Henley Interim
COMMERCIAL RESOURCING

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**LICENSE or MANUFACTURE?**

**Customer**

The Client is a small software consultancy who had developed an innovative digital audio platform.

**The Challenge**

The client's investors were pushing them to start manufacturing their own products to sell through traditional retail outlets. Luckily the client realised that the job was outside their core competence and invited us to determine the best way of exploiting their technology and then to help them do it.

**Solution Overview**

This was a classic situation where the client and the investors realised that they had created something special but held conflicting views on strategy.  Any solution would need some careful management of expectations.

There were 2 options to consider, both with serious upsides and downsides:-

1. *Build finished products to retail through the high street*

This was actually the backers favourite, but taking this option would predicate some serious investment which they had not fully appreciated.  The upside would be a shorter lead-time to market and therefore revenues could potentially be generated quite rapidly or a least this would be under the clients direct control.

The tasks ahead to accomplish success with this strategy were pretty big - here are a few of them.  The technology was new and 'disruptive' – in other words a step change in a similar way that CDs replaced vinyl or desktop PCs replaced typewriters – there was an education need for the consumer to grasp the benefits to them.  The company had no brand image  at all in a highly brand conscious market – both at trade and consumer level.

Other major issues were the working capital requirements needed to fund a manufacturing process, buying raw materials, funding advertising, funding sales activity, funding customer credit (30days credit given –up 90 habitually taken), order processing, credit control – the list goes on but all are key functions of setting up a proper manufacturing business to attack the high street retail market with a finished product.

2. *Build a business around a license model*

We identified that there was an opportunity to attack the market with a license model with some careful structuring.  We knew that the only other player in the market had attempted this, but that they had not achieved success with it.  The reason for this was simple – pushed by their VC backers, who wanted ever more rapid results - they had, with the benefit of second round funding, also started manufacturing their own product to sell to retail.  This new strategy had backfired on them as their licensee clients now found they were competing with their own technology supplier in the same market!

We didn't have the luxury of the levels of funding needed for manufacture so we did 3 things now that we had decided this was the opportunity that best suited our needs and resources.

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Firstly we spent a lot of time refining our actual proposition from a broad list a features and functionality, to turning this into a product that the client could actually SELL. This required some diplomacy with the development team as this exercise tends sometimes to veer into the 'telling a mother her baby is ugly' territory.

Secondly, using the technique of a weighted decision tree ( we'll cover this and other quick, easy and results-focussed analytical techniques later – keep tuned in!) we agreed that there were 2 key customer groups to target that met our need to get visibility, generate revenues, and develop a scaleable offering. These might be categorised loosely as brands that were active and well respected in their fields, would probably have the financial resources to create what we had already done, but either did not have the people to create the technology or had the people but could buy speed to market by licensing our solution. This is quite often a powerful communicable benefit as it releases a manufacturer's product development teams to work on other new product ideas in parallel.

So we now had a product and a customer list and with this started targeting ways of getting in front of these potential customers for our solution. We also knew at this stage that there were 2 key exhibitions where all the key decision makers from each of our 2 target customer groups would be. Rather than book space, which tends to be very expensive and only encourages 'tyre-kickers', we rented hotel suites for demos and were persistent but professional in approaching the people we wanted to see

The next and third key step was to develop a license-pricing model. The key downsides with any licensing model is that suddenly you are no longer in control of the speed to market. Patience is required and communication is key – both with active licensees and with the investors.. What will happen is that suddenly a customer gets a major problem with an existing core product that they need to address. So suddenly and without warning, the product with your technology embedded in it drops off the development timeline. In some cases this can be only for a couple of months – sometimes it NEVER gets back on.

The 2 key elements of a license agreement, and this is a specialist area and needs specialist help, are the Licensee Fee and Royalties. The license fee is an up front payment and is really for the licensee to show commitment - you won't make money here but it will stop time wasters. The royalty is the fee the licensee pays every time they sell a product that incorporates you technology. We set up 2 pricing models here – one was a fixed price per unit sold, - which appealed to those manufacturers who were less price-sensitive in their offerings –and the other was a percentage of the ex-factory price –this appealed to the brands that needed to play with the dealer price to drive volume. There are many other key provisions is any license agreement, but the other crucial ones are geographical territory, the extent of the technology being licensed – for example we have a number of modules (priced accordingly) that can be taken separately to create different product functionalities and lastly an obligation for the manufacturer to bring the product to market by a certain date an/or to guarantee certain minimum revenues to a defined timeline.

**The Outcome**

So after about six months we had worked out what is was that we had as a product, a potential customer list and a pricing model.

Two exhibitions later and we had engaged with not only 80% of the decision makers in our target licensees but also the interest of some rather bigger players. The quickest licensee to launch a product did it in 12months and they won an award with it – which in our experience can be the kiss of death! We'll keep you posted.