The Truth about collecting royalties

what they don't tell you when you start a licensing programme

Having spent the last 10 years collecting royalties on behalf of a number of clients, I can tell you that it is not an exact science. In theory, the licensor grants a license to a reputable licensee who pays them a handsome cash advance and then, when the royalties rise above that advance, pays out royalties per item sold once a quarter. In practise, however, if I had £1 for every starry-eyed potential licensor dreaming of royalty cheques I'd be a rich man, except of course, those £1s would still need collecting!

Unsurprisingly, there is a whole industry dedicated to the pursuit, collection and recovery of royalties because the uncertainty of relying on royalty-based income is not for the faint-hearted.

How can you tell if a licensing programme is working or not?

One of the first questions you need to answer in order to determine if your livelihood is built on stone or sand is "does your licensing programme actually work?" because, ultimately, the best protection against not being paid is the successful performance of the brand licensing programme. When retailers are begging for the brand and licensed products are flying off the shelves, licensees will cherish the license to keep it from falling into the hands of a competitor and royalty collections should not be a problem. However, in licensing you'll have good years and bad years and, as you get better at it, you'll start recognising the difference. Sometimes it's harder than you might think to tell if a licensing programme is working.

When new licensees are queuing to sign up and existing licensees are paying more each year there seems to be no reason to doubt that the future is likely to be rosy. Dig beneath the surface, however, and the truth can be less than flattering. This is especially true because the licensing director, their agency and all the licensees are motivated by growth of the programme and addicted to delivering good news. Very few people working on a licensing programme are incentivised to analyse the numbers dispassionately and to point out that the revenues are unsustainable.

When Caterpillar shoes were outselling Timberland it would have been easy for Caterpillar to report the massive royalties as endemic of the success of their brand. In fact, when selling licensing opportunities to new companies, they would have most likely held up the apparel license as the quintessential example of how they expected their licensees to perform. How easy it must have been at that point for Caterpillar to take their eye off the ball and miss the fact that the apparel license was a sales spike borne out of the commercial opportunity in the fashion market for a brand to fill the gap in the rugged menswear category. The happy circumstance of footwear licensee

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Wolverine growing Caterpillar into a mass fashion brand must have been a powerful boost to the licensing department's revenue but, judging by the www.Catapparel.com website, this particular well seems to have run dry.

Meanwhile, brands like JCB, Stanley, and Black and Decker have made hay in the powertools, handtools and pressure washer categories, where Caterpillar might have delivered significant royalties had it not been so overawed and diverted by the success of its apparel license.

Early warning signs

The budgerigar in the cage of any licensing programme is the royalty payments. If the payments are late or the reporting unusual, then the whole programme needs to sit up and take notice. This can be hard to anticipate because, with licensors desperate for good news, licensees will often give details of great sales performance that conflict with the lower than expected numbers in the royalty report.

The disparity between sales reports and royalty reports is the difference between dressing up for a night on the town and waking up the morning after. Sales reports are often just second-hand hype overheard from an over-excited salesmen who recently arranged a big meeting. Royalty reports, on the other hand, feature the hard details of invoiced sales. In addition, these invoices can conveniently drag on until the end of next quarter. In this game of 'who's the banker?' The licensee holds a lot of the cards and, more importantly, all the cash. If royalties are not collected with strict discipline, licensees can earn themselves a tempting additional 90-120 days of interest.

Not to be the bringer of bad tidings but big royalties can also be an ominous warning sign. With margins being squeezed at the volume end of the market, licensees can often end up juggling income and expenditure, and unless watched closely this juggling act can quickly turn into a disappearing act, with your royalties playing the role of the glamorous assistant.

To conclude

The most important guarantee that your royalties will be paid is the success of your licensing programme. In order to achieve success you need to maintain the focus on your strategy and ensure your brand appears first in its core categories. Even if you have a surprising success in a distant and unexpected category, the core categories will be the long-term revenue earners and failure to exploit these will see you falling behind competition when the dust settles.

Licensors need to recognise that the quality of reporting and the speed of payment is a fundamental sign of the licensing programme's health, without a careful watch on this vital area, a significant loss of revenue can result.

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Whilst licensors need to keep a careful eye on their core categories, royalty collections should be a disciplined part of any licensing programme and the management of this function needs to feed into the holistic overview of the programme in order to understand its performance.

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