

Strategic Management & Commercialisation of Intellectual Property

An Industry Perspective

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IP Management & Knowledge Transfer - 29 Sept 2004

GROWTH IN INNOVATION & KNOWLEDGE-BASED ACTIVITY

- Rapid technological change
- Market globalisation
- Information economy

BUSINESS IMPACT

- Increased premium on intangibles
- Diminishing historical correlation between market value and net asset values
- Growing nexus of IP with value creation
- Shifting basis of differentiation and competitive advantage

MARKET AND NET ASSET VALUES (\$USb)

Company	Market Value	Revenue	Profits	Net Assets	“Hidden Value”
General Electric	169	79	7.3	31	138 (82%)
Coca-Cola	148	19	3.5	6	142 (96%)
Exxon	125	119	7.5	43	82 (66%)
Microsoft	119	9	2.2	7	112 (94%)
Intel	113	21	5.2	17	96 (85%)

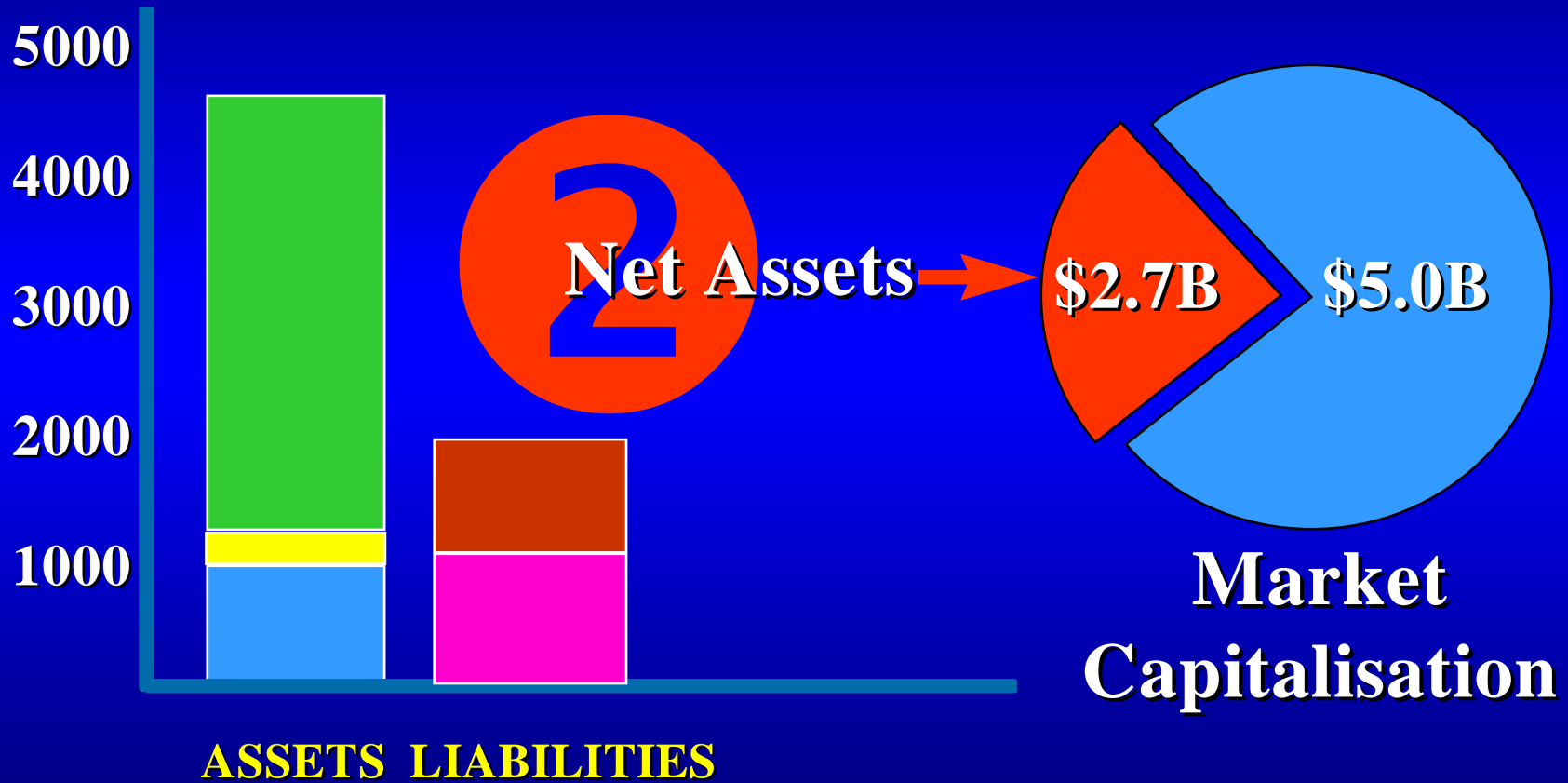
MARKET VALUE AND HYPOTHETICAL REPLACEMENT COSTS (\$USb)

Company	Market Value	Net Assets	Hypothetical Replacement Costs	“Hidden Value”
General Electric	169	31	77	92 (54%)
Coca-Cola	148	6	15	133 (90%)
Exxon	125	43	107	18 (14%)
Microsoft	119	7	18	101 (85%)
Intel	113	17	43	70 (62%)

FOSTER'S GROUP

- Beer
- Wine
- Spirits
- Non-alcohol beverages

FOSTER'S GROUP SHAREHOLDER VALUE



SOURCES OF VALUE

- Brands, names, logo's and devices
- Innovation, tacit knowledge and know-how
- Internal processes and procedures; business methods and systems
- Joint venture, distribution and licensing arrangements
- Customer, supplier and investor relationships

TRADITIONAL MANAGEMENT APPROACH

- Focus on returns on tangible assets & financial capital
- Highly refined business practices
- Efficacy of application to intangible assets?

INTANGIBLES: THE MANAGEMENT PROBLEM

- Changes in value over time
- Limited application of the concept of inherent value
- Risk of absolute & irretrievable value loss
- The human dimension

IMPLICATIONS FOR INTELLECTUAL PROPERTY MANAGEMENT

- A broader perspective on IP as a component of intellectual capital
- A more strategic approach to management
- Closer integration of IP with business activity
- Commercialisation demands stronger emphasis on value extraction - rather than simply protection

INTELLECTUAL CAPITAL

- Intellectual property
- Intellectual assets
- Human capital

INTELLECTUAL ASSETS

- Know-how & tacit knowledge
- Internal processes & procedures
- Business methods & systems
- Customer, supplier & consumer inputs
- The way business is undertaken

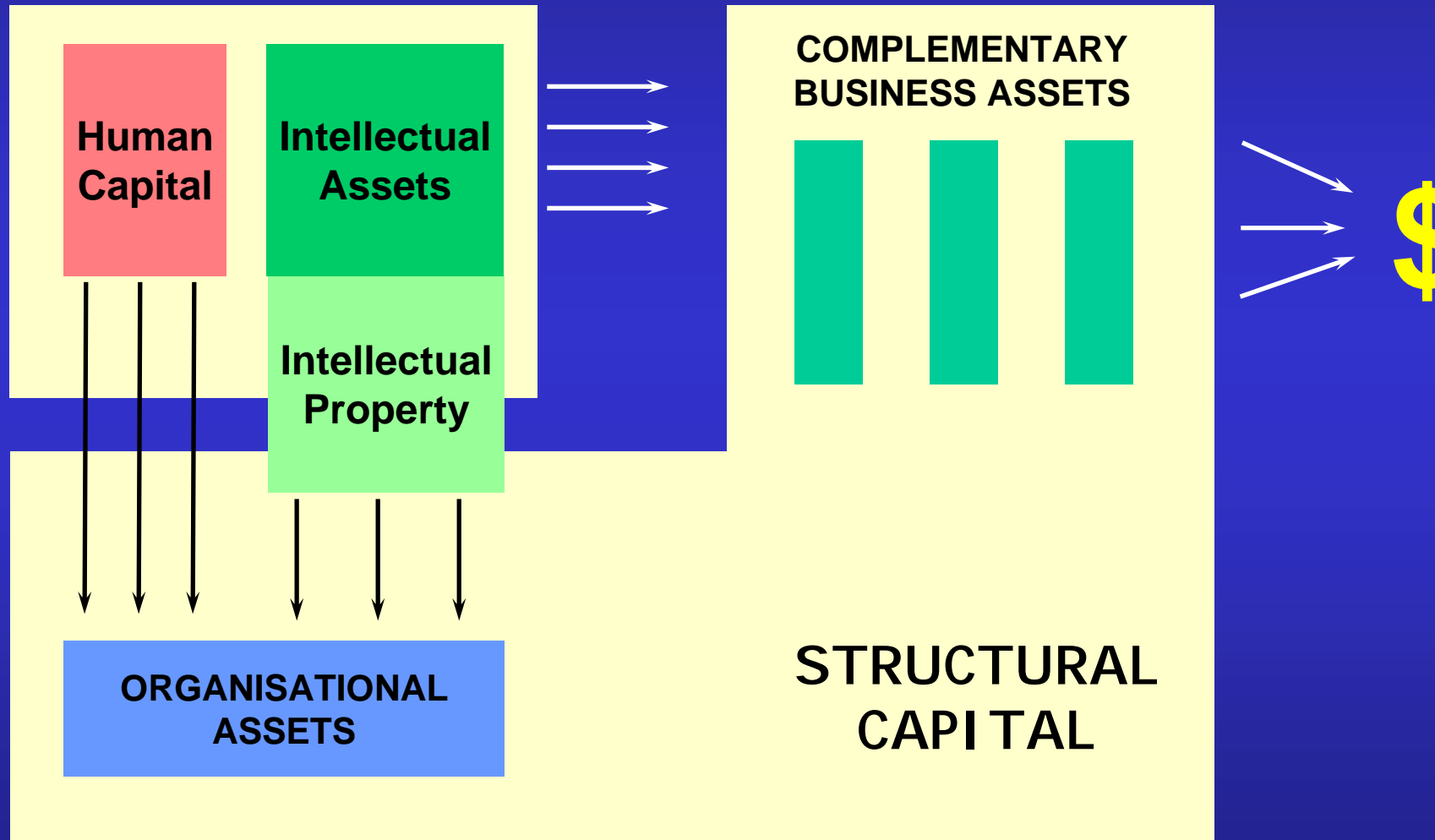
HUMAN CAPITAL

- Expertise & experience
- Creative capacities
- Leadership
- Managerial and business Skills
- Cohesive culture
- Learning

KEY SUCCESS FACTORS

- Stimulate & nurture intellectual capital formation
- Capture, filter & translate intellectual capital into organisational or structural assets
- Conjoint deployment of physical, financial and intellectual capital resources

EXPLOITING INTELLECTUAL CAPITAL



THE CHALLENGES

- Stimulation and capture
- Security and management
- Measurement and valuation
- Value extraction - commercialisation

STIMULATION AND CAPTURE

- Developing a cultural disposition towards innovation
- Purposeful versus incidental intellectual capital generation
- Knowledge management systems
- Inventory of intangible assets

DEVELOPING AN IP INVENTORY

- Idea “Catchers”
- Assessing ideas against a business context
- Planning protection around commercialisation plans
- Proactive inventory management

COMMERCIALISATION

- New products or processes
- Improvements or adaptations to existing products or processes
- Incremental change (eg end user innovation)
- Insight-based innovation

SOME OBSERVATIONS

- Small is not always modest
- Bottom-line implications for business
 - increased revenue
 - reduced cost
 - enhanced productivity
- Intellectual capital utilisation v profound invention

COMMERCIALISATION OPTIONS

- Divestment
- Licensing
- Joint venture
- Alliance
- Direct utilisation

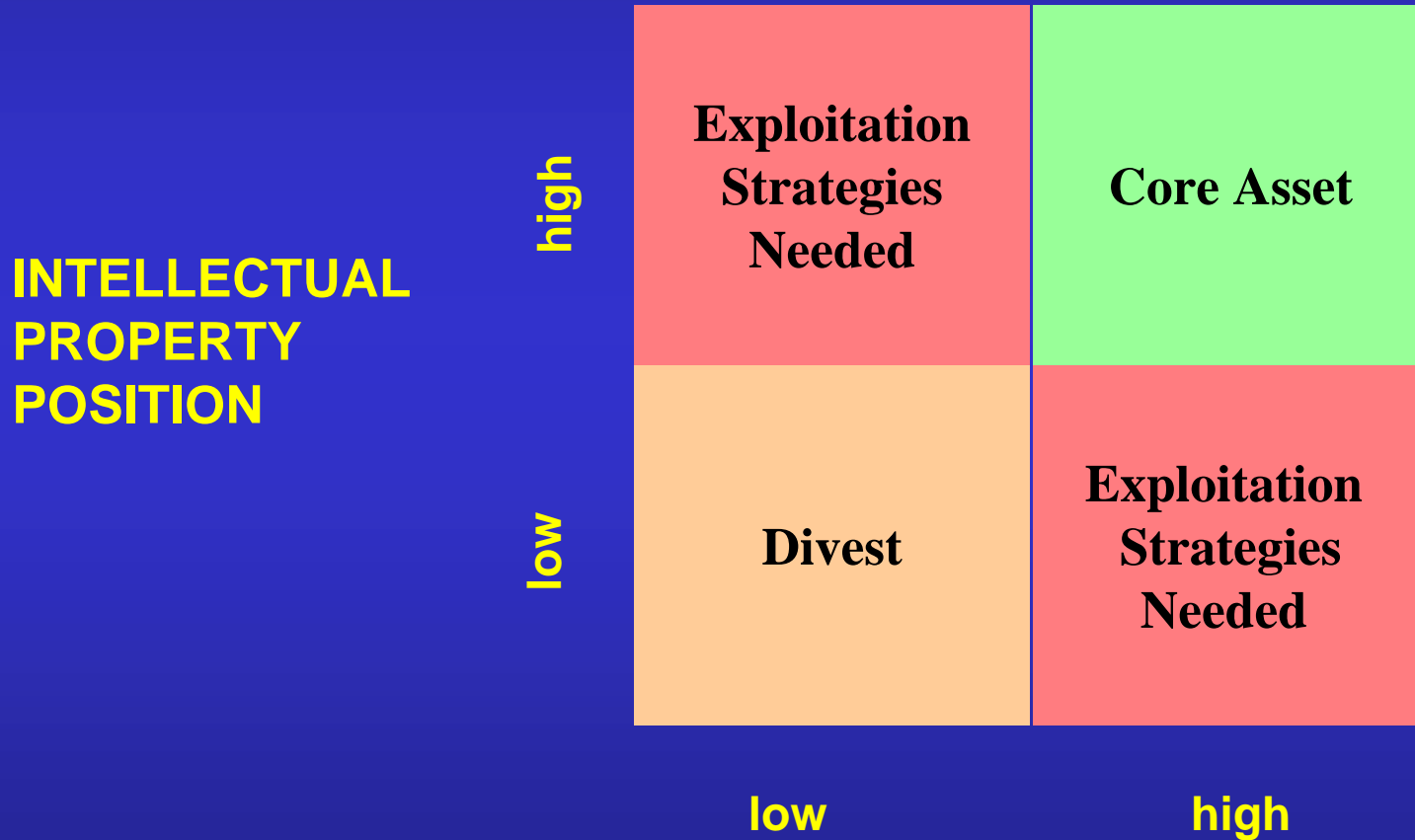
STRATEGIC ISSUES FOR COMMERCIALISATION

- Commerciality in appraisals
- Alignment with business strategy
- Business deployment strategies
- Proactive management processes

COMMERCIAL EVALUATION

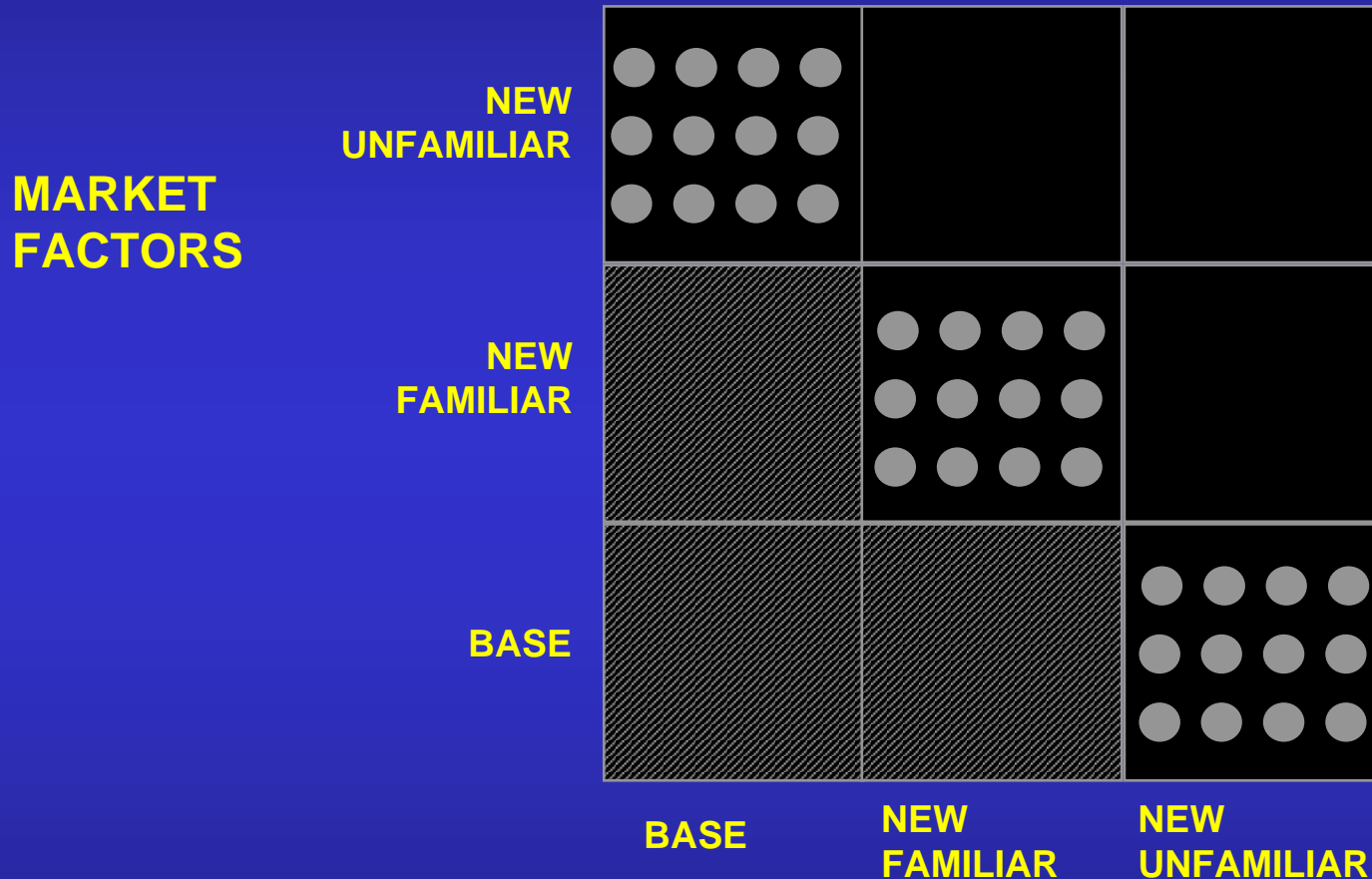
- Security
- Competitiveness
- Obsolescence
- Market Maturity

STRATEGY ALIGNMENT



BUSINESS FIT

BUSINESS DEPLOYMENT: THE FAMILIARITY MATRIX



Increasing Corporate Familiarity

TECHNOLOGIES OR SERVICES EMBODIED IN THE INNOVATION

COMPANY SPECIFIC FACTORS

- Identifying capability gaps and resource limitations
- Assessing the “fit” with the business
- Determining complementary asset position
- Factoring in other externalities

KEYS TO EVALUATION PROCESS

- Thinking strategically around business objectives
- Treating IP as a means to an end
- Tackling “sacred cows” or notions of inherent value

SUMMARY: CRITICAL FACTORS

- Treating IP as a component of intellectual capital
- Developing innovation as a core competency in your business
- Applying strong and systematic disciplines to intellectual capital utilisation
- Redefining success