New Product Marketing

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Role of the Independent Inventor in Technology Transfer

I have had many inventors ask me many questions over the years, but one of the most prevalent has always been "What is technology transfer, and why should I be bothered with it?"

It is an appropriate question, and one that really has many answers. For simplicity's sake, let's define technology transfer as "a set of business relationships in which technology that is developed in one place or for a sole purpose is turned into something that is economically and commercially viable as a product or process by some other organization".

Now that we have a definition that we can understand, let's break it down into key phrases that we can explore.

"A set of business relationships" means exactly that. A set is a group of similar things that share a common interest. You can have a "set" of many things, for example, dishes, tires, silverware, etc. Note here that a set doesn't necessarily mean a pair, but it doesn't preclude "pair" either. Basically a set is something in common that by the virtue of it being a set increases the overall worth of it being a solo piece. So, to the inventive community, a "set of business relationships" should infer more than one corporate entity, in harmony, working together to increase the entire worth of a singular project.

A good example here would be the automobile. While it may be a Ford, or a Chevrolet, many entities working together make the final product what it is. Goodyear may supply the tires, U.S. Steel may supply the metals, American Tubing may supply the host of hoses and tubes that make the engine run, and Dupont may supply the paint that makes the finished product look like it does, showroom new. Many other companies will have a corporate involvement in the final process as well.

This is a classic example of technology transfer carried to the Nth level -- all of the entities that support the final product are located in some diverse geographical locations, certainly not in the main production facility of the vehicle manufacturer. Many of the components are contractually made (job shops), but also many of the components are licensed to the various support manufacturers, for final assimilation into the finished product. Many of these entities employ the process of joint venturing to allow them capitalization for their contribution.

Of course all independent inventors should be concerned with whether their innovation is "economically or commercially viable". Without passing this test, they in fact have no chance at a successful product launch. One of the very best ways to find this information is through testimonial letters from complete strangers, but of course only after you are in a "patent pending" state. These letters will help to validate your product to the marketplace, and conversely they can add credibility to the licensing effort.

Never underestimate the power of testimony or the lack thereof. The Simpson case perfectly illustrates this point. Credible testimony from satisfied users who have no active involvement in your project will greatly enhance your opportunities in the negotiation phase, just as the "credible" testimony of Mark Furman may have greatly enhanced the opportunity for a conviction in the much-celebrated case of California vs. Simpson.

Your project will be judged at many levels by potential manufacturers, consumers, buyers, and others. Don't make the mistake of hiding key testimonials that are negative. They also enhance credibility and show design flaws. But like any good trial attorney, supplement your case whenever possible with a "preponderance of evidence", thus greatly increasing your odds of a favorable verdict. In the technology transfer method of product launch, licensing is the standard and accepted method of implementation.

A license in this sense grants another entity to manufacture and/or market your intellectual property, while you maintain the rights to said property. Licenses can be either exclusive or non-exclusive. A license is a binding contractual agreement that should fairly represent the aspirations and expectations of both parties involved. There are certain responsibilities that both parties must maintain, so in a sense, a licensing agreement is comparable to a limited partnership. We will look at some of these responsibilities a little later.

In an exclusive licensing agreement, the inventor grants by contract the right of exclusitivity to the licensee. At his point, the inventor becomes the licensor. It is interesting to note that fully eighty-five percent (85%) of licenses are of this type.

It is a very good idea to have an accomplished negotiator enact the agreement, as it is a legal document. There are many standard agreements in use, but the wide variances in royalty arrangements make every percent a valuable commodity to the independent inventor, or licensor. Current national averages put the percentage paid for new product licenses at somewhere between three and seven percent (3%-7%) of the wholesale, in terms of royalties.

Depending on the level of product development and the amount of research and development costs incurred by the inventor, there may be room in the negotiation process for some "up-front" money, but do not make the mistake of trading off royalty percentage points for so called up-front money that is

to be withheld from future royalty earnings. So much here is contingent upon your cost of effort up to and to the time of negotiation, and the true dollars you have invested.

For example, a new product with strong testimonials, some sales success, a good strong, broad patent, and a ten-cavity mold is in a much better position to seek true up-front recovery of some of the initial expenses than is the project that simply has patent pending status, some marketing ideas, no monies expended on tooling, and little if any testimonials proving that a market exists.

Every exclusive licensing agreement involves a potential risk for the manufacturer, as he will have to gear up to produce an unknown value, but the weight of due diligence completed by the inventor (licensor) will negate tremendously the liability impact the manufacturer must deal with. If the company is the right company for your project, never let the concept of up-front fees "kill" a potential deal. There may be another company down the road that has the capability to produce, and will offer a token sum in up-front money to attract the exclusive license -- but that certainly doesn't qualify them as the right company.

Are their lines of distribution as wide? Do they have multiple machining capacity (redundancy factors) built in? Do they have the excess manufacturing capacity to meet unexpected market demand, etc.? These can be big-time tradeoffs -- make sure the up-front money is worthy of the potential sacrifice.

One final thought on exclusive licensing arrangements. The licensor by signing gives the licensee total control of his or her project. This step takes a tremendous leap of faith. A good negotiator will often times try to secure a consulting arrangement to ensure the licensor's continuing involvement, or a sales agreement which would not only pay you the contracted minimum royalties, but also a commission on sales you as licensor were responsible for.

But the licensee controls the course of direction the project takes. He may by right sub-license without your prior approval (normally that is covered in the initial agreement), or he may elect to request patent adaptations that will strengthen a method or alter a claim of the original patent application. These type of things normally fall into the realm of the licensors responsibilities, or are split as a function of the entire arrangement to include both the licensee and the licensor.

As non-exclusive licensing arrangements account for only a small portion of the total technology transfer process, it is my intention to just hit on a few basic points to ponder. Without exception, they are much more difficult to negotiate, as the potential licensee knows when approached he will be enjoined by competition in the very product you are asking him to become involved with. Also, certain U.S. Anti-Trust laws can quickly come into play when dealing with multiple licensees.

Often a competitive advantage may be gained by one licensee that pays a slightly higher royalty rate (even though his capacity for sales and distribution is higher) to attract new business through non-exclusive new product arrangements, thus resulting in an "unfair business practice". Ask yourself how you would respond to a potential licensing arrangement if you were the fifth or sixth licensee to sign the dotted line on the same legal instrument. For this reason, non-exclusive licenses are difficult to administer, and very costly to consummate. Think back to the definition of "technology transfer".

"Organization", not multiples of the same, is the optimum word, and should be your goal. The only really advantageous situation that may require multiple licensees would be a geographical non-exclusive, but the same Anti-Trust Laws will be in effect, so even here expect additional legal expenses. Should you elect to venture your innovation, perhaps the advantages of teaming up with another manufacturer in a joint venture may serve distinct advantages to you. Through additional capitalization, acquisition of existing lines of distribution, complimentation of packaging needs, or many other caveats whereas the venture partner may have as much to gain and as much to lose as yourself.

Although I seldom recommend independent inventors to venture their product, there are times when such a move is prudent -- and many large companies are in existence today because at one point someone had an idea, and enough practical business sense to make it all happen. Henry Ford did not invent the automobile, but he had the foresight to know there was a way to automate the process, thus lowering the cost, and because of that an industrial giant was born. But also keep in mind, Henry didn't operate solo on that great effort, he surrounded himself with many experts, each one contributing to his dream.

Should you decide to venture, my suggestion is to do the same. The Model "T" was the world's first assembly-line vehicle, but what if the Model "T" had been the Edsel. Just a tidbit for thought -- could your venture support an "Edsel?"

I feel this article would be incomplete if I did not include some of the many advantages and disadvantages to both the licensee and the licensor in the technology transfer process as it relates to licensing.

Advantages for the Licensor

1. Increased Income with little or no additional capital investment
2. New uses of licensee technology
3. Minimum capital required, little or no staffing needed
4. Certain legal problems can be easily avoided
5. Adjusted expectancy and provisions for equity capital
6. R&D improvement possibilities from licensor's staff (design)
7. Maximize potential for market improvement and distribution

Advantages for the Licensee

1. Technical and commercial assistance expansion
2. Expanded rights (including new products and R & D)
3. Expansion of existing profit potential
4. Possible development of entire new product line
5. Expanded market and sales potential

Disadvantages for the Licensor

1. Potential problem due to non-performance of licensee
2. Possibility of time management problem (raised cost of service)
3. Potential problems from unfair or undesirable competitors
4. Logistics problems may be encountered depending on geographics
5. Limited if not total lack of opportunity for management direction

Disadvantages for the Licensee

1. Limited opportunities beyond the license scope unless future improvements to patent are included in initial agreement.
2. Unforeseen technical problems due to insufficient testing or market experience of the licensor.
3. Lack of redundant systems to keep order fulfillment ongoing, lack of which may negate agreement by breach, or raise cost of service.
4. Unrealistic expectations and demands from licensor.

It is my hope that you have found this information helpful, and that it has at least answered as many questions as it has raised. The age of the transfer of technology is here today, as it was yesterday and will be tomorrow. I would strongly urge all who read this that are independent inventors, technicians, or entrepreneurs to become better acquainted with the myriad hosts of advantages and disadvantages of technology transfer.

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