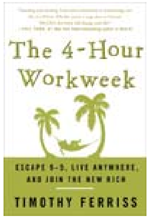

LICENSING: From Tae-Bo to Teddy Ruxpin

Many ideas grow better when transplanted into another mind than in the one where they sprang up.
-Oliver Wendell Holmes, Sr.
Developer of the stereoscope and American writer

LENDING: HOW TO BECOME A LICENSOR

Becoming an inventor or licensor is the lowest-cost and least time-intensive method of becoming an entrepreneur, but it also has the lowest percentage return.

In a typical licensing agreement, the inventor will receive 3-10% of the wholesale price of his product and may or may not receive an advance against royalties (cash upfront) or minimum guarantees[1]. There are quite a few successful examples that still make this worth the effort. Remember Tae-Bo? It seemed to come out of nowhere to the mainstream, but Billy Blanks had taught it in his Los Angeles studio for more than a decade before Thane Direct licensed it and sold more than $500-million worth of video tapes. Even at the more typical 2-4% for informercial products, how did Billy's royalties look? Quite outstanding for a few days of filming the videos and commercials. Let Thane do the leg work and cash checks.

Let's use another example to take a closer look at the math, which can get a bit fuzzy (as can the products).

Teddy Ruxpin was the first commercially-available animatronic teddy bear. It was invented by Ken Forsse, Larry Larsen and John Davies, but it was licensed to a small company called Worlds of Wonder (WOW) who brought it to market in 1985. Let's calculate, using invented but not unrealistic numbers, how these three inventors might have done:

Retail price: $50 US
Wholesale price (the price that stores paid to WOW before reselling the product to end users): $30 US (40% discount)
Per unit royalty: $1.50 (5% of the wholesale price)

Royalties from 600,000 units pre-sold in 1985[2]	$ 900,000
Royalties from 7MM units[3] total sold	$10,500,000

Not bad for a robotic bear. It is possible to make this much, but it's not the most probable scenario. If you are an astute negotiator, it is possible to get a $10,000 advance on royalties and then get increasing annual minimum guarantees (see the sample agreement that follows), but at the end of the day your income is dependent on marketing that you do not control. If the licensee sits on the license and doesn't promote, you will watch your invention gather dust.

The most intelligent approach I've seen for proactive licensing is that of a good friend of mine and inventing guru, Stephen Key. Stephen was involved as a designer with both Teddy Ruxpin and LazerTag and has made millions licensing more than 20 of his own inventions to some of the largest companies in the world, including Disney and Nestle. One of his inventions, a rotating label, has sold more than 300 million units. How does he do it? He does the opposite of what other inventors do. Unlike most inventors (he aptly refers to himself a "product developer"), who often spend $10,000 or more on patents before attempting to sell their product ideas, Stephen sells his ideas and then has companies pay for patents themselves…in his name! The process in its simplest form looks like this:

1. Create a product that is either unique but easy-to-manufacture or an improvement on an existing product. Manufacturers don't want to reinvent their equipment to make your product.

2. File a "provisional patent" application for $100 or so, and use a one-page sales sheet combined with cold calls to pitch top manufacturers in the given product category. The manufacturers are identified with simple aisle browsing in the relevant sections of large retailers.

3. Rather than fight for a non-exclusive agreement as most inventors do, offer the manufacturer exclusive rights and use that concession to secure higher upfront advances and minimum guarantees.

For a full more detailed outline of how Stephen has done this time and time again, as well as other tools for becoming a serial product developer like Stephen, visit www.fourhourworkweek.com.

BORROWING A PRODUCT

If 90-97% of the revenue sounds better than 3-10%, there are quite a few options for working the other side of the coin and becoming a licensee. Thousands of

[2] http://www.mindspring.com/~mathue/faq3.html
[3] http://www.sptimes.com/2005/06/30/Floridian/Talking_teddy_comes_o.shtml

products are available for license that are successful elsewhere and need just be transplanted to a new market or somehow repurposed. Thousands more have never left the prototyping stage because their inventors lack the skills or finances to sell them.

Licensing comes in all shapes and sizes.

It is possible to license a product in whole, manufacture and sell it, but this is not the only approach. One can license a patent and create a product around it, license content and develop products, or license a name or image. Licensing is often a blend of borrowing someone else's concept or product and building upon it to create something new.

Here are just a few options for limiting risk and licensing profitable products[4]:

1. Find an unexploited product and commercialize it.

Use the patent websites and related resources in the Tools and Tricks of Chapter 10, "Income Autopilot I: Finding the Muse".

2. Find a successful product in another country and bring it in the US, or find a successful local product and take it national, either via licensing or imitation.

Examples of the former approach include the Smurfs (Belgium), RedBull (Thailand), and Pokemon (Japan). Look for popular items in one location and consider how to sell them elsewhere.

3. Find a failed or niche product and resurrect it for a new purpose.

In the mid-80's a man named Peter Bieler came across a device used for skiing rehabilitation that was failing on the mass market. He renamed it, redesigned it, and it was relaunched as the Thighmaster, grossing more than $100 million in the first 18 months of its informercial debut.

4. Secure rights to sell a successful product (past or present) in a new format or through new distribution.

If a product is in one place or in one format, consider translating that success into a different place or format.

If a product is only sold at retail, it is possible to secure exclusive rights to mail-order, online distribution, or other neglected channels of advertising. Review past book bestseller lists (New York Times, Wall Street Journal, etc.) and acquire the rights to adapt a book's content to other formats: online, audio, video, home-

[4] These options also apply to buying products at wholesale and reselling into your niche markets.

study, seminar, etc.

Both Johnny Carson and Red Skelton have been resurrected by entrepreneurs who have licensed old television footage to create millions in sales with “best of” compilation DVDs sold via 90-second commercials.

Another option—one that is closer to product creation and my favorite—is repurposing information for a different or more specific market. I call the latter “niching down.” Is it possible to license all or part of *Men are from Mars, Women are from Venus* and create a DVD instructional specifically for African-Americans? Sure it is. Could you license a general exercise product, develop a baseball-specific training DVD (perhaps with an expert you agree to give 5% of profit), and sell it to baseball players at a premium price? Sure you could.

But why, you ask, would someone grant you, an unknown, the right to manufacture, sell, or repurpose their product? Simple: because you make it no-risk and no-loss.

Stephen Key counsels potential licensees to request much the opposite of licensors: settle for non-exclusivity to avoid upfront advances and minimums and focus on being first-to-market instead. Non-exclusivity limits the potential downside for the inventor or author because others can still sell their product. Licensing to you does not limit their ability to license to others. You are not asking for a monopoly. The end result: If you succeed, it’s more cash in their pocket, and if you don’t succeed, there is no financial loss on their part. It is a no-risk proposition. Use the previous two sentences in your pitch.