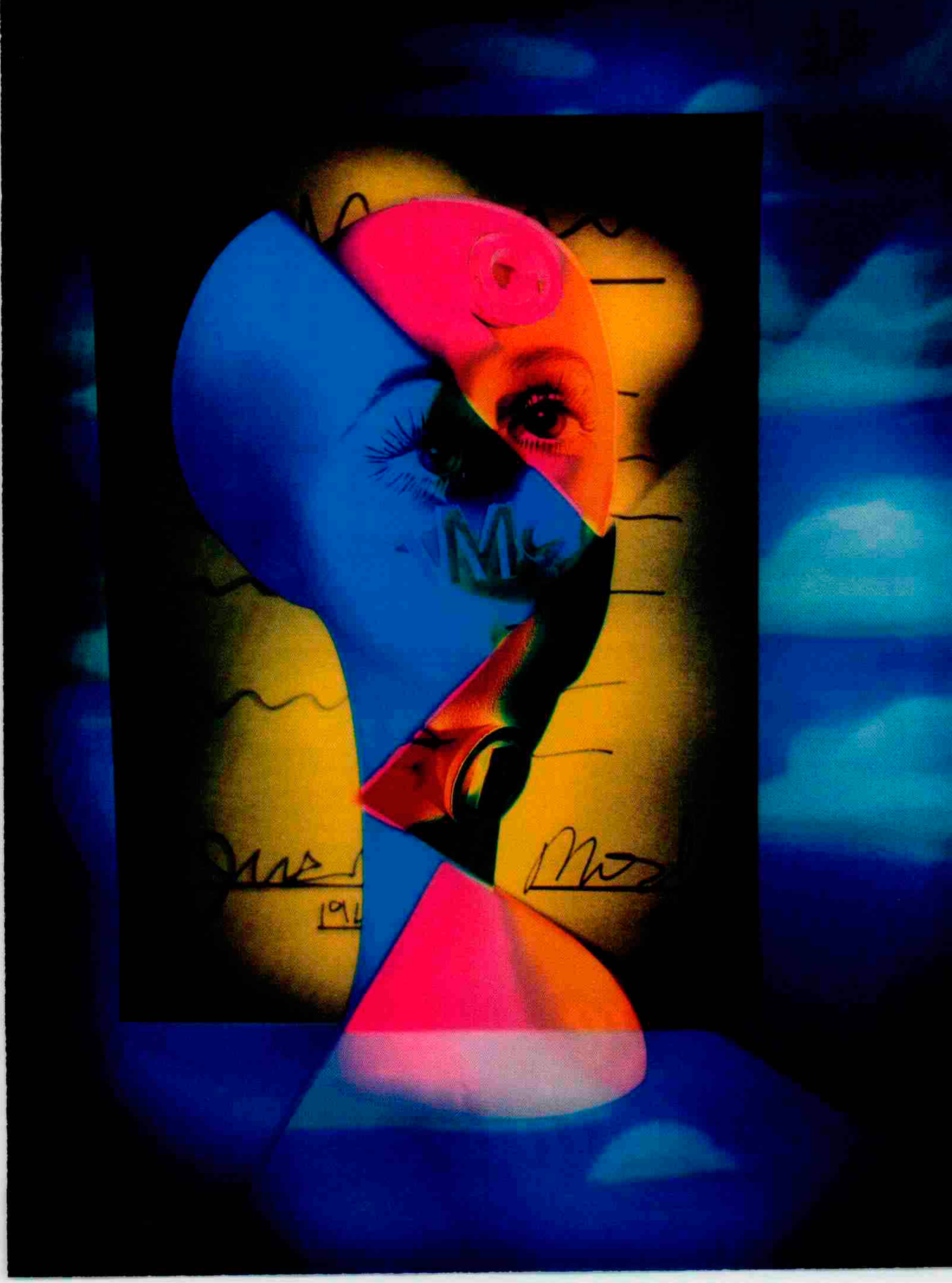

IN THIS ARTICLE
HRD Legal Issues

SO, YOU'VE LOCATED (OR DESIGNED) A TERRIFIC TRAINING PRODUCT THAT YOU WANT TO DISTRIBUTE. BEFORE YOU START TO MARKET IT, MAKE SURE YOUR LICENSING AGREEMENTS COVER ALL OF THE BASES, ESPECIALLY THE ROYALTIES.

A Licensing Primer for Trainers

BY GEORGE KIMMERLING

LAWYERS AND INSTRUCTIONAL designers need each other. Without a way to place training products and services in the hands of consultants and users, program creators toil in vain. Even the best programs are only as effective as the efforts to market them. At the heart of such efforts lie licensing agreements. With their dry legal phrases and complicated royalty arrangements, they keep the training industry turning a profit.

At their most basic, licenses are contracts established between two parties allowing one side (the licensee) to perform some activity that the other side (the licenser) has authority to regulate. In the training industry, a license that covers a workbook, videotape, software program, or a training methodology lets the clients use the product or service under certain conditions and for a certain price.

"The entire distribution of training products is built on licensing," says Chris Bloom, an attorney who chairs the intellectual property department at the law firm Bell, Boyd, and Lloyd

Illustration by Michael Northrup

in Chicago. Training products are protected intellectual property that suppliers rarely sell outright. In this way, the supplier retains the right to license multiple users.

"As the creator, you want to retain ownership and the ability to sell your product a second time," says Bloom, whose clients include the Training Media Association, the Instructional Systems Association, and several suppliers. "That's why you license training products. It's the second sale, not the first, that you care about."

In fact, for training vendors, licensing is an integral part of doing business. "Every use of a Zenger-Miller product entails a licensing agreement," says Owen Griffith, director of operations for the Zenger-Miller division of the Times Mirror Training Group. "We license the client organization that will receive the benefit."

Licensing is also a way for training providers—small and large—to gain access to new markets by using other companies' distribution networks. Wilson Learning Corporation, for example, licenses about 30 "value-added distributors" in the United States. Each handles customers in a major urban area. The distributors purchase Wilson's research, services, and products at a discount. Then they offer them to companies smaller than those in the *Fortune* 500. Wilson also provides distributors with training and marketing support, and lets them use its logo and the phrase "an authorized distributor for Wilson Learning Corporation" on their letterhead and business cards.

"Through that network," says Dave Ehlen, Wilson's chief executive officer, "we reach into a marketplace that many of our competitors don't access." In fact, Ehlen says that about a third of Wilson's more than $50 million in annual revenue comes through those distributors.

Whether you're looking for a distributor or to land a lucrative license, find out first whether the product or service has any value in the marketplace, advises John Wiedemann, chair of the licensing committee of the American Intellectual Property Law Association. That will determine whether it's worth paying the thousands of dollars in up-front costs often required to obtain a license and whether profits from the license will exceed the royalties.

If the product or service is a moneymaker, find out next whether it's protected intellectual property, which is a legal notion invented to cover nontangible items—such as an innovative design, an image, or a software package—in which individuals can have ownership or other property rights. Generally, the rights are protected by patents, copyrights, trademarks, or they're protected as trade secrets. Permission to share in those rights and to profit from the use of the licensed property is the main reason to obtain a license.

It's the second sale of your training product, not the first, that you care about

Types of protection

The first three types of protection—patents, trademarks, and copyrights—are best gained by registering the property with the federal government. Patents and trademarks are registered with the Patent and Trademark Office; copyrights are registered with the Library of Congress. Some protection is available for unregistered, or "common law," trademarks. In addition, the creators of visual or written material can enforce unregistered copyrights. However, registered materials require greater legal recourse and stronger penalties for people that infringe on trademarks and copyrights.

Patents. Patents are the intellectual property rights granted to inventors of new and useful ideas. A patent excludes others from making, using, or selling the invention and are effective from the date they are granted rather than the date the patent application is filed. Because patents typically apply more to industrial and technological innovations, they are rarely the subject of licensing agreements in the training and development profession.

Trademarks. A trademark is a word, name, symbol, design, phrase, or slogan—or a combination of those elements—placed on goods and services to indicate their source or origin. Trademark rights can be enforced to prevent other people from using the mark or similar marks, thus avoiding confusion among consumers. Trademarks must be used in interstate commerce in order to be registered.

Because trademarks imply a company's goodwill or reputation, companies that license their trademarks have a legal responsibility to ensure the quality of the licensee's product. A licensing company should prevent its mark from being applied to shoddy goods. Quality assurance also protects licensees. After all, in paying for the right to use a trademark, a licensee is purchasing little more than the reputation of the company that created the mark.

Copyrights. Copyrights are affixed to written and visual works, including software and videotapes. They protect the tangible expression of an idea or ideas (for example, a training manual on Windows '95) but not the ideas that the material contains (the techniques of Windows '95). Copyrights also prohibit other people from creating derivative products based on the copyrighted work and from photocopying, broadcasting, or publishing it without permission.

Like other intellectual property rights, copyrights may be held jointly—a relationship that Wilson Learning and two of its clients have found mutually beneficial. For example, Wilson and AT&T hold the rights to customized seminar materials developed during the breakup of the telecommunications giant. Similarly, Wilson and Xerox Corporation share the copyright for an electronic performance support system. Wilson has the right to use it, minus the client-specific content; clients have the right to the customized versions. Both Wilson's and clients' names appear on the products.

"Increasingly," says Ehlen, "our customers are interested in this arrangement because it requires shared expenses, development, and ownership. The customer ends up with something specific to its needs, and we receive contemporary, leading-edge content we can use in our broader distribution system."

Trade secrets. Trade secrets are not registered with a government agency, but they are protected as long as the business practicing them keeps them confidential. For example, if everyone in the industry knows how Acme Training Company performs its wildly successful Level 4 evaluations, Acme can't claim that its evaluation method is a secret. Consequently, it can't claim damages against a company that adopts it without Acme's permission.

In the training industry, trade secrets can protect confidential methodologies that aren't apparent or easily replicated to the end user. They include evaluation methods, assessment tools, and programming source codes for computer-based training.

Protecting trade secrets requires strict, enforceable confidentiality agreements signed by a licenser's employees and by anyone outside the licensing company that may gain access to the information, advises Larry W. Evans, a licensing attorney and former president of the Licensing Executives Society, based in Alexandria, Virginia. "You don't have to run a military operation," he says, "but you must engage in a program of protection and enforcement."

What's in a license?

Every licensing arrangement should be governed by a formal written agreement. Although no standard agreement exists, all licenses share certain types of provisions. They don't have to be lengthy or dense with legalese.

"We worked very hard to get ours down to one page in layperson's terms," says Griffith. Though some clients have their legal staffs review the contract, Griffith says that at more than 90 percent of his company's clients, a trainer reviews and approves the licensing terms. "We have simplified some of the language and taken out some of the legalese, but they're still just as binding."

The most important clause in a license, says Chris Bloom, is the "grants clause," which sets out the scope of the licensee's rights.

Licenses generally include a grant of exclusivity—for example, the sole right to use a trademark, distribute a product, or broadcast a videotape in a defined geographic area or for a specific market. The more exclusive the license, the more valuable it is to the licensee, and the more money the licenser can expect to receive for it. The licenser also must guarantee the exclusivity—for example, by promising to prohibit licensees from operating in each other's territories.

Von Polk—CEO of BusinessVision, a direct-satellite broadcaster of training and other programming—says that exclusivity is extremely important in the licenses that producers grant his company. BusinessVision—based in Schaumburg, Illinois—doesn't seek exclusive distribution rights over videocassette copies of training programs. But Polk says that it does require producers to give exclusive rights to satellite network broadcast. "Exclusivity is one way to stay ahead of the competition," says Polk. "We don't want programs running on our network to show up on other networks."

Every licensing arrangement should be governed by a written agreement

The grants clause also can contain license restrictions that authorize a licensee to use a software program only for customers in a particular state. The clause could also permit or prohibit the licensee from licensing others to use the program. It could also specify that the license expires after a year, or it could allow an indefinite licensing period as long as the licensee doesn't violate the restrictions on use.

Zenger-Miller's clients must sign license agreements that require its facilitators to attend train-the-trainer programs conducted by the suppliers. In addition, licensees may not use a Zenger-Miller videotape with any other workbook than the one Zenger Miller provides, and they must purchase a new workbook for each new participant. Clients pay a one-time fee of $750 to $2,000 for program materials and an additional per-participant fee of $15 to $40.

Still, Zenger-Miller licenses are relatively nonrestrictive. With one license, clients can deliver a training program to an unlimited number of participants at multiple sites. Griffith says that the suppliers ask but don't require all sites to sign a license to indicate that they understand the restrictions. Clients also don't have to sign new licenses for each new product.

Wilson Learning also will license to clients "extended enterprise" of customers, distributors, and suppliers, says Ehlen. "You want the product going to the right audience. Traditionally, the view has been to keep it inside the organization. I don't think that makes a lot of sense anymore."

Danger zone

License restrictions can be a danger zone. For example, some restrictions are illegal. It may violate anti-trust laws to divide a market in a distribution license in order to restrict competition or to demand that licensees purchase materials unrelated to the licensed product. Moreover, licensers can't use an agreement to leverage unrelated concessions from licensees.

Two clauses a license should contain are performance-based contingencies and "hold harmless" clauses. The first type of provision maintains that a license or some part of it (such as the royalty payment) is contingent on the product performing as promised or on a viable market existing for the product. Such performance guarantees don't have to be spelled out in the license; but they can be attached through a separate agreement.

A hold-harmless clause includes a promise by the licenser that the material covered by the license does not infringe on anyone's intellectual property rights. This provision also binds a licenser to defend the licensee in court and to pay any legal penalties that arise from an infringement suit filed by a party outside the agreement.

Such provisions also protect licensers. Licensees that are sued for infringing on a third party's rights may seek to renegotiate or abrogate an agreement, or they may cease paying royalties if they're not protected by an indemnity provision.

The money trail

More than rights or restrictions, royalties cause the greatest confusion in creating licenses and the greatest number of license-related lawsuits—in part, because there's no standard formula for determining royalties. Basically, royalty is money that a licensee pays a licenser from the profits that the license generates. Royalties may be paid on a variety of schedules, including full, up-front payments or periodic installments. Typically, royalties are based on percentages of unit sales or the number of training. Licensers cannot demand royalties on profits generated by products they haven't licensed.

■ ***Know how much you can pay in royalties without going bankrupt*** ■

Rules abound as to the right formulas, industry standards, or percentages for guiding royalty schedules. But the most important considerations are market economics and whatever the parties will accept.

"The only way to determine reasonable royalties is to start with an economic model and work back to the royalty," says Bloom. Thus, if a licensee can sell and manufacture the licensed product for $80, and it will fetch $100 in the marketplace, the company has a $20 margin in which to negotiate its royalty payment to the licensor. "The important thing to know is how much you can pay in royalties without going bankrupt," Bloom says. The common mistake, he adds, is trying to devise and adhere to an industry standard.

From a licensor's viewpoint, Evans says, "a royalty payment has to be based on the benefit the licensee acquires from the license. If it is based on anything else, it is arbitrary and bears no relation to the technology being licensed."

Although one tradition holds that licensors should seek royalties of 3 percent of their investment in the property, Evans says, such standard approaches don't distinguish between profitable and not so profitable products. Instead, negotiators should start with another model—a 25/75 split between the licensor and licensee—but then consider how much profit the licensee will see from the product and how much risk the license involves.

Licenses for unproven products, products in competitive markets, or products with slim profit margins may generate only a 10 to 20 percent royalty, says Evans. "Where there is little risk or competition, or where the licenser is willing to give performance guarantees, the royalty can go up to 35 to 40 percent." Rarely, he says, can a licenser justify taking more than half of the licensee's profit.

When Wilson Learning licenses intellectual property from others, its royalties vary with the price the product will bring in the market and the investment Wilson must make to adapt it. In most cases, says Ehlen, royalties are based on a percentage of sales. Typically the royalties range from 12 to 16 percent.

BusinessVision sets aside 20 percent of its revenues to pay royalties to producers—including *Inc.*, Stanford University, Media Alliance, and the Telephone Doctor—that create its programs. The actual payments are calculated based on the number of subscribers and the number of times a program is broadcast each month.

As BusinessVision moves to pay-per-view broadcasts, Polk says, the royalty structure will shift. Producers will receive about 40 to 50 percent of the revenues generated when a client selects their programs.

License agreements also should contain an enforcement provision entitling the licenser to audit a licensee to ensure that it pays the correct royalties. The reviews can take place quarterly, annually, or whenever a licenser suspects noncompliance.

Whatever the schedule, it should be determined in advance so that a licensee understands that audits and enforcement are part of the agreement. BusinessVision, for example, regularly sends its producers a computation of the royalties, and the producers can ask to audit BusinessVision books with 10 days notice.

Though licensers should strictly enforce an agreement's terms, Evans says, they shouldn't try to extract a pound of flesh should violations occur. "You should ask only for what the violation is worth or has cost you." Evans suggests seeking redress through arbitration and other means that are less expensive than going through the courts.

So, you have a great idea!

Successful licensing arrangements aren't only for big training suppliers that want to distribute their products. Small companies and individuals can license their innovations to large firms with established distribution networks. Such companies may be eager for outside ideas.

Wilson Learning, for example, maintains a global research and development staff of eight to 10 people, including Ehlen, that identifies, evaluates, and acquires outside intellectual property—activities on which Wilson spends about $1.5 to $2 million annually. The ideas may come from finished programs, consulting protocols, books, and journal articles. Ehlen also receives about three to four telephone calls a week from prospective licensers. But only about one in 50 of the products sparks Wilson's interest.

So, do your homework. Find out which companies are interested in the kinds of training topics that your program addresses. That's the key to landing a licensing arrangement. Your program should add value to a supplier's current products or at least complement its product line. Don't expect to convince a company that only provides sales training materials to invest in distributing your electronic performance support software.

Just as important is being able to support your program with training and marketing efforts that can help suppliers adapt and launch the product. You'll increase its value if it comes with support services. Not only might you see a greater royalty but you also may land a consulting job.

Few companies will pay for just an idea or a seminar coursebook that hasn't been test-driven. In lucrative licensing agreements, the licensing party has worked hard to develop a product that someone else can see value in and wants to acquire.

"You aren't going to convince other people that they can make money unless you put in the time, effort, and sweat that shows them they can do that," says Wiedemann. "It's not enough just to think up a great idea. Maybe people will want a piece of it, but they're not going to pay very much if you haven't established that it will enable them to make money."

"When Zenger-Miller licenses outside intellectual property for its use," says Griffith, "we have to be satisfied that we can't develop our own product as effectively." A product creator also must demonstrate its uniqueness, show its link to an important need, and show that it has succeeded in filling that need, and provide a favorable analysis comparing it to similar products on the market.

Ehlen has the same concerns at Wilson Learning. "When we find products that fit within any of our curriculum domains that are pre-existing or contemporary, or that meet a current need, or have been validated in the marketplace, we often acquire the rights to re-market those programs, but in a way that fits with our other products."

Large companies also often protect themselves by having entrepreneurs that approach them sign indemnity agreements before they will even consider discussing a license. Such agreements prevent an entrepreneur from claiming later in court that the company stole his or her idea.

Cautions for the entrepreneur: Make sure you own the rights to the product that you want to license. If you developed your product while you were employed, your employer—not you—may hold the rights. You may violate your employer's intellectual property rights by profiting from the product, and you may risk a lawsuit by any licensee to whom you misrepresented the product as your own. Under an indemnification agreement, you also may be liable for the potential high costs of having to pay for the licensee's legal defense and penalties should it be sued for copyright or trade-secret infringement.

If you are sure that you own the intellectual property rights, register your product with the Patent and Trademark Office or Library of Congress. If registration is not appropriate, at least consult a lawyer on how to protect yourself in negotiations. Protecting your intellectual property is essential to having something worthwhile to license.

"The property must be proprietary," says Evans. "If something is not proprietary or protected either through confidentiality agreements or registered rights, it's very difficult to maintain any sort of competitive edge that justifies a licensee paying for the item."

Moreover, licensing is a complicated negotiation; few should go it alone. One place to find help is the Licensing Executives Society. It publishes a directory that lists members by specialty. LES does not certify its members or attest to their abilities. Still, LES members are expected to adhere to a code of ethics designed to weed out people that would con entrepreneurs with false promises of high royalties, fake patent searches, and agreements with nonexistent licensees.

"Licensing cannot be just a pastime if you're going to do a good job of it," says Evans. "You can place your company in a significant liability position, unless the licensing program is administered by knowledgeable people."

No matter which side of licensing negotiations you may find yourself on, successful deals don't come easily. Licensing is a tough business and as uncertain as any profit-driven enterprise, cautions Wiedemann. "The world is full of neat ideas, slogans, and trademarks. But turning them into a profit is another question." ■

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