



# Making the Most of Your Corporate Intellectual Assets - Part 2: Understanding and Initiating Technology Licensing

**This is the second of a two-part feature by Nick DiMartino. Part 1 appears in the July 2001 issue. Part 2 provides step-by-step instructions on how to implement capitalizing on your intellectual property.**



Whether your company has a vigorous approach to intellectual assets or a timid one, developing an intellectual assets business plan is well worth the time invested. Companies with a substantial investment in R&D may see a five to ten percent increase in annual earnings from licensing their technologies. Technology sales and licensing provide solid earnings boosts to many companies and should be considered by any company with valuable intellectual assets.

## **Getting Started:**

### **The Six Steps to Lead to a Working Intellectual Assets Business Plan**

#### **Step I:**

#### **Developing an Intellectual Asset Strategy**

The first task in developing your intellectual asset strategy (IAS) is to determine your objectives. Broadly consider your company's technology holdings including its patent portfolio and know-how to see what technologies you control. Look at the R & D activities your company has conducted, technology acquired from outside sources and the business results you have achieved. Once you've determined your objectives, decisions have to be made on how to manage your IA. This is the foundation of your IAS and there are two basic approaches, offensive and defensive.

A defensive stance uses IA to protect a company's innovations from attack. Using patents to blunt a competitor's ability to exploit the technology and future-proof your innovations from encroachment later on usually does this. Defense is far and away the most common IA strategy. An offensive IAS uses assets to increase market share and profits by increasing revenue through technology commercialization. This can include making and selling products (utilization), licensing or donating technology, and/or developing partnerships and joint ventures. Usually, this is the profit maximizing

strategy. How you use your IA and the strategy you select will have a direct affect on how you develop your intellectual asset business plan (IABP).

Continue discussion with R & D and business managers until consensus is reached but don't expect unanimous agreement to a strategy. The issues involved in an IA strategy are far too complex to allow all parties to agree to one strategy until years of experience have been accumulated.

### **What's the difference between a strategy and business plan?**

OYour IA strategy addresses how you view and consequently manage your assets. Your business plan addresses how you're going to exploit them. And when you know what you want your IA to accomplish, you can develop a sound IABP to achieve that goal. That's where licensing and technology transfer come in, because the cornerstone of your IABP is maximizing your IA value through the right balance of utilization and licensing and transfer of your technologies to qualified licensees. Without a good IAS to begin with, most companies fail at developing and implementing a good IABP.

This is not the point in your business launch to attempt to write an IABP. Hold that effort until the end of Step VI.

### **Determining potential for your intellectual assets**

An important question to answer while developing an IAS is "what are these technologies worth?" This is not an easy question to answer because "worth" means different things to different companies. However, there are some rules of thumb that can be applied to arrive at a reasonable estimate of potential. Here's a quick overview:

**1. Percentage of R&D expenses** One quick method appropriate for any industry is to relate approximate potential to R&D expenses. For example, let's say your company has spent approximately twenty million dollars a year for the past ten years for R&D. That is two hundred million dollars. It would not be unreasonable to assume that your company could derive revenue related to the sum of that past expenditure. In fact, empirical data is different for every industry, but annual technology sales and licensing revenue in the range of two to six percent of ten-year cumulative R&D expenditures applies to most manufacturing industries if a diligent effort is made to achieve this revenue. This allows us to project \$4-12 million per year as probable revenues for this sample.

**2. Percentage of total annual corporate revenues** Another method simply applies a percentage to total annual corporate revenues. For the chemical industry, that percentage might be one half to one percent. While it can be different in other industries, it rarely exceeds four percent. In many companies with margins in the range of typical manufacturing companies, licensing can provide more than a 10 percent increase in earnings that can be sustained.

A more detailed review should be considered if these rules of thumb project revenue from technology externalization that seems worth pursuing for your company. In all cases, regardless of how you crunch the numbers, you need to consider several other factors: What would it cost to reproduce that

particular technology? What is the future value of it: is the technology in a growth stage or serving a declining market?

At a minimum, discuss licensing experiences and results with other participants in your industry, and examine royalty statements in annual reports from companies you consider to be leaders in your industry. Prepare a table of licensing revenues compared to their total revenue and R & D expenditures. Contact those that seem to have favorable ratios from the preceding examples and understand their reports and what they are doing. This benchmarking activity is common in the practice of managing intellectual assets and will be easily accomplished.

## **Step II:**

### **Building the Team**

You've now developed an IAS and concluded your company has the potential to license or sell technology profitably. You cannot be sure of either of these points until you inventory your holdings. In Step I, you have only used macro indicators to assess potential. To proceed, you need people with four broad skill areas:

1. Technology-Technically trained people with history and experience in your company.
2. Intellectual Asset Management-Someone who knows how to organize, describe and sell (prospect, negotiate, contract, conclude the transfer) technology.
3. Legal-An attorney experienced in the aspects of preserving rights and contracting those rights to other parties
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4. Marketing/negotiating-People who have sold services or other intangibles and have negotiated contracts.

With access to these four skill areas, even if it requires more than four people or someone outside your company, you are almost ready to begin engaging your business and technical organization in the process of collecting your technology.

## **Step III:**

### **Get top-level support**

Without top-level support, failure is all but certain. While many approaches might work, the most effective is peer contact at the CEO, CFO and CTO levels. You already have a list of possible contacts to use-starting with IA management at leading IA companies in your industry from Step I. Enlist this help to make CEO, CFO and CTO peer contacts in your company.

The advent of Internet sites dealing with technology sales and licensing has sparked attention at all levels including the executive level of many corporations. Exposing CEO, CTO and CFOs to these sites can help jumpstart the process and provide strong impetus for externalizing technologies in creative

ways. While this proceeds, provide as much information "up" through organization regarding reasonable potential to enhance earnings. Here, reason is the key word. Over-promising has hindered efforts and even stopped them as many companies launch new IAB's.

#### **Step IV:**

##### **Take inventory - have the technology shelves stocked**

Start by engaging people to recollect and list all the technologies in use, developed but not in use, under development, and even abandoned. This obvious but essential process enables you to publicize your efforts and gain support. It can be handled in-house or with the aid of external organizations, but engaging your own people and their experience will be necessary. Be aware that this task will never really be complete, but will quickly establish a major inventory of technology, enabling you to formulate a simple plan to deal with them individually and make the next steps more effective.

#### **Step V:**

##### **Develop a plan of disposition for each technology**

Decide the likely return and base your plans on it. Simple, inexpensive tactics should be employed for technologies judged to be of less value while more intense and expensive tactics should be reserved for major technology offerings. Evaluate each technology on a triage basis (survival of the fittest), focusing on a priority group of technologies for plan and tactical development.

Your entire portfolio can be broken down into five basic triage groups (Figure 1):

1. Technologies that are interesting on many levels and require further discussion inside your company.
2. Technologies that can be a major financial benefit to your company if externalized and should be marketed extensively.
3. Good candidates that are ideal for posting on an internet-based tech transfer marketplace, such as yet2.com. No other marketing necessary.
4. Technology that's not fully developed. Consider these for donation.
5. Technologies for which externalization could cause damage. Leave them alone.

Note that technology groups in addition to those of the highest priority (category 2 above) can be dealt with simultaneously if resources permit or later when higher priority groups have been handled. This triage process is never perfect, but it at least guarantees that projects with the greatest potential will be identified sooner rather than later.

Once you've narrowed your choices, prepare a written description of each technology and refer to it before holding any discussions on the disposition of that technology. It helps to use a standard format (you can find a standard listing form at [www.yet2.com](http://www.yet2.com)). Use the description in every offering or advertisement of the technology, including postings on the Internet. It also makes a great leave-behind after face-to-face meetings, at seminars, and even trade shows.

## **Step VI:**

### **Resource Application and Milestones**

Assign resources to priority projects starting with description activities first. Writers, engineers and scientists come together to outline each technology and create a description that marketing personnel can use with prospects. Generally, resources are not available to support marketing all technologies simultaneously therefore prioritization is needed.

Once supported projects are identified and staffing is determined, a budget is easily established. Milestones based on staffed projects and resource levels can be established and a tentative financial forecast is possible.

Milestones should be marked quarterly, if possible, recognizing that licensing deals are complex and usually take many months. Royalties develop only after product is made and sold frequently, requiring a time-consuming investment.

Once the launch process shown above has been completed, the marketing effort begins in earnest. Marketing is critical to the disposition of each technology. All the standard tools used to market services can be employed. However, a special challenge exists in marketing technologies to new industries: you cannot be sure who will be interested and for what reasons. That makes the Internet the perfect vehicle, enabling you to expose your technologies to the broadest number of people, industries and applications. Internet-based technology marketplaces, such as yet2.com, are excellent forums for technology discussions and exchanges between inventors and users. Such sites facilitate the cross-pollination of ideas across industries and even around the world, offering the potential for lucrative licensing deals.

### **Are you ready?**

Simple steps can be taken in-house following a well-proven method employed across industries. Create an inventory of your holdings and preliminary separation of that inventory into actionable groups. Build a cross-functional team composed of highly experienced people. Top management support is essential for success. Before setting expectations or making promises about results, have specific technologies and prospects in hand. Develop real-world resource plans and create realistic time lines involving the steps needed, and allowing time for your customer to compensate you for your technology.

When you enter the technology transfer arena with an open mind, reasonable expectations, proper resources, and the full support of your organization, you've put your company on the road to realizing the full potential of its most valuable asset-its intellectual property.

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