The Ultimate Marketing Strategy

BY ALLAN FELDMAN*

Corporate licensing is the ultimate leveraged marketing strategy; done properly, it can generate immense dividends

Licensing is the ultimate leveraged marketing strategy. Carefully tapping into and building on a company's hidden assets - the brand equity (i.e. goodwill) that's been accumulated over the years — professional licensing programs offer companies a low-cost, quickly implementable way to (1) expand and reinforce their consumer and retailer awareness, (2) strengthen their trademark protection, (3) enhance the image of their brands, (4) expand their brand beyond its core customer set, (5) introduce product line extensions (and/or new distribution channels) and (6) build themselves a significant new profit center.

As a result of all it can offer, industry growth has been very dramatic. Retail sales of licensed product in this country, $3 billion in 1973, registered in at over $68 billion last year. A 2,200% increase in 18 years is both dramatic and impressive for any industry — but the real growth for trademark licensing is just now beginning.

Corporate licensing is leading the change. From virtually zero six years ago, corporate licensing today accounts for over 25% ($18.8 billion) of the entire industry, and it is the fastest growing single segment ($45 billion by 1995).

Its growth rate outstrips the overall industry rate by at least 200%, and the lead continues to expand.

We estimate that nearly 25% of the Fortune 500 companies are today using or preparing to use licensing to augment their marketing.

Seagrams, Sunkist, Hallmark, Rockwell International, Playboy, United Airlines, and Schwinn were among the early participants, and each have solid programs in place. Last year, the average of this group generated roughly $385 million in licensed product retail sales — the largest did well over $1 billion. And, the indirect marketing benefits they gained for themselves far exceeded the royalty income from their product sales.

More recent participants include Hershey's, Cat's Paw, Eastman Kodak, Bon Ami, Mensa, Unilever, Oreo, Coleman, Lenox China, Fudgsicle, Coppertone, Old Spice, Winnebago, Dr. Pepper, Chock Full O'Nuts, Playtex, Schrafft's, Allegheney, Frommer, H&R Block, Schwinn, Jeep, Yamaha, Visa International and a host of others. The list is impressive and growing fast.

WHAT IS BEHIND THIS FAST GROWTH?

There are a number of underlying reasons working to unleash the growth of corporate licensing. None is difficult to understand.

First, this is the decade of marketing within Corporate America — the competition is severe and the costs are astronomical. Ad costs continue to skyrocket in the face of increasingly fragmented markets; new product introductions are increasingly costly, and increasingly prone to failure; and, the cost and time required to build a new brand is so prohibitive that companies like Phillip Morris will acquire a General Foods Corporation at a purchase price consisting largely of goodwill.

Second, licensing builds exclusively on existing brand equity. Done professionally, it's low cost, low risk and quickly implementable. Financial exposure is minimal, and it does not last long — the combination of advance payments and minimum royalty guarantees will often, within nine to fifteen months, exceed cash invested by a factor of two. A well executed program will often generate a positive cash flow in less than two years, and annual returns from royalties alone often range between 300-700%.

And third, as awareness of licensing grows, more and better licensees are coming into the market — and they are seeking properties with long-term potential instead of the single event or one or two year "hot" properties typical within licensing several years ago. Corporate marks provide that longer-term stable potential, and royalty rates have been climbing at a consistent 6-7% per year. Today, rates generally range from 4-9% (of wholesale sales) based on the product categories being licensed into and the strength of the property itself.

The corporate licensor is typically different from most other licensors, and many of those differences are profound. While many licensors view licensing simply as a short-term cash generator, the typical corporate licensor looks at it differently — they're using licensing as a strategy to gain marketing leverage.

MARKETING LEVERAGE

Cash is important, but the real payoff to corporate licensors comes from expanding and reinforcing their brand awareness among consumers and retailers, from strengthening their trademark protection, from enhancing brand image, from expanding their brand beyond its core customer set, from building distribution leverage and from being able to do low-cost and low-risk product line (and/or distribu-

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tion channel) extensions.

In many ways the corporate licensor by his very nature can more directly tap into and benefit from all that licensing has to offer. A new profit center built on royalty income is certainly attractive, but the value of the other benefits if put together correctly, can far outweigh the direct income gains.

Smart companies are fast coming to learn the full extent of this strong business tool, and applications that were unheard of just two years ago in all but the most private circles — things like supporting core margins in the face of foreign competition, things like strengthening distribution leverage and things like better utilizing fixed distribution costs — are being increasingly sought after and adopted.

In one example, the licensed line consists exclusively of products that are by design visibly superior to the alternatives . . . a line of obviously quality, high value-added, merchandise for which you would clearly expect to pay a premium. The licensor's core line, however, consists of products that are very difficult to differentiate. It is a high-quality line, but unless you're an engineer it's very tough to quickly see the difference between one brand and another. As a result, the licensor's margins have been under a lot of pressure.

The core and licensed lines are placed close to each other at retail, and the spill-over effect made it possible for the licensor to successfully increase the price of his line by an extra 14% over competition. In addition, he has a new source of royalty income and substantially stronger brand advertising and awareness.

In another example, the licensor has a lock on sales into a certain important but limited retail arena. And his people have time on their hands. Here, the licensees as a group are selling directly into mass merchant outlets, and have entered into a separate marketing agreement with the licensor to sell into his unique area.

The licensees are selling more in a stable and profitable way. And the licensor, he's generating new income from relatively fixed marketing costs, he's extended his line and has more clout with his distributors, he's extended awareness and recognition of his name into new retail arenas, he's boosted the advertising of his name, and he's developed an additional new source of royalty income.

In a third example, awareness of the licensor's brand name didn't typically begin until people got into their early-to-mid-20s and started shopping for his kind of merchandise. He felt strongly that establishing a lower age of name awareness, trust and confidence would help improve his share of market, and the licensing program has extended his brand name into easy products oriented to younger people.

There are many more examples that can be discussed. But the most important thing to note is the unusual strength and flexibility of this innovative business tool. Many people have yet to even imagine all that licensing can do for them.

Planning and Preparation

The other key difference in corporate licensing lies in the amount of planning, development and testing that's required. When corporations enter into licensing its for the long haul. Typically, the corporate brand under consideration for licensing is often among the crown jewels of that corporation.

The goodwill surrounding the mark has often been built over 50 years or more at an immense (frequently multi-billion-dollar) cumulative advertising cost.

The marks have long stable life cycles and they often support a core business with revenues in the hundreds of millions of dollars per year, and a weekly payroll of 6,000 people or more.

There's much more at stake in corporate licensing, both in terms of risk and in terms of the opportunity itself. Decision making has to be more comprehensively thought out, deliberate and cautious.

Is corporate licensing always successful? No way. Licensing helps a great deal, but it takes more than a good name to be successful.

Program failure rates combined with the skyrocketing cost of doing business — in royalty guarantees, product development, product launch and ongoing marketing — are making licensing a more serious undertaking. And even while some people are willing to "reach" much further than others, there has to be a solid foundation underlying any well-run licensing program. Because without it, licensors, licensees and retailers are all inviting trouble.

One unnamed company, for example — a very well known and respected brand — licensed a new line that appeared to be an easy extension from what the company is known for. But it bombed. Trial purchase was very good, but few consumers repurchased the product. The reason was that the product itself was disappointing — people expected something much more from this brand than a "me-too," low-end commodity product, but that's all they got.

The reasons for failure cover a broad range, and a complete discussion is probably better held for a separate in-depth article. But in general — as was the case in this example — they usually tie to a combination of inexperience and insufficient preparation. Following are some key things to be aware of:

First, professionally developed licensing with a strong emphasis on the application of marks to product is essential. The days of being able to go into the market with an insufficiently conceived and tested theme, story line, marketing plan or logic is fast coming to an end for even the biggest and most prestigious marks.

Extension Licensing

Throwing a name onto a T-shirt will take an extremely distant back seat to licensed products that are so natural and so clearly extend from a brand franchise that most people have no idea the product line is licensed.

This is called extension licensing, a unique specialty within the corporate arena. It's high-performance licensing at its best and achieves unprecedented levels of solid, long-lasting success. Examples include Seagrams into sodas and mixers, Cat's Paw into work gloves and shoes, Oreo into ice-cream sandwiches, Gerber into nursery monitors, Kodak into Christmas lights, Mensa into publishing, Fudgsicle into milkshakes, The '21' Club into catering and Smith & Wesson into holsters.

Extension licensing is the area of corporate licensing that will account for the bulk of future growth. Like in corporate licensing, the licensed properties consist of corporate/brand names and trademarks — but the product categories licensed into are much more specialized.

This kind of licensing builds directly from the core franchise itself. Categories are chosen based on the quality of the "fit" with the franchise, and increasingly licensees are coming from far beyond the regular pool of professional licensees.

Because of the close "fit," extension lines achieve a stronger benefit from the consumer awareness and trust that's been built. Sales results are better ($50 million per year or more from a licensee in a meaningful category is not at all unusual); product life-cycles are longer and more stable than in any other category of licensing; and the marketing benefits to the licensor are dramatically enhanced.

New Breed of Licensees in Diverse Categories

More and better licensees are coming into the market seeking properties with long-term corporate mark potential instead of the single event or one or two year "hot" properties typical within licensing several years ago.

Interestingly, more and more of these licensees are first-timers. These are not professional licensees going from one property to another. They are medium-to-large-sized companies with well established, successful, well staffed companies with strong balance sheets. They're interested in locating good niche brands for use in their industry.

Apparel, toys and many other heavily licensed categories are becoming overly saturated and a shake-out is inevitable. At the same time however, totally new categories are being brought into licensing — automobile tires and components, food and beverage, major appliances, work shoes, power tools and furniture are just a few examples.

Manufacturers and retailers know that established brand names and the trust they engender are increasingly important in successfully marketing to consumers and working to build your own is exceptionally expensive and time consuming.

BUILDING A SUCCESSFUL LICENSING PROGRAM

Conceptually, licensing is simple. But in an executional sense, it is not. An insufficiently planned or executed program can harm a brand's image and a failure with one licensee will make it very difficult to attract others. As with most other endeavors, there's little substitute for experience and judgment. In licensing there's no substitute.

Done professionally, the risks are negligible and the returns are enormous, as discussed in our earlier examples. There are three key points you should keep in mind in developing a successful program.

First, insist on the development of a licensing business plan before making any implementation moves. It should be in-depth, it should be just as comprehensive as the plans required for any other serious business move, and it should pretest the viability of the program with real live potential licensees and retailers.

Second, the program must be based on a solid foundation and licensed product categories need to be well thought out for consistency and fit with the brand image. Although some licensees are willing to reach much further than others, without a solid foundation every step of the way, you could be inviting trouble. Don't.

And third, adopt a top-down approach. Establish specific up-front guidelines covering all licensed product, packaging, advertising, promotion, merchandising, pricing and distribution to be used in the program.

SUMMARY RECAP

Corporate licensing involves more planning, more preparation and more business insight than any other form of licensing. Programs get started slower, but can provide exceptionally strong long-term benefits. It is the ultimate leveraged marketing strategy, and done properly, it pays dividends that many companies have yet to even imagine. It provides companies with a business tool that reaches far beyond the single event one- or two-year hot properties many people still associate with licensing.