

Evaluating patent portfolios—a Danish initiative

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Abstract

The need for companies to make better and wider use of their patent portfolio as part of their overall business strategy is acknowledged. The article describes an initiative from the Danish Patent and Trademark Office to address this issue by creating a software tool, IPscore[®], and outlines the type of input (e.g. legal status, technology factors, financial and market information), output (e.g. patent profile, strategic profile, financial forecast, patent portfolio position), and final report options provided by this tool.

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Keywords: Patent profile; Patent strategy; Business strategy; Software tool; IPscore[®]; Legal status; Financial forecast; Market conditions

1. Introduction

Danish companies are being encouraged to evaluate their patent portfolios as part of a national scheme to foster innovation and business development.

A patent evaluation model is helping Danish companies to identify untapped business potential. Developed by the Danish Patent and Trademark Office, IPscore[®] 2.0 encourages companies to think of patents as assets with a value that can contribute to overall business strategy and innovation.

2. Development of intangible assets

Some results from a survey based on the Dow Jones Industrial Index 2002 [1] are summarised in Table 1.

The increase of intangible assets covers not only the value of patents but also, for example, the value of competencies and business systems. But all indicators show that IPR values have been increasing, too. It means that the enterprises have to put much more attention into the evaluation of intangible assets such as IPR.

3. Assessing patents

Historically, companies have viewed patents in a legal context, as means of safeguarding intellectual property

rights. In the knowledge-driven economy, however, intellectual property is assuming greater strategic significance.

According to research conducted by Ernst and Young in 2000 [2], 90% of Danish companies expected the importance of assessing the value of their patents to increase—but no widely accepted method for doing this existed.

As part of the Danish government's wider strategy for fostering business development and growth, the Danish Patent Office developed IPscore[®] 2.0, which is distributed on CD-ROM.

Patents are scored on a scale from 1 (poor) to 5 (very good), identifying areas the company is strong in and those it needs to work on. The score determines the patent's strategic importance, and whether it is being fully utilised. Once a patent's value has been established, it can be used to attract outside investment, or exploited through licensing and business opportunities such as an imminent sale or purchase.

Many companies just think of patents as insurance against infringement, but they can often generate profits outside the core business area. A good example is IBM, which earns 14% of its revenues from licensing activities.

4. Patents as a strategic weapon

By ascribing a value to IPR, the Danish Patent Office hopes to raise awareness among managers of patents' strategic potential. Information about existing patents is disseminated as a means of encouraging companies to

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Table 1
Book value vs. market value—intangible assets

—1978 book value counted for 95% of market value	
—2002 book value counts for just 20% of market value	
—In certain companies the figures are even more dramatic:	
• Microsoft	9%
• SAP	5%
• Coca-Cola	7%

Decreases in stock exchange markets in the last couple of years have not made fundamental changes to the figures.

concentrate on new areas of innovation. In the past ten years, the number of Danish patent applications has increased by 60%. The ultimate goal is to be among the top five OECD countries for patenting activity.

Danish companies are familiar with patents as a source of technical information, but few use them strategically. In part, this is due to the complexity of the information itself. In the Ernst and Young study, 75% of companies indicated a need for training to understand and apply patent information.

In this context, the Danish Patent Office is working to strengthen the IPR culture within universities, both in teaching and in patenting the results of their own research, through the provision of patent courses. Also, the Copenhagen Business School employs researchers who specialise in IP management.

Additionally, it was found [2] that few Danish companies perform quantitative or qualitative evaluations of their patent portfolios (see Table 2).

5. IPscore 2.0[®]: purpose and objectives

IPscore 2.0[®] is a systematic tool for evaluation of patents and technological projects. The tool presents both a qualitative and quantitative evaluation in the form of a financial forecast depicting the net present value of the evaluated technology. Additionally, the tool produces output in the form of graphical overviews and a report to facilitate communication of the results of the evaluation. IPscore 2.0[®] is an easy and user-friendly tool, which can be used by all companies that have smaller or larger patent portfolio of patents and technological development projects. The tool is based on a Microsoft Access 2000 database. The tool provides a framework for evaluating and strategically managing

Table 2
Evaluation of patents by Danish companies

	Larger companies	Investors and analysts	All
Quantitative valuation	Not in general	Hardly realistic	≈8%
Qualitative valuation	Not in general	Important	≈15%
Need for valuation	For specific uses	Large	For specific purposes

patents and development projects and thereby integrating these into the company strategic management.

The IPscore 2.0[®] questionnaire has been developed in close collaboration with heavy patent users and innovative players within different industries. It provides a substantial evaluation of the company’s patent, patent portfolio, technology or technological development projects. Thus the tool can be used for evaluation at various stages during the lifetime of projects, starting from the ideas phase to the decision making stage about taking out a patent, maintaining the patent, selling or licensing the patent to another company, and so on.

It is important to emphasize that IPscore 2.0[®] has been developed to calculate the *internal value* of a patent, a technology or a technological development project. The value calculated is the value of the patent, technology or project to be used within the client organisation. The tool does not calculate the *market value* of the evaluated patent, technology or project, as the external value depends on the context in which the patent, technology or project is utilised.

6. IPscore 2.0[®]: input, output and reports options

The screen page shown in Fig. 1 contains all the input and the output elements included in an IPscore 2.0[®] evaluation, and which will now be explained in more detail.

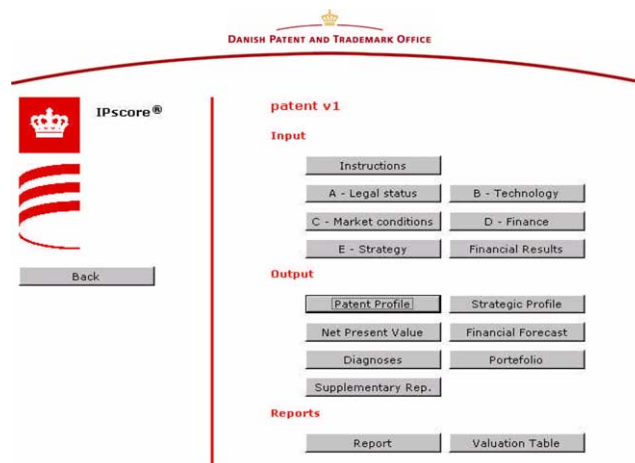


Fig. 1. Starting screen—the input, output and reports sections.

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