



Podcast Episode #44 – When not to start a startup - how to license your idea (Part 1), with Stephen Key of inventRight, USA

RAW TRANSCRIPT OF INTERVIEW

Balint: I'm very glad to be able to feature the Yoda of renting out ideas as Tim Ferris referred to him once, Stephen Key of inventRight. It's an honor for me to have you on the show, Stephen.

Stephen: Well, thank you very much for having me.

Balint: I know about you before I reached out to you. It started about, let's say, one year ago, one or two years ago when I heard about you. It's actually hard not to know about you because you are quite well known in your field. So before discussing what you do, just a short reference still to Tim Ferris. Interestingly, in Episode 38 and 39 I talked to a German gentleman who is the German Tim Ferris, if I might say it like that, Professor Faltin, Gunter Faltin, who is a relatively famous, who is actually quite famous in Germany because he's pioneered entrepreneurship in Germany, entrepreneurship education and he founded the company Tea Campaign and he's also a proponent of the principles that also Tim Ferris is talking about in his book and also of course elsewhere, so building a business from components. And I'm talking now to you who know Tim Ferris even better probably than the German Tim Ferris, so Professor Faltin, Gunter Faltin because to my understanding he was to some extent for some time your student, he was in your classes.

Stephen: Yes, you're absolutely correct. Tim Ferris was a student of mine years ago before he wrote *The 4-Hour Workweek*. And he was fascinated because I had, in his opinion I believe, hacked the system of how to bring a product to market without starting a business. And Tim as you know loves breaking down things and making things very simple for anybody to do and I'd broken down the system and *the 10 steps* and I couldn't get rid of them. Tim is very persistent and he would track me down repeatedly for more information. So hopefully I think I had a big impact on Tim's view on the New Rich. The currency today I believe it's not money but it's time and how to design your life.

Balint: Yeah, hopefully it also means that soon or at least slowly I will get into interview at some point Tim Ferris. I think it would be interesting because there is this topic that we're talking about so hardware entrepreneurship and he has a lot of valuable points about entrepreneurship, about this topic even including dropshipping but



also how to bring out a physical product onto the market because he had his own company BrainQUICKEN where he was bringing out a physical product.

Stephen: No, absolutely and that's why he reached out to me. He had started a company called BrainQUICKEN and he wanted to... Actually he really wanted to get out of that business. He wanted to find a way to license that to another company so he could go off and be creative, I guess. So that's why he was a good student of mine, actually.

Balint: Staying with this topic. What is the Ferris effect that you talk about in your book, at the beginning of the book? Could you maybe elaborate on this a little bit more?

Stephen: Yes. Looking back it's kind of funny to think that Tim was... I was helping Tim but looking back Tim was really helping me. You see, I was talking about this topic quite regularly but I don't think I was being heard until Tim Ferris came along and Tim Ferris met me and wrote, he went down in South America and wrote *The 4-Hour Workweek* and we were in contact together and I thought it was a pretty remarkable book. He sent me the proposal. I was pretty stunned by it.

And then when the book came out it was so popular that my phone was ringing off the hook and I couldn't figure out why. Because at that time... Well, I felt, I was surprised because no one kind of knew what I was doing and no one was paying attention to me and one day I was kind of put on the map. So that's my Tim Ferris effect. He helped me tremendously. I cannot thank him enough.

Balint: Yeah. You know, they say that marketing is useful for exposure because of exposure but in the end one needs a valuable product, a valuable service to give. And I believe based on my experience, based on my experience reading your book that you do have valuable, very much valuable knowledge. So basically you deserved to be heard.

Stephen: Well, thank you Tim. When McGraw Hill had contacted me about possibly writing a book I had reached out to Tim and said, "Tim, should I write a book?" and he said, "Well, yes and no." And he said, "Look, but if you decide to write this book, make sure you give everything away. Do not hold back. Write this book like it's the last book you'll ever write." And that's exactly what I did. I gave everything away. *The 10 steps* that I've been teaching I have students all over the world taking a course from me in *the 10 steps* but I give it away in a book. And I think people were surprised but I also believe because I gave it away that the book keeps on selling. It's been selling for close to seven years and it still sells every single day. Because I didn't hold back. I gave my audience what it needs.



Balint: I think I saw it recently. I've seen the latest statistics on Amazon that you gathered something like 500 reviews at least on the Amazon, in the U.S. version of Amazon. So I truly believe that it found quite a lot of resonance with people.

Stephen: Well, what's amazing those testimonials reviews keep on coming in even after all this time. People are finding the book for the first time. A lot of people are re-reading it. I love when I go on the road and meet people and they show me their book and it's all just marked up. I mean it's really ugly what they do to this book because they're making notes and they're using it. It's a great tool, it does work. I also see quite a few people now that have licensed ideas just by the book alone because I give them the roadmap, the process that Tim was so interested in.

Balint: Yeah, that's pretty amazing, I would say, because it means that there is so much value in it that people can use that as a standalone resource and they don't have to go to some other resources even though they could, they can, because if you do offer courses on this topic in case there are some gaps that need to be filled in, right?

Stephen: Well, yes. My group complains I gave it all away. It makes it hard for them to sell a course, they laugh at me about that. But I told them we're making a difference and that's really what's important. And I felt that if you really want to cut through the clutter of everybody trying to sell things I guess. If you're truly an expert, give it away because there is more and there's a lot more. In fact, people I think are going to be surprised at some of the new content I'll be putting together because I just scratched the surface, so there's much, much more.

Balint: This is why I'm really excited to have this interview with you, to explore further this topic. As I mentioned I read your book, even twice. And still you said that you covered a lot of topics and I completely agree with it. However, I believe there are still a couple of points that we could touch upon because especially being an international reader I think there are some points to be made.

Stephen: Of course.

Balint: Yeah. So, to continue with regarding this topic, so renting out ideas, I think it's a nice way to start that nowadays we hear it in the media quite often, so on TV there are these shows coming out which reflect this tendency that the startup culture is just exploding. So what do you think about this path of starting a company versus the alternative path that you are an advocate of?

Stephen: Well, thank you for making that point of difference. Traditionally what's being taught at university levels and every place else is that if you have an idea, you have to start a business. And I don't think that's true at all. In fact, in some situations I think my approach makes more sense. You see because not everybody has the de-



sire, the money, experience to maybe start a company and maybe not every idea should become a company. I know from experience, first-hand experience that starting the company is not easy to do. It takes a lot of time and effort and resources. And I believe licensing, renting as Tim would say, renting an idea to a company is a little bit like a startup in that you're finding the perfect partner. That's the difference here. When you rent an idea to a company that already has the shelf space, manufacturing, distribution, relationships, it's so important today because I feel that speed-to-market is the number one most important thing that you need.

So the difference between licensing your idea or venturing, you know creating a startup, when you license an idea you're finding that perfect partner that has everything in place that can take your concept, your idea and bring it to market so fast that it allows you to come up with more ideas and more ideas. So if you want to do a startup I think it's great but I don't think people truly realize the magnitude of time, the magnitude of luck, of money, of experience.

It sounds glamorous and it sounds fantastic and it is all those things but it's painful too. But licensing is a little painful, it's not that painful, a little bit though. But this is a different business model completely and today is speed-to-market, I believe.

Balint: You do have the experience. You talk based on your experience in both fields, in both avenues. So you do have a lot of experience first-hand on renting out ideas, so licensing. Renting out ideas, I like this expression because it breaks down the complicated, relatively complicated word "licensing" because I think it could be a little bit hazy for some people who are not very technical. Renting out, it just makes it more tangible. So you have some experience in this topic but also you have experience starting your own company, right?

Stephen: Yes. I started a company a few years ago. A friend of mine came to me with a very simple idea and said, "Why don't we start a company?" And it was basically a guitar pick design and I don't play guitar and I'm not in the music industry so it made no sense to me whatsoever. But he said, "Look, why don't you see if you can come up with a few different designs?" So it was... I was curious and so I did. I came up with a few designs and my first couples of designs were terrible. And then I went back as I talk about a lot and licensing too, I studied the marketplace and I went down to one of these popular stores and I noticed that all the kids were collecting skulls, pictures of skulls on t-shirts. And everywhere they had a skull! I couldn't figure out why so many skulls!

So I designed a guitar pick in the shape of a skull. I question why did a guitar pick have to be a certain shape? And that one little change, that simple change allowed us to start a company, which eventually led to us being one of the largest supplier of guitar picks, I believe in the world, I'm selling to Walmart and a lot of other stores, be-



cause we were designing for fans. We were designing for the people that love music. We weren't designing for the musicians. And because of that the market was huge.

And so I did jump in there, it took quite a few years, it took four of us spinning a lot of money. People had no idea, a piece of plastic, to launch a piece of plastic would take a quarter of a million dollars. And I saw it firsthand how much work it took. I enjoyed it, I loved it, but it wasn't for me at the end. I wanted to be more creative. I didn't want to have so many employees. I didn't want to manage Walmart accounts. I didn't want to look over my shoulder to see if the competition was going to be nipping at my heels. So yes, I do. I have experience in both.

Balint: Yeah. I think it's a very powerful example because as you mentioned it usually ideas can be even more complicated. This is just a piece of plastic as you referred to it but of course there is value in it because you deliver what is value in the eyes of the fans and the customers which means design the right design and you differentiate yourself from what was on the market. But everything else or many things can be more complicated, especially in the high tech sector.

So if you see the prop that there are already some issues arising with this relatively simple, one simple idea as your book title also says though you refer to of course something else because you refer to licensing with it. But in this case if you have a more complicated idea, it gets even more complicated the whole thing about setting up the business and operating it.

Stephen: No, you're absolutely right. I think when you look at how simple a piece of plastic, it's a die cut piece of plastic that maybe cost 3 cents. And it could not get any easier, right? So can you imagine something that had moving parts? Can you imagine that's something that required software and hardware? Can you imagine how much time and effort and money would go into that? It's staggering. It's what it is and people don't, they don't really fully understand that they see the glamour part of it but they don't see the difficulty to do that.

Balint: Let me ask you this, Stephen, what is your rule, rule of thumb or even golden rule that you have like even as a guideline for listeners to see in which case they should set up a company and in which case they should license their idea?

Stephen: I think you have to look at your skills set. You know what...And be honest to what... You have to really honestly look at yourself and go, "What am I good at?" Okay. And no one is good at everything. So you're going to have to build a team, number one, and number two you have to realize being an entrepreneur is very different than licensing ideas. When you're licensing an idea you can be very creative because everybody else is doing all the heavy lifting. When you are truly an entrepreneur you're going to be doing a lot of different things, wearing so many different



hats. So if you've got a lot of ideas, there's no way you're going to start all these companies. It's impossible. OK. I mean if I have 50 good ideas there's no way I can do 50 companies. It might take 10 years to start one company to see it successful then... That's a lot of time in someone's career.

So if you want to be an entrepreneur, if you want to wear a lot of different hats, if you're willing to take a lot of risk, if you're willing to build a team and work on one idea, then yeah, maybe that's a good fit for you. If you're someone that says look, I want to be creative that's where I want to stay and I want the companies to do all the work for me, then licensing might be a better route. But I can tell you this: you don't have to make that decision right away. You could still...

I tell everybody try to license your idea first. If you want to manufacture your own idea, fantastic, but try to license it first and see what the industry is telling you because they might be giving you the keys to the kingdom, they might be telling you where the problems are, they might be telling you "Don't go down that road." OK. And it's very easy to get the feedback from companies if you get an idea that's worth even venturing as well.

Balint: I like that approach because it's like an iterative approach. So it's like a Lean startup principle, validating it, testing it and you test it this time with your insight how the idea would arrive too to the companies that would sell it to the end customer. Because this is based on the assumption, which is of course many times correct that the companies that you would license it to they know their customers because they have an established business. So they have to know. So of course you try to license the idea to an established business, which is running well.

Stephen: Well, see, to me that makes so much sense. I think someone had said to me the true test of an idea is try to sell it. And even if you haven't made it, who cares. Get a purchase order even if you don't know it's going to work. Sell it first and people are a little scared with that but I also believe when you're licensing the reason why it's so different too is that you're not selling or licensing at the very beginning the product, you are selling the benefits first.

And that's a very different mind shift for people because if the benefit is strong enough that people want to order it or purchase order, if you can do some testing just on the benefit, who cares if it works. I don't care if you don't even have a prototype. If I can sell the benefit, then I know I've got something that has legs, that's something maybe I want to work on. So that was the hack that Tim Ferriss saw. You see that? That was the difference that he saw. He said, "Look, Steve, flip it. Because building prototypes, starting companies are going to take years where I can do this process of testing within days."



Balint: Testing here means so not necessarily with prototypes but by talking to your customers or just picking up the phone and talking to the licensee. So the company would license your... You would rent out your idea too, right?

Stephen: Yes. What's happened today which is one of the big game changers is that today I could have a sketch on a napkin and I can find someone on the Internet anywhere in the world that can supply a 3D computer generated sample of what that product would look like. In fact, they can do it so well sometimes people think, "Gee, can I order it?" It's amazing how well the stuff looks now so for under a hundred dollars I can produce a sample, a 3D sample and not a 3D but a computer generated sample and put it on a sale sheet, a one-page advertisement, here's the benefit, here's my product and I haven't built a prototype. I'm selling the benefit first. So, that's another tool that any of us can use today anywhere in the world. And it's very affordable. And so I would show that sale sheet or that advertisement to a potential licensee, to maybe a buyer and that and if I get a green light, "Yeah, we want to know more. Yes, we like it. Yes, our customers are going to want this." then I know I've got something.

Balint: Yeah. Of course the question automatically arises in this case that how can you communicate in an honest but safe way with the licensee on your idea? Because many people are afraid about the risk, about the negative consequences of what can go wrong. And now what I refer to now out of the many things that might go wrong that people have on their mind is that protecting your idea. Could you maybe talk about that because in your book you talk about this topic and I liked it, it was new to me at that time. I did read up on this topic some more, so specifically provisional patent application, that's the key word that you use. So maybe it would be great if you could talk about it some more what it means and also what it means in terms of steps, how you would approach it the communication.

Stephen: Well, first of all we've been sold this fear and we've listened to people on TV, we've had patent attorneys, we've had all these people sell fear and it's not true. I think you need to be cautious but not be fearful. OK. Because I don't think companies steal ideas. I just said it. I don't believe it. I believe they might work around your idea and that's fair game. They might come up with some variation. That's fair game. That's okay. I think the best protection is to identify companies that want to work with us. It's called open innovation and that basically means that companies understand that if I open my doors, I'm going to have thousands of ideas coming to me and if I rely on my team in the back room, which might be 10 people, my chances of finding a better idea when I open the doors it's going to be far greater. And guess what? It doesn't cost anything unless I license it. So open innovation is sweeping the country. So what does that mean? That means you need to find companies that want to work with us. That's the first best protection.



The second thing that you need to do just to give yourself perceived ownership because I don't think you own anything. And people really have a hard time with that. People want to own something. I'm here to tell you, you don't, you really don't. Because things change, people can make variations, products go in and out the market. No everybody wants to own the pie. And I'm trying to tell everybody because of the Amazon, because of the Internet, it's impossible to own all of the pie. It's impossible. So you have to kind of step back now. All right. Well, what do I need to own part of the pie? It's a different way of looking at it. And what you need is what everybody, hopefully everybody's looking at very closely, is called a provisional patent application - a PPA. And a PPA is a wonderful tool. It's a very affordable tool. It's a tool that anybody can basically write.