

Ironman Inventing: Researching Your Ideas -- Idea Commercialization

Reprinted from THE ENTREPRENEUR NEWSLETTER Zimmer Foundation, April 2000.
Access the entire *Ironman Inventing* series at <http://TENonline.org>

Prototypes are completed. Patent are filed or issued. Dreams of \$ millions becoming a reality are just within reach. Job well done!

If you believe that, you're forgetting one of the oldest expressions in inventing -- 1% inspiration, 99% perspiration.

Now, when the rubber meets the road, the real work -- along with disappointment or joy - - can begin. Where you go from here, how fast you get there, and how much money ends up in your bank account when the dust settles, can be greatly affected by how you approach the information I will lay out now.

The greatest factor in deriving the maximum amount of money from an invention lies in how well an inventor researches -- and implements -- the invention commercialization alternatives. Now, as it comes time to convert all of your hard work into money, the process becomes absolute. Now it's time to either make money -- or you lose money.

Keep in mind that breaking even on money is a "loss" -- both an opportunity loss -- you could have been doing something else with your time that would have made money -- and no profits from your time investment.)

Three Rules Of Invention Commercialization

1. The complexity of *obtaining* a patent is 1/10th the complexity of *commercializing* the patent in the real world of business.
2. The beauty, functionality, performance, purpose or usefulness of the invention are only of secondary value to a licensee in the real business world.
3. The ability, or perceived ability, of a patent to deliver quantifiable, research-supported profits to the licensee is the primary determinate of the value of a patent to a licensee.

Note the phrase, "research-supported". That's what we will discuss here. Researching and quantifying the possible distribution channels will get an inventor well down the road to finding a licensee (or customer) who will pay "top dollar" for the invention.

Effective research is based on four important factors -- knowing precisely *why* you are researching, knowing precisely *what* information you want to develop, knowing *where* to obtain the information, and knowing *what to do* with the results.

The best known methods of converting ideas (product ideas) into cash include: Licensing your patent and Starting a manufacturing or sales company to build and sell the product yourself.

Because your patented product will eventually have to pass through a distribution channel in order to become a success, you will need to understand, identify and quantify the distribution channel as if you were embarking on a starting a manufacturing company.

If you do not really intend on manufacturing the product yourself, you will still need to develop the sales and distribution financial projections as if you were -- because your licensee *will* be a manufacturer. Your idea has to pass the distribution channel acid test.

If you get nothing else out of this phase of patent commercialization, know that *your invention must deliver profits to every link in the distribution channel if the product is to become a commercial success.*

The distribution channel is typically composed of several links. You can either work backward from the retail price -- giving the industry average percentage margins to each link in the chain -- finally arriving at the maximum manufacturing cost

Or you can work forward from the known manufacturing cost, adding the industry average markups for each link in the chain, finally arriving at the minimum retail sales price.

Only three potential outcomes will result from this research and analysis:

1. based on hitting the optimum retail price point, the product will have to be manufactured at less than originally anticipated (i.e., the invention will be too expensive to build and sell for a profit),
2. based on the known manufacturing costs, if the mark-ups for each link in the chain are added on top of the cost, the product will be priced out of the market (i.e., the customer will not pay that high a price if every link in the channel gets their average markup), or
3. the customer *will* pay the targeted retail price, and in reaching that price every link in the chain *will* be compensated at their traditional rate -- and the product can still be sold by the manufacturer to the first link -- for a profit.

Put another way, using a rule of thumb, figure that if a product needs to sell at the retail price of \$100, the actual manufacturing cost of production will have to be between \$20 and \$25. The mark-up between manufacturing cost and retail price will be between 4 and 5 times depending on the distribution channel requirements -- hence the importance of the research.

But why do I have to know all this stuff if I want to license my idea to a manufacturer? They are supposed to figure that out! -- in your dreams.

Understand that licensees buy *money* -- *not* patents, ideas or products. If you discover how much money it will take to deliver your idea to the marketplace, how many customers can be expected to purchase the item over time, and how much money it will cost to produce the product, then you know *how much money you have to sell to the licensee* (or how much money you will make if you manufacture and sell the product yourself).

There are other benefits your idea may provide to the manufacturer such as market share increase, the basis for a second brand to proliferate a crowded market, or others, but we'll concentrate on the simplest -- delivering profits.

If you can show the licensee that your idea will generate \$20 million in sales over the next 5 years at a 15% profit, you are offering the licensee \$3 million in profit. If you discount that to the licensee, you have the makings for a good licensing deal. (and you have begun to establish a value of your patents).

So as an inventor begins this phase, he or she will want to create a list of research items specific to their invention. These items will serve as the guidebook on what information should be pulled and compiled to support the commercialization efforts. This list should include:

- List of competitive products, their sales price, and the manufacturer of the product
- List of manufacturers that have the manufacturing technology or manufacturing capability to produce the inventor's product, but do not currently have a similar type of product,
- List of wholesalers that sell or distribute the same or similar products
- List of retailers that sell the same or similar products.
- Demographic information including:
 - Where are the products sold (region, state, nation-wide, internationally)
 - What types of people buy these products (income level, sex, age, etc.)
 - What related products these buyers purchase (e.g., if they are hammer buyers, do they also buy nails?)
- Based on the demographics, which of the above manufacturers sell other, same or similar products to this demographic.

The inventor can determine what *others* assess is the marketability of the invention by paying between \$175 and \$300 for an invention assessment. Some of the reputable organizations that provide invention assessment services, along with a pretty complete report, include:

- [Walmart Invention Network](#)
- [Wisconsin Innovation Service Center](#)
- [Washington Small Business Development Center, Innovation and Technology Development Assistance Program](#)

Of course, it is *my opinion* that inventors will get a better assessment and list of prospective licensees by going through the process themselves -- by following the guidelines I've outlined here. The other advantage in "doing it yourself" is that the inventor *learns*. Hiring someone to do the work will not benefit the inventor in the long run.

Assuming that you do not use the services of companies that specialize in invention marketing (presenting your idea to industry), you will want to prepare your licensing package yourself -- but who to send to? In searching for what companies might be interested in licensing your patent, you will want to develop a long list of companies that manufacture and/or sell similar products.

For instance, if you have invented a new board game, you will want to make a list of all companies that manufacture or sell games. The *long* list is important (as opposed to just compiling a list of the "biggies", since some of the smaller companies may be more receptive to your idea, and may give it more attention than the big companies would.

Remember "Avis -- we're #2 and are trying harder"?

All of the research information, once gathered, will begin to form a solid concept in the inventor's mind on *specifically* who will be the likely buyer of the new invention, through which distribution channel it will be sold, and who the manufacturers are that currently sell similar products through this distribution channel.

The reason this is so critical to the inventor is because only those companies that currently generate revenue from similar products through a clearly identifiable distribution channel will be in a position to assess the value of a new patent for products that are perfectly positioned to "generate revenue from their proven business formula". In other words, these are the companies that already know that your type of invention can be immediately (and quantifiably) valuable to them. Any of the business barriers in presenting a new invention are dropped.

The *short* list of prospective licensees that is developed at the end of this exercise will be the list of *qualified prospective licensee candidates*.

Prospective Licensees

To compile your list, you can begin by looking at these free online resources:

- [Hoovers Online](#) -- enter the product or product field of your patent/product. The search will return a list of publicly traded companies that make or sell similar products. Click on these companies for more information
- [Thomas Register](#) -- hopefully you have been here before on previous quests for information, but if not -- start now. Enter your search information. The companies that are returned from the search will have *something* to do with your product category. They are either manufacturers, distributors, importers/exporters, etc.

You will have to work through these companies -- and there will be a fair number of them -- to find which companies are apt to consider licensing your invention. Visit the company pages, or call them to qualify whether they are manufacturers or distributors. You will want to put manufacturers first on the list, followed by those companies that sell your type of products.

- [Standard Industrial Classification Codes \(SIC Codes\)](#) -- type in your product name (not the cute trademark name you gave your product, but the product classification), and you will be presented with all industrial classifications where manufacturers or sellers of similar products can be found. From that point, you will have to search for companies in those categories.
- [The American List Council](#) has an online searchable list database where you can obtain lists of manufacturers or wholesalers for your product. You can also enter the "SIC Codes" that you came up with in #3 above. Enter this information, and you will receive a detail listing of types of organizations that make or sell your type of product -- and it will give you a detailed SIC code -- more specificity on companies within the general SIC code that came up in your previous searches.

Continuing to refine your search in this manner is called "drill-down" as you drill down to the most relevant companies. You will notice the number of companies that are potential licensing candidates. From here, you select the best SIC code or company classification, and request a mailing list for all of those companies. Lists cost \$60/1,000 names, or \$200 minimum order. Be sure to specify that you want company executives' contact information since you will want to address your letters to a "person" rather than a company.

Some comparable list services that you might want to check out, and may offer similar lists at a different price (or offer different information on the companies that come up on the search) are [Best Mailing Lists](#) and [Centrus Online](#). (Register & get the first 1,000 records for Free. By the way -- keep this mailing list because it has the names and addresses of key managers of the companies you will want to contact about licensing your invention.)

Distribution Channels

Ok, so how do I figure out the distribution channels through which the manufacturers sell their products? How do I figure out how much mark-up (or margin) distributors, sales reps and such get off of the product?

Take a look at what wholesalers or distributors handle the products of the manufacturers on your *short* list. Do this by asking sales reps who handle the manufacturers' products. Ask them what margins or mark-ups are traditional in the industry, or are typical of that type of product. If they understand that you have a "new and improved" similar product, they will be inclined to share their industry knowledge.

Search for sales reps by looking in sources of Manufacturers' Representatives.

[Manufacturers Agents National Association \(MANA\)](#), is a good starting point. You can search by manufacturers' company name (from your short list), and you will get a list of sales reps that handle that product. Not all manufacturers use sales reps, but the margins and mark-ups of products handled by sales reps will likely apply to products sold by other company's in-house sales people. MANA has more than 23,000 reps listed.

Some industries have their own rep listings, so be sure to investigate sales reps by your industry too, e.g. the [National Marine Representatives Association \(NMRA\)](#), for marine related products;

As you'll see, industry-specific organizations and associations "take care of their own" by providing highly informative websites for sales professionals in that industry to use. Become an "insider" by talking to as many of these professionals as possible, and formulate your own distribution channel graph for your product. Apply the industry-standard margins at each of these sales levels, and determine the profitability.

Trade shows are put on by almost every industry in the country -- for one reason -- to Support The Distribution Channel!

By attending a trade show for the industry your product most likely falls within, you will find yourself in the middle of the heart of industry distribution channel knowledge. Sales reps, in-house sales people, marketing experts, the media (itself, another excellent source of industry information) are all right there to have their brains picked. Actually, they are there to sell, so make sure you only chat a bit, get their business card, and plan your phone follow-up calls over the next few weeks.

Get your information put down on paper -- learn the industry and channels.

The first place to look for a trade show in the industry your product is intended for is at [Trade Show Central](#). This website lists more than 50,000 trade shows and conferences! Search online for the show nearest you (or the most important show of the industry).

Summary

So, in summary, to develop your list of potential licensees, while you are developing the distribution and pricing (profit) plan for your invention, research your industry and market through:

- Your Industry Association/Organizations,
- Sales Representative Organizations for your industry,
- Trade shows
- Company and Industry Listings

Build your plan, verify that industry average mark-ups and margins are applied to your estimated cost of production, prove on paper that there is a high probability of a licensee

generating significant profits from your invention, quantify the annual profits as best as you can, then... get ready to present your idea to industry.

Good luck in your licensing endeavors.
