



THE ESSENTIAL GUIDE TO LICENSING

POWERED BY
ENHANCE INNOVATIONS
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PART 1 | FINDING THE RIGHT COMPANY TO LICENSE YOUR INVENTION



If I were to compare this to golf, licensing your product is like a very long par-five hole with a dog-leg left. Thus far all of your preparation up until this point, (your patent search, product development, patent filing, etc.) represents your initial drive and long iron shot that puts you in striking distance to the green. The actual contact with a new company is the approach shot, and negotiations, which we will cover in the following section, is like putting. In your approach shot, if you don't consider the hazards, pin location and slope of the green, you will create much more work for yourself. In the same way, detailed consideration is needed when approaching, qualifying and making a license pitch to a company.

Miscalculate and you will be in a sand trap; come in too strong and you will find yourself in the back fringe; and if you come in too weak you won't reach the green at all.

For many inventors this will be the most difficult step to licensing their invention. It is simply awkward for most folks to make a cold call or walk up to a booth at a trade show and introduce yourself with the goal of forging a new business relationship. As a result, if you are uncomfortable with this you will either need to compensate by practicing repeatedly and use the tools herein, or partner with an agent or salesperson that can represent you.

I'VE BEEN INVOLVED IN LICENSING PRODUCTS FOR MANY YEARS AND KNOW JUST HOW CHALLENGING THIS PART OF THE PROCESS CAN BE, SO A GOOD SALES PERSON CAN BE WORTH THEIR WEIGHT IN GOLD.

However, the goal of this eBook is not to provide a detailed analysis of the principle of good sales – it is outside the scope of this work and it has been written about in great detail by many others. Rather, the goal is to enable inventors by teaching how to identify and qualify a good licensee and then provide tools on how to make the pitch and communicate effectively, thus resulting in a higher likelihood of success.

WHICH TYPE OF COMPANIES LICENSE PRODUCTS?

Not all manufacturers are candidates for licensing. In fact, there is an important distinction that should be made at the outset regarding the two major types of manufactures. For simplicity purposes, I would divide them into contract manufacturers, sometimes referred to as “job shops,” and manufacturer-distributors.

Contract manufacturers are those companies who supply product for other companies or entities on a per-project basis.

THEY DON'T HAVE A RECOGNIZABLE BRAND AND HAVE VERY LITTLE (IF ANY) DISTRIBUTION CHANNELS ESTABLISHED. AS A RESULT, THESE COMPANIES WOULD BE OFFERING YOU VERY LITTLE TOWARD YOUR GOAL OF MAKING AND SELLING YOUR INVENTION, AND SO SHOULD BE AVOIDED.

Of course, job shops will be glad to manufacture your product, but instead of them paying you a royalty, they will want you to pay them for the tooling and manufacturing cost per unit; and you would still be responsible for distribution. A contract manufacturer may be proficient in performing their type of manufacturing, such as injection molding, and will likely be able to manufacture a quality piece for you. Commonly they would be a good source if you needed to develop or manufacture a presentable prototype. However, they usually have very limited knowledge regarding the market forces as well as what retailers and customers may be looking for in a specific industry and thus should be avoided for licensing.



A “Manufacturer-Distributor,” on the other hand, can offer many benefits to an inventor seeking to license their invention. They are those companies that have manufacturing capabilities and are in the business of distributing products under their brand(s). I intentionally have made this definition broad since these companies commonly will range in how they conduct their business. Some manufacture products in-house at one of their locations (either domestic or abroad) while others outsource some or all of their manufacturing to preferred vendors or job shops. Currently the companies that outsource manufacturing commonly will utilize overseas sources in China or Taiwan to improve their profit margins and drive the price down so that it can be sold in a mass discount retailer, such as Wal-Mart or Target. Usually they are US-based companies but find it necessary to use a low-cost overseas manufacturer to compete in the marketplace.

An example of a very large “Manufacturer-Distributor” is 3M. They are in the business of developing products and technologies and have numerous distribution channels in which to commercialize any given product in their portfolio, both business-to-business and business-to-customer. Additionally, they have a very recognizable brand which contributes value to an inventor should they license an invention or technology. Considering the comparison to a job shop, companies like 3M can offer much more to an inventor than simply developing and manufacturing your product.

DUE TO THEIR KNOWLEDGE, CONTACTS, BRAND AWARENESS AND WHEREWITHAL TO ACTUALLY BRING YOUR PRODUCT TO MARKET RIGHT THROUGH THE DISTRIBUTION CHANNEL, MANUFACTURER-DISTRIBUTORS ARE POSITIONED TO MAKE IT A GREAT SUCCESS AND HIGH-VOLUME SELLER.

Of course not all potential licensees will stack up in the same manner, and as a result it is important to perform extensive research to identify and properly vet these manufacturer-distributors to find the best one for your product.

FINDING THE RIGHT COMPANY

Now that you know which type of company to approach, there are a great number of considerations as you pick the ones you will be pitching your product to. You want to ensure that the potential licensee is “able and stable.” Some of the major questions to ask are the following:

1. Engineering and Product Development. Is the company able to develop a quality product as shown in their current product line and new products that they have released in the past few years?
2. Market Share. Is the company a major player in the industry and market segment of your product? Do their current products have adequate distribution to sell in substantive volume? Are they innovators or do they sell me-too products?
3. Financial. Is the company financially sound and profitable? Are they heavily in debt or properly capitalized? Does the company pay its creditors in a timely fashion?
4. Legal. Does the company have any past or pending litigation? Most notably are there records of product liability lawsuits or defaulting payments to creditors?
5. Marketing and Sales. Does the company support its products with quality marketing and a strong sales force?
6. Reputation and Intangibles. Is the company respected by others in its industry? Are the company’s brands appealing to consumers?
7. Management. Is the company’s leadership talented and visionary? In your experience with those in the company, do you foresee a good inventor-licensee working relationship?

PRIOR TO ACTUALLY PITCHING YOUR PRODUCT, ANSWERING THESE QUESTIONS WILL ENABLE YOU TO SEPARATE THE WHEAT FROM THE CHAFF AMONG POTENTIAL LICENSEES. THE GOAL IS TO TARGET IN ON THE WINNERS WHO CAN MAKE YOUR PRODUCT A COMMERCIAL SUCCESS.

Getting answers to these questions can be performed by online searching on the Internet, utilizing such company information websites. For publicly held companies, the Securities and Exchange Commission requires certain reporting that provides a vast amount of information on the company.

The annual report, or SEC 10-K, is very valuable and usually readily downloadable online or can be requested through the company’s investor relations department. It typically will include a detailed report on the financials, executives and management, its market position and competitors, growth or decline, lawsuits, etc.

For privately held companies, you will need to do more digging and networking with those in the industry to find out this type of information.

IN-STORE RESEARCH – SEEING WHERE YOUR PRODUCT FITS IN



My favorite type of research is going to the actual location where an invention, if commercialized, would sell. For consumer products, I will visit Wal-Mart, Target, Home Depot, Lowes, AutoZone, etc.

I WILL GO TO THE SECTION, PLANOGRAM AND SPECIFIC SHELF IN WHICH THE PRODUCT WOULD SELL AND BEGIN LOOKING AT THE EXISTING PRODUCTS ON THE MARKET, WHO MANUFACTURES THEM, UNDER WHAT BRANDS, ETC.

If you look closely at the back of the packaging you will usually find the corporation name (which is not always the brand on the front of the box) and to varying degrees they will include a physical address and website. These should all be added to your potential licensee list until you rule them out for one of the reasons already specified.

In my time at a retailer, as I take notes on a specific shelf it commonly will arise suspicion from employees in the store. I welcome this since I want to introduce myself and then ask them if I can speak with a manager or assistant manager who hopefully can provide knowledgeable answers to questions or provide further insight into the product category and the players. They might know of other brands that either did well or poorly in the past that would help grow the potential licensees list.

It is then important to go to different store chains and repeat the same steps to gather a comprehensive list of manufacturer-distributors that are involved in the industry of your product. The nice part about the list so far is that it will consist of a high concentration of elite companies with strong distribution. You can conclude this since you found them in the place a consumer would normally go to buy a product such as yours, and thus you have proof that they have successfully distributed their products.

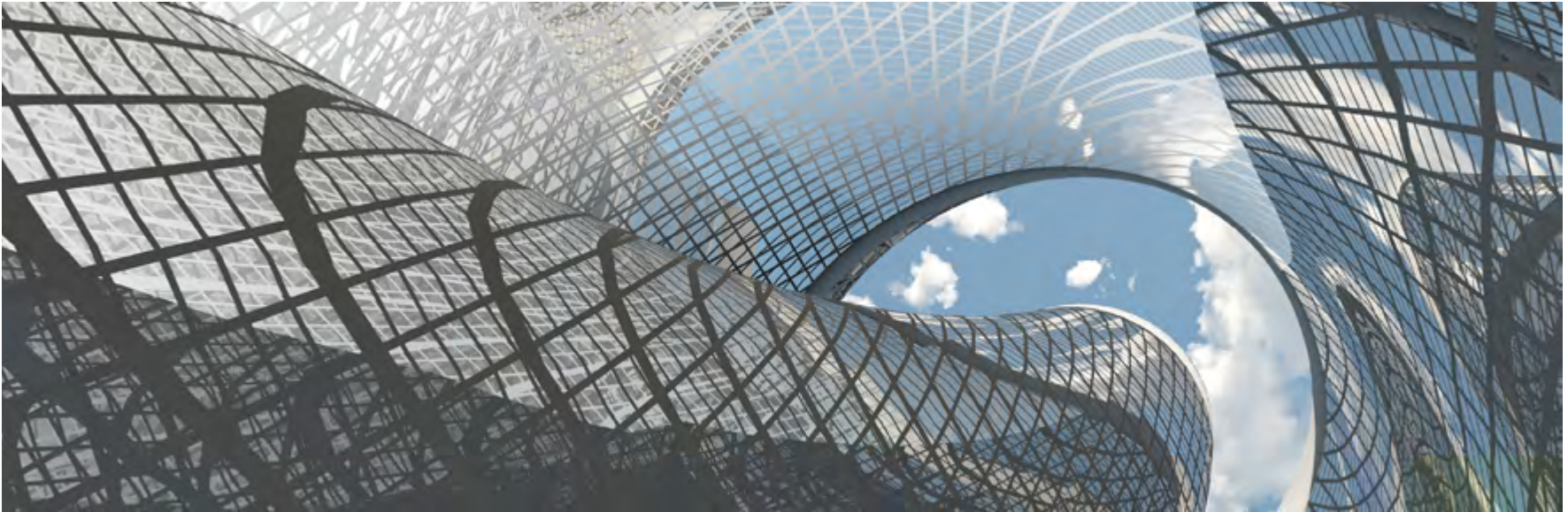
ONLINE RESEARCH

The next place I go after in-store research is the website of the store(s) I just visited. It is somewhat redundant, but often you can find out more information on the companies that were identified in the store (their product line, price points, etc.), but also it broadens the potential licensees list even further since there are more products (and manufacturers of those products) listed on a retailer's website than there are in the store. The reason for this is because many retailers simply don't have the space to fit all of the products in their store. As a result, some products go to all the stores, some are regionally distributed, and others can only be found online. In fact, retailers will commonly test a new product online to see the product's performance before bringing it in for a regional test or purchasing it for all of its stores.

Online searching is so easy and you can amass so much information in a short time. When I research online I check all the major store chains, yet sometimes it is difficult to match a brand name with the company who owns the brand. However, once identified, I will visit the website of the potential licensee and learn everything that their website can tell me. How is the marketing? Is there any mention of the names of the executives and management? What is their contact information? How does their website rate from a marketing standpoint? All of these items begin to shape my opinion on the potential licensee and helps me make an informed decision on where they rate between the other companies that have been selected.



THE VALUE OF TRADE SHOWS



TRADE SHOWS ARE THE ULTIMATE EVENTS FOR NETWORKING, ACQUIRING SALES LEADS AND GETTING INDUSTRY INFORMATION FROM THOSE WHO SHAPE IT. I AM A BIG FAN OF TRADE SHOWS AND USUALLY ATTEND A DOZEN OR MORE EVERY YEAR (THE SALES PEOPLE IN OUR COMPANY ACTUALLY ATTEND EVEN MORE).

ALTHOUGH EMAIL, CELL PHONES AND VIDEO CONFERENCING HAS DONE WONDERS FOR OUR ABILITY TO COMMUNICATE, NOTHING BEATS A FACE-TO-FACE MEETING AND A HANDSHAKE TO START OFF A BUSINESS RELATIONSHIP.

If you are looking for information on who could be the right company for your new invention, look no further than the major trade show for your specified industry. To properly work a trade show and gain the maximum benefits, your work should begin at least 3-4 weeks prior to the date of the show. The major trade shows usually have a list of exhibitors available on their website as well as varying levels of information and research capabilities which can sometimes even include the names of management (usually VP of Sales, General Manager, etc.). Some shows even have unique features that facilitate and allow you to communicate with exhibitors.

In the weeks prior to the show you should make a list of potential licensees and begin learning about the companies.

If your research suggests that they may be a viable licensee, two weeks prior to the show, make a phone call, introduce yourself and ask to schedule an appointment. It may be difficult to reach the important decision makers and even if you do they may not want to schedule a concrete day or time, and that is normal. A trade show is an event designed for them to sell their products and they need to be sure that they are accessible to large customers, such as retail chains, etc. However, usually they will invite you to stop by, which makes approaching their booth on the days of the show much easier.

WHEN YOU ARRIVE AT THE TRADE SHOW, THE VERY FIRST THING YOU SHOULD DO IS PICK-UP THE BOOK THAT LISTS ALL OF THE COMPANIES EXHIBITING AT THE EVENT, OR DOWNLOAD THE PHONE APP. USUALLY IT IS CALLED THE "BUYERS GUIDE" AND INCLUDES COMPREHENSIVE INFORMATION ON THE COMPANY, ITS CONTACT INFORMATION, AND THE PRODUCT SEGMENTS THAT IT IS INVOLVED IN.

At a lunch break or when I need to just sit down to rest from all the walking, I will go through the book and see if I missed any companies in my initial online search. Also, I may identify a company when walking by their booth and the Buyers Guide allows me to learn more about their business. I like to do this prior to approaching someone at the booth since by becoming informed I can make a better impression and get to the decision maker more effectively.

At first, the approach to the booth can be a scary endeavor – almost like a freshman boy trying to muster up the courage to ask that pretty girl to dance. But once you have done it a few times, you will become more and more comfortable with it and find a system that works for you. Of course you will run into jerks or naysayers that can discourage you, but on the whole people will give you a fair shot, especially if the booth is not busy. In fact, I find it helpful to look for down times at a particular booth to approach. If I stop by the booth

and they have lots of traffic, I will come back later when I am not interrupting a potential big sale that they are working on. Depending on the length of the show, I will usually not approach a company on the first day since they are very one-track minded, focused singularly on selling product. So generally I will use the first day to gather as much information as possible and identify potential opportunities, and leave the second day to make contact. However this can backfire since if you wait past the second day the executives may already be gone.

At a trade show it is likely that you will be taken either to someone in marketing, sales, engineering/new product development or a product line manager. For the smaller companies the salesperson or receptionist may take you directly to the president, so be prepared. In any case, in the following section see an analysis on the various groups of individuals, their common roles and what to be aware of.

COMPANY PERSONNEL AND ROLES



President/CEO. These are the final decision makers and are always interested in boosting sales and improving their company's market position. They are knowledgeable and may have even founded the company, thus making them both entrepreneurs and innovators.

ACTUALLY, I FIND THAT ONCE YOU REACH THESE PEOPLE THEY CAN BE VERY SYMPATHETIC TO INVENTORS, SINCE OFTEN TIMES THEY ARE INVENTORS THEMSELVES – ESPECIALLY FOR FIRST GENERATION CEOS OR FOUNDERS WHO STARTED WITH THEIR OWN INVENTIONS. THEN AGAIN, THEY WILL USUALLY BE HONEST AND FORTHRIGHT, NOT HOLDING ANY PUNCHES IF THEY BELIEVE THE PRODUCT IS LACKING IN AN AREA. THEIR OPINION WILL BE VERY VALUABLE, SO EVEN IF THEY CHOOSE TO PASS ON YOUR PRODUCT TRY TO GET AS MUCH INFORMATION AS POSSIBLE SO THAT YOU CAN COMPENSATE FOR THE NEXT SALES PRESENTATION.

Commonly though, if you reach the president or CEO, they will likely send you to someone else who is more intimately involved with developing the company's product line.

Vice President of Marketing. Very commonly these folks are the one's chiefly responsible with evaluating new product opportunities and will remain your contact throughout the evaluation process. They are influenced by the VP of Sales since they appreciate input on which products they believe will sell, however they will normally look at new products more objectively and not be influenced by the source like an in-house engineer would. If you get this person to believe in your invention you will have very good chances of getting it licensed.

Vice President of Sales. Usually those involved in sales, even the Vice President, are not intimately involved in identifying or developing new products. Their main role is to sell the company's product line. However, since they are usually paid on commission, they can help the project along if they believe your product will be a seller. In the past, sales personnel have been invaluable at putting us in touch with the decision-makers and providing us with information and helpful tips.

Product Line Manager. This individual is below a VP of Marketing and can have a range of decision-making capabilities depending on their stature with the company. They are very knowledgeable in their specific market segment and can provide you with excellent feedback on various forces at play in the particular field of your invention. Sometimes they can be a gatekeeper which keeps you always at arm's-length away from the true decision makers, but if they become a believer they can champion your product.

New Product Development/Engineering. *This group has been hired to develop new products, so they may look at you with suspicion. Usually I find the best way to work with engineers is to compliment the existing product line of the company and mention how you believe that your product might fit in well with their line-up. Actually, it may be the reason that you initially identified the company in the first place, so let them know.*

However, they may see you as invading their turf and commonly will look for weaknesses in your product so be careful and try to make friends with these folks. If they come up with a good suggestion for an improvement or modification, look for a way to point out their contribution in future discussions with others, especially their superiors. Giving them some credit will go a long way with new product development staff since (like everyone) they want to justify their worth within the company.

Legal Counsel. You likely won't be directed to these people at a trade show unless they have a formalized product submission procedure. Also, if you call or email the company a gatekeeper may put you in touch with their legal department as a standard procedure. I have never found company lawyers to be the right people to drive a technology forward within a company, but often times for a company they have a standard procedure that involves signing the company's disclosure agreement. Typically, after you sign the disclosure agreement, they will then hand you over to the new product committee or the person who will be assigned to evaluate your invention on behalf of the company.

PRODUCT SUBMISSIONS

When you are sending a potential licensee an information package on your product there is much to consider so that it has the greatest possible positive impact. But first of all, do not send product submissions to anyone unless you have already spoken with them and they have expressed some interest in your invention. That means do not send out unsolicited mailings or emails. Companies look at this as junk mail and it is usually trashed before it reaches any decision makers within the company. That means, do not skip making phone calls or attending trades shows as it is the only way to develop a relationship that will lead to serious consideration of your product submission by the company you are working with.

Included in your product submission package should be the following:

1. A cordial introductory letter reminding the company of who you are, your past communication and why you are approaching the company. It may be helpful to include the type of collaboration that you are seeking with the company, i.e. that they license, manufacture, distribute and sell your product.
2. The presentation of your product, showing the professional designs that highlight the unique selling proposition and major features/benefits.
3. Support documentation (if available), such as manufacturing costs, testimonials, videos, testing, or market research.
4. A copy of any issued patents that you have for the invention. If you patent has not issued yet, do NOT include a copy of your patent application.
5. A product sample if available. Since prototypes are expensive, I normally will not send that out in the first mailing – only after they have expressed substantive interest in moving forward with the product.

PART 2 | NEGOTIATION STRATEGIES

As I mentioned in the beginning of the last section, licensing products can be compared to golf. There are many parallels that can be drawn which shed light on the various elements of the licensing process and provide inventors with insight. The approach shot to the green can be likened to approaching a company, and negotiations is like putting. As the saying goes, “Drive for show, putt for dough.” Well, never can this saying be more applicable than when used to describe negotiations. Just like in golf, how putting determines whether you will win or lose a round, so too negotiations will be the determining factor on what you will get in a license deal or if you will get a license deal at all.

As an average golfer myself, I am always impressed with the professional golfers who are able to handle

the pressure late in the round, when the stakes are high and everyone is watching. They are focused and have two notable abilities over the average golfer when it comes to putting. They can read the green to find the right line and they know how hard they should strike the ball to get the proper ball speed.

IN THE SAME WAY, A GOOD NEGOTIATOR CAN READ THE SIGNALS AND FIND THE SOLUTIONS THAT WILL LEAD DISCUSSIONS TO AN AGREEMENT. FURTHERMORE, LIKE THE GOLFER WHO CAN DETERMINE THE RIGHT BALL SPEED, THE PROFESSIONAL NEGOTIATOR KNOWS HOW HARD TO PUSH, WHEN TO DIG-IN AND WHEN TO MAKE CONCESSIONS.



In this chapter I will seek to give practical, real-world advice when negotiating an agreement for your invention with a potential licensee. Much has been written in the area of negotiation and can help you as you learn how to navigate the process of establishing a legal contract. Two that I've found most helpful are Getting to Yes: Negotiating an Agreement without Giving In by Roger Fischer et al. and Crucial Conversations: Tools for Talking When the Stakes are High by Kerry Patterson et al. Each work provides detailed insight on the many dynamics involved when two or more entities engage in negotiations and will be extremely helpful as you seek to learn the finer points of negotiations.

"WE ARE INTERESTED" – NOW WHAT?

AFTER ALL OF THE WORK IN DEVELOPING YOUR PRODUCT, PROTECTING IT, MARKETING IT AND MAKING THE SALES PITCH, IT IS AN UNBELIEVABLE FEELING WHEN A COMPANY SAYS, "WE ARE INTERESTED." ALL OF YOUR SACRIFICES, TIME, EFFORT AND MONETARY INVESTMENTS ARE JUSTIFIED UPON HEARING THOSE WORDS. THE DREAM IS ABOUT TO BECOME A REALITY AND YOU BEGIN VISUALIZING YOUR PRODUCT ON THE SHELVES OF YOUR LOCAL STORES. HOWEVER, IT ALL COMES TO A SCREECHING HALT WHEN AN IMPORTANT QUESTION SURFACES: NOW WHAT?

Upon receiving word from a potential licensee that they are interested it is not always clear how to proceed. I have noticed that this is particularly true when you work with a company who has never licensed a product before. They do not understand the parameters of a license arrangement and so will need you to take the lead to develop the structure of the agreement. However, even with a company who has licensed products before in the past, it is important that you not be afraid of taking a proactive role in negotiations to assert yourself and make your expectations clear.



FIRST STEP - ASKING QUESTIONS:

Prior to even approaching the company in the first place, it is very likely that you gathered extensive information that lead you to believe that they would be a good licensee for your product. In addition, throughout the process of pitching the product and your conversations with various folks within the company you hopefully will have confirmed that they have the skills necessary and are well positioned to commercialize your invention. Once it becomes evident that they are interested in moving forward with working out an agreement, it is important that you continue this research to gather as much information as possible. What are their strengths and weaknesses? What are their manufacturing capabilities? Are they particularly strong in a certain market segment? What is the extent of their distribution? All of these questions will arm you with the information that will allow you to engage in negotiations intelligently and effectively.

Now, with the presumption that you have done the groundwork research, the very first step to negotiations is to ask questions and listen. Commonly, upon hearing that the company is interested, one of the first things they will ask is, "What do you want?" Even though this will likely invoke excitement, it is best to curb your enthusiasm and get ready for a protracted process with many conversations to discuss just what you want in relation to what they are willing to give you. Nevertheless, at this point, the question, "What do you want?" is entirely premature. It is like the caddy asking the golfer which club he would like for the second shot before even taking his first. He doesn't know the conditions or the distance to the hole, how can he determine which club to use? In the same manner, such a general question posed by the company is impossible to answer without first targeting in on what they want in the license. Is it exclusive or non-exclusive? What territory or market segment do they want? All of these are pieces of the pie that you can offer to the licensee and each have a cost. As a result, the best response to, "What do you want?" is to ask them the same question.

AT THIS POINT IT IS IMPERATIVE THAT YOU DETERMINE THE PARAMETERS OF THE AGREEMENT BEFORE YOU ASSIGN A VALUE TO THE LICENSE. CLARIFY IF THE AGREEMENT IS FOR THE US, NORTH AMERICA OR WORLDWIDE. FIND OUT IF THEY WANT RETAIL DISTRIBUTION, DIRECT RESPONSE TELEVISION, CATALOG, OR ALL DISTRIBUTION CHANNELS. DO THEY WANT THE TECHNOLOGY EXCLUSIVELY OR DO YOU HAVE THE OPTION TO LICENSE IT TO OTHER COMPANIES?

Be sure to draw it out for them that they see that each country, each market segment, and each distribution channel have value and need to be accounted for in the agreement. If they want a worldwide exclusive agreement, that means that you have no other options and the royalties they pay you represent your total income on your product. By doing this they will quickly understand the nature of what they are asking for in the agreement since it frames the negotiations utilizing concrete points rather than generalities.

The second grouping of questions that you should ask is related to what the company can offer to you in the license. That is, what is their estimated sales volume for years 1, 2 and 3? Do they have a marketing strategy to roll-out the product? Commonly the answers to these questions are still only estimates since they might not have feedback from a lot of potential customers. Nevertheless, now is a good time to ask these questions, especially their expected sales volume estimates since they will be compelled to be truthful and not simply low-ball you. They will want to give you a sales volume that is high enough to get your attention, but not so high to inflate your hopes or lock them into yearly performance requirements that are difficult to reach. A common statement that companies make is, "We would rather under-estimate and over-perform." This is especially a common quote made by salespeople who need to make sales forecasts. By lowering expectations they will then look like a hero to the company at the end of the year when they exceeded their sales estimates.



Once you understand the various parameters of the agreement that they are seeking and what you are likely to get in return, at that point it is time to create a short proposal.

TERM SHEET

The “Term Sheet” is simply business-speak for a shortened list of major terms and conditions of an agreement that can be easily reviewed prior to formulating the more extensive and lengthy contract.

The reason that its use is so effective is because it lays out the main elements of the agreement as a collective whole in a short workable form, both of which are very important. Having the terms as a collective whole prevents a company from negotiating the agreement terms separately, which usually will result in a worse deal for you. It is important for the company that you are working with to understand that the terms are interrelated and if they want a worldwide exclusive license that will have an effect on performance requirements, minimums, royalty rate and various other terms.

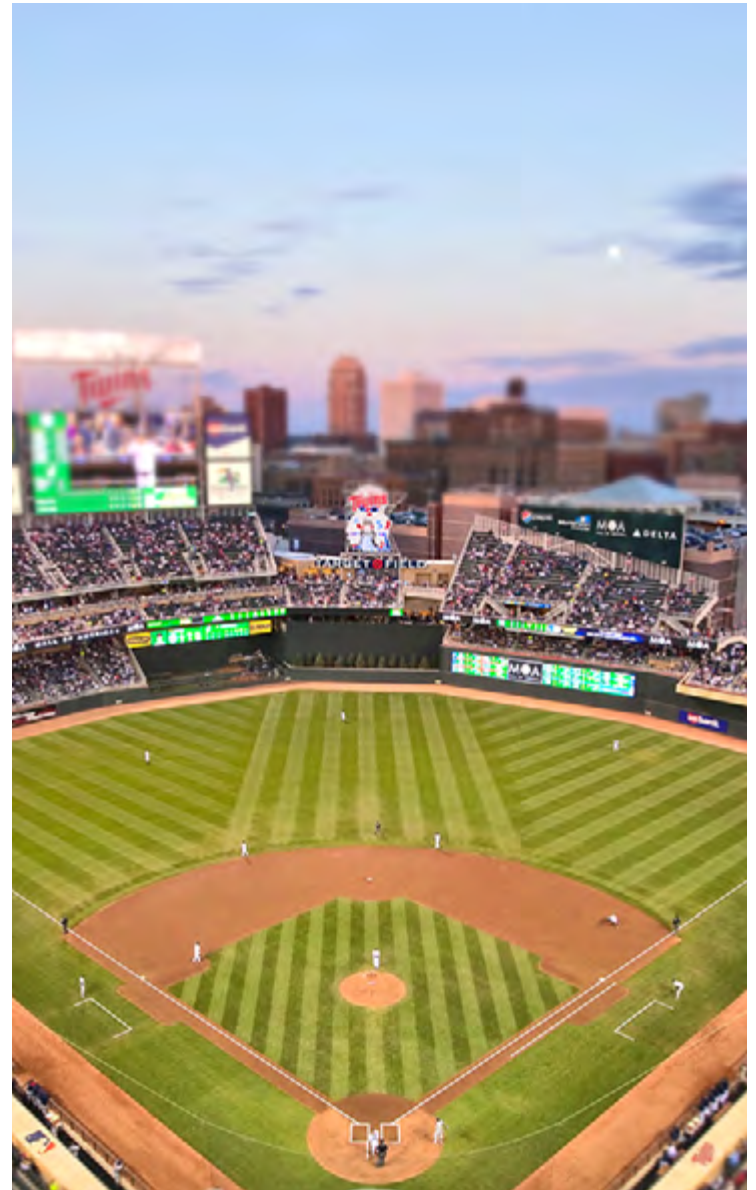
ADDITIONALLY, HAVING THE TERMS IN A SHORT WORKABLE FORM ALLOWS FOR CONVENIENT REVIEW OF THE TERMS BY EXECUTIVES THAT IS NOT TIME-CONSUMING OR CONFUSING. BY MAKING IT SIMPLE YOU INCREASE YOUR ODDS THAT THE PROPOSAL WILL BE REVIEWED AND ACTED UPON BY THE EXECUTIVES OF A COMPANY IN A TIMELY MANNER. FURTHERMORE, COMING TO A CONSENSUS (IN PRINCIPLE) ON THE MAJOR TERMS DURING THE PROPOSAL PHASE WILL MAKE CONSTRUCTING AND EXECUTING THE CONTRACT MUCH SWIFTER.

The Term Sheet is a simple, less formal, 1-2 page proposal that first specifies the parties and the technology and then specifies the major terms of the agreement.

Hopefully your conversations during the questioning phase just prior to drafting this equipped you with the necessary information to structure the major terms so that you are not simply flying blind. For instance by getting the company's estimations of volume sales in the first three years, you will know their ballpark expectations, thus helping you to establish performance requirements or guaranteed minimums. If you didn't have this information you would run the risk of either overestimating, which causes them to be upset since the volumes are unachievable; or underestimating, which would result in a lost opportunity for you. Thus, by utilizing concrete information in your proposal, gathered either from your research or through questioning, it will accurately reflect both parties understanding of the deal, which will increase your odds of it progressing smoothly into a signed license agreement.

STRATEGIES AND TECHNIQUES TO REACH AN AGREEMENT

I consider myself a good negotiator, it comes natural to me, I'm comfortable with it and I actually enjoy it. Because of this I have had family, friends, colleagues and employees ask me to help them with the purchase of a vehicle, real estate transactions or negotiating a commercial lease. However, for many others negotiating is very uncomfortable and they would rather leave it to the professionals or an attorney. Since this can be very costly, many inventors simply need to negotiate on their own behalf, which is why I think it is important to include this chapter and this specific section on the communication dynamics of negotiation that can help you reach an agreement. (Please note, although you can choose to negotiate an agreement on your own, we recommend that prior to signing any contract you get legal advice from an attorney.)



Once discussions have shifted from you making a sales pitch to the company wanting to discuss the terms of an agreement, you have officially reached the negotiation stage. I normally distinguish the initial discussions prior to the proposal as “pre-negotiations” and the time after the proposal is presented and the construction of the contract as “negotiations.” However, no matter how you define it inventors must be mindful of the shift, realize the new dynamics involved and take great care in all communications from here on out.

SINCE THERE ARE SO MANY DIFFERENT PERSONALITIES AND WAYS TO CONDUCT A NEGOTIATION, THERE MAY BE VARIOUS WAYS IN WHICH THE COMPANY MAY OPERATE. I’VE SEEN A WIDE RANGE OF APPROACHES, FROM AN INFORMAL, FRIENDLY APPROACH TO EXTREMELY ADVERSARIAL. AS A RESULT, RATHER THAN PLAY THE “GAME” OF NEGOTIATIONS, I WOULD SUGGEST THAT YOU FOCUS LESS ON THE STYLE OF THE DEBATE AND FOCUS MORE ON THE SUBSTANCE OF YOUR ARGUMENTS.

Every fact that you have collected in your initial research and questioning is a tool that you can draw from during conversations. Each piece of information that supports your claim that the product will be a commercial success will improve your negotiating position.

For instance, if the company gets manufacturing quotes during

the evaluation of your product (which is common for companies interested in licensing) then utilize those numbers to help your argument. So, rather than squabble over the royalty rate as a solitary number, discuss the royalty in relation to their income on the product based on their margins that you can deduce from the manufacturing costs. Having this information will give you figures to work with so that you can have intelligent comments in support of your position. Generally, this main principle will separate the successful negotiator with the “also-rans.” Those who focus on substance and supporting their argument are far more likely to be successful in achieving what they want in a negotiation.

Whereas substance takes the primacy in negotiations, there are other strategies that will be helpful to achieve a deal. They never are as important as substantive arguments and some can even be referred to as “cheap tricks,” but nevertheless it is difficult to deny the effectiveness of these principles. They are:

- **Map out scenarios and contingency plans**
- **Leave room to come down**
- **Be honest, never play games**
- **The power of silence**
- **Avoid being the decision maker**
- **Use shock and relief when telling bad news**
- **Give face-saving concessions**

MAP OUT SCENARIOS AND CONTINGENCY PLANS:

Once you have learned that the company is interested in licensing your product, it is time to consider the various scenarios and outcomes. As you ask questions on the type of agreement that they are seeking and what they can offer in a license deal, be sure to take detailed notes and begin weighing the various options and solutions of an agreement. You will definitely be glad you did once you come to the table, either in person or over the phone, since you will have preemptively prepared for the likely changes or modifications that they will request to the agreement and have points and counterpoints ready.

WITHOUT MAKING THESE PREPARATIONS IT IS VERY DIFFICULT TO THINK QUICKLY ENOUGH TO HAVE SOLUTIONS AND CONTINGENCIES FORMULATED. IF THEY ASK YOU TO MAKE A CONCESSION, YOU WILL THEN BE READY TO COUNTER OR CONCEDE THE POINT AND PERHAPS REQUEST A CONCESSION FOR THEM TO MAKE TO THE AGREEMENT.

LEAVE ROOM TO COME DOWN:

This principle is similar to the one just mentioned, however it is important to specify a bit further. Most people (including a potential licensee) will treat negotiations like the purchase of a car. In this case, you would be the salesman trying to ask for more and then settling for less, whereas the company that you are in negotiations with will be quoting lower figures and willing to come up. For instance, you may be hoping to get a 7% royalty so you ask for 8.5%, thereby leaving yourself room to come down. At some level this is a common dynamic for any negotiations, but inventors need to be sure that their initial offer is still reasonable and defensible based upon the merits of the product and the information that you have been collecting. Also, be sure to watch the signs, since both sides will have terms that they consider deal-breakers or non-negotiable. Carefully weigh these out, push where you can, concede when you have to, but always be sure that your proposals and counterproposals are reasonable.

BE HONEST, NEVER PLAY GAMES:

Being dishonest or playing games is normally counter-productive and eventually will spoil the business relationship that you are trying to establish. Playing good-cop bad-cop, pretending you didn't agree to something, changing the playing field, or whatever, generally speaking, playing games should be avoided. As a result, whenever I conduct negotiations I try to be honest and forthright when dealing with the company. As Mark Twain once said, "If you tell the truth, you don't have to remember anything." Furthermore, if you are caught in a lie, depending on the circumstances, at best the company you are working with will be annoyed, but at worst they could claim misrepresentation or bad-faith and take legal action against you.

THE POWER OF SILENCE:

IN MANY CASES THERE COMES A TIME IN NEGOTIATIONS WHERE THE PARTIES ARE DISCUSSING VARIOUS TERMS OF AN AGREEMENT AND THEY GET STUCK. EACH PARTY THEN SITS QUIETLY CONSIDERING THE OPTIONS AND THE ROOM IS FILLED WITH AN UNCOMFORTABLE SILENCE. FOR EXTROVERTED FOLKS LIKE ME, YOU WILL BE TEMPTED TO SAY SOMETHING... BUT DON'T! IT IS AMAZING HOW MUCH INFORMATION CAN BE GATHERED DURING NEGOTIATIONS WHEN YOU REMAIN SILENT AND LET THE OTHER PERSON TALK.

They are likely to tell you background information of their position, providing you with further insight into their company, and sometimes they will actually suggest a solution that favors you. The silence acts like a catalyst to get them talking. As a general rule-of-thumb, the more talking that they do the better. Consequently, embrace the silence and see what happens – usually you will be happy with the result.

AVOID BEING THE DECISION MAKER:

When you are negotiating with a company on the various terms of the agreement, it is always nice to have a person in which you can defer the final decision to. If you are in a partnership with your invention with another party, this is built-in and provides you with a chance to break from the negotiations to regroup. This can especially be beneficial when the company has proposed something that you weren't expecting and you need to consider it further. By being able to say something like, "I have a partner in this project and I need to run this by them before we can proceed." The partners may be co-inventors, investors or a spouse, but having this is very helpful as you navigate the negotiations. It allows you to break and consider the many facets of a proposal and provide you with the ability to counter only after you've given it sufficient thought.

USE SHOCK AND RELIEF WHEN TELLING BAD NEWS:

In any communication with the potential licensee that you are working with, it is likely that you will need to convey some sort of news that they will not be happy about. You may have found out from the USPTO that not all of your claims were allowed or you may need to reject one of their important terms that they requested. Whatever the reason, there can be a way to deaden the blow a bit, that is by using shock and relief. Shock and relief is like the common saying, "I've got good news and I've got bad news..." Basically, whenever you have bad news to tell you consider ways to follow it up with a positive comment or spin. For instance, if you missed the deadline to file your patent in

Canada or some other country that is important to the potential licensee, you can say, "Our attorney notified us that we have missed the filing date for Canada, however everything looks to be progressing with our US patent and we still may be able to develop patentable improvements which can then be filed in Canada." In all things, search for a positive way to end things to ease their mind and keep morale high.

GIVE FACE-SAVING CONCESSIONS:

This is a finer point of negotiations but can go a long way to solidify a strong and long-lasting business relationship. When you make a demand for a certain term in the agreement, especially a critical term like the royalty rate, it can happen where to get what you want you will need to dig-in and push hard for the company to accept your terms.

IN THESE CASES, WHEN THEY EVENTUALLY AGREE, YOU SHOULD CONSIDER GIVING THEM A "FACE-SAVING CONCESSION" AS A SIGN OF GOOD WILL. IT DOESN'T ALWAYS NEED TO BE A CRITICAL ISSUE IN THE AGREEMENT, BUT AS LONG AS THE COMPANY RECEIVES A BENEFIT IN RETURN, THEY WILL APPRECIATE IT AND FEEL BETTER ABOUT GIVING YOU WHAT YOU WANTED.

This is where mapping out your scenarios is important, and as a result, if you are pushing for a specific term you should be prepared to give them something in return for making the agreement.

KNOWING YOUR NEXT BEST ALTERNATIVE – SAYING “NO”

It is important to present your product to more than one company at a time. Not only will it help your chances of actually licensing your product, but it will be extremely beneficial during negotiations since it will help you establish your Next Best Alternative (NBA). When you are working with just one company at a time, it reduces the strength of your negotiations rather significantly because without knowing your NBA, it becomes extremely difficult to say “No” and push away from the table. Furthermore, by knowing your NBA, it will give you increased confidence and reduced urgency to come to an agreement with the company you are negotiating with, thus decreasing the likelihood that you will agree to unfavorable terms.

IF YOU HAVE SEVERAL OTHER LEADS THAT YOU ARE WORKING ON IN PARALLEL WITH THE COMPANY THAT YOU ARE NEGOTIATING WITH, IF THE COMPANY TRIES TO LOW-BALL YOU, YOU WILL NOT BE AS COMPELLED TO ACCEPT THEIR PROPOSED TERMS.

ON THE FLIP SIDE, IF YOU HAVE NO OTHER LEADS AND A COMPANY PROPOSES UNFAVORABLE TERMS, YOU WILL BE MORE PRONE TO ACCEPT THEM OUT OF FEAR THAT NO OTHER COMPANY WILL LICENSE YOUR PRODUCT. THIS IS MAKING A DECISION FROM A PLACE OF WEAKNESS RATHER THAN STRENGTH, AND THE MORE YOU CAN DO TO STRENGTHEN YOUR POSITION, THE BETTER YOUR RESULTS.

PART 3 | LICENSING TERMS AND CONDITIONS

The license agreement is a contract that specifies the terms and conditions between the inventor of a technology and the company that will seek to commercialize it. At its core, the company who licenses the invention leases its use for a predefined time period and compensates the inventor based on a royalty per-unit sold or based on a percentage of sales.



LICENSING = A WIN-WIN SITUATION

Before highlighting the elements of the contract, it is important to first recognize the duties and responsibilities of the parties involved in the license agreement.

As the inventor, your role is rather obvious. You conceived and to varying degrees developed the invention. The work was performed on the front end, prior to executing the agreement, and usually there are no further duties for the inventor unless further development is requested by the licensee. In that instance, a “contractor” section can be added to the license agreement which would detail the compensation and duties of the inventor in continuing development on behalf of the licensee, however this is not common.

NEVERTHELESS, YOU ARE THE INNOVATOR WHO HAS FILLED A VERY IMPORTANT ROLE: TO IDENTIFY AND DEVELOP A PRODUCT THAT PROVIDES A UNIQUE SOLUTION TO A PROBLEM THAT A SEGMENT OF CONSUMERS WANT.

The duties and responsibilities of the licensee usually consist of manufacturing, distributing, advertising and selling the product. To varying degrees, depending on how much development the inventor completed prior to licensing, the licensee may design, redesign, improve or otherwise engineer the product to make it more marketable or to improve its commercial feasibility.

The arguments for licensing are many as mentioned previously however the greatest reason an inventor should consider licensing is the value that a licensee can offer to create high-volume sales of a product. In most cases a licensee has an established brand in which customers will recognize, thus improving the likelihood of purchase. The licensee has distribution channels and a strong sales force with their existing product lines which will provide quick sales ramp-up to get the product in stores.

WHEN CONSIDERING THE CONTRIBUTIONS EACH PARTY HAS TO OFFER, LICENSING BECOMES A WIN-WIN SCENARIO SINCE EACH IS LEVERAGING THE OTHER. THE GOAL WHEN CRAFTING THE AGREEMENT IS TO COMMUNICATE THIS WITH PRECISION IN A FORMALIZED CONTRACT WHILE INSURING EACH SIDE GETS A FAIR DEAL. THE LICENSEE WILL HAVE ATTORNEYS AND EXECUTIVES ARGUING THEIR SIDE; FOR THE INVENTOR TO GET A FAIR DEAL IT IS IMPORTANT THAT THEY FAMILIARIZE THEMSELVES WITH THE MAJOR ELEMENTS OF A LICENSE AGREEMENT AND SEEK COUNSEL FROM AN ATTORNEY FAMILIAR WITH INTELLECTUAL PROPERTY LICENSING.

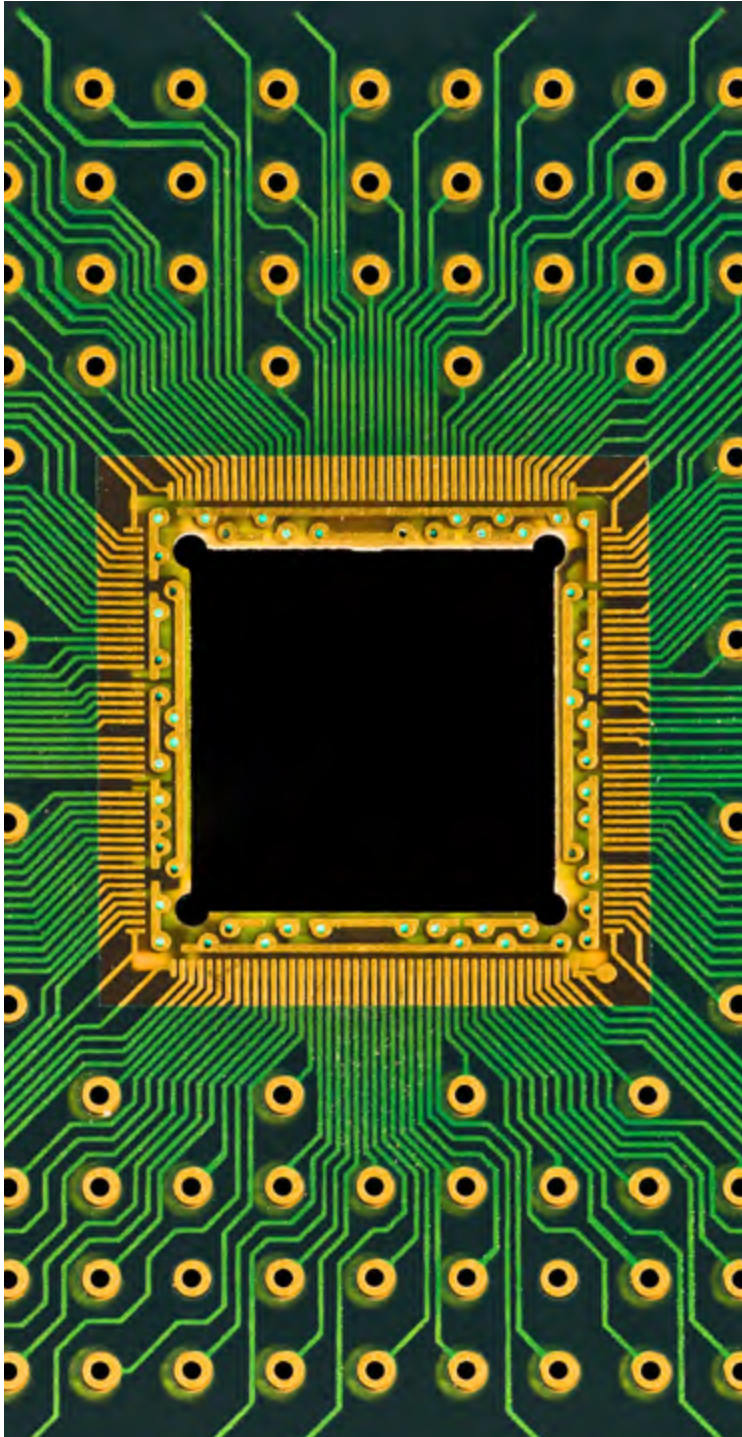
EXCLUSIVITY OR NON-EXCLUSIVITY

License agreements can be divided into two major categories: Exclusive and Non-exclusive. An exclusive license means that the company who has the license is the ONLY one that can manufacture, advertise and distribute your invention for the defined territory, market and distributions channels.

For example, ABC Company may have a stronger presence and areas of distribution in the US while XYZ Company is relatively stronger in Canada. As a result, it is possible to give an exclusive license for the US to ABC Company and an exclusive license to XYZ Company for Canada.

That is the more obvious example of splitting up a license by territory however more complex arrangements certainly exist and may make strategic sense depending on your product and the opportunities that may exist for licensing. For instance, if ABC Company's core customers are mass-discount retailers and XYZ Company distributes to regional specialty retailers, it is possible to give each an exclusive license for their areas of distribution, especially if the two companies are not major competitors. Furthermore, another company may be excellent at Direct Response Television (DRTV), commonly referred to as infomercials, and another might distribute heavily through catalog.

These are critical considerations when identifying your list of potential licensees for your product as well as how to divide and assign value for each of the markets, distribution channels and territories in the license agreement.



If a company wants your invention, you should expect that they will request an exclusive license. Having the sole right to a product insures that they have a relative monopoly on the licensed patent(s), thus giving them an edge over their competitors. Commonly an exclusive agreement allows you to get more favorable terms since you would be putting all of your proverbial eggs in one basket. The royalty rate is usually higher on average; some sort of guaranteed yearly minimums or performance requirements are included; and you are more likely to get money at signing.

CALCULATING THE ROYALTY RATE

Royalty rates can vary greatly depending on the industry and the expected profit margins of the product. For consumer products, the average royalty rate can range from 3-10% of Net Sales, however high technology, software or medical technologies tend to capture a much higher royalty rate, as much as 25%+ of Net Sales.

RATHER THAN PULLING A NUMBER OUT OF THIN AIR, IT IS BEST TO HAVE REASONING BEHIND THE ROYALTY RATE THAT YOU ARE ASKING FOR. TO ASCERTAIN WHAT MAY BE REASONABLE FOR YOUR INVENTION, THERE ARE TWO COMMONLY USED METHODS BY LICENSING PROFESSIONALS TO VALUE INTELLECTUAL PROPERTY: THEY ARE THE MARKET METHOD AND INCOME METHOD.

The first method, the Market Method, is a comparative method which is similar to purchasing a home. This is exactly like a realtor would find “comps” that are similar to the house that you are purchasing or selling (comparing the number of bedrooms, bathrooms, square footage, acreage, etc.) to ascertain the value. It is possible to find industry specific royalty rates through services that compile these license transactions. That way you can note the most recent published license deals with the royalty rates and various other terms and use that in your negotiation.

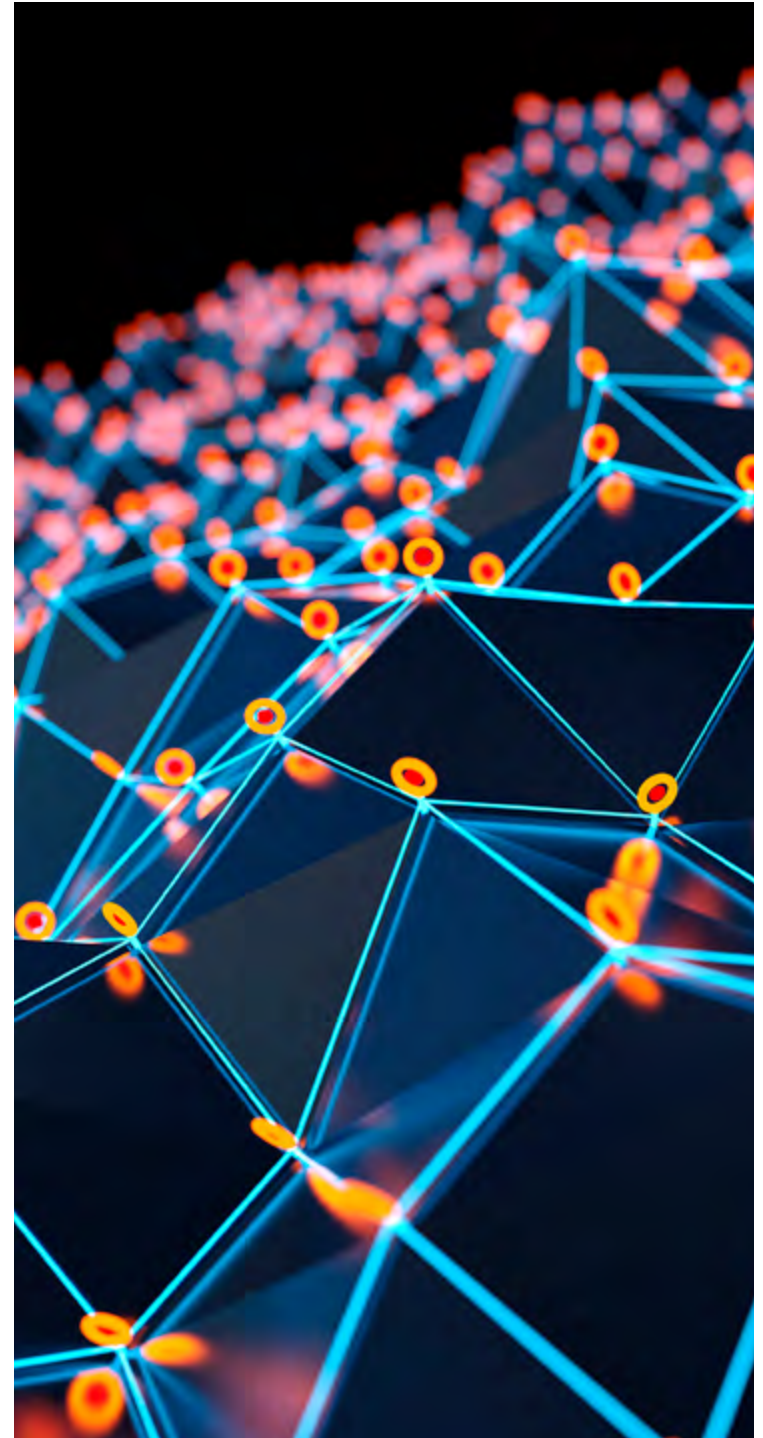
One service that we have used is called Royalty Source and can be found online at royaltysource.com. Also the Licensing Executives Society publishes ranges for specific product categories. The problem is trying to figure out if your invention deserves the high end or the low end of the scale. Does your consumer product deserve 5% or 8%? As a result, these usually give you a rough estimate to start the negotiation from, not a definitive answer.

The second method, the Income Method, values intellectual property based off of the anticipated income that the invention is likely to produce.

THE MOST COMMON WAY TO CALCULATE A ROYALTY RATE USING THE INCOME METHOD IS BY UTILIZING THE 25% RULE, WHICH IS WIDELY USED BY UNIVERSITIES AND THE LICENSING EXECUTIVES SOCIETY. THIS STATES THAT THE ROYALTY RATE SHOULD BE EQUIVALENT TO 25% OF THE PRE-TAX PROFIT OF THE PRODUCT.

To ascertain a royalty rate using the 25% Rule, the pre-tax profits are calculated based on the various market forces for the product and market segment. If a product is expected to have a 40% profit margin, then the royalty rate would be 10%. As another example, for a product with tighter profit margins of 10%, then the royalty rate would be 2.5%.

The “Suggested Royalty Rate” is established by subtracting the amortized per product costs from the wholesale price to find the net pre-tax profit. Then 25% of the profit is then divided by the wholesale price to get the royalty percentage. It is supremely important that you base the royalty off of “Net Sales” rather than profits in the license agreement. If it was based on profits the licensee could “cook the books” to reduce your royalty unfairly. Furthermore, be sure to define Net Sales as narrow as possible, commonly it is defined as “Gross invoices minus returns actually credited, freight, Allowances and Trade Discounts.”



Another way to calculate royalties is by establishing a per-unit royalty, where the licensee pays a set amount for each unit sold rather than a percentage of sales. Generally I prefer this if I know the costs and expected wholesale price since it is easier for accounting and auditing, thus making it less likely for the licensee to make a mistake. The downside to a per-unit royalty is if the product sells for a long time, it becomes complicated to make inflationary adjustments. Additionally, if the licensee sells a product line at various price points, you might actually make less when compared to a percentage royalty rate.

ADVANCES, SIGNING BONUS OR NOTHING

There are two major types of payments at the signing of the license agreement, they are “signing bonuses” and “royalty advances.” These are very different and viewed very differently by the licensee.

A SIGNING BONUS IS A NON-REFUNDABLE BONUS CHECK THAT THE LICENSEE PAYS TO THE INVENTOR

TO GET THE LICENSE, WHEREAS THE ROYALTY ADVANCE IS ALSO A NON-REFUNDABLE PAYMENT BUT SERVES AS A CREDIT TOWARD FUTURE ROYALTIES THAT WOULD BE OWED.

Getting some sort of payment at the signing of a license agreement insures the inventor that the licensee will not simply shelf the product and so is commonly viewed by the licensor as a gesture of good faith. However, the structure and meaning of this upfront money can vary depending on the circumstances of the agreement. Usually licensees do not want to pay any money upfront, and in many instances they have a very good argument. If the product requires development, they will be incurring engineering, tooling, marketing, and packaging costs before they can even approach a retailer to sell the product. Depending on complexity, these “sunk costs” can be 100s of thousands of dollars. That being the case, a licensee may view the requirement of money at signing as greedy, so you must be careful

how you approach the topic and make sure that you have reasoning behind your request for a payment at signing.

On the other hand, the inventor has invested large amounts of time and resources into their product, which may include patenting and prototyping. Often inventors want to receive a large upfront payment to cover all of their time, patenting fees and other associated costs. Sometimes a large payment is warranted, however being paid for ALL of your expenses and time can be unreasonable since it then puts all of the risk squarely on the licensee. The whole notion of the license presupposes shared risk and thus a share in revenue. Nevertheless, since the company has an optimistic view on the success of the product (they would not license it if they did not), requesting an advance toward future royalties to cover some of your costs, such as patenting costs, is a compelling argument. This is especially true if you will be signing an exclusive license with the company.

GUARANTEED MINIMUMS AND PERFORMANCE REQUIREMENTS

In the license agreement, a term specifying a guaranteed minimum or performance requirement provides the inventor (or licensor) with assurance that the licensee will either pay a minimum yearly amount of royalties or sell a specified amount of product each year. The guaranteed minimum royalty is a bit more favorable for an inventor since they are “guaranteed” a set amount of royalties each year. The performance or sales requirement could have several consequences should the licensee not meet the sales goals in the agreement. The two most common are that the licensee will lose exclusivity (meaning that the license would be converted to non-exclusive) or that they would lose the license entirely.

Commonly the guaranteed minimum or performance requirement gradually increases over the years to allow the licensee to ramp-up sales. If there is an advance or bonus at signing, that payment usually will count toward the minimum. In fact, suggesting this to the licensee during negotiations usually will go a long way in showing them that you are not greedy and are seeking to work in good faith. As an example of guaranteed minimums, the Year 1 minimum royalty might be \$100,000, Year 2 \$150,000 and Year 3 \$200,000.

FOR AN EXCLUSIVE LICENSE AGREEMENT, HAVING ONE OR THE OTHER IS AN ABSOLUTE MUST.

I WOULD NEVER COUNSEL AN INVENTOR TO SIGN AN EXCLUSIVE LICENSE WITHOUT EITHER A GUARANTEED ROYALTY MINIMUM OR SALES REQUIREMENT SINCE THE LICENSEE COULD SELL NOTHING AND YOU ARE STILL STUCK WITH THEM UNTIL THE TERM OF THE AGREEMENT EXPIRES, COMMONLY 3-5 YEARS.

Sometimes unscrupulous companies will sign exclusive license agreements with the goal to shelf the product to keep it from competing with their existing products. The biggest mistake you could make is signing an exclusive license agreement for a term of 20 years (which is the life of the patent) without a guaranteed minimum or performance requirement. After signing the licensee could do nothing but still retain the exclusive rights to your intellectual property.

For a non-exclusive license, having a minimum or performance requirement is not a necessity, however it certainly is desirable. Depending on your negotiating position you may or may not be able to get it, but conceding it should not be a deal breaker since you will still be able to license your invention to another company (or companies). As a side note, if the non-exclusive licensee begins selling your invention in good volume, they will

likely request to convert the license to exclusive if you have no other licensee signed. This will give you a strong negotiating position to acquire a guaranteed minimum in the terms of the new exclusive license agreement.

OTHER IMPORTANT TERMS

The money matters (signing payment, royalty rate, and guarantees - as described above) are always the most disputed terms and thus pose the biggest challenge when seeking to reach an agreement. Once you have agreed to those terms, I would estimate that there is a 95% likelihood of successfully signing the license agreement. However there are several other key terms that we should mention since they can change the landscape of the agreement dramatically if left out or improperly drafted.



RIGHT TO AUDIT:

THE "RIGHT TO AUDIT" SECTION IN THE LICENSE AGREEMENT IS ESSENTIAL IF YOU WANT TO INSURE THAT ROYALTIES ARE BEING PAID ACCURATELY. WITHOUT IT, THE INVENTOR WOULD SIMPLY BE RELYING ON THE HONESTY OF THE LICENSEE AND THE ACCURACY OF THEIR ACCOUNTANT.

The audit itself should be performed by a third party accounting firm so the results will be accepted by both sides. Furthermore, it is important to make the option to audit the licensee's books a reasonable number of times each year, otherwise they will likely have reservations with signing the agreement since it may seem too intrusive. Usually, I find that licensees agree to two times a year during the term of the agreement.

The other important element that is fundamental is including some sort of recourse in the instance of underpayment. It is important to distinguish a minor accounting error from intentional deceit and fraud. One way to do this is to establish a point where the licensee is obligated to pay for the audit depending on the extent of the difference between the licensee's numbers and the third party auditing firm. For instance, if the underpayment is less than 5% the inventor pays for the audit, whereas if it is 5% or more, the licensee pays for the audit. Often times, if you have the right to audit coupled with some sort of punishment for underpayment, the licensee will be compelled to pay royalties accurately.

PRODUCT LIABILITY INSURANCE:

To sell your product into a retailer, the licensee will need to show proof of product liability insurance. The amount of coverage can range depending on the industry, but I would advise that the amount of coverage not be less than two million dollars. Prior to selling any units, the licensee should be contractually obligated to list the inventor as a named insured in their policy to cover the inventor from any potential lawsuits that may be filed by customers who may have been injured or suffered damage as a result of using the product. As such, be sure to include this provision in the license agreement and require written documentation from the licensee showing you are a named insured prior to the first sales or within 30 days of the signing of the agreement – whichever is sooner.

PRODUCT SAMPLES:

ANOTHER STANDARD ELEMENT TO MOST LICENSE AGREEMENTS IS THE REQUIREMENT THAT THE LICENSEE PROVIDE THE INVENTOR WITH PRODUCT SAMPLES PRIOR TO SHIPPING THE FIRST ORDER. IT IS A GREAT WAY TO CREATE AN ADDITIONAL LEVEL OF QUALITY CONTROL BY MONITORING MANUFACTURED SAMPLES. MAKE SURE THAT THIS PROVISION REQUIRES SAMPLES BE SENT PRIOR TO FULFILLING THE FIRST ORDER TO GIVE YOU AN OPPORTUNITY TO PROVIDE FEEDBACK TO THE LICENSEE.

There are also other important times in which you should require samples to be sent, such as when a new or different version of the licensed product is developed, a new manufacturer is utilized to produce the product, and at the beginning of each calendar year. Finally, providing these samples should be at the cost of the licensee so be sure to request a reasonable number of samples. Depending on the cost of the product and the number of units being sold each year, this number should range between 3-12 units. Once you have determined that the products meet your quality standards, they make gifts for friends and family members!



PATENT ENFORCEMENT:

Patent enforcement for potential future infringement by another company can get rather complicated. The licensee will usually expect the patent owner (the inventor) to cover any future costs of patent infringement. Their argument, which I believe is somewhat valid, goes something like this: the licensee is paying a royalty for a legal monopoly on selling your product as afforded by the patent system. If another company begins making and selling an infringing product, they no longer have the monopoly, therefore the expense to prosecute the infringement should be the inventor's responsibility. On the surface, the argument sounds very solid, but there are numerous variables to consider as one prepares to prosecute a patent infringement lawsuit.

From the inventor's standpoint, often times it does not make strategic or economic sense to prosecute a patent infringement. After all, the licensee is getting 75% of the profits and such lawsuits tend to be extremely expensive. Depending on the parties involved,

the legal expenses for a patent infringement case that goes to trial can exceed a million dollars, whereas if it is settled you may still have legal fees of 100s of thousands of dollars. With this in mind, if your product is not yet selling in high quantity, all of your royalties (and potentially more) would need to be allocated to prosecute a lawsuit. Also, what if the company that is infringing is small and thus not affecting the sales of the licensed product? What if the company that is infringing wants to seek a settlement in which they become a licensee and pay a royalty? Consequently, it behooves the inventor to make the licensee responsible for this burden or create some other arrangement that is more pliable and would take into account the many circumstances that could arise.

As with some of the other terms and conditions mentioned in this section, the terms often differ depending on exclusivity. In an exclusive license you may have enough leverage to convince the licensee to handle patent enforcement, whereas in a non-exclusive license it is less likely.



ABOUT THE AUTHOR

Trevor Lambert, President Of Enhance Innovations.

Trevor is the President and founder of Enhance Innovations, one of the leading product design firms serving inventors, entrepreneurs and start-ups. From industrial design and prototyping to branding and manufacturing sourcing, Enhance's services enable innovation from start to finish of product development. There are even design packages specifically developed for inventors seeking to license their inventions.

Over the years Mr. Lambert has been chiefly responsible for developing and licensing products that are now in stores such as Walmart, Target, Lowes, Bed Bath & Beyond, Home Depot, ToysRUs and many more; generating for his clients royalties in the millions of dollars. Products range from direct response television (infomercial) to industrial products currently being commercialized by John Deere.

Since 2009, Mr. Lambert has served on the Board of Directors of the United Inventors Association, the largest non-profit in the world that benefits and supports independent inventors through education, advocacy and access to the market.

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