



Canada Business Network

Licensing someone else's product

Licensing is a way to get the rights to make, sell, use or improve on a product that is copyrighted or protected as intellectual property. You might do this because you want to:

- Improve your own product or product line
- Access new markets
- Save on R&D (research and development) costs
- Save on prototype and product testing
- Benefit from the experience of a licensor
- Gain a competitive advantage

Licensing can help you access new and better products. It allows you to leverage ideas generated outside of your own development team.

Finding a product to license

Sources where you can find and research potential licensors with products to license include:

- Licensing or trade directories, publications and websites
- Product-related tradeshows
- Licensing agents or consultants
- Research and development companies or inventors
- Universities or government departments with research facilities

Once you have narrowed the field of possible licensors, get in touch with those that interest you. Make sure that they are ready to license. Find out if they have licensed before and who their licensees were.

The licensor should provide you with enough information to determine the feasibility, including:

- Product brochure and bill of materials and specifications

- Estimate of the labour and time required to manufacture
- Length of time that they have marketed the product and the history of its growth
- Names of their other licensees
- Advantages over the competition and estimated total market
- Warranties they offer, as well as type and length of training they will provide
- Financial terms

The licensor may ask you to sign a Confidential Disclosure Agreement before providing any details. If the negotiations are lengthy, you may be asked for a letter of intent and a partial payment to keep the opportunity available. This gives you time to determine the feasibility of licensing the product and to figure out the terms you would like to negotiate in the agreement.

The licensing agreement

Some companies have standard licensing agreements and others negotiate on a case-by-case basis. The agreement should cover:

- Roles and responsibilities of both parties
- Details about the patent and its filing
- Percentage of royalties
- Amount of upfront payment if applicable
- Duration of the agreement
- Territorial limitations

Royalties generally range between 3% and 7%. The rate depends on things like product readiness and the importance of the patent.

You will probably want to obtain legal advice prior to signing any agreements. Consider hiring an experienced lawyer or an intellectual property professional to negotiate on your behalf.