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Creating SEPs – A Risky Business For SMEs



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SUMMARY			
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Abstract

In the present paper, the authors present the benefits and risks associated with the participation of small and medium sized enterprises (SMEs) in standards development. The authors focus, particularly, on the options available to SMEs for extracting value from patents declared as essential to a specific standard. Based on several examples, the authors bring forward recommendations to further encourage SMEs to participate in standards development.

Summary

Although participation in standards development poses, in general, the same challenges to both small and medium sized enterprises (SMEs) and large companies, SMEs usually have to face additional hurdles, which increase the risks associated with pursuing this strategy.

The first challenge SMEs face, is having their technology embedded in the standard. For this, significant and long-term investments in research and development are required, since the development and the following use of the standard in mass-market products usually takes between five to nine years (or even longer, as it was the case with the Wi-Fi standard). Furthermore, the complexity of internal procedures of Standard Development Organizations (SDOs) requires SMEs to engage – usually costly – external experts with long-year experience with these procedures. Besides the high costs which could, eventually, threaten even their existence, SMEs are sometimes also confronted with SDO governance rules, which favor large companies (i.e. by restricting voting rights to membership classes with high membership fees, or by assigning voting rights to individual participants, allowing large companies to “buy” voting rights simply by sending more people to meetings).

The second challenge SMEs face, is ensuring that they can extract value from the patents declared as essential to the standard (Standard Essential Patents, SEP). SMEs have, basically, the same options as large companies, namely (1) license their SEPs and collect royalties, (2) sell their SEPs, (3) use their SEPs to gain freedom to operate, or (4) participate in a patent pool.

As a rule, the option to license their SEPs is not attractive to most SMEs. Even if their patent portfolio is large and/or contains some exceptionally strong patents that could be easily enforced through litigation (which will rarely be the case with SMEs), the resources needed to operate an own SEP licensing program and the cost and risks of litigation inherent with this choice speak clearly against this approach.

Indeed, selling the patent portfolio or sub-licensing rights for a limited field of use appears to be a better option for SMEs to monetize their SEPs. A good example that selling a portfolio is a beneficial approach is the case of Inside Secure, a French Company which assigned its patent portfolio regarding the NFC standard to the Patent Assertion Entity (PAE) France Brevets. Through significant investments, including litigation, France Brevets managed to conclude several license agreements with standard implementers ensuring an adequate return on investment (and proving, at the same time, the importance of PAE as a fundamental element in the innovation ecosystem).

Finally, an equally good option for SMEs to extract value from their SEPs is participating in a patent pool. A good example is FastVDO, a small Australian company, who owns several SEPs essential to video coding standards and secured revenues by successfully joining the H264 patent pool managed by Via Licencing.

Considering the difficulties attached particularly with the monetization of SEPs, it is not surprising to the authors that SMEs are more likely to benefit from being the first to enter the market with products that use a standard, than by contributing technology to the standard.

Having said that, the authors recommend that SMEs participating in standards development should always bear in mind that adoption of a standard will usually be slow and also may never happen. In the authors' view, SMEs should, therefore, base their business case primarily on selling products that implement the standard, whereas license income from SEPs should just be considered as an optional extra.

Notwithstanding the above, the authors believe that participation of SMEs in standardization should be encouraged. SDOs should remove hurdles from their policies that hinder SMEs to participate in standardization, such as costly voting rights or burdens regarding to SEP licensing.