Getting Your Story Told

Hints on how a small company can successfully get the attention of a large one

BY GARY RABOLD*

How does a small- or medium-size organization get the attention of a large company, and hold it, for the purpose of negotiating a licensing agreement? If the discussions get off to a good beginning, the chances of getting to the consummation stage are greatly improved.

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My viewpoint is very much that of the chemical industry and those that are closely related to it. Industries such as computers, transportation, electronics and manufacturing hardware may differ significantly.

First, we accept the premise that licensing technology from a small company to a large one often can be good business for both. Numerous papers and conferences on the subject have stressed both the unique strengths and shortcomings of the small and the large company. A generalization is that the smaller company excels in the generation of innovative technology and the larger company excels in the effective development and commercialization of such technology. Several studies show that, relative to their budgets, a disproportionate percentage of important new technological developments come from small companies.[1] An interesting personal accounting of this was recently presented by Robert D. Noyce, Board Chairman of INTEL Corporation, whose desire to pursue innovation in the electronics industry led him to leave a large company for the advantages offered by a smaller one.[2]

A second assumption is that appropriate care is taken to protect the interests of both parties. This simply means the initial discussions must be on a nonconfidential basis. Subsequent detailed discussions of proprietary information can take place if need be, under a secrecy agreement. The large company feels the need to do this to protect itself from possible future misunderstandings. These could arise when it is engaged in closely-related work that could duplicate some or all of the established features of the technology the small company seeks to license. The opportunities for serious misunderstandings are obvious. One method to approach this situation is to enter into a special type of secrecy agreement whereby only one individual in the large company receives the information. The individual would generally be a senior person with a strong background in the area, but with no current or anticipated involvement in it in the future.

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Homework

One way for a small company to help get discussions with a large company off to a good start is to do some basic homework on the potential licensee. Do they have an individual or a group whose responsibility is to license technology in? Is there a smaller operating unit of the corporation which relates directly to the technology? If the answer to either of these questions is yes, that is most often where the discussions should begin. The patent group is an obvious starting point, but a not-so-obvious one might be the public relations department. Organizations change structure and the public relations department is generally updated. There are a number of external groups, such as Dvorkovitz Associates, The Licensing Executives Society, and Control Data Corporation's Techno Tech, who have specialized in contact information. Each of these can be of help in starting with a realistic list of candidates. Individual consultants can also be valuable here.

Once an appropriate level contact is made, what should the small company do to maximize its chances of getting a fair and objective evaluation of its technology by the large company? The best way is to anticipate the kinds of questions that will arise and to be prepared to answer them. Too many question/answer cycles can lead to excessive delays and either an apparent or a real loss of interest. Let's explore the ways a large company is likely to react to various types of technology.

Rothwell and Zegveld categorized technological innovations as "radical breakthroughs", "major technological shifts" and "improvements." To an evaluator and potential licensee of technology, two questions are: Where does the technology fit on the "radical breakthrough" and "improvement" scale; what is the stage of development of the technology? Placing a technology in one of these categories should present no real problem for either party and no major obstacles should arise here.

Misunderstandings and frustrations do develop, however, because of questions about the technology's stage of development. Perceptions relating to the stage

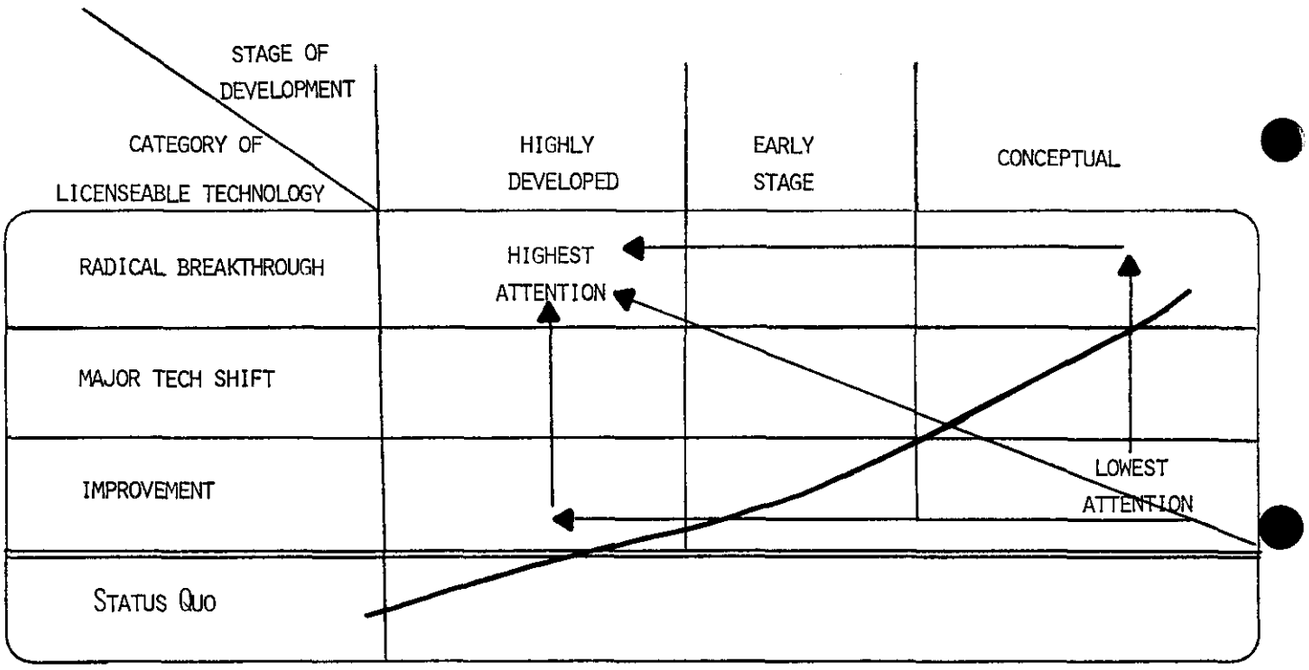

Figure 1

of development are often quite different from the small company's and the large company's point of view. By development I include feasibility, competitiveness and cost-effectiveness. A good example of an organization that pays careful attention to this aspect is Research Development Corporation of Japan. Its management does an excellent job of defining the technology in terms of what it is, or what it does, how it compares with the current state-of-the art, and what its stage of development is. Their development scale ranges from "laboratory" through "prototype" and "pilot" up to "production."

Pot of Gold

All things being equal, the relationship between a technology's category, its stage of development and the attention it is likely to receive, is shown in Figure 1. A highly-developed radical breakthrough is the legendary pot of gold at the end of the rainbow. The only difficulty a small company should have with this type technology is keeping the number of prospective licensees down to a manageable level. Example of this category are rare.

Even a conceptual-radical breakthrough is a strong attention getter. When this type of technology is discussed it means that the licensor needs a good deal of capital and that the large company is being asked to furnish the resources to do the development work. This is typical of what a venture capital group in a large company might be actively seeking. Most of those in this category that we have encountered have never gotten past the evaluating stage because the technology has not been on firm enough grounds. They frequently fall in the perpetual-motion machine category. In all cases, however, they get our attention and are reviewed seriously.

Most technology in the major-technological-shift category also will be a strong attention getter. Roughly half of our licenses from small companies fall into this category. In most cases the concept will be readily understood by the key functional representatives and a reasonable time-to-commercialization can be estimated. A small company can expect a large company to act quickly on technology of this type since it frequently represents an opportunity for the larger company to expand an existing product family into a totally new area, or to produce the product family at a reduced cost or higher purity. Obviously, the more advanced the stage of development the sooner a firm decision on licensing can be reached.

The other half of our technology licensed from small companies falls into the well-developed-improvement category. The technology, benefits and risks for this type are most readily understood by a potential licensee and a rapid response can be reasonably expected. Technology of this type that we have licensed has been extremely valuable in keeping us competitive in existing business areas.

Poorly developed or conceptual improvements are not likely to gain a great deal of attention. A large company will have defensive research activities under way which are designed to improve upon its existing technology. It will usually have an abundance of its own options already available at these early stages of development.

Another Category

A fourth category of licensable technology can be added to Rothwell and Zegveld's list. That is, simply the "status quo". If a large company decides to enter into an established business which requires a license to do so, it must seek out the most highly developed and

the best available technology.

The most fruitful technology licensing discussions will be in areas above the curved diagonal in Figure 1. If a small company wants to license technology which falls below the diagonal, it needs to select its candidates for license very carefully and to pursue its licensing efforts aggressively. To the extent that these two factors have been taken into consideration beforehand the pace of the negotiations will be quickened and the probability for success will be enhanced.

The preceding points to the kinds of questions a large company will ask at the outset of negotiations. While these discussions are going on the large company needs to address the question: Even if it's good technology, is it a good fit for us and visa-versa? This generally boils down to market size and the company's ability to reach that market effectively. As far as the market size is concerned, a rule-of-thumb for larger companies in the chemical industry is that a business should have a minimum market size of the order of $10MM. A smaller market size generally means little interest. An exception is licensing agreements based on process improvements, or on methodology to be used in-house. These may well be of strong interest, even at a much lower dollar level.

With respect to ability to market, a large company may be poorly suited to market a particular technology and may reject it for this reason alone. However, if the technology is sound, the potential market is large, and if there is a general fit to the company's interests, licensing this type of technology may be a good candidate for a large company's new venture or venture capital groups. These marketing considerations can involve a large number of people in various functions. The smaller company should not be surprised if the discussions slow down at this point.

We've examined four major factors that a large company considers in licensing technology from a small company. Let's now look at some obstacles which repeatedly arise in licensing discussions. They are all resolvable. Hopefully mentioning them will stimulate constructive study.

There is a perception by large companies that small companies are extremely reluctant to deal with them. A colleague in our company sought to acquire new technology from outside sources, by sending letters to smaller companies, all of whom professed an active interest in licensing technology. My colleague's letter outlined the search goals of our organization. The 500 letters sent resulted in only two responses. There had to have been more at the root of this low batting average than my colleague's poor writing style.

Frustration

A very likely source of frustration to small companies is the deliberate pace of a large company. It is also a source of frustration to the individuals in the large company. This deliberate pace is real and is a consequence of the need for communication between key individuals in different functions and departments which may in turn be in different locations. If the small company checks periodically with his contact in the large company, he may feel that he's receiving mixed signals or simply that there is little interest. This is not necessarily the case. The subject of inhouse research that is closely related to the technology available for license was touched on earlier. That can really give a large company fits. It can really slow things as much as any single factor.

Two additional resolvable obstacles encountered as negotiations proceed are the value each party places on the technology and the question of who will really have control. The different values placed on the technology by the small and the large company result in large measure from different perceptions of the technology's stage of development. If there is a major capital outlay, the large company will want to be in control, and will not be interested in serving as the minority interest.

The kind of licensing outlined above is extremely important to large companies. In my company's case about one third of our licenses are from small companies, universities, and individuals. These technologies have been very important contributors to our positive business performance. Until recently, we have sought technology more on an ad hoc basis to fill an identified need rather than as a recognized way of doing business. This has changed so that over the last several years we have had a group of people who actively solicit new technology from all reasonable sources. Small companies have played a major role in the past, and we expect to see this continue in the future.

NOTES

1. R. Rothwell and W. Zegvelt, *Planned Innovation*, 2(1), 1-5, 1979.
2. R. N. Noyce, *Innov aha! tion*, 30-32, prepared by the Editors of Technology Review with the assistance of Myron J. Exelbert and the M.I.T. Alumni Center of New York.