

Getting Your Management to Say “Yes, Please” to Brand Licensing



by Alan Kravetz, LMCA

If my Grandfather were alive today I know what he’d say, “Let me see if I have this right, somebody is going to use *their* people, *their* efforts, and *their* money to grow my brand and they’re going to pay me for the privilege? Is it legal?”

It’s not only legal, it’s a well-established business tool, and for good reason. If you have a brand with equity and awareness—the more awareness the better—licensing can offer a significant stream of royalty payments as well as a way to grow beyond your organizational core competence and resources.

As few brands’ equity map perfectly against their owners’ core competencies, many brands have opportunities in licensing. Licensing has grown into a \$200 billion business and marketing machine for some of the world’s best-known companies and many less well known companies. The smallest licensor on *Licensing Magazine’s* Top 100 list last year had \$50 million in licensed sales and the largest, Disney, had \$30 billion.

\$50 million in licensed sales at even a modest 4 percent royalty rate is **\$2 million in royalty income** for #100 on the Top 100 list. In these times where

“flat” is the new “up,” the royalty opportunity alone has gotten the attention of many CEO’s, before they even got to the other extremely compelling benefits of licensing.

In addition to the significant revenue a licensing initiative can generate, there are other benefits such as:

- ◇ Expanding market presence with capital efficient growth
- ◇ Crowding out competitors at retail
- ◇ Satisfying a larger share of consumers needs
- ◇ Image reinforcement and enhancement
- ◇ Increasing the number of annual consumer impressions
- ◇ Gaining access to core competencies not part of your infrastructure
- ◇ As a precursor to deeper relationships
- ◇ Strengthening, and maybe saving, your trademarks

If the prospect of earnings millions of dollars in royalty or the other oppor-

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tunities licensing makes available didn't cause you immediately to stop reading this article and begin your licensing initiative, let's explore the opportunities through the eyes of each functional area of your organization.

Marketing

As guardian of the brand, marketing has standing to make a powerful case for licensing. In these times of shrinking headcount and marketing budgets, marketing's ardor for a licensing initiative may be stronger than ever before. Each licensee is a new stakeholder in the brand's strength and image. Their efforts and marketing budgets can be brought to bear on the brand's success. How?

Financially. Each licensee can be and should be contractually obligated to invest in marketing in support of its licensed offering. Many licensors have required their licensees to market the licensed products, so it's the norm and an obligation to do so is easily had. Although this marketing is focused on the licensee's specific goods, if the goods are benefited by the brand, so, too, should the brand be benefited by the additional marketing. This additional marketing spend is especially valuable to the brand owner in times of shrinking marketing budgets.

In addition to the product specific marketing required of licensees, many licensors require a contribution be made into a pool managed and invested by the licensor for pure brand marketing. In broad licensing programs this supplement can be a significant addition to the licensor's own marketing investment. In some larger licensing programs and a number of our clients' programs,

this co-op fund may eclipse the brand owner's spending.

Additional Brand Impressions.

The marketing of licensed goods provides additional brand impressions and supports the brand, as does having additional product in the market.

Great licensing programs add even more. As you probably know, RotoRooter is a franchise offering comprehensive 24 hour residential and commercial plumbing and drain cleaning services. The marketing cost of supporting its brand in yellow pages and other marketing media became unbearably high.

The center of the solution to the high cost was a license of the Roto-Rooter® brand for liquid drain cleaner. The royalty earned supplemented the marketing budget. In addition, the licensee's advertising supported the brand. Even more powerful though, was the support to the franchisees. Each container of drain cleaner had RotoRooter's 800 number on it for those problems that a liquid drain cleaner couldn't address. The container was an ad, purchased by the consumers, and resulted in calls to the franchisees, rather than a rival drain cleaning company or a local plumber—quite a powerful way to generate additional brand impressions.

Expanded Market Presence and Share of Wallet.

Each additional classification of goods can make the brand more important to consumers overall as well as help crowd competitors out of consumers' wallets. If I'm happy with my Westinghouse® TV, why wouldn't I look seriously at a Westinghouse® DVD player? If I'm Westinghouse, licensing offers me the opportunity to own *every* electronics purchase.

“Strategic brand licensing makes a good brand better — with broader reach and increased opportunities in new markets. This is especially true in a challenging global economy, when brand extension licensing can help you stay ahead of the pack.”

Expanded market presence and share of wallet don't end at the US border. Many of our clients have licensed their brands in non-core classifications worldwide. Some have replicated their domestic business internationally through licensing.

Broaden Your Brand. Your brand's equity may well add value to a number of classifications of goods and services. Each is a potential licensing opportunity replete with all of the marketing benefits outlined previously. As each new product or service gains a strong following through licensing, other adjacent opportunities often follow.

By way of example, the Black Flag® brand stands for killing insects. LMCA has licensed that brand for a number of products, all of which share that primary product attribute: They kill bugs. There are a number of products, devices, and services for which killing bugs is the be all and end all. There also are a number of products for which an image of killing, which implies some risk of toxicity to the user or his family, would not be helpful to the product's appeal.

We've begun to broaden the brand's image through a license of Black Flag's seal of approval for a sealant. The sealant is a **barrier** to bugs. There is no insecticide in the product. Black Flag certifies the sealant's effectiveness and, in return, the sealant helps pave the way for other licensed Black Flag® products that will protect against bugs without the use of dangerous sounding chemicals.

Over time consumers' perceptions of the brand will allow it to go places where it might have scared them away previously, such as paint which, with the addition of an extremely benign pesticide, kills

bugs.

Search. Many purchases begin with an Internet search. Type in a product description and brands, and places to buy these branded products pop up on your screen. Type in a brand and you get products and places to buy them. With a broader brand and more products in the market your brand moves higher on the search pages. Do you remember the last time you looked as far as the *second* page of results?

Social Media. Social media gives people a powerful tool to talk about your brand at no cost to you. The more products offered under your brand, the more there is to talk about. Assuming the licensees offer products that deliver on your brand's promise, each writer is a potential brand evangelist in addition to a loyal consumer.

Finance

Finance typically proves to be a strong ally for initiation of a licensing program.

Royalty Income. Licensing provides royalty income on the licensees' sales with minimal investment or increase in infrastructure or headcount. Because the licensor has no cost of goods, little if any overhead allocable to the venture and little of its own marketing expense in connection with the



licensed products, a huge percentage of the royalty typically drops straight to the bottom line.

Marketing Spend. Licensees' marketing spend, particularly if supplemented by co-op contributions, also endears licensing to finance. Licensing is an increase in the marketing budget without a visit to the corporate treasury.

Scale. Internal resources are always limited. There is no limit as to the amount of sales that third-party companies can create under a licensed brand. Not surprisingly a number of our clients have found that their license sales have eclipsed their own sales. The opportunity to share in the considerable gross margin of licensees' sales is a windfall beyond their wildest dreams.

Minimization of risk and use of capital. Funding development and launch of new products or buying operating companies entails considerable risk and uses limited capital resources. A licensing initiative leverages up the licensee's resources (OPM) and minimizes the licensor's risk, while still pursuing these opportunities.

Sales

In these times of retail consolidation and growing sales of house branded or unbranded products, licensing can be one of the best friends branded sales can have.

Synergy. The different sales forces for the licensor's products and the different licensees' products often can leverage their efforts to the benefit of all, because it is in the interest of each to do so.

Leverage. Each appealing new product under the licensor's brand makes the brand that much more

important to the retailer and makes the retailer that much more important to the brand. More marketing makes the assortment more appealing to consumers and therefore that much easier to sell to retailers.

International Expansion without the International Issues and Entanglements. The laws, customs, cultures, and distance involved in international sales expansion can make those efforts expensive, slow moving, and risky. With sufficient time and investment, many companies have been successful going international on their own. Despite much time and money invested, many have not. Licensing allows you to partner with an expert who is already successful in your business in *his* market.

Business Development

The mission is to add sales and of course, profits, yet resources for growing or acquiring businesses always are constrained. Minimization of risk in expansions and acquisitions is always a top priority.

Precursor to Deeper Relationships. Licensing can help minimize risk and serve as a precursor to deeper relationships. Through licensing the licensor can explore and learn about a new business, under the tutelage of an expert—the licensee. Choose well and you've retained an industry leader to develop your brand in the classification.

Not only does the licensee develop your brand at his expense and shoulder the business risk, he pays royalty to you as you learn the business. During the term of the license you'll also learn about the company's management and develop a working and perhaps personal relationship with them. If, down the road, you find the busi-

ness and the people to your liking, you're in a great position to buy it and enter that classification directly.

Additional Core Competencies.

Licensing can create access to core competencies not part of your infrastructure. You may have a very attractive adjacent opportunity, but recognize that you don't have the technology to pursue it. Buying the technology would be expensive and risky, especially in a business new to you. For the company having the technology the path to market could be expensive and risky as well. Your brand could add considerable value to their technology by allowing them to leverage your brand's equity into distribution and consumer awareness, without the cost of building their own brand; truly a "Win – Win" situation.

Legal

Strengthening the Marks. A Licensee's use of the licensed marks allows a licensor to register marks in more classes, and more countries, strengthening the marks. Every classification in which the license marks are used provides an opportunity to broaden the registration of the marks and crowd out any potential competitor or infringer.

Enforcement. Each licensee in each class of goods in each country becomes a stakeholder. Each licensee is a policeman for his own market as it is in his interest to report and to stop infringers, no matter how far away from your home market that infringement may be.

Ammunition Against a Claim That Your Brand Is "Generic." As the owners of the formerly registered trademarks Aspirin, Cellophane, Linoleum, Thermos, and Zipper learned to their great surprise and detriment, the prize for

near universal brand awareness for a single product may be losing the mark to the public as generic. Although proper trademark usage guidelines and their practice is the first, best insurance against being declared generic, more is better. The "more" is licensing your brand for other classifications of goods and services and building awareness for those goods and services. That awareness builds a case for your marks being trademarks, that is, identifying a **source** of products and services, not a specific **product** or **service**.

In Summary

Licensing offers a long menu of opportunities to make your brand stronger, bigger, more visible, and more important to consumers and retailers, at very low risk and at others' expense. And, I almost forgot, you collect significant amounts of royalty that drop right to your bottom line.



Alan Kravetz
 Managing Director of LMCA

**LMCA—Leading the world of
 strategic brand licensing**

156 West 56th Street, Suite 1400
 New York, NY 10019
 Phone: 212 265 7474
 Fax: 212 581 1461
 E-mail: joem@lmca.net
www.lmca.net