PRIMARY BRIEF

Commercializing Intellectual Property through Licensing

ISSUE OVERVIEW: EXTRACT MAXIMUM VALUE FROM INTELLECTUAL ASSETS

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With the increasing pace of innovation, shortening product lifecycles, and heightened competition, companies need to capitalize on their intellectual assets rapidly and efficiently. In recent years, R&D organizations have significantly increased their licensing activities to benefit from additional revenue streams, reduce costs related to IP maintenance, enhance their brand, and increase presence in new or adjacent markets. However, R&D executives face several challenges in identifying and communicating the value of licensing opportunities, establishing enterprise-wide engagement of licensing activities, and negotiating appropriate agreements with licensees.

The following brief, based on interviews with eight Council members, provides guidance to R&D and licensing stewards in developing successful IP out-licensing strategies. The brief specifically focuses on four critical steps: aligning out-licensing with IP strategy, establishing organizational accountability and engagement, identifying and evaluating out-licensing opportunities, and negotiating out-licensing agreements.

KEY FINDINGS

Companies well-suited to leverage out-licensing often utilize less than 30% of their IP portfolios.[1]
R&D organizations continue to face challenges in evaluating IP portfolios in an effort to identify patents, know-how, and early-stage technologies appropriate for out-licensing. Experts estimate that US-based corporations forgo up to $1 trillion in underutilized patent assets annually.[2]

Although IP accounts for up to 75% of public companies' market capitalization, few organizations have established consistent approaches to systematically capture value from licensing.[3]
For many companies, the licensing function is transitioning from a traditionally tactical entity, managed wholly by Legal, to a strategically-focused entity, managed by R&D or another independent function. This shift from a cost center to a profit center has proven difficult for many companies often because they are not committed to the internal changes necessary to make licensing a serious strategic consideration.

To overcome organizational resistance, licensing executives should communicate the strategic advantages of out-licensing beyond traditional cost-containment and IP protection terms.
Senior management often struggles to see the potential value that the organization can gain through licensing; therefore commercializing IP through out-licensing is often seen as a last resort. To overcome this challenge, leading companies transform the internal mentality away from viewing licensing as a cost and protection consideration to viewing licensing as a true strategic value driver.

The internal licensing steward must effectively manage competing cross-functional priorities in order to ensure that the organization pursues the most appropriate IP commercialization method.
Individuals responsible for out-licensing IP often report to Legal, R&D, Finance, or a combination of the three. However, competing priorities across the three functions can inhibit successful operations of the licensing function. Therefore, it is critical for executives tasked with licensing efforts to first understand and alleviate key stakeholders' leading concerns, and then communicate how a licensing opportunity will positively impact the business.

Leading companies successfully negotiate licensing agreements by carefully balancing legal and financial discussions.
Licensors and licensees often fail to reach an agreement due to a disagreement about the scope of IP use.[4] Instead of focusing on technical legal terms and financial valuations at the onset, licensing stewards should first outline ideal business objectives and outcomes for both parties, and then establish legal terms and valuation to meet those objectives.

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EXECUTIVE SUMMARY

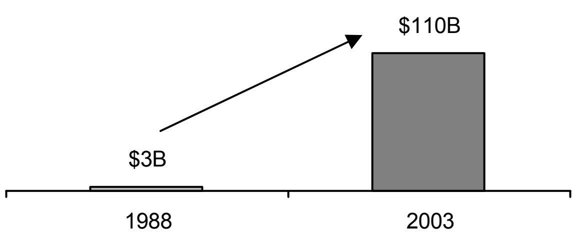
Exponential Growth in the Out-Licensing Market
Council research indicates that companies have employed out-licensing as a low-capital strategy to commercialize intellectual assets more effectively. Additionally, as companies move out-licensing responsibilities from the Legal function to the R&D function, out-licensing has been employed more strategically to generate additional revenues streams, enter adjacent markets, establish industry standards, encourage innovation, and form new partnerships. As shown in the graph below, between 1988 and 2003 the market for out-licensing technology grew from $3 billion to over $110 billion, largely driven by a recognition of the need to capitalize on intellectual property and early-stage technologies more consistently.[5]

DID YOU KNOW?

The average profit margin on out-licensing IP **exceeds 90%** for most companies.

Source: MIT Sloan Management Review

AGGREGATE REVENUES DERIVED FROM OUT-LICENSING[6]



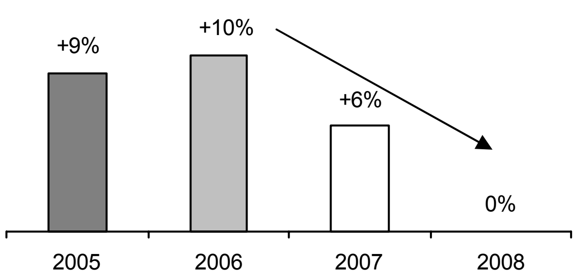
RISING TO THE OCCASION

"With accelerating change, shrinking product lifecycles, increasing competition, overwhelming amounts of information, and persistent demand for higher quality and productivity, there is significant pressure on organizations to find new ways to manage their intellectual assets."

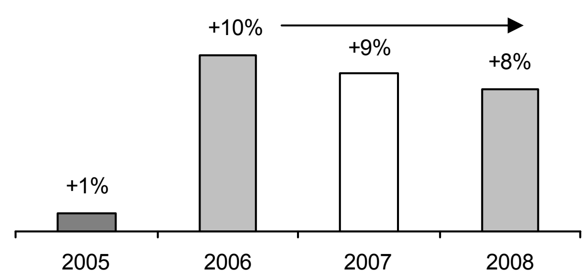
Chief Technology Officer
High Tech Company

Reaching the Tipping Point
Despite the recent growth of the out-licensing market, companies expect both the volume of deals and revenues generated through out-licensing to diminish. However, the demand to *in*-license technology has remained consistent across the past five years.[7] This new trend suggests that companies may have overlooked an opportunity to capitalize on their intellectual assets in the licensing market. Member companies cite that out-licensing their technology or intellectual property is often turned to as a last resort for commercializing their intellectual assets, usually because they do not have sufficient portfolios to consider out-licensing, cannot consistently identify appropriate licensees, or lack organizational support.

EXPECTED PERCENTAGE CHANGE IN VOLUME OF OUT-LICENSING DEALS



EXPECTED PERCENTAGE CHANGE IN VOLUME OF IN-LICENSING DEALS



Source: 'Industrial Research Institute's R&D Trends Forecast for 2008,' Research-Technology Management (January 2008).

RECONCILING ASPIRATIONS WITH REALITY

"We're not IBM - we have hundreds of patent families, not thousands. It is not our mission to go build a $100 million stream of revenue from our IP, that is not our driving force on how we intend to utilize our IP. We do not have the business appetite nor the volume of IP required to pursue a 'Rembrandts in the attic approach.'"

-Cargill, Inc.

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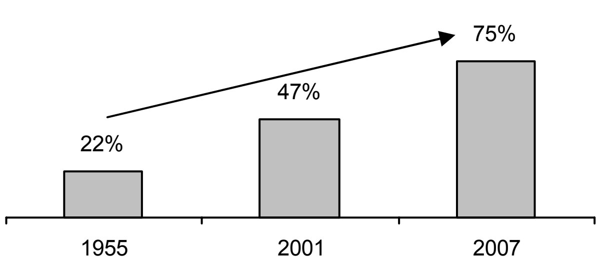
EXECUTIVE SUMMARY, CONTINUED

A Lot of Value Still Left on the Table
Experts estimate that US-based corporations forgo up to $1 trillion dollars annually in underutilized patent assets.[8] Additionally, most companies well-suited for out-licensing currently utilize less than 30% of their IP portfolios.[9] However, with the increasing pace of innovation, rising raw materials costs, and increasing customer demands, companies are being forced to capitalize on their intellectual assets in new and varied ways. As the graph below illustrates, the percentage of intellectual assets contributing to a company's total market capitalization has more than tripled in the past fifty years.[10]

PERCENT OF MARKET CAPITALIZATION REPRESENTED BY INTANGIBLE ASSETS



CONSIDER THE COMMERCIALIZATION OPTIONS

"The lesson is that the company investing in research and creating new technologies isn't necessarily the best one to commercialize every product opportunity that emerges from those innovations. Leaving such opportunities on the shelf, however, would be a tremendous waste of resources and potential shareholder value."

David Kline
MIT Sloan Management Review

Challenges Hindering the Future Value Capture from Out-Licensing
Through interviews with eight member companies, the Council discovered four critical roadblocks that often prevent corporations from understanding and capitalizing on the potential impact of out-licensing.

- **Organizational Alignment and Governance:** The licensing function's goals lack organizational transparency and are not well aligned with corporate strategy.
- **Strategic Value Communication:** It is difficult to communicate the full value of out-licensing to business leadership.
- **Opportunity Identification and Evaluation:** It is difficult to gauge the potential commercial impact of out-licensing IP.
- **Negotiation and Deal Execution:** The licensor and licensee often fail to agree on the scope of the licensing grant.

The following brief outlines the key strategies that R&D organizations are deploying to address the above-mentioned challenges in an effort to continuously extract maximum value from their intellectual assets through out-licensing.

KEY INVESTIGATION AREAS	CRITICAL MEMBER-VOICED CHALLENGES	PAGES	PARTICIPATING COMPANIES
Organizational Alignment and Governance	How are licensing functions organized? How do member companies align out-licensing with IP Strategy? How do companies structure their out-licensing approval process?	4-7	Cargill, Dow, Alpha*, Eastman, Crown, hp, NCR, 3M, BT
Strategic Value Communication	Why does the licensing function face organizational resistance? Which functions need to be engaged with the licensing function? What is the appropriate message licensing stewards need to communicate to their organization?	8-9	
Opportunity Identification and Evaluation	What are typical out-licensing opportunity identification methods? How do other companies identify and evaluate out-licensing opportunities?	10-11	
Negotiation and Deal Execution	What are the common challenges faced in negotiating out-licensing agreements? What strategies can R&D organizations employ to help facilitate the negotiation process?	12	

*Pseudonym

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