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Finance 101: LEARNING ABOUT THE ECONOMIC MACHINERY OF YOUR IP FIRM

Prof. Dr. Sevim Süzeroglu-Melchior

Professor for Digital Entrepreneurship and Finance
OTH Regensburg

Mr. Charles Jeffries

Senior Patent Counsel
Novartis International AG

Recent trends change the way we live, work and operate...



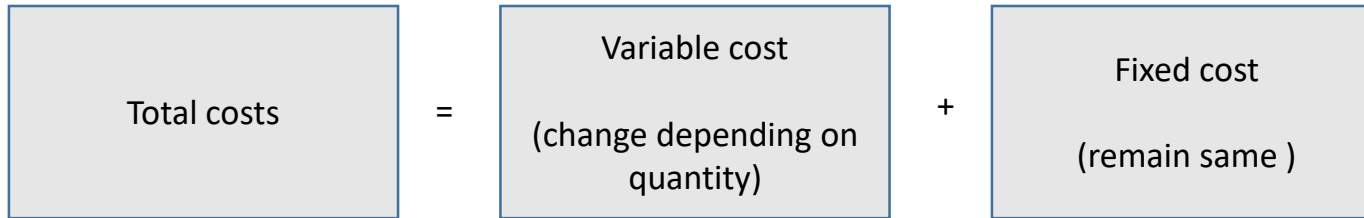
Megatrends/ trends create need for:

- Flexible
- Customer centric
- Digitalized

services and solution!

**What does this development mean for IP firms?
Which impact does this development have on cost structure and pricing?**

Cost types– different types of expenses incurred by a business



- Total cost of production or service

- Material cost
- Labour cost variable
- Overhead cost

- Rent
- Utilities
- Labour cost fix
- ...

Categorization depends on business

Marginal cost represents the incremental costs incurred when producing additional units of a good or service
Economies of Scale refer to the cost advantage experienced by a firm when it increases its level of output

Cost unit accounting involves: measuring, recording, reporting

Direct Cost

A cost that can be easily and conveniently traced to a specified cost object (e.g. unit, product, service)



Allocate costs to object (product/service) or unit directly

Indirect Cost

A cost that cannot be easily and conveniently traced to a specified cost object (e.g. indirect materials, indirect labour)



Apply cost allocation system

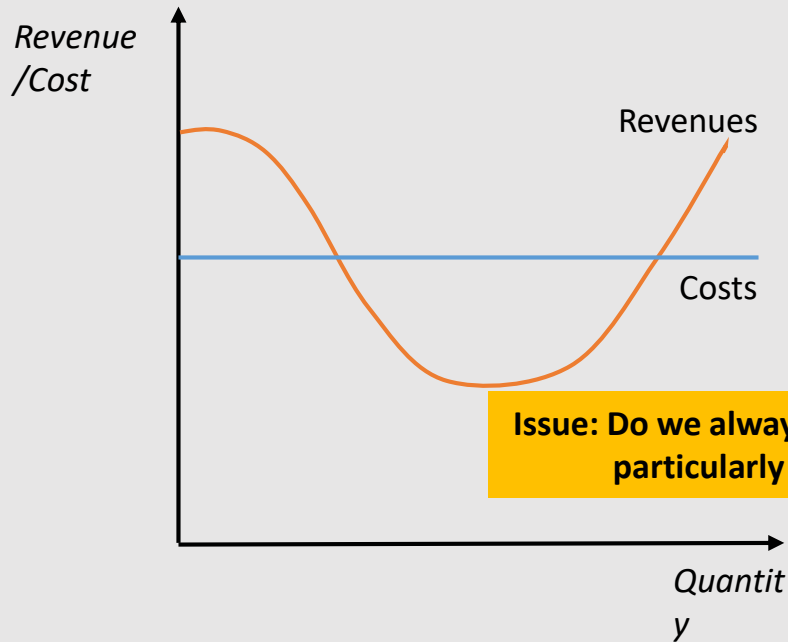
Common Cost

A cost that is incurred to support a number of cost objects but that cannot be traced to them individually (management, web page, insurance, rent)

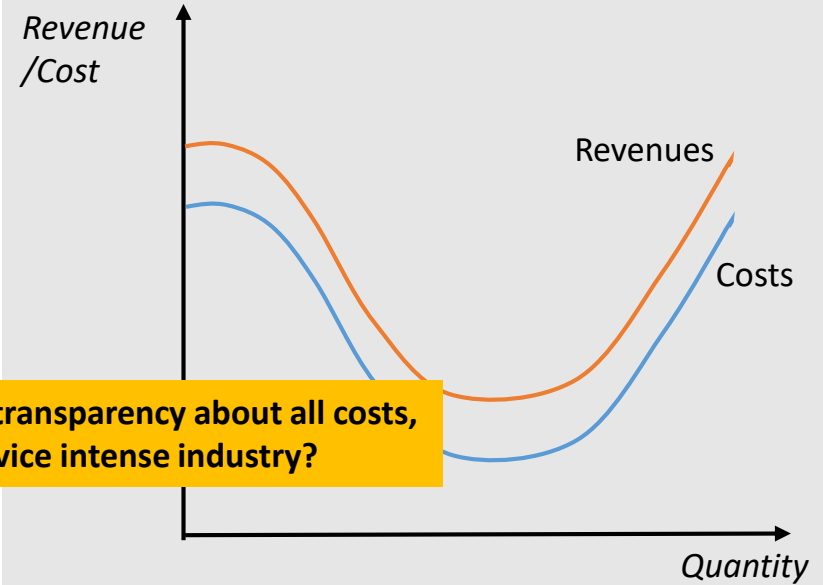


Apply cost allocation system

Fixed costs



Variable costs



Issue: Do we always have transparency about all costs, particularly in a service intense industry?

Types of products and services in the IP industry

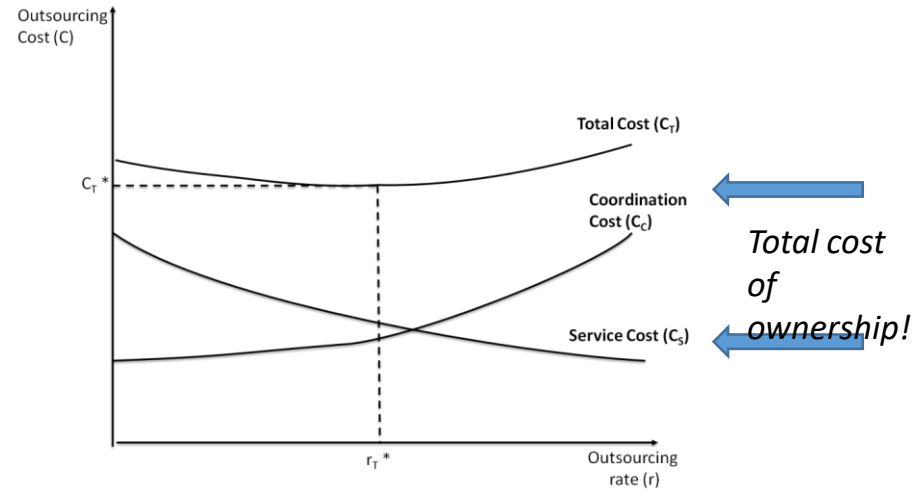
IP products

- IP management software
- IP search and analysis software
- ...

IP industry characterized by numerous services which are often outsourced:

- Legal services (e.g. law firms)
- Service providers (e.g. renewals, docketing)
- Watch services (e.g. monitoring)
- ...

**Which cost incur and are relevant to consider?
What is the optimal outsourcing rate?**



Total cost compound by service cost and coordination cost

$$C_T = C_S (FA, EF, IN, KN, AB) + C_C (SE, IF, MO, KN, RE, CU)$$



The service costs for IP services (C_S) are driven by factor costs, costs of achieving efficiencies, costs of gaining IP knowledge, costs of losing absorptive capacity.



Coordination costs for IP services (C_C) include selection and contracting, costs for infrastructure, costs for monitoring, costs for lack of relatedness, relationship, and cultural costs. Unlike service costs, these coordination costs are independent of the scale of the services. The higher the outsourcing rate, the higher coordination costs between the firm and the supplier.

→ Many costs are non-obvious and difficult to measure because they are indirectly related to the transactions and activities e.g. communication costs, losing knowledge, relationship costs etc.

Cost drivers need to be known, identified, measured and analyzed!

Be Flexible. Be Standardized. Which one does your client want?

- Both!
- Different work types carry different cost structures and different tolerances
- Transactional vs non-transactional
- Standardise where you can: LEDES – is this still a good standard?
- Simplify where you cant standardize
- Service fees – are you charging the same “historical” fee for what was, once, a detailed manual service but is now an automated, or semi automated process?
Is it still justifiable?

Standardisation

- Work types?
 - Transactional
 - Low manual input
 - Common or predictable?
- AI – invoice checking
 - Predictable actions + predictable deadlines = predictable costs?
- Official fees
 - Centralized database?
 - Configuring updates
 - Exchange rates
- Overhead costs
 - Cost vs Benefit (justifiable overheads)

Simplification

- Is there really a variable element?
 - Is even a variable can be somewhat predictable with the right background data, e.g. average costs and fixed fees (win some, lose some)
 - Requires “Big Data” analytics

- What is our goal?
 - Predictability
 - Move more over to AI
 - Free up human resources for more complex tasks/review

Cost management

- Quality above cost
 - What is quality?
 - When is enough, enough?
 - Case Priority
 - Budget understanding
 - Risk vs Benefit
- Know what you are paying for and why?
 - Automated payment – but it still requires a quality control?
- Alternative Fee Arrangements
 - Adapt your fees to reflect budgets and/or risk assessment
 - Win fees
 - Contracting
 - Volume Discounts
 - Value add services
 - Package deals

Efficiency versus dynamic behaviour

To react to market changes firms must be aware to:

- Identify all cost types including non-obvious costs (indirect, difficult to measure,..)
- Optimize cost situation using new technologies, e.g. AI, digital technologies
- Create economics of scale (standardized, automated and routinezed activities) which can be scaled up

Challenges and recommendations:

- Be efficient but also dynamic and focus on individual customer needs
- Need to use algorithms, analytics in order to address customer needs but still be cost efficient
- Openness for new services, products and relating pricing schemes and modus operandi

OPEN for CHANGE!

Thank you!



Prof. Dr. Sevim Süzeroglu-Melchior

Professor for Digital Entrepreneurship and Finance
OTH Regensburg
Phone.: +49 (0)941 943 1389
E-Mail: sevim.suezeroglu-melchior@oth-regensburg.de



Mr. Charles Jeffries

Senior Patent Counsel
Novartis International AG
E-mail: charles.jeffries@novartis.com

