Capitalizing on Great INVENTION IDEAS

How to earn royalties and collect checks from your invention
“Many of Life’s Failures Are People Who Did Not Realize How Close They Were To Success When they Gave UP”

Thomas Edison
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About the Author

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Invention Home is a company offering a unique and innovative service for assisting independent inventors through the invention process with the ultimate goal of licensing inventor IP (intellectual property/patent rights) to manufacturers seeking new products and/or line extensions.

Invention Home’s primary service is to provide inventors with a mechanism for connecting with prospective companies who seek to license new products, while simultaneously providing companies with an easy to use, reliable service for receiving ongoing product innovation opportunities.
Preface

After years of working with a wide range of inventors from across the United States and sharing my knowledge and experience with the invention and patent process, it became apparent that I could help more people by simply compiling the knowledge into a quick and easy guide and making it available to interested inventors.

This guide is meant to help inventors capitalize on their invention ideas by providing an overview of the steps that should be considered when working through the invention and patent process. The information offers practical, real-life experiences and helpful hints. The information and experience that I am sharing comes from interacting with countless manufacturers, distributors, retailers, manufacturers’ agents, investors, patent attorneys, inventors, prototype companies and tradeshows. My marketing team has interacted and discussed products with thousands of companies looking for new product ideas, and we have discussed and/or negotiated a long list of license agreements. We have experienced many successes and failures in various forms for numerous reasons and we have taken the time to learn from each experience. I hope that you can find value in this information.

This information should not be construed as legal recommendations and/or advice. Individual and specific legal questions should be addressed with a registered attorney and/or agent. Call InventionHome at 1-866-844-6512 for a patent attorney referral.
Can inventions make money?

Capitalizing on great invention ideas is the American way. Today, corporations are extremely hungry for new products and product innovation and are turning to consumer innovators (i.e.: inventors like you and me) as a source for new products. Inventors invent and companies pay for the rights to make, use and sell the inventions, which is commonly referred to as licensing. As an inventor you can earn ongoing royalties from your inventions and the money you make would be based on the volume of sales the inventions generate on the market. Royalties are typically calculated as a percentage of sales.

One of the most thrilling parts of being an inventor is the potential for your product to be the next big thing. Some great examples of this potential are the visible and recognizable products you’ve seen on TV infomercials. The Snuggie, George Foreman Grill, Ped-Egg, and Thigh-Master are all products that have made hundreds of millions of dollars. And, while not all products reach those levels of sales, you can still earn royalties on the sales revenue your invention does generate. The exciting thing to remember is that those products all started out like yours did, as “just an idea” in someone’s mind.

Also, while infomercial inventions may be household names, product innovation and invention span every category imaginable such as Housewares, Hardware, Electronics, Lawn & Garden, Drug & Beauty, Children & Infants, Automotive, Apparel, Pets, Sports, Medical, Music, Agriculture, Arts & Crafts, Educational, Commercial, Toys, Food & Beverages and many others.
What to think about first…

The two main options that you can consider for developing your invention are:

Option 1 - Manufacturing and marketing your invention on your own

When deciding how to proceed, you should first think about your ultimate goal. If you are trying to build a business around your idea and become an entrepreneur, then manufacturing your product on your own may be your best option. However, I have worked with hundreds of inventors and a common misunderstanding that I see is the idea that succeeding with an invention means undertaking the developing, manufacturing and marketing of their invention on their own. As a result, these inventors spend a small fortune developing prototypes and setting up manufacturing before they ever receive expressed interest or purchase orders from companies. This often results in an inventor never seeing any return on their investment. If you do elect to develop and manufacture your idea on your own, I would recommend that you use a developed prototype to try to secure interest and/or purchase commitments before you pull the trigger on the full scale manufacturing step.

Option 2 - Licensing for royalties

In my experience, the majority of inventors, rather than manufacturing and marketing the invention on their own, end up trying to find a company to license or purchase the invention’s patent rights from them in exchange for a royalty or cash payment. The idea is to have an established company develop, manufacture, and market the invention along with their existing product lines. The key to success with this approach is to adequately and professionally prepare your idea for
presentation to relevant manufacturers or distributors in order to discuss license opportunities. This preparation can range from creating simple designs all the way through fully developing your invention.

Before we move on. I’d like to reinforce that it is very important to understand that your odds of success increase as you move through the development and patent process, regardless of how good you may think your idea is. For example, if you are in the concept stage without any patent protection and no formal product designs or prototypes when you try to approach a company, the odds of success are very limited. However, as your idea becomes more developed and “real” with a professionally designed virtual or physical prototype your chances of success increase. The same holds true with patent rights. If you have an issued patent from the United States Patent & Trademark Office (USPTO), your odds of success are better than if you had patent pending status or no patent at all. Keep in mind that it really will not make a difference what you have in place if your idea is not good or well thought out.

Overall, the main factors are time, effort and money. By investing the right amount of time, effort, and money into your idea, you increase your odds of success. In my view, the goal should be to minimize both your cost and risk by investing enough into your invention to be able to share it safely and effectively with companies and then using those results to help you decide whether or not to invest more. For example, you may be able to start out by filing a provisional patent application before it becomes necessary to file a full utility patent. If you do find a company to license your invention, it’s possible that you can negotiate for the company to pay for the utility patent.
Also, you may want to start by designing your product “virtually” before you move into the expensive physical prototype process. You may be able to use a virtual prototype to obtain interest and license the invention without investing a lot of money into physical prototype development. If lack of a working model becomes a roadblock but you're hearing good feedback, you may decide it is worthwhile to explore developing a physical prototype or working model later if you have the financial resources to do so. The idea is to work smart through the process to reach a license agreement without spending more money than necessary on the product.

Stage 1: Idea Conception

What is the difference between an idea and an invention?

The dictionary defines an invention as “a device, contrivance or process originated after study and experiment.” An idea is defined as “a formulated thought or opinion.” Considering these definitions, you should ask yourself how much study and experiment have you done on your idea. Is your idea an actual tangible solution or just the recognition of a problem that needs a solution?

How many times have you said to yourself, “It would be great if there were a product that could solve this problem?”. I have had that same thought many times before. Unfortunately, often times, I was not identifying a real solution but just the need for a solution. Additionally, I have seen many inventors make the same mistake, confusing their “identification of a problem” for an actual solution, thus spending unnecessary time focusing on the problem and not the solution.
The real challenge with inventing is not just identifying a need, but also figuring out a solution. This may seem like common sense; however, I can tell you that I have talked with hundreds of inventors who thought they had an invention, when in fact all they had was an idea without a well-defined solution.

Can I sell my invention?

You can, but it is important to understand what you need to have in place to increase your odds of success. As you move your idea through the invention and patent process, your odds of success increase as your idea becomes more tangible and real.

The notion of selling or licensing an idea without any effort or development on the part of the inventor is a misconception. Many inventors believe that a company will license or buy their idea and pay a royalty, even though they have not taken the time to move the idea forward with a patent search, patent pending status or any type of professional presentation, development or proposal. This is highly unlikely and you should be prepared to move your idea forward beyond just a concept or thought.

Next, when it comes to royalties or payment received for licensing your idea, it’s vital that you have realistic expectations. Don’t expect to receive a 50/50 split on the profits from a company for licensing your idea to them. A company may end up spending hundreds of thousands of dollars developing, manufacturing and marketing your idea…so a 50/50 split would not be reasonable. The invention might be yours, but the company is the one that is agreeing to take on the bulk of the cost and the bulk of the risk. Typically, an average royalty rate ranges from 3-5% of net revenues received by the company for selling the product. The royalty
rate is negotiable and may fluctuate based on the margin and/or sales volume of the product.

There are no guarantees…

The reality is that there are no guarantees for success. Regardless of how great your idea is there are absolutely no guarantees that your idea will ever make money. While positive feedback from friends, family, and other potential consumers is a good place to start, it does not always translate into the same enthusiasm on the part of a company. Great ideas can fail for many reasons, such as poor marketing, lack of market potential or scarce financial resources. Additionally, ideas that may seem less than stellar can often make millions – for example, the Pet Rock or Chia Pet. The invention process can be exciting and rewarding; however, you’ll need to approach the process with realistic expectations and a willingness to do what it takes to succeed.

Stage 2: Basic Market Research

What is the value of basic market research?

Market research is a critical part of the invention process and I recommend performing basic research prior to doing anything else with your idea. Before you spend any money on your idea including using the services of a patent attorney, invention support-company, marketing agency, or consultant, it is wise to see if other similar products are already on store shelves at your local retailers or being sold on the internet.
Basic market research can be as simple as doing a quick search of the internet for a few key words related to your concept or by visiting your local Wal-Mart, Home Depot or Target to see if anything similar is already on the market. I have had many inventors come back after a quick shopping trip or a simple internet search to tell me that they were surprised to see the exact product already for sale somewhere. You may also want to look for other products on the market that offer the same solution as your idea does, even if they work in a different way.

What if I find a similar product?

I can tell you from experience that just because you find a similar product on the market doesn’t necessarily mean you can’t succeed with your idea. For starters, you should research whether the similar product is patented or not. Just because a product is on the market doesn’t mean that it has received patent protection or that a patent has been filed; however, you should be aware that the existence of that product may end up preventing you from receiving patent protection. Next, you should look closely at the product to see if your idea has benefits or features different from the similar product. For example, if you had an idea for a new mousetrap, I guarantee that you would find numerous mousetraps already on the market designed to do the same thing – catch mice. You must ask yourself questions such as, is yours better, does it function more efficiently, is it designed differently to allow for lower cost production, etc. When in doubt, I would recommend consulting with a registered patent attorney.

Stage 3: Patent Search

What is “patentability”? 
Patentability refers to the process of determining if your invention is eligible to receive a patent. One of the primary considerations of patentability is whether another patent already exists on your invention. The process of determining patentability involves reviewing and understanding existing patents as well as non-patented, similar products (together called “prior art”) to determine the unique qualities (“novelty”) of your invention. A United States Patent and Trademark Office (USPTO) examiner performs a “patentability assessment” during the patent review process. Some inventors also contract with a patent attorney or patent agent to conduct a preliminary patentability opinion prior to moving forward with a patent application. This process does not guarantee that your patent application will “pass” the patent criteria followed by the USPTO, but it can be beneficial in the long run as it gives you and whatever patent attorney you use an awareness of how your product fits in with what is already out there. Also, it is important to understand that this process is not an exact science. A patent attorney will do his or her best to find applicable prior art and to make a determination, but with the millions of patents that exist today, you will never receive a 100% guarantee.

What is a patent search?

One major factor of patentability, as discussed above, is to consider what similar inventions are already patented.

A patent search is the process of searching for all previously issued patents related to a concept. It may also include a search of foreign patents and published patent applications. A patent search does not guarantee that your invention is or is not patentable; it is primarily focused on determining what similar or like invention(s) are already patented.
Note: most companies that may consider licensing your invention will inquire about your patent search results.

**Should I perform a patent search?**

Along with basic market research, I recommend that you conduct a patent search prior to moving forward with filing a provisional or non-provisional patent application. The last thing you want to do is waste your time and money developing an invention only to find out later that it has already been invented and patented. For best results, I would recommend that you hire a patent attorney or patent search firm to complete this step since the process, done correctly, is not just a matter of a simple key word search. As I mentioned previously, patent searching is not an exact science so you’ll never receive a 100% guarantee that the search found every applicable patent, which is an inherent risk in the process.

**Can I modify an existing product?**

Yes. Modifications to existing products are done every day, which drives product improvements and competition. Many inventors focus purely on improving existing products, and profit from simply modifying products that are already on the market. Many times, you can improve an existing product and receive patent protection on the “new” product. The only caveat to this strategy is to ensure that you modify the invention in such a way that it is different from what the original patent holder has claimed.

**Stage 4: Developing a Prototype**

**What is a prototype?**
A prototype is an original model on which something is patterned. A prototype can range from a crude mock-up developed by the inventor, to professionally designed virtual prototypes, to fully functioning samples.

The process of taking your idea and turning it into a tangible product is called “reducing the invention to practice” and the first step in this process is the development of a prototype. When it comes to prototype development, the inventor can utilize a professional prototype company, virtual designer, or model-maker, or construct it on their own. Keep in mind that the prototype process is evolutionary, meaning that you may start with something as simple as cardboard and tape but evolve the prototype through several iterations over time as you refine your invention.

Should I develop a prototype?

As I discussed on the introduction page, there are two options for going to market: manufacturing on your own, or licensing for royalties. What option you choose will affect your prototyping needs.

Option 1 - Manufacturing on your own

If you are planning to manufacture your invention on your own you really don’t have a choice about developing a prototype. You will need a physical prototype of your invention to prepare for manufacturing (i.e.: you can’t manufacture something unless you know how it works).

As for manufacturing, if you utilize a US manufacturer it will likely be an easier process to get started with the manufacturing but it may be more expensive for the
setup, molds, and unit costs. Going overseas also has its pros and cons. With technology, the Internet, and the boom in overseas manufacturing in the last 10-15 years, it has become much easier to connect with manufacturers in China, Taiwan, and other countries; however, many inventors do not understand that typically, you need to provide them with an exact working sample or prototype that you would like produced.

Chinese and Taiwanese manufacturers are great at copying a finalized prototype that you provide for mass production, but don’t expect them to be as good at figuring out how your invention works and developing working prototypes. More than likely, you will need to do this in the US and then supply the finished prototype to your overseas manufacturer. You should also consider the potential language barrier of working with manufacturers overseas.

Option 2 - Licensing for royalties

If you are planning on licensing your invention for royalties, it will still be helpful to develop some form of prototype; however, it is not always necessary to develop a fully functioning sample, which can be very expensive. Depending on the particular invention, a virtual prototype may be a more cost effective solution. A virtual prototype is a computer-generated, animated model which can be manipulated on-screen to be viewed from any angle that will allow you to showcase your invention to prospective companies. Oftentimes, this is all you need to attract interest in your invention; although, it is still possible that a company may ask to see a physical prototype after a virtual prototype first engages their interest. In that instance, you could request that the company evaluate your invention without the prototype or you could consider alternatives such as building a mock-up of your own.
For example, in the case of a particular inventor working with my company, we generated enough initial interest from a company based on a professional virtual prototype in order to begin conversations about the product. Later in the process, the company asked if the inventor had a tangible prototype, which she did not. We suggested to the inventor that she construct a simple mock-up of the product using cardboard or foam board. The inventor spent less than $10 on supplies and a few hours of her time to construct a very nice model and the company was more than satisfied. The virtual prototype sold them on the concept and the tangible model gave them a better feel for the actual product dimensions and function while the inventor did not have to spend thousands of dollars developing a working prototype.

**Reasons to develop a prototype**

Without a virtual or tangible prototype, it will be more difficult for a company to understand your invention. As discussed, the chance of success increases as you move your invention through the development process. A prototype brings your idea to life for the person evaluating your invention, which increases the chances of ultimately getting your invention to market.

A developed prototype helps to work out the details of the invention. Identifying design flaws and weaknesses is much easier when you can actually test the invention. Engineering drawings and artwork alone cannot “prove” the concept in the same manner that a prototype can – prototypes help to ensure that the invention will work the way you intended.
In addition, having a virtual or physical prototype helps to identify key details that should be included in the provisional and/or non-provisional patent(s). Filing a patent before developing a prototype could lead to key details being excluded from the patent application – details that are learned only through prototype development. For this reason, I recommend that if you plan to develop a prototype, you do it first, before you file a patent.

Patent drawings will be much easier to complete if a model is available from which to work.

Developing a working prototype can also help to determine the best manufacturing materials and processes. Your original invention concept may be altered based on the prototype.

**Stage 5: Provisional Patent**

**What is a provisional patent application?**

To understand the provisional patent application, you must first understand the difference between provisional and non-provisional patents. The non-provisional patent is what is traditionally thought of as the “full” patent. It can be of either a “utility” or a “design” variety, and it establishes the filing date and begins the USPTO’s patent review process. On the other hand, the provisional patent provides temporary protection in that it establishes the filing date but does not start the USPTO review.
The provisional patent is good for one year from the filing date. It is significantly cheaper than a non-provisional patent and provides the inventor with a 12-month period in which to market and/or develop the invention (while using the term “patent pending”) before they need to invest in a non-provisional patent. The provisional patent does not require the specific patent claims, which are a key element of the non-provisional application. Additionally, a provisional application is not examined by the USPTO and does not convert to a regular patent. The inventor must submit the non-provisional application within one year of the provisional filing date in order to use the original filing date of the provisional application.

A provisional patent application includes the following elements:

Cover sheet – identifying the provisional application, the name of the inventor, and other bibliographic data
Description of invention – invention claims are not required, just an adequate description of the invention
Drawing – if necessary to understand the invention
Filing Fee

Note: Provisional patents are not valid for “design” elements. They can only be filed in relation to “utilitarian” inventions. More information about “Design” versus “Utility” patents can be obtained at www.uspto.gov.

Do I need a provisional patent?

In most cases, I believe in filing a provisional patent application prior to moving forward with the non-provisional application. A provisional patent application will
provide you with some relatively quick and inexpensive protection for your idea. It can usually be filed with minimal effort and cost, while providing the inventor up to one year to work through the development and marketing of the invention.

The primary reason I believe in a provisional application is that it gives you a lower cost opportunity to seek out prospective manufactures to license your invention for royalties prior to investing in a non-provisional patent, which can cost thousands of dollars. Also, it is sometimes possible to negotiate up-front money in a license agreement, which could cover the costs of filing the non-provisional patent application, or the company may agree to cover the patent expenses itself.

Can I file my own patent application?

This question is a matter of opinion; therefore, I will give you mine, which differs depending on the type of application you are filing.

Provisional Application – Absolutely! The provisional application process is not overly complicated; therefore, I believe that many inventors can file a reasonably good application if they spend the time researching and understanding the application process and writing the application. If you do not have the time or comfort level, the cost to have someone else prepare it is usually under a thousand dollars. In this case, it may be worth your time to hire a third party.

Non-provisional Application – Absolutely NOT! Although there are many good books on the topic of filing your own patent application, the process is not easy. In my opinion, even with patent filing books as your guide, the process is difficult and requires a level of expertise that only comes with training and
practice. Although you may be able to work through the components of the application, capturing the optimal language in the claims section is not a trivial task. This is one time that you should rely on the expertise of a registered patent attorney. If you do not have one, I would be happy to refer you.

**How does the First-to-File System Affect Me?**

The First-to-File law applies to all patent applications filed on or after March 16, 2013 and creates a sense of urgency for inventors to file their patent applications quickly before another inventor beats them to it.

Prior to this change the United States was the only country in the world whose patent filing system acknowledged the inventor as the one who came up with an invention first, as opposed to which inventor filed the patent application first. With the change, the United States moved to the “first-to-file” system which is used by the rest of the world. This means that the invention belongs to the first person to file a patent application for an idea, regardless of whether or not someone else created the invention first.

**Stage 6: Marketing Due Diligence**

I would recommend that you pay particularly close attention to this section because I have found that many inventors do not fully understand this concept. This is a stage that will vary depending on the option you have selected for taking your invention to market: manufacturing on your own or licensing for royalties. Understanding this concept can ultimately save you thousands of dollars in the process.
What is “Marketing Due Diligence?”

Let me explain the concept with a simple example. If a manufacturer is getting ready to make the decision to develop, manufacture, and market a new product that could potentially cost $50,000 to $150,000 to produce plus inventory costs, they would most certainly take their time to ensure that they are making a good business decision in moving forward with the product. Therefore, you can sum up “due diligence” as the process of gathering all the information necessary to make a good business decision prior to making a large financial expenditure. It can generally be assumed that the more time, effort and money (i.e.: “risk”) that a company must spend to develop an invention, the more they will evaluate the potential license. Keep in mind that even if a product appears to be simple and low cost, the process of developing and manufacturing is rarely simple and low cost. Companies will evaluate such criteria as customer feedback, retail price points, unit cost to manufacture, competitive landscape, manufacturing feasibility, market opportunity, etc.

Do I need to perform Due Diligence on my invention?

As discussed, this will depend on the option you have elected for taking your product to market.

Option 1 - Manufacturing on your own

If you are planning on manufacturing and marketing the invention on your own, then yes, you will need to perform due diligence. Essentially, you become the manufacturer of the product and as a result you should perform the due diligence
on your invention just like other manufacturers would. The problem that I have found is that many inventors who elect to manufacture their own inventions do little, if any marketing due diligence, which is a big mistake.

Option 2 - Licensing for Royalties

If you are planning on licensing for royalties, then I believe you can minimize your due diligence efforts, because prior to any company licensing your invention, they will perform their own due diligence. If you are working with a company such as Invention Home, the costs to market your invention to companies can be minimal - therefore it could cost you more to actually perform thorough due diligence than it would to just market the invention to companies (which is ultimately your best form of due diligence anyway). Remember, you should have taken the time to do your basic market research and a patent search earlier in the process to be assured that your product is worth pursuing in the first place (i.e.: the product is not already on the market and there is a demand for it).

To summarize, if you are planning on investing a large amount of money on your invention, then you should always analyze the opportunity first to make sure it’s worth pursuing; but, if you can actively market your invention to companies with minimal cost, you can be assured that an interested company will perform their own due diligence and not rely on yours.

Marketing due diligence tips.

As discussed, the idea of marketing due diligence is to gather as much information as possible to make a well-informed decision on investing in any invention. In a perfect world, it is good to have all the relevant information on sales projections,
retail pricing, marketing costs, manufacturing setup and unit costs, competitive analysis, market demand, etc. If you are not in a position to pay a professional firm to do your marketing evaluation, it is possible to perform the research on your own. It is helpful to have marketing due diligence information available as you discuss your invention opportunity with prospective companies even though it is not always easy to obtain this information. You will need to balance the effort and expense of gathering the information with the real need of having it.

Please be aware that information just for the sake of information, has no value. It is what you do with the information that matters. I would NOT recommend that you purchase “market research” from an invention promotion company. Often sold as a “first step”, the information is largely useless because it is not specific research on your invention. Rather, it is off-the-shelf “canned” industry statistics, which will not necessarily help you make an informed decision and will not be of much interest to any company you approach about licensing your idea.

Let me clarify that “due diligence” can come under various names, but essentially they all mean the same thing. Some of the terms that I have seen to describe the diligence process are:

- Due Diligence
- Marketing Evaluation
- Commercial Potential
- Invention Salability
- Profitably Marketable
- Market Research
- Invention Assessment
Each of these terms is basically referring to the research to assess the likelihood of an invention’s salability and profitability. The question of whether your invention will sell can never be known with certainty, but you can perform some steps to help you better understand the likelihood of success.

Again, if you are planning on manufacturing your invention on your own, you should consider performing marketing due diligence on your product. If you are planning on licensing your invention for royalties the company licensing your invention should perform this research.

Some suggestions for marketing due diligence are listed below.

**Ask and answer some basic questions.**

- Is your invention original or has someone else already come up with the invention? (Hopefully, you have already answered this question in your basic research.)
- Is your invention already on the market? If so, what does your invention offer over the others? (Again, this is a question you preferably have already researched.)
- Is your invention a solution to a problem? If not, why do you think it will sell?
- Does your invention really solve the problem?
- How many competing products and competitors can you find on the market?
- What is the range of price of these products? Can your product fall into this range? Don’t forget to factor in profit and perhaps wholesale pricing and royalty fee, if any.
- Can you position your invention as a better product?
List the pros and cons that will impact how your invention sells and objectively evaluate your list.

- Demand – is there an existing demand for your invention?
- Market – does a market exist for your invention, and if so, what is the size of the market?
- Production Capabilities – will it be easy or difficult to produce your invention?
- Production Costs – can you obtain accurate manufacturing costs (both per unit and setup/tooling)?
- Distribution Capabilities – will it be easy or difficult to distribute or sell your invention?
- Advanced features – does your invention offer significant improvements over other similar products (speed, size, weight, ease of use)?
- Retail Price – do you have a price point advantage or disadvantage?
- Life – will your invention last longer than other products?
- Performance – does your invention perform better than other products (including better, faster output, less noise, better smell, taste, look or feel)?
- Market Barriers – is it difficult or easy to enter your market?
- Regulations and Laws – does your invention require specific regulatory requirements to be met or are there special laws that must be followed (i.e.: FDA approval, state safely laws, etc.)

Seek advice or input from others (while still considering confidentiality).

- Target professionals / experts in fields related to your invention.
- Ask for objective feedback and advice.
- Talk to marketing professionals and sales people in that field.
- Ask people you know in the field.
○ Talk to close friends and family members whom you trust.
○ Ask for input on the invention such as features, benefits, price, and if they would buy it.

During the diligence stage, existing manufacturers have an advantage in that they have the ability to talk with their customers (retail buyers, wholesalers, etc.)

In my experience, one of the most important factors that a company will consider is whether their existing customers would buy the product. If I took an invention to a company to discuss licensing (assuming they could produce it at the right price point), there is a very high likelihood that they would license the product if one of their top customers agreed to sell it.

Whether a retail buyer is interested in purchasing a product is a driving force for companies considering product licensing. I’ve seen many scenarios in which a company had interest in an invention but they ultimately decided to pass on the idea because their customer (the retailer) did not show any interest in the product. Conversely, I’ve seen companies with mild interest in an idea who jump at a new product when a retailer expresses interest in it.
Stage 7: Non-Provisional Patent

What is involved with the non-provisional patent process?

Once you submit your completed non-provisional patent application and filing fee to the USPTO, you are assigned a filing date. Typically, the entire process from the initial patent application submission to receiving an issued patent takes anywhere from 1.5 to 3 years. After the application is submitted, the waiting period before a patent examiner will review the application typically lasts 6 to 18 months. The review process itself can take anywhere from several months to a few years, depending on the invention. Although it is not impossible for your patent application to be accepted on the first submission, it is rare. The occurrence when a patent examiner issues a non-final rejection of a patent’s claims is referred to as an “office action,” and constitutes the official communication from the patent office outlining the objections to your patent application.

Every time the patent office rejects your application, your attorney will need to re-work the rejected claim(s) and re-submit the application. This process of objection and re-submission typically happens 2 or 3 times before your patent application might be issued. You should be aware that in some cases, the patent office may eventually say that their rejection of the application is final and a patent will never be issued.

It is important to understand that the initial attorney fees for preparing the application and USPTO filing fees are not the final costs involved when filing a non-provisional utility or design patent application. More than likely, you will incur additional preparation and filing fees when responding to office actions. Also, there are fees that the USPTO charges at various points in the patent
application process. All in all, filing a non-provisional patent could cost $10,000 or more depending on the attorney.

**Stage 8: Going to Market**

What do you mean by “going to market?”

“Going to market” refers to the process of trying to sell your idea. If your goal is to manufacture and market your invention on your own, then “going to market” means approaching retailers to sell your finished product to them or perhaps setting up a website where consumers can place their orders directly with you. If your goal is to license your invention for royalties, then for you “going to market” means to approach manufacturers related to the industry that your invention falls into and share with them details about your invention to see if they express any interest in the concept.

Some inventors end up doing a combination of manufacturing their invention on their own, followed by licensing the invention for royalties. The key is to think about which option you are trying to accomplish early in the process. For example, if licensing for royalties is your option, then you do not want to spend a lot of time and money doing things that are moving you towards manufacturing your invention. Spend your time and resources preparing to license your idea.

What is a license agreement?

When you are trying to license your invention for royalties, the end result of all your hard work is to secure a license agreement. A license agreement is when the
inventor, knows as the licensor, agrees to let a third party, known as the licensee, commercially use their invention for a period of time. As a result of the agreement, the inventor would receive either an ongoing payment called a royalty or a one time, lump sum payment. The likelihood that an inventor strikes a license agreement depends on the premise that the inventor “owns” the invention (i.e.: a patent). Without patent protection, any individual or company could legally make or sell the invention so it would be unlikely that a company would license or buy the invention.

When negotiating a license agreement, there are various items that must be addressed between the inventor (licensor) and company (licensee). Some of these items are, royalty rate, up-front payment (if any), term of the agreement, territory, etc. For example, the agreement can be limited to a particular area of the country, for a certain period of time or could be structured to allow for licensing to more than one licensee.

What is an assignment?

When an inventor assigns their rights, they are permanently transferring or selling their ownership in the invention/patent. The inventor may receive a lump sum payment or a series of payments in the form of a royalty. The difference between a “license” and “assignment” is in the transfer of rights. With a license, the inventor retains rights (i.e.: like “renting” the patent) and with an assignment they transfer their rights (i.e.: sell it).

What are the types of payment?
Percent Royalty – This refers to regular payments the inventor receives for licensing their invention. Percent royalties are based on a percentage of sales. The payment frequency is negotiated and defined in the license agreement (i.e.: annual, semi-annual, quarterly or monthly).

Use Royalty – This form of royalty is based on number of units sold or frequency of use.

Lump Sum Payment – A lump-sum payment is a one-time payment for the transfer of licensing rights.

Advance – It’s possible that you can receive an up-front payment instead of future royalty payments or you could receive a partial advance up-front, which would then be deducted from future earned royalties.

Guaranteed Minimum Payments – This is a guarantee that the inventor will receive a certain minimum royalty payment each year.

How much will I get paid?

I assume that earning money is the main reason that you are considering licensing or selling your invention in the first place. The amount of money will vary with each scenario and will be a central point of negotiation in each license agreement. That said, some basic guidelines on which to base royalty payments are as follows:

Industry standards – the rate that is customary in the industry. You may find that the prospective licensee is looking at industry standards as a guide in determining the royalty amount. It can be difficult to pinpoint a standard due to the fact that
circumstances vary for each agreement. A rule of thumb is that rates usually fluctuate between 1% and 10%. Typically, 5% is considered a good royalty rate. Unit rates can also very depending on the situation.

Analysis of profit potential – the company may arrive at their royalty rate based on profit potential (i.e.: sales predictions, manufacturing costs).

Furthermore, royalty rates may depend on a combination of both guidelines.

Can I license my invention prior to receiving a patent?

Although you are not legally prohibited from licensing your invention without a patent, it is less likely than if your invention possesses some form of protection. This is the case for two main reasons. Firstly, without a patent, the company is not breaking any laws or “infringing” if they just make the product on their own. Secondly, without a patent, the company would not be able to stop OTHER companies from making and selling your product (this would put them at a cost disadvantage since they must pay a royalty which other companies would not be obligated to pay). If your patent is pending, your chances are better as you do have some protection on your invention as you wait for your patent to issue. The patent-pending period runs from the time that the application is filed to the point when the patent finally issues.

In my experience, I have found that most companies are not interested in licensing products unless they have patent protection, either issued or pending. While an issued patent is no doubt better than patent pending status, it is usually not a problem for companies if the product is patent pending.
Additional words about licensing…

Do not get carried away

Many inventors strive for the “million-dollar agreement.” Although a good product could earn millions in royalties over the life of the license agreement, it is extremely unrealistic for you to expect that you will earn a million dollars up-front or even over the course of several years. Don’t blow a good deal out of greed. You need to be realistic and objective or it is likely that you will end up with no deal at all.

A complicated process
The process of licensing is very complex and ultimately determines how much money you will make on your invention. Each licensing situation is different, so there really isn’t a “standard” agreement. Be aware that a license agreement is a legal document and will include terminology and language that can get very technical and confusing. For these reasons, I would recommend that you get the advice and guidance of a lawyer or agent when it comes time to negotiate and execute a license agreement. This is particularly true if you have no experience in the area of licensing. As discussed above and throughout this guide, success and royalty payments do not come without hard work and effort, and the actual payment amount will depend on the merits of your invention and on the agreement that you negotiate.

If you’re ready to begin your journey, InventionHome can assist you throughout the process. Call us today at 1-866-844-6512 to get started.

Good luck.