

Penny Wise, Pound Foolish

An investment in automation is a good business decision, even in tough economic times, by Marty Malysz, Dependable Solutions, Inc.



DependableSolutions

In an economy like we're experiencing today, licensing companies are thinking twice before making any kind of investment, large or small, in their businesses. They're watching every penny, and with good reason. But even in a recession, companies can find that there is some truth to the old adage, "penny wise, pound foolish." As the old English phrase goes, it is to be cautious with small amounts of money but wasteful with larger amounts. Certain investments can save an organisation significant money - in both the short and long term - making them worthwhile even in the worst of times.

A case in point for the licensing business: automated contract-management software. Yes, there is an upfront cost in both time and money, but the cost savings over time can add up quickly and end up adding many pounds to your bank account. At the same time, automating the contract-management and royalty-tracking processes can help a company make better and more responsive business decisions, which ultimately leads to higher revenues and profitability.

"The efficiencies are always hard to evaluate, but they're there," says Maureen Gottschall, CFO of Dimensional Branding Group, a San Francisco-based licensing agency that uses Dependable Solutions' Dependable Rights Manager as its automation solution.

Cost savings

Once the system is set up and the initial information input, companies can see an almost immediate savings in labour costs. They often can avoid hiring dedicated contract administrators or high-end royalty professionals, splitting the work between



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existing accounting and licensing staffers and thereby saving on payroll costs. Meanwhile, the total amount of time these employees in the licensing and accounting departments have to spend on monitoring payments and milestones is reduced, allowing them to devote more of their resources to other tasks.

Automation saves time outside of the accounting department as well. Anyone involved in a licensing agreement can access contracts at a touch, and go right to the provision needed.

This hastens the time spent on decision-making, reduces the time required for follow-up meetings and phone calls, and eliminates the need for employees in accounting to spend time looking for, copying, and routing paperwork.

Not only is an automated system more efficient, but it also reduces the chances of mistakes, which can be costly and time-consuming to fix later. While difficult to calculate, this avoidance of errors definitely saves the organisation money.

Flagging trouble ahead

Another critical benefit of automating the contract-management process - especially during economically precarious times, in which both licensees and licensors can suddenly find themselves in a bind when their partners fall into financial trouble - is the ability to flag problems early. The system automatically notifies partners that payments are due, which spurs them to pay on time, and at the same time helps a licensing company keep closer tabs on its partners and unearth any financial problems they might be having early.

This gives the company a heads-up so it can decide what to do before the partner files for bankruptcy when it's too late. Whether the next step is arranging a workable alternative payment plan or terminating a contract, the company can take the appropriate steps in a timely manner. At companies where employees are trying to track all contract activity in an spreadsheet, this information can slip through the cracks, causing severe problems later on and impacting the bottom line.

Automated notifications also help keep other schedules, outside of royalty and guarantee payments, on

track, ensuring that revenues continue to flow. Missed marketing deadlines, product introductions, approvals and advertising commitments will become obvious quickly, so employees can follow up and avoid costly delays. A licensing company also can stay on top of contract renewals so no opportunities are missed.

"With the initial implementation of our DRM system, we found that our ability to recoup guarantees and take the proper allowance and deductions in our contracts saved us significant amounts of money" says Howard Levy, CFO at NMR Distribution.

Impact on profitability

The cost savings from automation are obvious and almost immediate. But there are also longer-term benefits that have a positive effect on revenue-generation and profitability over the long run.

For example, executives have all the information they need at their fingertips to make better and faster business decisions. They can closely monitor which channels of distribution, product categories, geographic regions and individual SKUs are working and not working. Having this information readily available can help them make quick decisions on which businesses to discontinue, where to change focus, and where there are holes to be filled, and to take action accordingly to improve overall business performance.

All of these benefits of automation occur in both good times and bad. So, even as all of us are struggling in the current economic conditions, it does not make sense to be "penny wise and pound foolish" when it comes to positioning your licensing company for success in the short and long term.