TRANSPARENCIES FOR UNIT 18

INTRODUCTION TO TECHNOLOGY VALUE AND PRICING ISSUES

EXTERNAL SOURCES OF TECHNOLOGY

- INDIVIDUALS
- OTHER FIRMS
- PUBLIC INSTITUTIONS

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LICENSING TO THE PRIVATE SECTOR

VALUE AND PRICE

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VALUE IS...

AN OPPORTUNITY TO EARN ATTRACTIVE PROFITS

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VALUE IS IN THE "EYE OF THE BEHOLDER"

UNDERSTANDING THE INCENTIVES AND DISINCENTIVES OF ALL PARTIES TO THE PROCESS OF INNOVATION HELPS TO IDENTIFY THE SOURCES OF VALUE OF A TECHNOLOGY TO A POTENTIAL TRANSFEREE.



EVIDENCE OF VALUE IN A TECHNOLOGY

- PATENTS
- KNOWHOW
- PRELIMINARY MARKET ANALYSIS
- REDUCED PROCESS COSTS
- SCARCE MATERIALS RELIEF
- MEET A REGULATORY REQUIREMENT

WHO VALUES TECHNOLOGY?

- LICENSOR/TRANSFEROR
- LICENSEE/TRANSFEREE
- THIRD PARTIES
  - CONSULTANTS
  - TRANSFER AGENTS
  - LEGISLATORS
  - COMPETITORS OF TRANSFEREES
- THE MARKETPLACE

PRICING TECHNOLOGY TRANSFERS



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PRICING "TECHNOLOGY"

- IS IT "ART" OR "SCIENCE"?
- THEORY VS. REALITY
- VALUE AND COST
- DECISION TAKEN AT THE POINT OF MAXIMUM IGNORANCE
- WHAT IS BEING SOLD?
  - — THE "TECHNOLOGY"
  - — THE TERRITORY
  - — THE END USES
  - — THE MARKET POSITION
  - — THE TIME FRAME

COST STRUCTURE OF INDUSTRIAL INNOVATION

RESEARCH & DEVELOPMENT PHASE	~10%
PRODUCTION PHASE	~90%
MARKETING PHASE	

FEDERAL LABORATORIES' CONSTRAINTS ON PRICING

- NET SOCIAL BENEFITS
- DOMESTIC-ONLY TRANSFER: DOES IT MATTER?
- COMPETITORS OF TRANSFEREES
- LACK OF EXCLUSIVITY
- INTERNATIONAL TRANSFERS

DIMENSIONS OF PRICE

- ONCE-FOR-ALL FRONT-END
- ROYALTY-ONLY
- MINIMUMS
- GRANT-BACK
- COMBINATION PAYMENT ARRANGEMENTS

THE 25% RULE

TO BEGIN DISCUSSION: 25% NET PROFIT (PRE-TAX)

IF THE LICENSOR OFFERS:

- **TRACK RECORD**
- **ENFORCEABLE PATENTS**
- **KNOW-HOW**
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AND IF LICENSOR DEMONSTRATES THAT LICENSEE:

- **CAN REALIZE SUBSTANTIAL PROFIT MARGINS**
- **HAS EXISTING MANUFACTURING CAPABILITIES**
- **HAS LITTLE COMPETITION OR OTHER RISKS**

THEN ... 25% RULE MAY APPLY

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CALCULATING ROYALTY RATES:
AN EXAMPLE OF THE 25% RULE

		% REVENUES
REVENUES	$ 50,000	100
COSTS		
MATERIALS	5,000	10
LABOR	25,000	50
OVERHEAD	10,000	20
TOTAL COSTS	40,000	80
NET PROFIT	10,000	20

ROYALTY RATE = NET PROFIT (%) X .25

ROYALTY RATE = .20 X .25

ROYALTY RATE = 5%

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