THE WALL STREET JOURNAL.
JOURNAL REPORTS
September 30, 2013
Page R1

You Have a Great Idea. Now What Do You Do?

Many people have no desire to start a business, but they want to make money from their inspiration. Here are some options for doing just that.

By NEIL PARMAR

Want to know a couple of secrets?

You don't have to be an entrepreneur to have a great idea for a business. And you don't need to start a business to profit from a great idea.

Inspiration can strike anybody—it happens all the time. Someone is struggling with a chore around the house and thinks of a gadget that would be a big help. Or maybe they're rooting around for obscure information online and realize an app could automate the job.

The next step is launching a startup, right? Not necessarily.

There are lots of options for people who have a great idea but don't want to take on the burdens of starting and running a company. Whether they want an immediate payday or recurring income, whether they want to sign away their idea outright or keep a firm hand on it, there are steps they can take that are a lot simpler and less daunting than becoming a full-blown entrepreneur.

Here are some of those steps.

Taking a Quick Payoff

It's about the simplest setup possible: Someone signs over all the rights to an idea, gets a check and enjoys the payout. This option can be appealing to somebody who's pursuing a rewarding full-time job and doesn't want to give it up. Perhaps also for someone looking for a quick cash infusion without any headaches—money to tide them over while looking for work, for instance, or a beefed-up nest egg for an early retirement.

Before doing anything, though, inventors should seek intellectual-property protection, like a patent. In fact, that advice holds true for any situation where someone is shopping an idea around. Without it, a potential buyer might swipe the concept, warns Elle Kaplan, chief executive and founding partner of wealth-management firm Lexion Capital Management in New York City. Asking a suitor to sign a nondisclosure agreement before making a pitch can help, though some companies—like food manufacturers—tend not to ink those deals because they see so many similar products.

It also helps to bolster the case—and potentially increase the sale price—by preparing a prototype or presenting evidence that shows consumer demand. Survey data helps, though letters of intent from potential consumers are significantly better. "Research is one thing, but there's nothing like a customer order," says John McAdam, an author from Lambertville, N.J., and an instructor at the University of Pennsylvania's Wharton Small Business Development Center.

As for finding buyers, a good way to start is to investigate the market leaders in the industry. People can go to company websites and look for press releases or other material that describe outside products or entrepreneurial ideas they've purchased. In recent years, many big businesses have snapped up inventions from third parties to bolster their innovation efforts. Alumni associations, professional groups and contacts from trade shows can help make an introduction.

For people in academia, meanwhile, universities often have a technology-transfer office, which keeps in touch with venture capitalists about business-worthy patents that staffers develop. Bear in mind that these offices may want the *school* to hold the patent, not the creator—so they would end up taking a big cut of the payout.

And there are other caveats for any creators to remember. Approaching multiple companies in the hopes of striking a deal may backfire, since buyers want exclusivity. And if the creator has a day job, the employer may hold rights to the idea if it's in their field and if the inventor worked on it during business hours, says Steve Faktor, founder and chief executive of IdeaFaktory, an accelerated-growth and innovation consultancy in New York City. Companies often wink at employees in these situations because they don't want to be seen as villains, but there's no way to be sure.

There are also psychological questions to think about. If an idea gets rejected again and again, or if the sale price is skimpier than expected, inventors may end up resentful about the whole experience. On the other hand, inventors may feel remorse if the idea turns out to be a eureka startup and they get shut out of the glory.

Signing On for Steady Income

But maybe a quick payoff is *too* quick. Say an inventor has come up with an idea that seems destined to have a long shelf life—a kitchen utensil, for instance, versus something tightly tied to a trend, like a mobile app or fashion accessory. So, the creator wants to get a permanent cut of the sales instead of just a single check.

That means licensing the idea instead of selling it outright. Usually, the inventor will get a smaller initial payment than a straight-up sale and then 5% to 15% from each product sold.

John Janning of Bellbrook, Ohio, took this approach. When his wife asked him to find the bad bulb in a string of Christmas-tree lights, inspiration struck and he came up with a way to keep tree lights lit even if one burned out. Mr. Janning, a retired engineer who holds dozens of patents, thought the idea had a lot of potential but "I'm not a marketing guy—that's not my forte." So, after getting a patent for his lights, he researched manufacturers and found one that was willing to mass-produce his product and sell it. The terms: $50,000 upfront, plus a royalty of 5% on future sales.

As with an outright sale, inventors can check out potential suitors online, and those in academia can turn to their school's technology-transfer office. There are also middleman consulting firms that can make introductions to manufacturers, says Ms. Kaplan of Lexion Capital Management.

Most of the caveats about outright sales apply here, too, and there's something else to bear in mind: Some companies include a "best efforts" clause in their licensing agreements, noting that they'll try to sell as many products as possible. But some companies may interpret that very loosely—if not ignore it altogether. Bruce Bachenheimer, a clinical professor of management and director of the Entrepreneurship Lab at Pace University, gives an example from the gem industry. A conglomerate, he says, may seem keen to license a device that can transform carbon into diamonds—and agree to pay $1,000 for every carat produced. Yet they may take the agreement, "file that in a drawer and never produce a single carat," he says. "They want to control supply."

One way for inventors to stay safe: Make sure the license agreement specifies a minimum level of production, and that the company will deliver regular copies of sales reports to ensure royalties are being calculated correctly.

Keeping Long-Term Ties

In some cases, people can't follow up on an idea themselves but want to stay involved with it, beyond getting a regular royalty check. Often they want to have a strong advisory role, with influence on things like how the product is priced or how the brand should grow.

In these situations, there are a couple of broad strategies that people can pursue. First, they could find partners, or an existing company, to link up with. The partners provide the funding for the venture and manage the daily operations, while the creator sticks to the big picture.

Of course, there's a trade-off here. Since the creators aren't putting up any money to get the business going, they might have to skip an upfront payment and consider it the cost of getting a stake and continuing role. At the start, they can also expect to spend more time assisting with everyday things like recruiting efforts and ensuring their patents are correctly filed before moving into a behind-the-scenes role.

What's more, inventors who go this route run the risk of getting shunted aside as the company grows and more people come on board. They should be sure to get an agreement that spells out their title and role.

The other option for keeping long-term tabs on an idea: Instead of finding partners who fund the venture, the inventor fronts the cash and hires employees who run the nuts and bolts of the business. The inventor owns the company and directs the strategies, and the workers do everything else.

Obviously, there's a big trade-off here, too. Inventors need to put up money and find people to hire, and they risk losing their cash if the business flops. In fact, they're taking many of the steps they'd take to launch a regular business. But if they set it up correctly, they have a much stronger hold over their idea than they would if they found partners to pay for everything. And they won't have to make the commitment of time and effort that small-business founders usually face.

Consider Gracious Fade, a company that offers a Web-based service where people can leave digital photos and messages for their loved ones to see after they die. The founders—Allen Karch, a maritime enforcement specialist with the U.S. Coast Guard and with the state police, and Kevin Conrad, an attorney and state trooper—couldn't devote all of their time to the venture. So they hired outside experts to handle key areas of their business while they put in just a few hours a week—sometimes as few as five.

"It was important to bring people in-house and build up our company," says Mr. Conrad.

Giving the Idea Away

This option isn't as crazy as it sounds. In fact, it can be appealing for people who care about the idea more than the money—an educational or medical product that will help lots of people, for instance, or simply a concept that the inventor feels truly passionate about.

Mr. Faktor of IdeaFaktory says he has seen this happen many times at companies he's worked with, on social networks and in competitions for generating business ideas, especially among scientists and academics. "Many aren't wired for business and got into their field because of their genuine interest, curiosity and desire to help people," he says.

Creators who want to go this route may be best served finding a businessperson they know personally, or an organization they believe in, and signing an agreement spelling out that they're giving them the idea free and clear. Recipients, meanwhile, will want something in writing to protect themselves from claims down the road, says Mr. McAdam of the Wharton Small Business Development Center.

Sitting Tight for the Time Being

Finally, there's one important option to consider: waiting.

In all of the scenarios above, creators give other people some measure of control over their idea. But remember that ultimately inventors are going to be the best steward for their brainchild, even if they aren't willing to build a company around it right now. "No one has the passion that you have for the business," says Mr. Karch, who originally conceived the idea for Gracious Fade.

With time, reluctant entrepreneurs might be able to figure out exactly what's stopping them from launching a company. Are they waiting for the kids to finish college, for instance? Are they hesitant about the idea because they need to hammer out problems with it? Once they've identified the obstacles, they can create a timeline for working through them.

But beware: There's a time limit for anyone seeking to protect an idea through a patent, and someone else might come up with the same concept in the meantime. And, of course, not every idea gets better with age, notes Michael Lasky, an Atlanta-based patent and trademark attorney with Schwegman, Lundberg & Woessner. Many simply become obsolete—and if investors wait around too long, they may find that their product solves a problem that doesn't exist anymore or latches onto a trend that has fizzled out.

"Time is the enemy of invention," Mr. Lasky says.

Mr. Parmar is the assistant managing editor for WSJ.Money magazine. He can be reached at neil.parmar@dowjones.com.

http://online.wsj.com/article/SB10001424127887323623304579054622258666900.html