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Money is not the object

Service-oriented approach brings more deals and better relations with faculty

In a recent post written jointly by **R.F. (Rick) Shangraw Jr.**, senior vice president in the Office of Knowledge Enterprise Development at Arizona State University, and **Augustine Cheng**, the managing director and chief legal officer for Arizona Technology Enterprises at ASU, the co-authors laid out what they termed “a new prescription” for TTOs. Among their recommendations was the following: “Become a service to your faculty, and not a revenue machine.” Such an approach, they assert, will not only lead to more effective internal marketing with this all-important audience (and not coincidentally, better relations with industry) but it also has the potential, ironically, to *improve* financial performance.

“When you look at the numbers and do a straight financial analysis, the ability for us to predict revenue streams or count on them are relatively small; it’s virtually impossible to do on any systematic basis,” says Shangraw, noting the futility of aspiring to be a “revenue machine.” The approach he and Cheng take, instead, is to “go back to your roots” – to the core mission of the TTO and the university. And that, he says, is to transition technology out to the community.

“It’s all about flow, not revenue,” Shangraw asserts. “And you have to increase service to increase flow -- to get more technology out the door.”

Cheng uses a comparison with VCs to support his argument. “VCs, in a sense, do what TTOs do; they are given limited budgets and have to make investment decisions,” he explains. “However, VCs have a huge advantage; they are generally not looking at early stage research. TTOs have to look at *ideas* -- often the technology has not even gotten to the proof of concept stage. So, we have to provide service to faculty at a certain critical mass; we can’t

say we’re not going to file on *anything*.”

The history of VCs is similarly instructive, he continues. In the past, they had hoped to have maybe two “home runs” out of ten technologies. “Now, they’re lucky if they get one in 10, and they look at much more technology than we do,” Cheng observes. “What we should do is encourage deal flow -- tell the TTO to go for singles and doubles. If you have enough science that has commercial potential and you hit a lot them, at the end of the day you’ll increase the likelihood of getting revenues -- if that’s your goal.”

However, he adds, “if you set year-to-year goals you create the wrong incentive. You’ll have the TTO focusing too much on the ‘perfect’ deal, and they’ll spend up to 18 months trying to negotiate that perfect deal because they think that’s going to be your home run.”

Negative impact on faculty

Such an approach, notes Shangraw, is bound to have a negative impact on faculty relations. “You have to remember first of all that you have faculty researchers because they have an intellectual interest in advancing knowledge -- they’re not here because they think they’re going to make lots of money,” he says. “They come with a culture that says it’s important get their ideas out to the marketplace, and to train the next generation -- otherwise, they’d be in business.”

So from an internal marketing standpoint, he continues, “a TTO that’s mostly driven to make money becomes less appealing to the average faculty member. What they’re interested in is getting recognition for their ideas. Obviously, they want to make some money -- don’t get me wrong -- but if in the end that’s *all* they see, and they’ve not been

able to convey the importance of these inventions to the rest of the world, they tend to be turned off.”

“I completely agree,” says Cheng. “Many faculty members who engage with TTOs are fairly sophisticated now about the data; they read this stuff and realize you can’t make any money off [the home run approach]. If they see us trying to make a lot of money by negotiating things to death, they get turned off. Their attitude is: ‘I want to see my idea out in the marketplace impacting people, and you’re hoping for that very small, rare chance to make money -- and you’re spending too much time on this.’ What *we* would say is we’re much more interested in seeing impact from the research, which we hope will lead to economic development growth, and if there’s money down the road, good. That leads to better relationships with faculty and with industry.”

As an example, he points to one faculty member who is a vaccine researcher, and for whom the TTO has negotiated two deals recently. “They are happy with how we negotiate -- the speed and the terms -- and we’re in the process of negotiating a third one,” he notes, adding that the service-focused licensing approach also leads to repeat business with industry partners.

“If you follow the logic of what we’ve been talking about, the benefit is you will have more deal flow, and more of your inventions out in the marketplace,” says Shangraw. “Instead of a lucky few, hundreds will be out there. Faculty appreciates this, and it leads to a better financial platform; and having a larger portfolio out there has a much better impact in the marketplace.”

He continues: “The faculty members are in many respects their own independent businesses -- they run labs, they have students working for them, and so on,” Shangraw notes. “They appreciate having a resource on campus that helps them advance their research -- a service they can count on.”

Deals take weeks, not months

When it comes to acting like a service, Cheng explains, “in terms of metrics, we have in our minds that our critical objective when we commercialize is to move technology to the marketplace quickly, and at reasonable value.”

He relates a recent discussion with an individual who requested a meeting to see if she could approach her investors to fund development of a

technology she was interested in. “She wanted to know up front if the TTO would be an impediment,” Cheng recalls. “We laid out our exact approach -- provisions we generally see in our agreements, and the fact that what we are most interested in goes to service, and if she was interested in seeing impact from the research, this is what we could do.”

The discussion took 45 minutes, after which, says Cheng, she was convinced they were on the same page and that the TTO would not be limiting. “She said, ‘you understand what we do as a company,’” he relates.

Being able to do a deal quickly is what really resonates with faculty, Cheng continues. “They do not want us to spend a year or two getting their technology to market; they could just publish,” he explains. “Not all faculty, but many, want to actually see their research has yielded fruit and resulted in a product, a process or service and benefitted the public; they do not want us spending a year doing this.” Cheng says that so far this fiscal year, which began in July, six deals have been completed in life sciences alone. “We just did one with a major VC in California; an entrepreneur put in \$100,000 and got seed money of \$1.5 million -- and those discussions took three weeks from start to finish,” he reports.

“That’s sort of revolutionary,” Shangraw asserts. “Most of these things take six months at least. Augie now turns these deals in weeks and months.”

Shangraw says the biggest complaint he receives from faculty is that it takes too long to get their technology out to the world. “If Augie can reduce it to a matter of weeks I do not get those complaints,” he says. “They can then move on to the next invention, which is helpful to us, and he can move on to get the next deal done.”

Reasonable timing, reasonable value

Cheng says the key to streamlining the licensing process does not lie in a standard template or checklist. “The way we approach it is to look at every deal differently,” he says. “We examine its institutional value and conduct a risk assessment.” The way the TTO is now set up, he adds, if there is an impasse on a particular issue, the deal is immediately “kicked upstairs.”

“It does not stay at the technology licensing officer level,” Cheng notes. “I’ll kick it up to Rick

and we'll make a decision right away; it does not percolate for months -- we get it done in days or hours. This eliminates levels of bureaucracy."

Cheng says another key is that the TTO is focused on moving technology at a reasonable value, rather than maximizing revenues. "In a discussion yesterday, for example, I was asked what our royalty ranges were in the pharma space," he relates. "In the market, they can range from 1% all the way to 24% in the extreme. I pointed out that we were not looking for 24% at all. Our view is if this is a blockbuster for you, we'll start low, pay modestly a little more, and in the long run it pays off for the university -- and they agreed."

"Another key piece is that we embrace the fact that having the sponsor pay us additional money to do more research is often more valuable than the licensing stream," says Shangraw. "Most TTOs are not in the business of helping faculty get research support, but we've turned that around. The TTO is here to build these relationships with industry, and part of that is on front-end research. Our belief is that if we can get funding of \$400,000-\$500,000 for research it can far exceed what we get on the licensing revenue side."

"It's not written anywhere, but we are even more accommodating on license considerations where there is a relationship between the university and a company that is providing research funding," adds Cheng.

While there is no formal marketing program in place to inform faculty of this approach, Cheng emphasizes that "when we present to faculties, schools, and departments, this is the message we send. If you look at faculty engagement with our office I think [that message] is received. In terms of invention disclosures, last year we were probably in the top five in the country on a cost-adjusted basis, according to AUTM's figures."

"Our faculty has gotten the message because Augie's group goes out and talks with them, and

spends a lot of time with department heads and deans," adds Shangraw. "We see a great deal of invention behavior for a research operation of our size."

Administration support 'critical'

For any TTO determined to make a similar transformation, "it is critical to have the support of administration," says Cheng. "And we're not talking about support for a year or two, but long-term."

In many cases, he continues, that can be extremely difficult due to the turnover that often occurs among university presidents. "In addition, there has to be sufficient funding," Cheng says. "With one or two staffing the office there's only so much you can do, and it leads to unmet expectations. And then you have to do a lot of outreach to the faculty, to the deans, and to the chairs, because they are all businesses in their own right -- and we must do that in person."

Shangraw says that having the right TTO leadership is also critical, but no less so than having the right staff. "They have to embrace it," he says. "Let's assume you want to change; you have to look down deep within the organization to make sure you have the right support structure."

If the staff does not embrace the new approach, he says, changes have to be made. "You need the right type of people, and they need to give this approach more than lip service," Shangraw asserts. "A lot of these individuals have been around a long time, so changing the culture is important."

"You have to assess the staff within one, two, or three years at the longest, and ask yourself if this person is really accepting the mission," adds Cheng. "Or, are they spending a year to *negotiate* a mission?"

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