

THE WISDOM OF INTELLECTUAL PROPERTY

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Intellectual property can be very important to a company's overall business strategy. It is one of the most, if not the most significant factors in attracting business partners and investors. Intellectual property of a company includes innovation, employee knowledge and experience, goodwill, patents, brands, and trademarks. They all have intrinsic value and play an important part in the way a business operates in its given place in the market. Licensing opportunities may also exist which can create additional value to the company by producing revenue.

It is of vital importance to a company to take the time necessary to catalog and understand all of the intellectual property that resides in the organization. Yearly, at a minimum, corporate officers should commission a team to circulate around every corner of the company and scour the halls to determine where intellectual property exists. Special attention should be given to new employees as long as non-disclosure agreements do not prohibit them from disclosing information. The next step is to try to assign value to that piece of property.

The big question is "How do I put a price on intellectual property?" Many of the most valuable assets of a company come from intellectual property. The worth of a given piece of intellectual property can easily be viewed differently by various people inside and outside of an organization. Once intellectual property changes hands in an acquisition, it can now have a completely different value when incorporated into the mix of the new organization. This makes it almost impossible for accountants to value this commodity and place it on the corporate balance sheet.

United States accounting standards refer to the components of intellectual property as intangible assets. Standard 142 addresses how intangible assets that are acquired individually or with a group of other assets should be accounted for in financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. I will not attempt to go any further into the accounting aspects of this issue but



refer you to the Federal Standard. The Standard does state however that analysts and other users of financial statements, as well as company management, note that intangible assets are an increasingly important economic resource for many entities and are an increasing proportion of the assets acquired in many transactions. Pan-European standards are currently under development.

Intellectual property can find many different entry points into a business' value chain. Components can apply in many different areas and those application points can differ between a specialty chemical or adhesive company and a commodity chemical or adhesive company. A development or other high end component will have high value to a specialty firm while a manufacturing or distribution component will have more value to a commodity based company.

Discussion of intellectual property leads us to a discussion on innovation. There is no question that innovation is enormously important to increasing productivity and global competitiveness of companies in the United States, Europe and around the world.

Many companies measure the value of innovation through annual sales of newly developed products. They may set goals that state that a certain percentage of annual sales come from products on the market less than three to five years. The common belief among the leading manufacturers of specialty chemicals and adhesives is that, to be successful, up to ten percent of annual sales should come from new products introduced in the past year.

When making an acquisition, it is becoming increasingly more important for acquiring company to obtain as much competitive intelligence as possible to determine to the value of intangible assets it will be acquiring. There will be a high level of uncertainty about the value of those assets once they are incorporated into the new company depending on positive synergism or lack there of. A thorough assessment as possible should be conducted in advance of the acquisition.



Patents and copyrights should be used whenever possible to protect the large, upfront investments required to develop new technologies, processes and ideas. When involved in expensive advertising and marketing campaigns it is also important to protect brand names and trademarks. Without these protections and protection of all intellectual property, companies would have to limit the amount of time and money they spend on innovation and developing new technologies.

A key to success for any organization is to have a solid business strategy that incorporates a thorough understanding of its intellectual property. When making an acquisition or creating a new business partnership, understanding the synergism that will be created by the merger of the intangibles of the organizations is vital. They could be the keys to success.



About The Author



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Mike joined The ChemQuest Group in June 2000 with 18 years experience in the chemical industry. Twelve of those years have been dedicated to resins and polymers for the Coatings and Adhesives Industries. Prior to joining ChemQuest, he served as Industrial Coatings Market Development Manager for McWhorter Technologies where he focused on market strategy development and formation of customer and supplier partnerships for the purpose of maximizing value. Prior to McWhorter he spent two years in sales with Ciba Specialty Chemicals, seven years in sales and marketing roles at Unocal Polymers and two years in sales with Sherwin-Williams Chemical Division. Mike holds a Bachelor of Chemical Engineering degree from the University of Dayton.

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