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Licensing To Large Companies

Summary of a 1988 talk given by Howard Hermann of Dow Corning to the Inventors' Council of Michigan (INCOM). Mr. Herman is responsible for all licensing of semiconductor and healthcare products for Dow Corning, and therefore deals regularly with outside inventors and product developers.

Why companies deal with outside inventors.

Simply to increase their supply of new products. Companies need new products to survive. As old products become obsolete, new products must come on stream to replace the lost revenue.

Companies need new products to grow. Every company wants to increase its market share, which requires a continuing stream of new and improved products. All companies engage in in-house product development. The smarter companies also look outside to augment their resources and give them a competitive edge over those who don't.

Why companies resist dealing with outside inventors.

Of a 1001 reasons, the first 999 are fear of lawsuits. Companies have much more to fear from outside inventors than inventors have to fear from companies.

When a company deals with outside inventors, it exposes itself to frivolous lawsuits. These can be brought long after the event. Memories of what transpired have a way of changing over time. The company finds itself in a David and Goliath situation, where the biases favor the underdog David. If the case appears to have even superficial merit, there's always a attorney who will pursue it on spec. Companies dealing with outside inventors must protect themselves from such exposure.

Other reasons include an NIH -- not invented here -- factor, and simply that dealing with outside developers can be terribly time consuming. Many product developers don't do their homework before approaching the company. They send in proposals that don't fit the capabilities of the company -- in development, in manufacturing, in marketing. Their understanding of the market is nebulous to poor, often requiring re-invention, re-development. They have unrealistic expectations of the value of their proposal. Just screening these proposals and corresponding with the submitters takes an inordinate amount of time.

What an inventor should do before approaching a company.

Get an outside objective evaluation of your invention.

Get someone who is not as emotionally tied to it as you to give you a realistic assessment of its strengths and weaknesses.

Understand the risk factors in your proposal.

Be sure you have thorough and objective answers to the such questions as: Will it really function as intended? What will it take to produce it? What will it take to define product, price, market? What is its profitability potential, based on analysis of cost vs. acceptable selling price?

Understand its demand potential.

If one includes all products of this type, is the total demand large enough to justify the effort? Is the trend in demand up or down? What is the potential sales volume? How predictable is it? What is the likely life of the product? Can a family of products be made to improve its on-going potential?

Understand the competition.

What is there now? What are your advantages, in function, appearance, price, need for service? What are your disadvantages, in function, appearance, price, need for service? What might be expected in future competitive products? What protection can you offer, in patents, trade secrets, copyrights?

Understand the benefits and risks to society of your product.

What are the legal problems: potential product liability, applicable government laws and regulations? What product standards apply: UL approval, etc.? What are the potential safety hazards? Environmental problems?

Understand the market.

Is it possible to tap into existing distribution networks? How obvious are advantages to the customer after learning of the product? Is it compatible with the present way of doing things? Is there teaching required for safe and effective use? Will the costs of promotion and teaching be in line with other costs and expected return?

Understand your alternatives.

Is the product something you can exploit yourself? Do you want to? Does it make more sense to try to sell or license your rights to it? What existing product lines does it fit? What companies offer those product lines? Which of those companies would consider a proposal?

What to expect when approaching a company.

Most larger companies really do play fair. If you're offering something of value, it's infinitely easier and less expensive to work with you than against you. The people representing these companies are professionals. They are trying to put together a sound business deal in which both sides win. You'll

get much farther, faster by negotiating to that same end.

A company will feel much more comfortable evaluating your proposal if you have a patent issued or pending. Not only does it clearly define the invention, but it allows the company to deal with you with assurance that your rights are adequately protected.

If you don't have a patent issued or pending, the company will want a written agreement either waiving any confidentiality between you or explicitly specifying the terms of confidentiality. If the latter, the company will insist that its obligations under the agreement ends if the information was previously known to the company, if it is available to the public or later becomes available through no fault of the company, or if the same information comes to the company through a third party, and in any event that its obligations end after a specified period of time. The company will also specify that its obligations will apply only to information that you have conveyed in writing, and it will want to hold and preserve those writings in its records.

Companies do not want to see any details of what you are proposing until the respective confidentiality rights are clear. They will frequently assign a non-technical clerical to handle all initial dealings with outside inventors until such rights are cleared.

Companies are interested in complete inventions, not in suggestions for ad campaigns, methods of doing business, or vague ideas.

Target your approach as best you can. Take the time to find out what division is most likely to be interested, and what group you should deal with, e.g., patent department, licensing group, new products group. If you can target an individual in the company, e.g., by knowing someone who can arrange an introduction, that's your best bet, as you come in with a bit more credibility,

What to expect in a license agreement.

Exclusivity.

The company will want exclusive rights to the invention, either as an assignment or license.

Royalty terms.

If you're offering patent protection, you can expect royalties on the order of 1-5% of the company's sales of the product, depending on how much the company has to do to bring the product to market and how much it wants it. Keep in mind that a manufacturer's sales are typically half what the product ultimately commands on the shelf since most sell to wholesalers or distributors at such discounts. Up-front payments are rare. Companies typically want you to take the risks right along with them. If you're not offering patent protection, there's still possibilities for royalties. However, they will be less and

for shorter term.

Patent work.

Many companies are willing to take on clean-up of patent work, especially the filing of foreign patents -- in fact they'd prefer to. The perfection and enforceability of the patent is at least as important to them as you, and they're typically better equipped to do it.

Diligence.

The company will expect to provide you with some obligations for diligence on their part, e.g., that they will exercise reasonable effort and timeliness in bringing the product to market.

Summary

- File patent applications.
- Unless patented, don't submit full details until you get interest.
- Consider third-party independent evaluation of an invention before filing an application or submitting it for license or sale.
- Have good written records of an invention, dated and witnessed by someone who can understand them.
- Consider filing a disclosure document with the Patent Office to establish an invention date.
- Don't publish or offer for sale prior to filing a patent application.
- Target your potential licensee or buyer carefully.
- If you submit before filing a patent application, try to get a confidentiality agreement.
- Keep a copy of everything you submit.

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