INTRODUCTION TO

VALUE AND PRICING

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EXTERNAL SOURCES OF TECHNOLOGY

• INDIVIDUALS

• OTHER FIRMS

PUBLIC INSTITUTIONS



LICENSING TO THE PRIVATE SECTOR

VALUE AND PRICE



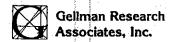
VALUE IS..

AN OPPORTUNITY TO EARN ATTRACTIVE PROFITS



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.



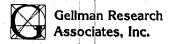
EVIDENCE OF VALUE IN A TECHNOLOGY

- 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"

- 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

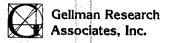


COST STRUCTURE OF INDUSTRIAL INNOVATION

RESEARCH & DEVELOPMENT PHASE PRODUCTION PHASE MARKETING PHASE

~10%

~90%



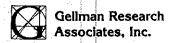
FEDERAL LABORATORIES' CONSTRAINTS ON PRICING

- 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
- 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	%	RE	۷E	NU	ES
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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%

