

The Art of Commercialization

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*“None can love freedom heartily, but good men;
the rest love not freedom, but license.”*

- John Milton

Commercialization is the flip side of intrapreneuring. In this case, an organization (company, laboratory, or university) that owns some technology decides to let others run with it instead of creating a product or service. The organization’s logic goes like this:

“The technology we invented for satellite imaging can be used for amateur video, so we could have created YouTube and sold to it to Google for \$1.6 billion. With that lesson learned, let’s find an investor to fund a company to commercialize some of our other technology. How hard could it be to create the next company for Google to buy?”

I’ve been on the other side of the table when these organizations try to negotiate a deal to spin off, license, or sell their technology. It’s almost always a Mission: Impossible to get a deal done because most organizations try to stipulate conditions like these:

- You can’t hire any of our employees. You cannot even talk to them because we don’t want its employees distracted from our Department of Defense contract work.
- Our sole contribution is a DVD containing research findings. We will mail it to you when the deal is done.
- Our technology is so great that we aren’t offering any kind of exclusivity or perpetual license because we might find a better deal.
- We want to own 80 percent of the spinoff since our technology “is the company.” In addition, we want a 50 percent royalty structure with a \$5 million advance.
- We want to restrict the markets that you can sell into because we know best who should use our technology and for what purposes. (Did you know that the inventor of Novocain insisted that only doctors use it for operations? He thought it was too important a discovery to be used by mere dentists for mere tooth extraction.)

There are four flaws in most attempts to commercialize technology via a startup.

First, organizations think that starting a successful company is easy and that the hard part—that is, the research—is already done. The truth is that it’s not easy to productize technology and start a company; if it were, then these organizations would do it themselves. You heard it here first:

*“Those who can, do.
Those who can’t, license.”*

Second, patents are nice—in particular, they impress parents—but they aren’t products, and they don’t make people buy products. When is the last time you bought a gadget from BestBuy based on its

patent? Unfortunately, these *organizations think that patents are the end game*—not a means to an end. The last time I checked, an effective strategy for a company is not, “Patent, sue, collect.”

Third, the value of technology is not directly related to how long it took to develop it. In actuality, the longer it took to create something that no one has already commercialized, the less it’s worth. Technology developed in a cost-plus environment by cost-plus scientists usually has difficulty succeeding in a market-driven market.

Fourth, commercialization isn’t about doing good for most organizations. It’s about looking good where “looking good” equals having lots of meetings, dragging out negotiations so that management cannot accuse you of leaving money on the table, and focusing on doing as little for the licensee as possible.

Sorry to be the bad Guy, but it won’t be easy to commercialize most technology. If you can do it, you’ll need these conditions:

- **The right attitude:** Something is better than nothing. It might gall an organization to learn that its science is the basis for a multi-billion dollar exit “that it could have done itself,” but that’s a high-quality problem. More or less, its research is a sunk cost—if not, indeed, something that taxpayers underwrote—so anything it gets is upside. Thus, the licensor should expect no more than royalty in the 10 to 20 percent range with no upfront payments and a 10 percent ownership position.
- **A product or a tactical path to a product.** Customers buy “products” not “technology,” “science,” or “research findings.” Technology, science, and research findings are a long way from a product. The closer the technology is to an actual product the better. The more the licensor can help the licensee the better.
- **Warm bodies.** Simply providing DVDs or white papers doesn’t cut it. The company needs the brains behind the science because it’s one thing to make a discovery in a lab, and it’s quite another to ship a product on a large-scale basis. These employees will have to reboot their brains, so they may choose to stay in their current jobs. (Or the startup may choose not to take them.) Here’s why:
 - They have to choose revenue over peer acclaim in scientific journals. The choice boils down to being famous or rich—although if you make enough money, you can be both.
 - They have to pick “good enough” over “best possible.” Most customers don’t care about being at the bleeding edge of technology and are happy if something simply works dependably. Computer operating systems, for example, fit in this category.
 - They have to listen to customer feedback. This isn’t the same as “submitting research findings to a journal” because at the end of the day, the customer is king.
 - They have to understand that investors don’t invest on a cost-plus basis. The size of the bank account is limited, and the clock is ticking. And there’s no politician who is trying to protect jobs by influencing budgets and cost over runs.
- **A hands-off attitude.** The final ingredient is that organizations should either actively help or get out of the way of the startup. It’s tough enough dealing with customers, competition, investors, and the government. To add another stakeholder might be the straw that breaks the camel’s back. It might look like it’s fun to start a company, but it’s hard work. Harder, in fact, than “doing research” on company time.

If all else fails, you can try to find a member of the organization’s team who understands the technology, believes that she can improve it, and is willing to bet her life that she can make it into a product or

service. She has to quit cleanly and legally—leaving everything at the office except her brain—but this path may be faster, cheaper, and easier than the commercialization process.

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