



Exponential  
Edge, Inc.

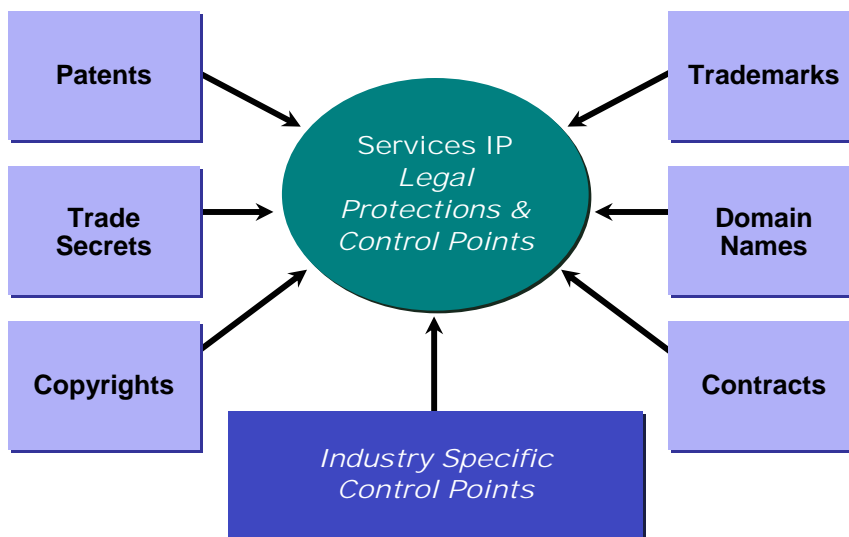
## Services Intellectual Property – “Services IP”<sup>1</sup>

*An Enormous Opportunity and Threat for Service-Based Businesses Seeking to Grow Using Channel Partners*

### Executive Summary

Companies need a well-designed, corporate-wide Services IP management framework, embraced by executive management, to effectively manage all services that use intellectual property and are intended to be sold and delivered by channel partners. The opportunity costs for companies are large and growing for not managing Services IP strategically. Additionally, competitive risks are rising as competitors increasingly use Services IP to raise barriers to entry in new services.

### The Big Picture



### The Opportunity

Service businesses of most technology companies are seeking ways to differentiate themselves. Developing unique services takes time and money; and intellectual assets created should be protected. That is why, in the past few years, leading high-tech companies have funded Services IP, from R&D through commercialization and full-scale deployment via channel partners.

As service arms of product companies seek to expand their overall business by enabling channel partners to leverage their intellectual property assets, protecting Services IP becomes even more critical. Expanding globally adds another layer of complexity that provides both opportunities and pitfalls.

<sup>1</sup> Exponential Edge is not a legal firm and is not licensed to provide legal advice. It is expected that legal counsel will be consulted prior to deployment as to the viability of a business strategy around Services IP.

### What is IP?

**Intellectual Property** includes: Patents; Trade Secrets; Copyrights; Trademarks; and Domain Names. **Services IP** includes a service or “process,” **Process** means “process, art or method,” and includes “a new use of a known process” according to the U.S. Patent and Trademark Office, USPTO.

Services IP falls within the most common type of patent – the “utility patent,” and more specifically, in the “processes” category. New technologies do not always fit cleanly into the utility patent classifications. Software, for example, has been patented as either virtual machines or processes.

About ten years ago, the courts expanded the scope of what can be patented to include ways of conducting commerce – specifically called the business method patent. This typically covers some combination of software and business methodology, like innovative online ordering processes.

## ***The Threat***

***Not recognizing the full potential and impact of Services IP causes two major threats to companies today.***

**First**, even leading global IT organizations have lost millions of dollars in unrealized revenues due to employees routinely posting newly created innovative and complex business models on their Websites, dissipating its value in seconds, even though it took months or years to create.

**Second**, firms are building legal arsenals to shut competitors down, require them to pay royalties, or to psychologically raise barriers to entry discouraging would-be competitors from entering certain high-margin service businesses.

## ***The Stakes Are Growing***

***With more and more hardware and software segments facing commoditization and downward pressure on pricing...***

...technology firms have great incentive to develop and patent unique services and business methods to generate higher margin revenue and expand reach for the corporation. As service arms of technology companies are being viewed as larger contributors to the corporation, the stakes in protecting Services IP are increasing.

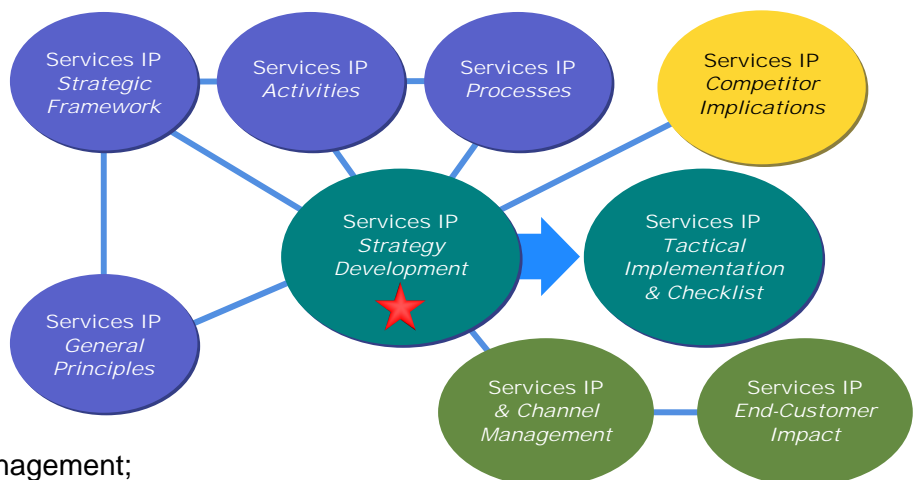
In the past few years, companies like IBM have been rapidly increasing services R&D and Services IP protection, often under the radar as their funding has shifted from hardware to services keeping overall corporate R&D expenditures relatively flat. The costs of acquiring patents, promoting and securing licenses, and defending against infringement allegations in court, are all rapidly rising.

## ***A Business Perspective is Needed***

***One of the biggest mistakes made by too many companies today...***

...is the presumption that Services IP is the sole responsibility of the corporate legal department. The legal department certainly has a major role to play, but the development of a well designed corporate business strategy for managing Services IP requires many corporate participants – which may be why developing and protecting Services IP has fallen through the cracks in so many firms.

If done correctly, using a holistic framework, managing Services IP in a large organization may involve: the Service Business Units; Corporate Legal; Corporate Strategy; Corporate International Property Rights Management; Finance/Accounts Receivable; Patents and Licensing; Corporate Import/Export Control; Risk Management; R&D; IT; Training; Corporate Marketing; Channel Management; and appropriate Channel/End-Customer Solutions, Service Delivery, and Support Units.



## ***Common Mistakes***

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***Many common mistakes have been made in managing (or not managing) Services IP.***

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1. Not recognizing the value of Services IP and ignoring Services IP assets
2. Not aligning Service IP strategy and channel incentives with corporate strategy
3. Not categorizing Services IP types, based on objective characteristics
4. Not protecting Services IP assets
5. Fear of working with your legal department
6. Mistaken belief that copyright protection protects the described processes within
7. Not actively managing Services IP royalty income streams
8. Not carefully aligning channel incentive plans with protecting Services IP
9. Not centrally managing Services IP delivered by channels
10. Not developing Services IP external knowledge

## ***What to Do?***

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***Frameworks and methodologies should be used to assess viability of new and existing services for channel partners.***

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Models are available that define critical characteristics for a service to be channel viable. Services should be assessed and scored in relation to a company's business model and objectives using these characteristics to determine "channel IP readiness".

## ***About Exponential Edge***

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*Exponential Edge provides strategic consulting and research services for large to medium high technology clients. Specific services include: Strategy & Planning, Partner Programs and Market Research. Exponential Edge analyzes business issues within the context of a firm's corporate strategy and with an understanding of industry best practices. Business executives look to Exponential Edge to bring clarity to complex business issues and to enable decision-making. Exponential Edge can be reached at [info@exponentialedge.com](mailto:info@exponentialedge.com) or [www.exponentialedge.com](http://www.exponentialedge.com).*

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