

PROFITING FROM INVENTIONS For Canadians

A Practical Guide

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Introduction

This guide is intended to provide a framework for Canadian inventors, whether you are a backyard tinkerer or a university professor inventing a new game, a household product, an industrial device, a computer program, or a pharmaceutical, the general principles in this guide will help you achieve your profit goals faster and at less cost.

Profiting from Inventions for Canadians

A successful invention can be extremely valuable. However, all of that value can be lost unless you are careful. Moreover, inventions do not 'sell themselves. Profiting from an invention requires care, thought, skill, effort, and luck. However, with a little bit of research and planning you can vastly improve your chances and reduce the risk of a painful or expensive disaster.

The amount of information that an inventor needs to research and learn can seem overwhelming. Furthermore, it can be difficult to find useful information for profiting from inventions with specific focus on the needs of Canadians.

With care and diligence it is possible to learn how to profit from an invention and when to engage trusted experts for assistance. Generally, successful inventors do not try to do everything themselves and know how and when to get expert assistance at reasonable cost.

You do not need to invent to be successful

Many great businesses grow without an invention. A successful business with no core invention can still grow rapidly because of good service. Sometimes businesses have an innovative approach to great service but

this does not mean they have made any inventions (think WalMart, Costco, Staples ...). At Miltons IP, our business has grown rapidly because we have been innovative in our thinking about IP services as a business but this does not mean we have made inventions.

Innovation is broader than invention and plays an enormous role in business success. However, this eBook focuses on a narrower concept: how to make money from an actual invention.

Invent Something Worthwhile

First, you need an invention.

Second, that invention must be ‘worth something’.

The most valuable inventions are not necessarily the ‘sexiest’ or most cutting edge inventions but often solve existing problems for existing businesses. While it is nice to invent something that is ‘fun’ or ‘cool’ the most valuable inventions often save people time and/or money.

It is challenging to come up with inventions on demand, however, chances of inventing something worthwhile can be increased by having an active problem-seeking and problem-solving mindset. For instance, by seeking out areas of waste, inefficiency, or unnecessarily high cost, and then finding ways to do these things *better, faster, or cheaper* (alone or with others) you will vastly increase your chances of making a useful invention.

Protect It

It may be possible to make money from your invention without protecting it, but the decision to not protect the idea and disclose it to the public should only be taken with care after full deliberation. Therefore, you should start by keeping the invention secret and only disclosing it when you have taken proper safeguards.

Keep an Invention Secret by Using Non-disclosure Agreements

An invention can be kept secret by not telling anyone about it, however, that is of limited long term value as every successful inventor gets help along the way from a team of people.

The first tool for retaining an invention in confidence is to use a Confidentiality Agreement, otherwise known as a Non-disclosure Agreement (often abbreviated as “an NDA”).

A good NDA can be a very simple document. The key requirements are the NDA should:

- be in writing;
- clearly identify both the discloser and the recipient of information;
- contain the following clear promises by the recipient:
 - to keep the information received confidential; and
 - not to use the information received except for the purpose of working with the discloser; and
- be signed by the recipient of the information, and if possible, by the discloser.

You should get a signed NDA with each and every person that the invention is disclosed to who does not owe a duty of confidence as a fiduciary. NDAs should be used until you file a patent application or decide that you are not going to keep your invention secret.

Keep your signed NDAs in a proper filing system so that you can find them later.

Figure out if the invention can be protected

Not all ideas, even brand-new ideas, can be protected. Whether your idea can be protected requires an understanding of the nuances of intellectual property law. Further, even if your idea can be protected, whether it is worthwhile to spend money protecting the invention is a different matter. For much more information on patenting please refer to our eBook ***Patents for Canadians: A practical guide*** which is available for free at www.canadian-patent.ca.

Utility Patents v. Design Registrations (Design Patents)

It is important to understand the differences between Utility Patents and Design Patents (which are called “Industrial Design Registrations” in Canada and Europe, and “design patents” in the United States).

Design Protection

Design protection:

- is quite affordable (approximately \$2,000 per design per country);
- is filed country by country for protection; and
- has similar rules related to novelty and grace periods as utility patents.

Design protection is used to protect ***the non-functional, aesthetic features of an item***. In other words, it protects “the look”. For instance, design protection should be considered for a designed product with a unique look that distinguishes the product from competitors’. Design patents are particularly useful for consumer products, such as furniture and household appliances.

Generally, more designers and innovators should consider design protection. For example, design protection can be useful for tangible physical products that function using known concepts but have a new better-looking design. This applies whether you are designing new boats, cars, appliances, furniture, or housewares, to name just a few categories where design patents can be really useful.

Utility Patents

A utility patent can cover an invention related to a product, system, method, process, or method of manufacture. Generally we think of patents protecting new 'things', although they can equally be used to protect a new the way of making something, or a new part or component of a bigger 'thing'.

The essence of the patent bargain is that you must disclose your invention to the public in your patent application. In exchange, if your patent is granted (after you have made the disclosure) the allowed patent is a monopoly right to control the invention for 20 years.

In our guide, ***Patents for Canadians***, we discuss patentability (what is patentable), the costs and process drafting, filing, prosecuting and maintaining patent applications and allowed patents, and filing strategies including US provisionals, Patent Cooperation Treaty (PCT) filings, and where and when to file. Download your free copy from our website, www.canadian-patent.ca.

Grace Periods

In Canada and the United States it is possible to patent an invention as long as:

- you file a patent application within 12 months of your first disclosure of the invention to the public (ie. someone who had not signed a nondisclosure agreement with you), and,
- no one else independently invents the invention (and either files a patent application or discloses their invention to the public) before you file your patent application.

This 12-month period is referred to as a grace period. However, generally we do not recommend that inventors intentionally take advantage of it. It is not a good practice to intentionally disclose your invention and then patent it later. You should use the grace period if you must, but not deliberately.

In particular:

- There is no grace period in most other parts of the world. So, if you disclose your invention before you file your first patent application, then you have likely forever lost the right to patent in Europe, China, and most of the rest of the world; and
- All inventions made by third parties up to the date you file your patent will be 'cited against; your patent. Your invention may have been new and not obvious when you made it, but may very well lack novelty or be obvious a year later.

If you have made an invention, refer to our guide *Patents for Canadians* before you disclose the invention to anyone.

Going without patents & abandoning provisionals

Many great business ideas are not patentable. In fact, there are many more valuable innovations than there are patentable inventions. Think, for instance, of a new restaurant concept (like McDonalds), or a super-store for business products (e.g., Staples), or a new department store that sells at lower prices (e.g., Wal-Mart). None of these concepts would have been patentable and yet they developed into some of the great businesses of our time (with some of the great trademarks of our time). Closer to home, Miltons IP is built on the idea of providing better, faster and cheaper advice for Canadian inventors, where the business model, which includes giving away lots of great information for free, has been very successful but is not patentable. Accordingly, it is really important to know when to patent and when not to.

Innovations without patents are not less valuable, but they are harder to commercialize. Generally, you need to build a successful business to make money from an unpatentable innovation, whereas a patent makes it possible to profit from an invention without building a business.

Another reason to be careful about over-emphasizing patents is that many patents end up costing far more to acquire than they add in value to the business.

In addition, some patents are almost impossible to enforce. For instance, if infringement would only take place inside a factory, and you cannot tell from a finished product whether or not it has been built using an infringing process or tool, then it would be very difficult to enforce the patent properly. Similarly, if it is possible for anyone with minimal tools or skills to infringe, then it is very hard to prevent infringement. In such cases, it is simply not cost effective to try to sue hundreds (or thousands) of folks who do not have established businesses.

As a result, a “file many provisionals, drop many provisionals” strategy may be a good strategy. If you file a provisional patent application you preserve your right to potentially patent for 12 months, and during that time you can run around saying that your idea is ‘patent pending’ while you try to validate your invention, secure partners, and also try to figure out if your idea is patentable, what that protection will cost, and whether the protection will be a net benefit for the business.

There is absolutely no shame in simply dropping a provisional patent application at the end of the 12 months. Perhaps the idea is not patentable, or the invention is not valuable enough, or perhaps patenting would be too expensive, or perhaps you need to do further R&D to develop the idea. All of these are great reasons for dropping a provisional patent application.

Other people’s patents (freedom to operate)

If you want to do something new in a field that other people have patented inventions in, it is important to confirm whether or not you can do what you want to do without infringing their patents. This applies whether you want to patent your invention or not, and this is called ensuring that you have “freedom to operate”. Essentially, a freedom to operate assessment answers the question “can I do what I want without infringing someone else’s patent”.

Just because no one is currently making or selling **the product** that you have in mind does not mean that making it will not infringe someone else’s patent rights. Someone may have a patent that covers some aspect of what you want to do, regardless of whether anyone is selling the product you want to sell.

If you are working in a rapidly evolving highly competitive industry (e.g., cell phone industry), securing freedom to operate may be the most important thing you do; otherwise, you will face very challenging infringement litigation.

Even if you patent your own invention, your patent does not guarantee that you can use your own invention without infringing someone else's patent. A patent is not a license to infringe other people's patents – if using your invention requires using other people's inventions, then you need a license from them before using your invention.

Copyrights

Copyrights are the rights which protect original works from copying. Copyrights do not protect ideas, they protect the specific expression of an idea. Copyright is what makes it illegal to make and distribute illegal downloads of movies and songs, while making it possible for anyone to write a new song and protect it. Most copyright protection arises automatically without the need for expensive registration. However, copyrights are only as good as your willingness to enforce them – whether by way of take-down notices, or cease and desist letters, or infringement lawsuits.

Trademarks

Trademarks are words, logos, slogans, or the like which identify the goods and services of one provider and distinguish the source or origin of those goods or services from competitors'.

Trademarks are a fundamental component of good marketing and are important for almost all well-run businesses in almost all fields.

The most important aspects of choosing a trademark are to choose something that is a) not descriptive of your product, and b) not confusingly similar to someone else's trademark. The best trademarks are highly imaginative coined terms.

Inventors rarely need to spend a fortune on trademarks, but one or two registrations on the primary mark associated with the invention can be an important part of building brand awareness and protection.

Learn much more about trademarks on our website ***Trademarks for Canadians***: www.canadian-trademark.ca

Commercialization

The phrase used for ‘making money from an invention’ is ‘commercializing the invention’. Commercializing can encompass many different business models, from the traditional mode of making and selling, to all manner of outsourced manufacturing, distribution, marketing and selling, all the way to outright sale of the invention to a third party.

A particularly important means of commercialization is licensing.

Decide on a business model

There are almost as many possible business models as there are businesses. However, there are a few key business model categories. Choosing the right business model for commercialization of your invention can be the single most important decision that you make as an inventor.

In all cases, it is really important to be humble about ‘what fraction of the pie’ should flow back to you, the inventor, and to share the spoils with others. No matter how good your invention is, for instance, it will probably need other people to distribute and sell it at retail. If this is the case, you must leave a healthy amount of money on the table to encourage them to be interested in your product. A lot of inventors forget how important distribution and retail are, and try to claim too much of the retail pie.

Greedy inventors rarely succeed. **Most successful inventors make a lot of other people wealthy.**

There are 3 broad categories of business models that you should consider for bringing your invention to market:

- make, market, distribute and sell the products;
- license the invention; and
- sell the invention.

Make, market, distribute, sell

This is the classic business model that most inventors think of first. Inventors invent a new product (e.g., a toy) and decide to go into business to make, market, distribute, and sell the product at retail to the end buyers (i.e., consumers).

While this is a very common strategy, it is often a very hard one. In particular, it means taking on an enormous challenge of trying to build an entirely new business while also bringing a new invention to market (a case of trying to do about 10 things at once). There are an unfortunat number of inventors with garages full of unsold product.

One of the biggest challenges for the “make, market, distribute, and sell” model is that it underestimates the enormous value of pre-existing distribution channels and the difficulty of breaking into them with a sole product. For instance, most industries have an established ecosystem of manufacturers, wholesalers, distributors, and retailers. Most of them have done business with each other for extended periods of time, and most of them do business with each other for more than one single product. This makes the entire buying, selling and distribution process more efficient. A new company, with only one product to sell, can face a very difficult and expensive time trying to break into an established industry without the right partners.

Also, one of the problems with the make, market, distribute, and sell model is that it assumes that the inventor will be as good at all other aspects of the

business as they are at inventing. It is possible to be a great inventor but not a great salesperson. Maybe it would make more sense for the inventor to focus on what they do best, and let others do what they are best at.

Think of it this way – there is an established industry for distributing coffee to office workplaces. These suppliers usually provide coffee, machines, tea, sugar, creamer, and all sorts of other related products. If an inventor invents a great new creamer, does it really make sense for the inventor to try to build an entirely separate business to sell creamer to offices? Often, it does not. It makes more sense for the inventor of the new creamer to partner with existing coffee-supply companies (either wholesalers or distributors or local retailers) to get the product in the hands of consumers.

Licensing an Invention

When licensing an invention, the inventor remains the owner of the invention and grants certain rights to another person (the licensee) to build their business making, using, or selling the invention.

For instance, trademark licenses are the foundation of all franchise systems, from Tim Hortons to Ford dealerships to Nurse Next Door. The great power of franchising is that it marries strong national standards, brand, and marketing, with strong local partners who bring money and day to day management to ensure high quality local delivery of the product or service.

More broadly, conceptualize licensing as any business model in which broad rights are granted to a third party, who then runs their own business, and pays the licensor for the privilege of incorporating the invention into their business. Many distributorships, especially with large territories (e.g., countries and whole regions) are of this form, and often the licensee has a pre-existing business and brings the invention in to add to their product line.

The power of this business model comes from leveraging all the other facets of the businesses of the licensees, from their offices and show rooms, to their sales and marketing teams, to their ability to buy and maintain inventory.

We strongly recommend that you consider some form of ‘licensing’ in building or complimenting your business. For instance, if the core market for your invention is Canada and the United States, then you should seriously consider finding partners to take your invention to market in other markets like the Middle East, Europe, or Asia.

Licenses are often structured on a ‘pay on success’ model, such as royalties as a percent of revenue or per sale. Royalties are a very powerful way to align incentives between partners, so that both partners want to sell more and make more money. When doing any deal with a royalty, it is important to consider contingencies. For instance, you should consider what happens if the licensee loses interest, or changes ownership, or is simply no good at selling your invention. We find that ‘guaranteed annual minimum’ royalties are often a very good idea.

Selling an Invention

Sometimes it is best to transfer full ownership of the invention to a third party, to let them ‘run with the ball’. This is often the case, for instance, when your invention works best with their products and services and thus you are dependent on them to bring your invention to market.

Sometimes you want to sell the invention for a fixed flat fee and move on, but often it is difficult to sell something new for a high price – you may be the only one who recognizes the full value of your invention and others may be more skeptical and nervous. When this is the case, consider the possibility of ‘selling the invention, while taking some or all of the purchase price in the form of a royalty back’. When you sell but take some or all of the purchase price in royalties you signal your confidence in the value of the invention and often retain a lot more upside if the invention takes off.

Share It!

Once you have chosen the right level of protection for your invention, you absolutely must share it widely. Let everyone you can know about your invention. In particular, don't just focus on potential consumers or end users of your product. Start aggressively sharing it with people or businesses that you might want to work with.

Sharing your invention will bring all sorts of value – from prospective or reference customers to information about how to improve your invention, information about how to make, market and sell it, and information about who to work with.

The Partnership Imperative

It is foolish to try to build a business all by yourself, and it is foolish to try to commercialize an invention from scratch by yourself. Commercializing an invention is complex with a lot of moving pieces. Successful inventors learn what they can do best, and get others involved with the project to help with everything else. Lone wolf inventors are rarely very successful.

This 'partnership imperative' will help drive the choice of the best business model for commercializing your invention.

Sharing the Work and Sharing the Profits

An inventor who wants to retain 100% of the pie will find that their pie usually stays very, very small.

It is very important to understand that partners contribute value to the project – often as much or more value than the original invention itself, and successful inventors learn to share the pie in order to grow the pie.

Generally inventors tend to underestimate the value of other aspects of the 'product to market' lifecycle, especially distribution and retail. It does not matter how great your idea is, if it does not wind up in front of potential buyers, at a convenient time, attractive price, and presented in a way that they can understand the benefits of the invention, then it will not sell.

Therefore, you should think long and hard about how you can find and excite the right distribution and retail partners about your product. Therefore, we strongly recommend that you spend a considerable amount of time thinking about who has the right access to the ultimate buyers of your invention, and figuring out how to partner with these folks.

The Difference Between Customers and End Users

The people that you sell to are not necessarily the end users of the product itself. For instance, if you want to sell licenses to your invention, then your consumers are the licensees and what you are selling is licenses not products (or services). In turn, your licensees will sell the actual product or service to their customers, who may or may not be the end users.

Raising Money

Bringing an invention to market can be expensive. We strongly recommend that inventors recognize the potential costs upfront and try to find investors to share the burden. You may have to give up some of the pie, but that is better than retaining 100% of a pie that ends up worthless. In particular, good intellectual property protection (patents and designs especially) can be expensive, and yet it can be the difference between success and failure. Get help!

There are many ways to get investors involved with your invention, and you need not lose control. Of course, you need to leave enough on the table so that your investors can be properly rewarded for the risk that they are taking, but that does not mean that you will no longer also make money.

One of the most popular ways of raising money is to sell shares in a corporation that you have transferred the invention to. However, this is by no means the only way to raise money, and often is not the best. For instance, we are fans of 'royalty based repayments' of both principal and 'upside' for investors. Royalty-based agreements can, in some cases, be much simpler and easier to negotiate and monitor for both investors and inventors.

Remember: If you are raising money you must comply with applicable securities regulation. If you are going to raise money from investors, then you must get advice from a lawyer familiar with financing new ventures.

Some Cautionary Words About Invention brokers

Be very careful about most 'invention brokers'. There are a lot of people who pretend to be successful invention brokers, but there are very few ethical successful ones.

In our experience, a very large number of invention brokers are unscrupulous or simply not very good. These firms exist by charging inventors large fees (usually many smaller fees in small steps over time, and usually for such things as 'marketing materials' or 'presentation kits'). These firms rarely, if ever, make much money from successful brokerage of the invention to buyers.

In particular, if someone purports to broker inventions in all fields or a very wide range of fields then be very skeptical. Brokering requires expertise, contacts, and efforts, and no one can be good at everything and know everyone.

If you are going to engage an invention broker, we strongly recommend that you do extensive due diligence on them, that you ask a lot of questions, that you only work with someone with demonstrated expertise in the industry that your invention is in, and that you are very careful about paying fees upfront especially for things like 'marketing packages' before they present your invention to prospective buyers.

Branding, marketing and packaging

Inventing is important. But so too are many other aspects of business, and two aspects of business that many inventors do not consider enough are marketing and sales. No invention, no matter how great, sells itself. You must work hard to attract the attention of potential buyers (marketing) and then convince them to purchase (sales).

These principles apply regardless of whether you are trying to sell your products, or sell licenses or sell your invention. If you are trying to sell licenses, then you need to market and sell licenses – they will not sell themselves. Thus, even if you plan to license or sell your invention, you need to do market research to determine potential buyers, and then package, market, and sell the license or invention to the right buyers.