

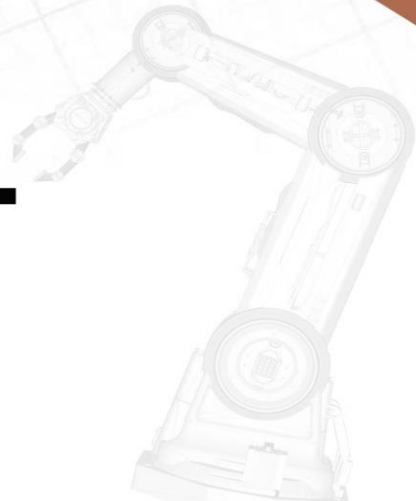


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# Having a Plan to Profit from Your Patent

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# Having a Plan to Profit from Your Patent

How To Make Money with, Profit from,  
and Recoup Your Patent Investment

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*“If you build a better mousetrap, the world will beat a path to your door.”* – Attributed to Ralph Waldo Emerson

If you want to profit from your patent and your invention, you need a strategy. Understanding “exchange of value” in business is critical. You need to create value from your invention so other people are begging to pay you for it.

The payment (the money) can come from direct customers who buy your invention. Another way to profit from your patent is to find other people who see a way to profit from your patent and invention.

Before we get started, have you heard the above quote before?

It can be very inspiring to people endeavoring to build the “better mousetrap” in their field. The problem is, just building the better mousetrap is not enough.

Let me explain...

## **The Biggest Issue Inventors Face**

The biggest issue inventors face is not getting a patent; it’s finding a way to monetize their patent. That is, how to make money with it, how to profit from your patent, and how to recoup your investment.

Why do they have a hard time monetizing? Easy... They think the “mousetrap quote” is true! They believe that once they have the idea, and protect it, the money will follow. As a result, they have no plan to monetize their invention, and they fail.

Most often, not having a plan won’t lead you to failure. Yet, it won’t lead you anywhere good, either.

I often say there is only one reason inventors fail: it’s because they stop. Until you stop or you give up, you haven’t failed. Without a plan, without a direction, it’s easy to get stuck. And once you get stuck, the only thing which will get you unstuck is something that indicates what to do next.

There is nothing more effective at shining the light on your next opportunity than a plan. Your plan acts as a compass to give you a sense of the direction you are headed.

The main lesson I want you to take away is ...

## **Your Patent Will NOT Monetize Itself**

The bad news is... Just because you come up with something new, and go through the process to patent your work, you are not guaranteed to make money.

It's a hard pill for some people to swallow.

No one will beat a path to your door and pay you for your patent like Emerson said. If you want to make money with your patent, you need to make a plan.

The good news is you don't need to reinvent the wheel to have a plan to profit from your patent. You can borrow from the approaches others have used to monetize their inventions.

Let's consider the different ways you can plan to monetize and profit from your patent... Regardless if it's a **design patent or utility patent**. Each monetization strategy has its own business model. Let's take a look at what makes a business model so you can begin to select one that fits your project.

## **Different Business Models You Can Use to Profit from Your Patent**

Your business model is the blueprint for your business. If your business were a machine, what would be the working parts and how would they connect?

Your business model is the plan that illustrates:

- Who your customers are,
- What it is you provide to your customers,

- How your customers pay you,
- How you deliver your product or service to them, and
- What it costs for you to deliver it.

Or, put another way, it is a plan for how you make money from a given product or service, or both.

Let's look at an example.

## **The Retail Store**

Consider the business model for a retail store. The model is simple; You buy products at wholesale prices, and then you sell them at retail prices to customers who visit your store.

Your profit is the difference between your revenue and your cost to deliver the product.

The revenue comes from product sales.

The main cost for delivering product sales include:

- Wholesale cost of the products,
- Costs associated with maintaining the store (including rent, utilities, etc.),
- Labor cost for people to work in the store, and
- Advertising (so the customers know what you're selling).

When you look at it this way, it makes sense, right?

## **The Online Store**

Let's consider another example. How about a business built around product sales generated on a website.

In its basic form, you still derive revenue from product sales.

The costs for delivery include:

- The cost to build and maintain the website,
- Wholesale cost of the products, and
- Shipping costs.

It's easy to see how a simple business model has a lot of room for creativity.

And then, consider this... even if you choose the online store business model, there's significant flexibility in that business model.

Here's what I mean...

Among other things, you might vary how you fulfill the product orders. You might, for example, maintain a warehouse. In this case, your costs will comprise of:

- Warehouse facility (including rent, utilities, etc.),
- Maintaining unsold inventory,
- Cost of warehouse labor,

... and so on.

## **The Drop Shipper**

You might also consider a model in which you don't maintain a warehouse. Instead, you have products "drop-shipped" from the manufacturer (or an order fulfillment company) to your customers.

In the latter case, you might pay a fixed amount to the order fulfillment company every time ships a product on your behalf.

When you are selling a small volume, this fixed cost may be cheaper than maintaining a warehouse. If you sell a lot of products, warehousing and shipping the products yourself may save you money in the long run.

## **Room for Creativity**

There is a lot of room for creativity in configuring the business model for your enterprise. These include:

- who your customers are,
- how you get your customers,
- what value (product/service) you provide to your customers,
- how you deliver the value you provide,
- how your customer pays,
- what business resources you need,
- what the main activities your business needs to perform “in house” are and which activities you will outsource to others,
- with whom your business needs to partner for the outsourced activities, and
- the costs of doing so.

This looks like a lot to consider, and how you fill in the blanks determines the model for how your business will operate—and how you’ll make money from your patent.

## **Comparing the Two Most Common Business Models Used by Successful Inventors**

Most often, when an inventor thinks of pursuing a new product idea, two business models come to mind: manufacturing and licensing.

### **Manufacturing**

Manufacturing is a simple business model. Any kid with a lemonade stand understands the manufacturing business model.



Here's how it works.

You or someone else makes the product, then you sell it at a higher cost. The difference between your cost to make it and what you sell it for is your profit.

Manufacturing a new invention requires you to get involved in every aspect of developing, manufacturing, and selling the product. In essence, you are starting a business. If you are not already in business, in the field of your invention, the major question to ask is, do you want to be?

## **Licensing**

Licensing as a business model is also simple.

Here's what you do.

Find someone who's willing to manufacture, market, distribute, and sell your product.

The advantage of licensing is huge. Someone else does everything needed for developing, manufacturing, and selling the product.

The main challenge with licensing is twofold. You have to first find someone who appreciates the value of your invention. Then that person, group, or business needs to be in a position to develop, manufacture, and sell it.

The video below focuses on manufacturing and licensing as a means to profit from your patent.

## **Levels of Risk**

Whether you choose to license or manufacture, you have a certain amount of responsibility for getting the product out there. There is also in a certain level of risk—and a different profit potential.

When you license your product, you take on very little risk. When you manufacture it, you assume a lot of risk. A few types of risk to consider are time, effort, and capital.

Consider a product which might sell for \$10 retail. The wholesale selling price would likely be about \$5, the manufacturing cost might be \$1.50. A reasonable royalty on such a product might be \$0.50.

As a result:

- If you licensed the product, you would make a reasonable royalty of \$0.50.
- If you manufactured the product, you would make the difference between the wholesale selling price of \$5 and the manufacturing cost of \$1.50. Thus, you would make \$3.50.

Compared to licensing, if you manufactured the product, you would make 7-times more!

And... you would also take on more responsibility and assume all the risk for the success or failure of the product.

## **Other Ways to Profit from Your Patent**

There are several other ways to make money and profit from your patent without manufacturing or selling a product.

### **Selling Outright**

Another way you can profit from your patent is to sell it. When you sell your patent, the entirety of rights get conveyed to a company or another person.

Like anything else, there is an upside and a downside.

First — The downside of selling your patent is the amount of money you can get for it. Patents alone are usually sold for a conservative (low) amount.

Here's why...

The purchaser knows he or she is assuming all the risks for whether the patent proves valuable. The purchaser takes on the risks associated with manufacturing and/or licensing. If the product fails, you're in the clear because you were already paid.

Now... the product could sell beyond all expectations. As the inventor who sold the patent, you will not get to share in any of the revenue from product sales.

The challenge with selling a patent is the value has to be very clear to the purchaser. That's why the opportunities to sell your patent outright may be few and far between.

Rather than paying you a sum of money up front to buy your patent, your prospective buyer has less risk if they license your patent from you. This allows them to reduce their risk. The benefit is you get paid a royalty for units sold. And... Depending on the terms of your agreement, you can also license to someone else.

## **Litigation**

Some companies build a business model based on litigation. They develop or acquire patents with the intention of bringing patent infringement lawsuits against others.

The company doesn't make products based on its patents; it uses them offensively. That's why companies like this are sometimes called "non-practicing entities," or NPEs. In recent years, it has become more difficult to win big judgments. As a result, the NPE business model becoming less viable, and fewer people are pursuing this model.

## **Aggregation**

Patents tend to be more valuable when they are part of a group of patents. That's why some companies go into business to create patent portfolios.

The company buys patents and aggregates them into a more valuable group.

Often, aggregators focus on a rather specific niche, such as telecommunications. Sometimes the aggregator will license the group of patents to many companies within the field as a defense against NPEs that might buy them and sue. Other times, the aggregator may sell the group of patents for a profit.

## **As a Defensive Strategy**

Sometimes the best way to profit from your patent is to use it as a bargaining chip.

Here's what I mean.

Some companies keep a portfolio of patents. This portfolio serves as a defensive tool when others within the industry assert their patents against your company. Even if you have no intention of suing others, when they happen to come knocking with their own lawsuit, the patents you own that they happen to infringe can be an effective bargaining chip for you... And serve to profit from your patent.

## **As Loan Collateral**

In recent years, creative financing options exist where you can use patents as collateral.

Sometimes the money can help a company finance operations and expansion. Other times companies use it to finance litigation.

This type of financing is less available for start-ups and for patents without proven value. If you're not there yet, it might be part of your monetization strategy down the road.

## **As an Exit Strategy**

Again, you might not intend to manufacture or license a product based on the patent.

A portfolio of patents related to you can increase the value of your company. When it's time to sell your company, a portfolio of patents can make your business even more valuable than if you didn't have one.

## **Building a Patent Portfolio**

Some of the approaches described above become easier, more viable, and more profitable when you own several patents, as opposed to one. A patent portfolio can be a great thing to have for several reasons:

- You can realize an income stream from licensing fees on more than one patent. It gives you a greater ability to “hedge”; as the revenue from one patent dies off, the revenue from another picks up.
- Should you decide to sell your company, a revenue-generating patent portfolio is an asset that adds to the company’s value.
- Having several patents tends to be much more valuable for licensing, and when litigating, than having a single patent.

You can create a patent portfolio by filing patent applications on different ideas and innovations within the same field.

Your patent portfolio can also stem from a single patent application, where later innovations are added as a continuation-in-part, and where multiple inventions from the original patent application lead to divisionals. For most companies, the patent portfolio will be a combination of the two: more than one patent “family,” with several patents that arose from each family.

## **More about Licensing to Profit from Your Patent**

The concept of patent licensing is simple: someone pays you to use your patent. The most typical arrangement involves the payment of royalties for each unit sold. In a standard licensing agreement, the arrangement is “non-exclusive.” This means that if you make a licensing deal with company A to pay you royalties for products it sells. At the same time, you can also make an agreement with company B to pay you royalties for products it sells.

Sometimes a company will want to be the only one who can sell your product. In such a case, the company would want to enter into an “exclusive” licensing agreement. In this case, the terms should be a little more favorable to you—as an incentive to make the agreement exclusive.

There are some risks to exclusive licensing agreements. The biggest risk is the company could decide to “shelf” the product—i.e., drops the ball in marketing or decides to not produce your product at all. If payment in the agreement is on units produced or sold, the company would have no obligation to pay you. Even worse, it could prevent you from manufacturing your and selling it yourself!

Generally, a good licensing agreement will provide a solution for this scenario. One possible solution could require a minimum royalty guarantee and a means for you to escape the contract if the minimum is not met. For these and other reasons, you should use caution before engaging in exclusive agreements. A skilled attorney will know how to cut your risk, and prevent you from getting stuck in a bad exclusive licensing arrangement.

Even with licensing as a business model, there is much room for variation to profit from your patent. If you are intent on licensing a single patent to a single company, it's simple. If you believe your technology might be licensed to many companies within an industry, or might concern many patents across several industries, then you must design and build a licensing company to achieve that.

## **Business Model Design**

Even within the two basic business models (licensing and manufacturing) there is still much more to figure out. This is your opportunity for creativity. Business model design is an activity worth investing time on. It gives you the opportunity to investigate different options for monetizing your invention and your patent.

Business model design is an examination of many ways to run a business and to make money with any business concept. I recommend you invest the time to research effective business models as you consider inventing and patenting. It's a great way to explore your options and to make the right plan for getting your idea out into the world.

## **The Business Model Canvas**

Over a million business model designers and business school students around the world use the Business Model Canvas to better understand, design, and revise business models. Alex Osterwalder and Yves Pigneur developed this tool. You can leverage the Business Model Canvas to build your plan to profit from your patent.

What makes it such an effective tool? It takes the concept of a business model and make it visual. Below is a blank Business Model Canvas.

# The Business Model Canvas

Designed For:		Designed By:		Date:
				Iteration:
<b>Key Partners</b> Who Are Our Key Partners? Who Are Our Key Suppliers? Which Key Resources Are We Acquiring From Partners? Which Key Activities Do Partners Perform?	<b>Key Activities</b> What Key Activities Do Our Value Propositions Require? Our Distribution Channels? Customer Relationships? Revenue Streams	<b>Value Propositions</b> What Value Do We Deliver To The Customer? Which One Of Our Customer's Problems Are We Helping To Solve? What Bundles Of Products And Services Are We Offering To Each Customer Segment? Which Customer Needs Are We Satisfying?	<b>Customer Relationships</b> What Type Of Relationship Does Each Of Our Customer Segments Expect Us To Establish And Maintain With Them? Which Ones Have We Established? How Are They Integrated With The Rest Of Our Business Model? How Costly Are They?	<b>Customer Segments</b> For Whom Are We Creating Value? Who Are Our Most Important Customers?
	<b>Key Resources</b> What Key Resources Do Our Value Propositions Require? Our Distribution Channels? Customer Relationships? Revenue Streams?		<b>Channels</b> Through Which Channels Do Our Customer Segments Want To Be Reached? How Are We Reaching Them Now? How Are Our Channels Integrated? Which Ones Work Best? Which Ones Are Most Cost-efficient? How Are We Integrating Them With Customer Routines?	
<b>Cost Structure</b> What Are The Most Important Costs Inherent In Our Business Model? Which Key Resources Are Most Expensive? Which Key Activities Are Most Expensive?		<b>Revenue Streams</b> For What Value Are Our Customers Really Willing To Pay? For What Do They Currently Pay? How Are They Currently Paying? How Would They Prefer To Pay? How Much Does Each Revenue Stream Contribute To Overall Revenues?		

[www.businessmodelgeneration.com](http://www.businessmodelgeneration.com)

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Here's how it works.

The nine spaces on the canvas represent the key elements of a business model. These spaces provide room for brainstorming different possibilities. You can download and print your own version from the Strategyzer AG website. Put down ideas using self-stick notes, discuss them with others. Then move them around to try different possibilities.

It's important everyone involved in a business understands how the business operates. It's also important they, as individuals, are contributing to its success. It might be surprising to know... it's rare that any two people in an organization have the same understanding of the business model. While the concepts that make up the business model get discussed back and forth by executives and their employees... or by entrepreneurs and their venture capitalists.

These conversations take place in a piecemeal fashion... without structure. When you make it visual with the Business Model Canvas, something magical happens. All of a sudden, everyone working together is on the same page about what makes the business model tick.

If you are committed to having a well-thought-out business model strategy that is fully understood by you and the people you are working with, I recommend you to check out the [“Business Model Canvas” at the Strategyzer AG website](#), or read their book, Business Model Generation.

## Summary

The only reason inventors like you can fail to profit from your patent is because you stop. Until you stop, you have not failed!

You want direction, and to minimize the amount of time lost when you get stuck. That’s why you need a plan. I urge you to develop a plan to monetize your invention and profit from your patent.

If you are a business minded entrepreneur who wants to build a patent portfolio to increase your valuation, [click here to schedule your complimentary Patent Strategy Call Now >>](#)



**ARE YOU A BUSINESS MINDED ENTREPRENEUR?**

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