

Guidebook of IP/Technology Transfer

Track 1

Entry-level Tech Transfer Professional

Topic 1.13.1

Licensing Basics

License Types, Structures, Elements

Licensing Basics

License vs. sale

Definition: granting certain use rights without transfer of title (ownership)

Requires something to license (i.e. property rights), typically IP

Licensing Basics

Advantages:

- separates technology creation from commercialization
- allows non-profits to have commercial partners
- avoids marketplace risks
- allows stewardship by technology creator
- Licenses are flexible (can be tailored for the technology, the parties, the market, the situation)

Disadvantages

- retain some liability
- not in full control
- requires ongoing management of license

Types of Licenses

- Option: a pre-license agreement
- Commercial vs. research use, evaluation
- Exclusive vs. non-exclusive
- Exclusive licenses:
 - world-wide, all fields
 - by territory, and/or field-of-use
 - time-limited
 - consortia
- Non-exclusive licenses:
 - typically available to all qualified
 - non-exclusive in one territory, and exclusive in another territory

Developing a Licensing Strategy:

driven by the technology

Is the technology suitable for exclusive or non-exclusive licenses?

(consider institutional philosophy)

Is the technology applicable in different “fields of use”?

Is there a geographical aspect to the technology?

Does the cost to develop/commercialize require the grant of exclusive rights?

Does the cost to develop/commercialize require a licensee to have “deep pockets”?

Developing Licensing Strategy:

evaluating alternatives

Exclusive or non-exclusive licenses?

Balancing maximum return vs. broad dissemination

Consider short, medium, long term returns

Need for key partners (remote management, R&D collaborations, infringements)

Exclusive licensees as agents vs. internal management

Investment required to develop

Institutional philosophy

Developing a Licensing Strategy: the critical question

What does the technology require for successful development and commercialization?

Developing Licensing Strategy:

An exclusive license:

- Secures a managing partner
- Maximum incentive for licensee/investors
- Needs strict “diligence” requirements for product development, promotion, sales, etc. (no “sitting it on the shelf”)
- Might need stringent sublicensing incentives/disincentives

Developing Licensing Strategy:

Variations on Exclusive licenses

(Assume stringent diligence provisions)

- Field-of-use
- Geographical
- consortia
- Limited exclusive period (head-start)

Examples of Licensing Strategy Alternatives

(for patent on antimicrobial compound)

Exclusive, world-wide, all uses (ag, industrial, vet, human)

Exclusive, world-wide, veterinary applications only

Exclusive, world-wide, agricultural only

Exclusive, world-wide, vet and ag only

Exclusive, Mexico only, all fields

Exclusive, Europe, vet only

Etc., etc., etc.,

Developing Licensing Strategy

Financial considerations

- recovery of investment,
- patent expenses,
- cash flow needs,
- opportunity cost (license fees cover them)

Licensee's business model (royalty type & amount)

Licensing Strategy: implementation

- License strategy must adapt to the marketplace (i.e., license negotiations)
- Maintain strategy but be flexible enough to adapt it to market realities

Licensing Strategy Alternatives:

licensing to a start-up

- Is the start-up a good idea for the technology? The institution? the inventor(s)? The public good?
- Is it an “in-house” start-up (aka a “spin-out”)?
 - conflict of interest/commitment issues
 - institutional policy on faculty/grad start-ups
- Is it the best strategy to commercialize the technology?
- Institutional choice: start-up or existing company
- Financial issues: equity vs cash for license fee
- What role does institution play? (arms-length, active advisor, investor, promoter?)

License Elements

- The parties clearly stated
- The property (IP, bioproperty) very clearly defined
- Define the scope of rights (exclusive, non-exclusive, field of use)
- Geographical scope
- License Fees
- Royalty amount and structure
- Sublicensing rights
- Philanthropic/humanitarian concerns

Structuring License Financial Terms

License Fee

(typically upfront, lump sum, non-refundable, can be staggered over time or events)

Royalty

(usually linked to sales, industry standards)

Minimum royalties & Milestone Payments

(assures diligence, shares risk)

Amounts & schedule

Ongoing cost sharing

(patents, R&D, bioproperty, etc)

Structuring License Terms

License Fee

Factors:

product

demand

investment to date and future

cash flow needs

market size & characteristics

competition

opportunity cost

exclusivity

development status

scope of technology

Structuring License Terms

Royalty

Factors:

business model

market characteristics (i.e., typical margins)

COGS and pricing

scope of technology

enabling value (spark-plug vs. whole car)

royalty stacking (3rd parties)

the “25% Rule”

Structuring License Terms

Minimums & Milestones

Linked to the product development schedule

Time-based

Event-based

Structuring License Terms

Special Issues & Topics

R&D collaboration

Future inventions

Personnel exchanges, equipment sharing

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Thank you