

portant, it was able to continue to grow by nearly a factor of two with about the same accounting staff. It had the advantage of automation of these accounts nearly three years before other banks. It did this while reducing its error rates and enabling its customers to use any branch. The Bank was also spared the expense of possibly having had to convert to someone else's system.

Nor should it be assumed that G.E. was a loser in this operation. While it undoubtedly invested heavily in going into the data processing field, the current issue of *Moody's Industrial Manual* has a single paragraph that may sum up its "going out" of the data

processing business.

"As a result of agreements with Honeywell, Inc., (G.E.) held an 18-1/2% interest in Honeywell Information Systems, Inc., as well as 1,500,000 Honeywell common shares and \$110.0 million Honeywell 9-1/8% subordinated notes due January 1, 1975 and 1977."

**About the Speakers: Mr. McGuigan is Vice President of Robert A. Gilmore & Co., Inc., Menlo Park, California, specialists in industrial start-ups; Mr. Morrin, San Francisco, was Director of Engineering Research at Stanford Research Institute at the time this program was negotiated.*

HAWAII FOLLOW-ON MEETING



Betsy and Marc Finnegan (President) at Hawaiian Luau.



Bill Poms, Lela Poms and Alan Limbury at Hawaiian Luau.

Session Chairman: Eugene M. Lang
REFAC Technology Development Corp.

THEME: HOW TO MAKE MONEY LICENSING IN THE PACIFIC

October 21-22, 1973



Eugene M. Lang

SMALL BUSINESS IN LICENSING: SPECIAL PROBLEMS AND OPPORTUNITIES (PACIFIC AREA)

by
Eugene M. Lang

The big business bird and the small business fish could not agree on a description of the licensing ship. The high flying big business bird looked down and saw a tangle of lawyers, accountants, engineers, patent experts, tax experts, trademark experts bound together by split antitrust hairs and SOP.

The small business fish, on the other hand, hardly had time to look up and take in the details of the ship's barnacled hull. He was up to his gills in the problems of designing, making and selling his products while dodging loan sharks and generally trying to keep his head *under* water.

To reconcile these points of view, the differences were submitted to a bilge rat who had lived his entire life deep inside the licensing ship. The bird and the fish agreed that the bilge rat was uniquely qualified by reason of his access to inside information. The bilge rat accepted the assignment,

confident that his expertise was specially consecrated by a further qualification: he had always worked in darkness.

I am here today as that proverbial bilge rate — not to settle any arguments but to speak from a background of scrounging around for more than twenty years in the world's largest LST — REFAC Technology Development Corporation. I will not squeeze my metaphor further although the concepts of fog, dead reckoning, life preservers and screws offer tempting metaphoric possibilities to any battle scarred licensing executive — and I can show scars of hundreds of manufacturing license and joint venture involvements in thirty or more countries, primarily in behalf of small American and overseas manufacturers.

In discussing the problems and opportunities of small business in licensing, it is difficult to isolate a uniquely "small business" problem or objectives that cannot also be associated with the "big business" bag of licensing considerations. Perhaps the prime *area* of distinction lies in capacity to cope — just as the prime *issue* of distinction may be survival. Let me put this into a general perspective that recognizes two dominant dynamic factors of our times.

First, we live in an age of accelerating technological change. Within our generation the time span from invention to innovation to the market place has telescoped by more than 75%. It has become increasingly difficult for the little man to keep pace, to marshal the resources and assume the risks required to keep alive, let alone flourish, in the market place. This is compounded by inequities arising from the conditions under which Government has subsidized so much of our industrial R and D.

Second, the market place itself has become increasingly homogenized as an international arena. Sheltered corners, in which tradition and obscurity have helped protect the little man from foreign competitors are disappearing. Of course, market barriers, national and international, remain — but these generally speaking, serve to keep the little man out and, in so doing, enhance the rewards of big business muscle. This has been conspicuously true in the Pacific area.

Let us factor the dynamics of our times into the overseas objectives of the small manufacturer. What are these objectives? First, he would like to export his products profitably. Perhaps he might want to manufacture his products abroad for foreign markets. Or, he might want to use low-cost foreign facilities to make some products or components for the domestic market, as his larger competitors are doing. He may want to lighten his R and D burden by obtaining feedback values of product, production and application engineering from overseas manufacturers. He may want sources of new products to manufacture or sell in the United States.

To a greater or lesser degree, these objectives identify in some aspects with opportunities in all markets of the Pacific. But, the small manufacturer must figure out: How? How can any of these objectives be associated — profitably — with these markets? Unhappily, for him, there is no simple or broadly encouraging answer. For one thing the markets of the Pacific are extremely diverse — politically, economically and technologically. From the in-every-sense extraordinary Japan, there is unsophisticated Taiwan with its specialized areas of industrial significance; Hong Kong — an elite market with exceptional commercial vitality; Viet Nam and its subsidized and perhaps transitory attractions; Indonesia poor but with vast resources under intensive development, and the big question-mark China. From the democratic stability of Australia, there are the seasoned disciplines of Singapore, the Philippine powder keg, and the who-knows-what of Korea. In matters affecting trade and licensing, there is liberalized Japan, the tax and cost incentives of Taiwan, the trading freedom of Hong Kong, the kindred entrepreneurial attitudes of Australia, the protectionism of New Zealand's grass economy, and the soft underbelly of confusion, uncertainty, bureaucracy and corruption that may variously

apply in one area or another.

How does the small manufacturer sort these things out? How does he determine which markets are worth pursuing? How much will it cost and what types of deal should he seek? Which possibilities can he afford to develop and how does he go about it? Where does he go for guidance and whose judgment can he trust?

When confronted with these questions, the small manufacturer has generally retreated to the maxim, "when in doubt, the answer is no". The Pacific is too remote, geographically and environmentally, from the world of American and European business. Communication is too unreliable and foundations of understanding seem incompatible. Why risk the diversion of time, management effort, technical talent and money on such highly speculative possibilities?

It is understandable that the Pacific has been primarily a happy hunting ground for the American multi-national corporation and, even more, for European and Japanese trading and capital interests, often built upon colonialist tradition. Less than 2% of all small American manufacturers — companies with less than 500 employees — have any regular business contact with markets of the Pacific.

This must change. If the small manufacturer is to stand up to the dynamics of our times — face up to the forces of technological change and the compacting of the world market place — he will have to recognize the Pacific as a market he cannot indefinitely afford to ignore.

This area does not just spawn American imports — Japanese cameras, Hong Kong textiles, Taiwan integrated circuits, Australian beef, Korean wigs. Rather, it is an area with over 3 billion people, more than half the world's population — and people are markets. Moreover, it is *the* part of the world that, in the years ahead, promises the most rapid economic growth. The small manufacturer will have to meet his competitors on location abroad — or else, his competitive viability at home will degenerate and something essential to our free enterprise economy will be lost.

How can he accomplish this against the odds he must face?

Unalloyed export sales efforts are clearly not the general answer. They can be costly, usually unproductive and probably impermanent. Overseas subsidiaries are idle dreams. The small manufacturer does not have the money, facilities or management to invest. Almost by default, licensing may well be his most logical and only practical means for realizing his overseas market objectives.

Ideally, licensing operates in tandem with other trade development techniques — and I want to emphasize my view of licensing as a tool of trade development. For the small manufacturer, it can provide the framework for an evolutionary process to accomplish permanent market penetration. In any Pacific market, the process can start with export, move into overseas assembly, gradually phase in local content to a point where the market can then be substantially served from within — and the licensed facility can be further used to reach out to develop other Pacific markets that cannot be exploited from the United States.

Without the framework of licensing, the market development process would be much more difficult to get off the ground. For example, a foreign distributor is more likely to take a product line seriously when he knows that the success of his efforts can be backstopped, after the market has developed sufficiently, by local production. REFAC has often found that the willingness to commit ourselves, under license, to cooperating with good foreign distributors in an eventual manufacturing program has induced them to market our clients' products rather than those of competitors.

Thus, the licensing approach gives the small manufacturer a chance not only to promote export sales but, more significantly, to profit from his basic stock in trade — his unique ability to do something uniquely well: his knowhow.

The absence of patents need not be a major obstacle.

Pure knowhow can be validly and profitably licensed. Contrary to the instinctive fears of most small manufacturers, the licensing of knowhow, with all the necessary disclosures, should not create a Frankenstein-type risk. On the contrary, knowhow, if properly handled — and the subject of knowhow licensing is a major conference in itself — can yield attractive returns with relatively minor downside risk.

The license framework may revolve around a basic agreement under which, initially, the licensee is given the exclusive right to buy and distribute the U.S.-made product in his country. This right can be supplemented, initially or based on performance, by exclusive or non-exclusive sales rights for other territories. In other words, one market can be a springboard for getting into others. Then, as sales grow or within a specified time, kits of U.S.-made components, in lieu of finished products, may be exported for assembly by the licensee. At this point, the license can become operative. The licensee receives design and assembly knowhow. He starts paying royalties on sales and fees for technical assistance.

Gradually and as economic to do so, imported product components may be replaced by locally-procured parts. These can be to U.S. specifications or they can, with licensor approval, embody modifications initiated by the licensee to adapt the licensed products to his market standards or preferences.

Eventually, licensed production may replace the original exports. However, it is REFAC's experience that foreign licensees continue to function as effective outlets for export sales — of components, of equipment, of product models that the licensee cannot make efficiently, or new models that the licensee is not ready to produce.

What does the American manufacturer — the licensor — get out of this. First, during the initial period, he gets product sales. Then, he receives royalties and technical fees. He may also receive shares in the licensee's company or in a new company that may be set up as a joint venture to manufacture and sell the licensed products.

Exports, royalties, shares are elements of consideration that are negotiated and spelled out in the license agreement. However, and of particular importance to the small manufacturer, is his opportunity to capture the R and D — the product, production and application engineering that his licensee may be expected to generate. It is almost inevitable that the product perspective of each licensee and the particular conditions of his market and market opportunities, inspire developments and improvements in the licensed art. The feedback of these R and D values can be of incalculable worth to the small licensor who can take advantage of them in the best market of all — his own. In fact, the generation of feedback values can make licensing a primary mechanism for growth. More than that, licensing can create a survival collar for the small business fish in meeting the economic and technological pressures of his surroundings.

The licensing structure for foreign market development can be entered at any level, depending on circumstances. Where the parties feel that an adequate market may be presumed, manufacture may be initiated from the outset. However, the small manufacturer, starting from scratch, should prepare and work from a blueprint for long term business development, such as a license relationship can accomplish.

The blueprint can provide for the flexibility and resilience needed to satisfy local government regulations, to benefit from local incentives, and to adjust for changes in administrative and economic environment.

The blueprint must select the specific market or markets that provide the best opportunities for product penetration — and for the realization of other business objectives. The term "best opportunities" in this context places a premium on market knowledge, including the answers to questions that one may not be accustomed to ask.

The blueprint can also, within certain limits, substantially transfer to the licensee those burdens that are impractical for the small U.S. manufacturer to cope with himself. Accordingly, each license partner must be chosen with due regard for his capacity and willingness to handle the financial, marketing and technical burdens involved. This is not easy and the technique of finding and checking out prospective overseas partners is anything but an exact science.

A further observation in the blueprinting process: whenever the Pacific market is considered, Japan automatically comes to the fore. It should! But, for many small manufacturers, Japan may not be the land of opportunity. The Japanese market already has enormous product variety. Management talent is hard to find. The country is coming to be a relatively high-cost production and distribution area. There may be no place in Japan for just another "widget" — so it may be better to seek license opportunities in other less-developed countries.

One need not try everywhere — instead, explore the two or three areas that seem most promising. While REFAC still regards Japan as our number one licensing and trade development target in the Pacific, we have successfully and continue to expand our interests and objectives in Australia, Taiwan, Singapore and Hong Kong and, to a lesser extent, in the Philippines and Korea.

It is easy to be optimistic about the Pacific as a potential paradise of opportunity for the small American manufacturer. It is easy to describe the market as one that the small manufacturer cannot afford to ignore — and that licensing offers a good vehicle for doing what should be done.

Nevertheless, in real life and despite the attractions and compulsions of the Pacific, most companies will not do anything about it. The obstacles that must immediately be faced seem too formidable.

At the risk of seeming self-serving, I must point this out. Which is by way of saying that technology transfer organizations like REFAC fulfill an essential function. They provide a proven mechanism for bridging the gap between needs and objectives of the small American manufacturer and the vast potential of the Pacific and other foreign markets.

I submit that technology transfer, or licensing, is an emerging industry that most uniquely combine and orchestrate a variety of entrepreneurial, business and professional functions. Whether the activity is called technology transfer or licensing, it must be accepted as a business activity that goes beyond any narrow definition or image of professional service. Only in its broad aspect can licensing fulfill its role in our industrial economy generally and to the small business community specifically. And, only by recognizing this role is it realistic to expect that the average small manufacturer can find a durable place in the world economy.

To recognize and be recognized — this is a challenge in which all of us have a stake.

LICENSING IN AUSTRALIA

by
Alan L. Limbury*

Australia is a politically stable, relatively prosperous country with a wealth of mineral and other natural resources.

Because of its high degree of reliance on foreign technology, international licensing agreements between overseas corporations and Australian licensees have proliferated. The 1971 edition of the U.S. Department of Commerce Trade List of American firms, subsidiaries and affiliates in Australia estimates that there were approximately 800 license and similar arrangements between U.S. and Australian based firms in force in that year. In the past two years the number