

The IP Business Model Sustainability

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IMAGINE...

Or would you rather opt for a pure R&D firm that sells its technology (e.g., via licensing agreements) to third parties?

What target industry would you choose?

What kind of company would you build in order to commercialize the intellectual property?

New company X
breakthrough innovation that dramatically reduces microprocessor energy consumption (-15,000%)

Would you choose to become a chip manufacturer, building components that embed the new technology, and selling them to the OEMs?

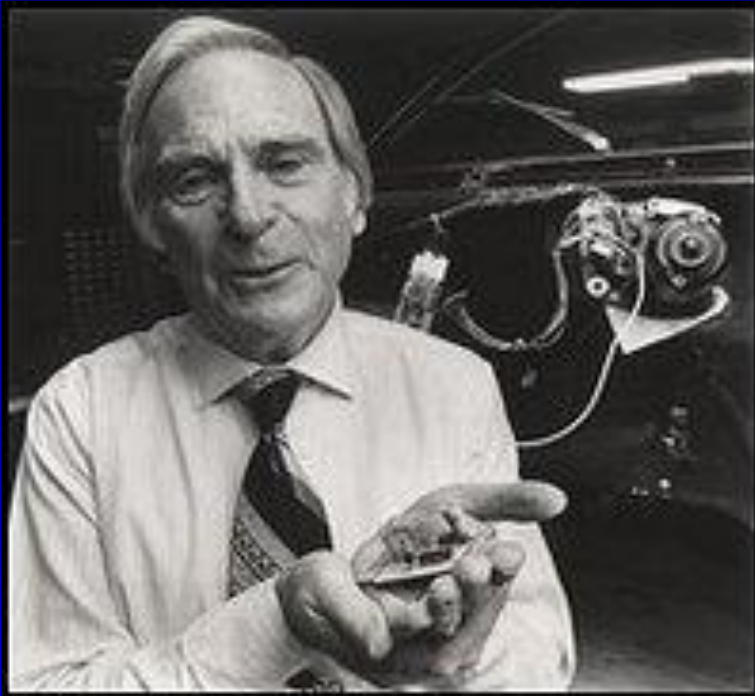
What “model” of a firm would you adopt in order to embed the new firm into the existing ecology of original equipment manufactures (OEMs)?

DESIGNING THE BUSINESS MODEL

- Each choice has fundamentally different implications
 - Activities
 - Resources
 - Positioning within the value chain
- These choices also have implications for the performance potential of the venture
 - Capital expenditures
 - Prices
 - Margins
 - Customers/Competitors
- Every combination of choices corresponds to a uniquely different business model

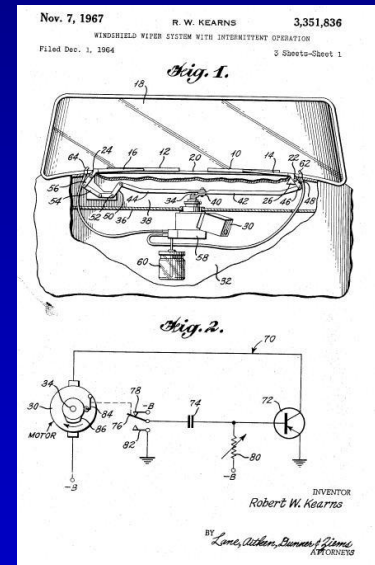
THE CHALLENGE OF CAPTURING VALUE FROM IP

- Appropriability hazard



Robert Kearns

inventor of intermittent windshield wiper



- Knowledge “stickiness”
 - the less codified and “observable in use” the knowledge the higher the complexity of transfer (the receiving company must be able to assimilate)

- Technology and market uncertainty
 - Market demand may change
 - Investments may be required in order to adapt the technology to the buyer's own needs
- Small numbers bargaining
 - Fear of being subjected to a “hold-up” situation

- What strategic capabilities are required in order for technological start-ups to simultaneously defend and capitalize on their IP?
- What are the key strategic drivers of new firms IP commercialization efforts?
- *What are the distinctive features of a sustainable IP based business model?*

Or would you rather opt for a pure R&D firm that sells its technology (e.g., via licensing agreements) to third parties?

What target industry would you choose?

What kind of company would you build in order to commercialize the intellectual property?

The logo for ARM, consisting of the letters 'ARM' in a bold, teal, sans-serif font. A small registered trademark symbol (®) is located to the upper right of the letter 'M'. The logo is centered horizontally and vertically on the slide.

ARM®

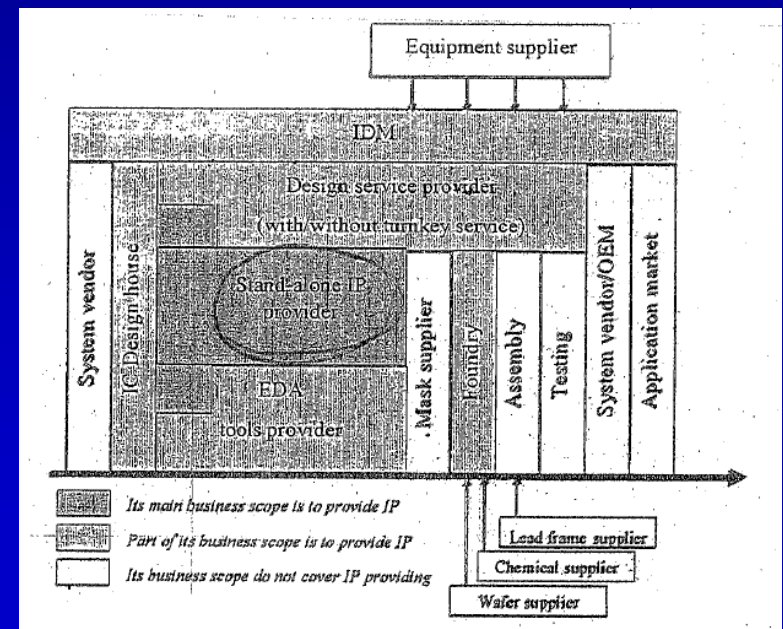
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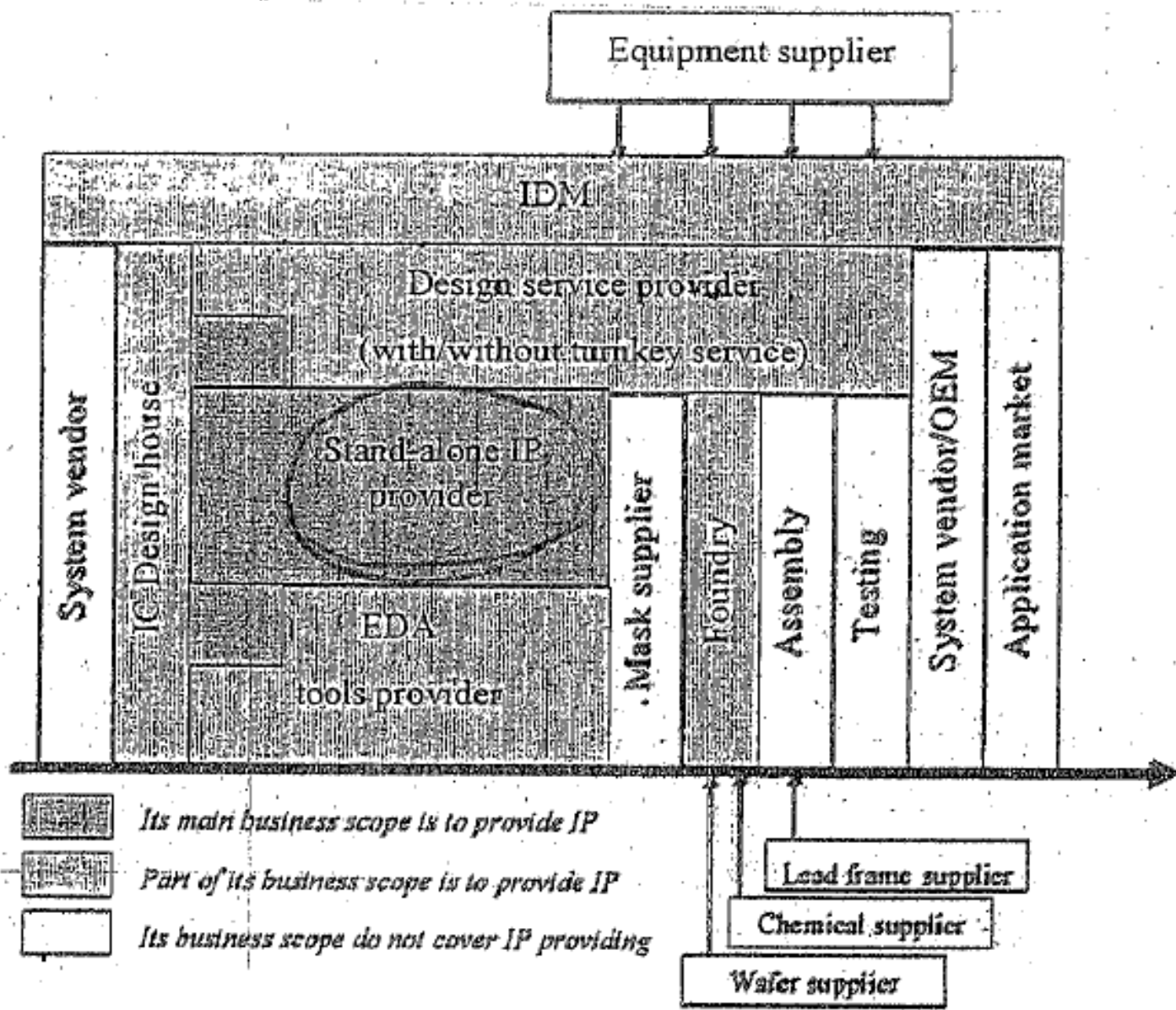
What “model” of a firm would you adopt in order to embed the new firm into the existing ecology of original equipment manufactures (OEMs)?

THE IP BUSINESS MODEL

- In the IP business model the chief capability of the organization is its ability to create, own, market and sell IP to other firms (Chesborough, 2002)

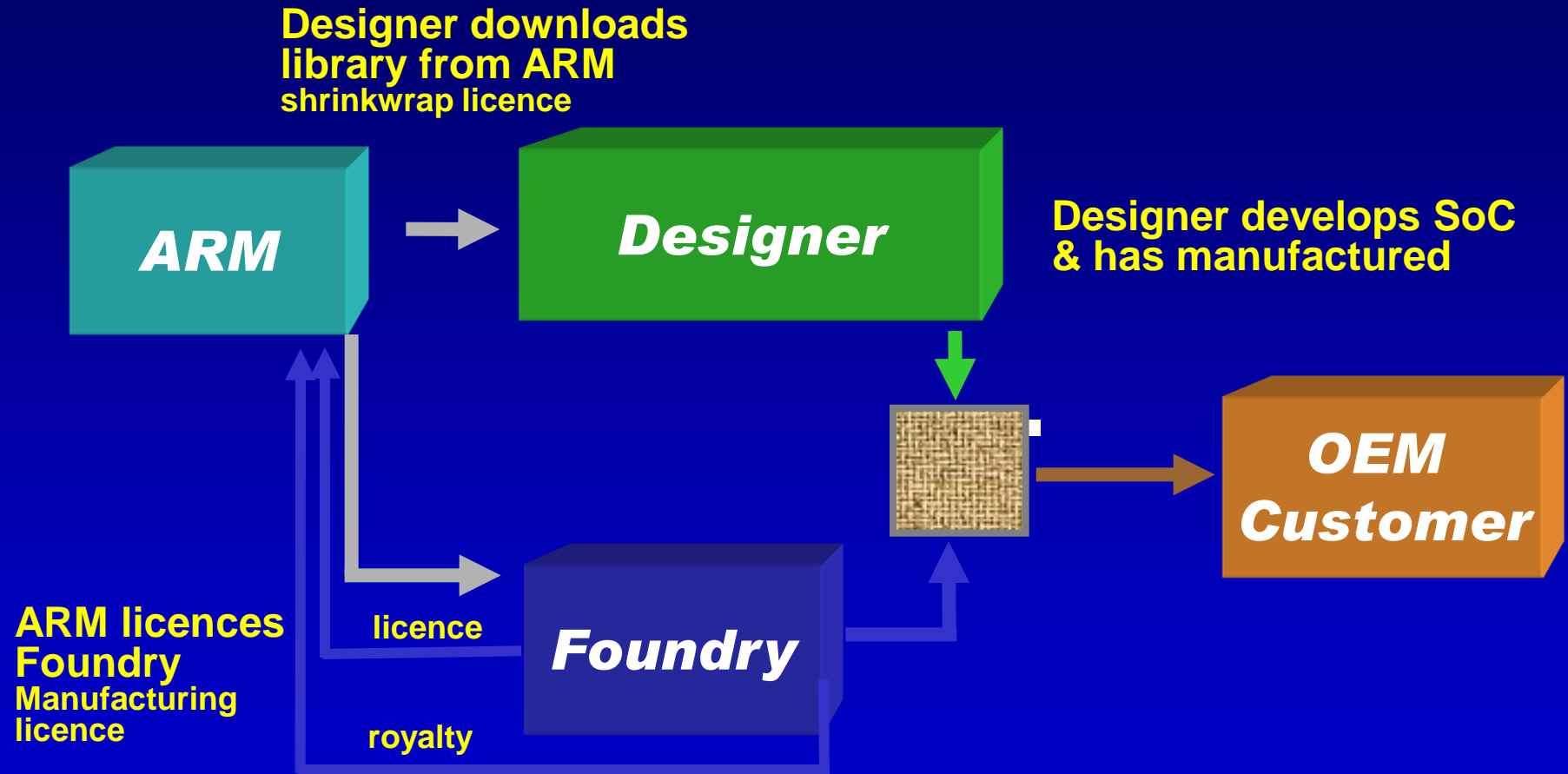
- Key issues
 - Positioning
 - Market
 - Technology
 - Manufacturing divide
 - The roadmapping
 - Standard setting





ARM

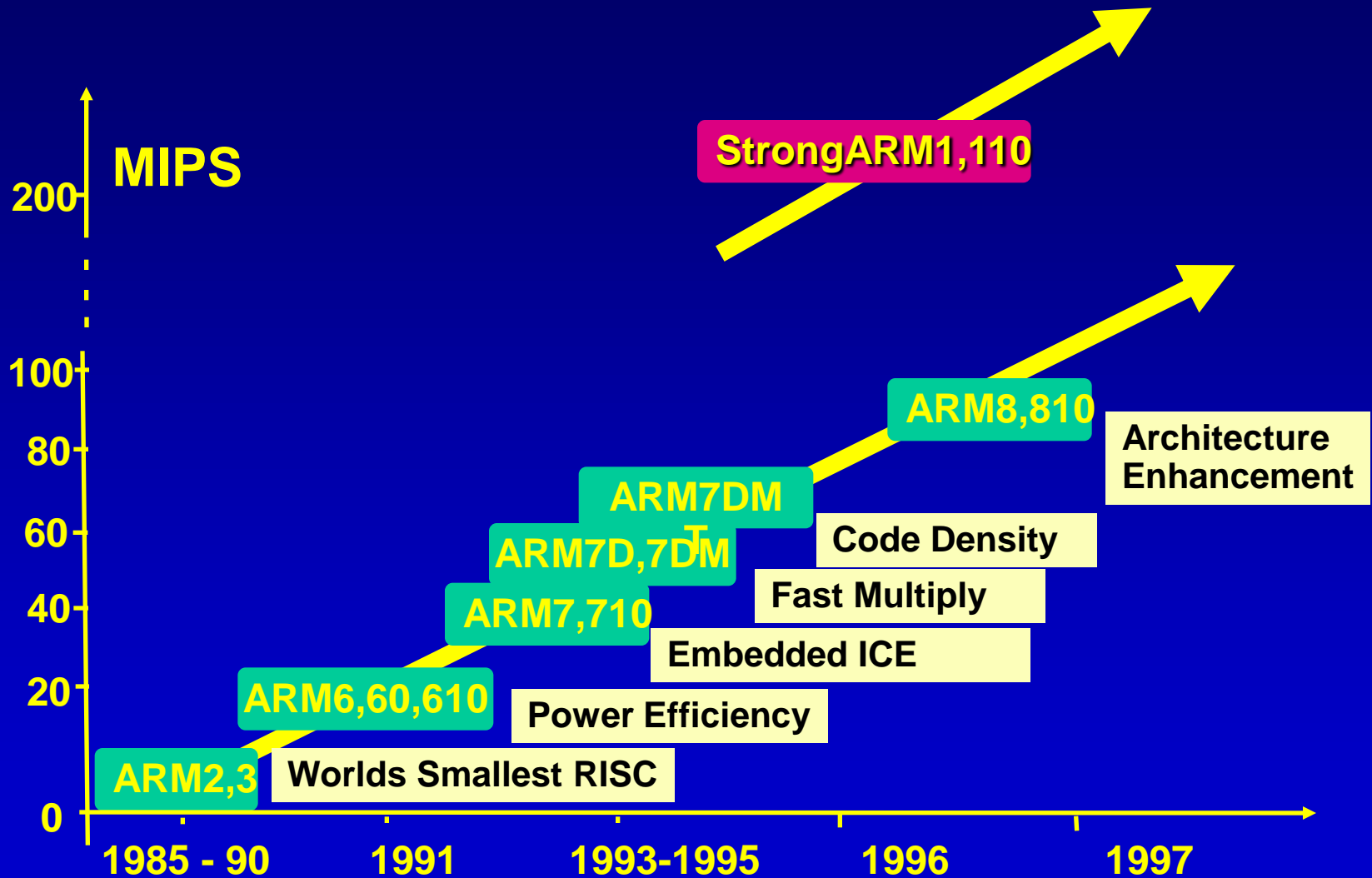
THE FABLESS CHIPLESS CHIP COMPANY



Licence fee covers proportion of development costs

Royalty shares by rewarding success.

ARM Family Roadmap



CONCLUSIONS

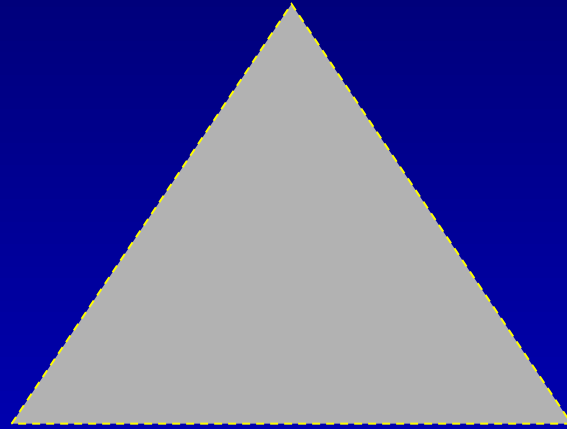
Building an IP based business model in practice

- Overcoming the “generic technology syndrome”
- Competent people talking with harsh counterparts and **learning quickly**
 - “To make its business model work, ARM was very dependent on people communicating with customers. Throughout the company, emphasis was placed on engineers’ contact with customers. ... Our strength is that we’re not afraid of putting *technical people in front of customers.*” (CTO, personal interview)
- Creating a knowledge network sensing opportunities and allowing *joint technological roadmaps*
- Not a loosely coupled network but deliberate creation of *multiple dyads and triads* generating a tightly coupled network

ARM

Nokia

TI



THANK YOU

FOCUSING ON PURE PLAY IP



ARM[®]



MOS
AID



Rambus.



MIPS[®]
TECHNOLOGIES



InterDigital[®]



AMBERWAVE



TESSERA 



 ORBITAL
Innovative Technology Solutions for a Cleaner World ...

- “The granting [of] patents ‘inflames cupidity’, excites fraud, stimulates men to run after schemes that may enable them to levy a tax on the public, begets disputes and quarrels betwixt inventors, provokes endless lawsuits...The principle of the law from which such consequences flow cannot be just.”

The Economist, 1851

The evolving IP market place

- Many large companies have reduced in-house research capabilities
- Movement towards specialization
- Patent system strengthened internationally
- Increasingly mobile workers
- More “pro-patent” attitude of politicians
Increrase in licensing and other forms of IP strategies

The evolving IP market place

- In recent decades . . . the fraction of the total output of our economy that is essentially conceptual rather than physical has been rising. This trend has, of necessity, shifted the emphasis in asset valuation from physical property to ontellectual property and to the legal rights that inhere in the latter

Alan Greenspan,

US Federal Reserve, 27 Feb 2004