

Intellectual Property Rights (IPR) Ownership in Outsourced Software Development Projects

Author: Nigel Atkinson, NeoWorks

Abstract

IPR issues are often an area of contention during contract negotiations. The reason for this is that both customer and supplier have good reasons to be interested in ownership of IPR and these issues are often overlooked at the point of supplier engagement.

Intended Audience

This document is intended to inform project managers, business managers and senior management considering or embarking on an outsourced software development project.

IPR Ownership

To begin with we will look at IPR ownership itself. The IP in software may be sold and licensed in a number of different ways:

Outright Sale: This is the most straightforward of IPR transactions, in which the unrestricted ownership of the IPR is assigned for an agreed consideration.

Exclusive License: In an exclusive license the seller retains ownership of the IPR, but licenses a set of rights over the IPR to a single party for their exclusive exploitation.

Non-Exclusive License: In a non-exclusive license the seller retains ownership of the IPR, but licenses a set of rights over the IPR to one or more parties.

Resale License: In a resale license the seller retains ownership of the IPR, but licenses a set of rights, including the right to resell licenses to the IPR, to third parties.

Licensing Restrictions

Licenses are often restricted to only those rights required by the customer for their stated purpose. Common restrictions include:

- Usage only license: The licensee is granted a license to use the software, but may not modify, repurpose or resell the software.
- Development License: The licensee is granted a license to use and modify the software, but may not resell the software or derivative works.
- Use for a specific purpose
- Use within a specific geographical or commercial area

Customer Perspective

Customers have two main motivations for wanting to own the IPR in their solution:

- In order to productise and resell their solution.
- In order to avoid supplier lock-in and to ensure support for their solution in case their supplier goes out of business or withdraws support.

If the customer intends to resell the solution that is being developed for them then this should be discussed at the outset of the project as this decision will almost certainly have implications for the system design and development.

If the sole motivation for IPR ownership is to guarantee the availability of support in the future, then there are more cost effective means to achieve this. Principally, source code ESCROW and the initial maintenance and support agreement.

An ESCROW agreement requires the supplier to keep an up to date copy of all source code, dependencies and documentation stored with a mutually trusted third party. The ESCROWed information is released to the customer on agreement of the supplier or in certain agreed situations, such as supplier insolvency or termination of the support agreement.

Supplier Perspective

Suppliers tend to have slightly more subtle IPR ownership concerns; these hinge around components used in development of a solution. They are best illustrated in a simple example:

When commissioning a database-driven web-based solution the database is a fundamental component of the overall solution. However, most customers would not expect to own the IPR in the database software. This is because database software tends to be marketed as stand alone products with associated support from an organisation that is perceived to be stable and reliable. This is also true of the operating system, web server and application server on which the solution is deployed.

A customer wishing to own all IPR in this simple solution would have to pay for the development, from scratch, of operating system, database engine, web server and application server. This would almost certainly make the system uneconomical to develop and maintain.

Within the custom developed application itself it is likely that the developers will choose to use a number of software libraries to perform standard tasks such as interacting with the database or parsing files. These libraries may be provided as part of the operating system and application server platform or supplied by third parties, such as the database vendor, other software vendors and the suppliers themselves. The supplier will most likely be unable to offer outright IPR ownership or an exclusive license for these components. In order to provide the customer with IPR ownership these components would need to be redeveloped from scratch.

In most situations the supplier will be able to assign IPR to the customer for those portions of the solution that are developed specifically for the customer.

Conclusion

Last minute negotiations and unclear, compromised IPR agreements can be avoided by upfront discussion of IPR issues. As early as possible in the customer / supplier negotiations and preferably prior to supplier engagement the customer should:

- Ascertain what their IPR ownership and licensing requirements are for the solution and identify any aspects that they consider to be proprietary.
- Make clear their intention to resell any aspect of the solution.
- Raise the issue of solution support and maintenance in the event that the supplier is unable or unwilling to continue providing these services.

As part of the solution proposal the supplier should:

- Ensure that components of the solution that their customer wishes to own will not be encumbered by 3rd party license restrictions that would conflict with their intentions.
- Communicate any implications on the cost or delivery schedule that are associated with specific IPR requirements to the customer.
- Offer a mechanism for providing access to the necessary IPR in the event that they are unwilling or unable to offer support and maintenance for the solution.

Finally, and most importantly, IPR is a complex area of the law. Both parties should clearly communicate their intentions and take qualified legal advice to ensure that the IPR assignments and licenses associated with the solution enable them to achieve their objectives.

About NeoWorks (<http://www.neoworks.com>)

NeoWorks specialise in the delivery and support of high quality software solutions and services for businesses, often in collaboration with creative agencies and business consultancies. NeoWorks select the most appropriate technologies available to deliver innovative, reliable and cost effective solutions.

NeoWorks develop and support a wide range of solutions including enterprise information management systems, business process automation solutions and high-profile Internet presences.

Clients include: Levi's® Europe, Five, Universal Group Direct, Royal Doulton