IMC LICENSING

Licensing In A Slumping Economy

by - Cara Bernosky

Grumble…Groan…Sigh… That's basically how most articles on the economy start out these days. While we've all had more than enough of Joe the Plumber, it did get us thinking about Joe the Brand Manager, Joe the Manufacturer and Joe the Retailer and how they impact the world of licensing and getting product in the hands of Joe the Consumer. While others are grumbling and groaning about the state of the economy and their businesses, we at IMC Licensing remain optimistic, but our optimism comes with a healthy dose of reality that deals are going to look different than in years past.

At a time when brands are slashing ad budgets, commodity prices are increasing and headcount is decreasing, licensing remains an attractive tool. For some brand managers, licensing is a method to get their brands in front of consumers in new ways. For others, it's a way to bring to market new products without taking on the risk and investment internally. For manufacturers, licensing becomes a way to differentiate in a crowded marketplace where surviving on price alone is a scary proposition. For retailers, proprietary brands help make their doors a destination for consumers.

But the facts remain: consumer confidence is down, retail sales are down, commodity pricing and freight expenses are up and there is only a fixed amount of shelf space at a time of retail consolidation. Not exactly cause for celebration, but having educated parties on all sides of the licensing equation talking openly about what it will take to succeed in this environment is the first step to success.

That's not to say that we don't see Joes from all sides running for cover and choosing to do nothing in hopes that this will all blow over and things will just return to the way they were. Most major licensors are feeling tremendous pressure to stabilize and grow their core businesses. Faced with layoffs and other restructuring, they are pulling back resources from any initiatives deemed non-essential, licensing included.

New Realities for Structuring Deals

Structuring licensing deals in this environment requires all parties to acknowledge the realities of this economy and proceed accordingly. Some brand owners still have the hubris of a few years earlier when a generous royalty rate went along with a hefty advance payment and even heftier guarantees. Whether it is directly attributable to the economy or an inevitable progression in sophistication, licensees are becoming less willing to commit significant amounts of cash without some indication that their venture will be a success. Brand owners need to accept this new reality.

We are hearing from all of the Joes that market testing provides a level of comfort before diving into the deep end with both feet. We are seeing a lot of deals structured with defined testing parameters and sales hurdles as triggers at key milestones throughout a deal. For example, one major frozen food program had a benchmark for consumer concept testing before it could move forward to a regional launch. Then, the regional launch needed to perform at pre-established velocity hurdles before it could move to a national launch. Then, the program needed to achieve certain distribution and velocity hurdles in order to trigger the multi-year renewal. At each of these key gates, additional guarantees and payments became due, giving both parties a level of comfort that the partnership was truly win-win.

Even existing programs aren't safe from this new reality. How do they spell relief? Apparently some licensing partners spell it R-E-D-U-C-E-D-R-O-Y-A-L-T-I-E-S. We and other agents are hearing more and more requests to restructure deals in a way that can insure long-term success of the initiatives. Such concessions are not given lightly, but only when the partners can openly discuss the input variables, pricing, competitive landscape and margins.

Conclusion

It is true that at times like this, the strong and well-prepared survive. We believe it will be much more challenging for certain types of lesser-known and more unproven properties to succeed. This is not an environment where many manufacturers, retailers and consumers want to take a pure gamble. But, for strong brands that have established their promise in the minds of consumers, a licensing deal that can deliver that promise into a new category or channel of distribution can deliver the value the consumers are seeking.

So Joe the Consumer is out there, don't despair! The economy is simply forcing a dialog among all the players around the table that was long overdue. When smart people plan how a brand, manufacturer and retailer can provide consumers value via licensing, everybody wins.

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