

Bill Blass and Chocolates

The market for licensing designer goods is expanding as fast as manufacturers can think of products on which to stick a name

BY SUSAN K. REED*

In the early months of 1982, a telephone rang in designer Bill Blass's offices on Seventh Avenue in New York's fashion district. On the line was a representative from Godiva Chocolatier, the royalty of chocolate companies. Godiva, the representative said, was interested in introducing a new product to its line of expensive and delectable candies. It would be different; it would have added cachet. It would be a Bill Blass chocolate.

Gail Levenstein, vice-president in charge of licensing for Blass, took the call, one of thousands that come in annually from manufacturers of shoes, sunglasses, linens, food—everything that can conceivably be sold, but of which more could be sold if the manufacturer had the right to emblazon two cursive B's on the product, to license Bill Blass's name.

This call, unlike most of the others, intrigued Levenstein. Godiva, after all, is pre-eminent in its field. It makes quality chocolates, probably bought by many of the people who buy Bill Blass dresses and suits. The association could enhance Blass's image as well as Godiva's, not to mention the royalties that would come Blass's way. Royalties from licensing the right to use those two shapely B's already exceed \$10 million a year.

"I batted Godiva's proposal around with Bill," says Levenstein. "Most of the proposals that come in he just isn't interested in. This one struck his fancy." Food and style, she explains, are really not all that different. Still, there was a risk. There would be criticism for selling Blass's name too far afield, the same criticism leveled at stars who advertise products they don't use.

After conferring with Levenstein, Blass decided to go ahead with the Godiva contract. "Bill has definite ideas about what he likes in chocolates," says Levenstein. "He likes crunchy, not creamy, chocolates. We sent Godiva a whole list of suggestions for the candy, the box, even the advertising. And Godiva immediately went into production."

Godiva had for some time believed that there was room in its market for an "American designer chocolate." In simple marketing terms, this meant that Godiva could introduce a new product (essentially the same product repackaged), sell it at a higher price, and reap a much larger profit. A 14-ounce box of Bill Blass

chocolates (granted, they may be crunchy) sells for \$12, almost 10% more than ordinary Godiva chocolates. What then is really being sold? Not quantity—the chocolates are not bigger or richer. Not quality—Blass probably knows as much about cherry cordials as the confectioners know about in seams. What is being sold—the *raison d'être* of licensing—is the Bill Blass image: sophisticated, expensive, classy. Obviously it is worth the extra cost to consumers. But to the manufacturers, it is worth even more.

Licensing is very, very big business. It is estimated that this year \$21 billion worth of licensed products will be sold, some of which may have little actual connection with the names they display. That figure represents a 50% increase over the \$13.7 billion worth of licensed goods sold in 1982, which in turn was up a hefty 38% from 1981. Licensing is revolutionizing the way manufacturers market their products. Most important, it is changing the bottom line for companies lucky enough to control the rights to a desirable image or name.

In the old days, licensed products were almost always spinoffs from other successful ventures—Mickey Mouse watches, Davy Crockett pajamas, Roy Rogers lunchboxes. But as of March 1980, with the advent of a cloyingly cheerful, red-haired, freckle-faced character called Strawberry Shortcake, licensed products became *sui generis*. Strawberry Shortcake had no prior claim to fame. She hadn't even existed before American Greetings Corporation in Cleveland, Ohio, created her to be licensed, and she is now the most successful license in history. In the first nine months of 1980, \$100 million worth of Strawberry Shortcake products were sold. In 1981, sales were \$500 million, and in 1982, Strawberry Shortcake products inundated American homes to the tune of \$750 million.

But MCA/Universal is closing in on American Greetings. MCA had already granted 12 licenses for E.T. products before the movie opened last June. Now, nearly a year later, it has granted 38 additional licenses for publishing and printing (everything from paperback books to wrapping paper), toys and games (including an E.T. Atari home video game), clothing (T-shirts to pajamas), and novelty items. MCA is happily estimating that the royalties from these licenses will be "commensurate with the film's grosses." So far in the United States, the film has grossed more than \$340 million.

Still, it is the fashion designers who are raking in the biggest share of licensing profits. One-third of all the licensed goods sold in the U.S. are designer clothes or accessories. "It used to be that a designer's couture collection supported him," says Hilda Barnes, former head of licensing for Geoffrey Beene and now director of public relations for a New York clothing manufacturer,

Swirl. "The collection is the showcase now, but licensed products make up 50% of designers' business. They are the bread and butter. Everybody—manufacturers as well as designers—wants to be on the licensing bandwagon."

Some of the bandwagons, it turns out, are exceedingly long. Licensed designer products, laid end to end, would surely stretch from New York to Paris and back. Pierre Cardin, for example, who some in the industry say has come close to prostituting his name, has 540 separate licenses. Men's suits, ties, shoes, socks, shirts, jewelry, leather goods, handbags, clocks, watches, linens, and children's clothes comprise only a small portion of the \$1 billion worth of his products that are sold every year. Yves St. Laurent, hardly a close second, has only 208 licenses. Calvin Klein has fewer than 10 licenses, but since one of them is for his phenomenally successful jeans (manufactured by Puritan Fashions in New York), his income nearly matches St. Laurent's. Givenchy has awarded 120 licenses, Oscar de la Renta only 40, and Perry Ellis, a relative newcomer, 7. "The market for licensed goods is expanding as fast as manufacturers can think of products on which they can stick a name," says Frank Wortmann, house counsel for Oscar de la Renta. "The demand is there. They just keep running out of categories."

Five minutes in any retail store today could make you wonder whether it sells anything *but* licensed designer merchandise. Jeans, sheets, luggage, perfumes, jewelry, cosmetics, hosiery, and stationery all display names and initials. And everyday products, once they become designer products, are rechristened "wears": eyewear, footwear, women's wear, men's wear, activewear, boys' wear, roughwear, outerwear, neckwear, sleepwear, and swimwear. If it isn't enough to swathe every part of your body with labels, you can also drive a label: For around \$25,000, Lincoln-Mercury offers Mark VI's and Lincoln Continentals with interiors designed by Emilio Pucci, Blass, Givenchy, or Valentino.

The beauty of licensing is that there is an astronomic return on little work and no overhead. Most designers are reluctant to discuss the profits from their licensing ventures. Peter Strom, president of Polo, won't even divulge how many licenses Ralph Lauren has, much less how much money he accrues in royalties. But *Women's Wear Daily*, the fashion industry's bible, using a general rule of thumb by which the designer receives 5 to 10% of the manufacturer's wholesale volume, calculated Cardin's *minimum* annual income from his licensed products at \$50 million, Givenchy's at \$25 million, St. Laurent's at \$35 million, Calvin Klein's at \$24 million, Ralph Lauren's at \$13 million, and de la Renta's and Valentino's at \$10 million each.

How exactly does Bill Blass decide to put his name on chocolates? What makes Givenchy choose to spend his time selecting fabrics and patterns for the interiors of Lincolns? In some instances, the designer wants to gain entry into a particular market. One obvious example is the way designers flocked to the burgeoning market for men's fashions in the Sixties.

"Once Bill agrees that he'll give his name to the product, I check the Dun and Bradstreet on the company and begin the license negotiations," explains Levenstein. "The manufacturer comes to us with the projected annual wholesale volume [half the retail sales

volume]. We demand a guaranteed fee equal to 5 to 10% of that estimate. To ask for more becomes too much of a strain on the price of the product. All the costs are passed on to the consumer, so we risk losing out on volume if the price is too high."

In the best circumstances, the designer's interest will dovetail with market openings. Blass has wanted to design a telephone for some time, and last year, an independent manufacturer of telephones approached him to do just that. Levenstein saw a golden opportunity and jumped at it. With the telephone industry's recent deregulation, "millions of people will be purchasing their own phones," she says.

Hypothetically, if the telephone manufacturer estimates the wholesale volume at \$10 million and Blass's share is 7%, he will receive \$700,000. "We ask for part of that up front," Levenstein explains. "If the product bombs, which it won't if we've done our homework, we're protected. If it's a success, we'll make many times that in royalties. Payments are made to us quarterly by the manufacturer, and, of course, we have access to their books."

Once all the parties have signed the agreement, Blass will sketch a design for the telephone, the jeans, the bathing suit. The manufacturer will produce a prototype, which is delivered for Blass's inspection. Only after his approval will production begin.

Naturally, there are those situations in which the designer does little or no work. (How many innovations can possibly be made on a pair of jeans?) Jockey International has a license for Yves St. Laurent underwear. Jockey designers show St. Laurent sketches and sample colors. His "input" amounts to a nod of the head, and then the checks start arriving.

Furthermore, if a designer licenses an entire collection to one manufacturer (Blass licenses his men's wear line to PBM in Philadelphia; Calvin Klein licenses his to Biderman Industries in New York), the company can in turn sublicense to other manufacturing companies in related fields (shirts, ties, handkerchiefs, belts). Sublicense fees are higher because income must be paid to both the original manufacturer and the designer.

To keep the manufacturers on their toes, the license agreements, which are usually granted for two to five years, require that a specific percentage of sales be devoted to advertising. "We also increase the amount of the minimum payment each year to induce the manufacturer to promote the product and not just keep it on the shelf as a name," says Wortmann.

The lure of such profits has led people like Allen Tucker, formerly CEO of Calvin Klein Men's Wear, to strike out on their own. Tucker recently left Klein to establish his own licensing company (essentially a manufacturing company), Tucker International. Tucker licenses and promotes several lines for designer Alexander Julian. "I offer management, financing, production, promotion, all the nuts and bolts that Alexander doesn't have the time for, or the expertise or interest in," says Tucker.

Through their licensing arrangements, Tucker and other manufacturers will benefit not only from sales, but also from brand identification and exposure, assets that are truly priceless. One retailer estimated that to build a brand identity with a recognition factor as strong as Calvin Klein's or Gloria Vanderbilt's would

cost a manufacturer \$50 million, minimum. The exposure gained from being associated with a successful person or character is literally impossible to convert into dollars, says Marvin Levy, a consultant to MCA on its E.T. licenses. "Think of how many people have seen E.T. worldwide," he exclaims. "I turn down five licenses for every one I grant. I thought it would slow down after a while, but it hasn't. E.T. is a phenomenon. The public just took him to heart. Everybody wants a little piece of his love and warmth in their home."

Ironically, even though the licensor will require the manufacturer to advertise, the actual process of licensing is the best kind of advertising—and it's free. Every person who wears Calvin Klein jeans is advertising Klein, just as every woman who carries a Louis Vuitton handbag is promoting Vuitton. Everybody wins. Nearly everybody, that is.

Consumers are, of course, the vital cog in the licensing mechanism. They are the ones paying premiums for the names. What Levy refers to as the desire to have "E.T.'s love and warmth" is what people in the fashion industry matter-of-factly term "the customer's need for security."

"Most people are very insecure," says Hilda Barnes. Licensing exists because people will spend more money for a name. If they walk into a store and buy a designer suit, they feel better because they know the designer is supposed to represent "taste" and quality."

Most licensing programs aren't successful until the licensors have attained personality status," explains Wortmann. "Look at Gloria Vanderbilt. Look at Oscar de la Renta. It's their life styles that people are trying to emulate. If the designer's name is associated with the right people, if he shows up at the right parties, it creates a mystique about the product."

Licensors, therefore, are exceedingly careful to perpetuate the image they want. It may involve demanding a quality product, but it often means restricting their products to the "best" stores—Saks, Lord & Taylor, Neiman Marcus, I. Magnum, Bloomingdale's, and the like. "You have to be careful how you present your product," says Tucker. "You're going for a certain customer, a certain market. I'd never sell in a store like Sears. It would destroy Alexander Julian's image."

Image considerations didn't deter Halston last September when he signed one of the biggest licensing deals ever. For an undisclosed sum, he agreed to design several lines of clothes for J.C. Penney, traditionally a budget store. Industry banter estimates that retail sales will exceed \$1 billion over five years, which, at the minimum 5% royalty, would guarantee Halston Enterprises \$50 million. "Everyone on Seventh Avenue is a little guarded about discussing it," says Levenstein. "On the one hand, the couture business is what got him on the map in the first place, and I think an association with a store like Penney's tends to downgrade that. On the other hand, everyone is a little resentful of the amount of money he'll probably make."

For J.C. Penney, the license with Halston is a brilliant marketing tool. "Penney's is repositioning itself in the market," explains Michael Lichtenstein, managing director of Halston. "It is spending tremendous amounts to redo its stores and upgrade its image. One of the ways it wants to tell the public what is happening is to have a major designer like Halston design

clothes exclusively for Penney's."

So Halston and his team of designers are gearing up to design a number of collections—including separates and accessories—that will debut at Penney's stores in every important regional shopping mall in the country next fall. All will be manufactured by J.C. Penney.

Though most designers look down their noses at the Penney's customer ("That's not our niche," sniffs Peter Strom of Polo), they do admit that stores like Penney's represent an enormous untapped market for licensed products. It was a market Halston's parent company, Norton Simon, couldn't overlook. "It happened to fit into our marketing strategy very well," explains Lichtenstein. "We've always picked licenses in areas where we thought Halston could make a contribution."

Licensing was, in fact, the reason Norton Simon bought Halston in 1973. ("They got the label cheap," says Levenstein.) Norton's approach to licensing has always been strategic rather than aesthetic. When it decided that Halston should enter the licensing market more broadly, the staff went through the National Retail Merchants Association's Merchandising and Operating Results report and listed 72 categories that seemed appropriate for Halston designer merchandise. They divided the group into three product areas and went after individual manufacturers in those areas.

Listening to Lichtenstein talk about the association with Penney's, however, one would think the decision was based more on *noblesse oblige* than marketing research. "Halston has always wanted to design goods for the broader public," says Lichtenstein. "He's got design ideas that are applicable to areas we've never exploited—like jeans." Halston will design his first jeans for Penney's next year. "As you know," Lichtenstein adds, "Halston grew up in the Midwest [both he and Blass come from Indiana], and like most Midwesterners, he thinks of Penney's as motherhood and apple pie."

Although the marketing swing will move Penney's upscale, it will move Halston downscale. But most people in the fashion industry don't think the move will cut into Halston's other business. "Theoretically, it shouldn't affect his couture line," says Wortmann. "Penney's isn't doing anything different. They're just using a name to upgrade their image and sell more merchandise."

Gail Levenstein disagrees. "The woman who forks over \$2,000 for a Halston evening dress doesn't want it associated in her peers' minds with a designer whose merchandise is sold at a discount store like Penney's," she says. That association, in reverse, is precisely what Penney's is banking on.

Because the success of licensing depends so much on the consumer's need for identification and emulation, there is no question that Halston will be mining a rich and untapped vein in middle America. One thing is for sure: The statement that Halston is making in his license agreement with J.C. Penney is not a fashion statement—it is a merchandising statement, and a brilliant one at that. It is reasonable to assume that the quality of the Halston merchandise will be better than Penney's standard line, but the basic rule of licensing will hold true: You pay for the manufacturer's quality and the designer's input. Always, though, you pay a premium.

Despite the fact that there are occasional slack times for licensed goods (presently jeans sales are down, cosmetics and shoes are up), as long as there are customers who are willing to pay more for products that will make them feel cute, loved, macho, sexy, sophisticated, rich, or simply well-dressed, the licensing boom will continue unabated. Manufacturers haven't come close to exhausting the possibilities. "Once a builder came to us and wanted Bill to design condominiums that would have his initials on them,"

says Levenstein. "After all, if Ralph Lauren is going to have his initials on everything inside your house, why shouldn't Bill Blass have his on the outside?"

Why not indeed—nothing surprises people who are in the licensing business. "You may walk into a grocery store some day and buy a head of lettuce by Oscar de la Renta," says Barnes. "The public doesn't have any illusions. They will know Oscar didn't grow it. But it will be a 'quality' head of lettuce." And it will have cachet.