



Harold Haidt, General Chairman of the Annual LES Meeting in Puerto Rico. The full program for the meeting accompanies this issue as a SPECIAL ISSUE.



Puerto Rico-Sheraton Hotel, Site of the 1971 LES ANNUAL MEETING  
San Juan, Puerto Rico

#### FLIGHT TO PUERTO RICO

A number of members of LES are going to San Juan a few days before the LES Annual Meeting. These people are invited to join a nucleus of 10 or so others who plan to fly down on Saturday, October 6, from New York on PanAm (747 flight, economy), leaving JFK at 1430, arriving San Juan 1800. If you wish to have a seat reserved with the other LES members, please make your own reservations but also please notify Dudley Smith, Celanese Corporation, 522 Fifth Avenue, New York, N.Y. 10036. Dudley has arranged to give our list of names to PanAm a few days ahead of the flight date and has been assured that we then will be seated together.

#### MUST LICENSING ALWAYS BE JUST A MARGINAL ACTIVITY?

by  
David B. Zenoff\*

(Reprinted from *WORLDWIDE P&I PLANNING*,  
September, 1970)

With Chile, Libya, Peru, and Bolivia demonstrating to other developing countries that political and economic strength may come from hard-line tactics with foreign investors, the 1970's will probably be the era when multinational companies re-evaluate an old-line international marketing tool: licensing. In most markets licensing will meet host countries' demands for non-interference by foreigners, and yet, *if properly managed*, it should satisfy management's wishes for attractive returns on investment and cash flows without causing anxieties about confiscation of foreign-held assets.

A key step in re-evaluation of foreign licensing as a marketing tool is dismantling the notion that licensing can be only a *marginal* activity. My conviction is that if properly managed and given a chance, licensing can lead to sizable profits, entry into new exciting markets of the future, and desired high return on investment.

For the past two years I have been studying the foreign licensing patterns of 50 large U.S. international corporations. This study covered more than 3,000 foreign license agreements. Sixty per cent of these companies had 30 or fewer licenses in effect, and 75

Robert P. Whipple, President  
Vice President, Corporate Technical Development  
Dart Industries, Inc.  
8480 Beverly Boulevard  
Los Angeles, California 90054

Thelma C. Heatwole, Editor-in-Chief  
5110 West Franklin Street  
Richmond, Virginia 23226

Contributing Editors: Norman St. Landau, International Counsel, Johnson & Johnson, New Brunswick, New Jersey, Marcus B. Finnegan, Finnegan, Henderson & Farabow, Washington, D. C.; Dudley B. Smith, Licensing Coordinator, Celanese Corporation, New York, New York; Frank P. Presta, Sughrue, Rothwell, Mion, Zinne & Macpeak, Washington D.C.

Foreign Editors: Bertil Hedberg, Sweden; Olav Naper, Norway; Heikki Solin, Finland; Niels-Aage Jensen, Denmark; Bernard Zimmern, France; A. Astell-Burt, U.K.; S. Saotome, Japan; Philip Mitches, Canada.

Committee Members: Dudley B. Smith, Chairman; David Dougherty, Elmer Gorn, Carl Brown, John Lezdey, Arthur March, William Poms.

The Regional Vice Presidents serve as the Editorial Board.

LES NOUVELLES

is published five times a year  
©Copyright 1971  
by the  
Licensing Executives Society, Inc.

per cent of the licenses earned only \$10,000 in royalties annually. The small number of licensing agreements extant and the relatively small economic value of most licenses suggests that management may have some questionable attitudes and practices toward foreign licensing. I have identified nine problem areas from my study.

#### Questionable attitude one

In most of the companies I studied, licensing was regarded as a step-child of the international division. In the words of the marketing vice president of a large chemical company: "We think of licensing only if there are no other means of selling to a particular country. If it comes to licensing a product or a piece of technology, we normally do not expect to make much money and we tend to treat the income as a pure 'windfall' "

#### Questionable attitude two

In more than one-half of the 3,000 licenses, the initial contact between a licensor and a prospective foreign licensee came from the initiative of the licensee. This phenomena reflects the fact that most of the companies do not actively *sell* technology or products through licenses but rather they *wait* for inquiries from prospective licensees. The latter may have heard of the company's technology through word-of-mouth advertising, or from occasional technical articles in a

trade publication written by a corporate engineer or scientist.

One international executive in a large appliance company sums up a relatively typical meeting in the Far East:

"We were having trouble in the Philippines and when a Filipino manufacturer showed up in our Manila office and waved a \$7,000 check to obtain the rights to use a piece of byproduct R&D, we grabbed it."

#### Questionable attitude three

Although it is not spoken of as a standard operating policy, many companies are willing to license technology or their products (without trademarks) to any prospective licensee who they fear will steal the company's patents *without* royalty payment—particularly if a formal license is refused or the terms made too difficult. Executives complain of the high legal expense, lengthy litigation, and headaches associated with trying to stop foreign patent infringements, as sufficient bases for licensing other-than-their key technology *to almost any interested party*.

A large licensor, ranked among the top 50 U.S. companies in overall sales and probably among the largest 25 firms in terms of overseas earnings, found itself in 1964 having to decide whether to grant a patent license to a known n'eer-do-well Latin American entrepreneur, or risk having him steal its technology and abuse its trademark. The licensing manager told me he foresaw litigation costs in excess of \$100,000 and a two-to-three year court battle to effectively stop such piracy if a license were not granted. If an agreement were concluded annual royalties would probably be less than \$15,000—even though a license to a reputable licensee would have brought closer to \$40,000 annually. After evaluating the case, the company agreed to grant a license.

By mid-1969, the company has received only \$3,000 in royalties from the licensee, even though the U.S. executive was certain the licensee's sales based on the patented technology warranted about \$180,000 in royalties. The U.S. licensor finally decided to pressure the licensee for full payment of back royalties. After extensive correspondence by the company's legal counsel, and an offer to settle for less than the \$180,000 alleged receivable, an agreement between the parties was reached in August 1970 which terminated the license contract with the licensee paying \$39,000 as full settlement.

#### Questionable attitude four

Normally, the most important products and technology are not available for license. Licensing executives told me over and over again that the reason for their corporations' success was the ability to efficiently produce and mass market "bread and butter" products. Turning over the rights and opportunities to another firm would result in less profits in those markets and the distinct possibility of creating a competitor in other markets.

#### Questionable attitude five

Almost all the U.S. licensors studied made available only unused by-product technology and dated know-how for license to foreigners (a prominent licensing

#### SLATE OF OFFICERS — LES — 1971-1972

<i>President</i>	Sherman J. Kemmer
<i>President-Elect</i>	Charles H. Chappel
<i>Past President</i>	Robert P. Whipple
<i>Vice-President</i>	
<i>Eastern Region</i>	Marcus B. Finnegan
<i>Vice-President</i>	
<i>Midwest Region</i>	Richard P. Sabin
<i>Vice-President</i>	
<i>Western Region</i>	Alan C. Rose
<i>Vice-President</i>	
<i>International</i>	Edward P. White
<i>Secretary</i>	Homer O. Blair
<i>Treasurer</i>	Norman A. Jacobs

#### *Trustees - 2 Year Term*

Harold Haidt	Joseph P. Ciarimboli
	Donald Vincent

#### *1 Year Term*

John L. Sniado

Submitted by The Nominating Committee  
Kenneth W. Brown, Chairman  
W. A. Schaich  
George Von Gehr

advisor terms such know-how which otherwise would be discarded as "garbage"). For example, a multinational specialty goods firm with sales exceeding \$1 billion would license only two types of goods: (1) equipment it had developed solely for internal use to improve production efficiency, and (2) specialty products developed by its laboratories which did not meet the company's requirements for inclusion in its own product line.

#### Questionable attitude six

When basic marketing decisions are reached, most companies do not compare licensing to exporting or direct investment as means of entering attractive foreign markets. Potential gains from licensing are thought to be too inconsequential to warrant comparative analysis. It is only after a decision to forego expansion into a foreign market through exporting or direct investment that licensing is usually considered.

#### Questionable attitude seven

Some firms believe the main benefit to be derived from foreign licensing is the prestige it gains when a large foreign company becomes a licensee. Even if the royalty income is negligible, the licensor anticipates PR value from having famous consumers of its know-how—which is detailed in its reports to stockholders.

#### Questionable attitude eight

Few if any projections are made of the benefits and costs likely to be associated with a given license. Typically, an attempt is made to determine the size of the annual "average" royalty and one or two out-of-pocket expenses associated with the negotiation and maintenance of an agreement. If the projected average royalty meets a rule-of-thumb minimum standard—such as \$10,000—and if the prospective licensee is able to

### LES PLACEMENT COMMITTEE

Jobs anyone? The services of the Placement Committee are available to applicants looking for positions in the licensing field. Please send your resume (five copies preferably) to the Chairman of the Placement Committee:

John L. Sniado  
Director, Patents and Licensing  
Kennecott Copper Corporation  
161 East 42nd Street  
New York, New York 10017

Companies or firms looking for licensing personnel are invited to send their requirements in confidence to the Chairman of the Placement Committee at the above address. The Placement Committee matches the resumes received with the requirements of the various available openings. Resumes that appear to meet the requirements of any available openings are then forwarded for consideration.

Any LES member who would like to receive complimentary copies of **Worldwide P & I Planning**, which is a journal for management of multinational companies edited for those with engineering, financial, operations, purchasing and construction responsibilities, should write, identifying himself as an LES member, to

Intercontinental Publications, Inc.  
10 River Street — P. O. Box 1256  
Stamford, Connecticut 06904

make a downpayment on the signing of the license of about one-half the expected average royalty, then normally no further profitability analysis is made.

A striking example of this approach was the explanation by the licensing manager of a \$3 billion company.

"All the work I do on analysis of prospective foreign licensees can be made on the back of an envelope."

#### Questionable attitude nine

In the case of know-how and patent licenses without provision for trademark use licensors do not typically provide close and continuous support or guidance to licensees after the initial technology transfer—to help implant the transferred technology, to provide technical guidance in manufacturing or marketing, or to audit the financial performance of the licensee. Provision of such technical and managerial support—beyond the minimum specified in the license—and follow-up inspection are deemed too costly to the licensor in terms of its personnel, with too little payoff.

#### Taking another look

In view of the foregoing illustrations of executives' attitudes: what *can* be done to make better use of the license in international marketing? Several suggestions can be made. Changing environmental circumstances may now warrant a reexamination by management of its assumptions and approaches to licensing. The appeal of the practices of the 1950's and 1960's may no longer be suitable for multinational companies in the 1970's.

Basically, licensing should be reexamined to determine its suitability for selling any of a company's

### Applications for LES Membership

should be sent to

**Mr. Bertram Bradley**

**Chairman, Membership Committee, LES**

**Cutter Laboratories**

**Fourth and Parker Streets**

**Berkeley, California 94710**

technology or goods to foreign consumers. If the evaluation proves to be positive, management can then proceed to evaluate how more of its available and future products may profitably be sold under license and how more income can be earned on each new license agreement. Implied, of course, are the advantages to a firm of treating the license as a first-class approach to marketing where it has recognized value, and the necessity of devising a *licensing program* to replace the present *ad hoc* approach.

For example: licensing can be incorporated into planning and strategy when decisions are made on the allocation of company resources to research and development activity. The expected end-use of corporate R&D activity will dictate the objectives of the R&D program, the size of capital investment in research, and the type of development work undertaken. When companies ignore foreign licensing as a possible sales device for new products and processes, licensing executives are unlikely to systematically communicate to R&D managers their suggestions for product modifications or for basic product development suitable for licensing, and conversely, R&D managers will not keep licensing managers informed of new developments which might have value in a licensing program. Hence, to make licensing effective and to develop more profitable exploitation of a company's technology and property, licensing and R&D functions should be in closer and continuous communications.

To maximize the income potential of foreign licensing, companies should strive to *sell* licenses, rather than to rely wholly on inquiries from potential licensees as the basis for establishing a relationship. A clue as to how companies might try to identify interested foreign licensees for their vast technology store is suggested by the approach recently developed by General Electric and a few other large high technology multinational companies. Each has established a periodical which lists and describes their existing and new technology available to interested parties. These are widely distributed.

There are other methods of selling technology to foreigners, including displays at trade fairs, use of agents, and direct promotion by headquarters and foreign subsidiaries. As I have already stated the *key is to determine if a company possesses licensable assets and then to decide how to seek profits from their sale, rather than to merely accept business on a fortuitous basis.*

The benefits to be derived from a positive aggressive approach are basically three-fold: (1) money can be earned on presently unutilized assets; (2) more income can be generated per license when more care is taken to screen potential markets and licensees and to design a tailored and more carefully conceived license contract; (3) additional revenues can be realized from a given piece of technology by licensing it in *numerous* foreign markets rather than only in the single market serviced by the first interested licensee to present himself.

An important element in identifying and selecting attractive foreign licensing opportunities is careful and comprehensive analysis of prospective licenses. In part, this requires identification of all relevant benefits and costs associated with an agreement so a creative ap-

proach can be taken to designing contracts and to exploiting opportunities while minimizing risk and unnecessary expenses. In my study and others of foreign licensing management, executives indicated that foreign licenses typically could involve a variety of benefits and expenses for the licensors. (See *Forms of Remuneration and Return to United States Licensing Companies and Costs Incurred by 43 U.S. Licensor*, on Page 51.)

Inadequate analysis of what is involved in a license can lead to erroneous decisions about the value of a contract, missed opportunities to specify all important areas of performance between licensor and licensee, and inadequate pricing of the contract's royalty and fee provisions.

In my study, many licensors complained about the high cost and inconvenience of providing technical and managerial assistance to their licensees. Yet, licensors did not make careful forecasts of how much manpower would be involved in each new license, or how they could be properly compensated for such personal expenditures. At the best, companies provided for modest *per diem* remunerative provisions for executives' time devoted to licensees, which did not adequately compensate licensors for costs incurred or for their opportunity costs of unavailable manpower.

Identification of relevant marginal costs and benefits expected from a given foreign license is not always possible or economically desirable. The difficulty is partly one of attempting to correctly forecast future events. In addition, many cost and benefit elements are likely to be of small economic consequence, or occur late in the life of an agreement, or be unquantifiable. In such cases, some companies with long foreign licensing experience may find it useful to develop a set of standard costs or benefits associated with *particular types* of licensing activity. This can readily be incorporated into analysis of new licenses—provided standards are current and representative.

Another important segment in the analysis of prospective foreign licenses is to assemble data into a useful format. Currently, many firms merely estimate probable royalty income and perhaps a few key expenses associated with a contract, and if the average annual "profit" (royalties minus key expenses) meets a predetermined standard, the contract can be approved.

What's wrong with this analysis? For one thing it fails to account for the *timing* of the inflows and outflows of funds resulting from a license. Furthermore, the resultant "profit" figure cannot be meaningfully compared to the analysis of alternative methods of penetrating a foreign market, such as exporting or direct investment.

For example, to reach a given foreign market opportunity suppose a license was estimated to provide an average "profit" (royalties minus key expenses) of \$14,000 annually, while U.S. export sales would total \$100,000 a year and earn \$12,000 while a direct investment of \$525,000 for a foreign manufacturing and sales subsidiary would have been variable annual profits ranging from between \$12,000 to \$104,000 during the first ten years. From a profitability viewpoint, which of the three marketing routes is most desirable? It is impossible to determine because the alternatives have

## NOTICE TO LIBRARIES

Libraries can obtain a subscription to LES NOUVELLES AT COST — \$20.00 per year — by sending a subscription order and check to the Editor-in-Chief at the address below. Please make check payable to Licensing Executives Society, Inc.

Mrs. Thelma C. Heatwole  
Editor-in-Chief, LES NOUVELLES  
5110 West Franklin Street  
Richmond, Virginia 23226

MID-AMERICA WORLD TRADE CONFERENCE  
34th Session  
Chicago, Illinois  
February 25, 1971

ENFORCEMENT OF UNITED STATES  
ANTITRUST LAWS AGAINST MULTINATIONAL  
PATENT AND KNOW-HOW ARRANGEMENTS

A talk presented to the  
Mid-America World Trade Conference  
February 25, 1971

by  
James H. Wallace, Jr.\*

Mr. Chairman, Ladies and Gentlemen, today I will discuss the very important and controversial subject of the applicability of the United States antitrust laws to arrangements with foreign parties. Since the Antitrust Division's recent activity in the international field has centered on patent and know-how agreements,<sup>1</sup> my remarks will focus primarily on this important aspect of multinational affairs.

Instead of discussing in detail the classic patent cartel cases, I will limit my remarks to areas of current practical interest to the lawyer and businessman. First, I shall cover the significant procedural problem of how United States courts obtain jurisdiction over a foreign party to an allegedly unlawful agreement. Secondly, I shall briefly discuss the Antitrust Division's *Westinghouse-MITSUBISHI* case, recently filed in San Francisco. Finally, I will conclude my remarks with a summary of the guidelines available for safe conduct in the international arena.

I. JURISDICTION OVER A FOREIGN PARTY  
TO CHALLENGED ACTIVITY

The Antitrust Division has recently begun utilizing an interesting arsenal of weapons to subject foreign parties to the jurisdiction of United States courts by merely mailing the complaint to them. Many of these jurisdictional bases are also available to private parties.

In addition to the obvious importance of these jurisdictional tools to litigating lawyers, knowledge of these vehicles is of practical value to the lawyer and businessman in prophylactic counseling and in patent and know-how license negotiations. For example, an American company may have no desire to enter into a restrictive agreement but might have restrictions imposed upon it by a foreign patentee. Although the foreign company may understand that such restrictions are questionable, it may believe that its geographic position provides immunity from antitrust attack in the United States. The negotiator can point out to the foreigner that his immunity may in fact be imaginary in view of new approaches of the Antitrust Division and treble-damned plaintiffs.

*State Transacting Business Statutes*

Although state long-arm statutes providing for service of legal process on foreigners not physically present within the state are powerful jurisdictional tools, they were seldom, if ever, used by the Antitrust

not been presented in comparable form.

Without delving into capital budgeting techniques and methods of evaluating new venture profitabilities, it should be noted that licensing can be made comparable to the other alternatives *by a time period* identification of the relevant inflows and outflows of funds associated with a prospective contract, and discounting them to their present value. This method provides a common criteria for evaluating all three marketing proposals which incorporate the vital *timing* costs and benefits.

As an approach to establishing more rigorous standards for evaluating foreign licenses, some companies are considering a concept of licensing as a separate profit center. The presumed advantages of a profit center would include: (1) putting pressure on licensing managers to analyze their activities more carefully, (2) establishing performance standards for licensing operations, (3) a regular review of licensing by upper management echelons.

However, if licensing is to become a full-fledged ingredient within an international marketing program, then to establish it as a separate profit center may result in further separating the licensing manager from other executives engaged in planning and carrying out foreign expansion. Rather than locating licensing on an organizational limb, it might be more effective for the licensing manager to be on the international marketing vice president's staff to perform service functions mainly related to (1) identifying available technology suitable for licensing, (2) maintaining the company's patent portfolio, and (3) negotiating license agreements after the marketing group has presold opportunities.

The license is susceptible to aggressive sales, comprehensive planning, and careful evaluation. In these times of mistrust of foreign investment and continuous demands for international transfers of technology, licensing can play an important role for many companies; seeking profitable footholds in foreign markets; seeking new ways to make money using their existing skills and resources, and seeking lower risk business involvements.

\*About the Author: David B. Zenoff, Associate Professor, International Business, Graduate School of Business, Columbia University.