

## Should You License or Manufacture Your Invention?

Here's what to consider when deciding whether to license your invention or manufacture it yourself.

*Inventors can make money from their inventions in two ways: (1) by licensing the invention (selling the right to commercially use or develop the invention to someone else), or (2) by marketing and manufacturing the invention themselves. These different options will affect not only how you earn money, but also how much financing you need to proceed. Your success at either often depends on your personality.*

### Two Ways to Make Money from Your Invention

Whether you choose to license your invention or market and manufacture your invention yourself often depends on your personality and what you like to do best.

- **"Inventor-for-royalties."** If you are a typical inventor, you will probably want to license your invention and collect royalties, or even sell it outright.
- **"Entrepreneurial inventor."** If you are more motivated and have a competitive business streak, you may wish to start a small business to produce your invention and market it. In that case, you will need substantially more financing to develop, produce, and distribute your product.

To some extent, your decision is influenced by your invention. Certain innovations, because of their complexity, scope, or exorbitant cost of production, may lend themselves to licensing. Often, however, the decision should be based more on you than on your invention. You must objectively examine your inventing personality.

### The Inventor-for-Royalties

Licensing or assigning rights to your invention for cash is a simpler, less expensive route than manufacturing and selling your invention. Licensing or assigning your invention is often preferable for those inventors who want to make money but care primarily about innovating and spending time in their lab.

### Licensing Your Invention

**What is a license?** A license is simply an agreement in which you let someone else commercially use or develop your invention for a period of time. In return, you receive money -- either a one-time payment or continuing payments called royalties. As owner of the invention, you will be the "licensor" and the party receiving the license for your invention is called the "licensee."

**Advantages of licensing.** What makes a license appealing is that the licensee assumes all of the business risks, from manufacturing to marketing to stopping those who infringe on the product's patents. The inventor/licensor sits by the mailbox and waits for the quarterly royalty checks.

**How to license your invention.** When you seek a license, you'll need to take the following steps: find the right people to review your idea, get the money necessary to develop and protect your invention, and present your invention to a licensee in a marketable fashion.

## Assigning the Rights to Your Invention

An inventor-for-royalties can also permanently assign all rights to the invention for cash.

**How does assignment work?** An assignment is a permanent transfer of ownership rights. When you assign your invention, you are the assignor, and whoever purchases the rights is the assignee. An assignment is like the sale of a house, after which the seller no longer has any rights over the property. As the assignor, you may receive a lump sum payment or periodic royalty payments.

**Is it an assignment or a license agreement?** The terms assignment and license are sometimes used interchangeably. And sometimes these two types of agreements seem to have the exact same effect, as in the case of an unlimited exclusive license, in which a licensee obtains the sole right to market the invention for an unlimited period of time. For this reason, you or your attorney must examine the specific conditions and obligations of each agreement to determine whether it is an assignment or license rather than simply relying on terms such as assignment and license.

### The Entrepreneurial Inventor

For those who place considerable weight on the entrepreneurial side of the scales, the financial reward of a license or assignment may seem unappealing -- royalties often range from 2% to 10% of the net revenues. Such inventors often choose to form a business and to manufacture and market the product themselves. Of course, this will require considerably more financial assistance than licensing.

**What is your chance of success?** The same study by Zimmer and Westrum (cited above) revealed that close to half of the inventors who decided to take control of producing and marketing their invention claimed to be successful. That may be because the inventor with a strong entrepreneurial drive is usually obsessed with growing the business and thrives on challenges -- for example, how to manufacture the invention efficiently, how to acquire distribution, how to market to target audiences, and how to eke out a profit from retail sales.

### Advantages and disadvantages of marketing and manufacturing your invention.

The financial rewards are potentially much greater -- which is precisely why it appeals to more entrepreneurial inventors. On the negative side, manufacturing and marketing are incredibly risky, and can cause tremendous anxiety and engulf your personal life.

In terms of financing your invention, licensing usually requires much less capital than the alternative of manufacturing and marketing your invention yourself.

### Money needed for licensing.

#### When licensing your invention, usually you need money to:

- Create a prototype (or other suitable presentation to potential licensees)
- Market the invention, and, perhaps,
- Solicit and negotiate with potential licensees.

A successful licensing deal will free up an inventor to pursue inventing while still profiting from the last great idea. On the negative side, a bad licensing deal may tie up an innovation or, worse, result in legal battles over royalties.

**Financing your business to market and manufacture your invention.** You will usually need far more financing if you start your own business and manufacture and market your invention.

**Money is required for:**

- producing a prototype
- creating tooling or molds
- mass-producing the product
- finding distribution
- collecting payments, and
- enforcing patent rights

In addition, entrepreneurial inventors often require more complex financing. For example, you may need to form a corporation and sell shares of stock (or other interests) in the business and the invention.

## Analyzing Your Personality

Before you jump into marketing and manufacturing your own invention, take an honest look at your personality. Do you have a strong entrepreneurial drive?

**To find out, answer the following questions:**

- **Are you a gifted salesperson?** An entrepreneur must sell, sell, and sell to every person in the food chain, whether it is an investor, banker, distributor, or customer. If you lack this skill, you're probably not suited for entrepreneurial endeavors.
- **Are you a talented manager?** An entrepreneur must juggle many hats, and all of them require management skills. If you can't delegate tasks well or find it hard to organize your desk or keep track of complex tasks, do yourself a favor and avoid marketing and manufacturing.
- **Are you a business innovator?** If you can invent only in the lab and not in the business world, then you may be better suited for licensing.
- **Are you a risk-taker?** Some of us like to bungee jump from the Golden Gate Bridge, and some of us don't. Every entrepreneur, whether it's Donald Trump, Richard Branson, Ron Popeil, or Ray Kroc, is willing to face down creditors or bankruptcy for a chance to come back for another round. If you're not a risk-taker, then pursuing manufacturing and marketing is a poor decision.

## Which Is Right for You?

If business is your real game, and creating an invention is just your means of acquiring something to sell, then marketing and manufacturing could be the right choice for you. Same goes if you live for the deal, you're not afraid of risks, you love to innovate in commerce, and you have the discipline to fight for market share. But if none of the above sound like you, licensing is probably the correct course for you.

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