English Seminar of Intellectual Property
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Intellectual Property Strategy Formulation

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Purpose of this lecture

➢ In this lecture, let me explain the necessity of having IP personnel understand the fundamental of strategy formulation in the field of business management, and propose an IP Strategy menu in the implementation of IP strategy making.

➢ This lecture also aims to provide information and suggestion on how IP strategy can be integrated with corporate strategy in a comprehensive way using an example of IP strategy making.
Final Mission of Corporate Management is “Sustainable Development”.

In order to keep sustainable development, we definitely need “Management Strategy”.
What is Management Strategy?
Break Down from basic philosophy

Basic philosophy

Enterprise Management's Policy and sense of values that is universal and almost permanent
Significance of existence as enterprise, mission, value, corporate culture, code of good practices, and founder's desires

Vision

Appearance at which a mid/long term that materializes basic philosophy of Enterprise Management aims
The one that becomes target of management strategy plan
(ex) Super-selected enterprise and number 1 enterprise

Management strategy

Directionality at which enterprise aims by a mid/long term (target of management strategy)
Target of concrete financial numerical value (sales and profit)
Clarification of business domain

Concrete actions

Short-term, local concrete action planning
Role, business, and method for achievement of objectives at current year
Approach in section and each site
Flow of management strategy formulation & management tools

- Flow of strategy formulation
  - PEST analysis
  - 5 Forces analysis
  - Sharing of basic philosophy
  - Vision decision
  - Environmental analysis
  - Outside environment analysis
    - Internal, environmental analysis
    - Pooled analysis
    - Domain (business area) setting
      - Strategy formulation
      - Business strategy decision
      - Strategy for the entire company decision
  - Execution of strategy
  - 6W2H
    - Management by objectives
    - Balanced Score Card
    - PDCA
  - Competency Development
  - Organization revision
  - Management resource securing

- Value Chain analysis
  - VRIO analysis
  - SWOT analysis
  - 3C analysis
  - Marketing shortsighted eyes (Levitt)
  - CFT (Eibel)
  - Three basic strategies (Porter)
    - Strategy according to competing position (Kotler)
    - Growth vector (Ansoff)
    - PPM (BCG)
  - Core Competence (G. Hamel and C.K. Prahalad)
PEST analysis

Politics
- Trend of law (restriction, tax system, and subsidy, etc.) revision
- Trend of government and government and municipal offices and trends of administrative guidance of the Fair Trade Commission etc.
- Trend of decision of lawsuit cases, and trend of change in trial practices etc.
- Trend of external pressure, overseas government, and the United Nations and trends of restriction in foreign country etc.

Economy
- Trend inside and outside the country of business, prices, and unemployment rate, etc.
- Trend of exchange, interest rate, and stock prices
- Trends of change and overseas production shift, etc. of industrial structure
- Trend of personal consumption and importing and exporting

Social
- Social trouble, event, and natural damage, etc.
- Population structure, Trend of birth rate, People’s movement trend from suburbs to city, Job change
- Lifestyle, Change in values, etc.
- Trend of fashion

Technology
- Trend of technical improvement
- Trend of patent of own company and the other companies
- Trend of industry-academics cooperation, Trend of research topics of university and research institute
- Technology licensing-in, Trend of substituting technology, etc.

Note when analyzing it:
It should not be the overview of all factors, concentrating on the important factors for our company and our stakeholders, considering why it important and how it makes influence. By making PEST analysis, external environment shall be clarified, defining our opportunity and threat. The important information for strategy planning shall be extracted.
A lot of rival enterprises exist, and the scale is the same level.
The growth rate of the industry is stagnating.
Discrimination is difficult in the industry.
Difficulty of cost structure
Difficult withdrawal

Supplier's industry is in the oligopoly situation.
There is no other substitutes from other suppliers of the products and services.
The importance of the industry is low for the supplier.
The cost change the supplier is high.

Competitive edge situation of supplier of raw materials, parts

Situation of New Comers

Severity in competitive setting of its company and competitor

Appearance of substitute technology

Situation of customer's negotiation power

Knowledge of the customers on products and services is rich and high.
The products and services are not discriminated.
The importance of the industry is low for the customer.
The cost into which the customer changes the supplier is low.

Existence of substitute with the same function as commodity and service of industry
Relative value decrease in goods in question and service
The customer needs change.

Note when analyzing it:
It is useful for the strategy formulation to analyze the charm degree of the industry that belongs so that the profitability of the industry to which the enterprise belongs may influence the profitability of the enterprise. The chance and the threat that the situation of the industry gives its company are extracted.
Value Chain analysis (Michael Porter)

KFS: Key Factor for Success

<table>
<thead>
<tr>
<th>Industry of Reference</th>
<th>Large-scale retailer</th>
<th>Medicine manufacture</th>
<th>Semiconductor</th>
<th>Cosmetics</th>
<th>Travel agent</th>
<th>Insurance</th>
<th>Convenience store</th>
<th>Copier</th>
<th>Elevator</th>
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</thead>
<tbody>
<tr>
<td>Example</td>
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<td>Price negotiation power by bulk purchase Raw material securing Respond market price</td>
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<td>Precision work</td>
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<td>Regular service</td>
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</tbody>
</table>

Note when analyzing it:
Undertaking activities are divided into the back-office section and the direct department, and about the direct department, the strength and the weakness of each functional element of the value chain are analyzed according to foreclosed of the thing, and relative competitive edge with the other companies is understood. It is used as an analysis of the strength and the weakness of our company by using 3C analysis.
VRIO analysis (Jay B. Bernie)

**Value:** Can you contribute by catching the opportunity of the outside environment? Can you contribute by reducing the threat? By this aspects, the business resource shall be evaluated.

**Rarity:** Is there any other companies providing the same products or services? Other companies have similar resources or not?

**Inimitability:** Whether it is easily imitated by the competitor or not? Aspect to which resources on business are evaluated by this viewpoint.

**Organization:** Whether the mechanism that resources on business can be used enough is made or not? Right organization?

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Note when analyzing it:
VRIO analysis is proposed based on three concepts which are “Value”, “Rarity” and “Inimitability”. It is considered that the company has these 3 capability is strong and competing. Also, it is important to have the proper organization to maintain the mechanism as these resources can be effectively used.
3C analysis

From three important factors: customers, competitors and own company, the key success factor as the direction that its company should take, shall be decided. The value chain analysis and the VRIO analysis are often used for the analysis of competitors and the own company.
Note when analyzing it:
The strengths, weaknesses, opportunities and threats analysis has two stages. First stage is the analysis on SWOT. Then the second stage is to make strategy based on SWOT. When analyzing it, it is important to verify the event by an objective aspect. When directionality is settled on, each element of the matrix of SWOT is combined and it examines it.
Relations of various analysis tools

PEST analysis that analyzes politics, economy, society, and technology

5 Forces analysis that analyzes competitive status of industry

Value Chain analysis that analyzes strength and weakness of each function along the process of business operation

VRIO analysis that analyzes value, rarity, difficult imitation, and organization that its company has

3C analysis that settles on important success factors from three aspects; customers, competitors and our company

The directionality of the strategy formulation is materialized based on the result of an inside and outside factor analysis.

Decide the direction of the strategy.

Strength
Weakness
Opportunity
Threat
Defining the business domain (business area)

Domain setting
Decide our business area.

It sets it based on "Desire" as the enterprise that defines it by the basic philosophy and the vision.

It analyzes it based on "Current state" in which the enterprise is opened from the result of an environmental analysis.

Too narrow domain setting persists in the competition in the narrow scope, and corresponds to a big environmental transformation in impossibility.

Too wide domain setting becomes wide the range of the decision of the strategy, becomes uncontrollable, and causes the risk of the management resource decentralization.

Theodore Levitt "Marketing shortsighted eyes"

Example: Railway company
"Railway business"
Example: Movie company
"Movie business"

It is not possible to correspond to the environmental transformation by the narrow domain setting limited to a present corporate structure and resources on business and it declines.

The domain is widely set in consideration of "What value do you offer the customer?".

Derek F. Eibel "Aspect CFT of domain setting"

Customer
To what kind of customer do you offer it?

Function
What function (value) do you offer?

Technology
By what technology do you offer it?
### Three basic strategies (Porter)

<table>
<thead>
<tr>
<th>Cost leadership Strategy</th>
<th>Differentiation Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy to try to win competition by achieving a cost that is lower than where of the other companies, aiming at wide customer of the entire industry</td>
<td>Strategy to try to win competition by achieving differentiation with the other companies by feature that other enterprises do not have, aiming at wide customer of the entire industry</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Concentration Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy to concentrate on market niche of industry, to try to concentrate resources on business, and to win competition</td>
</tr>
<tr>
<td>- It tries to win the competition standing in a dominant cost in the market niche. &quot;Cost focus strategy&quot;</td>
</tr>
<tr>
<td>- It tries to achieve the differentiation by the market niche, and to win the competition. &quot;Differentiation focus strategy&quot;</td>
</tr>
</tbody>
</table>

**Means to create competing dominant status**

- **Low-cost**
- **Uniqueness that customer admits**

**Target by Strategy**

- **Entire Specific Industry Field**
- **Specific Business Area**
Cost Leadership Strategy

How can we achieve the cost that is lower than the other companies?

- Achievement of scale economy
- Achievement of experience curve effect
- Reduction in purchasing price
- Reduction in operation cost

(Concept of Strategy)

(How to achieve?)

(risk)

- To maintain the cost leadership strategy, we have the load of the investment etc.
- The innovation that exceeds the scale economy and the experience curve occurs, and low-cost domination collapses.
- The success factor of the industry shifts the differentiation, and face on the difficulty to take lead against the enterprise that takes the differentiation strategy.
- It is defeated at the competition with the enterprise that takes the cost focus strategy, and low-cost domination collapses in all markets.
Differentiation strategy

(Concept of Strategy)

How we make our products differentiated against the competitors, and how we get appreciation from our customer?

(How to achieve?)

Differentiation of products
Differentiation of Services
Differentiation of Channel
Differentiation of promotion

(important point)

There is an original and peculiar value of our company, and we have to realize sustainable differentiation by using Our resources with rarity and inimitability.

(risk)

- The cost difference with the enterprise that takes the cost leadership strategy will expand more.
- The effect of discrimination doesn't continue when it is imitated by the other companies.
- It is defeated at the competition with the enterprise that takes the differentiation focus strategy, and the domination of the differentiation collapses in all markets.
- It becomes impossible to differentiate by the change in the customer needs and the appearance of the substitute.
To prevent resources on business that the enterprise has been distributed
On which segment are resources on business concentrated?

- Cost concentration
- Differentiation concentration

- The advantage of the scale grows more than the narrowed advantage, and the cost difference with the enterprise that assumes the entire industry to be a target increases.
- Resources on business are concentrated by the cut of a more effective segment to compete.
- The narrowed segment reduces.
Strategy according to competing position (Kotler)

<table>
<thead>
<tr>
<th>Corporate classification according to competing position</th>
<th>Amount of resources on business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of resources on business</td>
<td>Large</td>
</tr>
<tr>
<td>High</td>
<td>Leader</td>
</tr>
<tr>
<td>Low</td>
<td>Challenger</td>
</tr>
</tbody>
</table>

Kotler showed the idea "As for the strategy pattern according to a competing position, the formula of the strategy that had to be taken by the position in the competition in the industry is different".

<table>
<thead>
<tr>
<th>Feature</th>
<th>Policy of strategy</th>
<th>Strategy formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leader</td>
<td>All fields</td>
<td>Peripheral demand expansion, Making to homogeneity, For non-price</td>
</tr>
<tr>
<td>It is industry-leading, and it has a resource that is more dominant than the competition in quality and quantity.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Challenger</td>
<td>Differentiation</td>
<td>For the attaching differentiation, restrict by the leader enterprise</td>
</tr>
<tr>
<td>Resources on business are relatively 劣位 compared with the leader enterprise though it is a high rank of the industry.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nicher</td>
<td>Centralization</td>
<td>It specializes in a specific segment, and it becomes a mini leader in that.</td>
</tr>
<tr>
<td>It has the technique only to build a position original in the particular field though it is not a high rank of the industry.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Follower</td>
<td>Efficiency improvement (imitation)</td>
<td>Efficient profit securing by imitation of high-ranking enterprise, Management resource accumulation for the future</td>
</tr>
<tr>
<td>It doesn't have resources on business that can demonstrate competing domination quantitatively and qualitatively.</td>
<td></td>
<td></td>
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</tbody>
</table>
Growth vector (Ansoff)

<table>
<thead>
<tr>
<th>Market</th>
<th>Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing</td>
<td>Market saturation</td>
</tr>
<tr>
<td>New</td>
<td>Market cultivation</td>
</tr>
</tbody>
</table>

Synergy effect between businesses

Use of unused resource in enterprise

Diversification of risks and earnings stability by correction of business balance

Securing of attractive market opportunity

Effect of diversification

Directionality of growth

Existing

New

Method of growth

By internal resource

External resource use

M&A

Alliance

Note when analyzing it:
It is Ansoff to discuss what diversification to examine so that the enterprise may grow up continuously.
Note when analyzing it:
It is a business portfolio to discuss how to distribute resources on business between two or more diversifying businesses so that the enterprise that is diversification may grow up continuously.
Core Competence (G. Hamel and C.K. Prahalad)

Core competence:
It is the center ability of the enterprise that offers the customer the original value that cannot be mimicked and done in the other companies.

- The imitation must be difficult by rival.
- Lead to the value creation to the customer.
- Enable development with various markets.

Corporate capabilities of technology and knowhow, etc. to meet three requirements

Example: Sony
Abilities of technology and knowhow, etc. concerning not concrete products such as transistor radio and Walkman but miniaturization technologies by only Sony.

- The core competence for its company shall be clarified.
- The resource for that accumulates with the ability that is a dominant source for the competition.
- The business development that centers on the core competence is built into the strategy.

Note when analyzing it:
The synergy that cannot be examined enough only by PPM can be considered, and the distributions of resources on business other than money and the suggestion of the directionality of the necessary, new business development can be obtained for the long term.
Idea to take aspects of resources on business of had technology and knowhow, etc. in addition to analysis result of outside environment of enterprise to strategy formulation.
Flow of management strategy formulation & management tools

- PEST analysis
- 5 Forces analysis

- Sharing of basic philosophy

- Vision decision

- Environmental analysis
  - Outside environment analysis
  - Internal, environmental analysis

- Pooled analysis

- Domain (business area) setting

- Strategy formulation
  - Business strategy decision
  - Strategy for the entire company decision

- Execution of strategy

- Value Chain analysis
- VRIO analysis

- SWOT analysis
- 3C analysis

- Marketing shortsighted eyes (Levitt)
- CFT (Eibel)

- Three basic strategies (Porter)
- Strategy according to competing position (Kotler)

- Growth vector (Ansoff)
- PPM (BCG)
- Core Competence (G. Hamel and C.K. Prahalad)

- 6W2H
- Management by objectives
- Balanced Score Card
- PDCA

Flow of strategy formulation

Competency Development
Organization revision
Management resource securing
Relations between Business Strategy and IP Strategy

- **External Environment Analysis**
  - External Environment Analysis of IP Department

- **Internal Resource Analysis**
  - Internal Resource Analysis of IP Department

**Management Strategy**

- **Opportunity**
  - Strength
  - Threat
  - Weakness

**Management Tools**

**IP Strategy Menu**

**Internal Resource Analysis**

<table>
<thead>
<tr>
<th></th>
<th>Strength</th>
<th>Weakness</th>
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</thead>
<tbody>
<tr>
<td><strong>Opportunity</strong></td>
<td>How to make the best use of the strength to take the opportunity?</td>
<td>How to catch the opportunity even if we have the weakness?</td>
</tr>
<tr>
<td><strong>Threat</strong></td>
<td>How to make the best use of the strength to avoid the threat?</td>
<td>How to avoid the threat not actually becomes by the weakness?</td>
</tr>
</tbody>
</table>

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## IP Strategy Menu (1)

<table>
<thead>
<tr>
<th>IP Strategy Menu</th>
<th>Brief Explanation</th>
<th>Key Word</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digging Up Invention Strategy</td>
<td>Pick up hidden inventions to file patent applications</td>
<td>Technology Technique Beginner on IP</td>
</tr>
<tr>
<td>Focusing on a “Hole” Strategy</td>
<td>Focusing on the area “Hole” that no one has applied as patents for R&amp;D and patent applications</td>
<td>Niche Specific Area IP Information</td>
</tr>
<tr>
<td>Focusing on Core Technology Strategy</td>
<td>Focusing on Core Technology area of patents and create a barrier to avoid new comers</td>
<td>Core Tech Competing Focusing</td>
</tr>
<tr>
<td>Improvement Patents Strategy</td>
<td>Focusing on improvement patents to compete against competitor having basic patent</td>
<td>Improvement Follower Long term</td>
</tr>
<tr>
<td>Flooding Patents Strategy</td>
<td>Spend much budget for big number of patents to compete with the number of patents</td>
<td>Leader IP Budget IP Staff</td>
</tr>
<tr>
<td>Patent Portfolio Strategy</td>
<td>Create a group of patents having business value to take a leadership in the market</td>
<td>Business Analysis IP Management</td>
</tr>
<tr>
<td>Patent Information Strategy</td>
<td>Make efforts of distribution of patent information for the better utilization by R&amp;D, marketing, including management decision</td>
<td>IT KM IP Information</td>
</tr>
<tr>
<td>IP Strategy Menu</td>
<td>Brief Explanation</td>
<td>Key Word</td>
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</tr>
<tr>
<td>Invalidation Strategy</td>
<td>Take a legal actions to invalidate obstacle patents owned by others</td>
<td>Attack Dominant Selfish</td>
</tr>
<tr>
<td>Enforcement Strategy</td>
<td>Much efforts to find the infringing products on the market and take legal actions demanding injunction and compensation for damages</td>
<td>IP utilization Attack Dominant</td>
</tr>
<tr>
<td>Licensing Out Strategy</td>
<td>Licensing out patents to other company to expand the market</td>
<td>Open Friendship Market Oriented</td>
</tr>
<tr>
<td>Licensing In Strategy</td>
<td>Licensing in of other’s patents to reinforce the technology reducing R&amp;D expense</td>
<td>No NIH Supplement Outgoing</td>
</tr>
<tr>
<td>Negotiation Up Strategy</td>
<td>Take a leadership by patents in several occasions such as joint R&amp;D agreement, legal dispute, licensing</td>
<td>Competition Leadership Self Development</td>
</tr>
<tr>
<td>Standardization Strategy</td>
<td>Take a leadership in standardization process to integrate patented technology with standardized technology</td>
<td>Total Balancing Harmonization Leadership</td>
</tr>
<tr>
<td>Alliance Strategy</td>
<td>Create a business alliance with others including competitors to get freedom in the market</td>
<td>Friendship Avoid Dispute Group Protection</td>
</tr>
<tr>
<td>IP Strategy Menu</td>
<td>Brief Explanation</td>
<td>Key Word</td>
</tr>
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</tr>
<tr>
<td>Joint R&amp;D Strategy</td>
<td>R&amp;D with others to reinforce technology, to reduce expense, resulting shared patents</td>
<td>Partnership</td>
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<td>Cooperation</td>
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<td>Friendship</td>
</tr>
<tr>
<td>Inventors’ Motivation Strategy</td>
<td>Maximize R&amp;D results to qualify patents by increasing inventors’ motivation using X-Y theory by McGregor</td>
<td>Human’s behavior</td>
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<tr>
<td></td>
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<td>Motivation</td>
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<td>Culture</td>
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<tr>
<td>IP Training/Education Strategy</td>
<td>Bottom up broadly on IP activities involving all functional departments, R&amp;D, marketing, production, planning, purchasing, etc</td>
<td>HR</td>
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<td>Group Synergy</td>
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<td>Cross-functional</td>
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<tr>
<td>Secrecy Strategy</td>
<td>Protect Technical know how without filing patent applications, with strict and careful secrecy management</td>
<td>Skill Oriented</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Processing</td>
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<td></td>
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<td>Strict</td>
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<tr>
<td>Overseas Business Strategy</td>
<td>Patent applications including licensing overseas focusing production site and market site overseas, being careful on foreign IP information</td>
<td>Globalization</td>
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<td></td>
<td></td>
<td>Outgoing</td>
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<tr>
<td></td>
<td></td>
<td>International sense</td>
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</tbody>
</table>
Select the best IP Strategies from the Menu

- IP Strategies can be picked up from the 19th strategy menu, depending on the enterprise’s situation such as outside environment and internal resources.

- We have to evaluate which IP strategy is best and to take the opportunity by making the best use of the strength, in order to avoid the threat and catch the opportunity even if we have weaknesses.

- Each enterprise has their own unique IP strategies can be adopted.

- Also, during this strategy making process, IP strategies and business strategies can be integrated and defined with integration at the same time, which enables IP activities to contribute to the achievement of corporate strategy resulting in corporate business growth.
# Best choices from IP Strategy Menu

<table>
<thead>
<tr>
<th>IP Strategy Menu</th>
<th>Big enterprise</th>
<th>R&amp;D oriented</th>
<th>Global enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digging Up Invention Strategy</td>
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<tr>
<td>Focusing on a “Hole” Strategy</td>
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<tr>
<td>Focusing on Core Technology Strategy</td>
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<td>Improvement Patents Strategy</td>
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<tr>
<td>Flooding Patents Strategy</td>
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<td>Patent Portfolio Strategy</td>
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<td>Patent Information Strategy</td>
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<td>Invalidation Strategy</td>
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<td>Enforcement Strategy</td>
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<td>Licensing Out Strategy</td>
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<td>Negotiation Up Strategy</td>
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<td>Standardization Strategy</td>
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<td>Alliance Strategy</td>
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<td>Joint R&amp;D Strategy</td>
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<td>Inventors’ Motivation Strategy</td>
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<td>IP Training/Education Strategy</td>
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<tr>
<td>Secrecy Strategy</td>
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<tr>
<td>Overseas Business Strategy</td>
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</tbody>
</table>
Thank you for attention!
Hope you enjoy your stay in Japan!
Let’s keep in touch!

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Tanaka Lab.: http://www.me.titech.ac.jp/~ytanaka/english/indexe.html