

THE RIGHT FIT

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OVER THE LAST HALF-CENTURY, thousands of inventors have asked me about licensing their invention instead of investing lots of money in a new business. There are no real secrets to successfully licensing a new product or technology, but it does not require patience and research time. The first of this two-part article will discuss how to determine if licensing is right for you. In the next issue learn how to find an appropriate licensee and negotiate royalties.

WHAT TO LICENSE?

Almost anything with a protected property right can be licensed. Most common are industrial processes, patents, trademarks, copyright, trade secrets, methods, formulas, customer lists and manual. In each case there is a form of legal right, such as the property right granted to an inventor by the U.S. government by the issuance of the patent. The technology covered by the issued patent becomes a valued property for a period of twenty years from the date of filing the patent application, and the patentee has an exclusive right to do whatever he desires with it.

WHY LICENSE?

Licensing can provide an inventor with income for a long time with much less financial risk and commitment than it takes to establish and own a company that produces and sells the product. However, the licensor will only receive a small percentage of the profit from the sales of a licensed product or technology since it is the licensee who must make the required investment to produce the finished product and get it to the buyer or end user.

License A license is a contractual business relationship between a seller (licensor) who authorizes a buyer (licensee) to use his or her patent, trademark, copyright, and/or any form of "intellectual property" in exchange for compensation (royalty).

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 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.

Licensing to an established corporation provides numerous advantages to the inventor, including access to the corporation's:

- Existing ability to manufacture the new product,
- Means of distribution,
- Established customer base,
- Advertising experience, immediate penetration of domestic and, possibly, foreign markets, and
- 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.

HOW TO LICENSE

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.

The licensing process is a business function. After all of the parties have agreed upon the details, 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 to the licensee generally only limit rights to the property for fixed period of time, and, frequently, for a specified use or market. You can only sell a possession once, but you can license a possession of knowledge or value hundreds of times, and in many cases, simultaneously.

An important word of advice is (if you don’t remember anything else, remember this): Never do your own negotiating unless you have previous experience that resulted in a successful conclusion. Potential licensors with no experience in negotiating business agreements should not represent themselves. I have seen hundreds of inventors destroy real opportunities for success because they either got greedy or wanted to do everything themselves. Million dollar ideas have died because of the ego of their creators.

Recognize your limitations and don’t attempt to approach a licensee or be involved in the negotiation, except as a technical expert. It is better to have legal advice on your side from the very beginning, rather than seek it when you are desperate, inexperienced inventor should hire a patent attorney or firm that knows the process and has enough experience to gain the confidence of potential licensees.

WHEN TO LICENSE

An idea that can be protected by a patent increase in value as the following events take place; however, this does not apply in all cases.

1. A raw idea is formed, 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 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. High value.
8. Additional licenses for either other uses or geographic parameters is now instituted. The original idea now has very high value.

The value of an invention is determined by what someone is willing to pay for it. The true value 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 the product fits into their business, would increase sales and profits, and, perhaps, enable them to diversify into other areas or new markets, the result will be a mutually beneficial and rewarding relationship.

Next Issue: How to value the invention and that should the royalty be?