



**BIG
INNOVATION
CENTRE**

The New Gold!

What are Britain's real treasures?

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During the American gold rush and great expansion westward, economic confidence abounded. It allowed industrial investment to explode, finance freely to flow and markets to expand at speed. Earlier the same had happened with railways, and later it was electrification and the “black gold” oil boom of the twentieth century that had parallel effects. The prospect of the new had dynamised capitalism to unleash its energy in economic reinvention.

Today there is a new gold, but it is invisible and weightless. But, this time there is no rush to finance the new business models, no standardized IP market institutions to trade the assets (resembling our markets for capital, land and labour) and the digital sharing revolution is yet to unfold.

What matters in today's digital economy are the hard-to-value intangibles – computerised algorithms, information, software, big data, patents, copyrights, a great business model, organizational capabilities, social capital, knowledge, skills and strategic networks. These need a different plan to unlock their value and to boost the growth in jobs and welfare we can only dream of.

Companies now invest more in such assets than in buildings, machinery and raw materials. Intellectual capital is now also the biggest contributor to gross domestic product. High growth SMEs are key contributors to the regeneration of jobs and economic growth in the 21st century. Their growth is boosted by high levels of the new intangible gold, and they

hold 74% more intangibles relative to other SMEs. But getting to grips with our new sources for growth has become a challenge.

Our technology rich companies can't scale because banks won't lend against intangible collateral they can't value. Our digital entrepreneurs are strangled at birth because of a lack of policies governing the use of data. Broadband networks are not connecting everything with everything; citizens are not empowered.

Until now there has been no marketplace for Intellectual Property. Our companies trade their IP in a ponderous bespoke manner using costly IP professionals in an exponentially growing and increasingly chaotic IP environment. Our universities are not capable of commercializing their IP effectively, and our investors are looking at buy-to-let property markets instead of our growth assets.

Our businesses operate at no speed, no scale and at high cost, and we can't even measure productivity effectively in our dematerialized 21st century economy.

Politicians, corporate executives, university leaders, entrepreneurs, and leaders of local government must now think and act in wholly new terms.

How can the intangible revolution best be embraced? How do intangibles translate into productivity, and how are they best valued and backed with finance? How do companies unlock strategic value in the marketplace from their intangibles, for example in relation to innovation, finance, market positioning, and strategic networks? What is the strategic value companies seek from IP and how well do our markets for IP work? What is the role of digital platforms and big data? Are we achieving our objectives from the regulation of patents, copyright, trademarks, open source and protection of the public domain? How will the world of intellectual capitalism unfold?

Unless we become a great deal more agile and effective at unleashing the value from our intangible assets, both the British economy and society will suffer.

*Birgitte Andersen, CEO and CoCreator
Will Hutton, Chair*

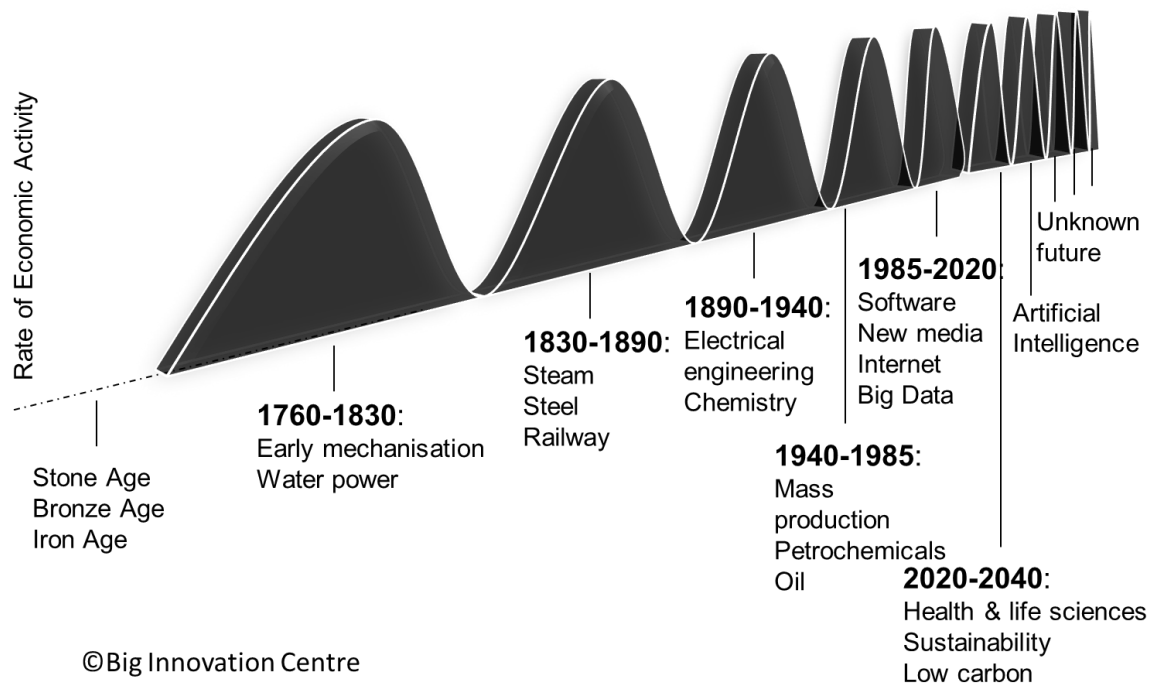
THE GOLDEN OPPORTUNITY

The gold of our time is intangibles, everything from computer-driven products and business processes to intellectual property, from brands to data. It is these assets that drive financial performance, market dominance, technological advantage and dynamic capabilities.

Investment in such intangibles and IP now exceeds tangibles such as buildings, machines, and raw materials. **The UK's annual intangible investment has grown from £50bn to about £140bn between 1990 and today, while it has constantly fluctuated around £80bn for tangibles (buildings, machinery and raw materials).** The pattern is the same for US and other

developed economies. We have struck gold. The relative intangible contributions to the economy (GDP) today are about double that of physical assets.

Revolutions in – and acceleration of - general purpose technologies have spurred new waves of economic progress



We are living through an intangible revolution sparked by computing power and connectivity which can be readily acquired at low and rapidly falling relative cost. There is a clear potential for the use of these technologies throughout the economic system: from the way we live, work and run our businesses, to how we spend our leisure time. It is the same story with Big Data. Innovation is accelerating with digital technologies, especially digital ones, which can be applied for general purposes – the Internet, visualization, wireless cables, data mining and sensor technology. All this is creating new ‘smart’ societies that are deploying these new tools to recast how business and societal opportunities are addressed in everything from health and life sciences, to sustainability and low carbon.

The transformative power of the intangible revolution resembles that of the railways, plastics, electrification, and mass production. Such factors, or more precisely, the way they boosted innovation and investment, spurred a jump in economic activity, productivity and living standards – although typically such improvements were only visible in the long term.

Today as productivity growth rates have slumped, the debate is becoming more urgent about what can be done to boost growth in the 21st century. Big Innovation Centre's view is that no answer is possible without a much more sophisticated understanding of intangibles across the board, including our institutions that unlock this weightless gold.

THE NEED FOR AN ENTREPRENEURIAL FINANCE HUB

Everyone agrees that Britain needs as many fast-growing innovative companies as it can get. We need our bankers to be as enthusiastic about lending to them as they are to buy-to-let property companies.

The problem is that while buy-to-let offers the security of bricks and mortar with the possibility of rising prices and rising rents, innovative companies offer little but risk and uncertainty – but they are infinitely more important to our future!

Innovative companies can have significant value in their intellectual property, usually a copyright or a patent. But unlike a buy-to-let property there is no reliable market price for a patent, or even a well-functioning market that offers comparable confidence that risk can be managed. Banks don't lend against collateral they can't value, and which even the company may not be able to value. Yet as we argue, we live in an era in which intellectual property and so-called intangibles – everything from databases and computer programmes to brands and management know-how – are ever more important.

Large companies know what it means to thrive on their intangible assets and intellectual capital. Today IBM is worth 11 times its book value and Google is worth 4 times more, generally regarded as an acute under-estimation. Kraft's generous bid for Cadbury Schweppes and the bid by Pfizer for AstraZeneca were about securing all important intangible assets, chiefly their brands and IP pipeline.

Big Innovation Centre estimates that **high-growth firms have 74% more intangibles and Intellectual Property (IP) on their balance sheet than their slower-growing counterparts**. But they don't get much financial support.

From 2001–07 our calculations show that **the total capital raised in the UK financial system increased by more than £1.3tn – but investment in innovation over the same period increased by just £26bn**. And innovative firms are finding it ever harder to get funding: **57% of innovators had trouble obtaining finance in 2012, up from 38% in 2007**.

For high-growth small and medium-sized firms the financing problems are especially serious. They may be forced to sell shares too quickly and cheaply, hampering their ability to scale up. Often they sell to foreign companies for all the wrong reasons, at a loss to the UK economy. Yet if the problem could be solved the returns would be great.

For decades accountants and economists have reduced the notion of intangibles to the catch-all term "goodwill", to explain why investors are willing to pay a price which far exceeds companies' book value. In a world in which investment in intangibles now exceeds tangibles that is no longer good enough.

We need a much more sophisticated understanding of intangibles across the board – how they are accounted for and how they are valued – along with new institutions that unlock this weightless gold.



ENTREPRENEURIAL FINANCE HUB

www.efh.global

The go-to global market place for entrepreneurial finance

A managed hub-and-spoke finance ecosystem solution of trusted streamlined professional services.

Access to growth finance for technology and IP rich businesses, at higher speed and lower cost.



We are on a quest:

To provide a financial springboard to the world's brightest entrepreneurs and make their ideas a reality through phases of business growth

We identify and value technology and IP rich high-growth businesses, provide a range of services to ensure they are fully investment ready, and connect them with the right sources of finance:

- IP valuation and evaluation tools to bolster dialogue with funding providers
- Access to a broad range of professional services, including legal and asset underwriting.
- Signposting investment-ready high-growth companies to appropriate funding providers.
- Showcasing IP assets as the drivers of growth and profitability.



THE NEED FOR A GLOBAL IP MARKET PLACE

Intellectual Property created by our companies, entrepreneurs and universities has become the new foundation of progressive economies, but there are no standardized IP market institutions (as there are in markets for capital, land and labour). Instead IP exchanges tend to be enforced in a ponderous bespoke manner using costly IP professionals acting on behalf of market players in an exponentially growing and increasingly chaotic IP environment. Due to the lack of a common IP market place our:

- Companies and organisations exchange their IP at low speed and high legal cost.
- Technology and IP rich companies and entrepreneurs aiming to scale in their markets, and create the jobs and wellbeing we can only dream of, take on expensive personal loans or sell off equity too quickly for the wrong reasons, as opposed to releasing growth finance from the intellectual capital.
- Universities are often not capable of commercializing their IP effectively, because of the lack of a suitable marketplace for their ideas, technologies and IPRs.
- Investors are looking at buy-to-let property markets, as opposed to investing in our growth assets.

This is a global problem. There have been few responses to this problem from North America and Asia – and all IP agents in the this space have remained small or gone out of business. They have focused on either new patent frameworks or invested in human resource-heavy matchmaking between IPR buyers/licensors and those who want to sell/license. We should reject both those approaches. Rather we aim to build upon existing practices but aim for a standardized and more automated electronic approach.

Just as users of Facebook, Ebay, Amazon and even the New York Stock Exchange agree the same ground rules, so everyone trading IP should agree to the same terms and conditions. A standard framework for executing trade (buying, selling and licensing) in such a scalable business model can cause a revolution by saving IP and technology traders the legal fees; solving legal market problems in endless negotiations; cutting down time spent in bureaucracy and paperwork; and helping IP market players and users of technology and ideas with coping with the sheer size of the exponentially increasing transactions of IP and technology.

In IP markets there is a big need for increased user-friendly transparency with respect to IP search, IP classification, IP negotiation mechanism (price and terms of contract), and IP transaction. For example, currently, the situation is that intellectual property offices have inventors of patents listed but not the owners who want to sell or license, and there is no system which easily helps owners to offer their IP for sale or licensing, or which helps user of IP to drill down to find what they need.

These factors hinder our innovators, entrepreneurs and big businesses to become technologically agile and global players. As technological change is accelerating and business networks unfolding, the future is not about the big beating the small, but the fast, connected and cost-efficient beating the slow.



INTELLECTUAL PROPERTY EXCHANGE

www.ipexchange.global

**The go-to global market place for
IP trade and licensing**

Patents • Copyright • Trademarks • Trade
Secrets • Designs • Creative IP •
Technology • Ideas • Scientific projects

We serve
Regular IP markets;
Entrepreneurial finance markets;
IP investment markets;
Universities and public research
organisations.

Better marketing and distribution capabilities
for IP brokers to expand and engage their
business audience.

We are on a quest:

To democratize access to knowledge, ideas and
creativity globally

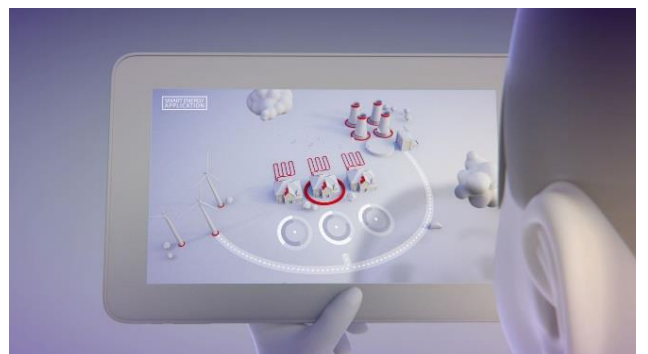
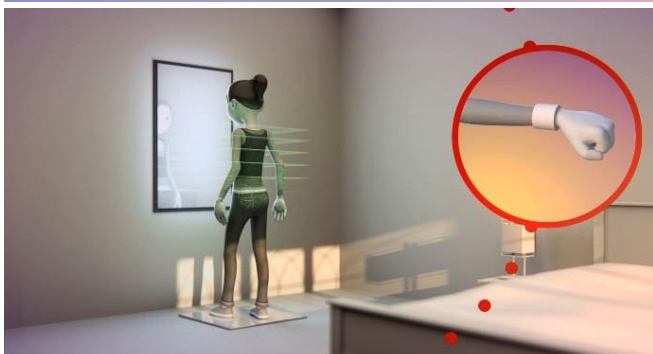
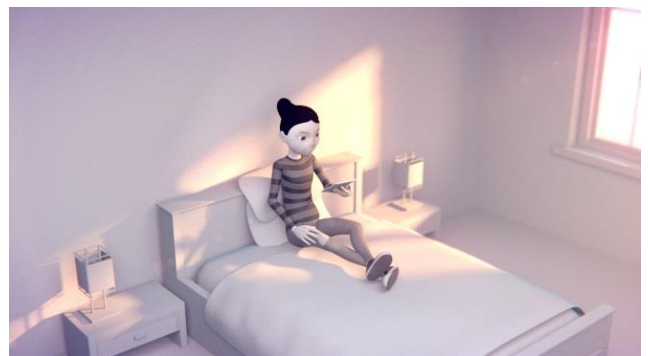
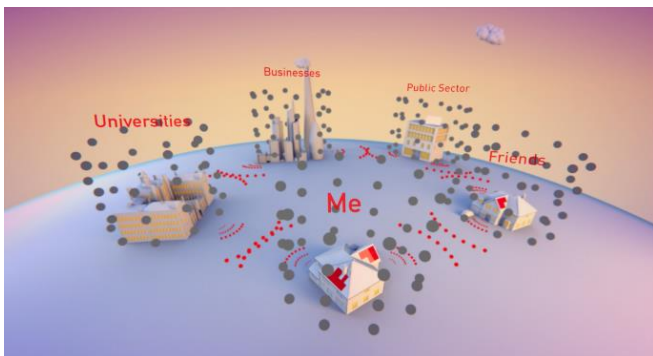
The world's most user-friendly market place for IP –
high speed and low cost trading.

Automated IP search and match-making, and online
execution of IP assignments and licenses.

A standardised and transparent framework for
buying, selling and licensing IP to save traders the
legal fees, solve legal market problems of endless
negotiations, and to cut down bureaucracy and
paperwork.

Combining high-value complex innovations and fast-
moving lower value IP on the same platform.

Thousands of units of IP listed and hundreds of
members. Global companies, SMEs, world class
universities and innovative public organizations are
already on board and helping to shape our future.



TO FUND OUR FUTURE – WE MUST UNDERWRITE OUR NEW GOLD AND SEEK OUT THE NEW!

There are strong differences in opinion over the pace of the reduction of departmental spending, the need to run a budget surplus and desirability of changing government grant support to repayable loans. The Big Innovation Centre belief is that within whatever choices are made, Britain will not unlock our weightless gold unless we understand what Britain's real treasures are all about – and act to capitalise upon them.

There are three ambitious and supportive things our politicians, growth agencies, corporate executives, university leaders, entrepreneurs, and leaders of local government can do to make the most of the new era:

1 Underwrite our IP:

- BRITISH BUSINESS BANK and INNOVATE UK must create Innovation Badges on IP which can attract either equity or credit finance for scale-up businesses. Because IP rich companies are more likely to succeed, so government is more likely to get its loan finance back

2 Create sustainable value from our IP coming out of businesses, universities and entrepreneurs:

- Commit to put all UK's public and private technology and intellectual property (IP) on the INTELLECTUAL PROPERTY EXCHANGE (www.ipexchange.global) to ensure the fastest growing and most user-friendly online peer-to-peer IP trading platform in the world comes out of London.
- Although the INTELLECTUAL PROPERTY EXCHANGE connects players across public and private organisations in an IP ecosystem – for the benefit of national economics, growth and wellbeing – it needs a private delivery structure. The need for speed, focus, drive, commitment, and agility can only be provided by the private sector.

3 Create Silicon Valley effects in all UK's major regions and cities:

- Connect technology and IP rich scale-up businesses with appropriate sources of finance, by re-innovating the entrepreneurial finance ecosystem into a more efficient combined solution.
- All trusted partners (local growth hubs and incubators, government agencies, VCs & Business Angels, banks, crowd-funders, IP professionals, banks, universities, SMEs) should join up in a standardized one-stop finance ecosystem solution – ENTREPRENEURIAL FINANCE HUB (www.efh.global) – of streamlined business services to scale up British enterprise.

– but is Britain ready?