Patenting Your Business Method to Protect Your Competitive Advantage

Have you thought about patenting that clever system that your company has developed to provide services to your customers?

The good news is that if your patent is granted, you will have secured the advantage provided by your system for up to 20 years.

The other news is that winning the patent is likely to be far from straightforward because of recent developments in patent law. The game is afoot in the courts as to whether business methods and computer programs are even suitable for patenting.

In Canada, for instance, the patentability of Amazon.com’s one-click ordering system is being appealed to the Federal Court. In the U.S., the patentability of a commodity transaction method (the Bilski case) has been appealed all the way to the Supreme Court, with a decision expected this spring.

Typically, the sorts of things that inventors usually take to the patent office are commercial products – new electronics, new medicines, mechanical devices, chemical formulae, and so on. The usual rule is that patent-eligible subject matter includes anything under the sun that is made by man.

But there are exceptions...

One thing that all major countries agree on is a prohibition against the patenting of thought processes or pure algorithms – things like schemes, business strategies, mathematical formulae, and equations that define laws of nature.

There are three reasons for this: (a) the difficulty in determining novelty (whether someone has had the same thought process before); (b) a concern that patenting algorithms will unduly block technological advancements and (c) an overarching principle that (if we can put it this way) the patent office has no business in the cerebra of the nation.

However, the U.S., Europe, and Japan have historically recognized that an implemented business method or a programmed computer is more than just a pure algorithm – and thus suitable for patent protection.

Amazon.com’s one-click ordering system has allowed customers to turn on a feature where a single mouse click on a desired item will lead directly to their credit card being charged and the item being
delivered to their house. The Japanese Patent Office decided that Amazon's system was obvious in view of some contemporaneous publications, and therefore not patentable. The corresponding case in Europe has been declared non-inventive and has gone on appeal, and the issued U.S. patent is currently being re-examined for obviousness as well. However, none of these jurisdictions has challenged the one-click method as being outside of the type of invention that would be suitable for patenting.

The Canadian Intellectual Property Office came to the opposite result on both points, putting it substantially out of sync with the rest of the world. In March of last year, the Patent Appeal Board decided that the one-click ordering system was inventive, but non-statutory (not patentable under Canadian law). The Board asked what had been added to human knowledge by the claimed invention, and decided that it was a set of rules for carrying out online orders. In a sweeping condemnation of business method patents, the Board said that when a claimed invention is neither a physical object nor an act to change an object, it cannot be patented. (It is tempting to speculate what the Board might have done if Amazon had claimed its process with a further step that involved wrapping the ordered item into a personally labelled package, and loading it onto a delivery truck, thereby giving it a real world effect).

So, what sort of inventions has CIPO's Appeal Board now effectively excluded from patentability? Computer software for sure, since software is just a series of electronic instructions. How about a product like a GPS mapping device, since the product just makes internal decisions about what to display. How about an assay kit used in medicine, since it involves correlating the level of a substance in blood with a disease condition. How about second medical use: when a previously known medicine is found effective in treating a different condition than what it was originally developed for. After all, the new use is really just a decision by the managing clinician to prescribe the medicine for a particular patient. Can you hear the technology and pharmaceutical companies down the block screaming? These things have been patentable in the past, and companies developing these technologies may rely on patents to protect the costs of beta testing or clinical trials.

In the late 1990s, the Court of Appeals for the Federal Circuit (CAFC) in the U.S. issued two decisions that ushered in the recent history of business method patents. In State Street Bank v. Signature Financial, the Court upheld the patenting of a data processing system in which mutual funds pool assets for investment. In AT&T Corp v. Excel Communications, the Court upheld the patenting of a method for associating telephone messages with billing information. This led to an era in which most systems for data processing seemed to be patent-eligible as long as they were performed by a computer or recorded on a computer readable medium. The U.S. Patent and Trademark Office has over 300 examiners assessing business method patents, and over 1,600 such patents were issued last year to the likes of IBM, Microsoft, and J.P. Morgan Chase Bank.

In the last few years, the patentability requirements in the U.S. have become more focused. Methods of resolving arbitration or developing a vaccine are apparently not patentable. The case on appeal to the Supreme Court referred to earlier (In re Bilski) claims a method for managing commodity risks by initiating a series of market transactions. The CAFC ruled that a method had to either be tied to a particular machine or apparatus, or transform a particular article into a different state – and Bilski did not qualify.

While awaiting the ruling from the Supreme Court, the U.S. Patent and Trademark Office has adopted Interim Examination Instructions for its examiners, based on the machine-or-transformation test established by the CAFC in Bilski.

The first step is to examine whether the claimed method needs to be implicated by a particular machine. The particular machine must impose a meaningful limitation (rather than a general purpose
computer). In the alternative, the Office asks if the claimed method transforms a particular article. Again, the transformation must be meaningful (more than an insignificant post-solution activity, such as a general limitation to a particular area of use).

In the unlikely event that the U.S. Supreme Court uses *Bilski* to sweep business methods off the table, we can expect that Congress will step in if necessary to make business methods patentable at some level.

We can also hope that Federal Court of Canada will align this country’s patentability standards with the rest of the world by reversing the CIPO Appeal Board’s decision in the Amazon one-click case. Whatever the outcome, because of the commercial importance of business method patents, Canada will ultimately be pressured to comply with the standards in place in other major jurisdictions – and Parliament may be recruited into the fray.

In the meantime, all of this rethinking of the standards of patentability has sensitized companies everywhere to the idea of protecting the methods they have developed to provide goods and services to their customers.

The opportunity to protect the key features of your system may create a long-term business opportunity: having a patent application on file potentially affixes a technological advantage in place for the 20-year term that the patent remains enforceable.