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THE RESEARCH AND SELECTION OF LICENSEES

by
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NRDC, to which I belong, has at any one time between 500 and 600 agreements in being with licensees and is attempting to license in Great Britain and overseas something in the region of 1500 inventions. All of these inventions are made in organizations other than the Corporation e.g. in Government laboratories and Universities. We in NRDC are therefore trying to license the results of research that is not carried out by us and over which usually we have no control and little or no influence. We differ markedly in this from industrial licensors, who probably have carried out R & D to meet their own requirements, who themselves utilise the results of that R & D in their own products and to whom income from licensing is a secondary rather than a primary objective. In brief, the NRDC is in the business of licensing other people's ideas and the results of other people's programmes and our existence is utterly dependent upon the success we achieve in this difficult task. It is mainly against this background that any remarks I make today should be viewed.

This Paper is supposed to be about the identification and the selection of licensees. Before any consideration can be given to this, it is I think essential for the licensor to be quite clear in his own mind about what he is trying to licence. Is it an immature invention that requires development by the licensees before a marketable product emerges? If it is, the licensor must look for a licensee who has the money and the facilities necessary to carry out that further development and the willingness to devote those resources to it with no certainty of success. Is it an invention that, when fully developed, requires additional heavy investment in new production equipment and plant? If it is, one must again look to companies who have the required financial resources and are likely to take the risk of investing in a situation of uncertainty.

Is the invention one which is so revolutionary that an expensive and sustained sales promotion campaign will be required to establish the new market? If it is, this points again to a licensee who is accustomed to marketing products of this nature or likely to make a success of such a campaign. What is strength of the patent position? Is it such that the licensee will enjoy adequate protection for a considerable number of years? Or is it probable that any licensee will have only a head-start of 2 or 3 years before his competitors come up with something equally as good but outside the claims of the patent? How much associated know-how is there, how essential is it to the licensee and how long is it likely to remain confidential? Is there a potential foreign market and if so how equipped should the licensee be to achieve that market? Should the licensee have foreign subsidiaries?

Factors such as these, I submit should be weighed by the licensor before he starts his exploitation exercise. It is indeed the weighting of such factors that should decide the direction of the exploitation effort and his preliminary choice of companies with whom to start talking. In brief the licensor should first identify the package and its constituents and the environment that is likely to surround it. Having done so, he should be willing to modify his preliminary conclusion in the light of subsequent discussions with potential licensees. In the experience of NRDC, the views expressed by industry once we have started talking to them have been very helpful to us in deciding exploitation and licensing policy. There are three kinds of invention we find. The majority that nobody wants; a very small minority that everybody wants; and an intermediate number that handled with diligence, skill, some patience and a bit of luck someone will want.

The licensor must from the beginning be clear not only about what he wants to licence but also why he wants to licence it. What does he expect to get out of it? In the case of NRDC one of our duties is to ensure that inventions entrusted to us are made and used. This is part of the public interest aspect of operating as a public corporation and it is a factor that is usually not part of the thinking of an industrial licensor. A second duty of NRDC is not to lose money which means naturally that we attempt to operate profitably and indeed we do so. An industrial licensor who wishes to make income from licensing will, as we do in NRDC, try to select licensees who are financially sound, have management ability and a good commercial track record. Another factor might be a wish or a need that the licensor obtain from the licensee some technology that belongs to him (the licensee) or a feed-back of know-how or a right to use new inventions in the same field. In other words, the reason for licensing is to achieve a cross-licensing situation rather than royalty income. The reason for licensing could on the other hand be political; government policy in a particular country might be that a licensee has got to be appointed in that country if the invention is to be used there at all. The licensor might be forced to anticipate a request for a compulsory licence. Whatever the reason for licensing —

and I have mentioned a few of them — the licensor should be clear in his own mind what his reasons are because they to a great extent will dictate his choice of companies with whom to start talking business and the terms upon which two parties finally do business together.

Having identified the package to be licensed and decided what he hopes to achieve by licensing, the licensor is very often half-way to identifying potential licensees. If no names come immediately to mind, there are mechanistic methods of attracting industrial interest. Space can be bought by the licensor in various publications and bulletins. He might, like NRDC or ANVAR, have his own regular publication. Articles can be written for appropriate trade or technical magazines. Write-ups of inventions can be encouraged to appear in the daily press. The inventor can be sent to read Papers at scientific conferences and seminars. All of these techniques are random. In utilising these techniques the licensor is broadcasting information widely in the hope that somebody, somewhere, is going to be sufficiently enthused by what he reads or hears, to establish contact and ask for further information and eventually, hopefully, for a licence. But a licensor who relies solely on such techniques is unlikely in my view to achieve great success in licensing.

I said earlier that NRDC does not make or sell products or itself, with certain exceptions, engage in R & D. We are trying to sell other people's ideas and are utterly dependent upon the success we achieve in doing so. We have been successful, in the sense that our licensing activity has been consistently profitable for a number of years. The reasons for our success, I think, are clear. First, we try to make ourselves continually aware of what is happening in research, be it in Government establishments, university departments, or industry itself. This gives a general background against which to assess the technical and commercial merits of inventions offered to us. It enables us to decide how much exploitation effort is justified and, indeed, whether any effort is justified. Second, we try to maintain awareness, continually updated and refreshed, of the thinking, activities and plans of industry. We try to establish good relationships and personal friendships with the people in industry who make the decisions. A company is more likely to be interested in what a licensor has to offer when individuals on both sides have a longstanding friendly

regard for each other and a genuine awareness of each other's problems, capabilities and limitations. In brief, NRDC does not in a sense, attempt to licence this or that invention to this or that company. Rather we try to put ourselves in a position where we can make a reasonable attempt to licence any invention, by utilising a network of contacts and friendships with the people who matter. If such success as we have had, can be attributed to a single factor, then it is that factor I think that counts.

To sum up, I suggest the three most important factors in licensing are:

1. Be clear what you are licensing
2. Be clear what you expect to gain from licensing
3. Know your industry and the people who make decisions.

**About the Speaker: Mr. D. N. King, B.Sc., from 1960 to the present time has been with the National Research Development Corporation, London. Joined as technical executive, with primary responsibility for licensing inventions and joint projects with industry. In 1965, he became Manager of one of the technical groups. In 1970 he became Controller of Exploitation Office, responsible for co-ordinating NRDC policy in connection with liaison with inventive sources, with the acquisition and licensing of inventions and with the financing of the further development of such inventions.*

Prior to that he served from 1942 to 1947 in the Army. From 1947-1950, he studied at Queen's University, Belfast, N. Ireland. (B.Sc. Physics). From 1951-1954, he worked with B. X. Plastics Ltd., London, as Assistant to Technical Sales Director, involved in establishing markets for new plastics. From 1954-1957 he was a Geophysicist, working on various contracts in the Middle East, in employment of Independent Exploration Company of Houston, Texas and Geophysical Prospecting Company of Canada and England. He was manager of field seismic crew. In 1957 until 1960, he set up London office for Southwestern Industrial Electronics Company of Houston, Texas, manufacturers of geophysical equipment. He arranged UK manufacture and sale of such equipment under license.

Will anyone with literary inclinations and ability who would be interested in compiling a history of LES kindly get in touch with

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TO ALL MEMBERS

You may have noted corrections for the Licensing List, which has been drawn largely from secondary sources; or your company may have negotiated licenses that were not reported but that you would like to see included in the list. If so, please send these to: Ryle Miller, Jr.; *Chemical Engineering*; 1221 Ave. of The Americas, New York, N.Y. 10020.