

# PATENT STRATEGY

In my interactions with entrepreneurs, business owners, and technologists in large and small companies, I find that there is a low understanding of patents. In particular, most people involved in business strategy have an unclear idea regarding:

- what a patent is;
- why you'd want a patent;
- why a patent costs so much; and
- what alternatives there are for paying the high cost of hiring a patent attorney to write a patent for you.

As a result, most companies don't use the patent laws effectively as part of their business strategy. Patents can be a very powerful strategic tool and don't have to be unaffordable. This brief provides an overview about patents. Patents are a complicated subject, however. I've also included references if you'd like to learn more than I can cover in these two pages.

## What is a patent?

In the U.S., a patent is:

- A right given by the US government to stop others from making, using, importing, selling, or licensing;
- A new device, process or composition of matter created by a human,
- For an invention that is documented, presented and reviewed by the US Patent office for its novelty and unobviousness; and
- Has not been thrown out as a result of a legal challenge in the courts.

This definition broadly applies to most other countries in the world, but there are country-by-country differences of what can and cannot be patented, and who gets a patent if an invention is claimed by more than one inventor (in the U.S. it is the first person to invent, in most of the rest of the world, it is the first person to file for a patent).

Patents are useful because they grant something similar to a legal monopoly that allows the patent owner the right to exclude others from making, using, selling, importing or offering an invention for sale. This allows the patent holder to be in a unique position to make profit.

## Types of Patents

In the U.S., there are three types of patents:

- **Utility patents** are the most common patents issued. Utility patents are granted for a unique combination of components or elements that function in useful manner or for a unique combination of process steps to accomplish a useful function. U.S. utility patents must fit into one of five classes:
  - (1) A machine.
  - (2) A process (or method)
  - (3) An article of manufacture
  - (4) A composition of matter, or
  - (5) A combination of the above four.
- **Design patents** are for a particular ornamental (as opposed to functional) shape for a man-made object.
- **Plant patents** are for a unique asexually reproducible plant.

## Why Get a Patent?

Broadly-speaking, I am aware of four strategic uses for patents:

- **Marketing benefit.** Because it takes a lot of money, time, and effort to get a patent and because the US Patent and Trademark Office is selective about what they allow to be patented, people use patents as a way of defining what is a worthwhile invention and what is just hype.
- **Revenue source.** Here the idea is to sell the rights conferred by a patent. This could be done by selling the patent, by selling a license (exclusive or non-exclusive) to use the patent, or by generating revenues from selling products or services that use the patent. There are also people who have opportunistically patented ideas (the detachable computer keyboard, the 3.5 inch form factor disk drive, the intermittent windshield wiper) and waited until these came into common use and then gone after the users of "their patent".
- **Bargaining chip.** Large companies have traditionally patented inventions that are part of the products they develop. If they are sued for infringement on a patent by some other company, they mine their patent portfolio to see if there is anything they can countersue this company for. Once the lawsuits are filed, representatives from the two companies get together to work out a deal.

- **Industry control.** I have worked in organizations that used patents to control an industry. In this particular case, the company needed to be able to prevent others from selling goods that plugged into our computer product (in our case, tape media to be used in a computer tape drive) if these goods might damage our product. Since we had a patent that was required to sell the tape media, we could write a licensing agreement for this patent that only allowed companies to sell media that was compatible with our computer tape drive if it also met other technical requirements needed to ensure that it did not damage our product.

### **What Does It Take to Get a Patent?**

The common impression is that it takes a lot of money to get a patent. This is basically true, even a simple patent application can cost more than \$5000 in fees for a professional to prepare the application plus about \$1000 in fees at the Patent Office without any guarantee that the patent will be granted or that it would hold up if ever challenged in court. However;

- It is possible to file for a patent application yourself. There is no requirement that this must be done by a patent attorney.
- It is also possible to do some of the easier things involved in filing a patent application yourself and to use a patent attorney only a resource to look over your shoulders. I have recently worked with an entrepreneur who filed a very good patent for less than \$2500 in total costs. With the experience he now has, the next patent he files would probably cost only about \$1500 in total costs.
- Because it is considered so expensive and complicated to get a patent, the perceived value of having a patent is higher. Therefore, it is worth investigating patents, even if you have few resources.

A U.S. patent gives you no protection outside of the U.S. If your invention needs to be patented in multiple countries, costs go up dramatically. For example, the typical cost of filing in ten countries outside of the U.S. is approximately \$4000 in fees plus up to \$5000 per country for translations, etc. In addition, each of these countries require patent maintenance fees that can be more than \$1000 per country per year. As a result, it appears that even big companies seldom maintain foreign patents, except for inventions that are big money spinners, like prescription drugs.

### **Conclusion**

I hope that you have found this brief helpful. Please let me know if you have any questions or suggestions for areas that should be covered in more depth.

The subject of patents is a very complex one and I do not profess to be an expert. Below are some references if you like to explore this topic in greater depth. If you are serious, I also recommend that you have a consultation with the best patent attorney that you can afford. I have found that a one-hour consultation to review your patent idea, before you go too far, can be extremely helpful and still affordable.

The three references that I use are:

- Fishman, Stephan. *Web and Software Development: A Legal Guide.* (c) 2002 Nolo.
- Pressman, David. *Patent it Yourself.* (c) 1985-2002 Nolo.
- Pressman, David and Jack Lo. *How to make Patent Drawings Yourself.* (c) 1997-2001 Nolo.