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To Beginning Inventors

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Business success starts with a customer. Finding the customer comes first -- developing the product or service comes second. Unfortunately, too many individuals start with the "bright idea" -- the product -- and then ask how to get it to market. This article is for them.

For an individual to get a new product to market, there are basically just two paths -- *Venturing* and *Licensing.*

Venturing

One path to market is venturing -- starting a business to manufacture and sell the product yourself. The manufacturing's not a big problem. There are lots of contract manufacturers around who can make anything you need. But you're going to have to get out and sell the product *yourself.*

You can't *hire* someone to sell a product you've never sold yourself -- simply because you don't know what results to expect. If the salesman sells less than expected (which is probable), you'll have no idea whether you have a product or pricing problem -- or an incompetent salesman. Keep in mind that the thing every salesman sells best is himself.

If you want to follow this path and you can't or don't want to get out and sell the product, you need to find, and develop a working relationship with, a *partner* who can sell -- and the sooner the better.

Licensing

The other path to market is licensing. Here you're trying to find a product-line manufacturer who's already making and selling similar products, or at least selling into your target market, and try to convince them that they ought to add your product to their line and pay you a royalty on those sales.

The problem is that any company with competent legal counsel (which includes all mid to large companies) will require you to sign a "waiver of confidentiality" before they'll even talk with you. That waiver basically says, "Anything you tell us is ours -- free for us to use. And any rights you may have are limited to what you may now have or may later obtain under intellectual property law", namely patents. (They do this out of liability concerns -- they're afraid of you coming back some time later with a "you-

stole-my-idea" lawsuit.)

This virtually forces you to invest in a patent on the front-end -- before you have any idea whether any manufacturers may be interested. You can figure you're going to have, on average, about $5,000 in a patent by the time it issues -- $3,000 of that just to get it on file.

Bottom line -- You're placing at least a $3,000 bet that some manufacturer will be interested in licensing your product. And your odds aren't very good. Rules of thumb in the field are that less than 1 in 100 patents ever license and less than 1 in 500 ever make back more money than their costs. A reasonable argument can be made that you'd be better off putting that $3,000 on the lottery. [Postscript 3/96 -- The provisional patent application, recently introduced into U.S, patent law, lowers this "bet" to $75 -- see The Provisional Application.]

If you choose to follow this path, the procedure's straight forward. While your patent attorney is drafting your patent application (figure a couple of months), you have two jobs to do.

First, is to get to a library, with a stack of 3x5 cards, and collect names, addresses, phone numbers, and other data (size, sales, etc.), on companies who might possibly be interested in licensing your product.

It helps if you can find a good "reference" librarian. Reference librarians are the ones who know all the directories and databases and how to use them. They'll show you how to find what you're looking for. They'll probably point you to the Thomas Register, which lists all manufacturers in the U.S.

If you know a couple of potential companies already (e.g., by looking through stores), you can look up their SIC (Standard Industrial Classification) code. The SIC code identifies what business the company is in. Other companies with that same SIC code are then possible candidates. Since, likely, not more than 1 in 50 companies will have interest, you'd like to have 200-300 names to work with.

Your second job is to write up a clean 1-page description of the product with at least a paragraph explaining why the company might be interested in licensing it. This wants to be professional, business-like, persuasive -- but no hype. All hype will do is brand you an amateur and guarantee you a "no interest" response. If you can't write clearly, get help from someone who can.

As soon as your patent attorney gets confirmation that your application has been received by the patent office, start contacting your targeted companies.

Note: This is business advice -- not legal advice. Good legal advice will say to make no contacts until the patent *issues*. After all, you don't know that the patent will issue -- 1 in 3 don't. However, if the patent doesn't issue, you don't have any "rights" to license anyway. But by getting on the stick at

filing, you can likely find out whether there's any interest before a patent examiner gets to your application (6 months to a year), and if there's no interest, you can abort the application and save yourself the tail-end $2,000.

In contacting the companies, don't do a passive mass-mailing, just hoping that someone responds. Instead, call them. Find the person that's responsible for "new product submissions" (in bigger companies, usually the Legal Dept.). Have them send you their "waiver" form.

When you receive it, send it back in with your 1-page description -- to that person. Call that person back in a couple of weeks to see if they received it and if there's any interest. If there isn't, try to find out why. If there is, find out when you should call back next.

Maintain contact with as many companies in parallel as you possibly can. Do *not* drop or abort contact with others until you have an signed license agreement in hand. It is not at all unusual for a serious initial expression of interest to peter eventually into no-interest.

If you don't have the money for a patent application -- or you're unwilling to risk that money -- you have two other options.

First, you can go ahead with a non-confidential disclosure. Go ahead and sign their "waiver of confidentiality" form and do a full disclosure. Under U.S. patent law, you have one year from your first such disclosure in which to file for a patent. You can use that year to see if there's if there's any real interest in your product. If you find a company that's interested, they'll probably even pay your patent costs as part of your licensing agreement with them.

Several cautions:

1) You should do a patent novelty search first to avoid wasting everybody's time, including yours. (Wasting people's time is *not* the way to build credibility.)

2) Be aware that by making a non-confidential disclosure you immediately void the possibility of any foreign patents. The U.S. is currently the only country that has a 1-year grace period. Generally, this isn't particularly important -- the U.S. is still the major market for most U.S. manufacturers. However, among very large companies and others doing considerable export business, the availability of foreign patent rights can be very important -- maybe not enough to kill a deal, but certainly enough to considerably reduce its value.

3) If you choose this option, contact *all* the companies you intend to at once, and determine their interest in *parallel*. You have 12 months from first non-confidential disclosure to file for a patent. If you don't file within that 12 months your invention goes into the "public domain", and never can be patented. Twelve months (10, allowing for patent drafting time) go by very

quickly. This is not an option for procrastinators!

The second option is to use a confidentiality (or "non-disclosure") agreement. A confidentiality agreement basically says, "In return for my showing this to you, you promise to treat it as confidential material, not to disclose it to others, not to use it yourself."

If you can get someone to sign such an agreement, you are as protected under *contract law* (at least with that party) as you are with a patent under intellectual property law -- and it doesn't cost anything.

The problem is most companies won't sign such agreements (again, the liability problem). However, in every market, there are small companies (less than $5-10 million sales) who don't know better (or who know better but are consciously willing to take the risk).

Note: The greater your credibility, the more (and larger) companies will sign your confidentiality agreement. There are few companies who will not sign such an agreement with a world-leading authority in the subject field.

Those are your options offering *legal* protection. There are no others.

However, don't overestimate legal protection. Legal protection isn't all it's cracked up to be. To the extent it intimidates other parties into doing what they should, it has value. However, if they choose to carry it into court, the odds are overwhelming you'll lose -- even if you win. Do you really want to trade 5-6 years of your life, subjected to incredible tensions, for dollars?

There is another option -- *business* protection. If you can convince a manufacturer that he can make money on your product, that you can develop it and bring it into his production with minimal impact on his internal operations -- and that you have more to follow -- you have *business* value. No competent businessperson will kill a goose that can lay golden eggs. The expectation of what you can do -- and the subsequent doing of it -- can often be much better "protection" than is obtainable under law.

Those are your options for getting a product to market. Each path requires a great deal of time and hard work. You can't "hire" someone to do it for you -- without a *very* high risk of being taken. You may be able to "partner" with someone to do it for you -- just make sure the partnership interest is contingent on results.

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