

The Limited Monopoly™

Do You Really Need a Patent?

Yes, If You Can Make a Business Case for One

by John Hammond, PE and Robert Gunderman, PE

Misfit Toys and Misfit Patents

In this column, our third in a series of business related patent topics, we address the question, do you really need a patent? Is it essential to your business? Sometimes the answer is no.

As we approach the Christmas season, soon to hear songs sung from “The Island of Misfit Toys¹,” it occurs to us that within the collective foreign and domestic patent literature, there could well be an “Island of Misfit Patents.” Consider the Christmas holiday itself. It has long been an inspiration to all manner of inventors, who have patented all sorts of decorations, lighting, tree stands², and yes, even what appear to be badly misfit toys. A quick search of U.S. patents will turn up nearly a thousand just with the word “Christmas” appearing in the patent title. And a quick review of them will turn up more than a few that belong on the Island.

Digging well back into the archives, U.S. patent 1,707,127 is a case in point. Fig. 1 of this patent appears nearby. It is for a decorative wreath for automobile headlights, and issued back in March of 1929. Even as the Roaring Twenties came to a close, when people weren't busy dancing the Charleston and sipping bootleg whisky, did they really want to drive around with Christmas wreaths on their Model A's, Chevviess, Studebakers, Hudsons, Cords, or Caddies? Did the inventor make any money on the patent? We suspect that the answer is no in both cases. At best, the patent likely ended up like so many other official certificates, diplomas, and such displayed on a wall somewhere. If that is all the inventor wanted to accomplish, fine. But if he intended to make money, answering a few simple questions could have told him whether or not that was likely to happen.

The Big Picture

A patent should be treated like any other asset that requires resources (time and money) to acquire. At least a first order analysis should be done to predict whether or not the patent is

Q: “Define irony.⁴”

A: “Spending \$10,000⁵ to get the right to exclude others from making, using, or selling a product that nobody wants to make, use, or sell.”

capable of providing a better return on investment than alternative uses of the resources. The monetary return can be in many forms: profits from the premium pricing possible as a result of the limited monopoly granted by the patent, royalty revenue from licensing (or from litigation), and/or an outright sale of the patent. As another of our recent columns³ explains, patent valuation is an inexact science. But a first order analysis ought to provide at least some guidance for a go/no go decision on whether or not to try to obtain a patent.

Some Questions to Consider

So what are some key questions to consider in your analysis? They are quite simple, and should focus mainly on your perceived market, and what it would likely cost to manufacture your product. Even if you don't intend to manufacture and market your

product, but instead plan to license any patent you might obtain, you should still do the analysis. Sooner or later, somebody in a decision making position is going to need the answers, and potential investors, licensees, or buyers will take a dim view of being asked to do your homework for you.

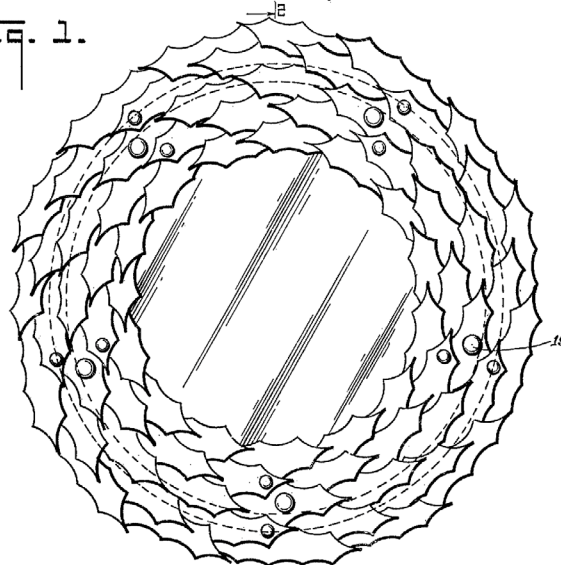
We suggest that you begin with the basic (and obvious) market-related questions: Are there customers for your product? Who are they? What would they be willing to pay for it? How many units do you think you can sell, and at what price? How will your product be sold? How many parties will there be in

March 26, 1929. B. H. MARSHALL 1,707,127

DECORATIVE WREATH FOR AUTOMOBILE HEADLIGHTS

Filed Jan. 19, 1928

Fig. 1.



the sales and distribution chain? Who are your competitors, and how are they currently serving the market – how are they addressing the problem that your product solves? If you find that there is no competition, that could be a red flag. Maybe there is no competition because there is no market in the first place.

Then, answer some manufacturing questions. Given your first order sales projection, what is the estimated unit cost of manufacturing your product at that volume? Factoring in the markups by each possible party in the sales and distribution chain, what would the selling price need to be? Is it close to the price that you think customers will pay for it? If there is a big difference, you probably already have your answer – not only is it not worth getting a patent, it's not worth getting into the business in any case. And if your focus is on licensing or sale of the patent, any potential licensees or buyers are likely to reach the same conclusion.



For good measure, consider a few more factors:

- Does your product offer a distinct and major advantage over the alternatives? It could be something related to quality, cost, speed, some other product-specific metric, or a combination of these. Your product needs to offer more than just an incremental improvement to get customers to change their buying habits.
- Is your product safe to use – by all potential customers, not just those with high skill? (We have seen more than our share of inventions that are very clever, but flat-out dangerous in the wrong hands. Some just scream “product liability.”). Patentability does not depend on product safety, but marketability and risk avoidance does.
- Do you have a “fad” product? One that is likely to have a sales spike in a year or two, and taper off to minimal sales after that? Considering that it will likely take several years to get a patent, there probably won't be anything much worth protecting after that. If you have a fad product, a patent may be of little value. It's all about the marketing, and getting there first.
- Take a close look at where technology is headed. Even if there is a market for your product today, will there still likely be one in three years? Five? Ten? Technology in many fields is changing with ever-increasing speed. Is there

anything developing on the horizon that could make your product obsolete in a matter of just a few years (or months)? Consider this simple example – if back in 2000, you invented an automatic floppy disk changer for PC's, you wouldn't have fared too well today.

The Bottom Line

The above list of questions is certainly not exhaustive, and there are many other factors to consider that are product and situation dependent. Our list does provide at least some guidance in making the patenting decision, though, and may help you avoid acquiring a very expensive wall hanging – along with the right to exclude others from making, using, or selling a product that nobody wants to make, use, or sell. To all of our readers, we wish you a very Merry Christmas, and a prosperous 2011!

1. From “Rudolph the Red Nosed Reindeer,” first broadcast on NBC in 1964.
2. The Limited Monopoly™, “Patentability and the Long-Felt Unmet Need: The Christmas Tree Stand as a Case Study,” December 2007.
3. The Limited Monopoly™, “Intellectual Property Valuation,” October 2010.
4. Adapted from dialogue in the movie *Con Air*, 1997.
5. This is a nominal cost. The total cost of obtaining a patent can be less, or considerably more, depending in particular on prosecution costs.

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