

# L I C E N S I N G

## W H E N D O E S I T M A K E S E N S E ?

by Nancy Zwiers

Overlaying a top license on your kids' product is a proven way to increase sales, but licensing is not without risk. Before you contemplate a licensing strategy, it's important to understand what it can do for you.

Basically, when you license a top property, you are renting brand equity. Research has consistently shown that brand equity directly correlates to profitability. Not only is the consumer willing to pay a premium for an established brand, but brand equity also gives you leverage and pricing power with the retailer, thus enhancing your profitability.

You can think about licensing brand equity in terms of renting a home versus buying one—when you're done making the payments, the renter has saved some money and avoided a big up-front cost, but the buyer owns the home. In an ideal world, everybody would own their own brand equity (and home) but this is not always possible.

A trademarked name is not automatically a brand; a brand exists in the mind of the consumer. A consumer must be aware of it and be willing to pay a premium over a commodity (unbranded) product in order for it to truly have brand equity.

### WHEN DOES LICENSING MAKE SENSE?

#### *Scenario No. 1—You Can't Afford to Build Your Brand from Scratch*

Building your own consumer brand usually involves some serious marketing dollars and the payback does not happen overnight—it can take several years to pay back the marketing in-

vestment that it takes to properly launch a brand. Renting brand equity through a license enables you to pay as you go, via royalties, rather than incurring the upfront marketing investment that it takes to create a brand in the mind of the consumer.



#### *Scenario No. 2—Your Product Is a Commodity-Type Product*

Retailers are becoming increasingly more sophisticated about sourcing their own commodity products in the Orient. Supplying a license gives your product line instant brand equity that the retailer can't duplicate.

#### *Scenario No. 3—Your Established Brand Would Benefit from on-Trend Relevance*

A license can bring timely and on-trend relevance to an established brand. In this case, the license is not the reason for purchase, but adds some "umph" to a brand a consumer already knows and loves. We call this "borrowed interest."

For example, Etch A Sketch—a well-established and beloved brand—recently launched a SpongeBob SquarePants ver-

sion to bring on-trend relevance to a classic brand that is nearly 50 years old. Note that an established brand often pays lower royalty rates than a new brand since it is also bringing its own brand equity to the table.

#### *Scenario No. 4—You Are Creating a New-to-Market Category*

When you are creating a new market or product category, there is nothing preventing other manufacturers from jumping in on the same opportunity that you have carved out. A broad-based licensing effort can give you a strong defense against competitive encroachment.

For example, Spin Master's **Flip Open Sofa** established the market for kid-oriented foam furniture at mass. After the line launched, the company immediately locked up all of the top licenses so that other firms witnessing the success could not steal market share. Licensing helped Spin Master defend their turf at retail.

### WHEN NOT TO LICENSE:

If you have the money to build and market a new brand, you might not want to license it right away. A license divides the consumer's attention between the license and the brand you are trying to create, resulting in less brand equity for you.

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*Nancy Zwiers is CEO of Funosophy, Inc., a kids' marketing and invention firm. For more information on Funosophy's license acquisition or marketing functions, call (562) 436-5251 or email [info@funosophy.com](mailto:info@funosophy.com).*