

Updating IP reporting practices

The way that companies report their IP activities both internally and externally is dependent on the outcomes they are seeking to achieve

By Patrick H Sullivan and Rupert Mayer

The past decade has seen significant changes to the environment within which firms manage their intellectual property. These changes have affected the global business ecosystem, the legal environment and the way in which businesses perceive the value of intellectual property. We have seen the rise of the non-practising entity, the arrival of the chief intellectual property officer, the increased globalisation of business and an increase in the volume and cost of IP litigation. These factors have contributed to a greater sophistication in the management of intellectual property. This raises the question of whether, and to what extent, these factors and others have influenced the information that IP managers report to their management.

This article presents the results of a survey of the IP managers of 10 operating companies. It set out to explore the following questions:

- What and how do companies report internally on matters relating to intellectual property and its interaction with the company's business?
- What foundation information do companies use for decision making in relation to intellectual property or its interaction with the business?
- How do IP managers assemble their internal reports and how much do they use supporting tools or external support services to do so?
- How has IP reporting developed over the past decade?

Methodology

The 10 companies surveyed are all members of the ICM Gathering, a group of knowledge-based international corporations which meet regularly to share insights and develop best practices on obtaining value from managing intellectual property. Among other things, the questions looked at:

- The people to whom recurring IP reports are made.
- The information being reported.
- The ways in which the recipients use such information.
- The types of software tool or data service used in preparing the reports.
- The level of IP management sophistication at which the company operates.
- The kind of information that IP managers would like to report, and to whom.
- The reason why they do not report in this way at present.

Telephone interviews were conducted over eight weeks, with the findings being compiled on completion of the interviews.

Key findings

As expected, we found that IP organisations report in different directions: upwards within the corporate hierarchy and sideways to research and development, finance and business unit management, as well as downwards to the general corporate population.

The content of IP reports can be categorised as simple metrics, complex metrics or narrative content.

The study's strongest finding was that the reporting of IP activity is particularly highly correlated with the importance of intellectual property to the company's business, which in turn tends to determine the degree of sophistication of the company's IP management. Based on this

The Edison Value Hierarchy

Edison Revisits the Boardroom by S Harrison and P Sullivan (John Wiley & Sons, Fall 2011) updates the original published in 2001. As a preview, we are using the new book's updated hierarchy here. Below is a brief description of what companies at each level are trying to accomplish:

- **Level I – defend position:** IP management in companies, at the most basic level, consists of ensuring IP protection for products or services, creating IP generation procedures, creating enforcement procedures and creating educational materials for employees. The company's IP management function is usually headed by an attorney who reports to the legal department.
- **Level II – manage costs:** Companies at the second level are trying to relate the portfolio to the organisation's business, manage IP costs and start considering 'make versus buy' technology and IP decisions. As the primary use of intellectual

property for companies at this level is defensive, the head of the IP function is likely to be an attorney, also reporting upwards through the legal department.

- **Level III – capture value:** Companies at this level of IP management sophistication see their intellectual property not merely as legal assets, but as business assets. The various parts of a company's intellectual property can become puzzle pieces in answering the question of how to build the company's value. Such companies typically want to accomplish three things: to increase awareness of intellectual property to the point where it becomes an item on the executive management scorecard; to develop a value capture strategy; and to organise themselves to capture value. The head of intellectual property often has a business background, rather than being an attorney.
- **Level IV – synthesise opportunities:** At this level, the function's activity is closely aligned with company and business unit

strategies and operations. Companies at this level are usually trying to understand and capitalise on the relationship between invention and innovation for the enterprise; re-evaluate the business models used in monetising the firm's intellectual property; and develop and implement a comprehensive IP strategy. The head of the IP function is very rarely an attorney; he or she reports to someone at C-suite level.

- **Level V – shape the future:** Companies at the highest level of IP management sophistication use their intellectual property (usually their patents) in the creation of, and journey towards, their desired future. At this level, companies are trying to use their intellectual property as a basis for staking a claim on the future; encouraging disruptive technologies; and embedding intellectual property and IP management into the company culture. These companies view intellectual property as a set of strategic assets.

insight, we established a strong correlation between reporting practice and a company's position on the Edison Value Hierarchy. The correlations included the content of the IP reports, the balance between metrics and narrative in the report, the recipients of the reports and the frequency with which the reports were submitted.

The nature and content of IP reporting have changed very little over the past 10 years, particularly in format, style and frequency. However, content has evolved, with the more sophisticated reports focusing crisply on the pertinent business issues with

which intellectual property is associated.

A final key finding was that the form and content of upward IP reports are largely determined by the recipients and their level of understanding of IP.

Recipients of IP reports

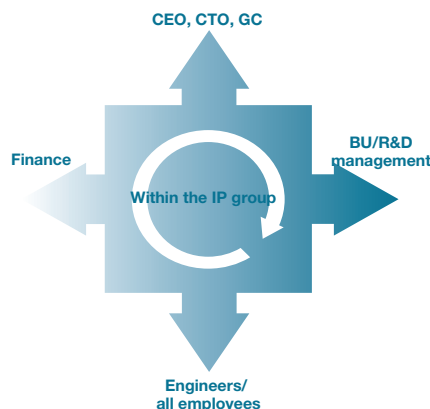
Reports are routinely made upwards, laterally, downwards and in some cases internally to the IP organisation itself.

Upwards reports are made to the executive to whom the IP manager reports. For companies positioned in the lower levels of the Edison Value Hierarchy, these typically include a senior executive; we found no company at the 'defend position' or 'manage cost' levels in which IP activity was reported directly to the chief executive officer (CEO). Reports for companies at these lower levels typically go to the general counsel or a senior research and development manager, depending on the place that the IP manager's unit occupies in the company's organisational structure. For companies at Level 3 or above, upward reports are generally made to a C-suite executive or the CEO.

Lateral reports are usually sent to the company's business units and contain both company-wide IP activity information and specific information for the unit.

In companies where the IP organisation is large or is spread over a number of locations, there are regular internal reports of IP activity, typically monthly or quarterly. These

Figure 1. Reporting directions



are designed to keep all elements of the IP organisation aware of unit activity, progress towards goals and important issues.

Several of the responders told us that one of their responsibilities was to keep employees informed about the importance of intellectual property to the company, as well as advising them of their individual responsibilities regarding the company's proprietary information. These companies did not view this as an IP report, but rather as an educational or instructional responsibility, directed primarily towards engineering and research teams.

Some IP groups publish generic information on the IP organisation's activities, such as gross numbers or simple aggregated statistics, on a corporate intranet site that is available to all employees.

Content

The results of our study have led us to categorise the content found in IP reports as simple metrics, complex metrics or narratives. Simple metrics are typically used to monitor activity, predominantly regarding portfolio development – they report on the “what?” of IP management activity. Complex metrics and narratives are used to discuss and illustrate the results of these activities, relating them to the business and providing additional insight – they report on the “so what?” of IP management activity.

Reporting patterns according to Edison level

Companies at the lower levels tend to report almost exclusively using metrics, whereas

companies at higher levels typically include more narratives in their reports, which focus on particular business issues involving intellectual property.

We attribute the increasing use of narratives at the higher levels to the inherent difficulty in assigning standardised metrics to the more complex and advanced IP activities that take place at these levels, such as deals and transactions, negotiations with standards bodies, lobbying efforts, advanced competitive analysis and participation in the development of research and development strategy.

As with the value hierarchy, in which the attainment of a certain level always presupposes a mastery of the levels below, the reporting levels that we describe are cumulative – the reporting practices of a company at a given level include those described at lower levels.

In reporting at the Level I – defend position, IP reports consist almost entirely of simple metrics. The basic set of standard reports includes counts over time of invention disclosures, patent applications and patent grants. These may be compared to respective goals or the values of previous years.

In recurring reports at the Level II – manage costs level, metrics become more complex, perhaps reporting the same types of counts as above, but further parsed by business unit, technology, product line or geography.

These reports are also shared with business units, each of which receives its own IP data in addition to company-wide data. We

IP reporting metrics

Metrics are numerical measures of process, and sometimes of progress. In IP reporting we find two kinds of metrics: simple and complex.

Simple metrics are basic counts of demographic information, such as:

- The number of invention disclosures per unit of time.
- The number of patent applications filed per unit of time.
- The number of patent grants awarded per unit of time.
- The number of pending patent applications per unit of time.

Simple metrics are informative about activity, but not about the relationship of intellectual property to products, technologies or business units. Simple metrics do not relate patents or the portfolio to the company's business activity.

Complex metrics relate intellectual property to a business activity of the company. They are more informative about the impact of intellectual property on such activity than simple metrics, but require more sophistication to generate. Complex metrics might include:

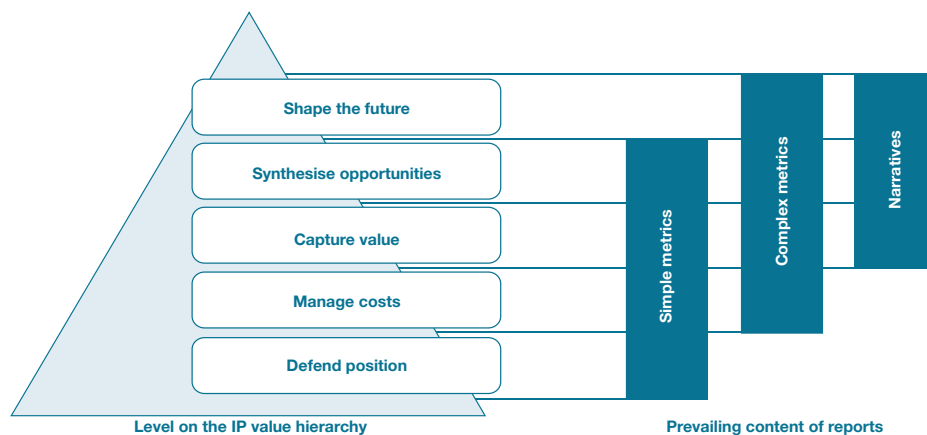
- The number of disclosures, applications or grants organised by business unit, product line or technology.
- Licensing revenue, possibly differentiated by business unit or technology.
- The pace of patenting compared to competitors, possibly differentiated by business unit, product line or technology.

In order to convey their meaning, complex metrics often require graphs or diagrams, with brief narrative explanations accompanying them.

Types of report content

Content type	Primary recipient	Goal	Focuses on	Describes	Example
Simple metrics	Line manager	Monitoring	Activity	Portfolio	IP counts
Complex metrics	Line and business unit managers	Insight	Outcome	Business	IP versus business
Narrative content	C-suite				Landscape; trends

Figure 2. Prevailing content type by Edison level



Source: Edison Revisits the Boardroom, Harrison & Sullivan, John Wiley & Sons, 2011

also see units reporting on their costs in a separate recurring report. These reports typically contain a comparison of budgeted and actual IP function operating costs for discussion with the corporate finance department. Some companies at this level seek to measure the quality of their patent applications and assign metrics accordingly.

At this level, companies begin to monitor their key competitors' IP activities, often reporting regularly on the counts of published applications or granted IP of these competitors.

For companies at the third level of IP management sophistication, Level III – capture value, the emphasis shifts from reporting primarily on processing activity to reporting on the kind and amount of value captured from the company's intellectual property. Reports tend to focus heavily on captured value from a monetisation perspective.

Typical monthly reports for these companies include:

- Revenue generated from intellectual property (licensing of IP, as well as IP sales).
- Markets and margins protected by intellectual property.

- Partnering arrangements (including cross-licensing).

Some companies at this level also conduct more sophisticated competitive analyses, such as:

- Comparing their own portfolio line-up with those of key competitors.
- Mapping the company's portfolio to competitors' products in order to identify IP assets that can be used offensively or in negotiations.

These reports may be recurring (ie, quarterly or annually) or by special request.

Reporting at Level IV – synthesise opportunities is issue specific and typically involves narratives about intellectual property and its association with transactions, deals, due diligence and key business issues for the firm. There is rarely a standardised format for the narrative element of these reports, as they tend to vary considerably from one report to the next.

Reports cited at Level V – shape the future include:

- Identification of trends and ways in which they may affect the company's

business.

- Future technology differentiators.
- Future revenue or strategic positioning options.
- Early identification of potential threats to the company's plans.
- Scenarios for industry-wide evolution.

Reports at this level are largely narrative. They focus on specific IP-related issues that are of concern to executive and business unit managers, and tend to include only a few supporting metrics.

In several cases the IP managers being interviewed aspired to a higher Edison level than the executives to whom they report; in other words, these professionals wish to report more complex information than their executive management is ready to receive.

Reporting tools

Simple metrics can typically be delivered from docketing systems or simple internal IP databases. Standard office software tools, such as spreadsheet applications, are frequently used to deliver simple charts or graphs that visualise the metrics when this functionality is not easily available in the docketing system.

The delivery of complex metrics requires a more advanced IP management system, which allows for the categorisation of IP assets according to different criteria, such as technology, product or line of business. Many companies use some sort of portfolio database separately from their docketing system to track these asset characteristics.

When financial data must be processed for reporting purposes, additional databases, such as the enterprise resource planning system, must be accessed to pull out this additional information.

Maintaining all relevant information in one integrated IP management system and database, with established interfaces for the automatic exchange of data with other enterprise IT systems, makes it easier to create content-rich and compelling reports, particularly if the system is equipped with advanced reporting capabilities. Such a reporting system must be flexible enough to allow for extensive customisation of the reports to meet the needs of specific recipients.

Taking this flexibility further, some IP organisations with advanced capabilities provide interactive reports and dashboards, which allow recipients to select the data elements to be displayed, define custom filters and explore the reports to uncover more detailed information as needed.

For reports that include data on third parties, external search, landscaping

Figure 3. Example of a report containing simple metrics
Year-to-date first filings, compared to filing goal and previous year

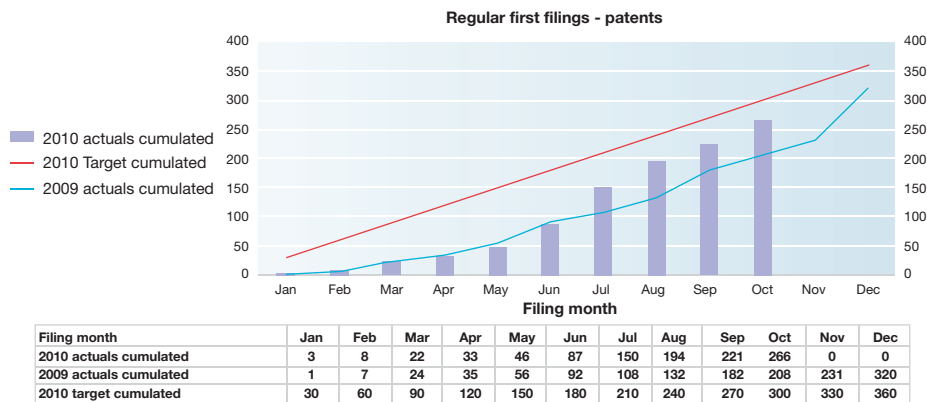
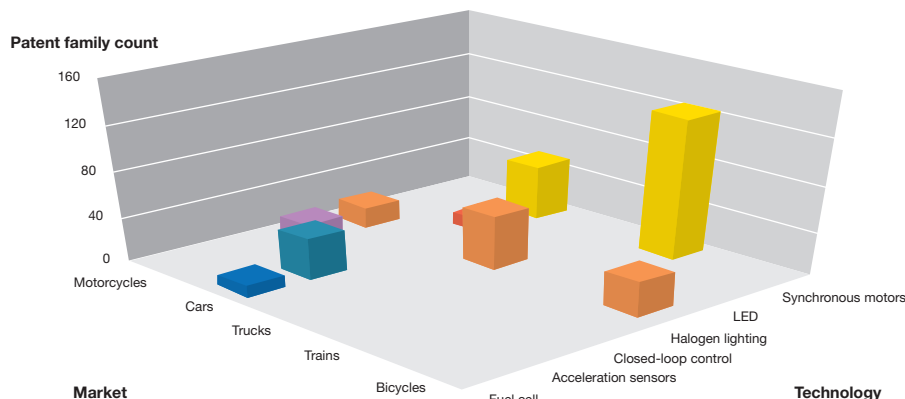


Figure 4. Example of a report containing complex metrics

Portfolio visualised as a landscape formed through the intersection of its classifications according to market and technology



and competitive intelligence tools and databases are employed.

The largest and most sophisticated IP organisations maintain data warehouses that are fed with information from various internal and external sources. In combination with business intelligence tools, these data repositories not only allow for the creation of integrated and interactive recurring reports, but also enable *ad hoc* analysis of new questions or challenges for the IP group from the business side.

At the highest levels of reporting, data must be collected from a variety of sources and a narrative must be written. Creating such reports is typically a highly manual and time-consuming process that is difficult to automate with the current generation of IP databases and reporting

Action plan

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An IP manager can follow a number of useful steps when planning to create an IP report for the company or reviewing and upgrading the company's existing report. The authors suggest the following guidelines for developing or tuning a company's reporting strategy in line with our findings:

- Determine your company or business unit's current Edison level.
- Identify the Edison level to which you aspire.
- Determine who should receive recurring reports and whether they should be upwards, sideways and downwards.
- Determine how the recipients will use the contents of the reports.
- Define the content, design and length of the reports. Ensure that they are easy to read and avoid going into too much detail. Two or three pages is typically sufficient; more information is unlikely to be read.
- Define the frequency and method of distribution that is appropriate to each report (eg, email, intranet portal, personal or committee meeting; push versus pull).
- Make sure that all of the data needed for your reports is routinely collected in your IP management process (eg, classification of assets according to different dimensions, including re-evaluation at certain milestones of the IP lifecycle).
- Use current-generation tools to create visually appealing (and possibly interactive) reports.
- Strive to automate report generation (particularly where metrics are involved) and distribution.

tools. The result will be a document or presentation that is individually created every time such a report is composed.

Need for flexibility

Unlike reporting about financials and tangible assets, which tends to be highly standardised and prescribed, the content of IP reports strongly depends on the identity of the recipient and his or her understanding of intellectual property. There is only a limited set of standardised metrics that we have found to be reported throughout almost all organisations surveyed. Building on that basic set, IP managers must determine the type of information that their recipients need and how the recipients will use it; they should then design the content and nature of their reports accordingly. This calls for reporting support tools that offer enough flexibility to tailor the reporting practice to each organisation's needs. **iam**

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