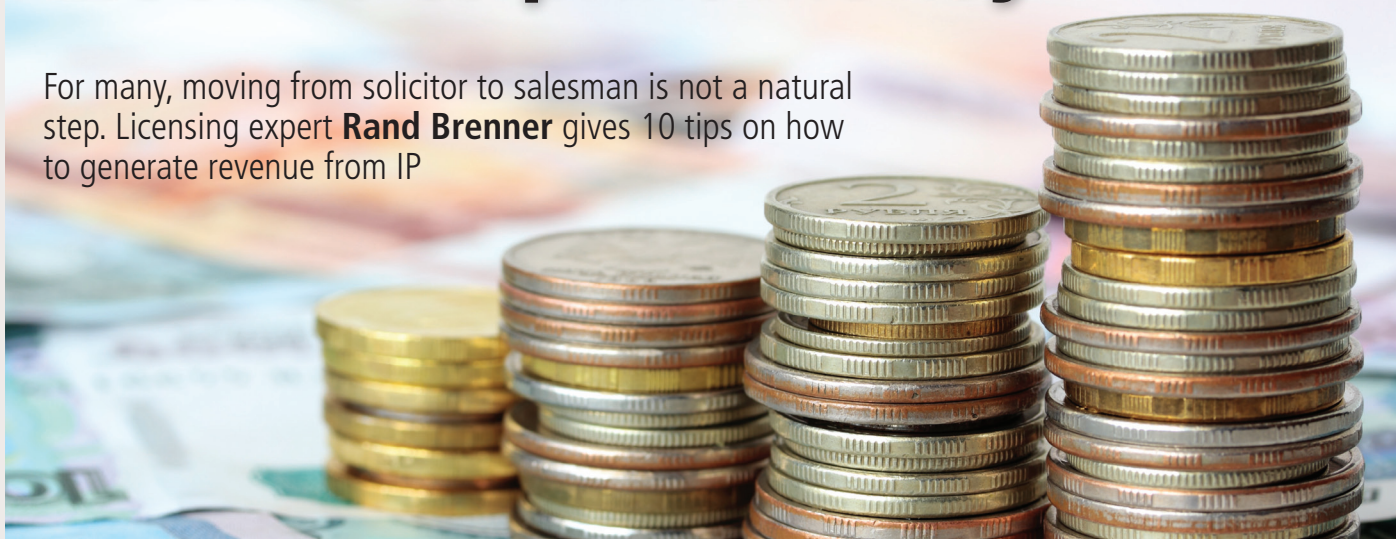


Licence to print money

For many, moving from solicitor to salesman is not a natural step. Licensing expert **Rand Brenner** gives 10 tips on how to generate revenue from IP



Licensing is often thought of as a legal process, but that is only one aspect. The other is the money making side. The licensing process transforms an intellectual property into a revenue generating asset. As with any process, it requires knowing what to do and how to do it. Here are 10 tips on how to develop a licensing program:

1. Licensing due diligence

Being an expert about the applications of your IP is one of the first ways to be successful in licensing. You should know who the competition is, the potential market size and why your IP is the best to meet and satisfy that market demand.

Understanding the size of the market for the IP being licensed is an important indicator for sales potential. For example, a new product invention in the early stages of its life cycle will be experiencing strong annual growth, have few competitors and higher margins. Conversely, a product category with slower annual sales growth usually indicates a more mature point in its life cycle, so it would have more competitors and smaller profit margins. The more homework done upfront, the more time and resources saved down the road.

2. Know the numbers

One of the first questions I am asked when presenting new IP to potential licensees is 'what are the costs?' This is always the case if the IP is a new product invention. New inventions with great profit margins are a big incentive in motivating a potential licensee to consider the licensing opportunity. If the profit margins are low, than the royalty rates will be low.

For example, basic or commodity type products, such as electronics and apparel usually have low margins and require lower royalty rates. Conversely, a new innovative product with high profit margins can get a higher royalty rate.

Keep in mind that profit margins can vary by distribution channels. For example, a multi-product and multi-distribution channel license could have various royalty rates for each distribution channel. More likely it would be a single royalty rate across all product sales.

3. Make the IP licensable

Potential licensing partners will be more interested in licensing your IP if they understand what it does and how and why it is important.

Packaging your intellectual property in a manner potential partners will find attractive makes your IP easier to license.

Providing information about why the IP is better, demonstrating a working prototype and clear explanations of marketing information are all things that can help to interest the licensee.

Providing data from test markets, product sales, customer feedback, sourcing production materials, operating manuals, or other supporting proprietary information will enhance your licensing opportunity 'package'. A well documented licensing package also helps to speed the process of reaching an agreement and shortens the time it takes a licensee to complete their own evaluation of the IP.

4. Presentations

While it is important to be passionate about your IP, it is also important to be realistic. Your credibility will be assessed by potential licensees partly based on whether you present a realistic analysis of the risks the licensee will have to deal with, such as product failure and the potential for slower-than-expected customer adoption. Information you present to potential licensees should be provided in written form and in a PowerPoint presentation. The information should include market research data, competitive analysis information and IP status (pending or registered).

Also include specifications about the IP, such as samples, drawings, or prototypes – even if they demonstrate only what the IP looks like without the actual functionality. Add to this presentation your production cost estimates, testimonials you have collected and any and all other materials that help demonstrate the potential your IP has in the marketplace.

5. Finding the right licensee

Finding the right 'fit' with a potential partner is important. Not only can it reduce the risk, it also makes it more likely that the potential partner will consider the licensing opportunity. Your due diligence will determine, to some degree, who would be the right type of licensee. Always do research on the potential licensee to see if they have the right capabilities, such as manufacturing and distribution already in place. For example, if the IP is a 'mass market product' then a potential licensee must have national distribution capabilities. Although a smaller company may fit in every other area, you have a choice to make – trade off a good fit and the prospect of a good working relationship for

access to a larger market. If the market for your IP is national, then it is better to find a larger licensing partner or one that has access to the national marketplace.

6. Build a licensing webpage

In the age of the internet, one of the most important tools for licensing is a webpage or website featuring the IP. For licensees, it is one of the first places to find information quickly about the IP. For the licensor, a website will generate qualified leads and ultimately licensing deals. A licensing website can speed up the deal making process. It is an efficient way of providing all timely information about the IP which means less time will be spent updating the potential licensee about the IP.

A licensing website also explains how the licensing process works, who to contact and what forms to fill out. It should be designed with the audience in mind, meaning the licensee. For example, if you invented a new toy the audience would be toy manufacturers. The website should provide all the information a toy company would be interested in knowing, such as how the toy works (videos or animation), the target market (boys, girls etc...), the status of any testing or sales and what rights are available for licensing. Include articles, product reviews, presentations, blogs and customers reviews.

7. Creating an IP licensing profile

Once you are ready to begin the licensing process, the first step should be to develop a concise IP profile. A good profile provides all the key details about your intellectual property and the licensing opportunity. The key word is concise. It is an introduction to potential licensees who will not have the time to read the entire history of your IP. Here is a quick format for preparing an IP profile (this example is intended to inform that the patent for product X is available for licensing):

- Background: Explain the basic benefits of the product;
- Milestones: What milestones have already been reached by the product, including patent status, working prototypes, current sales activity and where the product is being sold or distributed;
- History: A brief history of the product, providing a short explanation of the companies or people involved;
- Product: Details including additional functions and any market research that supports the licensing opportunity;
- Customers: Who are the customers and why they buy the product; and
- Licensing: General information about licensing the IP rights such as exclusivity and territories.

Make sure the IP profile looks professional and has the correct contact information including your name, telephone, email address and website. Be sure to add a page to your website titled 'Licensing' or 'Available for Licensing'.

8. Selling the license

Getting the first licensee is often the most challenging. Sometime it begins when the IP owner is approached by a potential licensee. Most often, though, it starts with marketing the licensing opportunity. With any new licensing initiative, knowing the right type of licensee for the IP will determine where you should promote the licensing opportunity. Two great resources for finding potential licensees are trade magazines and tradeshows. There are trade magazines for just about every type of product and service industry, from agriculture to transportation. Trade magazines are a quick way to learn about a particular industry and the companies who are operating in those industries. Like trade magazines, there are tradeshows for just about

any type of product, service or technology. Tradeshows are a great way to meet potential licensees. You can attend as an exhibitor or visitor and use the show to start promoting your licensing opportunity.

9. Negotiating

Negotiating is about coming to an agreement for a long-term relationship with your licensing partners. The goal is to ensure a mutually beneficial business relationship. Both the licensee and licensor should feel the negotiation is a win-win situation that leaves everyone motivated. I always suggest that an IP owner hire a third party to negotiate the deals on their behalf. It is one of the best ways to ensure a successful negotiation. The biggest reason a licensor should not negotiate on their own behalf is they lack objectivity. If the licensor has spent years developing their IP, they are emotionally invested and critical questions during the negotiations can often be taken personally. A third party such as a lawyer or licensing agent is detached, and can focus on bringing the negotiation to a successful conclusion.

10. Create a 'marketing' licensing agreement

A good licensing agreement optimises the licensing benefits for both parties. The goal should be to reflect key marketing objectives of both the licensee and licensors. To accomplish this, licensing agreements should include performance indicators to make sure these marketing objectives are achieved.

The four key areas of the marketing mix that should be included in the licensing agreement are product/service or brand positioning; target customer(s); distribution channels; and advertising and sales promotion.

Markets are dynamic and open to changes, so products and services change with them. Successful licensing deals are no different and they should allow for adjustments to the license agreement. Although sales and royalties are important, licensing agreements that also include these marketing performance indicators will better mirror the objectives of the licensee and licensor.

The licensing process transforms intellectual property into an income producing asset. It brings together the ideas people with the marketers who have the expertise and resources to commercialise the IP. To accomplish this goal, some key licensing tips to remember are:

- Do your homework: Understand your markets, competitors, and who the right type of licensee is for your IP;
- Know the numbers: The higher the profitability the more attractive the licensing opportunity will be.
- Negotiate a win-win partnership: Make it a mutually beneficial relationship for both parties; and
- Focus on marketing performance: Create a licensing agreement that reflects the marketing goals of both the licensee and licensor.

Author



Rand Brenner is president and CEO of Licensing Consulting Group, an IP consultancy and licensing agency. He has had an extensive career as both licensee and licensor, and has developed licensing programs for several Hollywood blockbusters including the Mighty Morphin Power Rangers and Batman.