

# *Licensing*

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**ADVANCED ORGANIZER**

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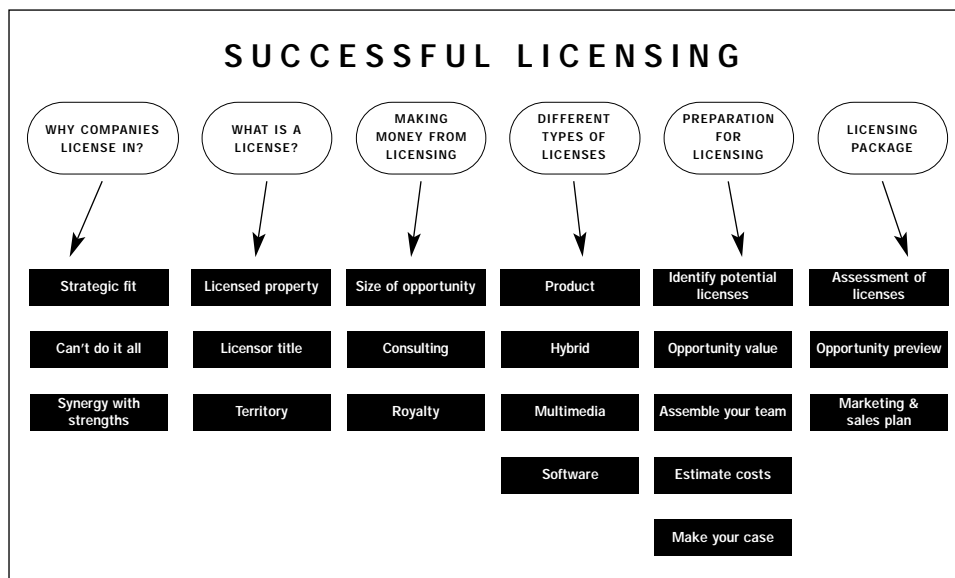
## Advanced Organizer

Many small firms select licensing as their commercialization strategy of choice, after concluding that they don't wish to act as a manufacturer, marketer, or distributor. Although it is important to recognize and understand your interests, your firm's approach to licensing will be more comprehensive and successful if you view licensing as the conscious choice to provide one or more entities with the right to exploit your technology for mutual gain. When viewed in this fashion, you will become more concerned about the selection of an appropriate licensee, as well as the best method of structuring a mutually beneficial relationship. The word "selection" is not meant to imply that potential licensees line up to court a technology entrepreneur. In fact, the reverse is often true. Nonetheless, the word "selection" appropriately conveys the care and considerations that you should make in looking for potential licensee(s). Remember: licensing doesn't just happen. It requires considerable planning and resources.

*Licensing requires planning and dedicated resources.*

This chapter is organized around the themes represented in Figure 5-1.

FIGURE 5-1: LICENSING ADVANCED ORGANIZER



*Licensing-in* describes the process of obtaining rights to use the intellectual property of others, external to a company.

**Sources of Information about R&D available for license:**

- ▶ **Universities**
- ▶ **Manufacturers**
- ▶ **Trade shows**
- ▶ **Patent searches**
- ▶ **Scientific literature**
- ▶ **Agents**
- ▶ **Licensing events**
- ▶ **Unsolicited contacts**

## Why Companies License-In

Licensing-in is a unique form of sales in which the inventor/technology entrepreneur provides the potential licensee with a compelling reason to license his or her technology. To effectively make your case, it is important to understand why a potential licensee would be interested in licensing-in. Companies are interested in increasing their assets. Intellectual property (patents, copyright, trademark, trade secret, know-how) are considered assets—but intangible and risky ones with poor, if any, liquidity. The dilemma, however, is that such assets are essential for future corporate growth (Parr, 1990). Larger firms invest as much as 10% of sales on R&D. “The cost of original research is high and therefore requires maximum market penetration to pay for it” (Andonian, 1989). If a company can decrease the costs associated with strategic R&D and at the same time minimize risk, licensing-in becomes an appealing option.

### Strategic Fit

Technology will be licensed-in or acquired by a firm if it meets a strategic interest that the company is not capable of addressing on its own. In all cases, if a potential licensee can do the development work better itself, it has no desire to look outside. Pioneer technologies present a novel opportunity, however. In such cases, there is an increasing trend toward financing options that share risk. According to Teece (1991), these include the following:

- ▶ R&D joint venture with Option to License
- ▶ R&D joint venture with Option to Purchase
- ▶ Strategic alliances

When licensing is the option of choice, the intellectual property being considered must offer the licensee one or more of the following advantages. The intellectual property should (1) present a new business opportunity to the licensee which builds on its core competencies; (2) provide better access to markets that the licensee wishes to penetrate; (3) offer additional products to sell through existing distribution channels; (4) preclude other organizations from having access to the technology; and/or (5) decrease production costs.

When presenting your opportunity to a potential licensee, you must therefore make your case in consideration of the potential licensee’s strategic intent. You must examine the licensee’s priorities and demonstrate how your technology would meet the licensee’s strategic goals. Such information about publicly traded companies is readily available. Sources that can be consulted in assessing potential licensees will be addressed in Section 2.

## Outsourcing R&D

A company actively looking to license-in technology has many choices. Representatives of a firm can look for technology from universities, other manufacturers, and agents. They can find out about opportunities through an examination of patent and scientific literature, attendance at trade shows, and/or participation in meetings of the Licensing Executive Society. It is important that technology entrepreneurs recognize that large firms dedicate limited resources to such search activity; that their searches are strategic in nature; and that there are many sources to which they can turn. The bottom line is that in order to make your case, you need to be well prepared.

From the licensee's perspective, the Technology Acquisition Process (Manfroy *et al.*, 1989) features a number of steps, including:

- ▶ Identification of need
- ▶ Technology sourcing
- ▶ Technology assessment
- ▶ License negotiation
- ▶ Financing
- ▶ Transfer of technology
- ▶ Implementation
- ▶ Termination of license

## Synergy with Strengths

From the preceding list, three general categories of concerns are recommended for the licensee to consider relative to technology assessment: technology concerns, market concerns, and overall concerns. The licensee should assess the new product or processes and its relationship to the licensee's technology strength. The firm must also assess issues pertaining to potential implementation, including the numbers and types of employees involved, the feasibility and costs associated with manufacturing, and how much additional funding is still required. On the market side, the company must assess potential sales, profits, use of marketing, sales and distribution channels, and competitive advantage. Overall, the fit with the company's strategic direction and risks must be examined.

Because the Technology Acquisition Team has to sell its management on the merits of the technology of interest, it is important that a potential licensor make it as easy as possible for the potential licensee to buy, by addressing its needs. Also, to assure that a win-win situation is achieved, it is important that you have a means of assessing the value of what you are presenting—and that you understand the various aspects of licensing negotiation to which you will be exposed.

## **Technology Acquisition Process**

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The balance of this chapter assumes that you have already determined that licensing is one of the best ways to exploit the market potential of your technology. As such, it is assumed that your objective in reading this chapter is to understand more about what is involved and how to prepare for successfully locating a licensee.

## What is a License?

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Formally speaking, a license is “permission granted by an owner or inventor, generally for a consideration, to a person, firm, or corporation to use the owner’s proprietary information, invention or material” (Goldscheider, 1993). All forms of intellectual property can be licensed, including patent, copyright, trademark, trade secret, and know-how. The nature of the “use” granted in the license varies and can include manufacture, use, lease, sale, distribution, or any combination thereof. When the owner of intellectual property grants a license to another entity, it retains ownership or title to the intellectual property. An initial word of caution: the definitions of all terms used in a licensing agreement need to be carefully considered—especially those associated with the licensed property, the licensor, and the licensee.

### Definition of Licensed Property

The licensed property should be defined with great specificity. Registered items (trademarks, copyrights, and patents) should include the registration number (Epstein & Politano, 1995). There are a number of situations where exceptional care should be taken in drafting the definitions. Biotech is a most noticeable example. Fordis and Griffen note that difficulties arise because: (1) many biotech products are not the subject of issued or pending patents; and (2) there are a number of ways to define the biotech products. Special care should also be taken in licensing computer software: it should be made explicit as to whether or not the license applies to both the object and source code.

A single license may be drafted to cover one or multiple products/technologies and various forms of intellectual property. “The more restrictive the definition of licensed products, the smaller the potential royalty base” (Greeley, 1990). You should expect there to be a natural tension in licensing negotiations, as each party is motivated to obtain what is best for the organization it represents.

### Licensor Title

The licensor must have clear title to the rights it is conveying. This may seem straightforward and self-evident. However, when dealing with biological materials, especially those derived from humans, the issue of ownership is complex and often

*Ownership issues are not always straightforward.*

disputed (Fordis and Griffen, 1991). Sometimes, to avoid any infringement issues, a potential licensee may conduct a right-to-use study in order to assure clear title (Greeley, 1990).

Of equal importance is the consideration given to the definition “licensee.” The licensor must be certain that he or she understands whether or not the term licensee is extended to subsidiaries, related companies, and affiliates, or strictly to the entity named. When specifying whether the license is exclusive or non-exclusive, the licensor should carefully attend to the implications that this statement has for his or her own work. Most licensors don’t intentionally wish to exclude themselves from being able to make use of the intellectual property. However, this could inadvertently be the result of carelessness when granting an exclusive license. The rights of the licensor should be clearly stated in an exclusive license. Often a licensor may grant an exclusive license, but one that reverts to non-exclusive status if certain conditions are not met.

## Territory

Territory deals with the specific geographic area to which the license applies. It should be noted that a license could vary from narrow use—one that is restricted to one site or plant at a specific location—to one that is global in scope.

Within a licensing agreement, many other issues are important to address. These include Indemnification, Arbitration, Best Efforts, Technical Information, Assignability, Sublicensing, Rights & Remedies, Termination, Approvals, Changes, Technical Assistance, and Improvements, among others. Such issues require careful attention by both parties (Goldscheider, 1993). Always be sure that you understand the full implication of everything in the agreement and seek appropriate counsel.

## How does one make money from licensing?

The most common form of remuneration is a royalty. Royalties may take many different forms, including running base, lump sum, or prepayment-of-running royalties. Royalties can be calculated at a constant rate, change over time, and/or specify mandatory minimum and/or maximum payments.

## Size of the Opportunity

The manner in which the royalty rate is derived depends upon many factors, including industry standards, the degree of development, the magnitude of the licensed property, and market potential (Parr, 1990). Many technology entrepreneurs approach licensing with the mistaken belief that they don’t need to

### ISSUES

- ▶ **Indemnification**
- ▶ **Arbitration**
- ▶ **Best Efforts**
- ▶ **Technical Information**
- ▶ **Assignability**
- ▶ **Sublicensing**
- ▶ **Rights & Remedies**
- ▶ **Termination**
- ▶ **Approvals**
- ▶ **Technical Assistance**
- ▶ **Improvements**

*“Unless substantial benefits (profits) can be made, there is no point in making a deal.”*

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understand the market, assuming that that's the licensee's job. As a result, the importance of "sizing the profitability pie" must be stressed (Epstein and Politano, 1995). With the exception of the progenitor of the technology, you should expect that everyone else who becomes involved with the technology is interested in its potential to generate wealth. According to Epstein and Politano, "Unless substantial benefits (profits) can be made, there is no point in making a deal." Estimating the size of the pie is a way of determining whether the deal is worth pursuing.

Epstein and Politano name six items that should be considered when sizing an opportunity. These include: market size, stage of market development, special status of technology in question (e.g., a pioneer patent), economic health, benefits from association with licensor, and synergy with licensee's marketing, sales, and distribution strengths. Prior to making his initial approach to the licensee, the licensor should have addressed these issues and should be prepared to make the case that there is an opportunity that can be exploited for mutual benefit. Don't expect the potential licensee to do this for you. In order to structure a "win-win" deal, both parties need to be prepared.

Another element of preparation is understanding the relative contributions both parties will make. There is often the tendency for technology entrepreneurs to overestimate their technology's contribution. This assumption often reflects a lack of understanding of what the licensee must add to the mix in order to commercialize the technology. Factors that strengthen the licensor's bargaining position include the following:

- ▶ A positive track record as an experienced and valued licensor
- ▶ R&D-generating capability (a good facility with a rigorous R&D program)
- ▶ Items that contribute to goodwill, such as trademarks
- ▶ Related patents, trade secrets, and know-how
- ▶ A reputation for enforcing patents against infringers

The licensee's bargaining position is augmented by the amount of risk it assumes, as well as its established manufacturing, marketing, and distribution capabilities.

## Consulting

Another way for the licensor to accrue more value from the licensing relationship is to limit the technical, sales, and service support provided as part of the licensing agreement (Greeley, 1990), and to instead offer these services—when provided above a certain level—as consulting services, through an annual retainer or per diem (Epstein and Politano, 1995). If the licensor has marketing strengths, it could also seek to retain marketing rights on excess production of the licensee in areas that it does not serve.

## Royalty Rates

It is debatable as to what is the best approach to calculating royalties. The base to which royalty rates are applied can include: (1) net or gross profit; (2) net or gross sales price; (3) the gross production of the licensee. The method of calculating the royalty rates also varies. Regardless of its shortcomings, one of the most commonly used methods is comparison with industry standards. It is important to recognize that these standards vary widely. Table 6-1 provides a summary of a number of different types of standards:

**TABLE 5-1: SAMPLE INDUSTRY STANDARDS IN SELECTIVE FIELDS**

**Chemicals** (Epstein and Politano, 1995)

1-3% of net sales for low margin items

**Computers** (Epstein and Politano, 1995)

3-5% of net sales

**Pharmaceuticals** (Fordis and Griffen, 1991)

Research reagents (expression vector, cell culture) 1-5% of net sales

Diagnostic products (monoclonal antibodies, DNA probes) 5-8% of net sales

**Therapeutic products** (monoclonal antibodies, expressed proteins) 5-10% of net sales

Vaccines (5-10% of net sales)

Animal health products (3-6% of net sales)

Plant/agricultural products (3-5% of net sales)

**Semiconductors** (Epstein and Politano, 1995)

1.75 to 3% of net sales

Factors Affecting Royalty Rates, by McGavock, Hass & Patin--les Nouvelles, June 1992.

## Types of Licenses

There are many types of licenses. They reflect differences in both the “use” and the “type” of licensed material. A sampler of licensing agreements—product, hybrid, multimedia, and software—follows, with brief definitions of each.



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## Product License

A product license is appropriate in the prototypical situation in which a licensor grants to the licensee the right to make, use, or sell a defined “Product.” In such an agreement, items typically specified are the application of the product, any territorial restrictions, the time frame, and whether or not the license is exclusive or non-exclusive. Villeneuve *et al.* point out a number of areas of caution in negotiating such licenses. These include: (1) the royalty base; (2) the inclusion of technology, rather than only products; (3) the importance of marketing obligations of the licensee in exclusive licensing arrangements; (4) sub-licensing; and (5) grant-backs.

As indicated earlier, the base to which royalties are applied may vary. It is therefore very important that you are clear regarding the definition of the base, and that you also probe to assure that the base fits all intended applications by the licensee. For example, assume that you have negotiated a royalty based on the sale of the licensed product. This does not entitle you (unless specified) to benefit from revenue made by the licensee in providing a service in which he utilizes the licensed product. This is because the royalty base was defined in terms of sales of the product and did not specify revenue generated from services in which the product was used.

A licensee tries to obtain as much value for its organization as it can from an agreement. Therefore, it is common for the licensee to push to expand the domain of licensed property. The licensor must carefully consider the implications of what is being asked for. Assume, for example, that the licensee wishes to add to the product license and gain access to know-how, trade secrets, and patents owned or controlled by the licensor presently and in the future. The implications are profound. First, with respect to your future technology developments, you would be providing these to the licensee in this one agreement and would thereby limit your future business options. Second, such statements have implications for any licensed-in technology you have. By virtue of having “control” over patents you are licensing from others, you may be obligated to sub-license these as well (Villeneuve *et al.*, 1995).

The third area of negotiation requiring caution is with respect to exclusive licenses. The licensor will not benefit from an exclusive license if the licensee does not make significant marketing and sales. Therefore, the licensor should carefully attend to the licensee’s marketing obligations—going so far as to specify the nature of the actions to be taken by the licensee. This is better than settling for the “best efforts” obligation. Another way to assure that the licensee makes significant efforts is to require a significant upfront payment as well as minimum royalty payments. The licensee will only recoup these expenses if it makes sales. When there is a financial penalty for failure to attend to marketing and sales obligations, it is less likely that marketing and sales will be given short shrift.

*From a licensor’s perspective, “best efforts” with respect to marketing and sales is not a viable option.*

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Another item meriting careful consideration is sublicensing. Sublicensing refers to granting to a licensee the right to license to a third party. This provides the licensee with the right to have things made, used, or distributed by others. However, this may not be beneficial to a licensor. A license can therefore indicate that no sublicensing is permitted without prior written approval of licensor, or that the licensee may sublicense subject to meeting specific conditions (Goldscheider, 1995).

The final situation to be considered is the area of improvements and grant-backs. When you are dealing with dynamic forms of intellectual property (e.g., trade secrets and know-how), it is reasonable to assume that this body of knowledge will grow. The question becomes who receives the benefits of this growth. If the licensee is given the rights to use the technology, it is very likely that the licensee will discover new knowledge. It is, therefore, common for a licensor to seek a “grant-back” of any improvements in the initial field of use. The terms and conditions associated with this are subject to negotiation (Goldscheider, 1995).

## Hybrid Licensing Agreement

A hybrid licensing agreement is one which includes “a license for an issued or pending patent, together with some other form of intellectual property rights that is not coextensive with the patent” (Goldscheider, 1995). Such licenses present a new issue: what do you do if a pending patent that was part of an agreement does not issue? In such a situation, it is suggested that the royalty rate be decreased.

## Multimedia Licenses

Multimedia licenses are complex because of the variety and sheer number of intellectual property items included. Multimedia products typically include text, movie images, still images, music, audio, and computer software—all of which are subject to copyright and other forms of protection. Epstein and Politano point out that a multimedia developer may need to negotiate over a hundred separate agreements in order to obtain all of the rights needed for one multimedia product. The other factor that makes multimedia licenses difficult to negotiate is that many content developers ask unreasonable and prohibitive fees, making such projects untenable. (See Smedinghoff, 1998, for a detailed treatment of the legal issues involved with licensing multimedia products.)

## Licensing Package™

- ▶ **Licensee Assessment**
- ▶ **Business Opportunity Preview**
- ▶ **Negotiation Issues**

## Software License

Given the dynamic nature of the software industry, software licenses present many special considerations. These include: (1) rights to updates and new releases of the software; (2) testing and development support; (3) whether or not source code is included; and (4) royalty payments. If, for example, a software developer is trying to promote a new industry standard, it is not uncommon for it to provide a non-exclusive license (Villeneuve *et al.*, 1995) and accept a flat fee, rather than an ongoing royalty. (See Villeneuve *et al.* for a more detailed discussion of this topic.)

Most mass-market software is distributed with shrink-wrap licenses. These licenses indicate that, by virtue of opening a certain package, users accept the terms of the licensing agreement. This is done because it is not feasible to obtain a signed license agreement from every user (Epstein and Politano, 1995).

Another type of license referred to as a run-time license is used with “authoring tools.” These are used in the development of multimedia products, and are required for use of the final multimedia product.

## Preparation for Licensing

The intricacies of licensing are important to understand if you don’t want to walk into negotiations blindly. Any company interested in licensing-in has developed a method for examining opportunities which may meet its strategic needs, as well as a method for assessing its opportunity potential (Manfroy *et al.*, 1989). You should do no less, especially if licensing is going to be the primary commercialization strategy used by your firm. Specifically, you should pursue the following steps:

- ▶ Identify a potential licensee
- ▶ Assess the ability of the licensing opportunity to generate value
- ▶ Put together your negotiation team
- ▶ Estimate the costs of the effort
- ▶ Make your case
- ▶ Negotiate a license
- ▶ Determine financing
- ▶ Implement the license
- ▶ Terminate the license

## Selecting a Good Licensee?

- ▶ **Strategic fit**
- ▶ **Can they do it better on their own?**
- ▶ **Financial resources**
- ▶ **Synergy**
- ▶ **NIH**

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## Identifying a Potential Licensee

When searching for a potential licensee, it is important that what you have to offer fits with the partner's strategic direction; also, that it falls into an area where the potential licensee cannot do it better on its own. Furthermore, the potential licensee must have financial resources available, have a good sales and distribution network, and not an excessive dose of the Not Invented Here syndrome. These are the same factors Manfroy *et al.* suggest the licensee consider about its organization before starting down a path. In this "lock and key" situation, each of you has part of the solution and each is looking for an entity to fill the complementary role.

The Workbook in this Guide addresses in great detail the methods and resources for collecting information on potential licensees. You have limited time and resources available for your endeavor, and you need to expend your resources on appropriate prospects. Identification of Potential Licensees is the first element of the Licensing Package™.

*Don't walk into negotiations unprepared.*

## Assessing the Ability to Generate Value

The inventor of a technology wants to see it utilized, and often perceives licensing-out as a means of doing this and completing a cycle. However, if the inventor intends to become involved with licensing as a strategy of choice that he will use frequently, he must attempt to develop some objectivity concerning the technology. Does this opportunity have the potential to create significant value? Not all inventions do, and those which don't are often not good candidates for licensing. Methods for assessing the size of the opportunity are presented in the Workbook. If an opportunity exists, we recommend putting together a Business Opportunity Preview™ to share in total or in part with a potential licensee, once appropriate Non-Disclosure Agreements have been signed. A Business Opportunity Preview is the second element of the Licensing Package™.

## Putting Your Team Together

You need a negotiation team that you can draw upon at the appropriate times. You will most likely need the services of an attorney, a negotiator, and someone who can assist with valuation—and you should anticipate the costs associated with their efforts.

#### *Licensee Introductions*

- ▶ *Colleague*
- ▶ *Consultant*
- ▶ *National events*
- ▶ *Professional meetings*
- ▶ *Trade shows*
- ▶ *Unsolicited inquiries*

## Estimating Costs and Pay-Back

As was mentioned at the outset, licensing is a unique form of sales. As such, it has associated expenses. It is recommended that you develop a marketing and sales plan specifically for licensing the technology in question, to assure that you anticipate both the time and the expenses associated with the effort. Out-of-pocket expenses will include travel to the potential licensee's site, the development of presentation materials, and the costs associated with putting together your licensing team. In addition, you should factor in the time that you will need to devote to this endeavor.

When in the midst of negotiations, carefully consider the implications of all the items that have a price tag associated with them. Such items include indemnification, maintenance of patents and responsibilities relative to infringers, technical assistance, and travel.

Carefully consider how to create the best revenue stream for your company and a win-win situation for both you and the licensee.

## Making Your Case

Once you have selected the appropriate domain of potential licensees and developed the materials to be used in making your case, you should determine the best approach to a potential licensee. Common choices include introductions by a colleague or consultant, participation in national events that focus on licensing and/or professional meetings and trade shows, and submission of unsolicited inquiries. Although some people recommend making inquiries sequentially, it is often best to start interacting with a number of relevant prospects simultaneously. This goal is not to play one potential licensee off of the other, but simply to make the most of what is usually a limited market window of opportunity. Once a potential licensee shows interest—and perhaps requests a “stand-still” agreement—then you can focus your efforts on that one party.

The importance of making a compelling case to potential licensees cannot be underestimated. You don't have to divulge a lot of information about what you have, but in your initial approach you should demonstrate an understanding of their strategies, their needs, and the manner in which what you have can further their aims.

This is important, because most large companies erect a large initial hurdle to potential licensees. They routinely request that interested parties sign a disclosure document indicating that everything that is shared with them they are free to

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use. Some companies will only interact with outside sources after a patent has been issued for the invention in question. The reason for this behavior is that the first priority of any large company is to protect its assets. Large firms with a strong emphasis on R&D have hundreds of research projects on-going at any given point in time. No single point of contact could possibly have the knowledge of the breadth and diversity of projects in-house. For this reason, when first contacted, any large firm will routinely provide an inventor with a disclosure document indicating that whatever the inventor shares with the company, the firm is free to use. This is done to protect the company from possible lawsuits that could arise if someone submits an idea to the company which is rejected, and on which the company is already working. The inventor could incorrectly conclude that his or her idea was stolen because of the timing of the product release subsequent to his or her inquiry. For large firms, safety comes from adopting a set of procedures and protocols that minimize the likelihood that these types of situations will arise. That is why you have to work hard to create initial interest.

You need to decide at the outset what information you will disclose readily and what information you need to hold back until the potential licensee has signed a confidentiality agreement.

## License Negotiation

Much was said earlier in the chapter about issues to be addressed during negotiations. Before getting to that point, however, the company will conduct due diligence on the technology and the market. During this period it is important that you provide the potential licensee with information that they can use to sell up-line. It is vital to the success of the project that many champions are formed along the way. A well-developed Business Opportunity Preview can serve that need.

The following account from an executive experienced with high-tech licensing matters highlights many aspects of the attitude you want to bring to the table during licensing negotiations.

## ATTITUDE IS EVERYTHING

In the following excerpt from an interview with Mike Weiner, Chairman and Founder of Manning and Napier Information Services—and previously the Founder and CEO of Microlytics, a Xerox spin-off—it becomes clear that success depends more on your attitude and attention to detail than on what you think you can do than on what you are told the rules are. There are always exceptions to the rule!

*I began to use personal computers at Xerox, and then moved into the software marketing business. I found that the company wasn't taking advantage of its software assets, and I wanted the opportunity to take some of its assets outside. I kept looking for people in the company who were supportive of my idea and ignoring those who were opposed. Most were opposed.*

*Unlike the employees who left to form companies such as Adobe, 3COM, and others, I was able to form a unique relationship with Xerox where Microlytics would have an arms-length relationship with Xerox and license software that was underutilized and not of strategic interest. I have a no-fee consulting arrangement with the company that allows me access while assuring confidentiality. Having an outlet such as Microlytics is useful to a large firm. Technology assets are like milk. If you don't do something with them on a timely basis, they spoil.*

*We have had several licensing arrangements with Xerox. Our initial license provided Microlytics with broad sub-licensing rights that were pivotal to our early success. We went from \$3 to \$14 million in three years. During the past 10 years, we have dealt with the same corporate staff and the same R&D staff and maintained excellent relationships.*

*In looking at what makes licensing successful, there are many factors. On many occasions employees who leave a large company become very arrogant in their dealings with the firm. That is counter-productive. Xerox is like family, and there is a tremendous amount of informal networking that takes place.*

*What we tend to do in our negotiations is to be sure that we understand the issues of concern to the company with whom we are negotiating and address those issues.*

*During licensing negotiations with any firm, if you agree to something in your verbal conversations, it is your obligation to address any omissions that you see in the written document—omissions which not only favor you, but also omissions which favor your negotiating partner. There must be reciprocity. You must be straight.*

*Issues regarding “know-how” are addressed up front. We also negotiate “flow-back” rights and specify which divisions get the rights in “licensing-back” arrangements.*

*Many times what we will do is select a company which we think will be the best possible partner and offer the company a “no-cost, stand-still agreement” (30-60 days).*

*This allows the internal champion the time and incentive to try and gain a corporate commitment. However, this offer has to be genuine on your part, and not a ploy.*

*In negotiations, it helps to be high-minded. Be consistent and over time many of your partners will become that way also. However, it is imperative to review carefully any licensing agreement that you sign. You can never have too many eyes looking at a document.*

*We have also walked away from deals because we have assessed the guys we are dealing with to be disreputable.*

*I would recommend to anyone entering a licensing arrangement that he should start by thinking about and defining the nature of the relationship that he wishes with a licensee. Begin to act as if you have that type of relationship—model it in your actions. Then articulate to the potential licensee what relationship you want. Attitude, more than anything else, determines outcome. Also, above all, for an inventor or an entrepreneur, consistency, credibility, and integrity are your greatest assets. Don't forget what you have agreed to.*

*When licensing arrangements go bad, it is usually because the licensee finds or develops an alternative technology, and then devalues yours; or management changes and doesn't know about the relationship—or devalues it. Or it's due to buyer's remorse or greed and avarice.*

*However, you should keep in mind that it is hard to unseat the status quo and, if you are, work hard to maintain those relationships and your position.*

*Scientists and engineers want to see their ideas and inventions validated and come to fruition. Corporations which don't provide this run the risk of frustrating their best and brightest. Yet most companies cannot hope to market all the productive output of a bright and creative workforce. This is where an employee intrapreneurship and a licensing-out policy can pay substantial dividends, including reduction of employee turnover.*

## Implementation

During the implementation of a license, you should continue to monitor the extent to which the terms of the agreement are being met. As the summaries below reveal, failure to raise issues early can lead to unforeseen difficulties.



## RELEVANT LEGAL CASES

### Introduction

In this section, we present a sample case in which contractual licensing arrangements deteriorated and resulted in litigation. In this case, intellectual property protection was granted at the Federal level.

### CASE 1: Coleman v. Corning Glass Works

*(U.S. District Court, Western District of New York, 1985)*

Dr. Coleman, the owner of a U.S. patent, entered into a licensing agreement with Corning Glass Works, granting Corning an exclusive license for the commercial development of a commercial integrated blood serum separator under his patent. Corning terminated the agreement three years later, alleging that a commercial, functioning blood separation machine could not be made in accordance with Dr. Coleman's patent. Allegedly, independent research by Corning had also resulted in the development of a superior approach to designing a serum machine.

Corning continued development of its serum machine, the "Corvac Serum Machine," and began production in 1975. Corning then sold the entire product line to Sherwood Medical Industries three years later.

Dr. Coleman alleges that the blood separation device manufactured and sold by Corning (the Corvac Serum Machine) was within the scope of his original patent. Corning moved for summary judgment on the grounds that the plaintiff was too late in bringing this suit (16 years after the initial licensing agreement was signed).

The court agreed with Corning, and Dr. Coleman lost the suit on the grounds that he was too late bringing suit.

### Some Lessons to be Learned by Independent Inventors

- ▶ Plan for what each party can or cannot do with shared information if a signed agreement is terminated.
- ▶ Act sooner, rather than later.
- ▶ Be sure of which statutes of limitations may be applicable.

### Some Lessons to be Learned by Corporations

- ▶ Good documentation is required of independent creation.
- ▶ Act in good faith and try to structure "win-win" situations.

## Elements of a Licensing Package™

A Licensing Package is a means of compiling pertinent information that you will need during the licensing process. It should contain the following three components:

- (1) Business Opportunity Preview™
- (2) Analysis of Potential Licensees
- (3) Negotiation Issues

Activities designed to surface the information needed to develop each section of this package can be found in the Workbook in this Guide. Each of these elements will be used in a different way. **The Business Opportunity Preview™** is the document used to make your business case. It clarifies the nature of the opportunity at hand. The Executive Summary should not contain any proprietary information, and should be used in your initial interaction with a potential licensee when your discussions are not covered by a Confidentiality Agreement. The balance of the document can be used in part or in its entirety, once you have clearly established the interest of the potential licensee. Much of the information should only be shared with a potential licensee once a Confidentiality Agreement has been signed. However, you may find it necessary to share elements of this document with a potential licensee prior to signing a Confidentiality Agreement, in order to enable him or her to sell up-line. Information that demonstrates that you understand customer specifications and that demonstrates customer receptivity to the product is often appropriate to share. A suggested outline for a Business Opportunity Preview™ follows.

## Business Opportunity Preview™

### 1.0 EXECUTIVE SUMMARY

#### 1.1 Description of industry

- ▶ Overview
- ▶ Industry drivers & issues
- ▶ Opportunity & threats

#### 1.2 Technology available for Licensing

- ▶ Brief description

#### 1.3 Licensing arrangement

- ▶ Types of partners sought
- ▶ Types of arrangements

*(continued on the next page)*

*This is a suggested outline, and is not meant to be a straight-jacket. In some situations, a more compelling case can be made if the information is sequenced in a different fashion. The overriding concern is not the form, but the presentation of a believable case given the size of the opportunity.*

- 2.0 COMPANY & TECHNOLOGY
  - 2.1 **Brief company introduction**
    - ▶ Mission
    - ▶ Location, size, history
    - ▶ Overview of company capabilities
    - ▶ Management Team
  - 2.2 **Technology/product description**
    - ▶ Detailed description
    - ▶ Present state of development
    - ▶ Intellectual property
  - 2.3 **Related technology (only if appropriate)**
  
- 3.0 CUSTOMERS
  - 3.1 **How need is currently filled**
  - 3.2. **Important product specs and features**
  - 3.3. **Degree of customer interest**
  - 3.4. **Decision-makers and influencers**
  - 3.5. **Basis for purchase decision**
    - ▶ Frequency
    - ▶ Timing of purchase decision
  
- 4.0 MARKET
  - 4.1 **Market definition**
    - ▶ Market segmentation
      - Across applications (if appropriate)
      - Within applications
  - 4.2 **Market Size**
    - ▶ Served available market
    - ▶ Rate of market growth
  
- 5.0 COMPETITORS
  - 5.1 **Indirect & Direct competitors**
  - 5.2 **Competitive advantages**
    - ▶ Features, Advantages, Benefits

## Assessment of Potential Licensees

The second element of the Licensing Package is referred to as the **Assessment of Potential Licensees**. This document is for your internal use only, and is intended to prompt the capture of all relevant intelligence needed in determining the domain of potential licensees to approach. You should plan on selectively using information from this document in your discussions with potential licensees, or use an Executive Summary to reflect your understanding of the potential licensee's direction. Consult the Workbook for guidance on how to gather appropriate information. The key thing to remember in completing these activities is that you are not looking for static information about the company, but are gathering information that will confirm to the licensee the importance and relevance of what you have to offer. You are looking to confirm synergies and availability of funds.

A suggested outline for this document follows:

### Assessment of Potential Licensees

#### (A) Domain of potential licensees

- ▶ Candidate 1
- ▶ Candidate 2
- ▶ Etc.

#### (B) Candidate 1

1. Core competencies (R&D, manufacturing, marketing, sales, distribution)
2. Strategic Direction
3. New business trends: Outsourcing R&D, Acquisitions & Mergers, Divestitures
4. Issues facing the potential licensee
5. Strategic advantages of your technology to the licensee

#### (C) Candidate 2

1. Core competencies (R&D, manufacturing, marketing, sales, distribution)
2. Strategic Direction
3. New business trends: Outsourcing R&D, Acquisitions & Mergers, Divestitures
4. Issues facing the potential licensee
5. Strategic advantages of your technology to the licensee

*A similar analysis can be conducted of potential strategic allies or corporate partners.*

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## Negotiation Issues

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This third element of the Licensing Package is also a proprietary document and is directly related to your Strategic Plan. After reviewing your Strategic Plan, complete the following.

**(1) Relevant Intellectual Property**

- 1.1. Patents (issued and pending)
- 1.2. Trade-secrets
- 1.3. Copyrights
- 1.4. Trade secrets
- 1.5. Know-How
- 1.6 Licenses you hold from others

**(2) Partitioning of the Opportunity**

- 2.1 Upstream/downstream
- 2.2 Industry
- 2.3 Geographic location

**(3) Rights You Wish to Retain**

- Itemize applications

**(4) Consulting and/or Development Role**

- As part of license
- In addition to license

**(5) Grant-backs & Improvements**

**(6) What You Are Willing to Provide**

- Itemize

**(7) What Licensee Would Need to Provide**

- Degree of technology risk

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## Conclusion

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Licensing is one of a variety of strategies that can be used to successfully commercialize a technology. Success in this arena requires that the potential licensor becomes skilled in locating the best potential licensee, developing a compelling case, and nurturing the relationship through the stages of due diligence, negotiation, and implementation. A company that is serious about licensing should develop a Licensing Package as a means of pulling together all pertinent information that will be needed during the licensing process.