

What are intellectual assets, anyway?

Where to find them in your business – and what to do with them

All businesses understand the importance of tangible assets – the premises and equipment a company owns or leases to support its daily activities. You record them in your accounts, you keep track of their current value, and you think about how to get the most out of them. However, in today's "knowledge economy", it's often the assets that *don't* feature in your accounts which hold the key to your true worth.

The executive summary of the influential 2006 *Gowers Review of Intellectual Property* characterised the situation in the following way:

The increasing importance of knowledge capital is seen in its contribution to the value of firms. In 1984 the top ten firms listed on the London Stock Exchange had a combined market value of £40 billion and net assets of the same value. Advance twenty years and the asset stock of the largest firms has doubled while their market value has increased nearly ten times. The difference in value is accounted for by intangible assets: goodwill, reputation and, most importantly, knowledge capital...

Innovative ideas create value, whether they are improved products, new brands or creative expressions. As a result, IP rights – the means by which these assets are owned – have become a cornerstone of economic activity.

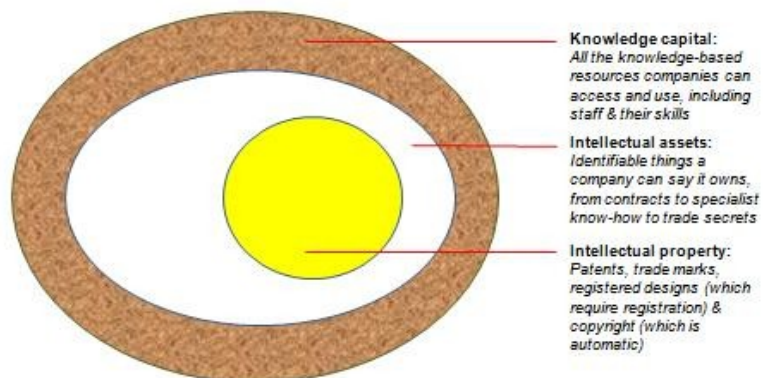
While technology-based businesses are particularly rich in "intangibles", they feature in almost every enterprise. If you have built knowledge into the products and services you deliver, then you are bound to own some of these assets, and you should have a strategy to identify, protect and exploit them.

What sort of assets are we talking about?

You'll see many different terms used to describe intangible assets:

- The broadest term, as used above, is *knowledge capital* or *intellectual capital*. This is a "catch-all" phrase generally used to describe all the knowledge-based resources that companies can access and use – including your staff and their skills.
- For the purposes of delivering and realising value, the most important set of intangible assets are likely to be your *intellectual assets*. These are identifiable things that a company can say it owns: they range from written contracts to the know-how embodied in products (including trade secrets).
- *Intellectual property (IP)*, probably the most familiar term, is a subset of your intellectual assets. In the UK IP falls into four categories: patents, trade marks, registered designs and copyright. The first three types need to be formally registered in order to be fully effective, while copyright is automatic.

It's useful to understand the interdependencies between these elements. You can think of them as fitting together rather like a Scotch egg, as shown in our illustration. You may find this quite a helpful analogy, as there's a tendency to concentrate on the yolk – to the exclusion of the rest.



If you own IP that's been formally registered, then you will at least have some records of these assets (though many businesses which own IP have no clear plan of how they will extract value from it). When it comes to the broader family of intellectual assets, however, many are never distinguished from the general trading activities of a business, and are therefore untapped.

Why would I want to record intellectual assets?

You've probably come across the business adage: "if you can't measure it, you can't manage it." The same principle can be applied to your intellectual assets. Put simply, if you don't know what your assets are, you can't claim ownership of them, protect them or exploit them.

Take trade secrets, for example. Many businesses have these – they can be anything from a list of ingredients to a specialist manufacturing process. Many knowledge-based companies rely almost entirely on a combination of trade secrecy and "first mover advantage". But until you identify that you have a trade secret:

- How can you protect it against loss if it isn't documented properly (or, put another way, if it were stolen, how would you be able to prove that it was yours)?
- How can you take appropriate measures to safeguard it, for instance against unauthorised or unwitting disclosure by team members?
- How can you work out a development plan for it?

Until you record your ownership of an intellectual asset like a trade secret, it can be argued that it doesn't really exist – after all, where is the proof you've got it? Certainly, it's impossible to leverage external value out of any such asset unless and until it's properly described. Would Coca-Cola have grown to become the biggest brand in the world without a well thought-through strategy for exploiting its unique formula?

How can I identify what I've got?

Many companies maintain that "our people are our greatest asset". While that may be true, and may be one of several good reasons why you should compile a staff skills audit, this part of your "knowledge capital" does not need to be documented in an intellectual asset strategy. This particular knowledge and skill set is better captured in terms of its outputs, namely the products and services you develop and sell (in any event, you can't really transfer the benefit of an expert workforce without selling your business).

The assets which are worth identifying and documenting are the ones which you have a realistic prospect of being able to protect, sell, licence, share or use as some form of security. There are many different types of intellectual assets to consider, so at Inngot we divide them into five groups to make them more manageable:

1. *Registered rights* – patents, trade marks and registered designs. You should hold the documentation for all of these, and have a strategy in place to monitor possible infringements.
2. *Copyright*. Most businesses possess important copyright material; while this is commonly associated with artistic works, it covers most forms of "literary work" - from software code, to product documentation, to website marketing materials. You *must* assert your ownership of copyright in order to retain your full rights in law.
3. *Products & services*. This category covers the knowledge embodied in, or used for, the goods and services you sell. It includes trade secrets, unique service formats, unregistered designs and trading styles.
4. *Relationships & resources*. This covers all the assets which are created as a result of your trading and operating activity, which add value to your business. It includes support contracts, specialist knowledge of customer requirements, preferential access to suppliers and your order book.
5. *Approvals & endorsements*. This category picks up the other reasons why people do business with you rather than someone else – your reputation or market leadership, or the approvals and licences you hold.

What can I do with these assets once I've captured them?

The first thing you should do is give some thought to your strategy for protecting and developing each of the assets you have identified. For example, if you have identified that your supplier relationships are a key intellectual asset, are there other ways in which you could leverage these arrangements to develop new products and services or find customers?

The next thing to consider is whether these assets might be tradable. If you have developed software or proprietary processes that help your business to be more efficient, are there other companies that might be able to benefit from them too (preferably ones you don't consider direct competitors)?

There are a variety of ways in which intellectual assets can be commercialised. If they fall under the definition of IP, then usual property rights apply, meaning that these assets can be licensed, assigned or sold in just the same way as tangible items.

Even if your most important assets are not IP, a willing buyer and seller can usually negotiate appropriate commercial terms to acquire or share them. Apart from agreeing a [valuation](#), the key aspect is to ensure that the deal includes access not only to the asset itself, but to any associated know-how that is needed for it to be useful.

When thinking about the opportunities that an intellectual asset approach can deliver, try not to be too constrained by current circumstances. If you promote things that you can already do, you may attract interest from prospects who can find new markets for your assets, or work with you to develop them in ways you hadn't previously considered.

Whether you have identified trading opportunities or not, it is often in your interests to put other people on notice of the existence (but not the content) of any assets you are claiming to own. You don't want other companies claiming that you have copied them – better, as they say, to get your retaliation in first.

Where can I get more information on commercialising my intellectual assets?

The purpose of Inngot is to provide a convenient means for businesses to identify and define all their key intellectual assets, and to make them accessible on a secure online "marketplace", so that they can be used as a basis for partnering, licensing and financing.

*Inngot can be found at www.inngot.com and can be contacted at info@inngot.com. If you'd like to see how your intellectual assets measure up, visit our [valuations page](#) and see how much your IP is worth – or give us a call on **01235 85 40 85**.*