

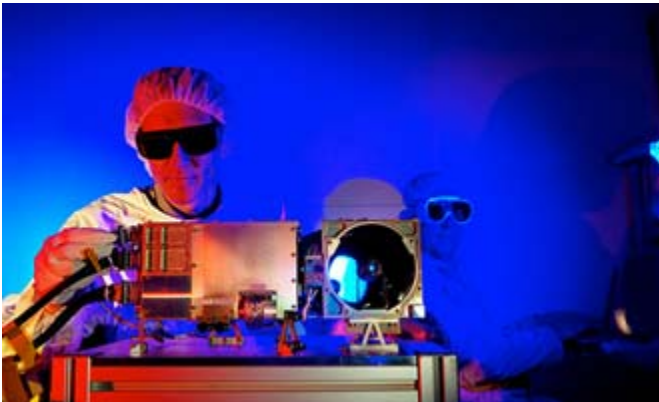
Capitalizing on R&D

Some companies are finding new uses for internally developed technologies they have sitting on the shelf.

[Marielle Segarra](#)

Large companies invest a lot of money in research and development, often in the hopes of developing a new product line or technology. [Global R&D spending](#) is projected to total \$1.5 trillion this year, up 3.7 percent from 2012, according to [R&D Magazine](#). But not all projects yield new product lines or technologies that fit with company strategy. With budgets tight, what are companies doing to capitalize on their research?

Twenty five years ago, the answer to that question was different, says Robert Gerstein, partner at Marshall Gerstein and Borun. Back then, if an R&D project did not pan out, “it was garbage, essentially. They didn’t do anything with it,” says Gerstein. “There was obviously a big disincentive to spending research and development dollars where they weren’t going to get used.”



These days, companies often license, sell or spin off (into a new startup) technologies and patents they would once have left sitting on the shelf. In the spin-off process, the parent company might choose an internal researcher to lead the project. Typically, it would own at least a minority stake in the new firm. “There are definitely a lot of companies that recognized they had all this [intellectual property] they weren’t using and found out there was a value to it,” he says. Some companies have even made R&D spin-offs part of their business model and will “patent anything they see a potential market for, even if it’s not a market that they are going to participate in,”

Gerstein says.

Stephen Socolof, managing partner at [New Venture Partners](#), works with companies to license and spin out technologies they have developed internally. As one example, in 2006, the venture capital firm partnered with Intel to spin out GainSpan, a WiFi sensor manufacturer that started shipping its products in 2008 and secured \$20 million in Series B financing the following year.

More recently, New Venture worked with Unilever to spin off patents for natural beauty care products that the company developed through R&D. In that case, Unilever used the spin-off option to explore a new market (natural skin care) while avoiding the hassle and cost of launching a new product line internally. It licensed its technology, made several follow-on investments, and offered support to the new startup, Own Products. It now own a minority stake in Own.

Indeed, spinning off shelved technologies can allow companies to test a market before making a bigger commitment to a certain type of product, Socolof says. It can also help them “get to know a market that isn’t core, but could have implications for their ecosystem,” like Intel did with Gainspan, he says.

Spinning off a technology may give a particular product a boost, allowing it to develop to a scale that the parent company can’t achieve on its own, he says. For example, New Venture Partners worked with Freescale, a semiconductor manufacturer, to form Everspin, a magnetic RAM (random access memory) supplier. “Freescale has

some interest in using some of the Everspin memory technology, but they didn't want to invest in building a memory business," says Socolof.

Companies that offer their researchers positions at the new firm may also get a leg up in the talent war because they are giving their employees an outlet to pursue their passions, Socolof says.

Of course, there are a number of considerations for companies deciding whether to spin out patents or keep them on the shelf. For one, they must choose whether to license those technologies, sell them to an existing firm, or create a startup to grow them.

Keeping a patent or technology in-house and licensing it out to other companies might be simpler from an accounting perspective, says John Pennett, partner in charge of life sciences and technology at accounting firm EisnerAmper. "You're dealing with a single entity, so you can manage it and control it a little better," Pennett says. United States generally accepted accounting principles also require companies to consolidate spun-out firms on their financial statements under certain conditions (for instance, if they are still funding the spin-out).

There are potential downsides to taking a technology off the shelf at all. For one, a company might undercut its own business by licensing a patent to its competitors or establishing a startup that could cut into its future profits.

"Patents allow you to exclude your competitors from doing whatever the patent covers and thereby get a higher profit margin," says Gerstein. If companies license, sell or spin out their patents, they could end up cannibalizing their own profits.

But if a company does not anticipate coming up with a competing product in the future, there is little cost to spinning off a shelved technology, Gerstein says. "They have sunk development costs and they're trying to recoup those. It's a way of taking an asset that's unused and putting it to use. In almost all cases, [spinning it off or licensing it] is certainly better for them than just letting it die on the shelf," he says.

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