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LICENSING-IN: A KEY TO CONTINUED CORPORATE HEALTH

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I. Introduction

"Capitalism is by nature a form of change, and never is, never can be stationery." n1 As the information age continues to accelerate, the importance to corporations of developing and maintaining the ability to understand their respective business environments and rapidly react to opportunities and threats that may appear has never been greater. One facet of the discipline of corporate awareness is the ability to identify and to acquire specific technologies, described herein as "licensing-in." In order to become adroit in this facet of corporate awareness, it is necessary to appreciate the basic issues.

An article in a 1987 issue of Forbes magazine entitled The Corporate Scoreboard, n2 which lists and analyzes "The Top 100" U.S. corporations in each of the years 1927, 1945, 1967 and 1987, continues to fascinate me. The rises, falls and other radical changes in fortune that have occurred are usually a function of a combination of technological changes together with managerial skills or ineptitude. Two other pieces from the same issue were particularly congenial to my views, namely The Last Iceman (Firms Thriving in Archaic Lines of Business) n3 and A Teacher Who Made a Difference (Georges F. Doriot). n4

The overall theme of this essay is change. Change is at one and the same time inevitable, refreshing, remorseless, accelerating and rewarding. Business entities that

accepted this reality and reacted

[*362] accordingly have prospered. It is hoped that the ideas discussed herein can contribute to prosperous results for others as changes continue to occur at an accelerating pace.

Modern business, especially when conducted on a grand scale, is continually involved with the substance of life. Participation in a free market requires consistent vigilance because of its unpredictability. The random emergence of creativity provides an added dimension. Add to this the vicissitudes of weather and climate, changes in fashion, cultural, historical and geographic conditions, and one begins to understand that corporate vessels, however well designed and constructed, will regularly be tested by turbulent seas. It is not surprising that only a handful of the one hundred largest U.S. companies in 1917 consistently made that select group in 1945, 1967 and 1987. The list has been further reduced in the last decade. It is hard for companies to stay relevant. The chances of doing so are even less if a company chooses "splendid isolation," relying solely on technology which it generates within.

Companies often wish to diversify via licensing. Frequently they do so without having performed their necessary "homework." Their approach to licensing is like that of a twenty-seven year old man's approach to getting married. He has completed his studies, is progressing in his first job, and has saved a few thousand dollars. He is unclear about the kind of woman who will enchant him, other than the fact that she will almost certainly not weigh 250 pounds and have a mustache. When exposed to the right woman, however, "he'll know." This approach, at least when applied to technology management, is speculative at best and probably doomed to failure.

Another widely noted shortcoming of licensing-in operations is that companies provide inadequate support for unexpected licensing submissions from third parties. In my experience, most corporate executives having licensing-in responsibilities are fully programmed with projects that have been initiated as part of their company's planning process. Opportunities that "come over the transom" are therefore extra-budgetary, often treated as a nuisance and not given the priority they deserve.

This is ironic because history has shown that the most significant inventions tend to come from individuals and small companies who are not in the mainstream, but rather who are essentially outsiders. n5 The number of unsolicited submissions to large companies is probably sufficiently high to be statistically predicted. It is unfortunate that many

[*363] prime recipients are ill equipped to evaluate them rapidly and efficiently, because some of these submissions can be extraordinarily valuable. Any company that adopts the variety of strategies discussed in this article is likely to become a viable target for inventors and developers of new technologies.

Thomas Kuhn and Joel Barker are leading apostles of paradigms and the significance of paradigm shifts. In the present context, paradigm shifting means that persons who are trained in a particular discipline will have special difficulty in appreciating radical new concepts in their discipline which break various basic "rules." Not only do members of the "old guard" have physical and intellectual difficulty in perceiving such paradigm shifts, they frequently oppose them with vehemence. This is not merely a manifestation of rigidity or even small mindedness, but it appears to be something of a natural phenomenon that need not have pejorative overtones. Nevertheless, an understanding of the workings of paradigms can remove some of the problems they cause and also maximize the various advantages they provide. Indeed, someone who has become enlightened on this subject may prove to be particularly sensitive and valuable in evaluating highly original new ideas.

Let us now examine the various elements which can increase the chances of success in this difficult arena.

II. The Company's Self Knowledge

Before grafting anything to a base, it is incumbent to understand the base itself, the material to be grafted and the compatibility of the two. Assuming that a company desiring to diversify is the base, the company's initial considerations involve two essential exercises.

A. Strengths and Weaknesses

The first exercise is to conduct a strengths and weaknesses analysis that involves identifying and clarifying the company's "core competencies." This exercise should encompass an analysis and a consensus about at least the following:

(1) the maximum investment which the company, given its financial resources and borrowing capacity, can afford to commit in the short and medium terms to possible technology acquisitions; (2) the markets and types of customers that the company's sales force currently services, including those areas where it is most

[*364] and also least successful and achieving optimum feasible market penetration; (3) the perceived economic, social and political events or trends which could impact some area of the company's operations; (4) an understanding of the reasons, whether or not controlled by the company, for its past successes and failures (related issues are whether the positive elements are still present and available for a project and whether the negative factors have been corrected or eliminated); (5) an inventory of the company's production skills and facilities, including the range of product quality that can be attained; (6) an appreciation of any events in the company's history (usually one or more failures) pointing out certain types of technologies or markets that should be avoided for emotional as well as commercial reasons; (7) the people, including their range of talents, experience and attitudes, that are currently employed by the company and available to participate in this project and the ability readily to attract others to supplement this personnel pool; and (8) the company's reputation with the industry or the general public that, one way or the other, could be relevant to this exercise.

B. The Business

The second exercise of self-understanding is more subtle and perhaps much more difficult to appreciate, but it is no less important. It is answering the simple question, "What is our business?" The fact that this is no mere fatuous remark may be illustrated by the following examples:

(1) Professor Georges F. Doriot of the Harvard Business School invited the president of U.S. Steel to address his class in 1947. A question posed by the professor to U.S. Steel's president was, "What was the business of U.S. Steel?" U.S. Steel's president, showing indignation and giving the impression that this was a stupid question, responded that his company was the leader in producing all useful types of steel. Doriot said afterwards, following the president's exit, "U.S. Steel doesn't understand what business they are in. They are in the materials, not the steel business. They are completely ignorant of

[*365] aluminum and plastics." n6 One wonders where that company, currently called USX, would be today if it had become involved many years ago with its neighbors ALCOA and PPG who respectively became leading factors in the production and sales of the other named materials and the fabricated products made from them. (2) Theodore Vale, then Chairman of AT&T, was asked in 1930, "What was the business of his company?" His shrewd reply is said to have been a great contributing factor to the continued success and independent (though regulated) existence of AT&T for 54 years thereafter, until the giant enterprise was split up by judicial decree. Mr. Vale understood the business of AT&T not to be communications, electro-mechanical devices, or even electronics. It was "service." By concentrating on the speed and efficiency with which AT&T customers were served, AT&T built a superb (and highly profitable) instrumentality with which regulators were long wary to tamper. The rapid advance of alternative technologies, like cellular telephones and fiber optics, combined with the growing bureaucratic behavior of "Ma Bell," all contributed to the judicial decision leading to the division of the company. Other events have recently dulled the reputation of the core of AT&T that remains. Now, adroitness in combining the right mix of a rich menu of old and new technologies together with strategies to market them, have become more important than "good service" that is being provided by all the competitors. The outcome of this highly competitive environment is very much in doubt at the time this article is written, but the management of the technologies involved is now the key issue. (3) Coats Patons, the world's leading manufacturer of sewing thread, realized that its traditional business offered little opportunity for future growth. It therefore intensely examined its operations in order to determine where it truly excelled. This exercise revealed that the company possessed an excellent ability to exert vigorous yet flexible cost control over virtually every aspect of its production procedures. Armed with this insight about the keystone of its past achievements, the company successfully diversified into several different areas, each which could benefit from the application of the same array of corporate disciplines.

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It should be obvious that this initial stage of self-examination involves substantial effort. The intelligence gained is not merely relevant to the exercise of licensing-in, but also can serve as a foundation of general corporate strategy. Therefore, management should always seek to attain and maintain a keen awareness of the company's strengths, weaknesses and essential character. If a desire or need to diversify should stimulate specific attention to these issues, so much the better.

III. Relevant Market for New Technology & Its Dimensions

One assumption that should evoke no argument is that the quest for new technology is a highly competitive arena. Everyone is aware of the need to keep up with the times as well as with one's rivals. When important scientific developments occur, the race is often won by the swift. Companies must therefore not merely be internally mobilized to act, they must be aware of where and when to act.

For instance, some companies have recognized earlier and more clearly than others that new developments in electronics could have a basic impact on their business. One of these companies, Harris Intertype, over a period of years was able to transform itself from a manufacturer of electro-mechanical printing plants into Harris Corporation, a dynamic competitor in the field of computers, automated office systems and state-of-the-art newspaper production equipment. Another example, though perhaps not as smoothly executed, is the evolution of Gould, Inc. from a producer of batteries into a diversified electronics concern. Nevertheless, neither Harris nor Gould was able to generate sufficient momentum to become a technological leader in its respective field. Harris and Gould were both acquired and cease to exist as independent entities.

An example of failing to recognize new developments early due to arrogance, ineptitude, tunnel vision or a combination thereof, would be the failure of the Swiss watch industry to appreciate the implications of electronic quartz movements. n7 This failure permitted Seiko, Citizen and other Japanese watch companies to seize significant market shares that they have never relinquished. The true story is ironic. Swiss inventors in Neuchatel, Switzerland conceived the original quartz movement and presented it to the executives of the central Swiss Watchmakers Association. The invention was treated with disdain. After all, how could this design be seriously considered as a watch design without

[*367] a mainspring and jeweled bearings? The Swiss did not even believe that the quartz innovation merited patent protection and therefore didn't file basic patent applications. However, they did exhibit this "curiosity" at the next annual worldwide watch fair. It was seen by various Japanese executives and representatives of Texas Instruments, all of whom soon introduced very accurate time pieces built around quartz movements.

The Swiss learned their lesson from this strategic blunder and eventually "counter-attacked" in two effective ways. They confirmed their primacy in the high end of the market by incorporating quartz movements of excellent quality in all of their leading brands, and they accompanied this with continued esthetic design excellence in those types of timepieces. In addition, they introduced SWATCH watches. n8 SWATCH watches are now featured in the mass market, are treated as being virtually disposable and have even developed a pop cult image.

SWATCH watches are a product of state-of-the-art, highly automated production innovations that permit them to be produced in large quantities at low prices and with witty and regularly changing color designs. Special "limited editions" celebrating specific contemporary events are periodically offered, and these frequently sell out promptly. Because of their relatively reasonable prices and large variety of designs, SWATCH watches have already become collectibles. It should be noted, however, that this Swiss success story represents a "pound of cure," rather than an "ounce of prevention."

For the same reason the Swiss built around quartz movements, chemical and pharmaceutical companies recently have been staking out claims in areas of biotechnology research. Also, developments in new materials such as composites, superconductivity, photonics, membranes and super absorbents are closely followed by companies in many industries whose business can be affected.

Relatively small entrepreneurial companies and university teams that are anxious to incorporate as "incubator" corporations are making many of the breakthrough inventions in these fields. Larger companies now recognize that such types of entities are frequently more creative at the start-up or research stage (the "R" phase) than are major corporate research establishments, which often excel at the development stage (the "D" phase). They have been sensitized to preserve the smaller entities and to nurture their work in "strategic alliances."

The typical sequence in this very important licensing-in format includes three separate stages as follows:

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Stage 1: Initial Funding of Research Entity

The strategic partners agree on a multi-year research project to be executed by the smaller entity with needed financing supplied by the larger entity (milestones are usually established which trigger further funding, and the larger entity is entitled to be kept regularly informed about the work being done, is afforded opportunities to comment and also sometimes to influence the direction of the work);

Stage 2: Acquiring Equity Position in Research Entity

At the time of the establishment of the alliance, the larger entity frequently purchases a minority equity position in the smaller entity, thereby providing added financial stability and also facilitating an eventual acquisition; and

Stage 3: Acquiring Exclusive Rights to Research Results

At the outset, the larger entity also receives an exclusive worldwide option and license to the fruits of the research project, paying reasonable royalties as consideration for such license.

Scientific findings of a more general nature also can have major commercial implications. For example, the linkage between cholesterol and heart disease has inspired important changes in dietary habits. This shift has resulted in enormous ramifications in the food industry. Many new versions of traditional foods containing improved health oriented characteristics have been and continue to be developed using the teachings of advanced biotechnology.

Changes in taste and fashion can have equally dramatic effects on other industries and their markets. For instance, when double knit polyester fabrics fell out of favor, the synthetic fibers industry found itself with enormous excess capacity. Rohm & Haas, which had decided to diversify into that industry only a few years earlier at the height of the polyester vogue, absorbed the biggest write-off in its corporate history. Several traditional fiber producers also closed plants or exited the business entirely.

While the combination of inside and outside intelligence would seem to be obvious to corporate management, achievement of a correct balance is easier said than done. The degree of difficulty of the exercise does not, however, detract from its importance to the questions of modernization and diversification, including that aspect comprising licensing-in.

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IV. The Right Corporate Environment

One should recognize that licensing-in, including participation in strategic alliances, is the very antithesis of the NIH n9 factor. Strong and continued pressure is needed to convince senior and middle management that the company must take this subject seriously. The most effective way to achieve this is for the chief executive officer to be widely perceived as backing, even sponsoring, such programs. The licensing-in team is often headed by someone with an entrepreneurial flair. However, once specific technology of serious potential has been identified, a more disciplined "project manager" type should assume principal responsibility.

The persons who have the senior responsibilities for the licensing-in effort should have direct access to the highest corporate echelon in order to obtain necessary decisions with a minimum of delay. These persons should also posses significant credibility within the company, with regard to both clout and judgment, and should not be seen as merely people who have been assigned to an activity that is largely "window dressing." The chief executive officer, as well as other members of the highest level of corporate management, should regularly emphasize this fact to middle management and the rank and file.

V. Organizing and Staffing the Team

In addition to the strategic importance of a licensing-in capability, there are also political overtones. The research and development executives of the company, or of the relevant division of large and diversified companies, should be intimately involved in the decision making process. This is not to render lip service, but is instead recommended for important substantive reasons. Many licensable technologies, however innovative, require further refinement before evolving from mere inventions to cost-effective articles of commerce. This refinement is the classical "D" aspect of R&D and is the aspect of the overall process in which corporate establishments usually excel.

Cost, marketing and sales inputs regarding possible acquisitions are also important, because any technology by the company will ultimately be reflected in corporate revenues. Whenever the scientific aspect of an item being seriously considered appears promising, its commercial implications should promptly be studied, preferably by people who would

[*370] eventually have line responsibility for its success. The financial and accounting departments of the company can play an important role in this work.

A. Team Leader

As already mentioned, the leader of a licensing-in team is frequently an entrepreneurial person and is indeed someone considered for eventual promotion to the company's highest echelon. This person is likely to energize the team to perform aggressively. Furthermore, this person frequently possesses the type of peripheral vision that helps identify the real winners among a mass of technology candidates.

Once a serious possibility has been identified, the responsibility for the evaluation process should be assigned to a "project manager." The style and habits of such a person are usually sharply contrasted against entrepreneurs who usually follow a "broad brush" approach. Project managers, on the contrary, tend to be punctual, mindful of details and thorough (their offices are also usually neat and well organized). They may be expected to keep the project "on track," tying together the numerous disciplines and types of input required to reach sound decisions with a minimum of delay.

B. Gatekeeper

Another type of person who can play a valuable role in this type of effort can be described as a "gatekeeper." This is usually someone who is innately bright and verbal, who reads omnivorously (a "walking encyclopedia") and who did well academically but was relatively unsuccessful as a corporate manager. Gatekeepers are gregarious, enjoy attending trade fairs and scientific industry meetings and possess a wide circle of business acquaintances and other contacts. They are usually well liked and threaten no one. They can be very astute at spotting a licensing-in opportunity but usually should not be trusted with negotiations to acquire such technology nor with ultimately managing the business activity built around it.

C. Coach

Another type of person that can play an effective role is sometimes described as a "coach." This is normally a relatively senior, technically oriented executive who may have been passed over for a top

[*371] rung executive position and who is usually close to retirement or recently retired. The lengthy experience of these individuals, provided that they are eager to continue to make contributions to their companies,qualifies them to furnish advice and undertake special assignments as part of these projects. It has been found that providing challenging new assignments to people meeting this description is usually greeted with enthusiasm.

D. Young Talent

The last type of person to be considered as part of the group that makes initial assessments of submitted technologies deserves special emphasis because this type involves a variety of qualities frequently overlooked by management responsible for organizing licensing-in activities. A company should include, for a period of about two years, some of the brightest young technical employees recently recruited by the company and give them a reasonable amount of latitude for action. Their initiatives should obviously be consistent with pre-established policies and should be monitored by others, perhaps one or a squad of coaches. After a two year stint, in which licensing-in should form some significant part of their responsibilities, they should be revolved out and replaced by the next generation. This approach has been rewarding to several companies in the following ways:

<bullet> These "young turks" are aware of the latest scientific developments, having recently been exposed to them in their academic environments. <bullet> Their university contacts can help the company become exposed to new developments at an early stage. Their university ties should be encouraged, their membership in alumni and trade associations should be underwritten by the company while their salaries are at modest levels and they should be sent on visits to their professors from time to time. These policies can also encourage the brightest of the then-current students to consider the company for future employment. <bullet> They are ambitious in their searches. These ambitions to search other possible sources of desirable technology should be reinforced by promises to permit those who identify a licensing opportunity that results in an inward technology transfer may remain with the project, thereby accelerating their advancement within the company. This "carrot" should be tempered by a "stick" to the effect that misplaced enthusiasm that results

[*372] in wasted corporate effort can adversely affect the future careers of such advocates. <bullet> A less immediate, but nonetheless significant, potential benefit is that these young individuals are less likely to be infected by the "not invented here" syndrome throughout their careers as a result of this experience at the outset.

In addition to this array of team members, all of whom may be expected to devote all or a significant portion of their time to this effort, close liaison should be maintained with the company's legal and patent departments, with in-house market research specialists and with the directors of different areas of research and development. Whether or not for organizational purposes it is decided to make all or some of these people official members of the team, their ready access, counsel and support are usually crucial to the success of the entire effort.

VI. Corporate Documentation

A. Company Brochure

Whether the licensing-in exercise is a continuing corporate preoccupation or merely a specially inspired initiative, it is frequently useful to prepare some sort of material, including an illustrated brochure, that tells the company story. If the end result is accurate and attractive, it can help persuade proprietors of desirable technology to license it to the company rather than to one of the company's competitors.

If a worldwide search for technology is contemplated, serious thought should be given to having the document prepared in several different language versions including Japanese, Chinese, Korean, Russian, Portuguese (because of the increasing importance of Brazil) and Arabic in addition to the more usual French, German, Spanish and Italian.

The very act of planning and preparing the material can also prove helpful to achieving some of the foundation elements already discussed. In particular, it can highlight corporate strengths and weaknesses, define the core of the company's business and provide a project in which a team can become better acquainted, thereby becoming more effective collaborators. Furthermore, such a document can invariably be put to many other good uses in the area of public relations, particularly for dealing with the financial community, attracting new employees and boosting the morale of the company's existing employees.

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B. Web Site on the Internet

Since the mid-1990s, companies have had a new venue available for publicizing information believed to be of interest to the public at large, including any business-oriented third parties having any sort of motivation to obtain information about that particular company. Companies all over the world have recognized the value of their Web site as an effective publicity vehicle. This is particularly true if the company wishes to publicize some positive transaction or other achievement. Such news could benefit the company by boosting its stock prices.

A company should be very careful, however, if it decides to use its Web site for the purpose of licensing-in or some other type of technology acquisition. A straight-forward indication of the company's "shopping list" of desired technologies could alert competitors about some of the company's strategies. While it is recognized that the Internet can provide instant global exposure, interest in technology acquisitions should be couched in general terms that would be comforting to companies looking for licensees or some form of strategic alliance without revealing overly specific details of contemplated initiatives. Cordial invitations to "converse" with qualified senior executives of the Web site proprietor, preferably under conditions which safeguard confidential information of all parties, would be the appropriate middle ground in these circumstances.

C. Disclosure Agreement

Another important corporate document to review is the disclosure agreement. Dialogues about potential technology transfers are almost always conducted in an atmosphere of secrecy. Moreover, major companies examining third party licensing submissions should invariably expect the third parties to rely upon patent or trade secret protection, with certain generally accepted exceptions. n10 This is understandable because companies that receive submissions could otherwise be vulnerable to claims that they misappropriated ideas revealed during the submissions even though the information fell under one of the generally accepted suggestions or was discovered by independent research.

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Unfortunately, some of these agreements are clumsily drafted and/or boorishly administered. However, certain companies do utilize the disclosure process to demonstrate their receptivity to submissions from outsiders. For these companies, their reputations among technology proprietors can influence the flow of licensing-in opportunities. On the other hand companies perceived as impenetrable fortresses (and they exist) are shunned.

It may reach the point where, as discussions progress beyond the preliminary stages and the need arises for a company to learn more intimate details of the technology, additional types of agreements can be executed. These additional agreements are designed to protect the respective positions of the parties in this environment.

VII. Internal Technology Audit

A by-product of the strengths and weaknesses analysis of the company, especially the analysis of its technology portfolios, should be an appreciation by the licensing-in team of the range of patented technology, trade secrets, trademarks and copyrighted programs that might theoretically be made available by the company for licensing-out to third parties. This intellectual property should be cataloged and inquiries should be made concerning whether all or portions of it might be available for licensing-out in special circumstances.

This knowledge could prove useful in the course of licensing negotiations with proprietors of technology that the company wants to acquire. If a proprietor has a choice between two prospective licensees, one of which offers some sort of reciprocal technology flow while the other does not, the former is very likely to be preferred. The company would therefore be well advised to prepare for this possibility.

VIII. The Shopping List

Once the licensing-in team has substantially completed the various preliminary steps recommended here, the range of technologies that the company is interestedin acquiring should be carefully defined. A list of these technologies should be circulated to the senior managers of various line operations and to the most senior corporate executive level for comment and approval. By obtaining this type of input and commitment beforehand, the team is more likely to receive support once specific technologies are actually under consideration.

The list should divide desired technologies into groups reflecting a descending order of priority. It is recommended that the list include

[*375] technologies that are fully developed and available for immediate use, items that are well advanced and may be ready for introduction within the near future and a few longer range products which, while perhaps somewhat more speculative, have the potential to make a major impact on the company's fortunes. A minor portion (e.g., about 15 percent) of the team's capacity should also be reserved for unexpected events, either unsolicited submissions or subsequent discoveries, which do not fall within the scope of the approved shopping list. This "flexible factor" is not only important in principle but has often made it possible for companies to act promptly on very significant opportunities.

IX. Rating Technology Opportunities n11

Technology searchers should quantify the value of various licensing opportunities that become available to their company. Each company should customize a grid or chart that represents its particular technology needs and then apply it rigorously.

A. Tripp's Method

One such methodology was developed by Alan Tripp, a master of the licensing profession. Tripp refers to this as his "Success Indication Rating (SIR) Scale." n12 It is a matrix in which ten criteria are graded 1 to 5 points on Tripp's scale of enthusiasm. The levels of enthusiasm are described in descending order as:

POINTS

5 Yes, absolutely, top-drawer, no problem! 4 Very likely, excellent probability. 3 Realistic chance, some tangible reason to believe it. 2 Maybe, at least it's logical. 1 No way, or I just don't know.

The next step is to rate ten issues in accordance with the same point scale, attempting to be as objective and well-informed as possible. The decision-makers should obviously take time to consider their ratings

[*376] carefully, calling upon back-up research where practicable. Nevertheless, there should also be a certain amount of shrewd instinct and common sense applied to the process, because that is usually an ingredient of the most far reaching business decisions. The ten issues suggested by Alan Tripp are as follows: n13

1. There is a pre-existing, well recognized need for the innovation.

If the market is awaiting a particular type of new product, service or process, it is easier to get started than if one has to create an awareness in the public of its desire for a new product.

Tripp's illustration is that it is easier to sell MOTRIN to help alleviate arthritis pain than an ULTRALIFE battery that promises to last 10 years (if you live that long). n14

2. The innovation is self-demonstrating, or at least self-evident.

The less you have to explain an invention or its advantages, the easier it is to sell. Tripp's illustration is the rolled-edge cutting can opener that smoothly severs the lid; n15 it replaced the "old standby" which cut a jagged edge and frequently one's finger as well. Another example is Sony's WALKMAN, which few anticipated but whose advantages were obvious to people affected with boredom when jogging, walking long distances or sitting in crowded places.

3. There is an easy-to-discern difference that "stands-in" for the major advantage.

This is another way of saying that there is some indicator to the user that the innovation is present in the product and is doing its job, thereby adding credibility to the functional claims.

The example cited was a harmless additive to EFFERDENT denture cleanser that turned the cleaning solution from blue to white after 5 minutes (the necessary cleaning time), permitting the manufacturer to indicate "when the water turns clear, you know your dentures are clean." n16

Of course, certain innovations are manifestly present by their very nature. Thus, a motorist knows a car is equipped with

[*377] intermittent windshield wiper circuitry when the intermittent activity is observed.

4. No major capital expenditure is needed during initial test periods.

The need for substantial "key money" to assess an innovation when it is still at its riskiest stage (i.e., before it has been market tested) can be a serious hurdle. If the subject matter happens to be a complicated piece of machinery, such as a loom, an engine or a new construction technology, this problem has often delayed the introduction of the innovation for many years.

The use of options, with graduated payments over a period of time while a prototype is being constructed, is a way to soften the need for financing while at the same reducing the risk by setting development milestones. Sometimes a government grant to fund all or part of prototype construction can also be obtained to ease the situation.

5. There is more than one way to cash in on your innovation.

This is another way of saying that an innovation that has several possible applications is often more likely to succeed than one with only a single purpose.

6. There are layers of proprietary rights, so you can go slowly on revealing them.

It is almost always better to have several patents rather than a single one, especially if it is possible to obtain protection for both compositions of matter (i.e., products) and processes.

Beyond that, it helps increase a technology's value if there is a substantial body of trade secrets, whether or not ancillary to the patents. A distinctive or clever trademark, even if it might not yet have achieved prominence, can be another element of value. The same may be said of copyrighted software, should this happen to be part of the technology package.

7. Performance tests and customer acceptance tests show the potential of your product.

An indispensable element in closing a licensing deal is credibility. Objective tests, preferably performed by third parties, are relatively cheap compared to the perceivable value they can add to the technology or item sought to be licensed. Graphic proof that the property will meet specifications can also help overcome negative arguments that are often advanced by the

[*378] potential licensee's employees who are infected with the "not invented here" syndrome.

8. The product is not just new, but newsworthy.

Sometimes an innovation has a dimension that merits special attention which thereby emphasizes the impact of the innovation. For example, drawing attention to the fact that the first "laptop" computer was so much smaller than the pre-existing versions and that it liberated the user from having to utilize a desk was crucial to the rapid adoption of this innovation. If the new feature should merit favorable comment by the media, this can be much more valuable than paid advertising.

9. You know your "time to the finish line" and are aware that the tortoise and hare story is only a fairy tale.

The briefer the time delay in bringing a new innovation to market, the better, especially since there are now many powerful tools such as CAD/CAM which can shorten product response time. n17 Alan Tripp lists four factors as being key elements here: n18

(a) the size of the opportunity;

(b) the probable reaction time of the competition; (c) the depth of proprietary protection; and (d) the time required to get your product to full-scale marketing and positive cash flow.

10. The time is ripe for your product.

A low cholesterol product introduced in 1970 would have been premature since virtually no one worried about his or her cholesterol levels at that time. Applications of laser technology were also slow in coming following the initial invention because few people could envisage the utility ofthis radical new phenomenon consisting of concentrated beams of light. If, on the other hand, an innovation can "catch the wave" of a widely held opinion, its chances of success are immensely improved. Thus, when the patented low calorie aspartame sweetener obtained FDA approval, its initial proprietor, G.D. Searle, rapidly

[*379] achieved wide sales of the material under its trademark NUTRASWEET.

Monsanto, which acquired Searle in the late 1980s, adopted strategies to maintain the proprietary image of its aspartame product, even after the expiration of the basic patent which was slated to occur in the mid-1990s. Therefore, in addition to encouraging many of its customers to display the NUTRASWEET mark and swirl logo (e.g. the Coca-Cola Company was persuaded to do so on DIET COKE), Monsanto also promoted the direct sale of its aspartame sweetener in distinctive blue packets under the clever trademark EQUAL. Those trademark enhancing strategies would greatly increase the value of the sweetener technology to anyone interested in acquiring rights to that technology via licensing-in.

Alan Tripp states that he has applied his 5-point SIR Scale many times in assessing the potential of a new product. n19 If objectively applied, and if a new product scores between 41 and 50, it is worth pursuing. n20 If the score is between 31 and 40, look hard at the weak points and perhaps consider alternative solutions. n21 Anything less should probably be rejected. The listed criteria have apparently worked for Alan Tripp. The criteria reflect his interest in marketing and licensing new products, particularly in the personal care and consumer products fields.

B. Other Criteria

It is equally possible to apply somewhat different criteria to a "licensing-in" exercise by a major company in a high technology business. Using graduated levels of value or utility, these levels might be measured against some or all of the following standards:

<bullet> potential size of the domestic market; <bullet> potential size of the world market; <bullet> ability of the product n22 to be made with production equipment already owned;

[*380] <bullet> size of investment required for additional plant and equipment; <bullet> degree of synergy of new product with existing product line; <bullet> whether new product will eliminate, make obsolete or replace any items of the present product line (a concept known as cannibalization); <bullet> how new product will change gross sales and net profits; <bullet> ability of existing sales and marketing personnel to handle new product without reinforcement; <bullet> how new product compares technically and financially with the state-of-the-art; <bullet> the likely impact of this product on the company's current: (a) market share; (b) rate of profitability; and (c) overall profitability; <bullet> the projected economic life of the new product; <bullet> whether the new product could provide a vehicle to the company to diversify into one or more additional, appropriate businesses; <bullet> how rapidly the new product is expected to be profitable; <bullet> how powerful the patent portfolio of the company is; <bullet> whether improvement patents seem likely; <bullet> whether there is an existing body of trade secrets to bolster the company's proprietary position; and <bullet> how this impacts on the corporation's image.

If companies seeking to diversity would carefully construct a matrix which is sensitive to their needs and ambitions and if the criteria are thoroughly analyzed, then a valuable judgment tool can be forged.

C. Outside Assistance

The program of work and the theoretical make-up of the licensing-in team, discussed earlier, envisage a relatively large corporation possessing a variety of staff departments to support its line operations. It is recognized that smaller companies may wish to diversify or reinforce their existing activities by licensing-in with an equal sense of urgency, but they lack many of the in-house facilities described. This weakness can be rectified by retaining one or more specialized consultants or consulting firms as needed.

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Larger corporations can also benefit from the judicious employment of outside specialists to handle certain specific tasks. For instance:

<bullet> It could make sense to retain some world-renowned academic figure to advise on strategy and provide contacts in a rapidly developing field of high technology. This person may not only be able to identify research teams working in the precise areas of the corporation's highest priority, but he or she may also provide the type of introductions that could place the corporation in a preferred negotiating position. <bullet> If a corporation's in-house patent department is overburdened, outside patent firms can be retained to search and evaluate patents, assigning particular partners and associates who have had some specialized experience in the field. <bullet> Specialty computerized search firms exist who not only have subscriptions and access to all relevant databases, but who also have developed a range of personal contacts that may be especially useful to this type of assignment. <bullet> Certain foreign jurisdictions may be particularly difficult to access, requiring the aid of specialists who may also be nationals of the country concerned. This is particularly true with regard to Japan, one of the most important sources of innovations in many fields. <bullet> It may be advantageous, from an eventual negotiating standpoint, for a major company to remain anonymous during the initial contact step and to be represented by a respected consultant. This may prevent the technology proprietor from getting "delusions of grandeur" and could thus permit negotiations to get started on a more realistic basis. If the consultant has played his or her role well, the consultant might continue to remain active in the serious negotiation stage, acting as a type of catalyst. <bullet> Special mention deserves to be made of a device employing consultants whose field is described as that of a "eunuch." This occurs in a situation where the potential licensee is so prominent or active in a particular field that it is reluctant to sign a standard disclosure agreement in the first instance. The potential licensee's activities are concentrated so heavily in this area that it wishes to be absolutely certain that a disclosure does not involve technology it already developed. In these circumstances, a third party (frequently a recently retired senior technical executive of the potential licensee who is thoroughly familiar

[*382] with the potential recipient's technology portfolio), is retained to sign the inventor's confidentiality agreement, make a preliminary evaluation of the submission and inform the recipient whether or not it is indeed knowledgeable about such technology. This third party consultant may also make a preliminary agreement with the proprietor prior to the exposure. By thus insulating itself in the first instance, the proprietor may be able to protect itself from an unnecessary problem, but at the same time it does not forgo an opportunity to acquire technology.

Aside from the range of specialized skills which outside consultants can bring to licensing-in exercises, there is also the more general dimension of contributions by consultants. These contributions include the consultants' greater ability to disagree, to be candid and to recommend unorthodox approaches to senior management. In-house employees, on the other hand, have less freedom to do this since their entire income is usually dependent on their continued acceptance by corporate superiors. Consultants may lose a client should their views prove unpopular, but they usually have several other clients to fall back on. This "extra dimension" of realism is invaluable to many corporate project managers, particularly in the area of licensing-in where positive decisions can have significant implications in the long run.

X. Conclusion

As the technology revolution continues to accelerate, the stakes for each player increase accordingly. Since technology emanates from a wide variety of sources, many of them unexpected, companies that lack the will or ability to maintain sensitive antennae with the outside world are at a serious disadvantage.

In my opinion, relatively few companies are really adroit at the skill of "licensing-in." Therefore, many companies are missing opportunities to acquire technology reinforcements to their internal research and development. It is hoped that the foregoing discussion will inspire and help these companies benefit from opportunities that surely exist to strengthen their businesses.

n1 Joseph A. Schumpeter, Capitalism, Socialism and Democracy (1962). Schumpeter, a great Harvard professor, died in 1950. Schumpeter had impressive ideas which also happened to be significantly out of step with the Keynesian vogue of the time.

n2 Peter Newcomb, Forbes, July 13, 1987 at 121.

n3 Jack Willoughby, Forbes, July 13, 1987 at 183.

n4 Peter Fuhrman, Forbes, July 13, 1987 at 362.

n5 The subject forms part of the thesis of Thomas S. Kuhn, The Structure of Scientific Revolutions (2d enlarged ed., 1970) and is extensively highlighted by Joel A. Barker, Future Edge: Discovering the New Rules of Success (1992).

n6 Fuhrman, supra note 4, at 362.

n7 Barker, supra note 5 at 15-18.

n8 Trendy, colorful plastic watches that are sold as costume jewelry to young people and others who consider themselves to be "young at heart."

n9 Not Invented Here. The so-called "not invented here" syndrome is a pervasive attitude in industry that shuns inventions and ideas submitted from outside of a corporation. The corporation, therefore, focuses its efforts only on inventions and ideas developed in- house.

n10 The usual exceptions are information that: (1) enters the public domain without the fault or negligence of the recipient; (2) the recipient can demonstrate was known to it prior to the submission; and (3) was subsequently obtained by the recipient from a source entitled to reveal the same.

n11 This subsection is inspired by, and draws heavily upon, a marvelous book entitled Alan R. Tripp, Millions from the Mind: How to Turn Your Invention (or Someone Else's) Into a Fortune 8 (1992). The work is informative, authoritative and a joy to read. Its author, now retired, was a successful licensing professional.

n12 Id.

n13 Id. at 9.

n14 Id.

n15 Id.

n16 Id. at 10.

n17 It is a widely accepted phenomenon that many of the world's great inventions and scientific discoveries occurred virtually simultaneously and were made by persons ignorant of the existence of the others. Certain events provide a platform for logical further events, meaning that if someone has gotten an idea to meet some perceived need, it is likely that someone else will have thought of the same thing at about the same time.

n18 Tripp, supra note 21 at 13.

n19 Id. at 14.

n20 Id.

n21 Id.

n22 Variations of some of these standards can be substituted if a potential licensed process is involved, instead of a product.