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# PERSONAL PLANNING

## Guidebook #75:

### *Licensing Successful Products & Services* .....

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*“So let me get this straight . . . you attribute the success of your new Vegetarian Puppy Chow and your recent lucrative licensing deal with General Foods to none other than YOUR relentless search for perfection?”*

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## ***LICENSING SUCCESSFUL PRODUCTS & SERVICES***

**IF you're afraid to license your ideas, products or services to other companies for fear of losing control over the direction of your company, consider the following:**

**“A smaller share in a bigger company might one day turn out to be worth more than the original equity in your entire present business.”**

**In other words:**

**“A small piece of a big pie is better than cookie crumbs.”**

## LICENSING YOUR IDEAS TO OTHERS

IF YOU have a special technical process, service or product, and perhaps limited marketing and selling skills, you may be able to find an established company in other markets who would be willing to pay you a royalty for the rights to use your process or service or sell your product. Perhaps you could sell raw materials, secret ingredients, patented products, special tooling or promotional materials to your license holders.

**NOTE** Licensing agreements like franchise and network marketing agreements require considerable care in writing and setting up

*For the majority of inventors, the wise strategy is to try to license their invention to an existing enterprise. Annually, billions of dollars are spent on technology transfer worldwide.*

### **FUNFACT**

in order to avoid problems at a later date. It is advisable if considering licensing to consult an attorney as well as experts in this areas, at an early state.

**PROS of Licensing** – Licensing gives you: access to skills that might take years to build in your own company; a single large order, with delivery scheduled over an extended period; no credit risk or collection problems; the possibility to negotiate advance payment; quick access to the market; and the larger firm's reputation carries over to your product.

**CONS of Licensing** – Although licensing can help you reap huge rewards in can also keep you from developing marketing strength in your own company; subject you

to price pressures from your large customers who may control too much of your production; and keep you from building brand loyalty with your end users.

### **The Amazing Success of the Cabbage Patch Doll** – An excellent

example of successful licensing that paid huge dividends to the entrepreneur was the arrangement that Xavier Robers had with *Coleco Industries* regarding his inventions of the *Cabbage Patch Doll*.

The licensing agreement he worked out with Coleco give him access to a mass merchandising capability that would have been prohibitively expensive and probably impossible to create on his own.

*One CON of licensing is that it can keep you from building brand loyalty with your end users.*

Likewise, Bill Gates worked out an agreement with IBM that in exchange for \$80,000 gave IBM the right to install his MS-DOS operating system on as many computers as they could manufacture. A great deal for IBM, until manufacturers like

Compaq started rolling out ten of thousands of IBM compatible computers, and Gates made millions licensing his operating system to them and other manufacturers that followed. It is interesting to note that Gates originally bought the prototype for his MS-DOS program from another developer for \$50,000.



## PRIVATE LABEL RESALE

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ANOTHER METHOD of reaching out to new markets is to sell your product under the name of another distributor or retailer. This is called private label resale. Under this form of marketing, you continue to manufacture your products but another company puts their label on instead of yours.

The disadvantage to using this form of licensing however is that you cannot build customer or brand loyalty because the consumer does not know you are the producer.

*Independent inventors who have neither the interest nor the resources to attempt commercialization of their inventions should strive to license their inventions to an existing enterprise and collect royalties.*

### **SUPERTIP**

Another potential problem is that should the owner of the label find a cheaper producer, they won't necessarily remain loyal to you either. Not only could you lose a significant portion of your sales, but you could also end up stuck with a truckload of products you can't sell.

