Build and Protect your Core Intellectual Property

IP IS THE NEW CURRENCY. WHAT'S IN YOUR WALLET?

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IP is the new currency (everything else is replicable). What's in your wallet?

Everything is discoverable, given enough time and attention. From Prom pictures to your kid's last birthday party to the formula you developed on high density data storage, it will end up sooner or later into a semi-public or public place no matter what. You might try to protect the privacy / confidentiality of these knowledge nuggets or snapshots, but as you are sharing them, the probability that someone will intentionally or accidentally release them on the Internet is growing exponentially.

This has been changing the very nature of the Intellectual Property life-cycle, as the useful private life of a knowledge asset is only until it hits the public shores, a time that shrinks faster every day. The intrinsic value of an IP nugget is being defined by its useful life-span as well, the usefulness window getting much shorter creates a need to accelerate the return on this IP, especially if it comes straight out of your R&D. In a competitive market competitors are sharing their time between trying to create their own IP (likely close to the very one you just came up with), and trying to put their hands of your IP so they can leapfrog the value cycle.

An unintended consequence though is that the ceiling of profitable use of IP being snatched out of the market place is also coming down fast. Assuming that I can hire one of your past employees with a special knowledge, the useful life of this information is short too, as this information will hit public awareness and my own team might be able to create a very similar piece without any help. Potential IP-thieves are operating now in a trading market where the commodities are losing value fast, pushing for a fast snatching and reuse of the IP, before its loses its market value. The economics of the trade are also changing as the cost of acquiring a specific piece of IP could be far superior to the actual market value of the goods. Unless the IP nugget is so strategic or valuable that it becomes a goal in itself, easy and fast traded morsels are likely to be the bulk of the trade.

As these value thresholds are changing fast, so grows the need to re-assess what makes the true DNA of your business and what is the IP that belongs to it versus the knowledge that resides on its fringes. The latter still retains value, but does not carry the same strategic and survival implications. A problem is that the number of IP Valuation systems is fairly small and they mostly rely on past life-cycles and concept, hardly keeping up with the fast moving changes introduced by the virtualization and globalization of the information.

Companies should engage in periodic analysis and re-assessment of both their IP catalog and what constitutes the very nature of their business DNA. These two dimensions allow for a pragmatic view of value, costs and risks linked to intellectual knowledge and know-how; in the same time it provides a framework of reference to determine how much you should care and what should be your strategy for each nugget of proprietary or privileged knowledge comprised in your "IP Stock".

Once this analysis is completed, decisions and business rules can be created and deployed, to optimize the management and use of internal IP.

Where resides your true DNA?

What makes your business truly unique? What gives you competitive / Market advantage and refrain others from taking over your customer base? Under many marketing pitches reside old beliefs on what make a company, a product unique. Being the only one to provide such product is a good start, but not enough to establish uniqueness, as it can be just circumstantial. To be unique a product or service needs to be perceived and often proven to have features or characteristics that identify it immediately as of exclusive

origin. In most cases such original label requires traits and know how that are not, cannot be replicated by others. Even after other manufacturers launched MP3 readers, features and design elements kept the iPod unique and differentiated. Since these devices have been manufactured through a network of plants and suppliers, the traits separating iPod from other devices and before that enabling it to be recognized by potential buyers as unique had to be strong and embedded into the product itself. It took years to get the first products to be able to create true competitive pressure for Apple, even though the specific technology was readily available.

A combination of solid state memory, chips, programmed features and elegance in design created a market hit where many companies had failed before. As long as Apple is able to maintain the uniqueness of its products, it will retain an edge against competitors. We also saw that when a competitor combines screen size, features and design that are truly a unique combination, even hegemonic market leaders like iPhone can get into trouble.

Many companies dream of being the elusive market winner, and claim their uniqueness. Others just copycat market winners to surf on the wave of fame and reap mass market benefits. It eventually comes to what makes uniqueness, and beyond a given product unique features, what constitutes the core, true DNA of an organization.

It would be both inaccurate and vain to reduce Apple's identify to a list of unique features attached to its products. This would not encompass the reasons why the company has been able to continuously create and market breakthrough winners such as iPod, iPhone, and other iPad in addition to its more traditional computer business. There lays what makes Apple unique, in the same way unique culture, attitude, beliefs and know-how are making Nike, McKinsey or General Electric leading brands.

In many cases the core business identity is based on a know-how developed internally, either through Research and Development or through a continuously refined practice. From this core competencies grow market or customer aligned adaptations and embellishments until the entire organization's life cycle, focus and competencies are tightly coupled with its market. In this ideal scenario, the identity of the organization is fundamentally to create products and services which have a purpose and a mission. In a more ordinary business world, with less perfect drivers, the core DNA of a company still resides in the execution of its Mission, delivering market-value goods to its customers.

Over time, this core identity can concentrate and the organization can become then a staple in the market, achieving brand icon status. In most cases, the organization grows horizontally or vertically, adds products and services, acquires new business and eventually finds it harder to separate the original Core from the new business model. This creates confusion, as employees, leaders and customers alike lose sight of the core DNA. This dilution of the Core value can quickly turn the brand into a commodity provider that does no longer grow loyalty and differentiation.

To get their groove back, business organizations need to filter out non-Core elements and establish a basic representation of the layers and islands of IP that makes sense for both internal and external actors. This is hard work, calling for an unbiased analysis of the new Core of the company or corporation.

Some confusion exists between critical and unique knowledge, strategic sourcing and cardinal integration. Criticality is defined by the absolute need of a given supply to be able to operate. Electricity is critical to operate a machine or a computer; oxygen is critical to breathing beings. This does not mean that a company using a computer has to produce electricity or that human beings have to produce oxygen, but that they need to have an adequate supply of it at all times. Manufacturing vehicles is not simply critical to GM: it is the core of its business. These are easy examples.

Lines tend to blur when the question becomes of functions and activities that have been integrated or result from inorganic expansion. Financial transactions are certainly core to GE Capital, but are they core to

General Electric as a corporation? Is warranty and maintenance the core business of Best Buy? There is no straight answer, besides going back to the original Mission and Charter, to either catalog non-Core functions and businesses or amend the Mission Statement itself. Once the Core has been clarified or restated, functions and activities can be analyzed using a simple matrix scoring criticality versus strategy.

The extent to which an organization can do without a specific activity or supply is basically the scaling of criticality. At the highest are things that are required to simply operate and perform the basic execution of the Mission (manufacture and sell cars; Provide retail banking services; sell goods through an internet website...). These core activities simply cannot be performed successfully without the Core supplies or functions. At the lowest score are the activities and supplies that would not suspend or render irrelevant the Core functions, but would impair their full success. The recruiting of specific talent pool to sustain the Core, the backup generators enabling operations to continue after a power outage have small to moderate impact on the core, but still belong in there.

Calling a specific activity strategic is mainly tagging it to the Mission and determining how much relevance it has to the future state of the organization. If strategy is the path to a future state, then the degree of strategic importance is a measure of how much it contributes to this future, whether through the continuation of core activities or through the creation of future ones. So ranking strategic intensity is not a measure of strategic execution, but how big a slice of the future vision it represents. To this effect strategic planning and associated initiatives are not strategic in nature, but create strategic content.

Undertaking strategic initiatives is only measurable through the amount of strategic fabric they create.

Integrations, such as in Mergers and Acquisitions or inorganic growth are special in that their true value added can be either strategic (hence creating or acquiring potentially new IP) or purely tactical (creating new revenue / cost saving streams). Although incremental cash flows are nice to have for they enable other things, the do not necessarily impact the Core would they cease to generate revenue (e.g.: spin off, sale, etc.). The actual knowledge capital carried along can be negligible even if the revenue stream is critical to the organization.

An in-depth analysis and catalog of intellectual capital assets often highlights what constitutes and where resides the true Core, the DNA of an organization. Intellectual Capital has to be kept alive through continuous access and use, monitoring, evolution and adaptive changes. This inherent continuous flow is what sustains the relevance of a capital investment. Eventually it comes down to a simple question: what is your true DNA? Where does it live, grow and get nurtured?

Strategic analysis of IP: Build, Buy, Grow, Shed

Criticality is often mentioned in IP and knowledge assets discussions, without detailing what it means and what organizations are doing about it. Critical means something indispensable, a vital supply or matter, the lack of which would cause irreversible damage.

Some business are making a living (sometimes a good one) off well known processes and tools, building their sustained success on their skills at using those tools to service their customers. Other businesses rely on unique combinations of skills and innovation to bring differentiated offerings to the market place. In effect, both are leveraging know-how and intellectual property, although in a different way.

Manufacturing parts in volume is a repetitive process, with little left to the imagination once the basic manufacturing steps have been defined (especially if the production is expected to be predictable). A leading part manufacturer however will have the choice of fine-tuning the process steps, machines

programming, analyzing production issues in order to improve quality and responsiveness to market changes. A key employee well versed in the details of the end-to-end manufacturing could very well bring this knowledge to the next competitor, giving them a fresh competitive edge without the experimental time and costs.

Another manufacturer producing unique urethane blades for conveyor belts would build its business on the unique formulae and know-how that together, allow for a unique and advanced product to be sold to demanding customers. Would a formula or the manufacturing know-how, such as the unique ingredients mix and temperatures of processing, fall into competing hands, a whole section of the current and more dramatically, the future business would vanish.

Both examples illustrate that the critical knowledge or Intellectual Property loss or leakage can really hurt a business to the point of shutting them down, in the same time they show that the actual loss of knowledge is not the only issue here: the knowledge acquired by another competing entity creates the harm, even if the knowledge assets still reside within the original walls. Conventional thinking on fencing and protecting core IP from walking away no longer responds to the needs of modern threats and communication capabilities.

A sobering thought: over time, through personnel attrition, the accumulation of small knowledge breaches and other people's discoveries, each knowledge asset will become public knowledge. The question is no longer about the "if" but the "when". There no longer is such thing such as knowledge vaulted off in the global economy, with intellectual property nuggets buried in a pirate's secret cove. Cyber-criminals, rogue states, industrial espionage and more simply life, are breaking those fences over time. Businesses should be keenly aware of what constitutes the critical knowledge supporting their business, including the way they operate, deal with providers and partners, organize the work flow, etc. Know-how is an elusive, almost intangible matter.

Knowing what makes your business unique and compelling in the eyes of your current and future customers is broader than a urethane formula, but a lot more insightful on what really is behind success, hence how to nurture and protect it.

Best options are to surf on existing knowledge until the business wilts away in some distant future, or to join the rat race and to march forward, continuously updating and improving the knowledge capital to keep ahead of the pack. The latter implies a dynamic management of IP capital, at each stage of its business life cycle: Build, Acquire, Nurture and Shed.

Phase	Management Charter
Build	This is the classic stage when intellectual capital is being created. Research and Development teams are the most visible part of this process, although elements exist at every level and for almost every function of the organization. It takes a long range vision to foster innovation and harvest know-how and other assets at all levels, but the creative tension generated will likely return a high payback on the original and continued investment. The creation of a Knowledge Officer or Innovation Chief is a good way to anchor the practices and to ensure that the freshly minted IP nuggets are not discarded or under-leveraged.
Acquire	Some organizations are simply not ready or too streamlined to even have the internal resources to create new IP assets. Even larger organizations are leveraging partner organizations such as providers, distributors or alliances, which can fuel the continuous need for fresh IP. Beyond this first layer of associated businesses are companies which already have or can create IP capital elements. A savvy organization can identify these knowledge assets early enough to get exclusive or at least access to it and acquire the new knowledge as a

	regular business transaction. A typical example is royalties paid off the use of a patent that another company registered. Acquisition should be seen with the same discipline as any other supply, and verify that the acquisition and possibly use-price is matching the value that the company plan to return from the purchase.
Nurture	Nurture applies both to internally and externally held knowledge. Internally, the organization needs to create a culture where innovation that translates into business improvement is rewarded, and provide the recognized innovators and their colleagues with an environment fostering improvements of existing IP or creation of the next generation. Creative juices are rarely a lightning strike in the desert: encouraging pursuing the creative process or keeping it alive, without distracting the main business activities is a fundamental guideline for continuous improvement and innovation. Externally, partner organizations (including suppliers) should be recognized and valued besides any business transaction to reward them. Companies are made of people, who will notice if their ideas are getting traction and put to good use. Giving them a chance to do it again is very likely going to produce some "white noise" ideas, but also some that could be the potential next breakthrough.
Shed	Knowledge is having its shelf life shrink a little more every day. New knowledge, refreshed know-how, new patents will sooner or later make it irrelevant, partially or totally. Organizations should be ready to either shed or retire knowledge that has no longer a useful life (but might still be an asset for other companies / world regions), and continuously replace current IP with new one just fresh off the labs. Just like an old skin being shed to let the new one come up, knowledge assets are transient. Keeping one too long would prevent the next one from accessing its useful life. This requires a new mindset on how to value in equal fashion knowledge and its retirement.

Knowledge creation and keeping up with its currency and relevance are plainly a business cycle with all its attributes of performance, financials and competitive position. How should an organization decide on how to build or acquire a knowledge nugget: the best or the cheapest? What are the business rules to value and retire an Intellectual Property asset?

In most business management decisions, economics are the determinant factor. The choice between "Buy" or "Build" is based on well-known factors, such as a cost / benefits analysis, internal capabilities and how well an external solution would fit the need. Other factors exist that are more specific to IP analysis: Cost Benefit Analysis includes a long term view of the useful life of the asset, over an acceptable reference period of time, as well as the market and competitive differentiation, which need to be included into any Future Economic Value calculation. The benefits of having a differentiated offer for instance, should be combined with the potential impact of having a competitor acquire or build a comparable IP asset and the associated business impact.

The same goes for the decision to shed or retire assets, as some might have reached a point where their value to the business is no longer sufficient, or new assets are offering higher returns. This does not mean that the asset has no residual useful life, within the company (other businesses or functions) or outside. If an IP asset still has a useful life outside of the company, the question is then for how long and should the company trade it with a partner / buyer or burry it into its deepest vault? It can be an interesting debate deciding to sell or trade an IP asset no longer at its prime for a business. From the discussions a whole new understanding of the true valuation of Intellectual Property assets might emerge, in a domain often left vague or too narrowly defined. A constraint however is that the fast shrinking of the knowledge useful life

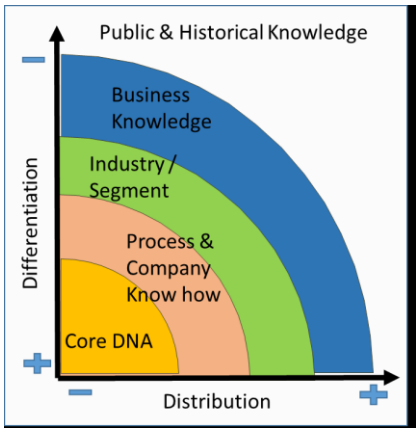
foretell a world order where the process of shedding and retiring is as mainstream as the retiring and recycling of forms and mobile phones.

Leveraging partners and suppliers in an innovation network is a bold decision that many companies have taken already, in fact. How much of an iPhone or an iPad is actually manufactured within Apple itself? How much of a sneaker is actually manufactured by Nike or Adidas today? Where are the main cosmetic brands getting their products and packaging from? In the global economy, many business rely of a chain of suppliers and partners to deliver a part or assemble some of the final product before shipping it to the next process stage location. This network can be commoditized and work for competitors too (like cosmetic products manufacturers in Asia servicing simultaneously multiple competing brands), which can be an issue, especially when it touches intellectual property matters. However competitive the context is, there is likely a room to create a joint partnership with some of these suppliers and partners, leveraging their skills and focus on the creation of fresh knowledge capital. It reduces the time to market, prevents building expensive research teams, and not the least, it beats the competition doing the same ahead of you. A counter-effect is of course the continued disintermediation of the knowledge: once an organization relies on an external partner to create specialized IP, there is almost no turning back. It creates a new dependency where the provider or alliance member gets a strong lever that could be used in future negotiations. Everything comes with two sides, so organizations and their leaders will have to factor in the current and future strategic SWAT of each decision.

Now, protect it

A full life-cycle of Intellectual Property assets management that includes a fully mature management and care system will create both a new understanding of knowledge capital as another strategic asset to be taken care of and the rise of a new discipline centered on knowledge as a managed asset, as opposed to knowledge as an intangible. Resting on the immateriality of knowledge is the main reason for not developing fully mature management systems, with the exception of materialized outcomes such as R&D, patents and the like. The rest of the assets have been lacking care and business rules, augmenting their intangible perception and lowering the urgency to manage them properly.

The expanded knowledge capital that is comprised of all the relevant know-how, skills, optimizations and networked end-to-end processes surrounding the “recognized” IP nuggets defines new boundaries. This redefined knowledge space is where an organization strives, grows and prosper, as well as where it preserves and increase its market differentiation and competitiveness. New playbooks need to be created at the Enterprise level, with strategies and management rules for each category of knowledge asset. Primary drivers for the classification of such assets include their instant value (in the current business model and contributing to the P&L) and their long term value as Future Economic value elements.



As external knowledge can be critical too, this management model requires layers of IP residency, in concentric circles as illustrated in the chart.

The extension of the knowledge circles to multiple layers of collaborative knowledge expands the need to protect and care for it beyond the core organization and creates new challenges and new opportunities. How can an organization protect something that does not belong to it and resides in a distant place outside of the organization’s control?

A whole new thinking is required that combines any IP sharing discussion with a partner or supplier with a number of dispositions

regarding the security and exclusive use of some or all of the asset elements. If a provider can manufacture an improved product, and another supplier can wrap a layer of dedicated services around it, the protection and nurturing of the combined capability is now depending on the collaboration and synergies developed between all parties.

It has become increasingly difficult to operate in the global economy without a network of links, partnerships and agreements; the same goes for IP management. Controlling a business' IP is ironically synonymous with creating a network of interdependent alliances between distinct organizations, each with its own sets of strategic and tactical goals. The alignment of values and cultures, together with a well understood set of management rules creating a sustainable, profitable business model for all parties involved is becoming the new norm of the knowledgeable enterprise.

The protection of this fluid knowledge space cannot rely on fencing solutions alone, where uninvited visitors need to go through excruciating steps to prove their trustworthiness. Fences will break and insider breaches will go around them without even missing a step. Similar to what is happening within the organization and its information system, knowledge assets will require a specific knowledge architecture that makes them available to all when appropriate, in the same time hackers or unauthorized guests will have a harder time harvesting useful information beyond bits and pieces.

The emergence of an extended network of knowledge assets and residency is also ripe with new possibilities. The expanding knowledge space enables establishing new correlations, creating unique, unprecedented associations between knowledge assets including the refreshing of "old" ones through iconoclastic rethinking. Early impressionists did not paint new things or use special pigments: they combined a new theory of colors with painting with new strokes (dots, squares, knives) that re-defined the entire knowledge of what painting was in the late 19th century. Old tools such as brushes and a color palette can produce a whole new result when combined with new know-how and fresh thinking.

Let us get our new skin and expand our business model.