Effective and Economical Patent Strategies for Small and Medium-Sized Enterprises

How alternative patent strategies, not linked to owning and litigating granted patents, can provide competitive advantage at low cost.

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An efficient intellectual property (IP) strategy is vital not only for large companies. Even for small businesses and independent inventors IP can be a key business tool. However, an effective IP strategy does not necessarily mean owning IP rights (IPR) and litigating to block rivals from markets in order to gain competitive advantage (so-called offensive strategy). Alternative low-cost strategies can also be effective for small and medium enterprises (SMEs), securing them competitive advantage whilst not consuming too much vital cash which is often in short supply in the early days.

Concerning the patent system: application fees, translation costs and patent attorneys’ services can easily reach 50,000 € when trying to get patents granted in more than ten major European countries. Costs would rise considerably for litigation, where a court proceeding may run into millions of euros.

Yet, patents are indeed more than a legal right and their worth is more related to the market than to the IP system. First and foremost, just because a new product or process which solves a technical problem is eligible for a patent, it does not mean that a patent would be worthwhile. Since a granted patent is never a guarantee of commercial success, the decision to patent something should be based upon the “market wants” and not on the “novelty of the invention”. The latter determines if something could be patented, but market demand dictates if something should be patented.

Hence, taking advantage of the patent system does not necessarily match with patent ownership, since there are many others ways in which the system can be used to create commercial advantage, without necessarily filing patents. In all of these cases you will be able to create an alternative strategy likely to provide competitive advantage at low cost.

The value of a patent has nothing to do with how much it cost, but rather is a measure of how it contributes to the profitability of the company, so that the question to be asked is how patents are concretely able to nurture and expand your business.

Competitive analysis

A starting point for a low cost strategy is to analyse your rival’s products or services so as to discover what IP they are using, and what role IP plays in their business. If no IP is apparent, and still they maintain dominance over a market niche (e.g. a service sector innovation), consider how else they might have done this, perhaps through “First-Mover Advantage”1, closed networks of suppliers or specialist trade secrets. If they are successful without owing patents and gained market advantage through this strategy then consider carefully before taking a different approach.

Licensing or selling

Your new technology could be just one of dozens of equivalent or incremental developments in that particular area2, so that it may be easy to invent-around, have numerous functional alternatives or quickly become obsolete. You should then appraise whether obtaining a patent would really be cost effective for your company, also taking into account the costs to bring the invention to the market and the value the IP brings (as opposed to the value the invention brings). Such a critical assessment may show that commercial success rather lies in selling your IP or licensing it out. Moreover, licensing-out your technology to competitors can transform them into business partners and help to strengthen your position in cross-licensing negotiations.

Another action to take when addressing a new technical problem is to calculate how much the solution of that problem will cost if developed by you. Often licensing-in could be a cheaper route and also gives you the opportunity to create partnerships or strategic alliances with other players in your area. Furthermore, if you were to develop an improvement to the product or process you are licensing from them, you might just be able to patent that too and license it back to them.

Using patent information

A key purpose of the patent system is the dissemination of technical information, whose use does not require any patent ownership. Yet, looking through databases3 to see the results of the

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1 First-Mover Advantage (FMA) is the advantage gained by the first significant occupant of a market sector. It is commonly seen with service innovations (which are generally not patentable in Europe).

2 It has been suggested that over 90% of all inventions fall in this category.

3 There are several public and private patent databases. Public ones are PATENTSCOPE, managed by WIPO, and Espacenet, managed by the EPO.
research insights and short-cuts in your own projects.

Many of the patent applications published in the databases are not “in force”, because of the applications’ failure, withdrawal or expiry. This means that the technology described therein is free to use. Apart from technical information, patents applications are goldmines of commercial intelligence. That is, by examining those documents related to a particular technology and discerning who owns the associated patents, you can learn a lot about the activities of other companies. Some of these could be your next customers, or suppliers, or rivals or partners.

Inventive processes

When it comes to new process inventions, think carefully before filing a patent application. In fact the risk of reverse engineering is much less present for processes, the end product of which is conventional and gives no clues about the process innovation. In this case it might be preferable to keep that as a trade secret rather than publish the details in a patent application to be read by everyone. If published in a patent, competitors might buy a licence, but others might be inspired to investigate other improvements and develop their own solutions by “inventing around” your patent. If a process patent were infringed, could its owner even detect that infringement? How could they know what processes are used in their rival’s factories? Keeping the process as a trade secret, however, is reliant on as few staff as possible knowing the details and keeping the secret even if they leave to work for the competition.

Publishing

Filing a single patent application need not be very expensive. A patent application will be published (usually with a search report) typically at 18 months from the earliest filing date. Once published, it will appear in patent databases forever, which could be useful in attracting partners, customers and even investors who are using the database as part of a commercial intelligence search. Even if the application is abandoned to save costs, it will remain in the database as a signpost to the entire market that your company is active in that area.

If your strategy does not aim at having a monopoly in a given sector, but to lock some larger rival out from getting exclusive patent rights, then publishing your technology (without acquiring patent) is an effective strategy to ruin the later patenting ambitions of competitors. You can publish your invention’s technical details quickly in an academic or technical journal, but to have the best chance that a future examiner finds it to cite against applications from your rivals you should publish your technology in a patent application. You can even request early publication if this would help, and then abandon the application. This so-called “prophylactic disclosure” protects you from being subject to someone else’s later patent because your earlier disclosure destroys the alleged novelty of their later patent application for the same invention.

Alternatives to litigation

Once you have a patent granted, facing infringement can prove to be extremely expensive. For those wishing to stay out of the courts there are cost effective alternatives to recover lost market share, even if they do not result in “justice” for the offence.

Litigation insurance is not cheap, but could persuade aspiring infringers to buy a licence instead, or to pick on someone else. With insurance on your side they cannot hope you will abandon your court case through shortage of funds.

In any licence agreements make sure that the dispute resolution clauses are suitable, e.g. which law will apply, and where disputes would be heard. You should encourage lower-cost and confidential mediation and arbitration processes, and then make the conditions for litigation with licensees less attractive by proposing an inconvenient forum and/ or legal system for disputes.

If a dispute breaks out, licensing to the infringer – even at a discount – could bring you more market share, if they have access to larger markets. Turning infringers into partners could be more profitable than suing them. If infringers are reluctant, consider to spend the money you would have spent for litigation on better marketing so as to simply out-sell the infringer. Otherwise you might sell or licence your patent to the infringer’s leading competitor, who will be better positioned to stop him with a court proceeding. If the infringer is a small company, possibly with its own cash-flow problems, there is no point winning the litigation if they then simply go bankrupt: so consider if buying the infringing company is cheaper and more certain than suing them! Or perhaps buying one of the companies who provides vital or unique supplies to the infringer will force him to negotiate with you.

These few suggestions might be differently implemented by companies, bearing in mind that strategies may vary according to their business goals. Having a clear idea about the role any IP plays in your business activities is thus needed to understand how it will be linked to your business plan.

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4 Note that some technology features might be covered by other patents. However, the only patents which could keep you out of a sector or oblige you to buy a licence are those which are in force in the relevant country.

5 Note that trade secrets and confidential know-how can be licensed too and then provide revenues without public disclosure. Nevertheless, we recommend that the contracts be drafted by an expert.