

NEGOTIATING A LICENSE

The Components To Success

by: Lawrence J. Udell

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Thousands of times over the last half-century inventors have asked me about the opportunity of licensing their brain-child instead of attempting to go into business and investing lots of money. There are no real secrets to successfully license a new product/technology, but it does require unbelievable patience and lots of research time.

Efforts at licensing should not be attempted without expert legal assistance. There is no standard licensing agreement that can be used as a universal guide. License negotiations and the document drafting, should be custom designed to fit the specific business situation, or the technology.

A license is a contractual business relationship between a seller (licensor) who authorizes a buyer (licensee) to use the seller's patent, trademark, copyright, or any form of "intellectual property" for compensation. The licensing activity is used as a business function. After all of the parties have agreed, the final written record of the activity forms a legal document called a "license agreement." In simple terms, it serves as a special kind of contract, which has mutual benefit to both parties.

Licensing grants only limited rights to the property to the licensee and usually for a fixed period of time, and oftentimes for a specified use or market for sale. You can only sell a possession once, however, you can license a valued possession of knowledge or value hundreds of times, and in many cases, simultaneously. If you are the sole proprietor or as an example, a patent owner of a technology, you can sue infringers. Your ownership provides you with an asset that's value is determined by what a potential licensee will pay you for it. Also, if it is an exclusive or non-exclusive license, can have an effect upon the value.

Almost anything in which there exists a protectable property right can be licensed. Most familiar are industrial processes, patents, trademarks, copyrights, trade secrets, methods, formulas, customer lists, and manuals. In each case there is a form of legal right, such as the property right granted by the U. S. Government to an inventor when a patent is issued. The technology covered by the issued patent becomes a valued property for a period of twenty years, and the patentee has an exclusive right to do whatever they desire with it. However, its value, as previously stated, is only determined by what a reliable corporation or individual is willing to pay, either in royalty form or licensing rights.

This is why it is so critical that the owner conducts extensive research into the potential market, who is in it, how big is it, who are you going to be hurting by licensing to a specific company, what are the advantages to each of the companies in the market, etc. There is no way of determining value, and the ability to negotiate a license, until an experienced and reliable organization or individual does an in-depth research study.

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My other important word of advise to the reader is, if you don't remember anything else, remember; "Never do your own negotiating" unless you have previous experience that resulted in a successful conclusion. If a potential licensor has no experience in dealing with, or negotiating a business agreement, they should not represent themselves. I have seen hundreds of inventors literally destroy any opportunities for success, because they either got greedy or desired to do everything themselves. Valuable and potentially million dollar ideas die with their creator. It is my very strong advice to either have your patent attorney approach a potential licensee, or hire an individual or firm that knows the process and has enough experience to gain your confidence.

I cannot emphasize to strongly, that you may be a great inventor, but recognize your limitations and don't attempt to approach or even be involved in the negotiation, except as a technical expert. It is better to have the experts and legal advice in the very beginning, rather than have to hire them when you desperately need it.

Licensing can provide a licensor with income for a long time, with much less risk and commitment than is involved with raising investment capital, manufacturing, and all the required ingredients in establishing and owning a company that produces and sells a product. However, the licensor will only receive a small percentage of the profit from the sales of a licensed product or technology, since the risk is considerably less. The licensee must make the required investment in establishing everything necessary to produce the finished product and get it to the buyer or end user. Personal greed must never rear its ugly head to kill the opportunity.

Besides the benefits of royalties in licensing, in many cases the licensor can receive equity in a new business venture, especially if it is being created for the purpose of marketing the finished product that is the result of the license. The percentage often depends upon the level of commitment and the benefits to the venture that the licensor brings to the table, along with the position and responsibility.

Licensing to an established corporation provides numerous advantages among which is; an existing ability to manufacture the "new product" along with the means of distribution, the customer door is already open, advertising experience, immediate penetration of domestic and possible foreign markets, and the name recognition of the company. This becomes an almost "no risk" position for the licensor, providing the license is properly drafted, with minimum guaranteed royalties, and benchmark performance criteria defined.

When should you license? A protectable idea increases in value as the following events take place, however, this does not apply in all cases:

1. A raw idea is formed. A very low, if any, value.
2. A U. S. patent application is filed to cover the idea.
3. A working model or demonstration of the viability of the idea is made.

4. Foreign counterpart patents are filed, providing funds are available.
5. The U. S. patent issues. Now there is a moderate value.
6. The idea/invention is commercially marketed, or, it has been reduced to practice and recognized experts support the technology. The value is now increased.
7. A license is arranged with an established, financially sound corporation. Now there is a high value.
8. Additional licenses for either other uses or geographic parameters is now instituted. The original idea has now become a very high value.

As stated previously, the value of anything is determined by what someone is willing to pay for it. The true value of a licensable technology, idea, patent, or whatever, must be based upon the perceived value to the licensee. If they recognize how it fits into their business, and what it would do for their sales and profits, the results will be a mutually beneficial and rewarding relationship. It might also be the answer to their ability to diversify into other areas or new markets.

The common question is; "How do I find a licensee?" My normal response is; "Do your homework, in other words, research." Unless the product fits into a niche market, you must find who the logical, financially stable, corporations are, and learn everything you can about them, including their five or ten year stock value, along with their marketing procedures, the stability of their officers, who serves on the board, and a great deal more. All of this information is available, but requires intensive research. In many cases the number two company will find your technology of greater value, so they can gain an edge on number one, who is also their greatest competitor.

The research objective is to compile a list of potential licensees and to prioritize them based upon their potential value to you. Large corporations quite often do not seek or have any interest in acquiring technology from outside their own research laboratories. It is also extremely important, as to who opens the door and presents the opportunity. Inventors are most often ignored, and must sign release documents before ever having an audience with a company official.

The business of licensing is very serious, and must be approached and recognized as an opportunity with great rewards if handled properly and professionally. There are experts in this field, even to the point of specific technology categories. Contact the Licensing Executives Society, 1800 Diagonal Road, Alexandria, VA 22314 for a copy of their Licensing Consultants & Brokers Directory. (www.usa-canada.les.org)

Another question that I am asked frequently is; "What is my idea or technology worth?" Establishing a value consists of a myriad of factors. In general, a license royalty should not be so high that it either discourages a potential licensee, or reduces the profit margin of their expected returns on the investment. Remember, "they" are taking the risks, which balances to their receiving the largest percentage or portion of the profits.

Royalties commonly are expressed as a percentage of the licensee's "net sales price" of the licensed product. They can also be expressed as an equivalent thereto, such as, \$2.00 per ton of paper product under a license on a paper machine. A very important factor that will influence the royalty rate is the strength and scope of the patent protection, and the additional values such as a trademark. Another is the stage of the development, such as, how much money must be invested in more research to determine the finished product?

The royalty can also vary depending upon your granting an exclusive or non-exclusive license. What, if any, are the geographic limitations and parameters? Are you licensing the U. S. rights only, or the whole world? What are their competitors going to do when "your" new technology is introduced? Are they capable of improving it and avoiding any infringement suit? Will they consider a sub-license from your licensee, instead of creating a competitive technology situation? These are only a few of the questions that have to be answered, not even considering the value of the market today, and in the future.

Licensing may or may not be for you. My recommendation is to read several books on the subject, discuss it with your attorney and advisors, and recognize honestly, what do you want from your brain-child? Your invention/innovation/patent is of absolutely no value, until someone wants to pay for it, or for its use.

A "successful inventor" is only considered having attained that unique status, by having earned more money than they expended on the idea or patent. Over the last almost fifty years that I have personally been assisting inventors, out of the literally thousands I have spoken to, or helped in one way or another, only a handful have truly reached the plateau of independent wealth.

This is not meant to discourage the reader, but to bring the world of reality to your forefront. I can balance it by stating, the opportunities to become rich with your idea/patent are far greater today than at any time in history. The reason is because the world is hungry for new products, and devours them at the rate of more than twenty thousand a year. Many do not have any protection, except being "the firstest with the mostest."

In summation, licensing can be the most opportune and personally profitable way to go with what you have, however, it is not necessarily the easiest. It is not what you think it is worth that is important. The criteria is, how much is someone willing to pay for it, have the resources to make it successful, and recognize that you want to help them do so in any way possible, and not be known as "a greedy and crazy inventor."

THE CHOICE IS YOURS. Wake up to the world of reality and start earning money from your creative efforts, be very cautious of invention promotion firms where you have to pay up front for services, and be proud to be an American inventor.

**LARRY UDELL
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