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May 2002

Enterprise IP And The Quest For Value

The development and nurturing of intellectual property can create a critically needed mutual language for understanding between IT professionals and the rest of the company.

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Business needs a new language to describe the critical intersection of business processes, markets, and technology. All manner of processes--whether executed well or poorly--transform the potential energy of the world's financial, physical, and human capital into products, services, and brands. These, in turn, create commercial value and ultimately generate cash flow. Those that succeed in the market develop what we call Enterprise Intellectual Property, or Enterprise IP.

Our understanding of intellectual property's role is expanding. So, for that matter, is the catalytic role that IT will play in its creation. A hallmark of next-generation business leaders will be their ability to identify and develop sustainable sources of competitive value in their products, services, and brands through the care and feeding of Enterprise IP. Enterprise IP, without question, will become the root of sustainable competitive advantage in our technology-enabled age. We'll use the entertainment industry as an example of how this is being achieved.

We offer a new perspective on this subject, which is as old as Hammurabi: Enterprise IP arises when an orchestrated confluence of resources creates value from opportunity. That value is the sum of each piece of intellectual property possessed by an enterprise, compounded by their interactive effects and competitive impact. At General Electric, for example, it's not just patents, but also customers, light bulbs, trademarks, even the "We bring good things to life" jingle that create the company's competitive advantage.

To understand the full impact of economic, social, and technical change on intellectual property, consider which technologies can best serve the intellectual property of your enterprise, and how you can create and nurture your Enterprise IP differential.

Historically, intellectual property is categorized into four distinct types, each representing a different form of information translated into value. The first three are traditional; the fourth may raise some eyebrows:

- **Recognition:** Trademarks, logos, and other paraphernalia of a business' public identification carry the informational value of recognition. More accurately, they trigger "re-cognition," or knowing again, by embodying a history of customer exposure, preference, and use. A customer's exposure to a trademark during a purchasing situation translates into direct consideration.
- **Desirability:** Patents, secret processes, and other related trade secrets let companies deliver improved performance, new features, extended product life, and other technical advantages that boost their products' competitiveness and desirability. By restricting access to these desirable products or features for a set period of time, companies also create competitive barriers, and the inventor can exploit an idea and recover investment costs free from direct imitation.
- **Form:** Copyrights and related protection for literary and visual creations add value by lending an inherent desirability to the form of a communication. If images, sound, and words are so inherently appealing that an individual values their source, the copyright holder has created lasting and repeatable value.
- **Emotional connection:** Brands are arguably a fourth form of intellectual property. A superset that encompasses elements of the other three forms, brands stretch margins to the extent that they make an emotional connection with customers, one that imparts immediate value. Great brands also reduce a company's marketing costs and the risk of being passed over. Consider how Tiffany's blue box connotes both love and high quality for the buyer, and how this lets the jeweler raise margins in an otherwise commodity business.

Upon these four principles—recognition, desirability, form, and emotional connection—hang the principles of value and opportunity. The products of the mind create value in many contexts. And as our economy continues to migrate away from the factory floor, the premium on ideas will continue to rise.

Nowhere is this more clearly demonstrated than in the meeting of the technology and mass-media industries. Media as a vertical industry is a prime example of how the application of technology can both enhance and destroy processes that transform potential into value.

Technology's role in the business processes of the media and entertainment industry is growing constantly. Once in paper format, dailies, demos, and drafts now flow through the electronic ether as distant and collaborative eyes and ears engage in the creative process. News anchors sit in front of blue screens rendered by real-time graphics systems to appear as massive cityscapes or swirling weather maps. In Hollywood, blockbuster movies are created with exotic post-production technologies that merge the real with the imagined, even as they smooth out production bumps and glitches. In recording studios, artists and producers use sophisticated computer systems to alter a song's tempo, filter the sounds and textures of accompanying instruments, and even change the key in which the musicians play.

Media companies also are moving their products into digital archives. These archives will not only outlast their analog predecessors but will also enable repurposing and online distribution. For example, Hollywood is scanning film-based archival prints of movie classics into massive digital stores of 2 terabytes or more per movie, where they can be painstakingly renewed. Golden-age classics such as *Singin' in the Rain* are being restored, pixel by pixel. They are then re-released to the public in digital formats, which—unlike traditional film and video—will retain pristine images no matter how many times you watch them.

Media and entertainment companies also use the latest distribution, marketing, and sales technologies to reach mass and niche audiences alike. Using everything from online marketing campaigns to systems that track conventional sales metrics, entertainment-distribution companies are servicing both major accounts and mom-and-pop retailers with real-time online-order and account-management systems. This information is then integrated back into the supply chain. Dozens of critical back-office functions, such as royalty accounting and processing, support both ends of the value chain and consume massive amounts of processing power—not to mention IT budgets.

The connection to Enterprise IP is clear: For entertainment companies, intellectual assets are used throughout the value chain and beyond, not just within the products.

What's on?

New technologies provide the media-consuming public with a panoply of choices. Consider this simple question: How would you like to enjoy a movie?

Well, you might go to a theater and see a first-run movie on the big screen. You might buy the DVD or VHS version or choose to rent a digital disc or videotape. On your next business trip, you could spring for a headset and watch the in-flight movie—that is, if you're not already watching another movie from your laptop computer. At your destination, you may watch a movie in your hotel room, ordered up from a pay-per-view system. Or you might watch a movie on a premium TV channel such as HBO or Showtime. Maybe you'd prefer to catch it on basic cable or broadcast television, where advertisers pay the freight.

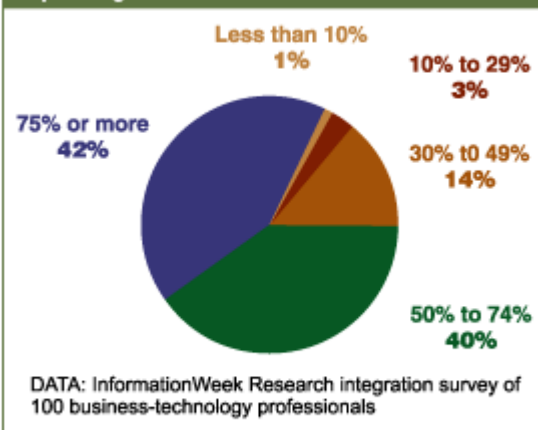
Enter the Internet, a new dimension in the market mix for entertainment products. With the ever-increasing investments required to develop products of all types, new distribution channels like the Internet are welcome additions to the market. This is especially the case with entertainment products for which word-of-mouth—the most powerful force in entertainment marketing—can be exponentially more effective online when product awareness and a trial can be just a click away from a transaction.

Assuming the eventual proliferation of broadband, it's virtually assured that entertainment products will evolve. We've already seen this trend start with DVDs. Consider, for example, the new, two-disc release of the animated movie *Shrek*. It includes not only the full-length movie, but also a PC-based video game, short films on the animation process, interviews with the movie's creators, voice-over samples, and lots more. Digital media, online or otherwise, provide a fresh palette of opportunity for the creative community.

But the online environment has yet to develop a viable commercial market for music, movies, and other media because commerce for media products on the Net is different from all other current forms of E-commerce.

While markets, like that for movies, can be quite complex, they are nonetheless ruled by a simple dynamic: Sellers enter a market hoping to get the most cash or other in-kind compensation for their product or service, while buyers enter the market with an equally single-minded desire to pay the least amount possible for the same product or service. From these opposing positions springs the continual process of market-making.

Capturing IP



What percentage of your company's business data exists in electronic form?

Sustainable markets are those capable of creating value propositions along a price/performance curve that's in continuous flux, influenced by competitive as well as environmental forces. Active markets are governed by a variety of internal and external mechanisms. These include contractual relationships among players in the value chain; local, regional, and global laws; and other governing agreements. Courts at various levels, as well as regulatory and trade bodies, oversee the reasonableness of market governance. Hold these thoughts for a minute or two.

The transactional infrastructure of the Web is, for the most part, based on a technical architecture--hosts and terminals--that dates back to the dawn of computing. Web commerce still takes place on central servers, not on users' PCs. True, information about products is passed through the Web to consumers. But the transactions still take place within momentarily secure sessions between hosts--now known as servers--and terminals--now known as clients or PCs.

But with media, not only can information about media products be sent from peer to peer, but so can the product itself. The first is marketing; the

second, sales.

This is a boon for an industry such as entertainment that relies heavily on word-of-mouth marketing. So the potential exists for a market to form. In fact, one could argue that it already has in the initial proliferation of Napster and other peer-to-peer file-sharing services. But to call today's peer-to-peer environment a "market" ignores the most basic need of a market: the ability to reliably facilitate the processes of negotiation and value transfer between buyer and seller. When you cross the needs of a market with the architecture of peer-networked PCs, it becomes evident that peered PCs don't incorporate sufficiently secure mechanisms to govern their own marketplace. Until this problem is addressed, markets can't be viably formed around networks of PC peers. This contrasts starkly with the expanding role of collaborative technology in the internal processes of entertainment companies, and it points to a clear disconnect between not only entertainment and technology, but also between technology and an understanding of what's needed to effect the conversion of potential into sustainable value.

That's not to say that markets created around networks of PC peers--or any other new technology, for that matter--won't disrupt the status quo. The consumer-to-consumer proximity enabled by peer networks, as well as the general malleability of digital media, assures ongoing change and innovation. New markets create new opportunities for products and services.

But it's equally certain that we need to move past the mistake of assuming that bits are just bits; one bit may well carry more value than another. What's needed is a more holistic perspective, centered on the concept of building sustainable value out of potential. This outcome, in the case of entertainment and technology, would expand the market for the Web, PCs, and PC appliances. It would create a market for online entertainment products, incite development of new forms of entertainment, ignite consumer demand for broadband, and perhaps even lead to new online applications, many of which await viable peer-to-peer markets.

Value-chain links

What does all this have to do with the issue of technology and value creation in general and Enterprise IP in particular? As it turns out, a great deal.

The tech-entertainment debate is generally formulated around the need to respect the products of the media industry as assets that may be traded only with their owners' permission. This description, while accurate, falls far short of a full understanding of both intellectual property and its role in the overall context of the company. An examination of the four domains of intellectual property--trademarks, patents, copyrights, and brands--reveals that these definitions are far too confining for an economy increasingly driven by ideas. What's needed is a redefinition of the term "intellectual property" when considered as an asset that can be developed and nurtured in every company.

Enterprise IP is what a company can develop when intellectual capital intersects with processes, products, and brands, enhanced by technology. Fred Smith will tell you that since he founded Federal Express in 1973, the company has valued information regarding a package as highly as the package itself. Therefore, FedEx has a treasure chest of Enterprise IP: technology-enabled information bonds between its enterprise and its customers. And from what I hear, FedEx is just getting started! Similarly, Wal-Mart and Procter & Gamble, through their pioneering efforts to drive waste from their supplier-buyer relationships, have co-developed an ever-growing bucket of Enterprise IP in supply-chain management. The folks who work for Michael Dell can tell you about Enterprise IP in the area of efficient one-to-one manufacturing to customer specifications.

The real-time and malleable nature of digital platforms creates opportunities for growth and efficiency by enhancing business-to-employee, business-to-business, business-to-consumer and--here's a new one--consumer-to-consumer integration and

interaction. Every executive must focus energy on deriving value from intellectual capital across the enterprises, regardless of sector. This need extends to suppliers, customers, and business partners. Then, Enterprise IP can be leveraged to deliver tangible results in the form of differential advantage.

Enterprise IP can also be used to create, strengthen, and augment brands and brand strategies. Consider, for example, rivals Coca-Cola and Pepsi. Coke topped Interbrand's list of the top 100 brands in 2001, with a brand value of nearly \$69 billion. How did Pepsi fare in the same listing? Its brand value was only \$6.5 billion, less than one-tenth of Coke's. This enormous difference is a function of committed customers and brings real, tangible value. In fact, superior brand value preserves margins, reduces costs, assures superior deal flow, attracts better job applicants, and improves relationships with merchants and distributors.

But Enterprise IP, like most assets, can be a double-edged sword. If competitors learn of your Enterprise IP, beware. The raw material as well as the finished products of Enterprise IP are found in many forms, including copyrighted software, customer lists, databases, human resource knowledge, logistical information, process knowledge, process specifications, and trade relationships. These must remain confidential to those in the flow who "need to know," whether inside or outside of the enterprise. And maintaining confidentiality could get more difficult as every facet of basic business is subject to digital encoding. The ostensible purpose of all this encoding is to speed supply-chain management, improve customer service, and broaden market communication and business development. But unless this information is adequately protected, it also becomes a source of risk. Technology must not only develop Enterprise IP, but also protect it.

As hard as it may be for some to swallow, this IP--intellectual property--is more valuable in creating business advantage than the other IP--Internet Protocol. In fact, without intellectual property, there wouldn't even be an Internet on which to have a protocol. Like all tools and technologies, digital technology must take its rightful place as a means to an end, not an end unto itself--science fiction aside.

Unfortunately, and at precisely the wrong time for IT providers and practitioners, the decline of the dot-coms and the deflation of the tech sector as a whole have widened a pre-existing credibility gap between IT executives and their nontechnical colleagues. What's needed to bridge this gap is a language and methodology for understanding where and when technology can be applied to improve the competitiveness of the enterprise. These would be used by both business and IT professionals to express those business issues or opportunities most in need of attention, and then to show how technology can be used to address them.

But as we've learned the hard way, the private language of IT--the language of bits, bytes, hardware and software--is woefully inadequate to the task. In its place, a new lingua franca is required that can bridge the gap between technology and commerce. We need a vocabulary that can identify where and when the application of technology has the most potential for positive impact on growth and efficiency.

Some hoped "knowledge management" would fulfill this mission. The core notion behind KM is that a company, by capturing digital renditions of its employees' noggins, can apply software to these data stores and in some way chart new paths for growth and efficiency. But the concept of software engineers divining the future of an enterprise from a sequence of digitized facts seems, at best, overly optimistic.

Enterprise IP is not to be found in a chronology of collected facts any more than reading a biography of Martin Scorsese will make you a great movie director. Rather, value springs from experiences developed by the ebb and flow of actions and results generated within an enterprise.

To succeed, an enterprise must find ways to animate its intellectual capital--whether from employees, consultants, customers, or suppliers--toward increasing competitiveness. Enterprise IP represents the convergence of the potential energies of a company, both internal and external, that it then renders as kinetic in the marketplace, building competitive advantage. Identifying and describing opportunities for this process of convergence is at the heart of using Enterprise IP as a mutual language of understanding for IT and the enterprise. In this digital age, the need to understand, build, and gird businesses upon ideas both great and small translates across all industries and all sectors. The time is right to start thinking about where technology can best serve your enterprise's intellectual property. ♦

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