

Reaching across the table

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Locking in a potential partner and executing a license for development and commercialization requires honed negotiation skills. Here's how not to blink.

We have helped countless new biotech companies onto a commercial trajectory through out-licensing agreements. Each potential licensee is different, and as a particular technology progresses through development, the wants and needs of each party will change. Settling the finer points of any deal depends on negotiating. After all, whether you are a startup or this is your first license, the terms of the agreement, both financial and nonfinancial, coupled with the eventual success or failure of the licensed technology could have a far greater impact on you than on the established company across the table. Even though you both want the same thing—the framework for a successful partnership—you need to be firm and resolute on the issues that matter most to you. Be assured that the team across from you will do the same.

In the following article, we describe the major factors you should consider when entering into a negotiation. We provide some specific advice to biotech companies for entering a negotiation and also some general tips for enhancing success (**Box 1**).

Preparing for the deal

Before you start any negotiation, you should have already considered at least three aspects: your overall business goals, your objectives for the first round of the negotiation and the manner in which you plan to approach achieving your goals and objectives. Before each round of negotiation, consider who is the best indi-

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Box 1 Some common factors for success

Certain general behaviors in a negotiation lead more often than not to a greater chance of success. These are the following:

- Offer solutions for compromise that allow the other side to 'save face.'
- Maintain a trade-off list to ensure you capture value for your concessions.
- Keep up the momentum. For example, shelve sticking points to return to later and pause briefly following a concession so the effect can be considered.
- Do not waste time on nonsense, whether caused by behavior or less substantive issues in the negotiation.
- Do not be afraid to be silent, take a break or stop the negotiation.

vidual in your organization to negotiate the distinctions on the business side and whether that is the same person who would be the most successful negotiator on the legal side. If this talent does not reside within your startup company's management, you may choose to partner with outside legal or financial counsel to improve the negotiation team.

Whether the team is internal or includes external support, it is important to have a discussion before the negotiation about the issues each member should cover and each team member's role. For example, if the negotiation is not progressing as desired, who on the team decides whether to continue the negotiation or set that issue aside? What tone and approach should be used to address resistance in the negotiation? As a startup, it may feel as if walking away from a negotiation will be fatal to the viability of achieving your overall business goals, but often it is not. It is important to understand your best alternative to a negotiated agreement (BATNA)¹ before you approach the negotiation.

Preparing your side for the negotiation includes reflecting on what the other side needs and wants. For example, you will want to research the other side's business model, how your intellectual property (IP) assets fit with their business and what they may see as the

benefit of the licensing agreement. You will be more persuasive in the negotiation if you are armed with facts that support your terms and align with their business model. Although it may be difficult, it is also worth investigating their company's approach to negotiations and who will represent them in the negotiation. You should do this because commonality may be found on nonsubstantive points through the use of relationship skills, which are discussed below.

Process

Before commencing any negotiation, whether in person or on the phone, establish an agenda so that each party hears what the other party wants to accomplish. This can be done before the negotiation through an informal e-mail exchange and it is advisable because it will facilitate your own preparation. Also, immediately before the discussions begin you should ask whether there are any changes to the proposed agenda to draw out any unknown time constraints.

Why is this important? Negotiating under an agreed process allows you to proceed through the negotiation in a logical manner and begins the process of building rapport, which is critical to the successful implementation of the agreement. In addition, you may also gain information that enables you to assess

Box 2 Royalty rate

Imagine a conversation over royalty rates in which you are licensing a technology. It might go something like this:

The licensee says, “We think your proposed royalty rate is too high based on the stage of development of this therapeutic. This is not consistent with how the marketplace is valuing these opportunities. Can you do any better?”

“We have some flexibility in how we structure the financial components of this deal and would welcome you providing us with a counterproposal for our consideration,” you respond. “We would be interested in knowing the comparables you are using to support your conclusion that we are overvaluing this asset.”

Always be prepared to ask for the data that support the other party’s assertions. You may not get it, but many times people will share their assumptions, and that way you can see if the parties are valuing the opportunity in the same way. In the conversation above, the licensor is also being asked by the licensee to negotiate against him- or herself. Do not be drawn into this situation. Your attorney should be mindful to avoid a situation in which his or her response could be considered puffery. In the example above, you have effectively put the ball back in the court of the licensee and shown a willingness to cooperate by acknowledging flexibility.

the other side’s team. For example, who will be leading the negotiation, what is their tone and approach, and does it appear that they have the authority to make decisions? You gain useful insight into who holds the power on the other side’s team; this is important because power affects the negotiation.

Know and use your power

Several forms of power are at play in a negotiation. For example, there is the ‘actual’ power of the parties and the negotiators, due at least in part to the assets each has to contribute to the transaction and their role in the marketplace and/or organization. There is also ‘perceived’ power from valuing intrinsic attributes of association and personality. Then there is ‘earned’ power, achieved through a team member’s adept application of knowledge as the negotiation progresses and his or her ability to suggest solutions to sticking points that arise during the deliberations.

Another type of power that may be involved is ‘situational’ power; this is unique to the circumstances of the particular transaction at the center of the discussion. For example, is there a need to out-license the IP because the startup company is running out of money, or is the transaction being driven by compelling phase 3 data and an imminent regulatory approval?

Each of the above situations represents power in the negotiation. The ability to identify and effectively use power in the negotiation is a skill you will want to develop.

Use your style effectively

The style of each participant will also impact the tone and progress of the negotiation. You will be more successful if you are aware of your negotiation style and have the skills to identify and accommodate the styles of others.

To learn about negotiation styles and discover yours, you can take the Negotiation Styles Quiz provided at <http://www.akina.biz>.

Follow a logical approach

The order in which issues are negotiated often affects the results. Consider starting the negotiation with the scope of rights, then moving on to the consideration (financial and nonfinancial) and ending with risk management. This stepwise approach provides the negotiation team with the information they need to assess their position as the issues build in the agreement. For example, it is difficult to know what the royalty rate should be (**Box 2**) until you know the product or service, the field of use and the scope of IP rights included in the license.

The scope of rights. Some initial questions to consider are whether the grant of the license is solely to IP (patents, copyright, etc.). If IP is patents, which specific applications and/or patents are you licensing? Are you including rights to both domestic and foreign patents? Do you plan to include rights to all continuing applications, including continuations in part? You may also agree to grant rights to intangible property or technical information that is necessary for development of the technology by the licensee, and it is important to understand whether you intend to do this early in the process. Establish whether the parties are looking for an exclusive or nonexclusive arrangement and determine the appropriate field of use.

The consideration. Once you understand the scope of rights to be granted under the license agreement, you can begin to negotiate the consideration. The financial structure of a license can take many forms depending on the scope of rights and the requirements of the respective parties. For now, we’ll assume the license is royalty bearing. Although determining the percentage of the royalty is critical, it is important to reach agreement on the royalty base. One component here is settling an appropriate definition of a

Box 3 Negotiate your risk

Risk can take many forms in a license negotiation. In the following example, imagine that you hold a technology available for license and are involved in a discussion with a potential licensee over the scope of the representation and warranty regarding ownership of your patents to be licensed.

The licensee leans forward and says, “The agreement must include the standard representation and warranty that you own the licensed patents.” You remain silent, for what seems a long time, and the licensee jumps in with, “You know, the standard statement.”

You still say nothing. The licensee is getting visibly agitated and lashes out with, “We are paying a lot of money for this license, and you have to put that statement in.”

Without addressing the link between the issue and value, you look the licensee in the eye and respond in a slightly enthusiastic

manner, “We can accommodate your desire for a representation by saying that we hold assignments from the inventors and cannot offer a warranty because of state law 55.”

In this exchange, the body language and tone of licensee showed the importance of the issue and discomfort the licensee felt with regard to your silence. Your use of silence escalated the emotions of licensee, but you were able to counter the licensee’s increasingly aggressive demeanor and diffuse the tension by offering a compromise that articulated a rationale. If you had not explained the legal limitations constraining your flexibility, the issue may have exploded in an unproductive manner. Both sides used their negotiation power. The licensee reminded you of its ‘actual’ power (payment), important in a license negotiation, and you countered with ‘situational’ power, the laws of the state in which your business is based (often an effective tactic).

'net sale'—typically defined as the gross sale price of a particular product or service with certain permitted deductions, such as the costs included in the sale price that are associated with shipping and handling or applied taxes.

What additional deductions may be applied to the base royalty rate? It may be reasonable for the royalty rate to be reduced if rights to third-party IP are required for the manufacture or sale of the licensed product. What if the licensed product is sold in conjunction with other technology—should the same royalty rate apply? Understanding these variables *at the time that the royalty rate is negotiated* will decrease the likelihood of there being misunderstandings between the parties as the negotiation progresses from early discussions to a draft agreement (Box 2).

Risk management. Once the scope of IP is known, you can assess the representations and warranties, and liability and insurance terms appropriate for the IP involved. The level of risk taken in providing these assurances is also influenced by the financial terms. The more consideration paid, the greater the licensee's desire will be to ensure that it gets the rights it is promised, or, if it does not, that it has the ability to rescind the agreement for breach of a representation or warranty (Box 3).

As with any negotiation, unresolved matters may cloud things and emotions can run high, causing the negotiation to turn into a power struggle. There are ways to alleviate that, too (Box 4).

Body language

While you are focusing on the substance, do not undervalue your body language. Body language affects your credibility, which

Box 4 Power play

Suppose a risk management negotiation has turned a little testy and a power struggle emerges. Following on Box 3, the negotiation continues, with the licensee responding, "That's not good enough. We need a full representation and warranty regarding title, and we can qualify it to the extent you are permitted by law."

You then respond firmly, "What I offered is our policy, and it works for everyone else." "Well, they must not know what they are doing," the licensee quickly retorts. "Listen, this may not be an issue you can negotiate, so who can I talk to that has the authority to negotiate this issue?"

As you want to be helpful, you reply, "That's the general counsel; I'll forward your request today, but I have to tell you, we will never meet our signing deadline if we have to bring the general counsel in to negotiate."

"I understand that's your perspective; let's move on to the next section," says the licensee.

In this exchange, you indicated that you are not authorized to negotiate an issue (a common negotiation tactic). The licensee tried to keep up the momentum of the negotiation by suggesting a way forward. Planning for these common negotiation tactics will help keep the nonsense, such as deflecting the issue for lack of authority, to a minimum. Both you and the licensee also made subtle adjustments to your negotiation styles to communicate more effectively with each other.

affects your success. If negotiating in person, use open positioning and a calm, resting facial expression; lean forward when listening to show respect and focus. Whether negotiating in person or on the telephone, beware of inappropriate tone and cultural differences.

Take notes on key points but not at the expense of listening for changes in tone and observing their nonverbal behavior. In addition to guiding you through a successful negotiation, this attention will help establish an authentic relationship with the licensee.

Conclusions

These tips will help you handle the stresses that can arise in negotiation. Remember, it is a small world, and your reputation is important.

Beyond the product or technology you have to offer, you also have the manner in which you conduct your business. The biotech industry is fairly fluid, and people talk—you do not want to be known as a company that is unreasonable or difficult to deal with. Conduct yourself accordingly in the negotiation and you will have success, if not in that agreement, then in another. **16**

1. Fisher, R. *et al.* *Getting to Yes: Negotiating Agreement without Giving*. 2nd Edn, Ch. 6, 97–106 (Penguin Group, 1991).

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