

# Proven Policies for Success

*Johns-Manville follows policies developed over many, many years and now proven successful*

BY JOHN A. MCKINNEY

This is an opportunity for me to say, as one of its original members, how much I sincerely admire the Licensing Executives Society, the manner in which it functions and the contribution it has made in raising the standard of professionalism in one of the most practical of all the arts — the exchange of technical knowledge.

To me, the great value of LES lies in the vehicle it provides for the sharing of experiences and views among peers. While an active member I benefited immensely from this sharing, even though at times the views and experiences discussed either were not directly applicable to the technologies employed by my company or were incompatible with my company's business practices. Even where I disagreed, however, there was value in the process because, if for no other reason, I was forced to rethink and reconfirm my own views.

So, if you will, for a few minutes, still accord me the privileged status of one of your peers, I will relate to you some rather dogmatic views on licensing in the hope that you may be left with a useful idea or two, or at least the reassurance that your way is the best.

## Proposes Terminations

First, I shall tell you how I came by these views. Within a short time after joining Johns-Manville as a patent attorney in 1951, I was assigned the basic responsibility for all licensing. One of my early tasks was to review the complete histories and to propose fair terminations of several agreements which had been executed in the 1920s. A wide range of technologies was involved and in some agreements we were licensor and in others licensee. There had been misunderstandings, disagreements, litigation and nearly every type of conflict which can arise in licensing. There were bare patent licenses and bare know-how agreements as well as combinations. There were some with, and others without, minority ownership, grant-

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backs of all types, continuing know-how, addition of improvement patents and almost every conceivable restriction which has contributed to that great body of law on the misuse of patent rights. In short, I quickly got a view of what had and had not worked well for Johns-Manville and, of course, I inherited the administrative responsibility for a number of agreements then in force. In the ensuing 15 or so years I was able in negotiations and drafting to experiment with ideas of my own and find out a bit more about what worked and what didn't work for me.

## Experience

So my views on licensing came from experience, sometimes painful experience, and this is possibly why my general views on what I would call the business aspects of licensing have changed little, if at all, in the last decade. My views are the same as chief executive officer as they were when I was directly responsible for our licensing programs, and they may thus be a little old-fashioned or out-of-date.

For a company like J-M, licensing is a business, an important source of income or of needed technology. It should be conducted with the same sense of fairness as the rest of the business. The licensor-licensee relationship in this regard should not be much different than the supplier-customer relationship. As a supplier you'll get more customers and as a customer you'll get better service if you follow fair business practices. I believe the rule of fairness in licensing is this. Don't try to force the other party to agree to something you wouldn't agree to if you were in his position. When possible, I tried to begin negotiations by proposing use of a form of agreement based on an actual agreement in which J-M had been in the other party's position. This eliminated initial distrust, particularly with respect to boiler-plate provisions.

In any business deal fair value should be received for everything sold or provided. For this reason we have tended in more recent times to place separate values on engineering, know-how and proprietary rights and to develop a rationale for supporting each of these values. Even if a licensee possesses the know-how, if he wants to build a plant, he must incur engineering costs of perhaps 12-15% of the total plant costs. If you provide such engineering it should be worth perhaps 8-10% of such cost. Of course, usually the licensee doesn't possess the know-how and should pay a royalty for its use. If patents protect him in this use he should pay for that also.

Here are some other do's and don'ts we try to observe. We will not agree to give continuing know-how or to add improvements. We leave them for future negotiations. We don't try to bargain about something which does not yet exist or the cost to which we cannot estimate with some certainty.

When licensing know-how, we obligate ourselves only to show the licensee how to duplicate our machine, production line or plant and how we produce the products we make. We don't take responsibility for anything not already proven in regular commercial production. Doing otherwise risks an unhappy licensee and excessive costs to the licensor. We do not guarantee success — the licensee has more control over that than the licensor. We will not in effect do development work for the licensee.

We don't seek free grant-backs. We believe we are not any more likely to get something for nothing in licensing than in any other endeavor.

We do not trade know-how for a minority stock interest, except in most unusual circumstances. We did this

a number of times in the past and whether we looked at total dividends received or the price of the stock when sold, on a discounted-cash-flow method of calculation, it never approached a fair initial cash price or realistic royalty for the know-how.

Since licensing out for us has the objective of producing income, we try to control the costs of licensing so as to produce the maximum net income. It is very easy to lose control of indirect costs and we have found that many licenses which appear at first to be desirable in fact cost us more than they were worth. This is why we developed the conservative policies we have about service and particularly continuing service to licensees.

Those, very briefly (and dogmatically) stated are the basic policies J-M observes in its licensing activities. Obviously, we know of programs in industries and technologies differing from ours which were successfully based on contrary policies. We have ourselves deviated at times from these policies but usually, I can say in all truth, to our regret.