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# Managing external IP firms – 3 steps to Cost and Quality success

## AT A GLANCE

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The combination of increasing cost pressure, need of more time for internal personnel to focus on key activities and promises of resource flexibility and access to specialized and niched expertise, is convincing IP departments to outsource activities to external IP firms. Still the desired benefits from outsourcing are many times unrealized and replaced by quality issues, high costs and non-transparency. Our experience shows that if external IP agent partnerships are managed properly, most IP departments can reduce costs significantly while often improving the quality of the output. Also, the time available for internal IP counsels and administrators to perform strategic work can be increased by a factor of three.

In this paper, we outline three success factors for realizing the desired benefits of partnerships with external IP firms.

**First**, you need to get the foundation right. This means designing and implementing an external agent service model that sets the optimal balance between in-house and outsourced activities and defines responsibilities on a detailed level.

**Secondly**, to quickly get to the right cost and quality levels, you need to run an external IP service procurement initiative with well-defined service item descriptions and price schemes.

**Finally**, to ensure continuous improvement in cost efficiency and quality, you need cost transparency and forecasting tools to be able to track, assess and predict costs and identify and address issues.

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# MANAGING EXTERNAL IP FIRMS – 3 STEPS TO COST AND QUALITY SUCCESS

By Thomas Hedberg, Karin Lersten and Emil Haldorson

***“A very large share of our patent budget is dedicated to services provided by external IP agents and the spend increases each year. Still our internal patent attorneys spend all of their time fire-fighting operational issues instead of doing the strategic work they should and want to do.”***

Outsourcing IP work related to searching, drafting, filing and prosecution to external firms is best practice in most industries. The opportunities of the outsourcing model are numerous and companies' biggest drivers for externalizing IP services are cost efficiency, resource flexibility and access to specialized or niche expertise. However, as illustrated by in the quote above, many IP departments struggle with realizing the potential the model offers. Unrealized cost savings, quality issues of performed work, high non-value-adding workload for internal personnel and volatile cost patterns that are difficult to foresee are typical challenges for IP department heads.

Due to unclarity in roles and responsibilities and lack of proper quality and cost control, external IP service costs are typically 20-30% higher than necessary, while quality issues and redundancy in work effect in-house personnel negatively.

Based on experiences from transforming corporate IP departments within multinational companies, we have isolated three success factors for improving the efficiency in working with external IP agents:

1. Set an external agent service model which optimizes the balance between in-house and outsourced activities and responsibilities
2. Get cost and quality levels right by running an external IP service procurement initiative with well-defined service item descriptions and cost schemes
3. Implement cost transparency and forecasting tools to track and assess cost and quality, and make forward-looking projections

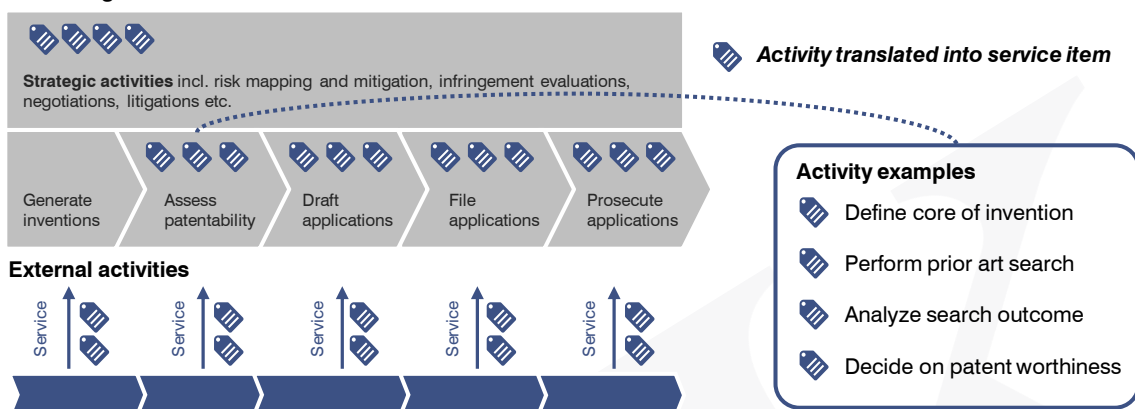
## SUCCESS FACTOR 1: THE OPTIMALLY BALANCED SERVICE MODEL

*Set an external agent service model which optimizes the balance between in-house and outsourced activities and responsibilities.*

Cost efficiency, resource flexibility, access to expertise and right type of work for staff are prioritized issues for most IP departments and the main drivers for outsourcing bulk and specialized work to external IP agents. A key to make outsourcing work is having an external agent service model that defines the optimal split between in-house and outsourced activities and responsibilities. Thereby, allowing for effective and open communication and ensuring that performed work meets quality expectations.

The optimal split varies from organization to organization and depends on factors such as the vision and setup of the IP department, and priorities for internal personnel. Historically, the predominant model has been to outsource basic activities such as prior art searches, annuity payments and bulk work during high workloads while retaining IP portfolio management in-house. In the search for greater operational efficiency and cost savings IP departments are increasingly outsourcing also high value-add activities such as drafting and prosecution, as well as administration.

### Patent organization activities



**Fig. 1:** Mapping of patent organization activities enabling specification of service items

A first step towards deciding which activities from the vast patent service ecosystem to acquire externally is to map all the activities to be performed. Success in this type of mapping comes from combining existing patent process descriptions of how things should be done, with the IP department staff's view of current working procedures. The mapping creates the foundation for a solid external agent service model, but it also gives opportunities to address organizational inefficiencies and harmonize ways of working across individuals and sites.

Once the mapping of activities is completed, the activity allocation and responsibility split between in-house and external work can be defined on a detailed level. Preferably by using a responsibility matrix. In the matrix, each role relevant for the work to be performed are mapped against the activities, and for each role the responsibility of each activity is specified.

The activities for which the external IP firm is involved and sometimes responsible, become the service items to acquire and the basis for the external agent service model. With a service model not only defining activities and roles but also responsibilities, everyone knows what is expected and redundancy in work as well as tedious administrative steps can be eliminated. The granular and shared understanding of activities and responsibilities also open up for more alternatives in outsourcing, where also parts of activities and sub-tasks can be externalized.

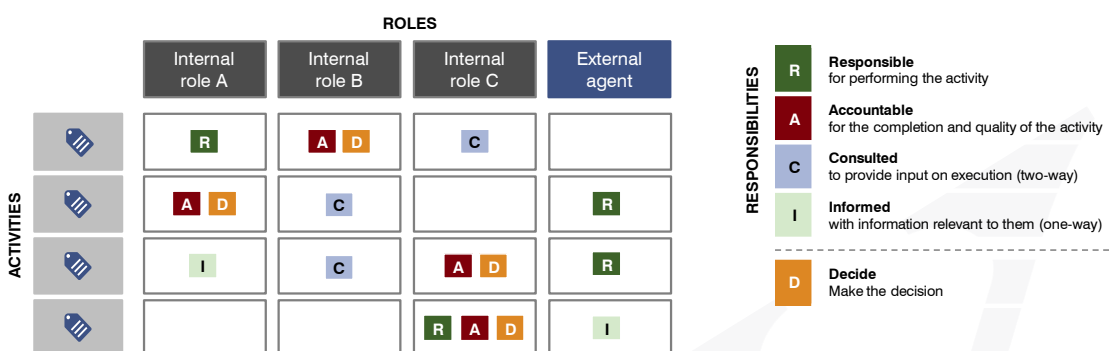


Fig. 2: Illustrative example of Responsibility Matrix based on identified activities to be performed

There are several advantages with outsourcing, but these can be negated by not having agreed upon evaluation metrics and having quality controls in place. Many experience that this type of follow-up put a negative tone on partnerships with external firms and lead to friction. Therefore, quality control is often neglected and inefficiencies in the partnerships can continue to grow. With a responsibility matrix facilitating open communication with detail and transparency of each party's responsibilities, general instructions describing requirements and expectations, and a clear quality control procedure, the external agent service model creates a win-win situation where partners can instead jointly develop and improve together.

### **Example case**

A company had identified a threat to the existing business model as new technology areas related to digitization and automation challenged the existing and profitable product portfolio. To meet the changing technology landscape, the company management had recently hired a Digitization officer. The potential threat was coming from new market players with vast experience in using IP. Future margins were at stake and with a considerable risk for IP conflicts with the new players, the Digitization officer contacted the IP department.

The Head of IP together with the CTO and Digitization officer decided that a more strategic approach was needed from the IP organization to prepare for a new battle field. The IP department started to define a strategy going forward were it became necessary to free up time for internal personnel to focus on more strategic tasks and external IP expertise in new technology areas was needed. A global procurement of IP services was done with the successful outcome of a very well defined and flexible way of working with about 300% more time to spend on strategic work focusing on digitalization and to prepare for potential disputes.

## SUCCESS FACTOR 2: THE STRUCTURED PROCUREMENT OF EXTERNAL IP SERVICES

*Get cost and quality levels right by running an external IP service procurement initiative with well-defined service item descriptions and cost schemes.*

Optimizing cost while meeting high quality demands on performed work are the top selection criteria when purchasing external IP services. However, often purchasing decisions are done ad hoc based on immediate needs and personal relationships, which almost always results in cost-inefficiencies.

We have seen examples from our clients where the IP firms' costs differ with 200% for the same service item, in the same geographical region, without quality differences in the work performed.

The business case for an external agent procurement is clear; spending on outsourced activities is generally a large portion of the overall IP budget and the ability to ensure cost-efficiency while maintaining quality will result in overall lowered cost, or the ability to do more with the same resources. A key to get to the right cost and quality levels is to procure the services based on well-defined service item descriptions and cost schemes. A structured, transparent and fair procurement process will also help offset the relationship-driven, emotional aspects of buying these services.

The procurement process' first step is all about preparations. Since you often can specify exactly what you want and are only asking for the price when procuring IP services its recommended to design the process as a Request for Quotation (RFQ). A key part of this first preparatory step is the creation of a RFQ document in which the details on service items, price model, quality demands, general terms and conditions, etc. are included. The external agent service model described in the previous chapter is an excellent starting point for the document since it specifies all the service items to be outsourced and the responsibility of the external agent. By adding on input, process and deliverable descriptions the basis for a successful procurement process is in place.



**Fig. 3:** Illustrative example of the different steps of an IP service procurement process

Detailed service item descriptions are a key part of the procurement, but almost as important is the selection of a price model and schedule for each service item. There are two standard price models for IP services; fixed fees or time pricing. Fixed fees are suitable for well-defined deliverables with predictable demand, such as drafting, filing and prosecution related work.

Once the RFQ document is finalized it is sent out to the invited IP firms and the bidding process can start. The scope of the procurement will determine the number of bidders, but it's not unusual to have 10-25 participants.

Evaluation of the procurement responses can be a tedious process if you don't have a proper evaluation tool in place. When designing the tool remember to put emphasis on the proposed external agent team. This is especially important for securing high quality while optimizing the cost. It is our experience that a team with the right mix of seniority levels approved by the client will perform high quality work at prices that are up to 30% lower than list prices.

For the final awarding decision, i.e. the decision on which external agents to work with, all the effort spent in preparing for the RFQ pays off. By well-defined service item descriptions and cost schemes external agents can be measured against each other to reach the desired end result of committed partners. In the awarding decision it is wise to remember that by choosing to work with a few, carefully selected agents and concentrating cases to them, economies of scale can be realized.

### **Example case**

The IP department of a technology company needed to free up time for in-house patent attorneys to focus on strategic activities such as licensing, litigations and proactive support to innovation. Due to budget constraints there was a continuous scrutiny of budget and spending and recruitments were a no go.

By mapping the activities to be performed and who should be doing what, an external agent service model with a perfect balance between in-house and outsourced work was designed. Based on the model, an IP service procurement was completed resulting in closer collaboration with fewer external agents and 30% cost savings on external agent fees from day one. The close collaboration also led to greater commitment, quality and willingness to step in when work load unexpectedly went up.

The purpose of freeing up time was met with significantly more time for in-house patent attorneys to focus on strategic high-value activities. In addition, by outsourcing administrative tasks, the resources put on administrative work went down to 10%.



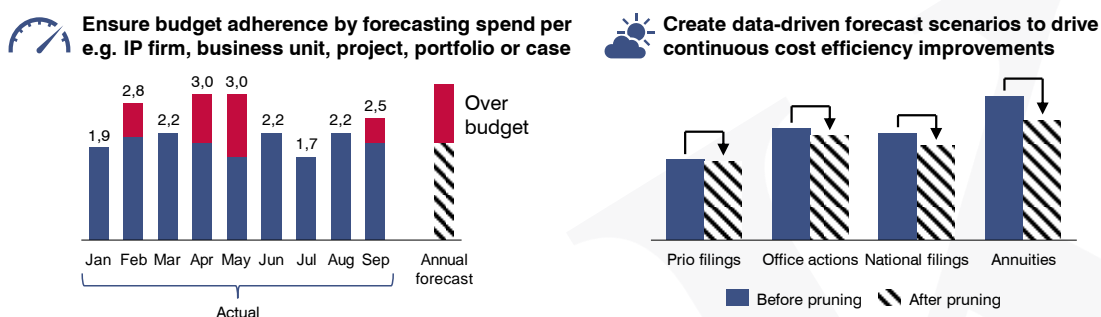
## SUCCESS FACTOR 3: COST TRANSPARENCY AND FORECASTING

*Implement cost transparency and forecasting tools to track and assess cost and quality, and make forward-looking projections.*

With a balanced service model and committed external IP agents the prerequisites for a successful partnership are almost there. The missing piece spells cost transparency and forecasting abilities. To ensure continuous improvement in cost efficiency and quality, it's important to be able to track, assess and predict costs and identify and address issues. By proactively monitoring costs, IP departments can continuously lower expenses. By combining defined price models per service item with data on future patent work such as number of intended filings and patents under prosecution, forward looking budget projections can be made.

All too often the details needed for IP departments to assess and follow-up on costs on case or service item basis are missing. The consequence is reactive spend tracking at an aggregated level. Such an approach generally misses out on the potential cost saving gains associated with monitoring due to inability to identify the real cost drivers and their impact over time.

High resolution in cost details is required to answer questions such as if the current work processes are efficient and if budgets are spent on protecting and leveraging strategically selected technology areas. Detailed cost transparency allows you to identify patents that drive large costs and prune out low value assets. It also enables effective reporting to management, quickly identifying and addressing root-causes, and detecting deviations from spend plan and cost outliers. The latter almost always leading to substantive savings per month.



**Fig. 4:** Illustrative example of analyses enabled by high resolution cost tracking and forecasting

The role of cost transparency for improved efficiency is further emphasized by the usefulness of cost data for negotiations and follow-ups with external IP agents on price levels. Either to set realistic targets in advance to get the best possible price during negotiations, or to make sure that agents stick with their promised price levels.

In order to take the final step of cost forecasting, models for forward projections and cost scenario analysis are needed in addition to cost tracking and assessing abilities. By combining detailed knowledge of historic costs with for example a fixed fee schedule for frequently outsourced activities such as drafting, filing and prosecution you have a powerful tool in proactive spend planning. In addition to allowing for more advanced budgeting, forecasting can be used to make business assessments if patent cases or specific activities should be outsourced or handled internally. One example is to be able to select and calculate between different filing strategies for different parts of the portfolio.

### **Example case**

A patent department experienced volatile patent-related costs and had difficulties in answering management questions on deviations from budget. The main reason being too low resolution in external agent costs. Invoices from the external agents contained most of the wanted data, however the data was not captured in the finance system and thus lost before it reached the patent department.

An easy-to-use tool was developed where the agents in addition to their invoices, sent in a separate report specifying the cost per agent on service item and case level. The tool enabled easy detection of cost outliers and systematic supplier cost comparisons leading to monthly savings of 100s of kEUR.

## CONCLUSION

Outsourcing to external IP firms can be a cost-effective way to operate an IP department. As IP becomes increasingly strategic in most industries it also becomes necessary to reallocate in-house time to more strategic work and enable a flexible way of working. If properly managed, outsourcing enables resource flexibility, reduced costs, and more time for internal personnel to focus on key activities.

We have identified three success factors for realizing the desired benefits of outsourcing to external IP agents. First, to set an external agent service model defining the optimal balance between in-house and outsourced activities and responsibilities. Secondly, to get cost and quality levels right by running an IP service procurement with well-defined service item descriptions and cost schemes. Finally, to implement cost transparency and forecasting tools to track and assess cost and quality and make forward-looking projections.

The use of IP firms is important both to ensure effectiveness in the IP function's internal partnership with the business, and to ensure process and cost efficiency. Applying these three factors will quickly produce tangible improvements for both.

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