Only Finding Licensees

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Today’s session

- POV of Technology Licensing Business
- Technology Licensing
  - Pre-marketing
  - Marketing
  - License negotiations
- **Finding Licensees being akin to Marketing**
- Licensing (basic overview, if time permits)

Technology Licensing Business

Organisational Structure

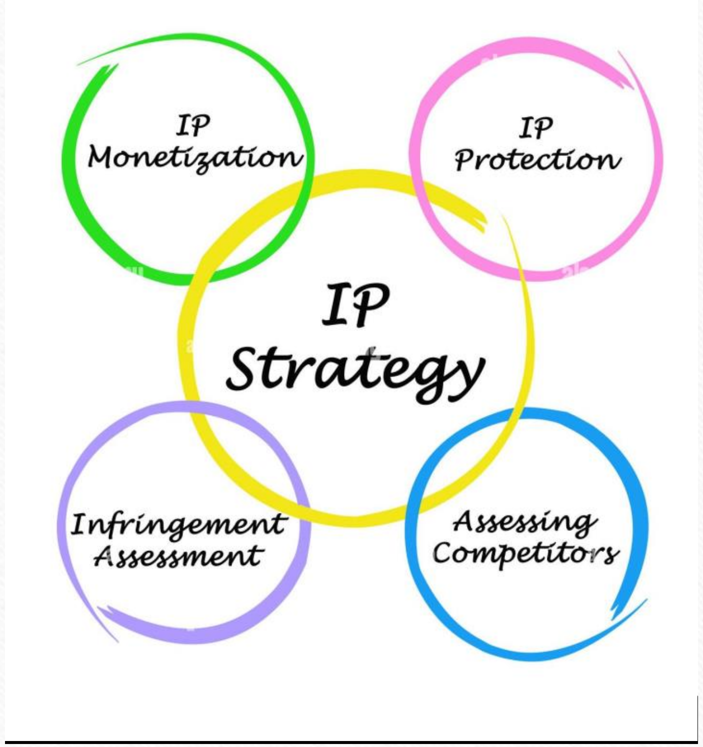
- Dedicated group with P&L responsibility
- Multi-disciplinary teams conversant in different industries
- Technology generalists, and business executives
- Patent attorneys, lawyers, financial analysts outsourced

Mandate

- Scout for technology from R&D Labs all over India
- Licensing of viable technologies to industry/organisations

1. Pre-marketing stage

- Identify candidate technology
  - If technology already identified, as in our case, due diligence and commercial feasibility to be done
- Protect its value
  - By determining appropriate intellectual property protection strategy
  - In our case patent protection already in place



2. Marketing stage

- Business analysis to identify and select candidate industries and companies
- Map competitor technologies and competing companies
- Prepare marketing materials
- Identify and approach appropriate contacts and engage in follow-up activities

3. Licence negotiations

- Establish mutually supportable positions that lead to win-win agreements
- Satisfactory protection of both Licensee investment and Licensor intellectual property
- Look at business issues as well as legal issues
  - State the business terms in simple summary terms that can be used to negotiate a business agreement
  - Followed by a legal period that ensures the business interests are preserved

2. Marketing stage = Finding Licensees

Licensing team

- Complex activity requiring multi-talented individuals
- Must be technically, financially, legally and patent proficient (in addition to being supported by professionals from these disciplines)
- Adaptable personality to be able to interact efficiently with, and to influence, R&D teams and top management.
- Negotiation skills and the ability to structure creative deals
- Licensing opportunities seem short-lived; therefore essential to have experience to identify deal opportunities as they arise from changing market conditions

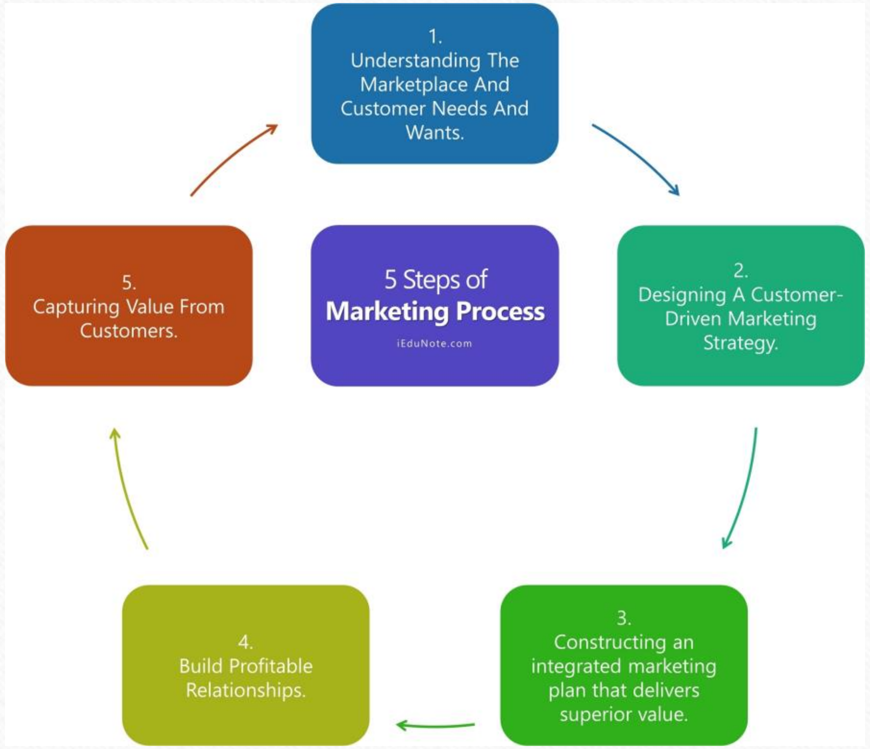
Few Pointers

- Consider all IP as a product deserving an appropriate marketing plan
- Have active industry networks, develop partnerships to call upon
- Always be updated on needs of your target audience and potential licensees
- Know when and how to approach potential licensees – ideally do it before work on marketing strategy is complete so that licensing can evolve accordingly

Marketing technology vs technology product

Significant parallels

- Marketing objective is the same: to learn customer needs and to translate them into product strategy, positioning and branding.
- Marketing process, whether for license or sale, is fundamentally the same - identify the need for a solution in the market, and offer a compelling solution at a fair and reasonable price, great support
- Consumer of end products and technologies may well be different, and the techniques to identify market needs may be distinct

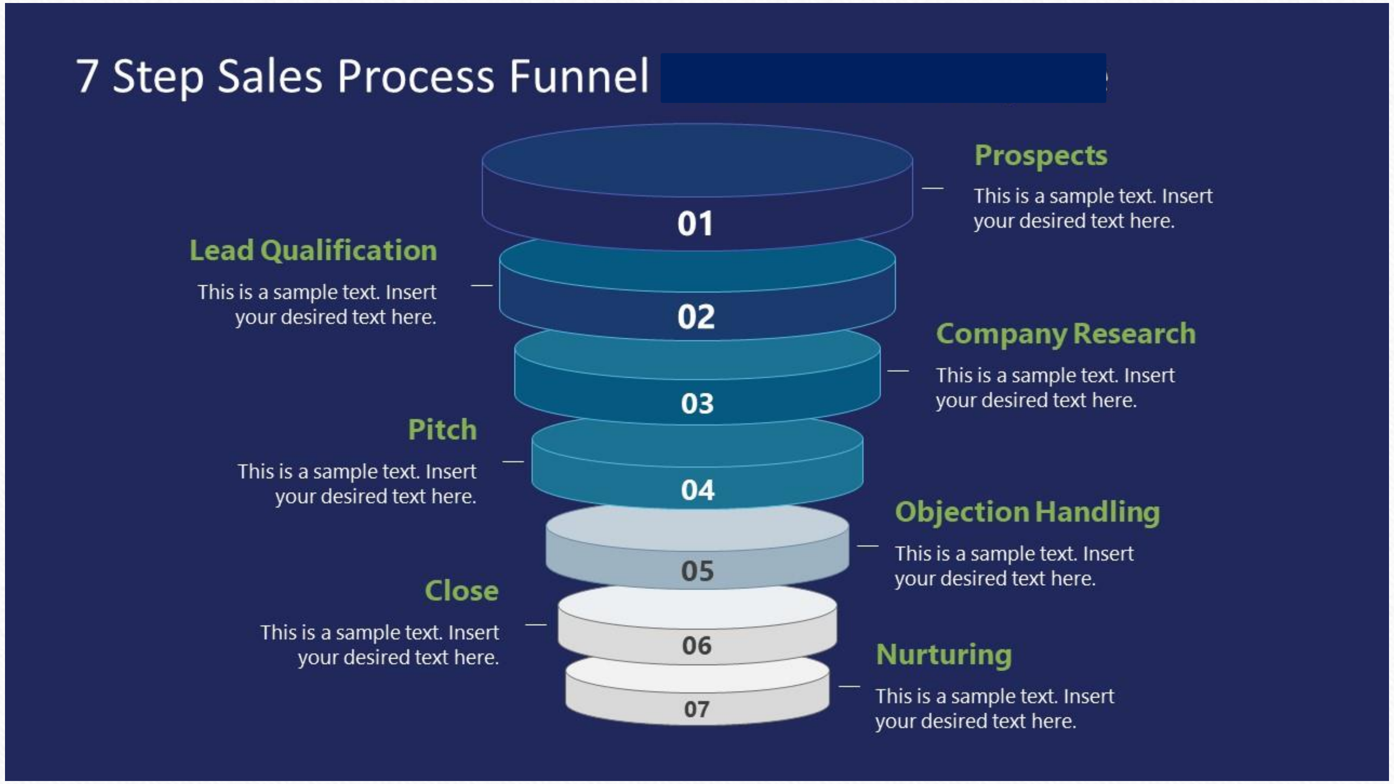


Important differences

- Needless to say, in the case of licensing, the product is the technology transfer package, IP/innovation
- Marketing may require a great deal more imagination and projection. Ability to describe vividly and convincingly the opportunity.
  - Much of the creative input is not into the promotional materials but rather into deal structures and the tech transfer package itself
- Several market research techniques for technology products are not applicable to licensing because of lack of information and small sampling populations
- A market may not even exist, market studies and data may not be available or, at best, a rough business feasibility plan may have to be conducted
- Brand of technology for licensing is not as strong as brand of an end product.
- Valuation and pricing of a technology licence important - too high there will be no deal; not enough you are losing money.
  - Usually no historical data available, meaning you have to start from scratch

Important differences

- In licensing, the target audience might include R&D staff, business executives, lawyers, etc. The marketing pitch has to be structured to address this group -
  - Use publications of the inventors/founders
  - Demo the innovation
  - Prepare compelling story and pitch
  - Customise as per each licensee
- Market research can become a series of ad hoc one-to-one discussions. In many ways, marketing in technology licensing is a very hands-on, contact-driven and analytical activity.
- The different needs of potential customers mean that often one-to-one marketing is the only avenue in licensing. This is reflected in the fact that market segmentation and positioning often refer to one particular customer
- Time frame from acquiring a customer to closing the licence deal is much longer than in case of selling a technology product



At CTPL we had put in place a TT process from L0 to L5 based on the 7 steps sales funnel

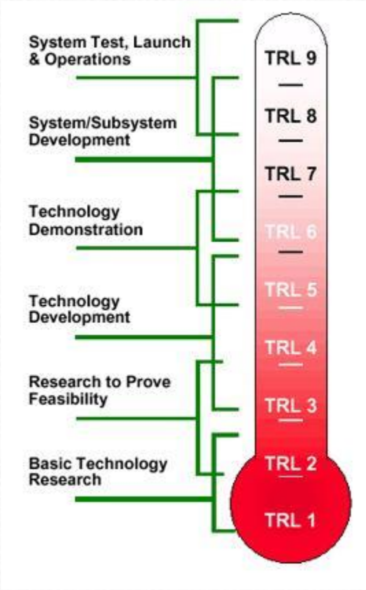
Demo 1

- CTPL TT process – Switch to ppt file

Time taken for Finding Licensees

Can be longer, dependent on

1. Stage of Technology or TRL
    - Early stage innovations (TRL 1-3) > Mid stage innovations (TRL 3-6) > Late stage innovations (TRL 7-9)
2. Commercial attractiveness
    - Does it require substantial investments to commercialise
    - Is it ready to go-to-market
3. Size of the market for the technology
    - TAM – Total Available Market
    - SAM – Serviceable Available Market
    - SOM – Serviceable Obtainable Market



Market research – making a match

- Target companies
  - That service your target customers (figure this out early on)
  - Those who are at no 2/3 in the sector (as they will be hungry to grow)
  - Whose existing products align with your innovation – both can be packaged for value-addition
- Shortlisting companies
  - Annual revenue (good to have a ballpark number, maybe \$1 – \$10 million)
  - Market size – TAM, SAM, SOM
  - Business information

- Database tools to identify prospective licensees
  - Internet – Google search
  - Trade fairs/shows
  - Trade magazines
  - Trade directories
  - Physical market places/Stores
  - Existing contacts and networks of the inventors, innovators, founders, incubator staff, etc

Tools to identify licensees

- Cross-industry networks - extend reach through active participation
  - In research conferences, trade journals, industry associations, university centres and similar groupings
  - Identify recurring names - for example, companies with repeat advertising, speakers, sponsorships indicating their interest and ability to invest resources in new technologies and products
- Communicate with these groups followed by appropriate desk research
  - Internet searches – provides wealth of information about target licensees
- Network of consultants and agents – if they are particularly well positioned to market a particular technology

Shortlisting & contacting

Evaluation of leads

- Company website
  - Press releases, Business strategy, Product descriptions
  - What they do, differentiation from their competitors
- Research is then supplemented with traditional sources of business information to target specific personnel within the candidate companies
- Example - contact details of marketing director/other decision makers
  - LinkedIn
  - Google
  - Trade directories
  - Call the company

Demo 2

- CTPL LeadsGen – switch to Excel file
- CTPL L0 – switch to Excel file

Promising targets identified – then what?

Right contact

- Extremely fortunate if the right individual on the initial contact itself.
- Most likely scenario is numerous calls to the initial target, followed by a series of referrals within the company to other potentially interested individuals
- At these early contacts, explain the technology, the vision of how it integrates into the company product line and its potential benefits to company customers, with the sole goal of setting up a demonstration visit or, at least, a company to founder/researcher discussion

Creativity

- Successfully licensing of technology requires substantial creativity (like in a M&A) for helping the licensee understand the investment alternatives, technical solutions, cultural integration, structural issues, etc.

Team

- Business development and M&A experience, coupled with tech transfer-savvy engineers, marketeers and technologists who are used to selling products that are not self-explanatory

- Once the company agrees the technology performs as billed, it must then do its own business assessment to determine its business interest

Getting lead conversions

- Work out a ‘pull’ model - push model is inherently inefficient
  - Stop thinking of how great your technology is and start thinking more about the customer needs and the problems that are being solved, and focus on demonstrating from that perspective
- Promote the technology to create demand.
  - One avenue can be the internet - provides you with an opportunity for forward marketing and the opportunity for a global promotion campaign at the same time. Could become most efficient way to find prospective buyers worldwide
  - Have a compelling business proposition
  - When a technology can really make a difference to the bottom line, those responsible for the bottom line will overcome the inertia of the implementers
  - First, you have to convince the decision maker by selling the benefits of the technology for their company. Second, you have to provide meaningful data to the technologists of the licensee. Third, tell the technologists how much they need to contribute to bringing that technology to market

Example - Technology transfer of a matured innovation in electronics and mechanical

- CSIR lab had developed a patented and unique milk adulteration detection system used right at the source i.e. milk collection centers.
- CTPL identified and contacted clients for this technology.
- One of the companies was a Gujarat based RO filtration device manufacturer who was looking to diversify in to a new technology/product domain, as a separate entity.
- The company was interested in a technology which would make considerable social impact, benefitting society at large.
- CTPL worked with the company owner on establishing a separate entity, handholding with the documentation and procedures involved with starting up, intellectual property protections (trademarking in this case) and finally the actually technology transfer

3. Licensing

Basics of Licensing

- Licensing is an aspect of IP management and can be a strategic way to leverage/exploit IP
- A licensing agreement is a partnership
  - Licensor - IP rights owner
  - Licensee - authorised to use IP rights
  - Exchange of an agreed payment, known as Royalty
  - No transfer of ownership involved

Licensing Strategy

Licensing core technology

- Create additional revenue streams
- Secure financing
- Attract partners, collaborators and employees,
- Increase the value of the company

Licensing non-core/part of the IP assets

- Same geographical area that it operates in or in other geographical areas where providing access will not damage their ability to compete.
- To direct competitors, either by limiting the field of use or via a cross-licensing scheme where the startup can gain access to their IP portfolio as well

Example 1 – Cross licensing

- ABC creates its own technology in the field of household appliances and consumer electronics and establishes IP portfolios in line with the company's long-term strategic targets.
- ABC **differentiates its core technology and non-core technology for licensing activities and is open to discuss licensing opportunities for its non-core technologies**, taking into account the licensee's ability to effectively commercialize the technology
- ABC also explores **cross-licensing opportunities** for its patented technologies with other companies if the cross-licensing of patents is beneficial for both parties.
- Gains : Tech commercialization, access to new tech
- Risk : poor strategy or execution undermining product's success or that poor quality management damaging its brand or the reputation of its products

Example 2 – Strategic Partnership

- XYZ wound care matrix patch treats chronic skin wounds caused by diabetes, bed sores or burns.
- Considering capital was required to enter production, as well as the costs of sales and human resources, the founders **put their technology on the market via a strategic partnership.**
- The competitive advantage provided by a patent proved crucial to **attracting the strategic partner and eventually led to transfer of the patent rights.**
- Led to collaboration with **one of the largest pharma companies** which evolved into a strategic partnership in which XYZ transferred the title to all registered patents, as well as applications and the products trademark.
- Gains: XYZ receives an undisclosed percentage of the revenue generated by commercial sales of products. Retains considerable know-how that it leverages on a project basis. Continuing collaboration with strategic partner led to three new scientific publications further contributing to validation of the product.

Licensor gains

- Source of (passive) revenue in the form of royalties, especially if technology not being used by the licensor
- Enter markets in different countries, benefit from local licensee having better understanding of market
- Licensor retains ownership and earns revenue on it
- By licensing to an established enterprise, the licensor can leverage their experience, infrastructure and involvement, thereby being able to move the product into the market with greater ease and speed and giving a competitive advantage
- If the licensor does not have money to manufacture the product, the licensee takes over all manufacturing costs while paying royalties for usage of IP
- Penetration of more markets by having licensees in different areas

Licensee gains

- Licensee can use brand, logo or other IP with low investment into the research and development of IP
- Allows access to patented technology
- Allows access to established technologies to reach market faster. It saves the trouble to research and develop new and superior products for small companies who cannot afford it
- Exclusive license, as the only user in defined area, gives competitive advantage

Indian scenario*

- Indian startups rarely license-in an external technology for its technology or product development
- Licensing out for expansion and wider diffusion of their technology observed only sometimes
- Licensing or revenue generation is not a motivation for patenting for most Indian startups
- Patent monetization not attempted by most Indian startups, even in initial phases of business cycle when they might be struggling
  - Maybe due to low awareness
  - Limited importance to patents by VCs, investors, etc
  - No marketplace and limited patent trading in India
- Nevertheless, more and more startups looking into building an effective IP portfolio and keep future licensing options open maybe after developing a performance track record first to tackle licensee expectations

*June 2020 research paper

Use cases for Out - licensing

- Startup to corporate
  - Startup facing challenges in manufacturing devices as most accept only bulk orders and demanded upfront payments
  - Decision - Licensed the patent out to a manufacturing partner
  - Goal - Further development and expansion of the business and to facilitate wider diffusion of technology
- Academic Institute to startups/companies
  - Agri - startups licensed-in technology generated through R&D efforts of ICAR scientific fraternity
  - Decision - Out of 1000+ applications 40 successful tech transfers done with startups turnover from >1- <25 cr
  - Goal – Increased involvement of private or public parties in the overall value creation in agri supply chain

Optional reference slides

Example of TAM, SAM, SOM of Licensee

- Food processing innovation adding value to fast food chains.
- Your TAM would be the worldwide fast food restaurant market
- If licensee were present in every country and had no competition you would generate TAM as revenues
- This SAM also becomes the baseline market value for your innovation

(Sorry but that's not going to happen! Let's be more realistic)

- Licensee is having restaurant chain in two cities
- Demand for fast food can be estimated: the population, their food habits, and the revenues generated by fast food restaurants in other cities having similar demographics.
- That is your SAM: the demand for your type of products within your reach

Example of TAM, SAM, SOM of Licensee

- In other words if licensee were the only fast food in town they would generate revenues of SAM
- This SAM also becomes the realistic market value for your innovation

(Now licensee is probably not the only fast food in town)

- So realistically licensee can hope to capture only a fraction of your SAM
- Most likely licensee will attract fast food aficionados living or working close to your restaurants
- a fraction of the people located further away that are willing to give your chain a try for the sake of fast food diversity.
- This is their SOM
- This SOM becomes your evaluation of the licensee business

Types of Licensing

Three major types

- **Exclusive** License: From licensor to the licensee to the exclusion of all, including the licensor. Only licensee is authorised
- **Sole** License: Licensee is permitted to use the intellectual property, licensor is also authorised to use it. Only licensor and licensee may exercise these rights, no third party
- **Non-Exclusive** License: This license allows for the licensee to exercise the rights as well as the licensor + licensing to any other third party
- Generally, a combination of these type. Eg - exclusive rights only in a particular geographic area

Broad categories of License agreements*

- **Technology License Agreement:** rights related to patents, utility models or know-hows protected by a trade secret owned by the licensor. authorised to use the technology under certain conditions.
- **Franchise or Trademark License Agreement:** franchiser has gained reputation for his trademark and via a license agreement, authorises the franchisee to make use of the trademark.
- **Copyright License Agreement:** Copyrights are granted over creative works such as music, cinematograph films, artistic works etc. In order for them to be reproduced and published by others

*as per WIPO

Basic components of License agreements

- Subject Matter - patent, copyright, trademark, industrial design, trade secret (know-how, technology, experience, etc.)
- Granting of Rights - defines what licensor is transferring to licensee
- Licensor's Obligation - sets out how transfer is to take place in terms of assistance, support, training and co-operation
- Licensee's Obligation - sets out financial requirements, guarantees of licensee, secrecy, costs, etc.
- License Fee - fee paid to licensor on signing agreement
- Royalty - ongoing share of proceeds paid to licensor for the rights. May be a lump sum, or percentage of proceeds or amount per unit sold, etc., usually a minimum royalty is required.
- Term - how long the agreement is to last
- Designated Area and Exclusivity - define manufacturing and marketing area of license
- Termination - describes rights of both licensor and licensee to terminate agreement
- Guarantees - licensor will normally not guarantee the results of using the rights granted. The licensee may be required to provide warranties, public liabilities, etc.

Licensor – disadvantages to be mindful of

- Licensee may ‘cannibalise’ the sales of the licensor, that is, cause the licensor to earn less from royalties than it would from sale by themselves, esp. if the licensee turns out more effective and gets to the market faster with fewer development costs
- Dependence/reliance on the licensee’s ability to commercialise product effectively
- During the agreement, the licensor may end up transferring sufficient expertise to the licensee to set himself up as a competitor in the market

Licensee - disadvantages to be mindful of

- Obligated to pay fixed royalties, irrespective of performance of product
- Licensee has to do most of the work, such as manufacturing and distributing
- Non-exclusive license, may face heavy competition in the market from other licensees.
- May need to pay more royalties if seeking to expand into other markets
- License does not confer ownership, any improvements made remain property of the licensor

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