

LICENSE to PROFIT

WHAT DOES IT TAKE TO TRANSFORM YOUR PRODUCT FROM A MEDIOCRE SELLER TO A MEGA HIT? THE ANSWER COULD BE AS SIMPLE AS INKING A LICENSING DEAL.

BY KAREN E. SPAEDER

Without the name of a popular baseball team on it, Bob Diee's baseball cap-shaped computer mouse might have done little more than collect dust in the back of his garage. Fortunately for Diee and his partner, Glenn Luthy, they had a hunch that a computer mouse would sell much better if it had the name of a favorite sports team on it.

For Diee and Luthy, obtaining licenses from both the minor and major leagues, as well as from university baseball teams, has proved to be the key to their product's success—and they expect those licensing agreements to help them achieve \$1.5 million in sales for 2007, only their second year selling the device.

So if you, too, would like to slice off a bit of this billion-dollar industry, we're here to help. And a good place to start is with a firm understanding of what licensing is in the first place.

Start at the Beginning

Bear in mind, there's a difference between licensed products and promotional materials. Licensed products are items that people will pay money for, not simply accept as free giveaways. Therefore, your product needs to be targeted at a specific demographic that will pay top dollar to own it. And you'll want to obtain a license that you can tie in to that demographic's lifestyle.

"If you can obtain a license linked to a brand, TV series, sports [team]—something evergreen [that will stay popular] is preferable—that's the route to go," says Meyer Janet, president of Design Plus (www.dplicensing.com), an Atlanta-based licensing boutique specializing in brand building, product development and business strategy. "What you don't want to do is pick up a license for something that isn't well-known, thinking 'Well, one license is better than none.'"





Hats off: Once the idea clicked to acquire licenses for their baseball cap mouse, Bob Diee (l.) and Glenn Luthy's business took off.

Diee and Luthy first approached the NFL when they decided they wanted to put sports teams' names on their computer mouse. The NFL passed. So did the NBA. Next were the minor leagues—and they loved the idea. “Once we had that [license], we went to the major leagues,” says Diee, 47, who started Randolph, New Jersey-based MouseSmart Inc. with longtime friend Luthy, 39, in 2004. Initially, Major League Baseball was reluctant: Although the partners had a patent for their mouse, they had no track record, no sales and barely any product samples. But after several months of persistent e-mails and phone calls, they finally won over MLB. Universities followed, though Diee admits it might have been better to start at the university level, where the process is a bit easier and the royalties are lower. (More on royalties later.)

The next step was getting the product into appropriate retail outlets. What really helped Diee and Luthy in that regard was attending the Baseball Winter Meetings trade show in Dallas in December 2005. At the show, the partners got some leads that turned into orders, and they bombarded buyers with samples and follow-up calls. Finally, they got their big break when Champs Sports agreed to carry the computer mouse in its stores. Now it's available in at least a dozen retailers nationwide, including Yankee Stadium, as well as on several websites. They've secured licenses for all of MLB, and they've added 15 university baseball teams so far.

Diee and Luthy's approach was unconventional in that they had no distribution plan before securing licenses. “Under normal circumstances, a licensor will not grant a license to a business that does not have a retail distribution network in place,” says Janet.

Photo: Larry Foss

The cool kids: Jeff and Maureen Kendall outfit children in edgy apparel with licensed skate and punk rock images.



Diee had to rely on proving himself and his product when approaching licensors—specifically, the account manager for licensing at each organization. Be prepared to demonstrate that you have done your research, that you have the financial capabilities to make the product a success, and that you have a marketing plan to sell the product at retail. “A strong business plan would make an account rep more comfortable with an applicant,” says Diee. “Knowledge of the

and toddler apparel, which bears the names and images of popular skateboard brands and punk rock bands. The Kendalls sell about 20 percent of their products in skate shops and children’s clothing stores, but they’ve found the greatest success selling directly to consumers. Explains Jeff, 39, a former professional skateboarder who started San Jose, California-based Little Ruler in 2004, “Consumers are not used to going to skate shops to find this kind of clothing.”

DO YOUR RESEARCH

Where you start when seeking a license depends largely on the type of product you have, your prior industry experience and your knowledge of licensing in general. If you need to patent your product, as Bob Diee and Glenn Luthy did with their computer mouse shaped like a baseball cap, start at the U.S. Patent and Trademark Office website (www.uspto.gov).

Then, to get the licensing ball rolling, visit the website of the International Licensing Industry Merchandisers’ Association (www.licensing.org). In addition to basic licensing information, you’ll find a feature called “Ask LIMA,” where you can submit questions about the licensing industry. You’ll also find links to dozens of licensing agents in a variety of industries. Another good resource is *License* magazine, which provides a searchable database of available licenses at <http://tracker.licensemag.com>.

Meyer Janet, a licensing professional in Atlanta, recommends attending a licensing show such as Licensing International, held annually at New York City’s Jacob K. Javits Convention Center. “You can walk the show and find out what licensing is all about,” says Janet. “People from around the world are there. You can really step into [licensing] and find out what you need.”

Also, educate yourself about your target market. Read magazines and newspapers, and browse websites and blogs. Talk to or observe people in your target demographic, and take note of what they’re buying at the mall, what they’re wearing and how they’re spending their time. “The most important thing is to have an understanding of the target market,” says Janet. “That’s a wonderful starting point to find a license that matches your goals.”

markets, customers and competition also helps. Entrepreneurs should be as skilled at selling themselves and their company as they are at selling their product.”

Selling in retail outlets isn’t the only option. You can also sell your licensed product on your own e-commerce site. That’s the route Jeff Kendall and his wife, Maureen, 32, have taken with most of their licensed infant

Keep in mind, you want your licensed product to not only sell, but also be worthy of selling at a premium. There’s a royalty to be paid, and you need to recoup the costs. “If you have an unlicensed T-shirt selling for \$10, then you add a license and still sell it for \$10, you’re losing money and you might as well not do the licensing deal,” says Janet.

Little Ruler, which brings in just under \$1 million annually, justifies its higher price point with the fact that its licensed products have both the name recognition and the desired lifestyle built right in. After all, how else could you sell a onesie for \$18.95?

The Royal Treatment

Speaking of royalties, get a good handle on them. You commonly have both an advance royalty, which is a flat fee paid upfront, and ongoing royalties, which are paid as a percentage of every sale you make. The advance royalty is basically a guarantee that the licensor will get some money even if your product doesn’t sell. Then, if and when your product sells, the licensor will get a percentage of the sale—on average, about 5 percent of the wholesale price of each product sold.

The licensor usually decides what the royalties will be, and those rates are pretty firmly set. So make sure you understand what they are and that they’re spelled out in your licensing agreement to avoid any surprises later. In fact, that agreement is crucial in determining not only what the licensor receives, but also what rights you get. “Regardless of whom you’re licensing from or what you’re trying to license, the written licensing agreement [should] spell out what the rights are,” says Cami Dawson Boyd, head of trademark and copyright practice at Dallas law firm Munck Butrus PC.

Seek legal advice if you’re unclear on any aspect of the licensing agreement. The help you get now can save you money later, or even make you some if you can set yourself up for success with a favorable licensing

agreement. And if you're put off by the idea of paying royalties, keep in mind that *both* parties stand to benefit. For the licensor, the advantage is clear: By granting you a license, it has eliminated the manufacturing and marketing costs associated with launching a brand-new product—and the royalties translate directly into profits. And you've added value to your product that will translate into sales.

Big, and Getting Bigger

To make the licensing process easier, you can always employ the services of a licensing agent or firm like Design Plus. A licensing professional can help with everything from contract negotiations and product development to packaging and merchandising. (Just be sure any licensing professional you consult is actually a professional. For more on this, see "Do Your Research" on page 30.)

Get far enough with your licensed product, and you may find your company growing rapidly. Little Ruler apparel is already a favorite with celebrity moms like Angelina Jolie, Britney Spears and Gwen Stefani. Plus, the company has gained media attention in a variety of forums, from parenting and skateboarding magazines to TV shows like *Access Hollywood*.

"Little Ruler received some valuable publicity immediately after the news that some high-profile celebrities had gotten some of our products," notes Jeff. "The *Access Hollywood* features drove a lot of traffic to our site and doubled our sales those months. A very large percentage of our business is repeat customers, so we'll continue to benefit from that."

Benefit they will. And so can you, if you're prepared to take on the challenges that licensing has to offer. Position your products as the ones consumers associate with *their* identity, and it won't be long before they'll have to have what you're selling. ■

KAREN E. SPAEDER, a freelance writer in Southern California, discovered the world of licensing when her son discovered superheroes.

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