Real-Life Experiences Of Licensor

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Electric fence technology licensor documents pluses, minuses encountered in overseas licensing

The Gallagher electric fencing system evolved out of developments from Ruakura Research Station in the early 1960s when Dr. Doug Phillips demonstrated that high-energy, short-time pulses were dramatically effective and produced what was at that time called unshortable electric fences, yet they were safe to humans and complied with international safety standards.

This technology was dramatic. It revolutionized the electric fencing business from the old type of electric fence, which was inconvenient because cows walked through, to the modern unit that has two-three orders of magnitude more energy per pulse. That means that when a fence wire, even when fully overgrown with grass, will set you on your back if you touched the wire.

Modern high-powered electric fencing is a whole new management tool for permanent, low-cost fencing for pasture management and for wildlife containment. With two wires we can successfully stop elephants, rhino and right down the scale to contain rats and opossums. Any animal with a nervous system can be contained. In fact, an animal dead less than 24 hours will react to electric impulses.

The technology is radical and different. Although it evolved in the 1960s, by 1980 in Germany, the most powerful mains of battery unit available on the market was 100th of the energy per impulse of our bottom-of-the-range torch battery unit, which is 1/400th of the power of our top-of-the-range unit.

The power fence system, as we trademark and promote the product, is revolutionary and is more than just the energizer. It is all the pieces and system that keep animals in or out, or as in recent years, also two legged livestock called "human security fencing."

The concept of high-powered fencing is one invention that was not even effectively patented at the original concept, but our company now has over 80-odd patents. These include some 20 different inventions, and combined with trademarks, that gives room for licensing and license manufacture.

Our most successful system of licensing/franchise is the marketing of the electric fence product around the world where we have product in over 120 countries, good distribution in some 60 countries, and shareholding and or ownership in 14 countries.

We have an extensive distribution agreement (12 pages) built from long experience. The basis of the agreement is that we give an exclusive territory to the distributor and in return we lay claim to the electric fencing business. If our distributors wish to bring in complimentary electric fencing accessories and insulators to compliment our system, it is allowable, but it is now allowable to lower the cost by just the elimination of our margin. Thus, we have an arrangement that they ask our consent and we have a set of royalty arrangements.

I find in practice that most of our distributors hate paying royalties to such an extent that they would rather buy the product from us, and that is just fine.

◄ Terms of Agreement ►

I declare in the arrangement, that if we have to buy and sell a product such as an accessory that we do not manufacture directly, we need at least 20% margin, but if they wish to source it alternatively, it is not to be cheaper just by eliminating us. However, if we do not see or touch the product we will settle for 8%.

We have an arrangement that if the product is a highly competitive commodity and the distributor has to settle for a lower than normal margin, say lower than 30%, our 8% is reduced pro-rate but it is not eliminated. It may get down to the token 1% or 2%, if the distributor is settling for margins less than 20%. This principle is being applied to a large number of contracts.

The argument, which is very straight forward, is that we do not claim to manufacture all the products we supply. We supply a power fencing system of 200 to 300 components, and some of our suppliers are not ours exclusively, (although we endeavor to make them contractually exclusive), and in some cases our distributors can source products at similar prices to ourselves.

I remind our distributor that he may be able to buy some products cheaper by eliminating our margin but suggest we may be able to supply some of his customers cheaper by eliminating his margin.

Therefore, we mutually agree not to hurt each other and to have a mutually beneficial arrangement where our position is protected and we do not approach his customer. As mentioned, our distributors hate paying royalties to such an extent that they would rather buy product from us. However, our income from royalties around the world would almost keep Judi in the lifestyle to which she has become accustomed.

We have experience in manufac-

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turing under license and manufacturing energizers under license. Our longest-standing arrangement has been in Argentina, where the market has been virtually closed. However, the country has been in such a state that collecting said royalties has been difficult. While the marketing has been satisfactory, the transfer of royalty income has been less than satisfactory. However, it has come to a moderately happy conclusion.

We are now a 20% equity partner in the company in Argentina (we capitalized the last few years' royalties), and now with the market opening we are supplying very significant quantities of product from New Zealand. The bottom-range product is being manufactured in Argentina and it is still providing royalties that are now transferable.

Our major experience in manufacturing under license was in France where we licenced a division of Group CG (General Electric France). We specifically developed and supplied product, and in the first year took almost 45% of the French market.

It is a very long story, but in summary, our royalty income was considerable and the initial manager in France was honorable. However, he emmigrated, and like a large corporation we had a passing parade of executives. The executives some two years later were somewhat less than honorable. They made the astonishing statement in front of a number of my international distributors that "we only follow the contract if there is a commercial advantage for us to do so."

A little while later, when I had a remonstration with them on their blatant breaches of the contract, they made the statement, "So, do you want to make a fuss?" At that time, we had several thousand units being direct shipped. However, the situation had gone too far and we chose to make a fuss. So that concluded by flying all their lawyers and our lawyers down to New Zealand for a suitable signing up. We achieved royalties for the following six years on all the competitors' manufactured product. While we collected royalties on all this product, we also fully competed in the marketplace.

Some of my European distributors think France was unsuccessful, but from a financial point of view it was very successful. However, it was most unsatisfying, as the objective of our licensed partners was to sell the batteries that went with the electric fence. They weren't interested in keeping animals in or out, and a long-term business.

We see many exciting markets evolving.

I recently visited India on two occasions, it is joining the modern world. The duty on our product has gone from 250% to 120%, and although we are licensing product I can see it going the way of Argentina and Uruguay. Once duty is reduced we are in a position to sell the top end advanced technical product directly, and make a commercial margin. The previously licensed bottom-end product is still manufactured locally, and it is paying royalties.

From my experience, I believe licensing can be successful if you are dealing with honest partners, as I am proud to say we have in Argentina. Although financially successful with dishonest partners in France, I don't believe anyone won, in the long term, including the customer.

In conclusion, with an honest partner you can have a long term, mutually beneficial relationship with licensing.