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## Challenges and Opportunities in Licensing Transactions: Evidence from the 2004 Licensing Foundation Survey

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### Why is licensing hard to measure?

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- Competitively sensitive information
  - Licensors/licensees won't reveal details to 3<sup>rd</sup> parties
- Complex, contingent contracts
  - Hard to value or count
- No comprehensive regulatory framework, oversight, or filing requirement
  - IP is not like real estate with a public registry
- How to capture or characterize the productivity or performance of licensing activities???

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## The LES Licensing Foundation Survey

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- The Licensing Foundation (educational arm of LES US & Canada) launched an initiative in 2003 to develop data sources on licensing activity in North America
- LES members (professionals involved in commercial licensing activity) participated in a voluntary web-based survey
- Focus here is on 229 respondents from companies directly involved in creating/using technology
  - ~15% sample of the 1400+ manufacturing firms represented in the LES membership roster
- “Opportunity” sample frame may not be representative, difficult to generalize about population statistics

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## Sample characteristics

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- On average 7863 employees, \$5.6bn sales, \$676M R&D
  - About 60% are SMEs with <1000 employees
- Responses from most sectors of manufacturing
  - but concentrated in healthcare/biomed (30%), electronics (6%) energy+petrochem (5%)
- 51% of the sample out-licensors, 20% in-licensees, 29% both in- and out-licensing

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## “Deals Not Done”

Thinking about intellectual assets that could have been licensed in the last fiscal year but weren't, for what percentage were potential licensees identified?	<b>26%</b>
Where potential licensees were identified, for what percentage were negotiations ever started?	<b>27%</b>
Of all the times you entered into substantive licensing negotiations in the last fiscal year, what percentage did not result in a successfully executed agreement?	<b>43%</b>
If you had unlimited staff resources to market and negotiate additional licensing deals (above and beyond those your company has already done), what percentage more revenue do you think your company could generate?	<b>45%</b>

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“Talk to me” Where a potential buyer/seller was identified but substantive negotiations were never started, in what fraction of cases was this due to:

	Out-licensing deals	In-licensing deals
Difficulty in getting internal approval to enter into negotiations	<b>14%</b>	<b>27%</b>
Legal/regulatory obstacles (national security, anti-trust, etc.)	<b>6%</b>	<b>7%</b>
Insufficient resources for the licensing function	<b>28%</b>	<b>14%</b>
Valid IP but difficult for potential licensee to enforce?	<b>12%</b>	<b>12%</b>

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**“Getting to Yes”** When substantive negotiations failed, in what fraction of cases was this due to:

	Out-licensing deals	In-licensing deals
Inability to arrive at mutually acceptable financial terms?	<b>26%</b>	<b>32%</b>
Inability to arrive at mutually acceptable non-financial terms?	<b>23%</b>	<b>17%</b>
Delay in reaching agreement?	<b>20%</b>	<b>11%</b>
Inconsistent positions of internal stakeholders?	<b>17%</b>	<b>15%</b>
Too many parties in the negotiation (multiple licensors/licensees)?	<b>5%</b>	<b>9%</b>
IP only useful if bundled with other technology/IP that was not available?	<b>4%</b>	<b>3%</b>
IP rights disputed by a 3rd party?	<b>7%</b>	<b>4%</b>

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**“Show me the money”** What fraction of your agreements contained the following provisions:

	Out-licensing deals	In-licensing deals
Single lump sum license fee (not contingent on sales)?	<b>13%</b>	<b>16%</b>
Where there were running royalty payments, what fraction used a per-unit royalty as opposed to a percentage of net sales?	<b>15%</b>	<b>6%</b>
Milestone payments?	<b>41%</b>	<b>44%</b>

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**“It’s not just about money”** What fraction of executed agreements contained the following non-financial terms:

	Out-licensing deals	In-licensing deals
Field-of-use restrictions	<b>75%</b>	<b>79%</b>
Duration	<b>51%</b>	<b>48%</b>
Geographic restrictions	<b>49%</b>	<b>55</b>
Exclusivity	<b>61%</b>	<b>62%</b>
Non-discriminatory/MFN	<b>10%</b>	<b>3%</b>
Technical milestones	<b>47%</b>	<b>55%</b>
Business milestones	<b>57%</b>	<b>60%</b>
Grant-back provisions (rights to use improvements made by licensee)	<b>41%</b>	<b>45%</b>
Reach-through provisions (royalties on sales of products developed with the licensed technology)	<b>31%</b>	<b>36%</b>
Licensee must enforce IP	<b>33%</b>	<b>33%</b>

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**“Buyers Remorse”** With the benefit of hindsight, in what fraction of executed agreements would you now structure the following terms differently:

	Out-licensing deals	In-licensing deals
Field-of-use restrictions	<b>30%</b>	<b>33%</b>
Duration	<b>12%</b>	<b>11%</b>
Geographic restrictions	<b>3%</b>	<b>6%</b>
Degree of exclusivity	<b>15%</b>	<b>11%</b>
Technical milestones	<b>27%</b>	<b>33%</b>
Business milestones	<b>27%</b>	<b>39%</b>
Grant-back provisions	<b>15%</b>	<b>11%</b>
Reach-through provisions	<b>18%</b>	<b>17%</b>
Fee schedule (i.e., payment structure)	<b>46%</b>	<b>28%</b>
Payment amounts	<b>49%</b>	<b>44%</b>

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## Conclusions

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- “The dog that did not bark in the night”
  - High rates of deals not done suggest much IP is unlicensed, so focusing on visible completed transactions may be very misleading
- Complexity of deals is major challenge
  - To private parties trying to negotiate agreements
  - To external observers trying to evaluate volume of activity
    - Big gains from simplification/standardization of contracts?

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