

## LICENCE, DESIGN AND MARKETING EXPERIENCE RELATING TO A PRODUCT OR PROCESS

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### **Abstract**

*Contracting a licence is buying or selling contract of technology, design and marketing experience relating to a product or process, and involves the contracting of knowledge and know-how. The granting of an international licence takes place when a company provides, in return for a fee or royalties, technology needed by another firm to run business operations on a foreign market. When in this form, the granting of the licence requires at least one of the following items: a brand name; operating experience; manufacturing technology; access to patents and trade secrets/industrial. Company that grants the licence get access on a foreign market with very low investment and, in many cases, the benefits of investment and market knowledge of a competent local firms. The company that received the licence get access to foreign technology, with a very small investment. There are several very obvious advantages of activity under the license on international markets. The granting of a licence can improve cash flow situation for the company that attaches. Because the license on technology allows companies to bring products to market faster, the company enjoys early advantage of a positive balance of cash flow. In addition, obtaining a license means lower development costs. The licensed activity may mean fewer profits in the long run. Immediate benefits of easy access to new technology, lower costs and the development of an early cash flow are attractive advantages of contracting a licence.*

**Key words:** Licence, design, product, process, foreign market,

**JEL classification:** L11, L14,L17

### **1. Introduction**

By licensing avoids the risks inherent in the development of products or market, exploiting the experience of companies that have already developed the product and have it placed on the market [1]. It also provides a useful tool for the internationalization of small firms, which might not hold sufficient capital or experience abroad to set up a joint venture or a subsidiary of its own. This solution has the advantage that it reduces the company's exposure to financial risk, because the investment in fixed assets is reduced to a minimum, thanks to the use of existing investments of another company [2].

The cost of the transfer of technology is often cited as an impediment in the way of such initiatives. The determining factor of control structures for the transfer of know-how should be criteria based on the minimization of transaction costs. With higher possibility of transferring technology in coded form or in the form of plans, with both decreases the cost of one [3]. Necedificate or tacit knowledge requires direct communication, face-to-face, for the success of the transmission, so the transfer becomes slow and costly. Here is one of the major benefits of granting of licenses: knowledge transfer costs are relatively low [4].

### **2. License contracts**

The granting of an international licence can be attractive where:

- The host country apply restrictions on imports or foreign inventions; where the foreign market is small;
- There are serious technological feedback perspectives;
- The technological change is so rapid that the granting the license remains superior in this regard;

- There are possibilities for the granting of the licence for ancillary processes, without the need of a license on the fundamental product technologies.

In general, license contracts fall into two categories: the license for the current technology, giving the company access to technology which possess firm granting the license at the time of conclusion of the contract; the license for the current and future technology, giving the company access to which, the duration of validity of the contract, the technology created by the company granting the licence in a field of the specified product.

License agreements differs depending on the circumstances but normally contain aspects of technical, organisational and commercial, in addition to the patented technology which is the subject of the transfer [8].

Licensing Forms: in international practice are found several types of licensing that bring advantages and disadvantages both Licensor and you a non-exclusive License licensor assume continuing to use the patent, as well as to grant other parties. This form of licensing has two variants:

1) A non-exclusive License, involves keeping the right to use the licensor's patent, and to grant other parties. This form of licensing has two variants:

- anon-exclusive License, whereby the manufacturer gives the license to a single beneficiary;
- non-collective License, by which the right to use a patent is granted to several companies at the same time.

2) Exclusive License, Licensor waives the exclusive to both the right to use the patent himself, as well as to the right to transmit it to other companies in the country of the beneficiary. Exclusive licensing depends on penetration and strategy of negotiation power of the licensor.

By concluding contracts for the exclusive license shall follow the exclusion of competitors in the field to which the patent relates. Exclusive license is found in two variants:

- exclusive full License, which requires final disposal of the patent by the beneficiary, the latter gaining the right to transfer him to third companies;
- exclusive limited License, which means that the licensor owns the patent exclusivity, the beneficiary being subjected to restrictions in its use. Exclusive limited licensing does not preclude export of the beneficiary towards third countries.

More and more companies from various parts of the world work together for the development of new technologies. Many Japanese companies, European and American were United to exploit and technological advances, not only manufacturing and marketing capabilities [5].

They have done this through the conclusion of license agreements involving transregional alliances with companies acting outside their domestic markets. The managers of the companies granted licenses are more inclined to be an international orientation, to know better the activities conducted by other licensed firms imported and have more modest perceptions about licensing costs.

These firms have also developed a more acute perception of general competition in the market, than those who do not carry out activities under the licence [6].

Advantages of granting of licenses:

- Access to difficult markets;
- Low risk of investment capital and low grade of employment resources;
- Information about product performance and activities of competitors on different markets, at modest cost;
- Higher levels of delivery and serving local markets;
- Disadvantages of granting a licence;
- Disclosure of competitive knowledge and experience accumulated over time;
- May create future competitors;
- Cannot control the operations of the holder of the licence;
- Passive interaction with the market;
- Exclusion of export markets;
- Organize marketing operations of the license: the cost of adaptation, transfer and control.

There are a number of disadvantages. There are needed a whole series of permits necessary for the success of a license agreement (see section relating to negotiation and contracts).

The company that awarded the license must hold exclusive property rights and easily transferrable over technology product or process which is the subject of the license.

Also must be able to be identified benefits associated with the license, including the license for the partner business [7]. The company that awarded the license should have the possibility to control the operation of the licence, including the geographical area in which it is to be applied.

At the same time, the company holding the license must have reached a level of technical proficiency high enough to be able to apply that technology in production and marketing activity.

### 3. Licence bid packages

Licence bid packages contain, in general, the items in the following categories:

- patents, designs, trademarks, copyrights, drawings and product specifications process;
- manufactures quality control;
- technology boards and instruction manuals;
- the authorization of security performance;
- training programs, technical and commercial;
- product documentation and other auxiliary materials.

Monitoring and sanctioning for violation of a license agreement is a difficult task. The difficulties begin in the period before signing the contract, you have kept a balance between maintaining the interest of potential partner awake and not to divulge too much information, in the event that negotiations fail.

Some technologies are very concise and full license may depend on the disclosure of a project or new trial: a problem of disclosure of data, which can sometimes result in the establishment of a new international firms [9].

Transaction license form is fairly well established and proposes a combination of the following elements or the other:

- a down payment paid at the time of issuance of the written documentation technology;
- interim payments until the time when one or more of the products in accordance with the performance specifications of the company granting the licence;
- redevența a minimum guarantee for the company granting the license that will charge at least some annual revenue;
- redevența current-usually expressed as a percentage of the normal price for sale or as the fixed amount of money for product units made.
- There are several reasons that could cause a company to attempt acquiring technology or know-how through a licence.

A firm from a branch of high technology, which lacks the necessary resources for research and development, you might not have another solution than the licensed activity. In branches where technology is advancing rapidly, for some firms would be maybe wiser to think about licenses. Obtaining licenses is particularly important in the context of diversification strategies, where there can be new markets than by buying not only the product, but technology and know-how of production and marketing.

- There are several technological reasons that could cause a company to consider the granting of licenses to enter a foreign market. In the case of low value bulky or heavy, shipping costs may prove large enough to make exports prohibitively expensive. Sometimes, it takes a local manufacturer with knowledge about the product — especially when you require the installation and maintenance operations-repairs. In such situations, it is unlikely that an agent can provide the necessary support.
- Often, you can get to a complementary arrangement, under which the company granting the license to export a component of high technology, and licensee shall ensure aggregates, frames, stands and enclosures less important. This arrangement resembles more to contract for joint production.
- There are territorial grounds which could make from licensing an attractive means of entry to foreign markets. Few companies have sales force necessary to cover vast geographical markets in many different countries, nor does it have sufficient production capacity to serve both markets. Therefore, where the market is large, the granting of licenses to partners can be an appealing variant. In addition, governments in developing countries apply import restrictions or frequently give preference to local firms, both situations by encouraging local production. In such circumstances, the granting of licenses can be the middle according to market.
- Financial considerations may represent an important determining factor for small firms that possess advanced technology. In such a situation, the granting of licenses you may open the way to foreign markets from which it would be impossible to reach otherwise. Small and medium companies that are trying to expand and grow is faced with problems of liquidity and cash flow.

But being that income from license agreements is largely pure profit that requires little additional investment, licensing in the case of these firms may speed up cash entries from new foreign markets. When you are running successfully, licensing on many international markets of products can be relatively easy and profitable.

#### 4. Conclusions

Sometimes, the companies oppose the idea to grant licenses on its own technology. Typically, opposition to the granting of a licence has as main reason detaining in divulging knowledge accumulated and experience which came with much effort. This restraint has its roots in the event that the company has to discover subsequently that must compete with cheaper versions or improved information of our products. Other reasons for the decision not to enter into contracts of licenses would be unable to control actual operations conducted under license, risk blocking the export zones, doubts regarding the suitability and transferable technology and difficulties of organizing the licensed operations within traditional production-oriented companies.

The essential premise of success in contracting license is the existence of an organizational climate conducive to international activity. In many cases, prefers the establishment of a separate compartment of contracting licenses, however small, under the leadership of a director, so that you can clearly see that this task has a certain status, both in front of the people of the company granting the license, and the company holding the license.

Most packages offer a license agreement consist of know-how in private ownership and proprietary products or processes described thoroughly. Know the patented know-how is based mainly on secrecy in the company granting the license and represents a contractual obligation to the beneficiary company of the licence. Patented products and processes they enjoy, to some extent, additional legal protection and limited monopoly rights.

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