

E-Commerce: The Final Frontier?*

By Gerald T. Bodner, Esq.

Actor William Shatner may never have been more on target - even when battling Klingons as Captain James Kirk in the classic "Star Trek" television series - than when he said, "This is going to be big...really big." In fact those words, penned to herald the 1998 debut of Priceline.com, for which Shatner is spokesperson, could be applied to e-commerce as a whole.

Priceline.com allows customers to name the price they are willing to pay for a product. In its first year of operation, Priceline.com sold more than 330,000 airline tickets to customers who named their own price. The Stamford, Connecticut-based e-commerce company has since expanded its portfolio of services from airline tickets to hotel rooms, new cars, home mortgages, and home equity loans.

But how did Priceline.com get to be so big so fast...really fast? And why haven't other e-commerce companies allowed customers to name their own price? The reason is patents. Priceline.com holds two patents for a unique e-commerce methodology.

A patent is a monopoly granted by the U.S. government. It gives the patent owner the right to exclude others from making, using, selling or offering for sale the patented invention in the United States. Until just recently, methods of doing business, such as those used by Internet-based and e-commerce companies, were not considered by the United States Patent and Trademark Office to embody patentable subject matter. Instead, business methods were considered to be mental processes or abstractions that did not result in the transformation of an article to a different state or thing. This was also the case with software for a number of years.

But all that changed. The federal appellate case of *State Street Bank & Trust Co. vs. Signature Financial Group, Inc.*, laid to rest the notion that methods of doing business are unpatentable. The case involved a financial company (Signature Financial Group) which patented a "Hub and Spoke" data processing system for managing financial services. Mutual funds (the "Spokes") pool their assets in an investment portfolio (the "Hub") organized as a partnership. Pooling mutual fund assets in this manner provides for economies of scale with regard to the costs of fund administration and has beneficial tax consequences.

State Street Bank tried to license the patented system, but when negotiations broke down, State Street sought a declaration from the court that Signature's patent was invalid for subject matter that cannot be patented. The court held that business methods are unpatentable, abstract ideas, and found the patent invalid. The District Court asserted that patenting an accounting system necessary to carry on a certain type of business is tantamount to a patent on the business itself. But the appellate court for patents, the U.S. Court of Appeals for the Federal Circuit, reversed the lower court's ruling.

The decision opened the flood gates for business patents. Internet-based and e-commerce companies, often run by young, aggressive, entrepreneurial individuals, saw an opportunity to protect their ideas and establish ultimate market niches. Business-related patent applications poured into the Patent and Trademark Office, which expected to grant at least 300 business patents by the year 2000.

What does this all mean for e-commerce? Many innovative business ideas are immediately copied by “me-too” competitors before the innovator has a chance to capture his rightful market share. With patent protection, the innovator may keep his competitors at bay and be assured of maintaining a market niche. Since a patent has a term of 20 years, calculated from its filing date and effective upon issuance, it may be used to essentially eliminate competition for the probable useful life of the patented e-commerce system. The only recourse available to the competitor is to: change its business system to one that does not infringe; take a license under the patent, if the patent owner consents; or challenge the validity of the patent, as State Street Bank unsuccessfully tried to do.

Patents are no longer reserved for technically orientated individuals who conceive inventions in the traditional sense of the word. Now, businesspeople are joining the ranks of engineers as patent holders. That’s why the prophecy delivered by William Shatner has come true: With the help of patents, e-commerce will go where no man has gone before.

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