Surviving financial crisis WITH STRUCTURAL CAPITAL

By **LINDSAY MOORE,** PhD

Recent developments in the economy and the resultant recession challenge all companies. One of the key factors in succeeding in an economic downturn is *structural capital*. 'Structural capital,' which includes intellectual property (IP), is that kind of capital that does not change much in good times or bad. Intangible assets in general, and intellectual-property assets in particular, can provide a hedge during the current debt-based financial crises.

During the late 1980s, IBM was in the red, with no compelling new products to drive dramatic new revenues. Through a brilliant stroke of strategy, it conceived of licensing elements of its intellectual-property portfolio to other industries and even to competitors! Licensing revenues, which are unburdened by the cost of goods sold, are highly profitable and flow directly to the bottom line of a company. Today, IBM enjoys nearly $2.5 billion a year in licensing royalties.

While small enterprises are looking at smaller numbers, formalized or even unrecognized intellectual property can be marshaled to provide a stream of free cash flow that can reduce the pain of recession and keep a company afloat. With an intellectual-asset audit, companies can often find 'Rembrandts in the attic.' Ideas, patents, trademarks and/or infringements are often discovered that may help capitalize the enterprise that holds them.

In recently reported studies (of more than 400 enterprises) by the IC Rating network, companies with well-managed processes and intellectual property were more able to withstand the ups and downs of a changing business climate. IBM was reporting negative numbers when it embarked upon the licensing that proved instrumental in buying the company time to develop its now famous services division and to embark upon a new period of financial success that has continued to this day.

Even modest intellectual property holdings can be deployed to bridge difficult financial times. And in many cases, companies that lack IP holdings, can 'buy financial insurance' by beginning to create such assets. There are many strategies for leveraging intangible assets, even during difficult times. Companies that have devices, inventions, databases, and protectable processes and systems that they have not yet *monetized*, can do so, thereby using IP as 'insurance' against financial crisis.

During the fall of 2008, the world experienced the loss of tens of trillions of dollars in wealth. First in the US, then the EU, and ultimately around the world (India, China, Korea and Japan), there were devastating losses in market capitalization. The US crashed over financial services, then banking. Next, institutional investors vacated the equity markets, then the hedge funds, to give their investors liquidity. Next, private investors fled, and finally now, the world hopes to have found a market bottom. National central banks in every large industrialized nation have become the lenders of last resort, acquiring and investing in major banks to recapitalize them, keep the credit industry alive and ensure the ongoing operation of selected corporations.

When the absence of capital and debt ends, businesses will come back, and the value of intangible assets such as brands and IP will expand quickly.

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IP is a hedge against loss of value and also a basis for collateral. Even in China, which does not always recognize or uphold the protection of intellectual property, companies have been pledging their IP to obtain investment capital or lines of credit.

Many things affect company valuations and stock prices, even factors not directly related to valuation. In the end, whether the IP house is in order and ready to be commercialized, or whether the IP may be hidden, *all* companies have a brand and a reputation, protectable business processes, inventions, and patentable products and formulations. For many companies licensing their patent or trademark to another enterprise for development would leverage their assets more highly and could create highly profitable new revenues.

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