

Making Money Through Licensing

Sometimes it is wise to select a technology transfer mode other than licensing

BY JOSEPH MARKUS*

Nabisco has, over the years, grown into a major diversified multinational corporation with interests in 17 countries around the world. We are the world's largest biscuit bakers. We are also the largest producers of soft wheat in the world. We are, in addition to biscuits, crackers and cookies, involved in such associated and diverse businesses as the Confectionary business, the cosmetic and pharmaceutical business, the pet food business, frozen meats and entrees as well as being one of the leading companies in the field of toys and games. Today, our employees number 47,000 and our sales are in the 2 billion dollar range.

Our growth has been achieved by direct investment, by joint venture, by licensing, and by sales through distributors. Because of Nabisco's great financial strength, the bulk of its growth has been by direct investment. However, all four of the basic technology transfer business modes have been and are being used — direct investment, joint venture, licensing, and distributor arrangements.

Nabisco Protein Foods, the company I manage, is a new division of Nabisco — started in 1973 — built from "ground zero" by Nabisco's further development of a basic food technology brought in by license from outside the company. Our development, based on a licensed technology, gives us a proprietary product manufactured by a proprietary process.

Nabisco Protein Foods manufactures and sells a product known as "textured vegetable protein". This product is manufactured from soybean meal which is the residue of the soybean after the oil is extracted.

Proprietary Process

A number of companies are in this market and they all make textured vegetable protein from soy meal through a conventional so called expander/extruder to give it structure which in turn makes it chewable. The structure is not destroyed by cooking or food processing. Although other companies use conventional techniques, at Nabisco we use equipment of our own design, giving us a proprietary process and a unique product. Our product is sold under the "VMR" trademark.

Textured soy proteins have outstanding nutritional

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value with a very high protein content. They have many uses such as an extender in meat, poultry and fish where their use reduces cost without sacrificing either protein content or taste. Food economists predict that textured vegetable protein will become a significant factor in a world that finds itself in desperate need of additional sources of protein for both today and tomorrow.

From LES U.S.A. Annual Meeting

Nabisco, as a multinational food company, very early recognized this growing world need for protein. Some years ago, we entered a joint venture with Astra in Sweden to develop fish protein. Subsequently, we decided to enter the textured vegetable protein field but only if we could develop a unique process and market a product that had properties that would set us above and apart from the other companies who were in this business before us.

Our search for this process and product led us to a small company with an ingenious owner who had developed a vast store of protein technology. This inventor had created a proprietary process for processing soy, which gave the product different and more desirable properties than those of the conventional textured vegetable protein products that were already in the market place.

We saw a potential in taking a license to the semi-developed process of this inventor and to use it as a basis for further development to hopefully arrive at a proprietary commercial manufacturing process that would produce the unique product we were seeking.

Basic Process

That's what we did. We licensed the basic process, developed it further and it now is the commercial process which we use for our VMR products in the worldwide marketplace. Our VMR product is proprietary as is the process. We now have patents or patents pending in some 82 countries of the world.

The inventor, of course, "made money through licensing". Unfortunately, in May of this year, he passed away and now his estate collects substantial monies through our commercialization of his basic technology — even though we made some substantial changes and improvements in the product and process he brought to us.

Now, I would like to lead you from the inception of our venture started by a licensed technology — across a span of two years to our decision to enter the international market.

In jumping the time span to foreign expansion I will pass over the five years and millions of dollars which went into VMR's development to bring our program to the commercial market.

I will also pass over the difficulties and disappoint-

ments in our development and the tremendous efforts that were made by many people in establishing the first semi-commercial plant in one of our bakeries.

I will also pass over the countless days and months and many millions of dollars that were invested in the designing, the building, and the equipment that went into the start-up of our first major production plant in Morristown, Indiana. It is today the most modern facility of its kind in the world.

And in projecting the Nabisco Protein Foods story ahead to foreign expansion, I will pass over the countless problems of "growing" both old and new people into a completely integrated new "profit center" subsidiary company.

During this time span, we hired and trained people, designed a plant, organized sales and marketing both here and overseas, designed and developed a separate complex for our offices, laboratories and production facilities. At the same time, we also opened and staffed offices on three continents overseas and did the myriad things necessary to make ourselves a new profit-oriented company able to produce, to sell and, hopefully, to grow.

During this period of growth and development, we looked ahead to the tremendous task of tackling the viable international world-market area.

To assist us in this tremendous task, we made a basic decision to augment our in-house expertise and strengths by utilizing the best available specialists from outside the company as part of Protein Foods' basic team.

Add Experts

Experts in all aspects of licensing and the transfer of technology were added to our staff on a permanent consulting basis. They function today as an integral part of our development and management teams worldwide.

The theme of this meeting is "Making money through licensing". I want to emphasize that licensing is only one business tool for commercializing technology internationally. The so-called "licensing executive" will be a rather dismal failure unless he recognizes and utilizes the other business tools for commercializing technology, i.e., joint venture, export and sale through distributors and agents, as well as direct investment.

Unless he develops a good understanding of business principles and practices, the licensing executive will become only a draftsman of documents for those who know business principles and practices.

How did Nabisco Protein Foods approach the international market? How have we expanded in the course of two short years into some 35 countries worldwide?

First, we were forced to discard the mode of direct investment to use our technology abroad because the policy of our parent company during the recession period did not permit the outflow of substantial funds for major foreign investment during this period.

That left us with the technology transfer modes of licensing, export to distributors, and joint venture to select from.

We wanted to obtain equity in new companies for our

technology. Consequently, the joint-venture approach was attractive — with its higher potential profits.

However, foreign markets did not know either our products or our trademark "VMR", so it would be difficult to encourage a foreign partner to immediately form a joint venture — to put up capital for production facilities until the market was significantly developed. As a consequence, in each foreign territory, we began to look for strong companies who would first sell VMR products as our exclusive distributors — companies with the financial management and local strengths to go on and form joint ventures with us once the market developed sufficiently to support a substantial production facility.

Distributors

We have such distributors in such countries as Norway, Sweden, Denmark, England, France, Italy, Japan, Malaysia, Indonesia, Iran, Singapore, Korea, Egypt, Canada, and Jamaica, and negotiations are currently in various stages of development in many other areas of the world.

Although our policy generally is to establish distributorships which will, hopefully, lead to manufacturing joint ventures — there is one exception — in one territory we consider licensing as our basic business tool or business mode for our growth and development.

That territory encompasses the eastern-block countries.

In one such country we have sold substantial quantities of our products. We also spent a great deal of management time negotiating for and bidding on the construction and licensing of a "turn-key" plant based upon our technology. At some point, we might consider a joint venture in an eastern-block country, but up to now licensing seems to be the best route for rapid growth and expansion in this viable market area. It is also perhaps the area that is least encumbered with red tape and restrictions; in fact, licensing in these areas is perhaps the easiest and quickest way to the market-place.

In summary, I think that our venture program — resulting in the Nabisco Protein Foods International Corporation, a worldwide entity developed from an idea and technology — points up the importance of a flexible approach to modes of technology transfer and technology commercialization. We, of management, had to be knowledgeable in the various technology transfer modes and we have to select the appropriate mode for each situation as our venture has unfolded.

We were born through licensing.

We are growing domestically through direct investment.

We are growing internationally by the transfer mode of distributor arrangements which, hopefully, will evolve into manufacturing joint ventures with equity participation for our technology.

Yet, we must maintain flexibility in that we are prepared to license — at least in the eastern-block countries.

Our Nabisco Protein Foods International venture is a classic example of making money by selecting from the array of "technology transfer modes" rather than simply relying on licensing.