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UNH Survey Shows New England Businesses Don't Capitalize On Intellectual Property
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DURHAM, N. H. – When most businesses find themselves in need of financing, they use their real estate or capital assets as collateral for debt or equity financing. But what happens when a company’s primary assets are intangible—such as patents, trademarks or copyrights? How do you borrow against an idea?

A recent survey conducted by the University of New Hampshire’s Enterprise Integration Research Center at the Whittemore School of Business reveals many small and medium-sized New England firms don’t use their intellectual property (IP) assets to secure financing.

“It’s very complicated to use IP as collateral,” says A.R. Venkatachalam, professor of Information Systems and director of the Enterprise Integration Research Center. “Businesses where ideas are the primary strategic assets may not have the traditional capital assets typically used as collateral.”

The survey, conducted between Nov. 9, 2006 and April 24, 2007, was sent to 694 companies around New England. The firms were chosen based on the likelihood of being involved in developing and/or using patents, trademarks and copyrights. Targeted industries included high tech, biotech and manufacturing firms.

Seventy-eight percent of the companies surveyed either held title to patents or had patent applications or provisional patent applications pending at the time the survey was taken.

Only 18 percent of the companies reported using their patents as collateral to secure financing while 61 percent had not.

The survey concluded that for, a majority of small firms—those with sales of less than $20 million—IP is perceived as a tool to enhance competitive advantage. Although the use of patents as collateral to secure financing has not been a popular practice, many small firms expressed an interest in doing so in the future. A major obstacle to using IP as collateral is the inability of investors and lenders to assess the risk associated with collateralizing IP.

“When you use a building as collateral for financing, the bank has an interest against what you own and the transaction is registered with the state. If you go to a second bank, they will find the first lien. But when you use intangible assets, how do banks find out who the owner is and whether there are any pre-existing encumbrances against that asset? "The process of registering IP ownership rights is more complicated than for capital assets,” Venkatachalam says. “Because the due diligence process is so complex, some lenders and investors may
hesitate to invest in companies with a lot of IP assets. This can put a damper on innovation over the long run.”

The survey is part of a 3-year pilot project funded by the United States Patent and Trademark Office to find a way using innovative, web-based technology to make it easier for inventors, entrepreneurs and small businesses to leverage their intellectual assets. For more information about the project, visit http://wsbe2.unh.edu/enterprise-integration-research-center or contact Venkatachalam at eirc.info@unh.edu.