

You may license R&D technology to competitors in order to earn money.

You may license R&D from competitors in order to save money.

How does licensing work?

R&D features can be licensed to a competitor for a fee or in exchange for other R&D features that the competitor developed. The key condition is that you must have completed the development of the new technology before you can license it to another company.

To license a technology, you must negotiate the terms with the potential buyer. You decide on which technology to license and the licensing fee. The fee is a negotiated one-time expense.

You can submit a contract proposal at any time to a competitor. Once you have submitted the contract, the potential buyer will be notified by email that you have forwarded a licensing proposal. The contract proposal will automatically appear in the buying firm's Workspace for its team to review.

A contract that is signed in this quarter will be executed in the next quarter. That means that the money and the R&D technology will be transferred at the beginning of next quarter. This is when the seller will receive the licensing income, and the buyer will be able to add the newly acquired technology into their brands.

Advantages of R&D Licensing:

If you agree in this quarter to license technology to one or more competitors, you will be able to recoup some of your investment.

You will have the technology one quarter in advance of it being available to the licensee.

You may be able to encourage a cross-license with a competitor whereby you give up one technology in exchange for another, thus getting two technologies for the price of one.

As you start to share the technology with your competitor(s), more customers will enter the market, thus stimulating industry-wide demand in that product category.

Disadvantages of R&D licensing:

As you send contracts to your competition, you are also releasing some key information. That is, your competitors will know which technologies you developed and which ones you will be adding to your brands in this quarter.

How to create an R&D licensing contract

1. The contract must be written by the firm that is selling the license, the licensor.
2. The seller (licensor) chooses the technology and the firm that is to receive the license.
3. The seller (licensor) enters the licensing fee.

4. The minimum licensing fee is 1.00. It is not possible to write a license at zero cost to the buyer. The licensing fee cannot exceed 70% of the cost to develop the technology in one quarter.
5. The seller (licensor) sends the contract to the buyer (licensee) in the current quarter for review and approval.
6. The buyer (licensee) reviews the contract and either:
 - modifies the contract for continued negotiations with the seller
 - accepts and signs the contract; or
 - rejects the terms and conditions of the license
7. Both the buyer (licensee) and seller (licensor) must electronically approve the contract and accept the terms before the contract is executed.
8. Once the contract is accepted by both the seller and the buyer, it is non-revocable. In other words, it cannot be undone.
9. The exchange of technology and money will occur at the start of the quarter indicated in the contract.

Cross-licensing

You may choose to develop an R&D technology and then cross-license it to another company in exchange for a different technology. Below is an example of such cross-licensing transaction:

In quarter Q, company A invests 500,000 in R&D technology X. Company B invests 400,000 in technology Y.

Both companies complete their R&D investment within one quarter, therefore they can use the new technology in quarter Q+1.

In quarter Q+1, both companies agree to cross-license their technologies. Company A creates a contract to license technology X to company B. At the same time, company B creates a contract to license technology Y to company A. Since technology X cost 100,000 more to develop, company B agrees to pay company A 100,000. To accomplish this, company A enters the price of 100,000 in the licensing contract for technology X. Company B enters 1 as the amount to charge in the licensing contract for technology Y.

Both contracts must be signed by both parties for the cross-licensing to take place.

The R&D technology and money will change hands in the following quarter. That means both companies will be able to use the technology they purchased through licensing in quarter Q+2.

YOUR TASK

If you decide to enter into a licensing agreement, choose a technology that you would like to license and the competitor that will receive this technology.

Complete the contract proposal in the Workspace and submit it to the potential buyer for review.

The buyer can either modify the contract, sign it as written, or reject the proposal.

Importantly, if a contract is not completed (signed) before processing, it will be considered nullified and inactive. Only the contracts for which the terms and conditions were accepted by both parties via electronic signature will be executed.

DECISION TIP

No verbal agreements are acceptable or defensible. Only those conditions that are in writing can be enforced.