

# The making of a cash machine

In less than 10 years, BellSouth Intellectual Property has grown from nothing to become a model of its type. But now, despite the many achievements and the millions of dollars made, its future is uncertain

By **Joff Wild**

When the US\$70 billion merger of AT&T with BellSouth was announced in early March 2006 you can be pretty sure that intellectual property was not at the forefront of many people's minds. Instead, the talk was all about streamlining the operation of Cingular Wireless, the US's largest wireless voice and data provider with 54.1 million customers, which is jointly owned by the two companies, and the uniting of the entire southern portion of the country – from California to Florida – under one exchange carrier; not to mention the considerable cost savings to be achieved through cutting corporate staff and increasing productivity.

In fact, aside from discussions about various brands, whether intellectual property was even mentioned in deal negotiations, except in the broadest due diligence terms, is open to question. And yet, as a result of the proposed merger, if it is finally approved by the Federal Communications Commission (FCC), AT&T will have got its hands on one of the most remarkable telecoms success stories of the last decade. BellSouth Intellectual Property is a three-company operation that in under 10 years has grown from almost nothing to become an operation that now files dozens of US patent applications annually and helps generate hundreds of millions of dollars for BellSouth's bottom line.

Given the talk of reducing staff numbers found in official press statements about the planned tie-up, however, it is quite possible that in the medium term BellSouth Intellectual Property will no longer exist in its current form. Instead, many of the people

who helped build it could find themselves looking for new jobs; though given what they have achieved, they should not find that task too difficult.

## **An unpromising start**

The BellSouth Intellectual Property story begins back in 1984. It was in that year that BellSouth Corporation opened for business as a so-called Baby Bell focused on the south-east of the US. This after the old AT&T-controlled national Bell System, covering the whole country, was broken up following an antitrust settlement.

Although the new business had 96,000 employees, assets of US\$21.5 billion and 13.6 million access lines, it owned very little in the way of intellectual property – certainly on the patents side. "We got seven patents that AT&T did not want and which had no value," says Carol Beckham, the current vice-president of BellSouth IP who has been with the company from the start. "Everything else they licensed to us."

Apart from exploiting its AT&T licences, BellSouth worked with another Bell company, Bellcore, through most of the latter part of the 1980s to develop new technology. But it was a situation that was not wholly satisfactory as IP ownership was split between the two. It also became apparent that Bellcore was not going to be able to provide everything that BellSouth was looking for in terms of product development, so the company began to do more R&D work itself.

## **New incentives**

But despite this, the company filed very few patents: a lack of competition and a defined market space meant there was no real incentive to do so. All of which was reflected

in the size of the BellSouth IP function. There was, says Beckham, just herself, one patent attorney and one trademark attorney. "We were doing training programmes and ensuring people knew about IP and we had a good trademark programme, but there was no overall IP vision," she explains.

All this began to change, however, around the time Congress passed the Telecommunications Act 1996, the first major overhaul of US telecoms law in over 60 years. Although much maligned today, the Act did lead to unprecedented investment in the telecoms sector in the US as, for the first time, any company was permitted to operate any type of communications business in whatever market it chose. In short, all of a sudden there was competition. And where there is competition, intellectual property suddenly becomes much more important: if you throw in a booming economy and the beginnings of the internet revolution on top, then it becomes very important indeed.

Not that BellSouth recognised it at the time. Instead, it was people beginning to knock on the company's door looking for licences that began to get minds thinking, explains Beckham. "We started to get calls from people wanting to use our IP," she says. "We didn't actually have any out-licensing employees at the time so we had to use our in-licensing staff – it was all much more reactive than proactive." But crucially, IP was beginning to generate an income. "Getting cheques into the company was certainly an awakening for me. We knew that we needed to protect our IP and to handle things such as defensive litigations, but it was not really an interesting subject; not until the money started coming in. That was a real eye opener," she says. And so Beckham and her two colleagues – trademark attorney Sandy Evans and patent attorney Chris Arena – decided to do something about it.

### The birth of a strategy

In 1997, they began lobbying vice-president for corporate development Keith Cowan, the company's chief strategy officer, for a move to his group from where they were in Corporate Support alongside, among others, the team responsible for looking after BellSouth's property issues. "We felt we should be reporting to a group responsible for corporate strategy because that way BellSouth could manage its IP better and make more from it. We told him that with competition in the industry increasing we had to go that way," Beckham explains. But although Cowan was



interested, he wanted to hear more before he would commit to anything; which is when Beckham began to benchmark.

"We talked to a number of companies who we identified as being best in class, including Motorola, IBM and Microsoft," Beckham explains. "They all told us about the need for a top-down commitment to IP; and about how it was important to report to a highly visible officer who would be your champion and to have the backing of the chief executive." What's more, Beckham's work showed that you could make high-value

*Left to right  
Michael Bishop, Carol Beckham  
and Scott Frank  
BellSouth Intellectual Property*

profits from IP because there were very few direct costs involved. After all, if they were not being exploited the rights would be there anyway, but not doing anything. Cowan was persuaded. He brought IP under his control and convinced CEO Duane Ackerman of its potential. Now what was needed was a business plan. At this point Scott Frank enters the story.

Frank had a background in the telecoms industry, having spent five years as an electrical engineer with Northern Telecom and two years working as a computer systems analyst with AT&T. But by the late 1990s he had switched careers and was specialising in telecommunications and software-related law at Atlanta law firm Troutman Sanders. "I was having a great time doing what I was doing, but then I met with Keith," says Frank. "He told me that he did not know exactly what was going to happen but that BellSouth wanted to be into IP in a big way. There were less than 50 patents, there was no budget, but he promised me there was support in the boardroom. It was a big move and it was scary, but I decided it was too good an opportunity to miss. So I teamed up with Carol and the others to help build the business case." And so in April 1998 Frank joined BellSouth as president of intellectual property.

### Establishing the business

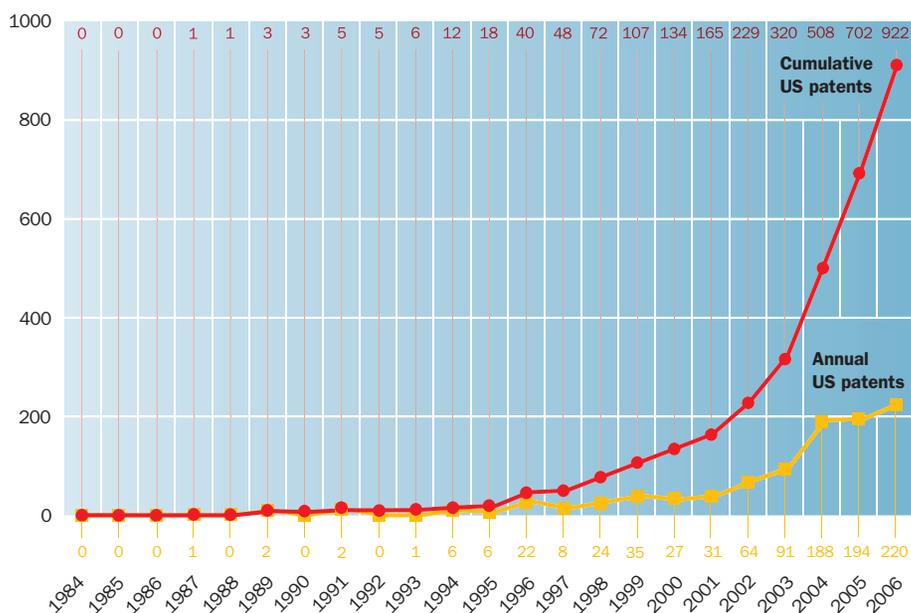
Frank's arrival coincided with the initiation of

a programme being chaired by Ackerman which involved senior officers at BellSouth identifying new business opportunities. Cowan was pushing IP. "He said that it could be a thriving profit centre and that we now had the people who could get it off the ground. In the meantime, we were going all over the company trying to find potential rights that we could make money from," Frank explains.

At that time, the BellSouth brand was considered untouchable, while the company owned very few patents, so the area that attracted Frank and his colleagues was copyright. "We began to focus on software and found hundreds of developments across the company. We would make lists of these and lists of the companies that could be interested in what BellSouth was doing. And that was our first area, we built our business case around software copyrights," he says. Having done so, the plan was put in front of Ackerman. "We told him, 'here's the IP we have identified for licence or sale, these are the resources we need'. And we gave him a three-year plan. He approved the business case and the rest is history."

In reality, of course, it was not that simple. "We claimed that it was going to be a high profit margin business, in fact almost pure profit, and we had to really establish the basis for that," Frank explains. "But we showed that there is no R&D involved in setting up a successful IP business because the innovation is already there; and there are

BellSouth issued US patents (as of 19th September 2006)



no big capital investments needed either. All that is required is money for protection and marketing," he continues. "People did question whether that was going to be the reality, but that's the way it has turned out – it is very profitable."

**Up and running**

Following the green light from the CEO, BellSouth formed three IP companies in September 1998. BellSouth Intellectual Property Corporation (BIPCO) was established as a holding company in Wilmington, Delaware, to own all the company's domestic trademarks and patents; BellSouth Intellectual Management Corporation (BIPMAN) was set up to oversee portfolio management and mining for assets; and, as the name implies, BellSouth Intellectual Property Marketing (BIPMARK) was given responsibility for marketing the company's IP rights to potential external partners.

From the very start, Frank and his team were determined to take what he calls a "three-legged stool" approach to the business. It's not just about one IP right but about all of them. "We are continually surprised when we talk to other companies that like to focus on just one area; we think there are real opportunities in each one," Frank says. And the BellSouth experience bears this out.

When the IP profit centre formally opened for business in January 1999, it was those software copyrights that were driving things forward. Deals were done on, among other things, rights relating to billing systems, customer care and tracking outside plant and materials.

But the situation began to change as the turn of the 21st century saw the collapse of the telecom bubble and the resultant bankruptcy of many of the companies that had been established in the industry during the 1990s. "Throughout the 90s, BellSouth had been focusing on what it did best: providing high-quality services and products. As a result, we found that when times became more difficult, people wanted to be associated with us, which provided us with opportunities to license our brand. So we started to do a number of trademark deals," Frank says.

Then, as the company gradually began to develop its patent portfolio, there were more opportunities for technology licensing as well. "Since 1998 we have done hundreds of IP transactions and added hundreds of millions of dollars to BellSouth's bottom line. We have grown every single year and have

done deals with just about every telco and vendor in our sector," Frank states.

**Focus on teamwork**

From a handful of employees at the start of its existence, BellSouth Intellectual Property now has a team of about 40 people. Of these 25% are lawyers and legal staff. And, this, according to Michael Bishop, the Chief IP Counsel at the company, is a crucial point. "Most corporations put IP lawyers far away from the business people, but we have everyone working on the same site," he explains. "We are all literally in the same suite of offices and on the same floor." There is, he continues, a sense of dynamism that comes out of this which is hugely beneficial. "It is easy to communicate with each other and there is a heightened level of accountability. It means people have the confidence to work together and to try new things." And it is a situation which goes right to the top, Bishop says. "Scott and I sit 30 yards from each other down the same corridor. We are always in and out of each other's offices. It's a level of collegiality that is a key contributor to the success of the group as a whole," he concludes.

Frank believes that it is vital to avoid the lines of demarcation that hinder the IP exploitation process in so many businesses. "If your mission is to advance IP goals at a corporation, then you must build teams. You need that sense of mission as a group – not silos, but cohesion," he explains. So as well as all sitting together in the same offices, team members in the BellSouth IP functions attend regular meetings in which everyone can find out what everyone else is doing, and exchange ideas and solutions to problems that may have cropped up. Then there are more informal social gatherings, as well as community service projects in which everyone takes part.

In practical terms, what this all means is that things get done better and they get done quicker. "When we do deals they do not have to go away to some remote legal department to be scrutinised," says Beckham. "We can do them together. The attorneys are familiar with everything that is being discussed between us and the other party, and they share our goals." And it is the same thing when it comes to the identification of inventions that can be patented. "The patent attorneys work side by side with business development and they are working to the same targets," she says. Bishop agrees. "When patents are being prosecuted, the patent attorneys work



**Scott Frank**  
President, BellSouth IP

*Every target exceeded*



**Carol Beckham**  
VP BellSouth IP

*Benchmarking for success*



**Michael Bishop**  
Chief IP Counsel

## Business and legal working together

closely with the business folks so that they are working as a team to structure the portfolio," he explains.

Clearly it is a strategy that is working. From a base of around 50 patents just eight years ago, BellSouth now has almost 1,000, with 274 issued in the last year alone. In fact, BellSouth received more US patents than Verizon and SBC (prior to AT&T formation) combined in 2004 and 2005, even though both have larger R&D budgets. More important than the numbers, though, is the quality of what is being issued. And here BellSouth has a story to tell as well.

In a *Business Week* article written at the end of 2005, which cited the Pipeline Quality index developed by 1790 Analytics, the company's patent portfolio was identified as a reason to invest in BellSouth stock. More recently, BellSouth has been included in the OceanTomo 300 Patent Index, a broad-based market equity index of 300 companies that own valuable patents; in other words, you get listed on the Index, which has regularly outperformed the Dow Jones Industrial Average, the S&P 500 and the Nasdaq composite since its launch in October 2006, only if your patents are good enough. Among the other companies on the index are IBM, Microsoft and Motorola, the businesses that just 10 years ago Carol Beckham was benchmarking to find out whether investing in an IP function at BellSouth was worth doing.

And what applies to patents also applies to trademarks. "Brands are very important assets for us," says Bishop. "And one of the things we do best is protecting and leveraging the value of what we own in this area. The business and the trademark people work together to identify potential infringements, as well as licensing opportunities. As a team we all understand that our brands are absolutely key to what we are seeking to do and key to the company's success as a whole."

### Spreading the message

But it is not enough for the BellSouth IP team to understand the importance of the company's intellectual property assets; the rest of the business has to be in on the secret as well. "From day one, internal PR has been one of our strategic goals," says Frank. To this end, he explains, members of the IP team are constantly meeting with other parts of the BellSouth business, looking for people who are potential developers of ideas that can be turned into innovations that can be protected.

"We don't rely only on the obvious

inventors; we have tens of thousands of employees to tap into. As well as the futuristic stuff, patents have come from places such as Human Resources and Finance as well," says Frank. "It is our job to go out and build relationships and to get everyone in the company to think about how they can build and protect its future. We are very proactive." And it is not just a matter of going out and doing meetings – company publications are also an important tool. "We try to get articles in our internal communications every month that tell people all about IP and how they can get in touch with us," Frank explains.

On top of all this there are awards ceremonies, attended by senior members of the board such as the CEO, COO, CIO and the CTO. "These are held to recognise inventors, but also the top licensing people as well as others such as out-marketers," says Beckham. "It is not only about having people rewarded for their achievements in front of their peers, but it also spreads the message about IP being supported from the very top. People do notice that it is the CEO handing out the awards."

It is approaches such as these that get other parts of the company interested in what the IP team is seeking to do, says Bishop. "There is a buzz across BellSouth about what we are doing. People know that we are able to create exciting opportunities. They know that we are building assets that help to make profits, but on top of that they know we are an IP industry leader. The folks in the company know that we have helped raise BellSouth's overall profile," he explains.

### It's all about the money

In the end, however, internal communications is not the reason that BellSouth Intellectual Property is in business. When it comes down to it, it is the money that really counts. And while not willing to give specific figures, Frank is happy to talk about "hundreds of millions of dollars" being added to the BellSouth bottom line by IP since 1999, and also says that he and his team "have financial targets; and we have exceeded them every year".

To get to that welcome situation, however, difficult decisions have had to be made. Perhaps one of the most important involved deciding what kind of IP was going to be made available for use by third parties. In many companies, licensing – if it is thought about at all – is all about making non-core assets available to non-competing organisations. At BellSouth, however, they do not see things in that way.

"Our theory has always been that you have to make the core stuff available; that to be a high-profit business this is what we had to do," says Frank. However, he continues, it has to be done in the right way. "When you get down to it, BellSouth is in business to maximise the value of its assets for its shareholders. So everything in the corporation has a price – even the corporation itself. On that basis, we will license out anything, as long as we get the right value," he explains.

In practice, what this means is that if making something available will mean losing sales, then the price being charged has to reflect that; or there must be an opportunity to gain customers to replace those that could be lost. And there are controls in place: before they can go through, deals have to be approved by the departments that may be affected by them. It is up to the IP team to make the case. "We look at the advantages, do the financials and make the presentation. We have done hundreds of these deals and, so far, not one has been rejected," Frank says.

And whether a carrot or stick is involved, BellSouth always likes to keep things civil. "Of course we are looking to see who may be using our inventions and we also contact those who are doing R&D and say that we have some patents they may be interested in. But we always do it nicely. It's all about making innovation available to our industry for a fair and reasonable royalty rate," Frank says.

On the brands side, Frank and his team have used trademarks to take BellSouth into areas where it has not previously been active. "One of the most exciting developments of recent times has been the emergence of security systems," he explains. "As a company we are always looking to increase our bundle of products and services but this is an expensive one to get into. So, instead we teamed up with a company called Protection One."

Although it was the third largest in the US security sector and had a high-quality product, Protection One had a negligible presence in BellSouth's south-eastern heartlands, so a win-win deal was done. "They got our logo on their product and we got a royalty on every unit sold and on every bill sent out," Frank says. "Not only was there a low risk for us because we were working with a high-class product, we also made a high profit, increased our bundle of products and established an additional sales channel to sell BellSouth products." The partnership has been so successful that the security product

is now expanding out of BellSouth's residential customer base and is now also being offered to its small business clients.

#### Uncertain future

Of course, there is nothing that BellSouth Intellectual Property is doing which is, in itself, opening up new frontiers in IP management and monetisation. Seasoned members of the IP industry will recognise many of the strategies the company has followed and many of the systems it has put in place. But what does make the story so compelling is that it is less than 10 years old.

BellSouth came to intellectual property late, but now it is generating significant income from its rights. And not only that, the IP strategy that has been created is one that incorporates almost every best practice you can think of: the support of the board; a high-level champion; the breaking down of silos with business and law working together; a strong focus on internal communications; everything available if the price is right; and so on. If anyone ever wanted to know how to start up an IP monetisation programme from scratch in a large corporation, then BellSouth's is the example to follow.

But despite this, the future is uncertain. If the merger with AT&T does get the final go-ahead, it is hard to see how BellSouth Intellectual Property can survive as an independent entity. AT&T is going to be the senior partner in the tie-up and it already has its own intellectual property operation. It is not difficult to envision a situation in which, after a period of working ever more closely together, BellSouth IP is absorbed.

Quite where that leaves the futures of people such as Scott Frank, Michael Bishop and Carol Beckham is open to question. But what is clear is that, given what they have achieved over the last decade, they are going to have a lot of people knocking on their doors. They have had the courage to put their heads above the parapet to make the case for IP investment. Then they have proceeded to show that if you have the right people doing the right things at the right time, the returns can be very great indeed. Now they deserve to reap the rewards; wherever they may be. ■

[jwild@iam-magazine.com](mailto:jwild@iam-magazine.com)