

# FROM RESEARCH TO REVENUE: OPTIMIZING IP PROFITS WITH ENTERPRISE CONTRACT MANAGEMENT

Most companies have numerous inventions and ideas that can be turned into valuable intellectual property with the right process and management focus.

BY RALF VONSOSEN

With the prominent and increasing role intellectual property (IP) is playing in our digital age, the licensing of IP can be a significant and very profitable revenue stream for many companies across a wide range of industries. Indeed, some companies have built their entire business model around creating, packaging, licensing in and out of patents, trade secrets, trademarks, and other IP.

That is where enterprise contract

#### About the Author

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management (ECM) plays a role in solving the new complexities of IP management and optimization. On the front end of the IP life cycle, ECM solutions can improve revenue by creating and negotiating attractive IP portfolios. On the back end, these solutions can optimize royalties, by carefully and effectively managing the resulting IP licensing agreements.

These recent advances in ECM technology are no longer just for procurement or contract professionals—they now ensure companies that they are creating, managing, implementing, and tracking their IP licensing agreements to optimize revenue, mitigate risk, and improve compliance. For instance, IBM was able to generate billions of dollars in licensing revenue, once they focused on a systematic licensing process. Proctor & Gamble routinely generates hundreds of millions of dollars in

licensing royalties—again, by focusing on and executing an IP licensing strategy.

These cases demonstrate that instead of generating only sporadic revenue from IP assets, companies can now *focus* on this intellectual property, align their strategy with business objectives, and generate significant royalty revenues as a result. While it takes work, commitment, and focus, this process provides much potential for significant payback.

#### Maximizing Lifetime Value of IP

What is the relationship between intellectual property and ECM? The lifetime value of IP will be defined by how well the relationships with relevant customers, partners, and suppliers are managed. These business relationships are built upon one, or perhaps many, contractual relationships over their lifetime.

Contractual relationships define the detailed business terms for certain periods. Therefore, by managing these contractual relationships, ECM is able to maximize the value of the IP during that period.

In these relationships, ECM solutions improve the pre-execution process of initiating and executing contracts, as well as the post-execution process of optimizing the lifetime value of the contract and ensuring compliance to contract terms.

### Enabling People and Processes

A holistic approach to products, process, and people enables optimized IP management. The products must provide the execution of required processes and meet the demands of those people who use the product.

ECM solutions play a critical role as a core product in managing IP, but they must also interact with a host of other systems, such as enterprise resource planning, customer relationship management, business performance monitoring, e-mail, and financial systems. An integrated solution will provide the platform for the required processes—approvals, assignments, authorizations, reports, and checks and balances. This solution will empower people to drive the IP business based on their training, management, and core values, according to established business practices.

### Understanding the Fundamentals

Meeting the demands of today's dynamic business environment requires a flexible solution that is adaptable to future demands. To effectively manage an IP licensing strategy, the solution must demonstrate the following characteristics:

- Impact business performance—measurable impact upon the business and the bottom line;
- Empower users across the enterprise—enable users to do their jobs better, driving higher user adoption of the system; and

- Enable compliance and best practices processes—enforce and automate business processes designed to optimize efficiency and compliance.

Since people and processes operate across a broad set of business applications, it is critical for ECM to be integrated into the company's entire IT "ecosystem." This ecosystem will be defined differently by every company, depending on the operations of people and processes associated with IP management. ECM must meet these integration demands and enable best practices processes across all relevant systems.

All this must come at reasonable total cost of ownership (TCO) and allow companies to maximize their ECM return on investment (ROI). The following areas are critical in optimizing the TCO:

- Implementing—Getting the system up and running, on time and on budget;
- Using—Driving user-adoption of the system; and
- Maintaining—Continuing to adapt the system for the changing needs of the company.

### Optimizing IP Assets

ECM solutions help companies maximize the value of and decrease risk associated with all IP licensing agreements.

Optimizing the utilization of IP assets requires careful attention and management at three key stages of the process:

- (1) *IP Portfolio Management.* Optimizing the value of the total IP asset inventory begins with finding and formalizing all of the IP throughout the company, creating specific asset portfolios and then managing the entire inventory to optimize utilization and ensure that valuable assets are not being left idle. ECM solutions help to identify and value all available IP.
- (2) *IP Deal Management.* Starting with an established inventory of IP assets, ECM solutions focus on taking specific assets and portfolios to market, considering market opportunities, pricing, and business terms to begin customer negotiations.
- (3) *IP Revenue Management.* Optimizing the revenue received

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from IP asset inventory comes from flawless and consistent authoring, tracking, management, and analysis of all of the terms, commitments, and obligations articulated in each licensing agreement.

ECM solutions increase visibility of all IP licensing agreements and significantly improve the ability to execute on all of the requirements.

**Finding Solution Benefits**

Using an ECM solution to author, track, manage, analyze, and renew IP licensing agreements results in

improved utilization of the IP portfolio, increased royalty revenue, an expanded IP portfolio, better compliance, lower risk, and improved employee productivity.

*Improve Overall IP Utilization*

Having all IP licensing agreements in one centralized repository provides

	User Adoption	Embedded Business Intelligence—Process and Policies	Invention Disclosure and Self-Service Kiosk
<b>Features</b>	<ul style="list-style-type: none"> <li>• Personalized home page</li> <li>• Role-based views and capabilities</li> <li>• Inbox for individual and group tasks</li> <li>• Links to launch new processes</li> </ul>	<ul style="list-style-type: none"> <li>• Workflow process template</li> <li>• Users and roles</li> <li>• Security rules and permissions for roles</li> <li>• Approval rules policies</li> <li>• Business rules and conditions</li> <li>• Contract template and clause categorization</li> <li>• Key contract terms to capture for each contract type</li> </ul>	<ul style="list-style-type: none"> <li>• Tailored forms for different contract types</li> <li>• Business rules and validation</li> <li>• Automated contracts assembly</li> </ul>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>• Provides automatic organization of agreements and contract activity</li> <li>• Offers tailored views to users and provides simplified, more relevant interface to increase adoption and productivity</li> </ul>	<ul style="list-style-type: none"> <li>• Enforces exercise of formalizing standards, policies, and owners</li> <li>• Increases corporate compliance</li> <li>• Reduces risk</li> </ul>	<ul style="list-style-type: none"> <li>• Enables users across expanded enterprise to generate contracts</li> <li>• Allows quicker contract turnaround</li> <li>• Enforces standardization and process</li> <li>• Reduces contract manager workload</li> </ul>

unprecedented visibility into existing IP assets—where they are in their life cycle, market value, high-risk terms and customers, and what is encumbered and unencumbered. The visibility that these reports and analysis make possible enables a company to quickly identify opportunities to increase business value, by increasing

royalty revenue from underutilized IP, improving negotiated terms with particular licensees, and expanding use of optimal terms and proven business best practices.

*Increase Royalty Revenue*

The increased visibility into contractual terms and commitments ensures

a company receives all the royalty revenue to which it is contractually entitled. Increase royalties by plugging revenue leakage, holding licensees accountable to their obligations, and increasing renewal rates. A collaborative authoring and approval system will speed the time to revenue recognition for new agreements.

IP Inventory Management—Access to All Information	IP Deal Concept and Development	Create the IP Agreement Document	
<ul style="list-style-type: none"> <li>• Consolidated repository for IP assets</li> <li>• Tracking of all IP assets in common format and process</li> <li>• Full search of all IP assets and attachments</li> <li>• IP asset properties</li> <li>• Utilization information on IP assets</li> </ul>	<ul style="list-style-type: none"> <li>• Consolidated view of IP, business, financial, marketing terms for deal</li> <li>• Single record of truth—synchronized with agreement documents</li> <li>• Summary of key contract terms</li> <li>• Approval routing by predefined process, business rules, or triggered by specific clause revisions</li> </ul>	<ul style="list-style-type: none"> <li>• Created from standardized templates</li> <li>• Data-driven text for automated contract assembly</li> <li>• Embedded terms and clauses with business intelligence</li> <li>• Third-party contract capability</li> <li>• Incorporated routing, approvals, milestones</li> </ul>	
<ul style="list-style-type: none"> <li>• Shows easy location of IP assets</li> <li>• Provides high integrity of information</li> <li>• Allows IP visibility—knowing what is in the IP asset inventory</li> <li>• Identifies opportunities and risk areas among all IP assets</li> </ul>	<ul style="list-style-type: none"> <li>• Allows visibility for all stakeholders</li> <li>• Offers data integrity through negotiation, agreement versions, and final agreement</li> <li>• Provides agreement transparency: knowledge of everything in each contract (high-risk clauses, exceptions, non-standard terms, etc.)</li> <li>• Increases corporate compliance and reduction of risk with enforced approvals and sign-offs</li> </ul>	<ul style="list-style-type: none"> <li>• Provides standards and best practices for contracts, from creation through execution</li> <li>• Reduces risk with standardized language and formatting</li> <li>• Enforces policy for contract content and process</li> <li>• Reduces administrative costs with automated contract assembly</li> <li>• Controls and tracks all contracts, including third-party paper</li> </ul>	

### Expand IP Portfolio

Companies use an invention disclosure capability to simplify the identification, valuation, and analysis of potential assets, speeding the idea-to-decision and decision-to-patent processes. Such a capability will make it quick and easy for employees to submit their inventions, patents, and other assets for consideration as potentially valuable intellectual property.

### Improve Compliance

Contracts and related business practices have a direct and immediate impact on all forms of compliance—regulatory, contractual, and procedural.

■ **Regulatory compliance** is achieved by adhering to direct requirements set by federal and state government and regulatory bodies. ECM solutions offer an on-line contract authoring system that ensures that all terms and clauses required by regulatory policy are always included. In addition, the tracking of all performance and controls related

to licensing agreements and the ability to easily abide by requirements related to revenue reporting and tracking of high-risk terms and customers improves the ability to comply with the Sarbanes-Oxley Act of 2002.

■ **Contractual compliance** is accomplished through adhering to all deliverables, terms, conditions, commitments, and timing as defined in the agreement, such as volume purchase clauses or service level agreements (SLAs). Automatic notifications by the ECM system of upcoming deadlines, milestones, or other commitments decrease the risk of anything falling through the cracks or failing to perform in any way. Plus, having immediate access to all current agreements significantly decreases the risk of over-committing a particular asset or exceeding the terms in which the IP has been licensed.

■ **Procedural compliance** is realized by adhering to established processes, rules, and business best practices as defined by the company, such as pricing or discount approvals. A flexible ECM solution is easily adapted to implement established business practices, ensuring all spend authority, role-based approvals, and other standard procedures are followed.

### Decrease Risk

The careful and consistent management of authoring and ongoing management processes will decrease business, financial, and legal risk. Business risk is often the result of high-risk terms finding their way into contracts. A systematic on-line review and approval process facilitated by the ECM system will minimize the likelihood that this occurs.

Financial risk comes from exposure to unexpected costs or lower-than-expected revenue. Automatic notifications and improved visibility into licensing agreements will

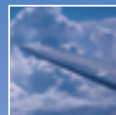


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decrease the risk of being faced with late fees or penalties. Legal risk associated with failing to comply with regulatory requirements is mitigated through an ECM system's authoring and approval processes that ensure key clauses are always included and approval processes are always followed. Improving contractual compliance mitigates the risk of litigation for breach of contract.

#### *Improve Productivity and Efficiency*

Storing contracts and associated performance in a single, centralized repository will replace tracking down hard copy agreements with a simple on-line query. The result is a noticeable improvement in the speed with which employees check to see if a particular asset is already encumbered, as well as check orders, performance, and outgoing invoices against contractual terms and obligations. Additional employee productivity gains are realized through a collaborative on-line authoring system, which, along with a more effi-

cient approval process, speeds cycle times and eliminates the risk that drafts have fallen into process black holes.

The analysis made possible by having all agreement-related information in one place results in better, more informed decisions about optimal terms or commitments made to licensees, and audits are accomplished more efficiently, due to easy access to the information and the consistency with which contracts were created originally.

#### *Searching for the Best Solution*

To deliver the benefits that ECM can provide to IP management as described earlier, look for an ECM solution that provides the capabilities and associated benefits explained in **Table 1** (on pp. 30–31).

#### **Conclusion**

Maximizing the revenue received from intellectual property assets starts with developing a corporate environment that understands and is

focused on the successful licensing of intellectual property. Most companies have numerous inventions and ideas that—with the right process and management focus—can be turned into valuable IP.

With this infrastructure and corporate support in place, a company can apply strategic and systematic processes to align its IP strategy to market needs, corporate objectives, and maximize the lifetime value of these assets. Enterprise contract management solutions can be utilized to track and manage IP licensing agreements to ensure efficient authoring and negotiation of new agreements; optimal royalty revenue from existing contracts; minimal financial, legal, and business risk; and full procedural, contractual, and regulatory compliance. **CM**

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