

Cashing in On Dormant Technology

BY ROBERT MARX*



For numerous reasons, small and medium companies fail to capitalize on dormant technology; here's how to correct

For many small- and medium-size innovative companies, royalties and other licensing revenues are a neglected source of income despite the fact that licensing can be the fastest, most inexpensive and most profitable way to increase revenue and supplement exports. This, without new investments, production or distribution problems or risk.

Based on my experience in the plastics industry in the U.S.A. and as marketing manager of a plastics-metal manufacturer in Europe, I know there are hundreds of millions of dollars in dormant assets in the form of processing technology available in the engineering departments and workshops of thousands of companies.

Most of this know-how is readily convertible into cash if only management recognizes the possibilities of this neglected source of revenue. In most cases there is an eager and ready demand, even for innovations which, to those who developed them, may not seem very interesting. "Familiarity breeds contempt" can often be a major stumbling block.

New developments are sometimes the byproduct of a processing step. Or they may be a part of a new product development program that failed.

One German company, for example, had developed a new one-step manufacturing process for the production of metal-reinforced plastics in order to be able to supply a special building component. The product was made for a time but then dropped. Subsequently, several other applications were

developed using the same process, but large-volume applications did not materialize. Company insiders therefore did not consider the process too valuable. It became a typical "forgotten asset."

After this company was taken over by an expansion-minded management team the new managers decided to let me make an inventory of the little used developments that the company had in its possession.

This rudimentary first step of listing potential licensing assets appears obvious. But it is amazing how many companies do not know what novel developments may have grown up as by-products in their research effort.

The Germany company found it too costly to develop a market research program to determine applications for these offbeat processes. Instead, I decided to use a "shotgun" publicity program. Promotion is a vital second step of a licensing program.

PROMOTING A PROCESS

The metal-plastic manufacturing process was clearly written up, illustrated, and sent to technical and business magazine editors around the world. Since new and interesting technical developments are always sought by editors, wide coverage was given by the press to the process. Furthermore, at trade shows, a small section of the company's general product display was used to draw attention to the licensing possibilities.

As a result of the promotion program, one of the largest Italian electrical appliance manufacturers picked up a license to produce the metal reinforced plastic. This company had just completed development of a new product for which an unusual structural material was

needed. The licensee had seen a description of the process in a trade publication. This licensee alone produced over 10 times the volume of the product, as did the licensor himself.

The same method of finding licensees by using high-quality editorial articles in trade publications worked with another product based on patents and know-how.

A German producer of plastic containers was doing extremely well. Domestic sales were up 20% annually in four years. But export efforts, even to nearby Scandinavia, failed. The product was written up in plastic industry publications worldwide. This led to several licensees within one year of it being publicized.

When a Swedish company became the licensee, it used its marketing savvy and strategic location to promote the product. Only a few months after commencing production, 25,000 containers had been sold. The licensee was so pleased that it took a second license for a completely nonrelated technical process.

One of the most progressive licensees for the container system was located in Mexico. He approached the licensor company on his own after reading about the process. Yet Mexico is a country that was not initially considered as having a ready market for this highly specialized development.

After three years, license agreements to manufacture the plastic containers had been concluded with companies in 12 countries. Among these were England, France, Japan, Italy, South Africa, Australia and the USA.

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SECRECY AN OBSTACLE

Substantial obstacles to licensing must be mentioned. They are the internal tendency for secrecy about company products or process developments and the reluctance to publicize developments in the press. Another reason is the unfamiliarity with editorial coverage of newsworthy developments.

Most developments, even if based on secret know-how without patents can be described in an interesting way without divulging secrets. Because of this reluctance some companies have a tendency to "sit on" developments without ever fully exploiting them through licensing.

Sometimes nothing is done until such initially unique developments have become common knowledge. Then they can no longer be licensed.

Time is money for the licensee. He cuts his product start-up time and saves on research and development expenses. The licensor should

also act quickly. What may be interesting today will have been superseded by something else tomorrow.

Licensing brings DM 12 million plus in income in 8 years.

AN EXAMPLE

When I took over the specific job to market the licensing of a new sanitary-ware product and manufacturing process based on know-how and manufacturing secrets, I knew that finding prospective licensing partners would not be easy. Without utilizing the technical press it would have been difficult for the company to get satisfactory results, especially with its limited organizational and financial means.

In the following eight years numerous licensees were gained, mostly through informative, technical articles published worldwide. These licenses brought the company (the licensor) licensing income — net income through initial payments for know-how and patents (if

any) and running royalties — of over DM 12 million.

Further, sales of equipment, tooling, machinery and raw materials to licensees yielded an additional DM 24 million in turnover because licensees often prefer the quality and assistance of the licensor as a reliable source of supply.

Almost all serious inquiries for information on the new product and manufacturing process (and subsequent license contracts) came about through articles in the trade press. Interestingly, a number of the resulting licensees came from industry sectors — or were companies — that the licensor could never have located by itself.

Thus, in Japan, a medium-size company, which had up to now been active in an entirely different industry sector, decided to enter the field of sanitary-ware products. No one could have found this licensee if he had not approached the licensor by reading about the development in the trade press.