



Software developers: are you unnecessarily giving away ownership?

When embarking on a software project, developers are often quick to accept customer ownership of any new IP created. But in many cases that's not necessary, and developers are needlessly handing over ownership rights to a future asset. Here are some tips to help with a different approach.

Jacob Rosevear
solicitor

1. If you're a software developer and a customer commissions and pays for you to build them some new software, the customer owns the copyright to the work under the Copyright Act 1994. This default position doesn't apply where there is an agreement to the contrary. However a standard set of customer terms will almost certainly provide that the customer owns any new intellectual property (IP) developed under the agreement. Fair enough, they're paying for it. Or is it?
2. Everyone knows IP can be a valuable commercial asset. Plus IP ownership is usually necessary if you wish to licence, sell and/or protect any related software. But the relative value of IP can be in the eye of the beholder. Or in this case, the eye of the rights holder.
3. We are commonly engaged to advise on deals with software developers where there has been an assumption that the customer would own any new IP in the developed software, with no real consideration to the contrary. In our experience, it pays to take stock of that position and test whether that should be the case. There are good reasons why a software developer, and not the customer, should own new IP developed. For example, software developed for one customer can often be reused and enhanced by the developer. Furthermore, customers are often willing to cede ownership to software developers provided they will maintain sufficient rights to the new IP.

Negotiating ownership

4. Here are some rationale we have found helpful in discussions with customers around why you, the software developer, should own any new IP in software you are developing:

(a) Future commercialisation: Ownership to new IP should vest with the party in the best position to commercialise that IP. As the software developer, you're generally in the best position to maximise the value of newly developed software. Your expertise makes you more likely to be able develop a software product from it, licence it to others to utilise, or release it as an open source project back into the development community.

(b) Partial ownership: Usually, developed software is built on pre-existing software that is already owned by the developer. Customer ownership of any new IP is often only partial ownership to a product or application. Therefore, the ability for a customer to utilise the relevant IP, other than for their own use, is very limited.

(c) Stability: If the new IP is also licensed to your other parties then your customer will likely see benefits in improvements made by, and the efficiencies created for, support and maintenance.

(d) Commercial benefits: If the above reasons don't quite get your customer across the line, you could also consider whether it's

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appropriate to provide benefits such as free or discounted additional features and updated releases as they're created for other parties.¹ Offering such commercial benefits where you're retaining ownership, including reduced development costs, can often help appease customer opposition.

Public sector

5. If you dealing with the public sector, a useful tool in negotiations may be the State Services Commission *Guidelines for Treatment of Intellectual Property Rights in ICT Contracts (2008)*.² These Guidelines generally support the notion that ownership should remain with the developer, noting that developers are in a better position to commercialise new IP, which can provide increased economic development, and customer ownership is often unnecessary.

Documenting ownership

6. Regardless of which party is to own any new IP created in your software project, it's important to correct document it. Clauses granting ownership to new IP can sometimes inadvertently affect and conflict with ownership to (1) pre-existing IP, (2) modifications to pre-existing IP, and (3) third party IP. It's also important that the ownership model intended meshes with the licences being granted from all relevant parties.

Summary

7. The key point is that so long as your customer still has sufficient rights to use the new IP, they won't necessarily object to you getting ownership. There are often numerous options to address customer concerns (for example, restraints around use of the IP with direct competitors of your customer, and/or a royalty fee arrangement if the IP is re-licensed) without preventing you from taking ownership.

8. From our experience, it is helpful to have up front discussions with your customer about the ownership of software developed over the course of a project. If you believe there is a chance your team could commercialise the new IP, but your customer is pushing to own it, then it's worth working this through with your customer to understand why they want ownership. It may be that their requirements, and concerns, can be adequately addressed with other contractual and commercial considerations.

1. *Presuming of course that your other relevant customer agreements afford you the right to do so.*

2. <http://ict.govt.nz/guidance-and-resources/procurement-and-ict-contracts/intellectual-property-rights> (accessible October 2012)