



BUSINESS RESOURCE FEATURES

Licensing in a recovery

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Extending fashion brands through licensing deals can be a lucrative revenue stream, but is the business model appropriate in a recovering market? WGSN looks at how to make the strategy work.

Why license?

- Launch a new category
- Develop a new distribution channel
- Enter into a new, sometimes unfamiliar, territory
- Provide a new revenue stream
- Help new customers access the brand
- Bring in outside expertise

Licensing risks

- Loss of control
- Dilution of brand
- Unexpected consequences
- The wrong partners

Whether fragrances, sunglasses, watches or footwear, extending fashion brands into new product categories through licensing can be a lucrative business.

During the past few years fashion brand licensing has proliferated as companies look for new revenue streams. But how can the business model work during the current delicate recovery?

Proven opportunities



Bench camping



Peak Performance

Firstly, there are proven opportunities through licensing, and Roger Wade, director of consultancy firm Brands Incorporated, said that the economic downturn had prompted many brands to seek them out.

However, it is important not to necessarily link any success brands may have had through licensing with the economic climate, he said.

"Of course, it is the case that the number of fashion brand license deals increased during the recession as they looked for revenue," he said. "But licensing works because of the position of the brand, not because of the economic cycle."

Every major international designer brand has extended through licensing, he said - in some cases with the brand extensions responsible for financially supporting the core. Yet achieving that kind of success is down to focusing on the right extensions for the brand.

"Licensing works well when there is a strong fashion brand that's focused on one core product area, and where complementary licenses make sense - for example, fashion and accessories. The business model allows access to other product areas that the brand would not ordinarily have access to because of different distribution channels and supply chains," Wade said.

Understand your brand

On the basis that a brand already has a loyal following in one category, logic suggests that those consumers will be compelled towards it in another category. But some brands lose out by not seeing the potential of brand licensing, while others allow their brand values and ethos to be diluted through the extensions.



Tiger of Sweden



Marks & Spencer Timothy Everest

Before contemplating any licensing extensions, "a brand has to be very strong and you have to know what you want to achieve", said Niels Mikkelsen, chief executive of Danish fashion group IC Companies.

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IC - which includes InWear, Tiger of Sweden, Peak Performance, Jackpot, Cottonfield and By Malene Birger in the portfolio and sells across Europe and the US - has kept its licensing limited. However, Mikkelsen expects to look at the model again as a later phase in the development of the business.

"Once you have decided to go ahead, you need to look at your core competences and see what you cannot do," he said.

However, you also need to be aware of potentially unexpected consequences once overall control of the brand is relinquished.

"A mid-priced fashion brand perfume is likely to end up on sale in supermarkets," Mikkelsen said. "You have to be sure that you will be happy with that before signing a deal."

And international consultant David Roth, chief executive of The Store WPP, said that trading on a brand's name may not be enough at retail during the current atmosphere of consumer caution.

"Success depends on the fit of the product extension," he said. "If the brand attributes of core product A are relevant on extended product B then there is a chance of success. But if the stretch from A to B is too great, then that's tricky."

Understand your (new) territories

Territory licenses, through which a brand gives exclusivity in a geographical area, can often offer interesting expansion possibilities, and Wade believes such deals are crucial when expanding into regions where there are seasonal as well as cultural differences.



American Apparel
nail lacquer



Betty Jackson. Black for Debenhams

"In Australia there is a different product cycle and in the US price competition means there is a different business model than in Europe. There are certain territories in which a brand would have to have very deep pockets to launch into the market."

Mikkelsen agreed, saying IC had made mistakes territorially in the past and has had to pull out of China.

"Taking a brand into places such as China can really only work when you have a local partner. Territorial licensing could work for us in the future."

Roth urged caution, however, particularly in regard to the current consumer spending climate, although he said that territory licenses can work well for established brands.

"A lot of brands have been looking to move into new regions, particularly developing markets, to offset the decline and the projected future decline in their home markets," he said.

"It's not a slam-dunk to take a brand from one territory to another territory, especially when retailers around the world are reducing inventory and stock listings and sticking with brands that have good track records."

Choose your friends carefully

Selecting the right partner is a crucial factor when extending a brand through licensing.

"A brand needs to understand the business acumen of any partner they might sign a contract with," said Angela Farrugia, group managing director of The Licensing Company, which has recently formed a joint venture with US brand house Iconix Brand Group to bring its fashion names to Europe via direct-to-retail licensing deals with retailers.

"I've seen some horror stories just because a brand has not chosen the right partner," said Angela Farrugia.

Mikkelsen agrees: "This industry is full of potential business. But for some agents and licensees a deal can be just about revenue - they create their own targets - so you have to be very strong about what you want to do as the brand owner."

It is also important to balance the attractions of licensing with an appreciation of its risks - and the fact that it should not be considered an easy problem solver for fashion brands, according to Farrugia.

"In times of recession, brand owners do want to explore the value of their brands outside their core," Farrugia said. "But licensing is not a license to print money. Licensing does not work when a brand is on the wane - it will not invigorate a failing brand."

"Kids and character licensing is a well trodden path with little newness so the risks and rewards are understood," Farrugia continued. "But brand licensing is still developing. There has to be a long-term brand proposition, a durable life story, an understanding of fashion trends and of target audiences. It's not such an easy task."

Maximise the benefits

If licensing is the right move for a brand it can obviously bring enormous benefits, with many of those particularly appealing in the current delicate climate. Maximising them is the key to success.

"Consumers accept and understand diffusion collections and brand extensions as a way into the brand," Farrugia said.

And for smaller businesses license deals also have the advantage of bringing outside expertise into the brand.

"Suddenly you are not alone in business - you can work strategically together and also fund marketing together. Licensing gives a brand exposure in new product categories or in new territories, and it builds brand value and equity," Farrugia said.

"A brand has to have the stamina to go for it. But licensing is massive internationally and is proved as a valid business model that can achieve results."

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