

9 Reasons Your Start-Up Needs Patents

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1. Patents Get Venture Capital.

Venture capitalists want to see patents. 67% of venture-backed startups report that patents were **vital** for them in securing investment.^[1] In a 2010 study, only 40% of startups held patents, 80% of startups that received venture capital owned patents.^[2]

2. Patents Can Help Stop The Theft Of Its Innovations.

Large incumbent companies, while not as agile as startups, have the resources to see an idea created by a startup and implement it in record time. For example, Amazon invented the “one-click” online purchase system and obtained a patent on it in 1999. Amazon accused Barnes & Noble of copying this idea and sued them for patent infringement, which resulted in a settlement.^[3]

3. Patents Bring Prestige And Influence.

Patents can make a startup’s product or service more profitable. Consumers can perceive patented technology to be of higher quality than non-patent technology.

4. Patents Defend Against Attacks From Rivals And Form Partnerships.

When sued for patent infringement, a Startup can assert their own patents back. This can result in an early and cost effective settlement. Startups can also partner with others, licensing-in patents, or acquiring patents in their field, to prevent someone else asserting those patents against them.^[4]

Patents can form the foundation of strategic partnership agreements and joint ventures between startups and other companies. According to a 2014 National Science-backed study, 29% of manufacturing and service firms used inventions obtained from external sources to develop their most important new products and services.^[5] In 14% of cases the patents were licensed in from startups.

5. Patents Can Help Corner A Market By Blocking Others.

Patents can block others from making, selling or using technologies. The Google founders filed for their PageRank patent, Pat. No. 6,285,999, before it even had a domain name or a business plan.

The founders formed Google and then exclusively licensed that patent from Stanford for shares in the company. Those shares were eventually worth \$336 million.^[6] Without that patent, Google could have seen competition from the likes of Yahoo and Microsoft before it managed to gain traction in the market.

6. Patents Can Help Generate Revenue Through Licensing.

When an invention is wanted by millions, it becomes impossible for a startup to meet the demand. A startup is often limited on the amount of the market it can reach. Having a patent facilitates licensing the technology to others, taking a portion of their profits. For example, Carles Puente invented a new mobile phone antenna that is much smaller than previous designs. Manufacturing and selling these antennas brought him \$3.9 million in 2009. Licensing the technology to smartphone manufacturers brought him \$111 million in 2012.^[7]

7. Patents Increase The Chances Of Acquisition.

Google bought Nest, in part, for its acquired and licensed patents. Analysts believe that Google bought Nest for \$3.2 billion *because of* Nest's valuable intellectual property.^[8]

8. Patents Drive IPO Valuations.

Facebook purchased former AOL patents for \$550 million from Microsoft and 750 patents from IBM when preparing for its IPO.^[9] This beefed up its patent defenses ahead so that investor concerns could be quashed.^[10]

9. Patents Provide Greater Long-Term Success For Startups.

A 2015 study showed empirically that “patents strongly and positively predict the long-run performance of VC-backed IPOs.”^[11] The study found that “VC-backed IPOs with patents substantially outperform other VC-backed IPOs. The same holds true even for non-VC-backed IPOs.”^[12]

[1] See, Sichelman and Graham, Patenting by Entrepreneurs: An Empirical Study, 17 Mich. Telecom. Tech. L. Rev. 111 (2010)

[2] Id.

[3] Nick Wingfield, Amazon, Barnes & Noble.com Settle Long-Lasting Technology Patent Suit, The Wall Street Journal, March 7, 2002 (available at: <http://www.wsj.com/articles/SB1015466420659042800>).

[4] Mathew Panzarino, Nest Buys Protection: Licenses Patents from Intellectual Ventures To Fight Honeywell, Others, Tech Crunch, Sep. 11, 2013 (available at: <http://techcrunch.com/2013/09/11/nest-buys-protection-licenses-patents-from-intellectual-ventures-to-fight-honeywell-others/>).

[5] David Pridham and Brad Sheafe, 5 Reasons Your Company Needs a Patent Strategy, Chief Executive, November 4, 2015 (available at: <http://chiefexecutive.net/5-big-reasons-why-your-company-needs-a-patent-strategy/>).

[6] Google Algorithm Earns \$337 million for Stanford, IP Nav, (available at: <http://www.ipnav.com/blog/google-algorithm-earns-337-million-for-stanford/>).

[7] Finalists for the European Inventor Award 2014, Carles Puente, Carmen Borja, Jaume Anguera, Jordi Soler, Edouard Rozan (Spain) (available at: <https://www.epo.org/learning-events/european-inventor/finalists/2014/puente.html>)

[8] Alistair Barr, The other reason Google bought Nest: patents, USA Today, January 14, 2014 (available at: <http://www.usatoday.com/story/tech/2014/01/14/google-nest-patents/4482201/>).

[9] Shira Ovide and Geoffrey A. Fowler, Facebook Buys AOL Patents From Microsoft for \$550 Million, April 23, 2012 (available at: <http://www.wsj.com/articles/SB10001424052702303592404577361923087607762>).

[10] Id.

[11] Cao, Jing, and Ritter, Patents, Innovation, and Performance of Venture-Capital-Backed IPOs (2015).

[12] Id.

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