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What can go wrong….

Some cautionary tales

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Licensing is the Marketeer's ultimate fantasy – a too-good-to-be-true, budget-generating marketing campaign that extends the brand into new categories. As they might say in New York:

Licensing: What's not to like?

As the Marketing Director of a powerful brand with a sizeable advertising budget, you present your Commercial Director with a strategic licensing proposition including a selection of companies proposing to pay hard cash for the right to increase your brand's profile. Despite his first thought - 'what's the catch?' – you somehow manage to convince him to let you develop a licensing programme. There's no shortage of potential partners to work with on exciting collaborations and the products you develop are bought in serious quantities by your passionate consumers. With success, bigger and bigger manufacturers make increasingly exciting offers to create better and better products. Fast forward several years, however, and the enthusiasm for licensing seems to have waned somewhat and you're considering your career options. So where did it all go wrong?

The bigger the better?

The first place to look for problems in a successful licensing programme is your biggest licensee. At the risk of stretching a jaundiced analogy, a license agreement is a bit like a marriage contract. At the beginning one side dresses up to impress their potential partner, wooing them with all sorts of promises but, once the marriage contract is officially signed, the now legally committed partner often faces a surprisingly conflicting reality, especially when they realise that they are not the only committed relationship in their other half's life.

Whilst a licensee might give you a warm feeling when they first meet you – bringing free product samples, investing in design, packaging and product innovation; like any business their most important partner will always be the one who pays them, in this case the retailer. On the whole, most manufacturers license a brand to protect them from the multitude of competitors vying for the same shelf space, namely: leading specialist brands in the category, own-label copycats, cheaper competition and retailers buying directly from the same Chinese factories. With the supplier/retailer relationship constantly undulating over this fractious competitive landscape any brand's biggest licensee will, by definition, be the one relying most heavily on the brand to maintain the higher ground.

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When a brand's success becomes conspicuously obvious, retailers will apply pressure on them for marketing and promotional support which will either have to come out of your licensee's margin or your royalty rate. Having spent years investing in design, stock, distribution and building a business for your brand, it is at this point that your biggest licensee becomes your biggest liability. When a retailer's push comes to shove, licensees will aim to take margin out of the product or the royalty rates rather than their own pockets. Unless you anticipate this conflict your biggest licensee may end up changing the rules of the game, rather than continue writing you big royalty cheques every quarter.

Calvin Klein's licensing programme ran into difficulties in 2001 when their biggest licensee Warnaco - a global designer, maker and marketer of apparel - started trading with discount retailers in order to exploit the greater sales volumes available. Fortunately in this case, the brandowner reacted swiftly in order to protect their brand's cachet and prevent the distribution of their brand within Sam's Club, BJ's and Costco. Being American, Calvin Klein successfully sued Warnaco, alleging trademark infringement and violation of a licensing contract. Perhaps it is no surprise that Warnaco filed for bankruptcy just after this suit, with analysts citing the trading to discount chains as the reason for the business's failure. The business and the relationship survived the legal battle, however, and according to DailyFinance.com in 2010: "Warnaco might as well rename itself Calvin Klein because that brand is mainly responsible for firing up sales and earnings growth" The Calvin Klein line accounted for $1.5 billion, or 75%, of total company net sales of over $2 billion in 2009. So far, so good you might think, except Warnaco now seem to be pursuing another strategy, acquiring other Calvin Klein licensees and aggressively pursuing international markets – this is becoming a situation where the tail is wagging the dog, and it wouldn't be surprising to see Warnaco dig their heals in and insist upon acquiring the entire brand – or worse seek an alternative brand that they can buy outright, rather than continue to increase the value of someone else's intellectual property. This, after all, is what happened to George Foreman who ended up selling his name and image in the food-preparation category to grill-makers Salton for $137.5M of cash and stock in 1999. Whilst this figure was undoubtedly good value for the 54 year old boxer, it's worth bearing in mind that, taking global sales into account it would have been surpassed in royalties by now.

Internal problems

Whilst licensees and retailers can cause a licensing programme to come unstuck, internal problems can also cause major issues. The biggest liability for any brand licensing campaign is often the advent of a new CEO who decides that the company shouldn't be doing licensing. If this happens then, no matter what agreements are in place, or what products are already out there, watch out because pretty soon you could be recalling licensed products just as aggressively as you were promoting them.

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Even Stelios – the legendary founder and shareholder of Easyjet - has not hesitated to threaten the company's license agreement whenever the airline steps out of line with his vision of how it should be run. As recently as last summer the Telegraph published a threatening letter that read: "I am left with no option but to terminate the brand licence."

When not suffering the whims of CEO's, big licensing programmes can still veer dangerously out of control. Approvals and category selection are two major potential headaches because, once licensing is up and running, the biggest opportunities often represent the biggest risk bringing licensing dangerously into conflict with the main brand strategy.

High Street chain WH Smiths stopped selling its Playboy range of stationery following complaints that it was unsuitable for sale to children in 2009. The move into mainstream retail generated big money for Playboy's licensing programme in the short-term but exposed licensees to negative consumer feedback when the brand took flack for trading on its risqué image to a generation of prematurely adolescent children.

So what does Success look like?

A joined-up licensing programme will ensure that the brand's core messages, positioning and values are integral to the licensed products, maximise any opportunities to cross-sell the brandowner's core products as well as other licensed products.

Brandowner, and successful licensee Chupa Chups – the Spanish lollipop manufacturer – bring out a style guide once a year that contains graphics, visuals and stylistic elements that their fashion accessory licensees can use as inspiration for the relevant season. This sizeable investment in a graphical look book, pays dividends because licensees know that they can develop a range that will co-ordinate with other licensees, increasing the chances for cross-selling. In addition, Chupa Chups are happy to provide flavour profiles and products for inclusion within the licensed products, reinforcing the products relevance. Last but not least, the products are championed on the company's website rather than treated as afterthoughts and extra cash.

On top of co-ordination across licensees, successful licensing programmes will also help bring their products to retail. The most successful licensing programmes (think Ben 10 or Hello Kitty) have the power to create a dedicated collection for specific retailers, with a shop-in-shop concept where all of their licensed products are ranged together, making it easier for consumers to buy multiple items that might normally be in different aisles.

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Conclusion

It's a paradoxical business fact that the more complicated a product, the less margin there is at the manufacturing end. Consider a car or a television, while new bells and whistles are impressive the buzz from innovation is only ever short-lived and quickly eclipsed by the next big thing, leaving very little time to recoup the investment. Just as Ipad 2 has eclipsed Ipad 1, Ipad 3 will be coming off the conveyor belt in short order. The companies making the Ipad, however, are not making the majority of the profit – the big margins are made from the brand, not the manufacturing. According to this interpretation, branding is the monetisation of ideas and plans through consistent execution. Execution – while a vital part of the puzzle, is expensive, low-margin, competitive and slow moving. Idea and plans are where the big margins are.
Where there is conflict between the organisation's execution and the licensees – it's because the ideas and plans of the organisation have either not been correctly communicated to the licensee, or they have suddenly changed. For this reason licensing best suits older brands whose ideas and plans are consolidated into clear meaningful messages and categories. If you have such a brand it might well be worthwhile considering licensing as an option. However, as the old adage goes "If a thing's too good to be true, then it probably is" so rather than treating licensing as some form of magic bean that will give rise to a climbable shrub overnight, consider licensing as a long-term marketing investment that needs careful tending and protecting, just like your own brands.

Adam Bass is the director of Golden Goose, the UK's leading boutique brand licensing consultancy.