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***ISA/IPEA Marketing Study  
Direct Client Input***

**Final Report**

Prepared for

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# Chapter 1

## INTRODUCTION

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CIPO is considering the feasibility of becoming an International Search Authority (ISA) and an International Preliminary Examination Authority (IPEA), in addition to being a PCT contracting state. To inform its decision in this regard, CIPO requires various types of information, such as the size and nature of the Canadian PCT market, the evolution of the demand for PCT requests, the factors which influence the decision to deposit a PCT request or to go directly to national phases, the price elasticity of PCT demand, etc.

Marketing Branch has launched a number of studies to generate the required information. At this point, direct client input is required. The information which needs to be collected from clients can be organized in the following categories:

- **Identification of the buyers.** While the analysis of WIPO and CIPO PCT data has started to shed light on the buyers of PCT protection, more refined information is required.
- **Purchase decision.** What are the alternatives to PCT? Who decides among the alternatives? What are the deciding factors in that decision? Who is involved in the purchase? How important

is the monetary price of the protection? How does that influence the decisions about the type of protection sought and the use of an agent? How thoroughly do clients search for information about international protection? Do they count on their agent to inform them?

- ***Interest in CIPO becoming an ISA/IPEA.*** Is there support among clients for CIPO becoming an ISA/IPEA? What would make CIPO a more attractive supplier than the current organization? Corollarily, what are the most important attributes of an excellent ISA/IPEA? What are the relative weights of cost and quality? Would another ISA/IPEA be more attractive than CIPO or the EPO? Who are the best ISA/IPEA? Why are they the best?
- ***Assessment of past experience.*** How satisfactory has past experience been with EPO and/or with other ISA/IPEA? What were the main strengths and weaknesses in the service rendered?

Interviews were completed with eleven agents and nine clients over the course of two weeks in March 1997, following a letter sent to potential participants by Mr. Pierre Trépanier from CIPO. This sample of clients and agents, while it does not pretend to be (statistically) representative, includes representatives from the four main centres concerned with intellectual property in Canada (Montréal, Ottawa, Toronto and Vancouver), from small and large organizations, and from various industrial horizons. Interviews lasted an average of about 30 minutes, with agent interviews averaging about 40 minutes and client interviews about 20 minutes. The collaboration of agents was easily obtained while clients were much more difficult to enroll into the study. One reason might be that names of individuals were available within agent offices while names of relevant individuals were unavailable within client companies; corollarily, the early notification letter which was sent on CIPO letterhead was addressed to individuals within agent offices while it was addressed to a department (Intellectual Property Department) within client

companies | and, most of the time, was not received by the individual eventually interviewed.

The second chapter of this report presents the findings from the interviews.

# Chapter 2

## FINDINGS

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### 2.1 Segmentation

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Reporting on the interviews conducted is relatively simple since we have observed a very high level of agreement among informants. In fact, we have rarely seen this much coherence in the comments made, by any group of individuals we have researched over the years.

**Agents present an almost monolithic common front.** Clients are split into two groups:

- â a group comprising **highly sophisticated** individuals who have substantial experience with patenting and intellectual property (IP) protection; this group's reactions and views are almost exactly **in line with the views of agents**; these clients do not necessarily reside within large companies (many of which are subsidiaries of multinational corporations and have little say over the protection of intellectual property, a prerogative left to the mother company) but they are part of an organisation which values its patents portfolio; and

- ã a group of **almost illiterate** clients when it comes to patenting and intellectual property protection, who don't really want to learn and who rely heavily on their agent for the determination of a protection strategy; these clients have very little insight to offer and, in fact, they really don't care how the service is rendered, as long as results are delivered.

Therefore, in presenting the results of the interviews, we will present the views of the vast majority of participants. When a few informants expressed a diverging point of view, we will note it to the extent that these views form a coherent segment that CIPO should take into consideration in its decisions regarding ISA/IPEA.

## 2.2 ***Involvement of the client and of the agent***

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In most client-agent relationships, **the agent plays a key role** in the determination of the optimal strategy. Even sophisticated clients need and expect council and advice from their agent. However, the agent is not able to set the best IP strategy without the help of the client: the client knows the market for the invention while the agent knows the rules and process related to IP protection; both levels of expertise must be brought to bear on the IP protection decisions.

Because of the gigantic consequences of IP protection decisions, agents insist that clients make the final decision. The agent will guide and educate, but the final decision is not technocratic; it is strategic. In most cases, the final say within the client organization rests either:

- with an intellectual property committee | within knowledge-based organisations or organizations where IP protection is a priority (e.g., Northern Telecom); otherwise,
- the organization's management committee is responsible for the final decision (e.g., research institutes at the National Research Council of Canada).

## 2.3 *Pent-up demand*

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It is quite clear to all informants who commented on the issue that a large proportion of Canadian (and other) inventions are never subjected to IP protection. Whether this is a deplorable situation is questionable, however.

The decision not to pursue IP protection stems either from ignorance or from a trade secret strategy or from an unfavourable cost-benefit analysis.

Obviously, *ignorance* is not a satisfying reason to not seek protection and it appears to this researcher as to several informants that CIPO has a key role in promoting IP protection and educating on its importance.

In some circumstances, inventors and innovation-based companies might prefer to keep an idea as a *trade secret*, a strategy which does not offer the legal protection of patenting but which avoids the open publication of a patent.

Finally, the most frequent reason for not seeking IP protection, according to our informants, is that the product of *expected benefits* by the probability of concrete utilization of the invention does not reach the cost of protecting it | which, according to some agents, can amount to some \$200,000 for a fairly large coverage of the industrialized world. The situation is different when the expected market for the invention is geographically narrow or when the client company does not expect to seek a large market, notwithstanding the real market potential of the invention; then, the cost of protection is much less.



## 2.4 ***Most frequent protection strategy***

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The most frequent strategy proposed by almost all agents and supported by almost all sophisticated clients encompasses the following steps:

- â either internally or with the help of an agent, assess the ***need to seek protection***, through a first search of existing data bases, through an analysis of the market and by tapping into the corporate knowledge of the client and the agent;
- if protection is deemed necessary, initiate an ***American national phase*** in order to obtain protection in the largest market in the world (for Canadians) and because the USPTO will most likely provide an assessment of the request ***within the priority period***; this information will then be used to guide the next step; also, the US examination is often the passport required to obtain financing;
- if the American assessment is promising and if the client's strategy calls for protection beyond the USA in several countries (five countries seems to be a common threshold), initiate a ***PCT*** request;
- based on the international search results (and possibly the international preliminary examination), determine in ***which countries*** protection should be sought;
- ***Canada*** may or may not be part of the national phase protection; some agents and clients consider that, under some circumstances, the American patent offers enough of a North American protection; at any rate, the Canadian national process is considered much too slow and not informative enough to be an active part of the protection strategy.

One agent ventured that only one out of ten inventions he takes care of would be submitted to CIPO first. And of the other nine, only a small portion moving beyond the American national phase would eventually make it in Canada.

## 2.5 *Factors in the determination of the protection strategy*

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Clients and agents alike present the strategy determination process in terms of a *cost-benefit analysis* where known and unavoidable costs must be balanced against stochastic benefits and probabilities of obtaining protection. According to our informants, price is not a core issue in and by itself in the selection of an IP protection strategy. Rather, it is one component (albeit an important one) of this cost-benefit analysis which leads to the selection of the strategy. Cost acts as a moderating, counter-acting force in that, without an associated cost (or at a lower cost barrier level), any invention, even marginally new or useful ones, would become the object of claims and would ultimately clutter the protection system.

Thus, price plays an important gate-keeping role and the issue is that of the level of price and barrier. Our informants generally qualified the cost of obtaining protection as *"high" but not "excessive"*. The agents are well aware that their fees represent a much larger component of the cost than the national and international taxes; the clients realize that as well but they see the fees paid to the agent as a way of reducing their risk and of limiting the costs they would personally and corporately incur if they were to gather by themselves the intelligence provided by the agent.

As for the *price of the PCT* phase itself, as one agent put it, *"If the client cannot afford the price of PCT, there is no way that they will be able to face the national phases later"*. Another agent mentions *"Patenting is such a small portion of business start-up costs that, if the entrepreneur stumbles over that, it's not worth starting a business"*.

This being said, there are circumstances and client segments where the price of PCT does have a more clearly defined impact. Small inventors or companies which do not have substantial capitalization but need to buy more time to finalize their commercialisation or licensing strategy may find the PCT-associated costs quite stiff. These companies may not even envisage paying for any national phase protection, leaving this to eventual licensees. In this case, price, in and by itself, can become an inescapable barrier. Yet, as one agent mentioned, rebates in European examinations make up for the cost of the PCT; moreover, a favourable PCT examination is almost an assurance of a positive European regional phase.

## 2.6 ***Nature of the typical PCT client***

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While it is difficult to make all-encompassing generalizations about the nature of the PCT clientele on the basis of a small set of interviews, it appears that the PCT market can be segmented into two groups:

- â corporations which need to ***test the patentability*** waters to potentially save money by avoiding national phases which would not be successful;
- ã small organisations which need to ***differ the large costs*** of national protection, perhaps to find licensees for the product or process.

The motivations being different for these two groups, it will not be surprising to find that they will also value different features of the PCT product.

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## 2.7 *Relative importance of price, quality and speed*

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Using various means, we asked our key informants what the optimal trade-off between price, quality and speed would be for them, in the context of the PCT.

The ***speed dimension was quickly dismissed***: speed is not an issue within the PCT since the delays are prescribed by the treaty and must be adhered to. Yet, one client mentioned that the American PCT process has sometimes failed him in terms of adherence to prescribed delays. It should be noted that speed of reaction was one of the two reasons given by all knowledgeable informants for seeking national protection in the USA very early in their protection strategy, the second one being the sheer size of the American market.

The relative importance given to price and quality varied according to the motivations of the PCT clients:

- ***quality*** of the search and of the preliminary examination is the main criterion for clients who use the PCT to ***test the patentability*** waters; these clients are paying a hefty sum in order to get an enlightened analysis of their claim, one that they can rely on for decisions concerning yet larger investments in national phases.
- overall ***price*** of the process is the key factor for those who use the PCT ***to buy time***; while these clients appreciate a good search and possibly a good examination, their main motivation is not to obtain an authoritative view of their invention's patentability but to differ national phase costs (and they would rather do this at the smallest possible expense).

Agents usually want to get the best possible quality within the existing price.

## 2.8 ***Comments on the current service***

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We asked agents and clients for their views concerning the service they currently get from the European Patent Office for their international searches and international preliminary examinations. Overall, informants expressed a ***high level of satisfaction with the EPO*** and the current PCT process. Deliverables are available on time; the searches are broad; and the examinations are thorough and fair.

A few criticisms were raised nonetheless. They concerned the insistence of the EPO that documents be presented in a certain way; to some agents, these requirements add to the cost and do not assist in many national phases downstream. Also, the location of the EPO increases certain communication expenses, makes direct contact sometimes difficult (lack of proximity) and adds the cost of an European agent. Some agents view the American and European processes as equally good and therefore find the EPO fees too high.

Our informants naturally compared the service they receive from the EPO in the context of the PCT with the service they receive from the USPTO in the context of American national phases. Globally, sophisticated informants ***appreciate the value of the different angles*** that the two offices take to the searches and examinations. They consider that the perspectives of these two offices are different enough and authoritative enough to provide a very good read on the value of the claims. Diverging perspectives do not equate with differing decisions however, since most agents who ventured an estimate indicated that the two offices reach the same conclusions nine times out of ten.

There were some dissenting voices with regard to the comparison of the EPO and the USPTO. When differences were noted, they ***tended to favour the EPO*** | although this is not a monolithic view, some preferring the American process: better presented responses, wider searches, more helpful attitude (compared to an "adversarial" or

"critical" attitude at the USPTO), more in-depth analysis. Most of the variance was attributed to the fact that the EPO staff benefit from more time and resources to complete their work, a fact that was then linked to the service price differential between the two offices. One informant took the position that the EPO is as "European" as the US is "American" and that the EPO report is not a good predictor of national decisions outside Europe; this was a minority view.

The issue of price is analysed in more depth elsewhere in this report, but it is worth reiterating here that the cost of the PCT process is considered high but not exaggerated as of now. Of course, a lower cost would gain votes from every informant, but not at the expense of service and quality.

## 2.9 ***Support for CIPO as an ISA/IPEA***

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When probed for their reaction to CIPO becoming an ISA/IPEA, the reaction of all informants revolved around the same themes:

*"It would be nice to do this here, **but...**"; "I'm all for it, but..."; "I'd love to deal with CIPO on PCT matters, **but...**"*

- *"Have them **improve** their delivery capacity on their current activities and mandates"*
- *"CIPO does not have the **horsepower** to deliver these services"*
- *"They have not shown us that they have a **mind of their own**: they always replicate what the Americans say and do"; "I'm disappointed with the quality of CIPO work because they tend to simply copy the US and European decisions with no value added".*
- *"They don't have the **stature** required for authoritative international searches and examinations"*
- *"It would take them **a lot more** people, expertise and resources to deliver on this"*

- "I'm not going to **wave the flag** at the expense of service to my clients"
- "I would certainly not want to **loose the ability** to use the EPO; don't lock me into CIPO".

To almost all informants, it appeared obvious that CIPO is not capable of delivering the goods within the PCT-stated time frames. Several informants indicated that they would worry that CIPO would **displace** resources currently working on Canadian patents in order to meet the PCT requirements and that it would make Canadian actions that much slower.

The conditions required to win informants' support to an ISA/IPEA CIPO could be summarized as:

- **clear** the current backlog;
- first show that actions can be obtained **as fast as** in the USA, at the **same level of quality**;
- **build** enough authority (through recognized, excellent work) to be seen as a world leader in the area | to most informants, CIPO currently ranks in the bottom fifth in terms of world performance, yet they need a search and an examination which are good indicators of the expected success in further national phases; the art cited should be different from what is used in the American national phase;
- **allow** Canadians to use either CIPO, the EPO and, maybe, the USPTO for their ISA/IPEA supplier | language issues raised by the use of the USPTO are recognized;
- **cut the cost** by between a third to one half of what the EPO asks for (and/or reduce the ensuing national phase costs); price is not a core issue though: agents and sophisticated clients would agree to pay the European price if they received timely, quality work.