CIPHER

Return on Investment of your Patent Portfolio

What is ROI

Why use ROI

Measuring ROI

Building blocks of ROI

Calculating ROI

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What is Return on Investment (ROI)?

ROI measures the return on a particular investment relative to its cost.

$$\textit{Net Return on Investment} = \frac{\textit{Benefit} - \textit{Cost}}{\textit{Cost}} \times 100\%$$

Why ROI?

ROI is used across the business for financial modelling of investments and assets.

So why treat patents differently?

Patents are a business asset and the ROI of a patent portfolio can be calculated and used as a way to communicate its value to the business and improve that value.

Why calculate patent portfolio ROI?

ROI of your patent portfolio promotes **transparency** and **actionability**

Transparency

ROI allows you to speak to the business using a language they understand, as it is already widely used amongst R&D, Marketing Finance teams.

Actionability

ROI allows you to compare the outcome of different strategies and make decisions about how you can maximise the gain from a scarce resource.

Hear from Associate General Counsel at Facebook on calculating patent portfolio ROI

Measuring patent portfolio ROI

What is the primary purpose of your patent portfolio?

Defence against Third party threats

The assumption made is that the number one use of a patent portfolio is to defend your business against a potential aggressor. 62% of organisations report that this is their primary strategy for their patent portfolio.

(Cipher/IAM Report on Portfolio Optimisation 2020)

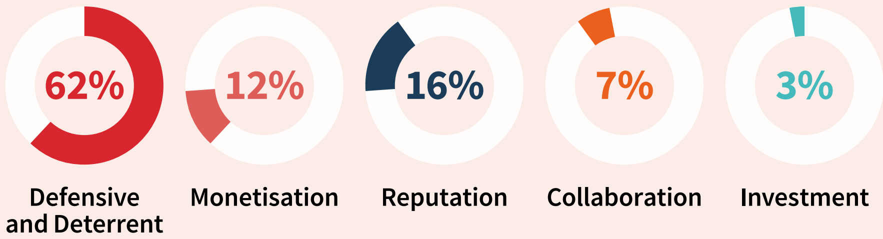
Measuring patent portfolio ROI can be for other strategies, such as Monetisation

12%

of organisations said the primary purpose of their patent portfolio was Monetisation

(Cipher/IAM Report on Portfolio Optimisation 2020)

What is the number one strategic objective that your patent portfolio serves?



(Cipher Portfolio Optimisation Report 2020)

Building blocks of patent portfolio ROI

The Cost

What is the total cost of building your patent portfolio?

1 **Organic patent COST (patents you have filed)**

a. What is the average yearly cost? This should include employee costs, filing and maintenance costs, annuities, license fee costs and outside counsel

b. Include the cost of abandoned or rejected application

2 **Acquired Patent COST**

a. **EXCLUDE**: Non core patents; those acquired through an M&A deal where the patents played no part

b. **INCLUDE**: Core patents; those acquired through M&A that were central to the deal and a strategic purchase

The Benefit

What is the deterrent value of your patent portfolio?

1 **The BENEFIT can be analysed looking:**

a. backwards to understand what the portfolio has delivered

and

b. forwards to compare different strategies to enable the best choice to be made

2 **Other elements to consider when determining the BENEFIT:**

a. Your Patent Portfolio strategy; the value placed on protection vs. monetisation vs. brand reputation or investment

b. The assertion probability; see Return on Investment for your patent portfolio: the strategic counter-assertion model, which describes techniques for estimation*

c. The quality differences in your patent portfolio

* Return on investment for your patent portfolio: the strategic counter-assertion model, Kent Richardson and Erik Oliver (IAM, July 2015)

Calculating patent portfolio ROI

$$\textit{Net Return on Investment} = \frac{\textit{Benefit} - \textit{Cost}}{\textit{Cost}} \times 100\%$$

Bringing this together, we have the final ROI calculation:

TECHNOLOGY	X	Y	Overall	Notes
Benefit	$20.8M	$23.8M	$43.6M	The sum of the Benefit or Adjusted benefit columns
Cost	$13.1M	$11.5M	$24.6M	Annualised cost of building, maintaining the portfolio
Overheads	$2.0M	$1.7M	$3.7M	Salary, outside counsel fees etc
ROI	38%	80%	54%	ROI = (Benefit – Cost – Overheads) / (Cost + Overheads)

Access full ROI and example calculation spreadsheets