# A Cure for Licensing Dyslexia

## Developing a Brand Licensing ROI model

**April, 2003**

**By Kirk Martensen, Goldmarks Co.**

As an active participant in the 'licensing industry', I've seen a lot of change over the last few years. Celebrities have become licensors, retailers have become licensees, and virtually every market has become more competitive. Something that hasn't changed for many licensors is the emphasis on *royalty revenue*.

For years, licensing has been used as strategy to generate revenue from established trademarks or brands. Indeed, royalty revenue remains the primary motivation for many licensors. That's too bad, because royalties can represent only a fraction of the value that is created by a thoughtful, carefully executed licensing program.

The emphasis on royalty revenue over marketing value is backward. Focusing on royalty revenue is a common mistake because many licensors do not have a formal methodology to measure the brand benefits that are generated by licensed products.

### What is the Real Value of Licensing?

Does licensing offer more than just royalty revenue for licensors? What do Coca-Cola, GE, and McDonalds really gain by licensing their valuable trademarks into products such as glassware, toasters and beach towels?

It is true that royalty revenue is often a primary focus, but it's not always the most important objective of the licensor. Consider the following.

Coca-Cola has one of the largest trademark licensing programs in the world. According to the company, there are over 300 licensees who sell over $ 1 billion of licensed products each year. If we apply a conservative royalty rate of 7%, that means the company receives about $ 70 million in royalties, equivalent to 0.3 % of net operating revenues.

Now factor that $70 million in royalty revenues as a percentage of $69.64 billion, that's the Coca-Cola brand value (according to The Global Brand Scorecard 2002 by Interbrand). It's clear that royalty revenue alone doesn't provide a very good ROI for Coca-Cola.

Perhaps there is more to licensing than royalty revenue. Let's review a few of the other reasons why Coca-Cola and other brand owners might be licensing.

Typically, a licensee benefits by the advertising and promotion of the brand by the licensor. However, there is a reciprocal benefit that the licensor receives from the advertising and promotional support by the licensee. Many practitioners contend that the promotion by the licensee can invigorate the brand and may be of greater importance than that of the licensor.

**Increased exposure.** It's axiomatic in marketing that increased exposure can help improve top-of-mind awareness, a cornerstone developing consumer preference and a strong brand. Consider the number of impressions generated by hundreds of licensed products to the Coca-Cola shareholders, employees, suppliers, bottling partners, retailers and food service operators – it's likely there are many billions of impressions to these stakeholders.

**Enhanced image.** Brands owners have found that extension into new products can be an excellent strategy to enhance and reinforce brand equity. This is accomplished by careful product category selection and frequent exposure over an extended time period. Many licensors realize strong benefits from extension into product categories such as apparel, collectibles, home furnishings, housewares and toys.

## Developing a Licensing ROI Model

Let's consider three models that use different methodologies and require increasing levels of investment.

The first model considers royalty revenue and licensee marketing expenditures. This requires that licensees should provide the licensor with regular reports that include total advertising and promotional support expenditures as well as PR efforts and results ('ad value equivalents'). This model takes a straight-forward, if not limited, approach to valuation.

$$\text{Licensing ROI} = \frac{(\text{Royalty Revenue} + \text{Marketing Expenditures}) - \text{Investment}}{\text{Investment}}$$

The second model reflects the fact that licensed products can generate a wide range of consumer impressions or 'brand contacts'. The challenge is to first identify and then quantify these brand contacts. The model uses a weighting system that considers media type, retailer, product image and relevance, product usage, and product lifecycle.

$$\text{Licensing ROI} = \frac{(\text{Royalty Revenue} + \text{Brand Contacts Value}) - \text{Investment}}{\text{Investment}}$$

The third model involves pre and post measurement of a specific brand metric(s) to create a brand multiple (analogous to a P/E ratio). Brand loyalty is an ideal metric since it is the primary brand-building benefit created by licensed products. In addition, there are research techniques to measure brand loyalty indicators such as price premiums, switching costs, advocacy of the brand, etc.

$$\text{Licensing ROI} = \frac{\text{Increase in Brand metric (post)}}{\text{Brand metric (pre)}}$$

## Marketing Before Royalties

Licensed products can enhance the brand franchise by providing a wide range of sensory associations that enrich the brand and strengthen consumer relationships. These brand-building benefits include increased brand loyalty, which has a direct influence on profits.

Consumer research is required to develop an accurate licensing ROI model. Licensors should budget funds for this research if their objective is to determine the real value of the licensing program. Royalty revenue should be reinvested into research as well as other licensee support programs.

Licensors should beware of the licensing dyslexia syndrome and understand that the brand benefits from licensed products can far exceed royalty revenue. Fortunately, this malady can be cured by a marketing orientation and a commitment to consumer research.

### Author Bio

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