Merchandising Licensing And Strategy

BY WESTON ANSON*

Modern practices outdate old approaches to promotional style of licensing; many techniques can no longer be overlooked

Too often people think of t-shirts, caps or key chains when they hear licensing — trinkets and trash. However, this old-fashioned approach to a promotional style of licensing is increasingly outdated. In this brief overview we will look at new, different, expanded and enhanced forms of licensing and merchandising. Licensing remains the ultimate leveraged marketing tactic, and the approach to licensing and merchandising has changed dramatically in the last 10 years.

Simply put, licensing is the granting of a right to use a trademark, copyright or patent to a third party in return for a royalty. In trademark licensing it is most typically thought of in connection with either promotional licenses or brand extension licensing. However, today there are many different strategic licensing approaches not commonly considered.

Traditional Licensing

Traditional licensing has been around since the 1930s (or even earlier) in the form of Buck Rodgers space guns and G.I. Joe dolls. Having grown from a few million dollars in annual sales, to $102 billion annually, the international licensing industry is still dominated by traditional licensing. Traditional licensing is most often thought of in the content of Disney's *Lion King*, or on NFL sweatshirts and caps. Corporate America can, however, use traditional licensing to its advantage: Coca-Cola apparel and collectibles generate millions of dollars in royalties every year, as well as tens of millions of positive consumer impressions to reinforce brand image and loyalty to the Coca-Cola empire.

Brand Extension Licensing

We all know what brand extensions means, but how do we apply it via licensing? Examples include Betty Crocker appliances, Caterpillar workboots and safety equipment, Corvette performance accessories, IBM PC accessories, Ralph Lauren paint products and Oreo ice cream. Each of these is a simple and clever way to extend a brand's franchise without the brand's owner having to invest in product development, manufacturing and distribution.

Ingredient Licensing

Who can argue with the success of the "Intel Inside" ingredient licensing program? It has had global impact and has made Intel a household brand. Nutrasweet successfully built its brand name on the base of an ingredient licensing program. The M&M Mars brand has a successful ingredient licensing program as well as engaging in more traditional licenses using its M&M characters. And Clorox has achieved great success with its KC Masterpiece BBQ Sauce ingredient license with the Frito-Lay's Baked Lay's brand. Ingredient licensing, for the most part, has become a significant focus for brand managers and new product development teams. It is a cost-effective, low-risk tool with enormous financial benefits.

Promotional Licensing

Promotional licensing has become more and more popular among retailers. It gives retailers an opportunity to tie-in with national promotions without the traditional high investment, overhead and lead times. The NFL and its product licensors are often seen linking with K-Mart, Target and regional/national sporting good chains to offer limited-time, promotional licensed goods.

Microsoft applies the same tactic with computer and software retailers, and even with financial institutions. And, HABA brands utilize promotional licenses such as Hollywood films, automotive brands, and professional sports organizations to reach highly targeted consumer segments.

Electronic Licensing

The use of Websites, domain names and other interactive or digital assets are increasingly being used as licensing vehicles. Separate licensees (or separate licensing agreements) are signed to provide branded products and services using the licensor's name, trademarks, etc. exclusively on the Web. Examples include CNN's licensing out of space on its Web site to hotels and travel-related services.

Retail Exclusive Licensing

As the phrase implies, a licensor can grant exclusive product rights to a single retailer. For example, Callaway Golf has signed Nordstroms as its exclusive licensee for apparel and footwear, while K-Mart has the Jaclyn Smith Collection under an exclusive license.

Event Licensing

The America's Cup, Super Bowl, the World Cup, and Olympics are all event licensing opportunities for corporate America. From Nike's ubiquitous licensed presence on major sporting events, to "Bud Bowl" t-shirts from Anheuser-Busch, event licensing continues to grow.

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Site-Specific Licensing

When the Forbes family members decided to use licensing as part of their marketing mix, they started by licensing the Forbes Museum and the Forbes Collection. Site-specific licenses tend to be more focused and less mass-market driven, with a more strategic goal of protection with revenue as a secondary objective.

Endorsement Licensing

American Express and Tiger Woods signed an endorsement license made in heaven. Other examples include the AAA and its family of outside service providers as well as NASCAR and other sports groups endorsements of credit cards, phone cards, business services, etc.

Co-Branding Via Licensing

The automobile industry offers multiple co-branding examples using licensing: The Eddie Bauer Ford Explorer and the M3 version of the BMW 325i come to mind. At the other extreme, the Ralph Lauren/-POLO Barbie doll is done under license from POLO to Mattel.

NEW CONCEPTS, NEW TACTICS, NEW STRATEGIES

Can the words strategy and licensing be used together? Or is ''strategic licensing and merchandising'' an oxymoron? Increasingly, corporate America and European companies think of licensing and merchandising as part of a longer term strategic commitment, rather than a short-term approach to licensing best exemplified by the phrase ''trinkets and trash.'' Ford, IBM, AT&T, Kodak, Nike and other megabrands cannot all be wrong — there is substantial leverage, significant revenue and endless consumer impressions to be gotten out of a strategic licensing and merchandising program.

WHY ENGAGE IN LICENSING AND MERCHANDISING?

Today, the typical corporation is seeking leverage through licensing — marketing leverage, competitive leverage, and financial leverage among others. Some examples of where licensing is used to maximize leverage include:

- A publicly traded publishing house has used licensing to expand into overseas markets.
- An alcoholic beverage company uses licensing to enter into closely related businesses that offer consumer TV exposure.
- A sporting goods manufacturer has expanded into related product areas that require heavy capital investment, by licensing its strong consumer brand name.
- A major soft-drink company uses licensing to reinforce consumer awareness as well as protect its trademarks and corporate identity.
- More than one automobile manufacturer uses licensing to identify and attract upscale consumers.
- A leading designer uses licensing on a global basis to penetrate key markets where direct export or management of local manufacture would be difficult.

Financial benefits from licensing are substantial. Investment is minimal and the risk reward ratio is excellent. Cash flow is relatively quick and sustainable, as well as being fairly predictable. In addition, operating costs tend to be minimal in licensing compared to other strategic marketing alternatives. The ability to expand into new markets and new product areas is possible at greatly reduced costs, measurable in both time and dollars. Each corporation and licensor has a different rationale for licensing or not, but some key reasons for using licensing include:

- The ability to more quickly expand into new and emerging markets, product lines, distribution channels and/or consumer segments.
- The ability to better utilize the goodwill of a brand or trademark as well as its consumer base, advertising, promotion and brand franchise.
- The ability to strengthen or expand retail distribution and retail penetration and presence.
- The ability to test a company's own affinity for new products or areas of business without capital investment or risk to core business.

NEW LICENSING AND MERCHANDISING STRATEGIES

Earlier in this article we listed 10 strategic approaches to licensing and merchandising. It is appropriate that we briefly identify examples of each. Exhibit A summarizes these different strategic approaches and identifies key licensors for each of the strategies.

EXAMPLES OF STRAGEGIC APPROACHES

Alternative Licensing Strategies	Examples
1. Traditional	Coca-Cola, Nike, Star Wars
2. Brand Extension	IBM, General Mills, Caterpillar
3. Ingredient	M&M Mars, Clorox, Intel Nutrasweet
4. Promotional	McDonald's, Burger King, NBA
5. Electronic	American On Line, CNN, Microsoft
6. Retail-Exclusive	Callaway Golf, World Wildlife Federation
7. Event	Nike, Anheuser-Busch, NFL, Pepsi
8. Site Specific	Forbes (Museum), Vatican Library, Qualcomm
9. Endorsement	AAA, American Express, AARP
10. Co-Branding	Ford, General Motors, Martha Stewart

Please note that these strategies are not necessarily mutually exclusive: A licensor can, for example, engage in an ingredient licensing program as well as having a traditional and/or brand extension program. M&M Mars is a good example of both of these approaches to licensing being used simultaneously.

Exhibit A