

Licensing and the Small Business

How a small business stepped into the world of licensing; income is 7% of revenues

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Why would a small business ever want to enter into the "Never-Never Land" of international business, particularly licensing? Aren't there a lot of legal problems associated with licensing? How do you keep track of what your licensee is up to? Is the return worth the effort?

IN THE BEGINNING

Printed circuits built of bendable, twistable plastic film and copper facilitate the production of a host of electronic systems from satellites to the household telephone were invented in southern New Hampshire by Sanders Associates during the early fifties. In the fall of 1976, spurred on by a spark of innovation and a jolt of entrepreneurial spirit a group of young, determined New Hampshireites set out to manufacture a unique form of flexible circuits. Dubbed "Sculptured® Flexible Circuits," these unique devices reduce weight, facilitate assembly, and make possible today's ultracompact electronic packages.

In the mid-seventies electronic interconnection technology had been relatively stagnant. Accepted techniques included discrete wire, parallel conductor ribbon cable, and flexible circuits. The most expensive factor in using flexible printed circuits had been that associated with termination hardware — attached pins, expensive connector systems, and/or other expensive "add-ons." Rational deduction yielded the conclusion that it would be economically feasible and practicable to incur higher raw material costs in the fabrication of circuitry when that increase resulted in significant savings by eliminating additional hardware and equipment and/or a savings in manufacturing labor for the manufacturer. The idea had been conceived.

That idea — Sculptured® Flexible Circuits (SFC) — distinctive flexible circuits that acquire, transport, and redistribute electronic signals without the need for additional pins or connectors, gave birth to Advanced Circuit Technology, Inc. (ACT). SFC are literally carved out of copper using conventional chemical milling processes. Three-dimensional chemical milling permits termination devices to be manufactured as integral parts of each circuit. A typical Sculptured® Flexible Circuit may have

rigid pin-like fingers to receive signals, flexible conductors to transmit them, and raised lands with octagonal holes to terminate the interconnection. Reliability is increased because the circuit and interconnection hardware are made from one piece of copper.

ENTER LICENSING

When our determined entrepreneurs began marketing their new product, one of the first problems they encountered was the reluctance of prospective customers to buy a new device available from only a single source. Paranoia also set in — a Goliath might "steal the idea." A new, inexperienced company couldn't afford to defend its patents against a large multinational corporation. We needed a second source to manufacture our products, one that might be willing to share the expense of protecting our patents. We probably couldn't satisfy the potential demand for our product, anyway. And, we might reap added benefits by having another company manufacture with our process. Licensing was seen as a potential answer to our prayers.

NOVICES

As novices to the world of licensing, the question was, How should we select a potential licensee? A strategy began to unfold: we would go to our major customers and ask whom, besides us, they would like to see manufacturing our products. These recommendations were narrowed to a select group of three. Each company was scrutinized using a host of objective and subjective criteria. Armed with letters of introduction from our customers, the fledglings set out to sell their first license. With patience, a little bit of luck, and a lot of grit the ice was broken and a license sold to a company that on the surface appeared to be our biggest competitor. This licensee was selected due to his excellent reputation in the industry and his technical competence. Fear of competition in the domestic market was outweighed by needs for a second source and someone to share the burden of potential patent defenses. A tidy technical transfer sum and an attractive royalty schedule sweetened the pot.

Now that we had our domestic second source to help proselytize (and sell) the benefits of our technology, we started to receive inquiries from Europe and the Far East concerning our products. We were too small (and so was our budget) to afford an export sales staff that could work with customer engineers in the far reaches of the universe. How could we exploit our product overseas? Again, the licensing lamp was lit. We believed that carefully selected manufacturers overseas would be better able to market products such as ours — products that require continu-

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ing, one-on-one liaison between our designers and customer engineers.

Initially, we elected to seek three licensees in Europe, two in Japan, and one in Canada. As other countries and regions developed their electronics industries, we planned to enter into those markets. For example, we have recently sold a license to an Indian firm and have targeted Taiwan, Hong Kong, Korea, Israel, Australia, the Peoples' Republic of China, and Brazil for future licensing efforts. In the process of working with our Japanese and German licensees, we were also able to sell nonexclusive licenses in Singapore and Taiwan.

ALTERNATIVES

Alternatives to licensing also were explored, including joint ventures. Our analysis revealed that joint ventures are the only practicable alternative to licensing that would help us build the market for our product outside of North America. We have entered into one joint venture to produce one of the products of our R&D, and we are seriously considering others where the potential return warrants the investment of time, money, and our technologies.

In each of our agreements we have been careful to craft provisions that create a family of manufacturers producing the same products. Members form a kindred bond resulting in their providing support to each other. Our licensees each have developed manufacturing, handling, and packaging techniques. By mutual consent, we share that knowledge with each other, increasing profitability, and improving product quality and reliability. Our licensees possess a common bond — our technology — and a common burden of producing quality product. Experience has demonstrated a willingness to exchange ideas, experiences, and knowledge through correspondence, and in a new forum — our annual licensees' meeting. Our licensee's success is truly our success. We learn from each other.

ORGANIZING FOR THE WORK OF LICENSING

In the process of marketing licenses, negotiating them, and servicing our licensees, we had to look at streamlining our approach. As with many growing high-tech companies, we appeared to be in a constant state of reorganization. One of those structural adjustments linked our R&D, Licensing, Product Development, and Model Shops under one umbrella organization dubbed the Advanced Technology Group. An identifiable licensing function was established to find new licensees, service and monitor the efforts of existing licensees, and otherwise market new technologies that were constantly being developed.

Make no bones about it, licensing is time consuming and sometimes tedious. Anyone in a small business con-

templating getting into licensing should ask lots of questions, especially from others who have experience in licensing. Many small businesses have difficulty learning how other small to medium businesses have employed licensing in strategic planning.

Licensing is not really something companies usually advertise. It's also expensive. If a company guesses that licensing will cost an amount X, one might be prudent to double or triple the amount. Foreign travel is expensive. So are the Telex, telephone, courier and other charges one encounters. And, oh, those legal fees!

Frustration also enters into licensing. There is nothing more tedious than waiting for the answer on the end of a Telex. Will they buy, or not? Do they need more information. Have I learned enough about the particular cultural values, mores, etc. to properly deal with the people in that country? Have I assessed their needs adequately? Did I overprice the technology? Underprice it? Why won't he give me an answer?

PLAN FOR IT AND TRY IT

Why get into licensing in the first place? A small to medium business contemplating a licensing program needs to carefully examine whether its product is one that effectively lends itself to the process. Is there potential for 100% or more growth per year? Is the product one that needs "in-country liaison" to deliver quality product? Will you have problems meeting customer demand? If your answer is yes to these questions, consider trying licensing.

Most small businesses cannot afford to hire a corporate attorney and/or a licensing executive. How do you get started? If you're the president, sales boss, or technical manager, talk to someone who has done it. Businessmen (and women) love to discuss their prowess and acumen. Pump their brains. In addition, several reputable firms provide consulting services and act as license "brokers" bringing together those who would sell with those eager and willing to purchase. Of course a fee/commission is charged. But these companies are often the key to making a deal.

Make licensing an integral part of your strategic planning. It's as important as your marketing, production, R&D, or other corporate functions. Maintain credibility by maintaining an effective intellectual property program. Look at licensing as a long-term commitment: one cannot view licensing as a means to achieve short-term goals. There is income in licensing, but it's over the long haul, not the short run.

Licensing is not the exclusive province of large business. There is plenty of opportunity for small and medium businesses. Be prepared for lots of hard work. But, the results are well worth the effort in terms of remuneration as well as the opportunity to meet and engage in business with people throughout the world.