

SAP Solution in Detail



MEDIA INDUSTRY SOLUTION FOR INTELLECTUAL PROPERTY MANAGEMENT

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EXECUTIVE SUMMARY

The media industry is undergoing rapid and radical change, driven in large part by new technologies, such as the Internet, online publishing, and digital broadcasting. And at the heart of your business is intellectual property.

To thrive in the digital media age, your enterprise needs to cope with spiraling technical complexity and an increasingly competitive business environment. How can you manage rights inventory, license revenue streams, and royalty payments efficiently and profitably as the number of media and delivery channels explodes?

You do it with the intellectual property capabilities of mySAP™ Media, the only integrated, comprehensive, inter-enterprise solution for the media and entertainment industry.

SOLUTION OVERVIEW

The intellectual property management capabilities of mySAP Media are delivered by the mySAP.com® industry component IS-M/IPM, hereafter referred to as IPM. IPM supports the entire intellectual property value chain and provides the following key capabilities:

- Automated and centralized contract management. Using standard templates, you can create, modify, print, and store all your contracts. Because there is a single storage location, all interested and authorized parties can access and use the latest version of a contract. This eliminates the problem of multiple copies of a contract that are maintained by individual offices or departments within your enterprise.
- Centralized inventory for intellectual property rights. There is now a single repository where all your rights are maintained, whether they pertain to books, television shows, or ancillary materials.
- Automated process for incoming and outgoing royalty payments. By automating the settlement process, you can eliminate manual accounting systems and take advantage of the financial reporting and analyses that derive from an online system.

- Collaboration supported by enterprise portals. Employees, customers, and vendors have access to the applications, information, and services they need through personalized portals.

As a product life-cycle management tool, IPM uses a repository for contracts and license rights. This repository enables you to pull unique packages of content for a customer, based on a specific contract, and produce invoices, royalty statements, and commission statements.

As an integral part of mySAP, IPM leverages all the key cross-industry capabilities of mySAP.com, and combines these with a collection of automated processes and tools designed specifically for the media industry. Figure 1 presents a detailed picture of the solutions provided by IPM.

mySAP Media builds upon the functionality of the mySAP.com e-business platform. Specific cross-industry solutions are particularly relevant to this industry, and integrate seamlessly with mySAP Media, providing a comprehensive approach to e-business.

Enterprise Management	Strategic Enterprise Management	Business Intelligence & Data Warehousing		Managerial Accounting		Financial Accounting
Customer Relationship Management	Customer Service	Market Research & Analysis		Product/Brand Marketing	Marketing Program Management	Sales Management
Content and Product Development	Media Content Planning	Media Production Planning	Media Production Controlling	Media Object Editing	Composing	Activity Recording
Production and Publication	Publication Planning	Printing	Broadcasting	Online Publishing	CD ROM Manufacturing	
CRM: Advertising Sales	Business Partner Management	Sales Order Management	Billing/Invoicing	Contract Management	Settlements	
CRM: Media Products Sales	Business Partner Management	Sales Order Management	Logistic Execution	Billing/Invoicing	Settlements	
CRM: License Sales	Business Partner Management	Sales Order Management	Billing/Invoicing	Contract Management	Settlements	
Media Asset Management	Media Asset Procurement	Media Object Management	Rights Management	Utilization Repository	Outgoing Royalty/ Participation Acc.	
Business Support	Human Resource Management	Financial Supply Chain Management	Procurement	Treasury/Corporate Finance Management	Fixed Asset Management	Equipment Maintenance

Figure 1: Solution Map for IS-Media

MANAGE YOUR INTELLECTUAL PROPERTY WITH IPM

The intellectual property management capabilities of mySAP Media integrate and streamline complex processes. These capabilities enhance your control, and make you more efficient.

With IPM you can:

- Effectively manage all types of contracts with all your business partners, including distributors, broadcasters, actors, and agents.
- Handle all the roles that a business partner may play at different times and in different contexts; for example, as a licensor, licensee, author, and actor.
- Create individual property profiles.
- Calculate the revenue and associated costs, such as prepayments for each intellectual property that you own.
- Determine how to distribute royalties to rights holders.
- Adapt accounting processes based on business rules, payment methods, and contractual agreements.
- Track the performance of each intellectual property by revenue, costs, income, and profitability.

Here's a closer look at what these capabilities offer you.

Figure 2 demonstrates the processes that are supported in IPM. When a media company acquires an intellectual property (IP), it is procured and created in IPM and stored in the Utilization Repository (Rights Inventory) as a "rights to exploit." In the same way, if a media company develops its own media product, it would be stored and managed in the Utilization Repository.

The media company exploits the rights in the form of a media product (film, book, song) that will be sold on the market. Product sales generate incoming revenue streams (royalties) from which the media company has to pay a share (outgoing royalties) to the proprietor (author, composer, guilds) of the right. If the media company trades rights or licenses, the process is the same as that for merchandising products.

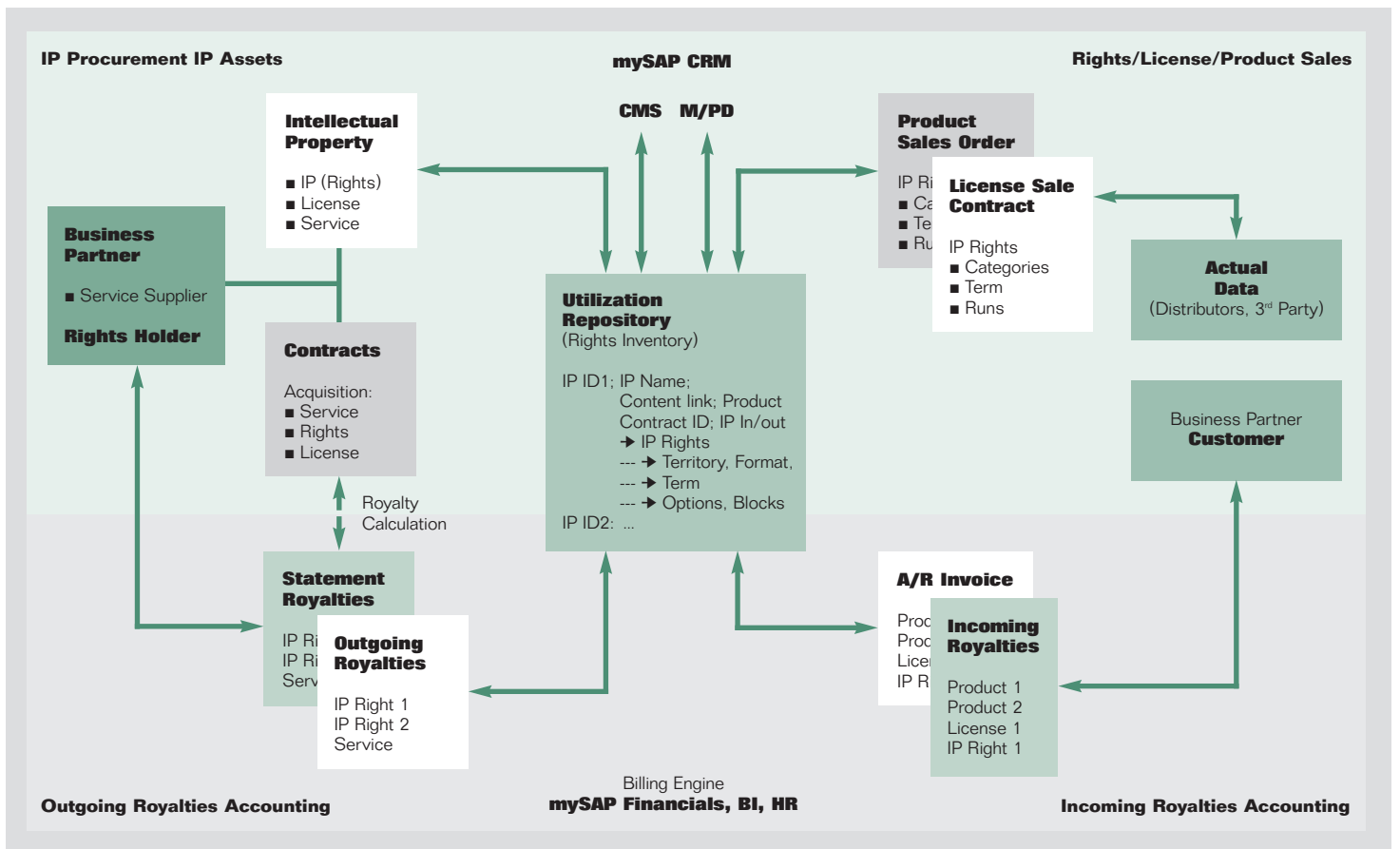


Figure 2: IPM Overview

IPM FUNCTIONALITY

IPM supports the following functions:

- Contract management
- Rights management, including inventory management and rights reporting
- Settlement and reporting of incoming and outgoing royalties
- Creation, acquisition, and sales of rights

New functions support integrated processing throughout the entire intellectual property life cycle by managing all agreements or rights in the form of contracts – on the buy-side with rights owners, holders, service providers, and clients; and on the sell-side with clients and customers such as broadcasters, sub-distributors, end users, and retailers. Standard templates support the creation and modification of contracts. Because the contract data is stored in the Utilization Repository, all authorized and interested parties can view it.

Contracts contain data that is interpreted and used in operational functions. This data includes:

- Conditions for payments and royalty settlements
- Precise definitions of rights that are used or licensed for exploitation
- Dates on which particular events are planned and for which an activity is to be triggered, such as delivery dates for versions of a film script, periods during which an actor is available, or periods for which particular rights are to be used or licensed for exploitation

Contracts also contain descriptive texts, largely of a legal nature, that are not used by the system. These texts are managed within the contract to give authorized users access to the full range of agreements and to generate a paper version that can be printed and distributed.

The Utilization Repository (Rights Inventory) represents an inventory of licensed, acquired, or created rights. As such, it is the key element of IPM. It provides system-supported management of used and unused rights and contains information about the use of intellectual property rights. This includes:

- Rights availability
- Collision checks
- Expiration of rights
- Contractual and non-contractual restrictions
- Exploitation requests for a media asset
- Assigned business partners and associated contracts
- Utilization tracking and reporting

In media industries, sales can occur as rights (outright) sales where the licensor remains the proprietor of the intellectual property but licenses all the rights of a property to a licensee. The licensee can sublicense and exploit all rights of the respective intellectual property. Another type of sale involves granting a customer the license for a particular set of rights. For example, a movie production company grants a broadcaster the rights to show a film in a certain territory for a certain period.

A distinction exists between incoming and outgoing royalties. Incoming royalties may result from the use of intellectual property rights. Outgoing royalties can be based on sales numbers, exhibition numbers, or other measurements for utilization of the intellectual property. Outgoing royalties are payments to the rights holders of an intellectual property by distributors, publishers, or licensors. The rights holder can be the rights owner, a beneficial owner, his representative, or another party with a financial interest in the property.

RIGHTS MANAGEMENT WITH THE UTILIZATION REPOSITORY

The Utilization Repository (Rights Inventory) is the central repository of all information required for IPM. It provides tracking analyses to determine which acquired rights are still available and which rights are already utilized and how. A status overview provides immediate information whether a right is open, reserved, or blocked in an exclusive or non-exclusive manner. Furthermore, product proposals or license requests may generate a rights request in the Utilization Repository that triggers the respective acquisition process.

The detail function of the Utilization Repository displays all information about the usage of a right. It determines not only the extent of the use of a right but also delivers datelines, territories, and other relevant information.

Figure 3 summarizes the areas covered by the Utilization Repository.

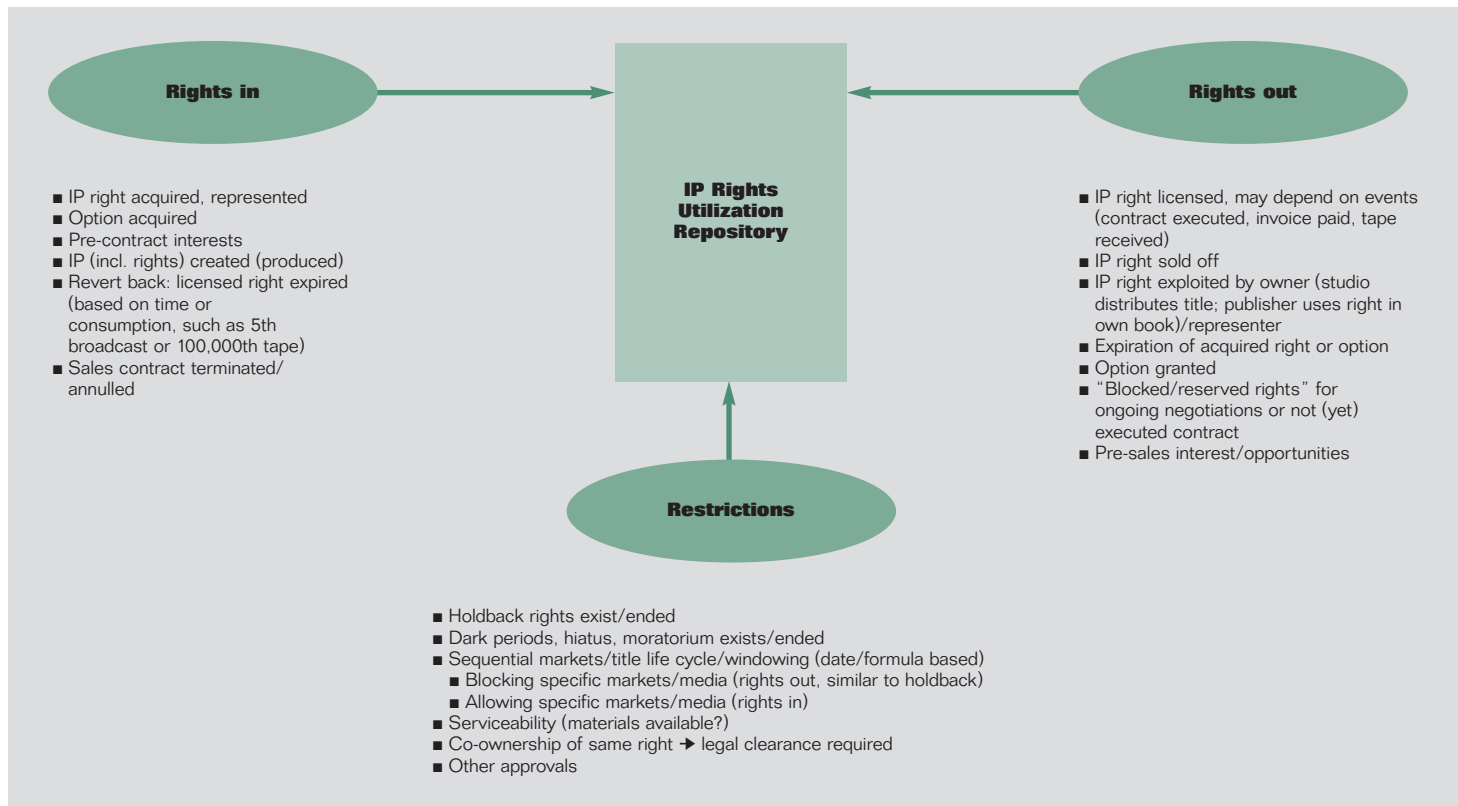


Figure 3: Utilization Repository (Rights Inventory)

Before we discuss the functions of the Utilization Repository, we need to define some of the business objects that are handled by IPM. An **intellectual property (IP)** is a business object that represents a certain piece of intellectual property, such as a movie, a musical composition, a performance by a rock band, or a novel. The IP may include an exclusive right or a partial right to form a product. For example, a movie requires several intellectual properties. Writers develop a script; actors perform; a composer writes the soundtrack.

Information about an intellectual property is also known as IP master data. Such data can be the title, composer, author, language, or release dates. This data can be managed at several levels: media product, IP, or IP rights. An **IP right** is a combination of the IP (the work); the values for the different characteristics such as type of exploitation, media, format, territory, and language; plus the controls or restrictions (the rights) for the IP.

An IP right can consist of a combination of different IP rights, such as the right to make and to show a film in a particular territory, or the right to translate a novel into German and the right to publish it in Germany, Austria, and Switzerland.

There are two types of rights:

- Exploitable rights, which are sold or licensed. They are specified at a detailed level; for example, the right to distribute a motion picture in the United States.
- Underlying rights, which are usually not sold or licensed directly but contribute to an IP. The underlying rights are usually acquired for all territories, formats, and exploitation types; for example, the right to use a novel for a motion picture.

Figure 4 depicts the relationship between an intellectual property and the rights to that property.

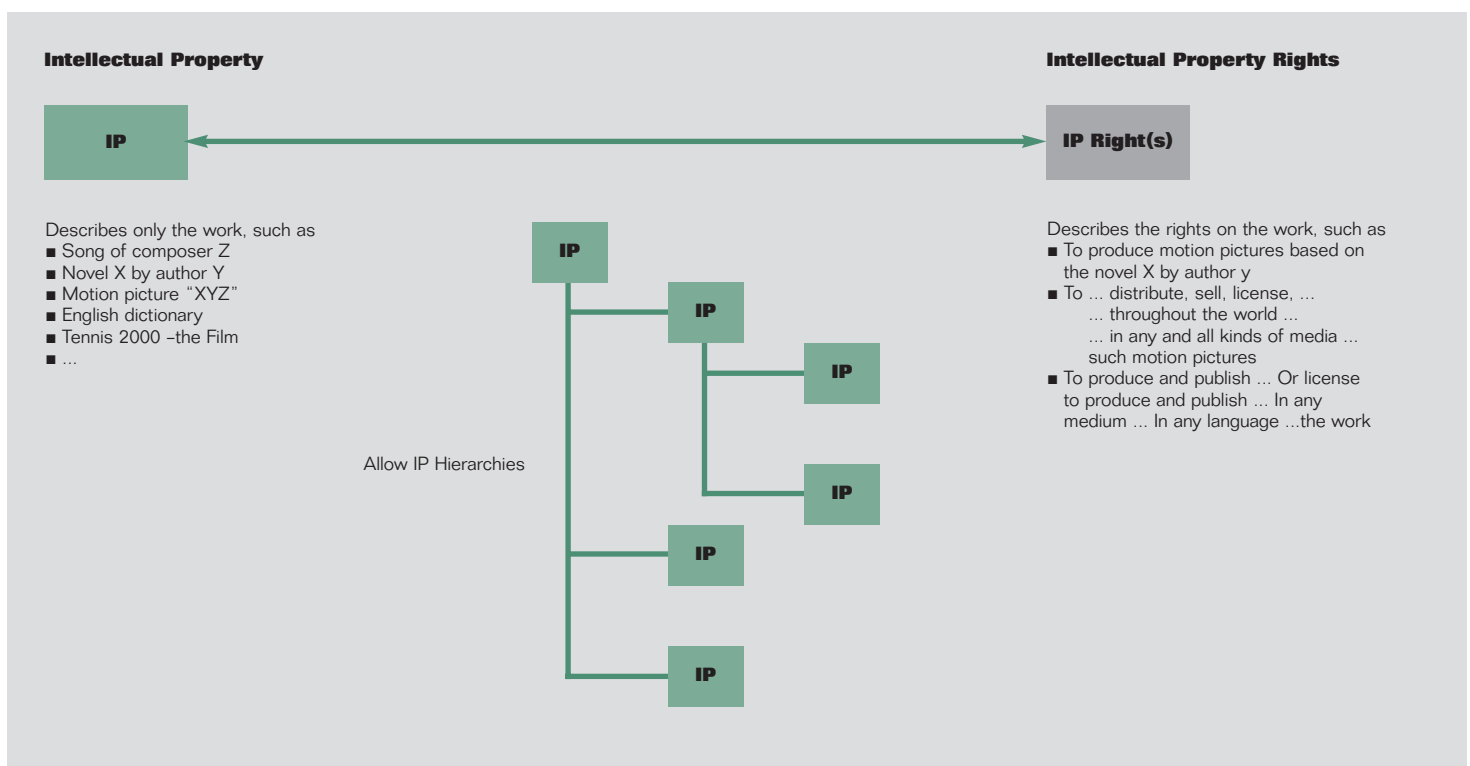


Figure 4: IP and IP Rights

When proprietors of intellectual property exploit their rights, a publishing company usually represents them. A contract between a proprietor and a publishing company determines the participation.

Utilization Repository Functionality:

IP (Right) Usage

The Utilization Repository handles many functions:

- Manages inventory by tracking rights in, rights out, and restrictions.
- Checks availability of IP rights.
- Monitors the rights validation flow.
- Provides reports on IP rights such as availability, utilization details, options, approvals, clearances, and sales.

The Utilization Repository can answer questions such as:

- “What did we earn on IP right x?”
- “What royalties did we pay for y?”
- “What is the current profit/loss position on z?”

IPM provides standard reports that pull together data from the Utilization Repository. You can use these reports “as is” or modify them to suit your specific reporting needs. If your enterprise requires additional analyses, you can easily define your own reports.

Rights Inventory Management (Rights Availability)

A right refers to a particular IP and is described by a combination of several categories: format, media/market, territory, and language. Rights types and rights control information also define the right. These include:

- “Direction”: in (acquired or interest) or out (interest, licensed, or sold)
- Created or produced
- “Info only” (indicating who owns the right, if not the company)
- Clearance status, clearance date, and party
- Exclusive or non-exclusive
- Excluded (“everything, but ..”) or included
- Option ownership or controller “in” and “out”

With information from the Utilization Repository, you can answer the following questions:

- Who has bought which rights for which periods?
- Which rights have been sold to whom for which periods?
- Which special restrictions about rights exploitation have been negotiated (for example, exclusivity, holdback periods)?

Rights validation functionality is required for the following:

- Creating new content
- Searching for available IPs. For example, what music is available for a new TV series? What IPs are available in what media and territories?
- Matching financial reports with licensed rights
- Supporting sales planning activities

The Availability Checking Process

Availability checks look all the titles to which a company has rights, excluding products that have already been sold and subject to non-contractual restrictions. The result of the availability check is one or more ranges of dates during which the requested rights are available.

The content and order of availability checks varies by product type and media. For example, the process to determine the availability of a song differs from the process to determine the ability of a television right.

Figure 5 shows the input and output for an availability check for all materials in the theatrical market.

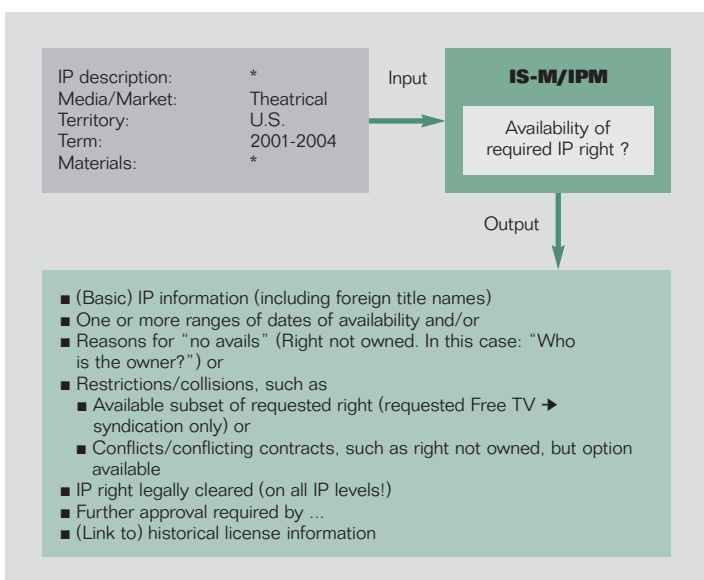


Figure 5: Rights Availability Check

In addition to the data input shown in the above figure, you can use other parameters to check availability:

- Complete or partial identification of intellectual property or right, including "fuzzy" queries
- Top down searches for IPs that satisfy certain attributes and/or availability criteria

You can also specify that the system perform verification operations to ensure that the IP right:

- Is available, that is, it has been acquired or a representation agreement exists
- Has not been licensed to a third party
- Matches the IP utilization status, life cycle, or window
- Not licensed to domestic TV while title is in domestic theatrical use
- Not licensed to cable TV while title is on pay-per-view TV

Materials such as dub tracks, video tracks, and promotional brochures are often shipped with the license. In this case, the system must verify the serviceability of everything on the bill of materials by checking such items as format, language, audio, and quality of material.

Utilization Tracking

Utilization tracking analyzes which of the acquired rights are still available and which rights are already being utilized and how. A status overview provides information about whether a right is open, reserved, or blocked in an exclusive or non-exclusive manner.

The detail function in the Utilization Repository shows all information about the usage of a right. For example, the details for entertainment utilization can include:

- Option to show IP attributes such as cast, synopsis, release dates, and ratings
- Activity details, such as release patterns, theatrical box office, past exhibition in media or territory, and advertising budget
- Media details
- Internal sales history information such as last licensee, last contract number, license term, rights sold, and historical license fees

PLANNED AND ACTUAL INFORMATION

IPM provides planned and actual utilization figures for specified forecast period(s) as well as the lifetime of the IP. If authorized, you can run reports on planned revenues and costs, and compare these against actual data. With this functionality, you can forecast and analyze the risks and opportunities of utilizing rights.

You can also use this function to determine the financial viability of extending or renewing expiring rights, or evaluate the financial impact of licensing rights that cannot be immediately serviced.

WORKFLOW AND CALENDARING

Activities and workflows can be triggered automatically. These activities do not refer solely to rights inventory data. They can also be partially triggered from contracts, for example, out of the sales process.

- Alert an individual if approval is required for a purchase, sale, or other activity. For example, an author must approve the translation.

- Trigger workflow if legal clearance is required to purchase or sell a right.
- Trigger the shipment of physical material, which in turns starts the invoicing process.
- Alert an attorney that an option or right is about to expire.
- Remind a partner that the translation is due in two weeks.

ROYALTY ACCOUNTING

Royalty accounting refers to incoming and outgoing royalties. Similar processes are required to audit and process both incoming and outgoing royalties, with the exception that incoming statements are based on more summarized information than outgoing royalties.

Incoming revenues are generated through rights collected from different business partners, such as distributors, retailers, and wholesalers. The functions that support incoming revenues refer to sales of rights and media products. These functions calculate and settle royalties for the related business partners. Master data for royalty accounting covers the entire royalty settlement process: royalty payments, royalty contracts, and special agreements.

Figure 6 summarizes the four major processes.

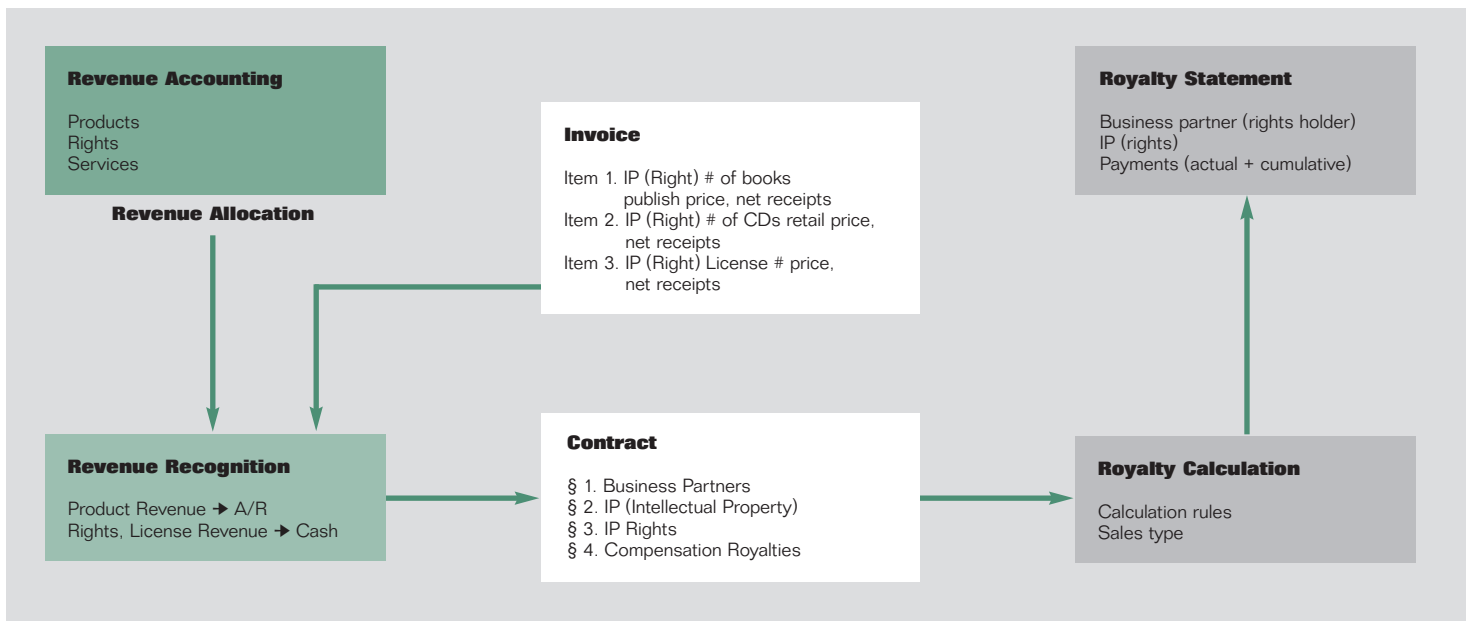


Figure 6: Royalty Accounting

Royalty accounting has two sub-processes. The basic data for subsequent settlement is made available in the first sub-process. This process is performed independently of any contract, which means that only valuation principles that apply throughout the organization are considered.

In the following example, distribution expenses are always deducted from the gross amount. This adjusted gross figure becomes the basis for subsequent royalty settlements. The process is as follows:

1. Provide basic data such as gross and distribution expenses per IP and territory.
2. Adjust basic data by deducting, for example, distribution expenses from gross.
3. Accumulate the basic data by territory or period.

In the second step, the settlement uses basic data from a specific contract.

Incoming Royalties

Incoming royalties are generated by the utilization (sale) of an IP right. Additional revenue can be generated by the sale of products or services associated with that IP. The following list provides examples of sales transactions that could generate royalties:

- Rights sale (use a certain set of rights for a specific time)
- Outright sale: all or some rights of an IP are licensed for a specific term at a fixed fee
- Royalty or license sale: all or some rights of an IP licensed for a specific term at a percentage of the gross receipts to be derived from the exploitation
- Group deal: distribution deal involving several IPs
- Format: right to develop a new product based on a concept
- Product sale (merchandise, books, videos, or CDs)
- Service sale
- Production service (sell service to create a program)
- Sub-distribution or agency service (service to distribute media products on behalf of another party)
- Sponsorship
- Consulting services

In the entertainment business, revenues may be tracked by movie title (IP), market, format, territory, distribution channel, media product, or even at a more detailed level. Incoming revenues are broadly classified in the same way in publishing. In publishing, revenues are tracked by ISBN formats, market, languages, and territory. This type of detailed information is required for royalty calculations because each set of rights has different conditions (prices). This information may also be used for availability calculations, statistical analyses, and financial reporting.

Revenue may result from the sale of product/license bundles. Selling movie packages (such as cross-collateralized packages) is common in the entertainment business, but it is also possible to summarize several products as a compilation in the publishing and music industries. IPM provides the interface to automatically allocate receivables, revenue, and cash to each IP (or level of detail at which activity must be tracked).

Revenue recognition for product sales is not handled in the same way as for license sales. In the case of product sales, revenues are usually recognized when delivery occurs. In the case of rights sales, revenues are usually recognized when the product becomes available to the licensee for exploitation, based on the term of the license.

For series programming, the contractual due date is used for revenue recognition. For live programming (events), revenues are recognized in the period during which programming (events) occurs.

Revenue Allocation

Certain business transactions may lead to sales being entered at a level that is not suitable for calculating outgoing royalties. The contract should contain a provision that allocates revenue to IPs based on their respective weights. For example, when a transfer right is sold in Europe, outgoing royalties will be valued at the level of the individual countries.

This makes it possible to support the requirement to create an open item for a specific IP and assign controlling (CO) objects, such as profitability objects, when the billing data is transferred to accounting. The detailed IP information must be retained throughout the billing and financial posting processes

Revenue has to be allocated according to the business transaction allocation. The revenue associated with IP contracts must be allocated to individual IPs for accurate IP management and reporting. It must be possible to allocate revenue to the following elements:

- IP
- IP attribute (grouping, IP type)
- IP right (media, territory, format, language)
- G/L account (may be derived from contract type, IP, and IP right)

Revenue Recognition

Various rules control when revenue is recognized from the sales transactions. Depending on the type of business transaction (TV vs. theater) and the type of payment (flat vs. variable fee), revenue recognition may be controlled by a particular point in time.

Points in time that can be used to trigger revenue recognition include:

- Publication date
- Date on which event occurs
- Contract signing date
- Date of availability on the market
- Due date according to contract
- Date of incoming royalty statement

Revenue recognition and the billing transaction can occur at different points in time. Data and values in the contract and sales document are the basis for revenue recognition. The recognition date can be defined in the contract and sales document.

A revenue recognition date is needed to produce accurate revenue forecasts. If the revenue recognition date is unknown, an anticipated revenue recognition date must be recorded, if available. All unrecognized and recognized revenue must be recorded, processed, tracked, and reported at the IP level (or another appropriate level in the IP hierarchy). It must also be tracked for each aspect of an IP right.

Outgoing Royalties

Participation, royalties, and residuals represent different types of outgoing royalties. Various types of participation payments result from the sale of rights, services, or products that refer to an intellectual property:

- A one-time payment to the proprietor to make the rights over to a production or publishing company. The rights would then represent an asset of the purchasing company.
- Participation payments made to the rights owner or participants based on sales, distribution numbers, contract agreements, or the number of exhibitions. The amount of compensation payable to a participant could be based on a percentage of revenues (profits) from the media product.
- Residuals paid to associations of artists, writers, and composers, such as guilds for the movie industry or ASCAP and BMI for music composers.
- Sub-distribution of IP rights or media products by one business partner on behalf of another partner. In this case, the sub-distributor receives incoming royalties and revenues, retains a royalty percentage, and forwards the remainder to the original owner.

Distributors, publishers, and licensors pay outgoing royalties to the proprietor, beneficial owner, representative, rights holder, or other financial beneficiary of an IP. Incoming revenue can trigger

payments (outgoing royalties) to rights holders, rights owners, or participants. Incoming revenue is usually the basis for outgoing royalties. The contract with a rights holder defines the level at which revenues are to be tracked for an IP or IP right.

Many different types of outgoing royalties can be paid to rights holders:

- Fixed amount of money. Payment could be dependent on preconditions; for example, an author has to produce a script.
- Royalty based on a percentage of, for example, gross receipts or publishing list price
- Advances that are recouped against future royalty payments
- Minimum guarantees that can be recouped against future royalty payments
- Grants (guarantee in publishing)
- Branding fee (for trademark license)
- Signing bonus fee

Outgoing royalties (outgoing payments stream) are calculated when media products or rights generate incoming revenues. Most of the royalty recipient's compensation (determined in the rights acquisition or other contract) depends on the performance of the IP (incoming royalties). For example, royalties are paid to the author of a novel for per-unit book sales.

Outgoing royalties are also dependent on expenses and other fees that are defined in the contract. Examples of expenses include distribution expenses, advertising expenses, and payments to guilds and other associations.

The point at which incoming royalties are recognized during the calculation of outgoing royalties usually depends on whether the revenue has been recognized and paid. Outgoing royalty payments are usually accumulated over a period of time and paid according to the payment schedule specified in the contract. In the case of product sales, a royalty payment can be due when the receivable is created. In the case of rights or license sales, revenue must be recognized when the receivable is paid.

Royalty Calculation

Calculation of the royalty share uses different kinds of IP-related information, such as numbers and characteristics:

- Box office gross from a specified source
- Receipts: gross, adjusted gross, or net
- Subscription level
- Volume of printed products
- Number of pages
- Events (“award winning” or “bestseller listing”)
- Interest rate
- Usage amount (TV run time)

Royalties can be based on the amount of money per unit:

- Program hour or program run
- Merchandising unit
- Product (video tape or book)
- Page
- Download or mouse click

Complex contractual clauses may require additional calculations before the settlement document is created and valued.

- Interest for advances
- First artificial break-even point plus interest for advances
- Second artificial break-even point
- Total royalties receivable or payable
- Royalties for the sales volume that falls above the first artificial break-even point
- Royalties for the sales volume that fall above the second artificial break-even point

The components of any calculation may or may not be applicable to other calculations. The ability to define templates with varying sets of calculations is critical, as is the ability to attach the templates to contracts and override individual calculation components as appropriate.

Royalty (Statement)

The royalty statement contains all relevant data concerning the settlement of royalties. All gross and net sales and revenues for the respective IP and other contract-specific data are listed in the statement (whatever is required to derive the outgoing royalty). Additionally, the calculation rules for the payments to the proprietor (business partner) may be listed.

Statement types (such as incoming royalty statement, outgoing royalty statement, and participation statement) describe the purpose of a statement and its usage. A statement item describes each individual intellectual property, if several IPs are included in the statement, and the agreements for each item. Royalty earnings (percentages), payment conditions, sales numbers, and other special agreements are documented here. The statement sums up the royalties and expenses, and shows all the calculations based on each gross or net deal and other contract-specific requirements.

For the entertainment industry, a royalty statement may contain the number of subscribers, gross receipts, deducted fees, expenses, term, title, rights, current activity, cumulative activity, and balance. A royalty statement in the publishing industry would contain the publication date, accounting period, title (ISBN), total sales, net receipts, free copies, expenses, copies sold in period/life, and sales channels.

IPM has to provide tools for simple import, review, calculation, auditing, and recording of royalty statements. All royalty calculations and transactions must be linked to the contract(s) to which they apply. IPM will also provide functionality for statement reminders and Internet self-service for rights holders and customers.

All relevant partners from the contract and sales transactions are transferred from SAP® CRM to the SAP® Billing Engine in their respective roles, along with the other transactional data. In addition to the mandatory business partners, you can add any optional business partners as required.

STRUCTURE OF THE ROYALTY STATEMENT

The actual structure of the statement can vary considerably. However, the contract controls the structure to a certain extent.

- Items in an incoming royalty statement can represent the respective IP, another level in the IP hierarchy (such as episode), or IP right involved. They can also represent physical products sold under the licensed IP right (merchandise).
- Items in the settlement document for a participation statement can represent royalty payments that are due for each IP based on the calculation terms defined in the participation portion of the acquisition contract.
- Items in a royalty settlement for an author of a novel can represent royalty payments from book sales of an ISBN.

EVALUATION OF THE ROYALTY STATEMENT

After the basic values have been prepared independently of any contracts, the conditions in contracts for the rights holder are applied. Since royalty calculations can involve complex formulas, it may be necessary to determine these initial values first in additional calculations. This can be illustrated with the following example from the entertainment industry.

To calculate royalties, the gross sales volume (gross receipts) and scale levels are calculated according to contract conditions (first artificial break-even point, second artificial break-even, actual moving break-even point). The calculation for the break-even points depends on the calculation of the distribution fee. The distribution fee is a percentage of the sales volume and can vary for each market and territory. Various percentage rates are required to calculate the first, second, and actual moving break-even point.

The results of these additional calculations are entered in summary form on the settlement document evaluation. Different methods of calculation (pricing procedures) can be used at the item level (for example, “off the top” vs. “off the bottom”) when the settlement is evaluated. When a document is created, particularly one for incoming royalties, business transactions must be reported with different currencies. Taxes are also calculated when the settlement document is evaluated.

CUMULATED VIEW OF HISTORY

A settlement considers the overall view plus the results from the current period. The level for this overall view can be one of the following:

- For each contract
- For each rights holder
- For each rights holder and IP
- Groups of rights holders
- For each IP right (IP, media, territory, etc.)

The contract defines the levels at which various factors are taken into account. The overall view cumulates and retains values from the settlement document even if sections of the settlements have been reorganized. This view is also used for data transfer when contracts are copied from other organizations (entertainment industry: “negative pickup”); when business partner reporting is required for co-productions or sub-distribution; and during the migration of legacy systems into IPM. The overall view is particularly useful for offsetting incoming and outgoing payments.

It must be possible to control the business transactions and values for which offsetting offers and restrictions exist. In an example from the publishing industry, book sales for an author are collected in a “general book account.” These receivables are offset against the payables from royalty payments. In an example from the entertainment industry, scales for scale-based royalty calculation can be exceeded and then undershot by returns. Settlements that have already been performed must be recalculated based on the new values. The overall view can be used to recalculate the difference.

PAYMENT SCHEDULES FOR OUTGOING ROYALTIES

The contract contains information about payment schedules. Several options are available:

- Advances
- Payments due with royalty statement
- Milestone (financial break-even of film)
- Periodic payments (monthly, quarterly)
- Installments

Compensation can be paid per individual item for rights and services, or at a higher level of the contract. In the entertainment business, some payments that are made for rights or services are considered production costs and are not treated as participations or outgoing royalties, such as the fees paid to a service provider for providing services under a term deal. Often, a financial activity occurs that creates royalty activity on a schedule different from the royalty-reporting schedule defined in the contract. The royalties should be calculated on an accrual basis as the activity occurs so that future royalty payments can be properly forecasted. In publishing, most compensation is allocated to titles, that is, at an item level. This includes offset fees, supplier material, and trademark fees.

All mySAP.com components support posting and material valuation in three different currencies. In the media industry, compensation may be paid in multiple currencies; for example, an advance in British pounds and royalties in United States dollars. Some companies use a fixed exchange rate for royalty calculations until the advance or minimum guarantee is recouped, at which time the current exchange rate is used. In other cases, fluctuating currency exchange rates are used to calculate and record the appropriate gain or loss.

RIGHTS, LICENSES, AND PRODUCT SALES

Rights and license sales are handled by IPM, while media product sales are supported by mySAP™ Customer Relationship Management (mySAP™ CRM). IPM users can access media product sales functions in mySAP CRM. And the system provides an interface that transfers data that is required in IPM from a product sales system, whether it is from mySAP CRM or some other sales system. When the rights procurement process is completed, the user can check the Utilization Repository for rights that are not exploited and use them for rights/license sales.

Sales Contracts

COMPENSATION

All amounts must be processed and recorded at the IP level, or at another appropriate level in the IP hierarchy. Most compensation is allocated to titles, that is, at the contract item level. Sometimes compensation is entered at a higher level, especially when it is not attributable to a title. For example, supplier material, offset fees, and trademark fees are all related to a trademark and not to a title.

FLAT FEES AND BONUSES

Fees can be either a fixed amount or a calculated amount. The amount can be based on preconditions or calculated using a formula. Fees can also be a percentage based on characteristics such as subscriber level, box office gross, volume of printed copies, number of pages, or product characteristic.

Bonuses are usually based on an amount per unit. A unit can be advances or minimum guarantees that are often recoupable. Amounts are used for reporting in conjunction with the contract status. For example, minimum guarantees may be “unrecognized” revenue before financial approval but recognized revenues after approval.

The payment schedules for flat fees or fixed amounts are defined in the contract. The schedules can be based on specified dates or triggered by events:

- At milestones (upon delivery of material, for example), fixed dates, or events (number of runs reached, for example) or combination
- Days, weeks, or months after a milestone, date, or event
- Single, monthly, or quarterly payments with statements
- Number of installments

AGENT FEES AND COMMISSIONS

In the entertainment industry, commissions and agent fees (defined in other contracts) may be deducted from fees and royalties. However, participation has to be based on the initial amount. Net royalty statements that are remitted by agents or clients must be booked at gross and include the deducted expenses.

CROSS-COLLATERALIZATION

In the entertainment industry, a deal can combine any number of titles (properties) in the contract. In this example, title 1 is making \$5 while title 2 is losing \$2. In a cross-collateral deal, the licensee reports \$3 as a basis for royalties. If there is no cross-collateralization, the basis for royalties is \$5; that is, \$0 for title B; \$5 for title A.

Participation and outgoing royalties may be based on the individual title performance in both cases or may also involve cross collateralization, with the same titles or with different titles. Titles from multiple contracts could be combined.

Cross-collateralization is not common in the license business for publishing sales, although it is sometimes found on the acquisition side. Publishers are using cross-collateralization on product sales. For example, an economics book package combines three books from different authors. Book 1 is a bestseller, while the other two are of average quality.

INTELLECTUAL PROPERTY PROCUREMENT

Business partner management, business partner data, contract management, and purchase order management are all part of IP procurement. The entire process is monitored, from purchasing to goods receipt handling and invoice verification.

Acquisition contracts with rights holders or owners will be covered, such as:

- Short form contract (deal memo)
- Service contract (work for hire deals with, for example, actors, producers, and directors)
- Acquisition contract (deals with exploitable rights, such as entire IPs, titles, negative pick-up)
- Underlying rights contract, primary rights
- Joint ventures, co-production, co-publishing, or co-financing
- Term deals
- Combination of contract types

INTERFACES AND INTEGRATION

IPM works seamlessly with mySAP.com components to deliver powerful functions. The interfaces with financial and accounting systems are integral to managing the complex process of royalty accounting. IPM requires thousands of data points, which it accumulates and evaluates in the Utilization Repository. Interfaces for inbound and outbound data conversion are provided.

IPM keeps pace with the changes in the business environment by close integration with mySAP™ Enterprise Portals and mySAP™ Exchanges, and by providing mobile access to its functions through these two solutions.

The user interface for IPM provides role-based access to services, applications, and information that employees, customers, and vendors in the media industry require.

INTERFACES TO FINANCIALS AND ACCOUNTING

IPM is integrated with all relevant mySAP.com components, such as Financial Accounting (FI), Controlling (CO), and Sales and Distribution (SD). As shown in the following table, IPM integrates with other components in several key areas.

Data from ...	Integrates with ...
IP and IP rights	SAP Financials Asset Management
Business partners and contracts	mySAP CRM
Profitability analysis	CO-PA, SAP BW, SAP SEM
Cash processing and cash management	SAP A/R and A/P or SAP FI-CA, SAP TR-CM
Inbound royalty calculation	Billing engine, SAP AR
Outbound royalty calculation	Billing engine, SAP AP, or other system

Financial Accounting and the SAP BW

All financial activity must be recorded, processed, tracked, and reported at the IP level (or another appropriate level in the IP hierarchy). It must also be tracked for each aspect of an IP right. Interfaces are provided to enable billing via sales contracts and sales orders for IP rights (licenses) and IP products (book, videos, CDs). Revenue feeds into FI (A/R) where it is used to calculate outgoing royalties for rights holders (A/P). Extractors and InfoCubes facilitate the interface with the SAP® Business Information Warehouse (SAP® BW), where data can be transferred, consolidated, and used to generate reports and analyses.

Cash Processing

Cash processing is a critical function in IPM. In addition to the business rules that define when revenue is recognized, the time at which revenue is considered paid is critical to the outgoing royalty calculation. Paid revenue includes cash receipts applied to outstanding invoices, but can also include discounts, deductions, and adjustments.

Cash Management

SAP Cash Management (TR-CM) provides a basis for making decisions for financial planning. The daily financial status provides information about the short-term financial position in bank accounts. The liquidity forecast integrates anticipated incoming and outgoing payments from financial accounting, procurement, and sales and distribution in a middle-to-long-term liquidity trend. Payment streams from Treasury Management financial transactions can be integrated in both evaluations.

TR-CM allows you to analyze financial transactions in closed review periods. It helps you identify and record future developments for the purposes of financial budgeting. In addition to the traditional financing rules and statistical ratios, dynamic liquidity analysis methods such as cash flow analysis and flow-of-funds analysis are gaining in importance. Flow-of-funds analysis in particular is used to acquire information about the origin and use of funds. In R/3, the Financial Information System handles flow-of-funds analysis.

INTEGRATION WITH OTHER mySAP.com COMPONENTS

Figure 7 shows that IPM is integrated with other components of mySAP.com. The Utilization Repository is the key element of IPM. It supports many of the other functions and processes such as intellectual property management, royalty payments, and reporting and analyses.

Many of these integration functions are under development. Workshops with industry leaders have led to multiple development projects. The results of these projects will be available for the initial release of IPM.

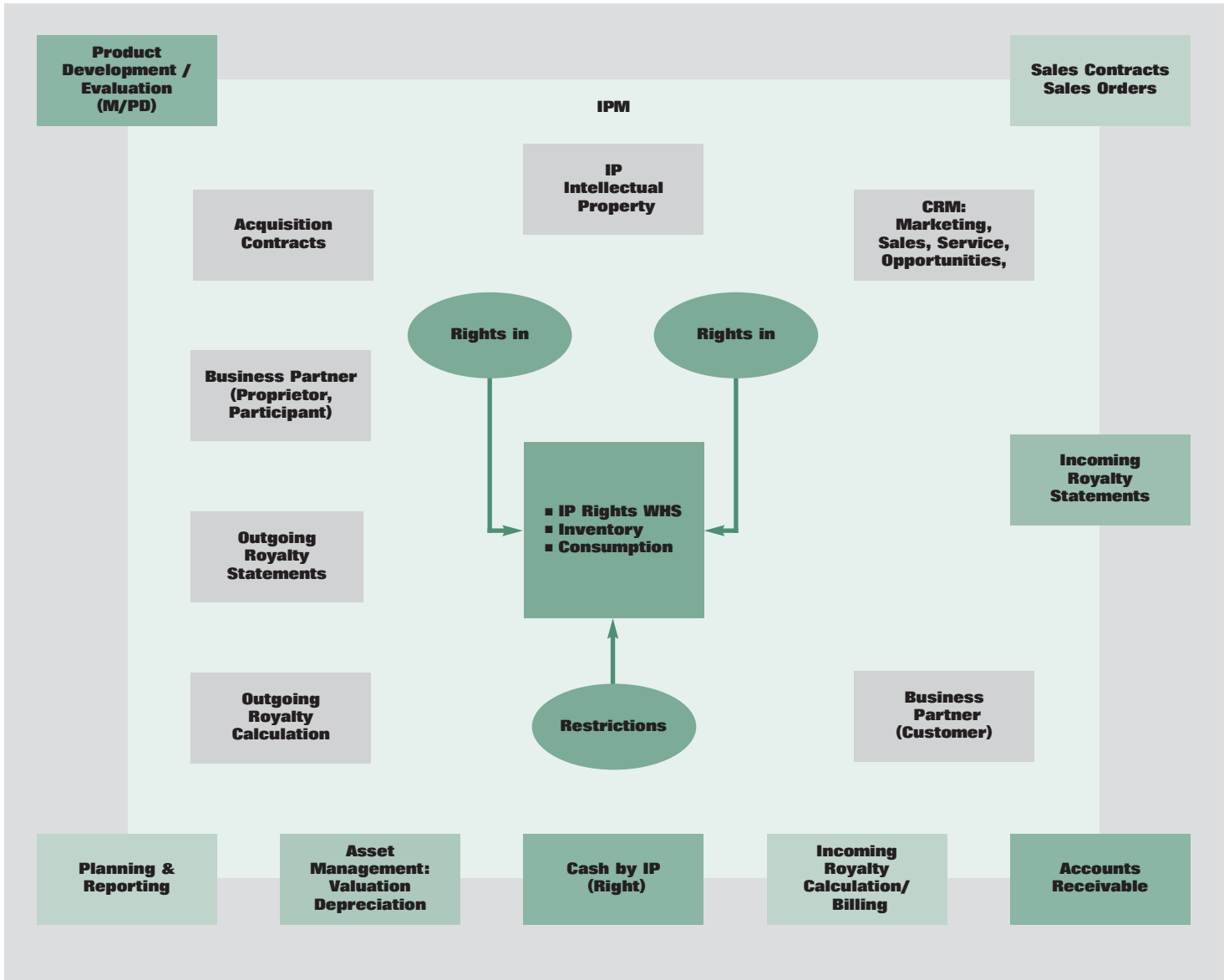


Figure 7: IPM Integration

IPM as an Industry-Specific Enhanced Variant of SAP CRM

Since IPM requirements are passed directly to SAP CRM and the Billing Engine, IPM should be regarded as an integral part of SAP CRM. The IPM functions described in this document therefore enhance the cross-industry functions provided by the SAP CRM development.

mySAP CRM functionality that is not IPM-specific is not described in detail in this document. The IPM solution will be based on the mySAP CRM solution and will use the SAP Billing Engine to perform the royalty accounting process. This ensures that both the standard IPM business processes and Internet sales and e-procurement of rights, which form the basis for participation in an intellectual property asset marketplace, will be covered.

Integration of Media Product Development

There is a close relationship between the media product developed and the IP rights for the product. The design of IPM ensures that these relationships will be maintained properly. The business requirements with regard to media product development include support for the following processes:

- Identifying the IP rights necessary to produce or sell a media product
- Identifying the IP rights necessary to use a certain piece of content (a certain IP)
- Producing or selling a media product
- IP life-cycle controlling (combining rights sales and product sales)

INTERFACES FOR DATA TRANSFER

IPM will provide the file structure for the inbound conversions and interfaces as well as the APIs for data input and output.

Initial Data Transfer

Before it can be loaded into IPM, data for the initial transfer must be formatted by programs that are created for specific projects. IPM will provide the file structure for the inbound conversions, the interfaces, and the APIs for data input and output. The inbound conversion programs are designed so that they can be re-used with various data sources on an ongoing basis.

The amount and level of detail of historical data to be transferred to IPM depends on the level of detail for which on-line access is desired. There will be an option to load legacy data at either a detailed or a summary level. The Utilization Repository and availability calculations must be able to access and consider legacy data at any level in the IP rights hierarchy.

Ongoing Data Transfer

Data has to be loaded from or transferred to other systems because certain sub-processes that affect the rights inventory or royalty settlement may be managed by other systems. This can occur if the legacy system has not yet been migrated to IPM. And there may be sub-processes that cannot be managed in an optimum way by IPM for the near future.

This can include:

- Data from other sales systems, such as non-CRM product sales or ad sales for barter deals
- Data from other production systems, such as release dates or material status
- Contract data from other contract systems
- Royalty settlement data (cumulated)
- Rights inventory data from other rights systems and digital asset management systems

IPM will provide an easy-to-use and flexible data import and export facility for the required interfaces.

SAP EXCHANGES (MARKETPLACE)

IPM is poised to respond to business trends in the media industry. These trends include:

- Globalization, including multinational use of content as well as mergers and acquisitions that pool IPs and IP rights
- New media, including multi-purposing of content and cross-media exploitation
- Customer differentiation and personalization of products and services, including content on demand and “push” information services
- New sales channels and new players

New markets require new business processes. These include:

Market	Process
Books, music, videos	<ul style="list-style-type: none"> ■ B2C internet sales (digital/non-digital product) ■ Personalized products ■ Products on demand ■ Web publishing
TV	<ul style="list-style-type: none"> ■ Broadcasting to Web ■ Mobile phones ■ Interactive TV ■ Niche/“special interest” channels ■ Digital delivery to broadcasters ■ Content owner/broadcaster partnerships or joint ownership
Movies	<ul style="list-style-type: none"> ■ Broadcasting to Web ■ Digital delivery to theaters

mySAP ENTERPRISE PORTALS

The mySAP Enterprise Portals solution support online access to IPM via the Internet. Access to IPM functionality is based on user roles and the corresponding authorizations. The initial release of IPM will include templates for such roles as contract attorney, royalty accountant, and rights manager. Depending on roles that have been assigned, users see the portal as the single point of entry to activities, services, and products they need to perform their job.

For example, the contract attorney has immediate access to the contracts for which he or she is responsible without needing to know the menu path, interface icon, or even the database on which the contracts are maintained. Through the portal the attorney can access legal research services and external news sites that are relevant to the entertainment business. And these are all available directly from the PC or laptop, the same one that he or she uses for e-mail and calendar functions.

Employees are not the only users who can benefit from accessing IPM through a portal. For example, rights holders can go through a self-service portal to check their statements and payments. A third-party data provider can review usage data that has been uploaded to IPM and validate the revenue figures. These are just a few examples of how externally facing portals can be used by customers, vendors, and others.

SUMMARY

mySAP Media is the only fully comprehensive intellectual property management solution for the media and entertainment industry. It builds on SAP's industry-specific expertise to provide you with efficient, end-to-end support for all your intellectual property-related processes.

Media and entertainment companies must have integrated intellectual property management to thrive in the digital age. The intellectual property management capabilities of mySAP Media deliver the following benefits:

- Improved exploitation of your rights inventory, including real-time availability checks and greater data transparency for faster decision making.
- Increased revenue from sales and licensing of all types of intellectual property rights.
- Accurate royalty accounting for both receipts and payments of royalties, thanks to seamless, end-to-end data flow.
- The ability to analyze the performance of intellectual properties over their entire life cycle.
- An end to costly, time-consuming work to ensure consistency between various stand-alone systems.

With the intellectual property management capabilities of mySAP Media, SAP has extended its range of state-of-the-art solutions to meet a key growing need of companies in the media and entertainment industry. The powerful, integrated functions of mySAP Media will help you tap your company's unrealized potential and improve its performance.

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