be embodied in new capital equipment and training. Firms may also need to undertake further research and development, as well as expensive marketing and advertising to promote their new products. As such, this will involve extensive sunk cost investments... and these capital, training, research and marketing outlays will be (at least partially) irreversible. But since patents provide firms with the exclusive rights to their new technologies they have the option to wait until making these sunk costs investments. When market conditions are uncertain, this will generate valuable real options. Therefore, by giving firms a legally protected right to delay investing, patents provide a test of the importance of real options" (*The Economic Journal*, 112 (March), Royal Economic Society, 2002, "Patents, Real Options and Firm Performance").

Patents give businesses the option not only to innovate, but also to wait to see where the opportunities are, to keep their powder dry should they need to enter a market at a future date. This is a considerable value to those that already dominate the marketplace, as well as to smaller companies which hold these options and can prevent or delay the entry of larger companies once they have established the marketplace. It pays to have options, both figuratively and literally.

The relationship between 'good' patent holdings and market value

There have been several attempts to explore whether there is a genuine link between patent holdings and value creation for a company and its shareholders.

While ultimately it is the ability to put innovations into practice that matters, having a pipeline of innovative options to choose from correlates strongly with increasing company value. Thomas McGaheey of the University of Georgia's

> “Companies can acquire a potentially meaningful patent for a lot less than the R&D costs of an average patent, even including know-how replication. They can buy early priority – which can lead to more citations per patent (a statistical value driver), more internal citations for future patents (another statistical value driver) and more potential for being a meaningful IP asset over time”

economics department has observed: “The [corrected] data reveal that such an increase in a firm’s patent yield (patents/R&D $ spent) actually only increases market value by less than one tenth of one percent. That is, given R&D spending, simple patent counts add almost no useful information for explaining market value.” Meanwhile, “an increase of one percentage point to a firm’s R&D intensity (e.g. R&D/Assets) increases market value by about .8%. An additional citation per patent increases market value by about 3%. Taken together, these results indicate that, after accounting for a firm’s R&D spending, it is far more valuable for the firm’s patent portfolio to be highly cited than for it to be large” (“Patents, Citations, and Market Value: A Reassessment” by Thomas P McGaheey, Department of Economics, University of Georgia, February 2011).

‘Good’ patents are those that add to a company’s market value — specifically, those that are highly cited, both by other patents held by the company and by the market at large. Those in the business understand that this correlates well to earlier patent priorities — meaning patents that were often developed by smaller companies which jump-started a new idea, rather than those developed by larger companies, which often show up once the market opportunity has already been tested. Having patents which are early in an area of innovation is usually more valuable, as these tend to have more citations than later patents. Hence the benefit of acquiring options which do not yet appear in the products of today, but which may be a key component of products and solutions in the future.

Buying the right patents to augment the innovation pipeline

The best patents are typically early, well-prosecuted ones that relate strongly to markets with a significant strategic and financial value. Good, useful patents are still those that are able to take advantage of such opportunities, while being seen as part of a developing IP landscape, with more citations (your own citations and third-party citations) than typical patents that arrive later. Arguably, it is less important that good patents cover technology that you ultimately practise or even practise exactly as it was patented. Smart patent purchases in pursuit of innovation options do not all need to yield the very best patents to be worthwhile.

The value of a patent can vary widely, depending on the marketplace, the invention, timing and relative need. Value is typically greater than most companies have recognised to date. This is not suggesting that businesses should pay full value and leave no margin for error in the equation, but rather that they should acknowledge and pursue such options because they accumulate to the company and are not wasted, even if many do not pan out as envisioned.

Recent mega-deals for patents — such as Nortel (~US$750,000/patent), Motorola (~US$1.5 million/patent) and AOL (~US$900,000/patent) — may seem expensive, but can turn out to be great bargains, especially to cash-rich companies. The Brookings Institute study found that it costs on average US$3.5 million of R&D to generate one patent. The most effective ROI that has been documented is US$1 million if funded by the government and a Small Business Association loan, which gives greater focus to the outcome of the research in question. An informal survey by Pluritas of managers with knowledge of R&D costs in several leading R&D companies found that the best of them achieved R&D per patent yield costs in the range of US$2.25 million per patent.

Figure 3. **Apple's potential IP return on its R&D investment**

Example application of McGaheey study- "Patents, Citations and Market Value: A Reassessment" **Projections are for illustration of concepts only**	
Apple Base data	
(a) Apple market cap (6/21/2013)	US$388 billion
(b) R&D investment 2013- projected	US$4 billion
(c) R&D per patent – Apple is assumed to be on the more productive side of corporate r&d experience	US$2.25 million
(d) Projected # of patents internally generated through organic R&D effort in 2013	1,778
(e) Apple's estimated patent holdings by end of 2013 – a projection only	20,000
Projections using McGaheey study	
(f) If Apple spends on acquiring patents as future innovation options	US$100 million
(g) at an average price per patent of:	US$150,000
(h) it would acquire this many patents as options on future innovations	667
(i) but not develop this many patents organically – by reducing R&D expenditure by: US$100 million	44
(j) Net increase in patent holdings coming from R&D and patent acquisitions targeting innovation options	622
Impact of buying patents for potential future innovations – not factoring quality, future innovations driven, future enforcements, etc	
(k) Increase in patent yield (patents/R&D) across all R&D and US$ spent on buying patents for future innovation options (eg, (j)/((d)+(j))	0.259
(l) Market cap increase per percentage increase in patent holding – as indicated by McGaheey research	0.001
(m) Total market cap impact projected	US$100,592,593
(o) ROI of purely buying patents – no impact included of future product innovations or enforcement activities	0.6%
(p) Market cap increase per increase of just 1 citation on average per patent	3.0%
(r) If Apple acquires better than average early patent options that increase the avg citation/patent by 1 for each patent option (j) acquired eg, +1 more citation on average for every patent (j) acquired for future innovation options as a percentage of total patents held (e) adds	0.0009
(s) Total market cap impact projected PLUS	US$362,133,333
(t) ROI	362%

NOTE: This is the pure statistically correlated value impact to market capitalisation from acquiring good patents from the outside
This does not factor in the benefit of exercising these options and being able to deliver innovation solutions, enforce or license the IP

Regardless of how much money they invest in R&D, companies will never themselves be able to develop all of the patents they need to protect themselves, read on their competition, survive disruptive actors and read on adjacent and new markets that they want to enter. They must augment effectively and within their means, and with strong ROI. Companies can acquire a potentially meaningful patent for a lot less than the R&D costs of an average patent, even including know-how replication. They can buy early priority — which can lead to more citations per patent (a statistical value driver), more internal citations for future patents (another statistical value driver) and more potential for being a meaningful IP asset over time.

To make this a little more concrete, let us take the cost of R&D per patents and McGaheey's observations on the statistical relationship of good patents to market value, and apply his observations to Apple's R&D and patent holdings.

Figure 3 is an analysis of what Apple's IP return on its R&D investment might look like. Depicted are the two value-added scenarios (the impact of more patents and the impact of more good patents) as described by McGaheey in his statistical research. These projections are not necessarily real returns that Apple would see in 2013, but rather potential long-term paybacks that are backed by statistical relationships between Apple's patent option holdings and its assumed ability to convert these options into meaningful products and revenues downstream. If Apple takes on

too many options, there might eventually be a point of diminishing returns on the incremental innovation options acquired and, potentially at some point, negative returns to the incremental innovation option acquired. Also, this projection assumes that Apple is selective and acquires innovation options at a reasonable average cost (given current market conditions), acquiring patents on innovations that it can reasonably develop and commercialise given its own capabilities.

The model points to the potential for a significant return on the marginal US$100 million of R&D – making the assumption that the marginal US$100 million of a US$4 billion R&D budget returns nothing to the company (meaning no loss of future potential revenue), and in turn Apple can invest smartly by buying patents for future innovation options. If Apple simply acquires patents which make similar contributions to the patents developed internally and can acquire patents at a reasonable average cost, it should break even when comparing the cost of acquiring the patents to the market valuation impact to the company. As these patents are being acquired as options on the future, this calculation of ROI includes no future strategic or financial benefits gained directly from these patents or future product sales.

However, if Apple can acquire good patents and the number of citations on them raises the average number of citations per Apple-owned patent even slightly, due to patents which are early and woven into the patenting and product innovations of the company over time, then the direct ROI calculated in terms of the impact on the company's market cap goes up significantly. This does not include the benefits of being able to exercise these options in the future – whether through introducing successful new innovations or enforcement and licensing.

"Innovators don't focus on what they spend, but where they spend it," said Hartung. "The companies most known for innovation don't keep spending money year after year on their old business. Instead of digging deeper into what they already know, they invest laterally. They spend money putting the pieces together in new, unique ways. They try to find new solutions to old problems, using new – even fringe – technologies. They try to develop disruptive solutions that actually change the marketplace, rather than trying to make something that already exists better, faster or cheaper."

Diverting some investment away from the least productive R&D activities and into acquiring well-aligned patent futures can pay off financially and strategically for the company in the long term. It is all about acquiring reliable patents that provide innovation options that are strongly aligned with product roadmaps and commercialisation capabilities.

Buying patents as options on future innovations

The over-emphasis on buying for immediate defensive needs and enforcement potential is clouding many technology companies' vision, meaning that opportunities are often overlooked. Given the cost/spend of R&D versus patent yields, and given what these patents can be purchased for on the market, good buys can be made on patents that are closer to what is required in advance of when it is needed.

"The future world competition will be for intellectual property," Chinese Premier Wen Jaiboa famously said in 2004. If companies forget the value of innovation options – of hedging their huge bets – they will lose their way, and local and national economies will lose as well. Good ideas come from everywhere – from the start-up next door to a company on the other side of the world. It is up to forward-thinking businesses and smart IP managers to stay relevant in the 21st century and not go from being a market leader to an also-ran in just a few years. Patent-centric businesses need to be prepared. Proactively acquiring and leveraging the right patents at the right time for the innovation option value that they offer will make the future more interesting and less daunting for many businesses than it otherwise might be. *iam*

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Action plan

Businesses should be buying patents regularly for their potential as options on future innovations. It is a cost-effective way of mitigating risk and providing opportunities that would otherwise remain remote. Businesses should consider:

- Involving the business units (specifically, engineering and product marketing) in the review and approval of IP acquisitions, specifically targeting the potential future product and technology roadmap.
- Buying patents that create innovation options which are aligned with the company's ability to commercialise the acquired innovations.
- Buying alternative approaches – to insure against unforeseen changes in the marketplace – and reducing competitive signalling, leverage and workaround options.