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# The Money Making Power of Intellectual Property

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There are two sides to intellectual property (IP). The better known side is the legal side, which secures the legal rights to an intellectual property through registering a patent, trademark, or copyright. The money-making side of intellectual property is licensing.

The purpose of licensing and intellectual property is to find, create, and control money-making opportunities. Finding the right IP fit for a business to license, or the right licensee fit for an IP owner can be challenging but the right combination also can be extremely lucrative.

Although intellectual property is something that never goes out of demand, in today's challenging economic environment there is an even bigger need for innovative IP, and that need is generating tremendous new opportunities in the world of licensing. The demand for new IP applies to just about every industry: services, products, brands, social media, new technology, apps, electronics, and more.

Licensing is a flexible money-making tool that can be used in many ways. It enables an IP owner to commercialize its intellectual property in a much shorter time than starting a business and in many cases it's an

alternative to opening a business. For working businesses looking to grow, licensing offers several choices including licensing out their internal IP for extra revenues, or getting IP rights to expand into new markets, reach more customers or launch new products.

Many businesses use licensing to attract expertise and resources such as marketing, sales, product development and distribution. This may be one of the most overlooked benefits of licensing while it's also one of its most powerful aspects. Licensing leverages the cash flow of IP. The money-making power of licensing is that it can create a multiplier effect by leveraging a property into multiple revenue streams.

Because IP laws are structured similarly in most countries, licensing works around the world. With English being the "language of business," most licensing agreements have become standardized and contracts drafted in the United States can be used in just about any other country with some modifications.

## Licensing Creates Money-Making Opportunities

Licensing is one of the fastest ways to reach the commercial market. Starting and building a new business typically takes about 18 months to 2 years, while licensing an IP often just takes a few months. Licensing offers a quick and powerful method for tapping into a partner who is already operating a business producing and selling goods or services into one or more markets. Whether it is electronics, toys, T-shirts, or hats, there are companies already in the market and you can "plug into" these partners through licensing. Licensing can be viewed as a two-way street. The owner of the IP licenses it out and reaches the market very rapidly, while a business uses the license to find commercial-ready products, services and technology, something that is ready to go to market.

Licensing commercial ready intellectual property is a low cost high return way to launch a new product, service, or technology. Tapping into the "R&D expertise" of an IP inventor is often a cost effective way to develop new products. There are several advantages to licensing a commercial ready intellectual property, such as completed research and development (R&D),

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product testing, and test marketing at some level (such as sales to customers either direct or through retail channels). There are many sources of market ready IP. Some of these include licensing agents, licensing databases (such as yet2.com), patent databases (such as USPTO.gov), corporations, and universities.

Some of the best licensing opportunities are the established brands looking to expand their presence in the market. Brand licensing can be a great strategy to launch a new product. This is the strategy I used for a client who invented a portable fitness product. By locating a well known brand just starting its licensing program, I opened the door to a great distribution opportunity. Another benefit of licensing a well known brand is that it provides instant consumer awareness. It also provides access to retail. One of my clients was a new toy company from Australia who wanted to enter the US toy market. Trying to build a new toy brand in the United States is a very expensive proposition. Instead, the client licensed several well known kids TV shows that had big licensing programs with lots of licensed products at retail. These brands gave the company immediate access to those retailers. By using this strategy, the toy company was able to get into the US market much faster and at a fraction of the cost of building its own brand.

Social media, virtual worlds, and digital content are just some of the rapidly growing IP opportunities created by the Internet. These IP opportunities also have created new product formats and distribution channels. Many of the biggest kid's social media sites, such as *Club Penguin*, are leveraging their content into real world product categories. Virtual worlds have created virtual products that are sold online. Licensing of photographs and other published content also has exploded with the development of content provider and e-commerce Web sites. New markets and demands are popping up every day. Licensing takes advantage of this environment, providing a fast way to enter the marketplace and take advantage of these money-making opportunities.

## Licensing Builds Teams

There are plenty of opportunities in today's market and they are constantly evolving—whether it's in niche markets, new ways of distribution, or a shifting retail environment. Licensing provides the expertise and knowledge to position the IP, and take advantage of these markets and money-making opportunities.

Licensing creates and brings together teams of professionals in three ways. First there are the idea people who create the intellectual property. These include the businesses and individuals who invent the

IP. The second team of professionals are the agents and consultants who spot the IP opportunities. For example, I work as an agent and a consultant, and I provide my clients with an expertise and knowledge of the licensing business. My expertise helps my clients identify the right kind of licensing opportunities and make money with an IP. The third team of professionals is the manufacturers who commercialize the IP. Depending on the IP, these could be one or more manufacturers or marketing companies.

Bringing together these teams—better known as “commercialization teams”—is a powerful benefit of licensing. This process “captures” a wide array of expertise and knowledge and focuses it on creating and developing the revenue streams from the IP.

## Licensing Attracts Resources

Using licensing to attract resources is a great tool for inventors or small businesses lacking the capital, know-how, or marketing support for their IP. By finding the right resources and bringing the parties together, an inventor or small company could use licensing to find a larger partner to launch a new product. I used this strategy to launch the fitness product I mentioned previously by locating a direct response marketing company that licensed the rights to make and sell this particular product. Another strategy to consider might be finding a licensing partner to develop and sell new product applications. For example, software designed for large corporations licensed for application in the small business market. Another strategy could be licensing a larger company to take advantage of its lower manufacturing costs. This is a strategy I have used with several clients who did not have the financial resources to fund large orders from big retail accounts.

Market ready IP also is a financial resource because IP can be collateral for debt finance, or used as an asset to attract equity investments. Some of my clients have leveraged their licensing deals in this way to attract investors. In one case, it was an early revenue strategy, designed to gain credibility with investors; the client used the licensing of major kids brands for quick entry into retail. Orders for the licensed products attracted investor capital, which gave the company a second option to get purchase order financing to fund production. Another client used licensing to get exclusive rights to major entertainment properties, which gave the client a competitive advantage that attracted investment capital from private equity funds.

Depending on the type of IP, a business could get financing through various government programs and

agencies that are provided through public funding institutions and banks. Licensing IP from government research labs and universities brings with it access to many of these financing resources. In many cases, licensing an IP from a government agency or research lab can qualify a company for financing from these sources.

Licensing is more than just a contractual relationship. It is about leveraging the markets, the distribution channels, and the licensing partnership. A great example of leveraging the partnership is entertainment licensing. Many of the major entertainment studios have retail development executives who are responsible for supporting the retail distribution of the various licensing programs. These executives meet with retail buyers to update the buyers on new licensed products or licensing programs, and the executives also develop retail promotions in support of the movies and licensed merchandise.

## Licensing Leverages Cash Flow

Licensing not only controls the cash flow generated from an IP, it also creates new streams of income. It is the multiplier effect that increases the income generating sources of an IP.

For example, when a TV show or a movie is developed, its primary product is the entertainment content. However, in addition to the entertainment content, other cash flow sources can be developed through licensing, such as T-shirts, hats, shorts, and other product categories. The entertainment content also may expand internationally, thereby creating more licensing opportunities around the world.

Another lucrative side of licensing is recurring revenue known as royalties. Recurring revenue is one of the highest profit margin forms of revenue, continuously regenerating year after year. As with commercial real estate that is only built once, yet continues to collect rents for years to come, so it is with an IP. There is ongoing cash flow (royalties) from all the licensed products and like a long term lease, the income can be substantial.

In speaking with IP owners, one of the first questions they ask me is how high or what is the going royalty rate to license their intellectual property. The fact is royalty rates vary based on products and industries. The royalty rate is determined based on the IP cash flow and what it costs to generate that cash flow. Most often, the royalty rate is negotiated between the licensee and licensor.

Licensing revenues and the commercial appeal of an IP tends to go in cycles. One of the nice things about IP is that it can change and evolve. It is not

uncommon to see products or technologies enter the marketplace, reach a peak and then start to decline. But IPs re-emerge because they evolved over time and through that re-emergence there is a brand new cash flow opportunity. Entertainment content is a good example of an IP that evolves and regenerates itself. It could start as a TV show, grow to a theatrical movie, become a live show, transform into a video game, and come back again as a new TV show. Kids animated TV shows and movies such as *The Teenage Mutant Ninja Turtles*, *Batman*, and *GI Joe* are great examples of kid's properties that have regenerated themselves in the marketplace.

Another way to leverage IP revenue is through sub-licensing, in which the original licensee has rights to re-license to someone else. It is a licensing strategy that leverages both the revenues and the licensee, as well as a strategy to incentivize an early licensee. For example, a new brand wanting to expand its consumer awareness could offer a master license with sub-licensing rights to a larger non-competitive company. A similar strategy could be used by a small business wanting to expand internationally. I had a client with whom I used this strategy to successfully launch its product in Europe. The client licensed a large distribution company and gave sub-licensing rights to a number of countries in Western and Central Europe. In this case the master licensee had rights to produce and sell, and also could generate revenue by licensing other companies in different countries.

These are powerful, lucrative ways that licensing leverages the income generated from an IP, and creates multiple streams of revenue. It is the tool that controls the cash flow of an IP, which can be enormous.

## Licensing Is Lucrative

If you were to look at the assets currently on the books of some major public companies around the world, you would find the majority of their assets are made up of IP. Why? Because, in today's challenging economic market, the demand for innovative new products, services, and technologies is growing rapidly. Innovation is the driver of IP and, increasingly, the life blood of every company around the world.

The licensing strategy can be one of low risk and high returns. It's a worldwide business that creates new products, services, and technologies. Today's technologically driven marketplace is made of bundles of IP rights licensed across the globe. Everything from communication to transportation is all bundles of IP rights. This aspect of licensing continues to grow and evolve rapidly and now includes well known



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brands. Branded coffee served on airlines, premium brand beauty products at upscale hotels, and gourmet ice cream at finer restaurants to name a few.

There are billions of dollars of un-commercialized IP sitting on the books of corporations, universities, research labs, and government agencies around the world. Many of these IPs are market ready. Some of the biggest names—Google, Netscape, Gatorade, Farecast.com, Lycos and others—were created through licensing agreements from universities. Many large companies—IBM, Microsoft, AT&T—are another source of untapped intellectual property and a goldmine of licensing opportunities waiting to be mined by startups and small businesses. Any of this IP could develop into a lucrative licensing opportunity.

Through licensing partnerships with licensees, a bigger pie can be created that is very profitable for everybody across-the-board. Many clothing brands, such as Hilfiger, IZOD, Calvin Klein and others have grown into brands generating hundreds of millions of dollars in licensed product sales. Other consumer categories that have created large markets through licensing include professional sports franchises, food brands, photography, and entertainment. Some IPs are pure licensing models, such as dead celebrities, that have created hundred million dollar markets solely from licensing partnerships.

One of the most intriguing things about licensing is that it is impossible to predict how an IP will eventually do in the commercial market. It is like panning for gold. Today many companies grow up using licensing. Some savvy business owners who understand the incredible potential of licensing have created companies strictly for the purpose of finding new IP, acquiring the rights for little or no money, then waiting to see what develops.

These companies license IPs because they know they are a quick way to reach the commercial marketplace and they are well aware that these licenses could transform their businesses overnight. During my studio days, I developed licensing deals on two major entertainment properties, *Batman* and *Power Rangers*, which went from zero to hero just about overnight. Some of the companies that were early licensees on these properties literally did explode into overnight successes.

Although an IP that goes from zero to hero is the exception and not the norm, in this fast moving and rapidly changing marketplace, new opportunities are popping up every day. In this day and age, building a hundred or two hundred million dollar company can be very challenging, and may take decades to get there. Yet, in the same respect, you can use licensing to tap into or create a hundred or two hundred million

dollar market. When you create a bigger pie through licensing, and the marketplace is fifty or one hundred million dollars, royalty revenues from many licensees can amount to a very significant sum.

## Licensing Is Global

Even though intellectual property laws vary from country to country, the process of licensing, the money-making side operates the same as does the registration process for patents, trademarks, and copyrights. Several agreements between the United States and other countries enable the concurrent registration of patents and trademarks in multiple countries with one set of documents. The same holds true for copyrights. The United States has registration relationships with many countries around the world that provide for automatic recognition of copyrighted works of authors.

Similar government resources or agencies that support the development and commercialization of IP exist in the countries throughout the world. For example, in the United States, it is the Patent and Trademark Office and the Copyright Office, in Australia it is Intellectual Property Australia, and in the United Kingdom it is UK Intellectual Property.

Even licensing agreements have become standardized. Today, you can find all types of licensing agreements for patents, trademarks, copyrights, and technologies that can be used in multiple countries. I've worked with many licensing agreements that were the same format for Europe and the United States. This is a big reason why licensing can operate just about anywhere in the world.

In my career I have developed numerous international licensing deals. The most common deal was for English speaking territories—United States, Canada, United Kingdom, Australia, New Zealand, and South Africa. In these deals, the licensees were leveraging the revenue opportunities both in the United States and internationally.

Because licensing is global, there are no boundaries. There are inventors and companies with IPs for new products, services, and technologies all around the world and you never know what the next hot "intellectual property" will be. Through the licensing process, you can tap into IP in other regions of the world, and create international partnerships.

Licensing is a global industry and is growing around the world. More intellectual properties are available today than at any other time. Many countries that, just a decade ago, were not active in developing and licensing intellectual property are now becoming new markets for finding and licensing

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intellectual property. Today the Internet enables anybody to license anywhere in the world without having to physically travel. In fact, most of the licensing process can be accomplished with a computer, phone, and email.

## Summarizing the Key Points

Licensing is a continuous money-making process and there are always new opportunities to license IPs. Many companies got started by licensing IPs and building their businesses around these IPs. A big part of licensing is being aware of IPs and seeing the licensing opportunities.

It is a fast track to the commercial market. Not every IP will be a commercial success or an overnight hit. But given the right resources, an IP could grow to become a significant revenue generator. Licensing leverages resources whether it is money, manpower,

or marketing. It focuses on finding the resources to make an IP a commercial success.

Licensing is about identifying the right kind of licensees to maximize royalty revenues. For companies looking to expand their product or services, reach new markets or develop new customers, the focus of licensing is to create new revenue opportunities. The challenge is to implement a licensing strategy that maximizes the cash flow of an IP.

We live in a global community with quick access to just about anywhere in the world. Licensing is fluid and it moves IP around the globe to find the optimum money-making opportunities. It is a process that thinks in terms of the international marketplace and where to find the best fit for an IP. Whether the IP is a new product, technology, or service, the Internet and modern new communication services make it easy to reach out and create money-making licensing deals around the world.