

The Toy Inventor: The Goose That Lays the Golden Egg

by Nancy Zwiers

Innovation is the life blood of our industry. Companies that innovate grow and those that do not, shrink or die. And yet innovation is a high-risk business. It's fraught with blind alleys and dead ends. It's a roller coaster with ups and downs, with successes often counter-balanced by the disappointment of failed dreams.

We in the toy industry are lucky to have a group of talented and committed people who help temper the risk associated with innovation. And while the risk of launching something truly new and unique will never completely disappear, this group bears the substantial risk associated with the creation, design, and development of innovative product—I'm talking about the inventor community.

Our industry is one of the few that has a dedicated community of inventors who focus tremendous energy, talent, and resources towards creating a constant stream of newness. A few inventors are stunningly successful, lucky enough to have a royalty revenue stream flowing for years from one big hit—think Cabbage Patch Kids, Polly Pocket, Aquadoodle, or meteoric brands like Furby and Bakugan.

Most inventors, however, work hard to keep the royalty revenue flowing on a regular basis, and over the long haul manage to make a decent living—and have a lot of fun doing it, mind you. But make no mistake—toy inventing is no easy street. Many freelance designers have tried their hand at inventing, attracted by the possibility of a huge upside. But, after a few disappointing attempts, they have been forced to throw in the towel and go back to work-for-hire engagements.

Both the importance and the difficulty of toy inventing make it imperative for manufacturers to place the proper value on inventions—in the form of royalties. When viewed in isolation, a 5 percent royalty might seem like a big expense, but it really isn't. It is likely that the inventor will

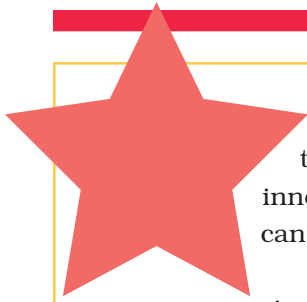
toil on upwards of 100 concepts for every one that hits. If that inventor makes \$500,000 in royalties on that one hit, the compensation works out to be \$5,000 per concept—not that astronomical, is it?

As much as manufacturers need the inventor community to bear the risk of innovation, they also need inventors' creative inspiration. That creative inspiration comes from having the time and space to proactively search out stimulus and allow inspiration to percolate, incubate, and be refined again and again—and let's face it: that time and space is a luxury most company employees don't have these days.

Truly, licensing outside inventions is an incredibly low-risk, cost-effective way for a company to generate a constant stream of new, exciting products. One inventor has likened it to a smorgasbord. You can look at all the food on the table, never have to cook any of it yourself, only choose the dishes you want, leave the rest, and only pay for what you take. The "leftovers" are someone else's problem (by the way, one inventing company claims to have over a thousand unlicensed inventions in inventory—and they are one of the more successful companies).

Companies who proactively court inventors achieve equally impressive success—consider Spin Master, which has grown into a powerhouse company by making inventor relations a key competitive advantage. A little over 10 years ago, Spin Master was just a small, albeit aggressive, company. It proactively targeted the inventor community as a rich source of innovative product ideas, licensed liberally





(i.e. bought a lot of concepts), and thus cultivated its own reputation as an innovation-driven company that retailers can't do without.

If you have not actively pursued outside inventions for your company, perhaps it's time you did. You may think you can't compete with a Mattel or Spin Master for strong inventions, but think again. While it's true that inventors prefer to show their inventions to the biggest companies first, there are plenty of very strong concepts available to show to other, smaller companies that are equally hungry for innovation. How can you make sure you are on the radar screen of the inventors such that you get a chance at their innovative concepts for your product lines?

Some helpful advice:

1. Make sure you proactively reach out and introduce yourself (contact Funosophy, Inc. to get a free list of select inventor companies).
2. Be prepared to share your business goals and strategies, and a corresponding wish list for innovation.
3. Invite inventors to your show room and be accessible at key trade shows, such as Toy Fair and Fall Toy Preview, where most inventors present their concepts.
4. Don't expect invention submissions to be patented; this is a luxury that most inventors do not pursue regularly. But do consider the concepts to be confidential and proprietary. Build trust!
5. Create a written paper trail for submissions. Document the official status of the submission in duplicate and give one copy to the inventor for his or her records.
6. Communicate clearly and immediately if an idea is not new to you.
7. Provide a definitive response as quickly as possible:
 - a. "yes" often equals an option, where you pay a monthly amount to hold onto the concept for due diligence (\$5,000/month);
 - b. "do more work in x area" (only if you're serious); and
 - c. "no" when you do not have a serious interest.
 Important note: If the answer is likely no, the quicker the "no," the better!
8. Track and return samples in excellent condition.
9. License inventions—that is the only way you will

access the best inventions in the future. If you never buy from anyone, inventors will lose interest in presenting to you. Companies who do license concepts should make sure the inventor community knows about it for this reason.

10. Establish relationships with your key stable of inventors. You will get their best work and will have a lot of fun getting to know them better—inventors are the people in our industry who haven't forgotten how to play!

While every deal is unique, there are some well-established deal term conventions in the industry that will help you know what to expect:

- Options (where you pay the inventor to take the idea off the table and agree not to show it to anyone else) range upwards of \$5,000 per month. This is often a precursor to a deal, to give you time to do your due diligence before committing.
- Royalty rates are typically 5 percent if the invention launches a new brand and 3 percent if it is applied to an established brand.
- If you have a shared royalty situation, for instance there are two inventors, then expect to pay each 3 percent, for a total royalty load of 6 percent.
- Advances of anywhere from 10-25 percent of projected first-year royalties are typical. Terms are typically for the life of the product and guarantees beyond the advance are not customary.
- Many inventors will agree to help you develop the concept at cost.

Get into action for innovation. Inventors need more clients and you need innovative product lines that will excite the buyer and the consumer. Through your patronage, you will continue to nurture our dedicated inventor community—they are the geese that lay the golden eggs of innovation for our industry. ■

Contact Funosophy, Inc. to get a free list of select inventor companies.

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