



# Stanford eCorner

## How to Identify Inventions

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Attorney Jeffrey Schox, who specializes in patent law for startups, shares two methods for determining when a business should apply for a patent: by rewarding engineers within a company who self-report and file themselves, or by a more top-down approach where chief executives are invited to first identify what's most important to the company, what's the budget, and then decide what to patent.

Why build a patent portfolio?  
What is patentable?  
How does the process work?  
**How to identify inventions?**  
When to file a patent application?  
What do investors want to hear?  
Who to choose as a patent attorney?

### Transcript

- Okay, the next section we're gonna cover tonight is how to identify inventions. And so, effectively how to pick them within your own startup. What I found over time is that there's a set of inventions that you could file on, and there's a set of inventions that you should have filed. And the problem with the, hey, we filed on these but we should not have, is actually fairly costly, and it's costly because it wastes a ton of money. Patent applications as I mentioned, from beginning to end are somewhere around the order of 20 to 40 thousand dollars. And so filing on something that was no longer going to be valuable a few years from now, or had a very low chance of actually being patentable, could be an enormous waste of money. It's also a waste of time. We try to do our best at my law firm on keeping it very light and very easy to use, with respect to our clients. We don't have our clients write anything, we actually just jump in for an hour and do a whiteboard session together. But it still takes time to capture that invention, and it still takes time to actually review a 40-page patent application.

But possibly the worst thing is that filing on an invention that you should not have is that it actually teaches your competitors exactly what you're doing. That is the definition, that is one of the major rules of the patent application, is to teach someone how to make and use. The ones that you should've filed but you didn't, obviously we're losing some kind of valuation, and we're increasing in some kind of vulnerabilities because we're not actually deterring the patent infringement lawsuits that we were hoping to, and we're not increasing in the valuation like we were hoping to. So now that we know that this is a problem, how do we actually do this? There's kind of two ways, and Fortune 500 typically does it in a way that I would describe as bottoms up. It incentivizes engineers to identify their own inventions and to then inform managers and supervisors, hey, I have something here. This is pretty much how it works in all Fortune 500 companies. And sometimes they do this, incentives through money, hey it's a thousand dollars if you fill out invention disclosure form, it's three thousand dollars if we actually file a patent application on it, it's five thousand dollars if we get an issued patent on it. Sometimes it's kind of fame, you get to go shake the CEO's hand in some kind of quarterly meeting, and that you're the number one inventor of the company. There's a lot of problems when you try to scale this down to a team of say 12, or a team of say four, at a startup. And the problem generally is, engineers have no idea what is actually patentable.

And engineers typically have no idea where the company is going, and the CTO might be too focused on the shiny object that she just created recently. And so it doesn't necessarily make sense to be able to treat it as, hey, what is on your mind, and when startups come to me, I typically say, I know that you have some ideas and why you're approaching, why we've actually had this meeting, but I want to just toss those all to the side for a moment. And we use what we call kind of the top down approach. It's typically getting the CEO in the room and the CFO in the room, and the CTO in the room. And how this works is I

look to the CEO, and I say how are you pitching your company? What are some of the things that you're using to differentiate your company from others in this space? Why are your customers super interested in what you're doing? Why are your investors interested in what you're doing? And this typically could come down to two or three things. These are now areas of differentiation. I would typically then turn to the CTO, and say, great, we just now know that areas of differentiation. What are some of the technologies that actually support those differentiators? Not what do you think is patentable. Not what did you come here to patent. Not what is the shiniest object in the room, but what are some of the technologies, sexy or not sexy, that are actually going to support those differentiators.

Then I would turn to the CFO, and say, alright, we've talked about the reasons why to build a patent portfolio, what's the budget that we have here? We've now identified 15 different areas of potential inventions, we have a budget of three, great. Let's turn around now and figure out the three best inventions to actually file on, given the differentiators and given the technologies, and given the budget. I call this the top down approach, of being able to understand from the C suite what is actually important to a company, and so that the patents actually match this long-term. You think about the differentiators, those differentiators typically don't change. And so we're hoping to file on inventions that are now gonna be valuable to the company for the long run.