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Patents: important drivers of success

Innovations and patents make important contributions towards corporate success but remain difficult to value. A survey of 500 Europe-based patent applicants conducted by the Institute of Technology Management at the University of St. Gallen on behalf of PricewaterhouseCoopers reveals the status quo of valuation procedures and methods, as well as the general significance of technologies and patents for companies.

Patents provide their owners with a certain territorial area and, for a limited period of time, the right to prevent third parties from putting an invention to commercial use. Since innovations are of immense significance in the attainment of a competitive edge today, their protection may create durable corporate success. They are therefore considered to be success factors for companies of all sizes and industries throughout the world. In view of companies' increasing capital requirements, and bearing in mind the further globalization of financial markets, patents are also of considerable interest for stakeholders and investors. Accordingly, the management of immaterial assets in the lively competition for knowledge and innovations is an elementary constituent of strategic management that is constantly increasing in significance.

Patents must be valued. The costs for the issuance of a patent can be determined with relative ease, but the actual valuation of a patent requires an appropriate set of tools. Monetary valuation can be carried out with the help of capital-value, market-price and cost-oriented methods. This high number of methods, combined with the non-standardized specific procedures they involve, results in a great deal of uncertainty in the valuation of patents.

As a consequence of the introduction of the International Financial Reporting Standards (IFRS) and the palpably increasing interest of the capital market in immaterial assets as collateral for credit lines, PricewaterhouseCoopers commissioned the Institute of Technology Management at the University of St. Gallen under the direction of Prof. Dr. Oliver Gassmann, and BGW AG, a spin-off of this Institute, to conduct a Europe-wide study of the status quo of patent valuation in corporate practice. The questionnaire was sent to 500 Europe-based applicants for patents from the European Patent Office. The response rate was 43%. In particular, the investigation focused on the current general significance of technologies and patents, valuation motives and methods in companies, and the position of the value-oriented management of technologies and patents.

More than 90% of the interviewees emphasized the importance of innovations for corporate success. Innovative products account for 66% of the interviewees' turnover and for 60% of their profits. Patents, which are one segment of the overall field of innovation, are also held in high esteem as drivers of success. 58% of the interviewees confirmed the importance of patents. Correspondingly, 57% of the companies interviewed indicated that value-oriented innovation management is firmly entrenched in their organization; only 12% answered this question in the negative.

The results with regard to monetary valuation methods came as a surprise. For one thing, the interviewees indicated that monetary valuations are conducted relatively rarely. For another, 44% of the companies stated that they use a cost-oriented valuation process for management events. This result is amazing since particularly managers who should be informed about the potential value contribution of a patent will find it difficult to infer it from this method. Even if all the monetary valuation processes

are applied more frequently or more rarely depending on the various occasions, there appears to be a wide dispersion of their application. On the strength of this wide spread it can be deduced, however, that cost- and market-price-oriented processes tend to be used as specialized instruments, whereas capital-value-oriented procedures tend to fulfill more of a broadband function.

The results of the study thus confirm companies' uncertainty with regard to the valuation of patents. It is now the objective of the Institute of Technology Management at the University of St. Gallen to cooperate with industrial partners with a view to analyzing the approaches known from research work and optimally adjusting them to valuation procedures. In this way, uncertainties can be reduced and the potential of patents can be exploited in the future.

A detailed report on the study is available from the Institute of Technology Management at the University of St. Gallen (ITEM-HSG): tel: +41 (0)71 224 72 21; e-mail: frauke.ruether@unisg.ch

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