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Significance of Patents in Open Innovation
(Particularly Among SMEs and Small Enterprises)

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With the promotion of the 4th Industrial Revolution, in the current business situation where companies are now being forced to build business models from "monodukuri (making things)" to "kotodukuri" (creating values and stories), the world is calling for the development of businesses through open innovation that will realize new technology development, new product development, and service creation by utilizing outside technologies and know-how.

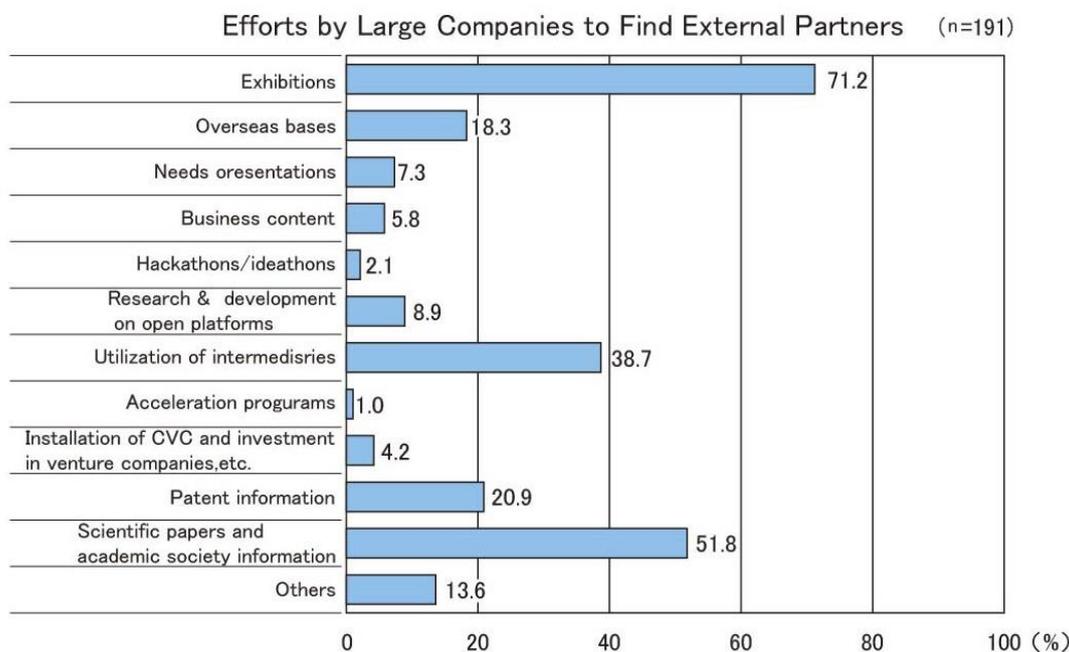
In our country also, although there are still fewer initiatives compared to foreign companies, there are many companies that recognize the limitations of closed innovation and are engaging in open innovation. However, judging from the results so far, it seems that there are not many cases in which spectacular results have been achieved. For more detail, see the third edition of the White Paper on Open Innovation released last June.

This may be due to a variety of factors, one of which may be the issue of choosing which company to form an alliance with to build useful ecosystems. Of course, forming an alliance with a company that has just raised its hand in order to succeed in open innovation does not have a high probability of success. In the case of successful open innovation, the survey results show that "identical values in alliance objectives" was followed by "possession of superior management resources not available to our own company". After all, it is necessary to identify a partner based on the objectives of open innovation and to work with a trusted company. At present, Japanese companies tend to form alliances with their traditional affiliates and business partners, and there are not many alliances with companies in other industries, such as outside affiliates, outside industries, or foreign companies. Accordingly, open innovation through alliances with companies in different industries is required.

However, it is naturally very difficult to find an alliance partner from a company in a different industry, and thus, many companies do not engage in open innovation. In addition, under the circumstances, the presence of intermediaries to achieve matching with companies in different industries has become conspicuous. According to the second edition of the White Paper on Open Innovation, efforts made by large companies to find external partners (alliance partners) relate to, from highest to lowest, exhibitions, scientific papers and academic society

information, utilization of intermediaries, and patent information (Reference Figure 1).

Reference Figure 1



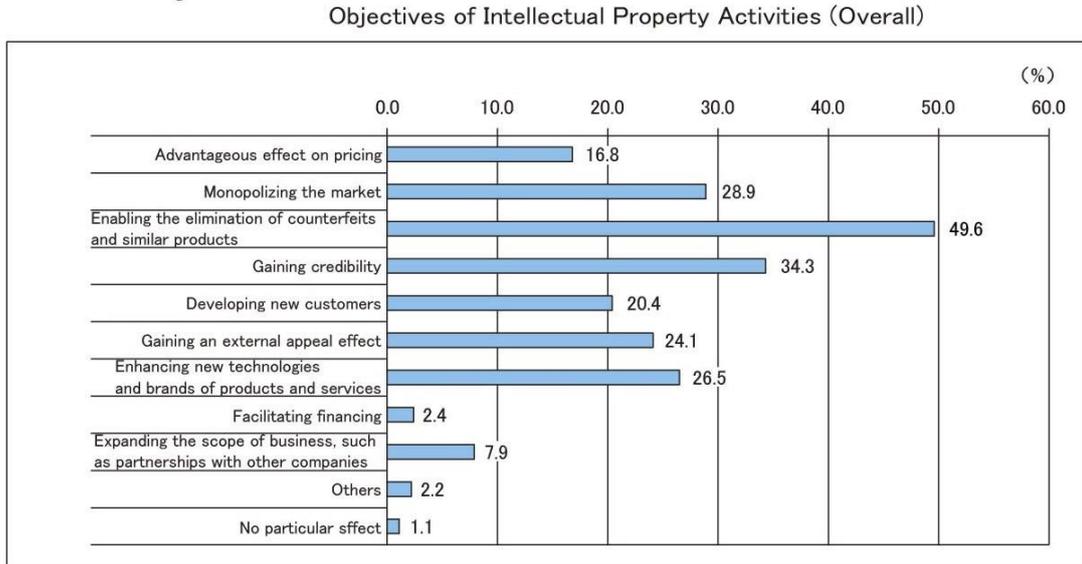
Source: Ministry of Economy, Trade and Industry “Questionnaire Survey on Decision-Making process and Awareness of Companies Related to Open innovation in 2015”

Since intermediaries consider patent information to be an extremely important, although not absolute, factor in their matching process, it is possible to view the utilization of intermediaries and patent information as being substantially the same despite the phrasing being different. The White Paper on Small and Medium Enterprises in Japan (2000 edition) introduces examples of successful business matching using patent information, including matching between Kumonosu Corporation and Dai Nippon Printing Co., Ltd.

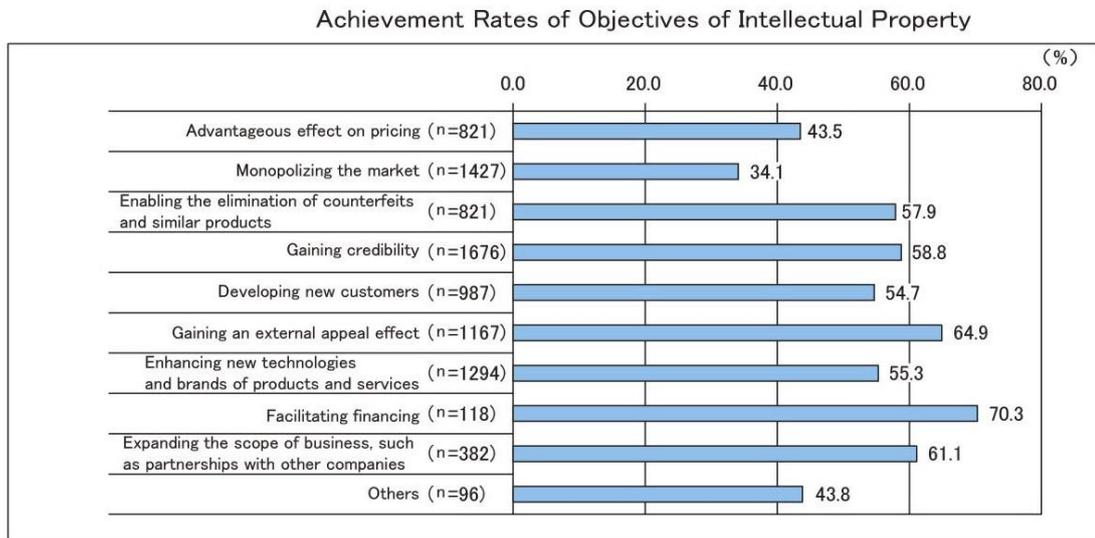
As for the significance of patents, the following have been inevitably pointed out: 1) market monopolization by elimination of counterfeits and similar products, 2) profit acquisition by licensing and transfer of rights, and 3) acquiring compensation for damages by infringement lawsuits, and in addition, an external appeal effect has been pointed out. Today, however, it is rare for a single patent to cover an entire product and market monopolization is exceedingly difficult (although it is a different story for materials and chemicals). If this is the case, it can be argued that the significance of an external appeal effect of patents as an element for finding alliance partners of enterprises in different industries in open innovation is relatively high compared to the significance of the aforementioned 1) to 3) which have been ranked high up to now, and it can also be argued that the significance of such an external appeal effect is almost equal to that of the aforementioned 1) to 3). The Basic Survey on Intellectual Property Activities

by SMEs published by the Japan Patent Office in 2015 shows the objectives that SMEs (including small enterprises) expect from intellectual property activities including patents (Reference Figure 2) and the achievement rates of such objectives (Reference Figure 3).

Reference Figure 2



Reference Figure 3



According to these figures, as for anticipated objectives, the percentages of items that can be said to be of essential significance such as "elimination of counterfeits and similar products" and "market monopolization" are high. However, as for the achievement rates of those objectives, the achievement rates of items of extra significance mentioned above such as "gaining an external appeal effect", "expanding the scope of business such as partnerships with other

companies" and "gaining credibility" exceed the achievement rates of the items that can be said to be of essential significance. That is to say, the fact that the percentages of having achieved those objectives is high indicates that a patent is an effective means to achieve those objectives. Specifically, in terms of achieving objectives such as "gaining an external appeal effect", "expanding the scope of business such as partnerships with other companies" and "gaining credibility," it can be said that the effects thereof are no less than those of achieving objectives such as the "elimination of counterfeits and similar products" and "market monopolization". As a result, as for the significance of patents, it is possible to say that an external appeal effect, which was mentioned as being of extra significance, is now on par with the significances which have been inevitably pointed out.

This column focuses on patents, but the same can be said for intellectual property such as designs and trademarks besides patents. In addition, an external appeal effect derived from patents, etc. is also effective for banks, investors, etc., and the achievement rate of the "facilitating financing" item shown in Reference Figure 3 above is the highest.

With regard to the significance of such patents, for SMEs and small enterprises, which are often approached by large companies as alliance partners, patent applications allow them to effectively promote to the outside world not only their own existence but also their specialized technical fields and technical capabilities as well as their specialized staff. Similarly, from the point of view of SMEs and small enterprises, the significance of such patents can be a highly persuasive self-promotion point as a potential alliance partner "possessing values that other companies do not have" for open innovation in which they wish to participate. Large companies and intermediaries searching for alliance partners are said to be quick to speak to a company they are interested in based on the company's patent information, but there are anecdotes that although they thought they would be quick to speak to a company they are interested in based on the company's patent information, foreign companies which had already seen the company's patent information were quicker to speak to the company. That is to say, such foreign companies that try to find alliance partners, both domestic and foreign, focus on patent information.

Thus, the significance of patents in open innovation has been changing. Accordingly, in light of such changes in the significance of patents, it is important to develop an intellectual property strategy that considers the necessity of patent applications from the viewpoint of actively self-promoting a company, while patent applications for a company's core technologies remain the same as before.

End.