

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

Q&A

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.**



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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



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

MARKETING PHASE

~ 90%



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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**



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THE 25% RULE

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

IF THE LICENSOR OFFERS:

- TRACK RECORD
- ENFORCEABLE PATENTS
- KNOW-HOW
- COPYRIGHTS

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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