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Planning for Intellectual Property Revenues

Not many years from now, business and program planners will have a new challenge when preparing product and business plans. Planners have long been estimating ROI by forecasting product revenues and profits. But soon, product and business plans will contain two forecasting spreadsheets. There will be the familiar one on product revenues and profits and a new one listing revenue and profit forecasts for intellectual property (IP).

Let's define "financial liquidity" as the ability to more easily treat IP as a commodity in the marketplace, and define "monetization" as the ability to assign a dollar value to a block of IP and the rate the initial value depreciates over time.

Liquidity and monetization are different challenges. One requires a marketplace in which one can exchange assets and commodities. The other requires the ability to assign a recognized value that can be generally accepted. So let's say we want certain types of IP traded like gold, silver, and soybeans. The market would have much less volume, but the principles would largely be the same.

So how do we get there?

Financial Liquidity: There are already several markets in development and new ones are certain to emerge. Who knows which ones will stand the test of time? Right now "scouting firms," "innovation intermediaries," "IP auctioneers," and "crowdsourcing companies" all stand to be market makers. There are a handful of others.

The front half of industry is testing the waters at some level. It typically takes about half of industry to be active before software developers start generating applications to manage new activities. Software began to appear at an increasing rate the past couple of years.

Monetizaton: Quietly, over the past 20 years, committees and groups have been studying the merits of actually putting IP assets into financial statements. A partial list reads like alphabet soup, but you'll probably recognize some: SEC, COMEX, FASB, and NAA. Their goal is to assign values to blocks of IP so they can be treated like a new furnace or mainframe and placed on balance sheets as assets and depreciated.

To meet accepted accounting principles, a liquidation value would also have to be determinable. All this need not be worked out before the market can become liquid, however, but some progress is needed to determine ranges of saleable values. Accountants are currently paying attention to transacted values that are agreed on by a seller and buyer. After thousands of such transactions in the years ahead, there will be enough data to assign some standard values. There is great disagreement, however. Many do not want standard values. Companies may lose the ability to negotiate premiums for their prized jewels.

Profits vs. Revenues: So far we have discussed top line only. What about profits? Profits require costs to be tracked. From an accounting standpoint, it is more difficult to track costs. Company systems are much more flexible at adding lines for revenue than they are at breaking out costs. Was the developer designing the product or developing the IP? What amount of development-team time was spent on IP development and commercialization, versus product development and commercialization? Can you imagine trying to break that out on a time card? It likely won't happen. All costs and revenues will be lumped, and there will be a single ROI. But IP revenues and profits will still have to be estimated and commercialized separately.

Stretch Thinking: Imagine the case where markets are all liquid and there is more value and immediate speed to market in simply monetizing IP rather than putting it into a product. The business plan will have an IP revenue forecast only, and engineers will be done when the design is complete enough for the IP to be packaged. md

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