LICENSING BASICS

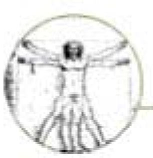
Basics and Background

When people think of licensing, usually sports or entertainment licensing is the first thing that comes to mind but there is far more to the licensing business than that. Licensing is no longer simply the domain of a few specialized people. Nowadays all major companies and the media consider licensing a significant marketing tool. One could even say that it has become one of the most powerful contemporary forms of marketing and brand extension and that it is being used in ever increasingly sophisticated ways (Revoyr, 1995, p. 1). Before clarifying what the business of licensing is all about, there is a clear need for some primary information. Therefore some definitions and basic terms that are being used throughout this thesis will be given and explained at this point.

Terms and Definitions

Licensing is the process of leasing a legally protected (that is, trademarked or copyrighted) entity known as property which could be a name, likeness, logo, graphic, saying, signature, character or a combination of several of these elements, in conjunction with a product or a product line (White, 1990, p. 5). Surely, a property can also be licensed for many non-product purposes as well, as for example a promotion or a service, but as the present thesis focuses mainly on merchandise licensing, these aspects will be ignored here.

Licensing is usually based on a contractual agreement between two business entities: the owner or agent of the property, also known as the licensor and the renter of the rights, and the prospective licensee who is usually a manufacturer. The formal permission to use the owner's property is subject to certain terms and conditions, such as a specific purpose, a defined geographic area, and a finite time period (Raugust, 1995, p. 116). In exchange for granting the rights for a certain property to the licensee, the licensor obtains a financial remuneration. The basic component of this payment is the royalty, which is a percentage of the licensee's sales of products which are incorporate in the property rights. In addition to that, a guaranteed minimum royalty, the guarantee, is usually required (Raugust, 1995, p. 3). The licensee has to pay this guarantee even in the face of total failure of the property. A percentage of this guarantee is normally paid as an advance.



Characteristics

Today there are overwhelming licensing opportunities that did not exist a little more than a decade ago. The availability of licensed merchandise has proliferated over the last decade, and corporate America has finally recognized the value of its brand names developed over decades. Now these invaluable, easily identified marks are licensed as a cost-effective means of brand extension and additional consumer awareness for the primary brand. It is the popularity and familiarity of these marks that help otherwise undistinguished products to stand out from the crowd.

As mentioned previously, licensing is a marketing tool. It generates recognition, maintains ongoing brand awareness and can also reinforce brand image. By bringing the brand and its message into retail environment "a nontraditional venue for publicizing" and by using various other promotional and advertising vehicles, merchandise licensing is primarily a means of multiplying viewer impressions and expanding consumer association (Revoyr, 1995, p. 5). For example, a strong brand often evokes consumer associations that also might be desirable in other product categories. In order to take advantage of this value, a company may license its name, logo or other facets of its brand to another firm for use on their products and merchandise. In this manner merchandise licensing offers opportunities and benefits to both the owners of the properties as well as the manufacturers of the licensed goods. Through the usage of an already established brand name or character image which has been built up successfully over the years, licensing helps the manufacturers of licensed products use the brand identity to create immediate consumer awareness and quickly establish and reinforce brand awareness (Keller, 1998, p. 53). This can be accomplished without making an investment that would usually be required for launching and building up his own brand. This way the licensee's products instantly gain the benefits of the brand recognition and the brand image lent by the trademark or copyright, and the consumers will also be willing to pay more for the licensee's products. Furthermore, the brand benefits are realized instantly whereas for a new brand it could take years until it develops brand benefits similar to those that consumers associate with already well-established brands (Raugust, 1995, p. 11).

The rationale for the licensor to license a product is linked to brand extension and the enhancement of brand image and goodwill at a consumer level without having to develop, produce, or market a new product. Furthermore, the licensor receives legal protection, since licensing a brand for use in certain product categories prevents potential competitors from legally using the brand name to enter those categories (Raugust, 1995, pp. 6-10).

The economic advantage for the licensor lies within the profits from royalty payments. Spoken in financial terms, a company receives from the licensee an average royalty payment of about 5 percent of the wholesale price of each sold product. Due to the fact that there are no manufacturing or marketing costs, these revenues translate directly to profits (Raugust, 1995, pp. 6-11).

History of Licensing

Licensing is the business of leasing the right to use a legally protected name, graphic, logo, saying or likeness in conjunction with a product, promotion, or service. It is usually accomplished by a formal agreement between the owner or agent of the mark (the Licensor) and the prospective Licensee who is either a manufacturer, supplier of services or an agent on behalf of them.

Licensing is an industry that now produces over $15 million worth of retail sales every hour, 12 hours a day 365 days a year. Little more than a decade ago, the licensing industry generated $4.9 billion worth of goods and services at retail. In 1982, the figure grew to $13.6 billion. This volume doubled only two years later to $26.7 billion and again by 1985, almost doubled to $50 billion! The 2003 LIMA Licensing Industry Survey estimates retail sales of licensed merchandise to be $110 billion (based on royalty revenues of $5.831 billion) for North America alone. It is difficult to find another industry generating this rate of growth and sustaining it year on year.

The origins of licensing can be traced back to London. In the 1770s, "Saintbury Chemical Fluid for the Obliteration of Marks on the Skin" saw an upturn in sales thanks to the endorsement by the Right Honorable Countess Dowager of Spencer and Jersey. Modern licensing started making its mark in the 1930s when Herman "Kay" Kamen secured the licensing rights to Walt Disney properties. And thanks to movies, the comics and radio these new forms of entertainment reached larger numbers of people than ever before. In addition to Disney, names like Little Orphan Annie, Jack Armstrong and Bugs Bunny infiltrated American households in that era.

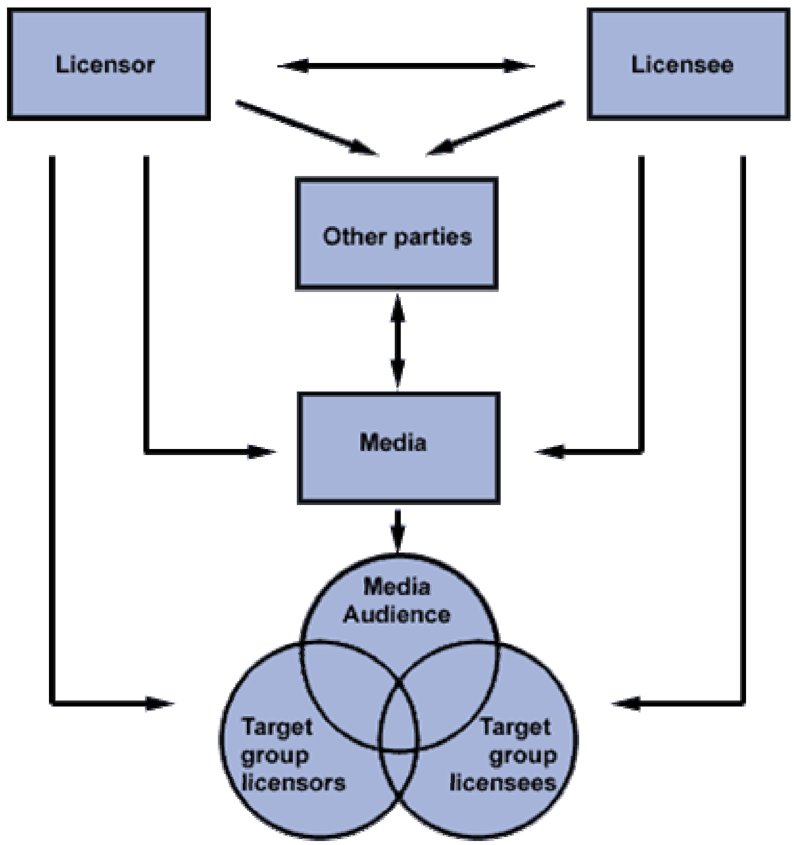
One of the very early licensing successes during this period was the unprecedented sale of Shirley Temple look-alike dolls. The Ideal Toy Co. directly credited the growth of the company to the foresight of an executive who secured the right to license a Shirley Temple doll.

With the advent of television in the late 1940s and early '50s, the licensing industry really took off. Television reached into the living rooms of tens of millions of homes and introduced the youth of the country to Hopalong Cassidy and Howdy Doody. Soon almost every child had something that bore the likeness of those two popular characters.

Today there are thousands of properties available as licensing opportunities and hundreds of agents and owners representing them. Manufacturers of every consumer product category imaginable produce licensed product lines. There is virtually no retail establishment foolish enough to turn its back on the opportunity to carve out a piece of this lucrative pie. The new millennium, promises more growth for the industry as licensing becomes a part of more and more company's strategic marketing plans or new business development. Corporate America recognizes the value of brand names developed over decades. Now these easily identified "marks" as well as venerated characters are licensed as a cost-effective means of brand extension offering additional consumer awareness for the primary brand.

The participants

The licensing community includes a diverse group of companies from the largest entertainment studios to sole proprietors marketing single licensed products. At least for descriptive purposes the parties involved in licensing can be divided into a number of categories.



The participants (taken from Böll, 1999, p. 9)

A simple diagram of people involved in licensing; this figure may help to illustrate the organization of the licensing business and serve as a model for other communications tools that will be demonstrated in Chapter 6. This is a very simplified diagram not illustrating, for example, any of the sub-contracting of licensing processes which might be done by some of the parties. The fact that there are a number of links in the communications chain clearly complicates the process.

Each participant in licensing has certain responsibilities to fulfill. As every agreement made between the licensing parties is unique in its specifics; even these responsibilities vary to some extent.

Licensors

There are many reasons for companies to grant licenses for the use of their properties. For the license to function successfully, the licensed property must be protectable under the copyright or trademark laws or otherwise unavailable to the licensee. These intellectual property rights insure that the licensor can safely invest in promoting its property and reap the benefits of a valuable asset. Through trademark and copyright registration, licensing offers the licensors legal protection for unique features or aspects of their property (Revoyr, 1995, p. 14). Licensors create and maintain the design and image of their properties by developing a stylebook for licensees to use as a guideline on the proper use of the allowable trademarks or copyrights, which is monitored by the licensor. Once appropriate licensees have been selected, the licensor. s next responsibility is the product approval process. The licensor must approve samples of all products proposed by each licensee. This diligent approval process benefits the licensees too, since the better the overall image of the licensed product is, the more able the property will be to drive sales of the licensed product (Raugust, 1996, p. 75).

In addition to that, licensors are increasingly expected to play a role in pre-selling the property to retailers before licensees approach them to make their purchase decision. They are also expected to provide marketing support by encouraging retailers to merchandise licensed products in concept shops (in-store areas devoted to merchandise from various product categories based on one licensed property), by putting point-of-purchase materials at their disposal and by creating retailer promotions (Raugust, 1995, p. 73).

Perhaps the most common way to grant a license on the part of the licensor is the allure of adding bottom-line profit with little effort and risk. This is why more and more licensors view licensing as a risk-free and profitable way of entering a market without having to make a heavy investment in capital equipment and personnel. Brand loyalty provides predictability and security of demand and prevents other companies from entering the market easily. In this sense licensing can be seen as a powerful means to secure a competitive advantage (Raugust, 1995, p. 9). The licensor. s control lies in offering merchandising and, in particular, marketing expertise, as well as in having the option not to renew a contract if a licensee. s distribution or operations are unsatisfactory. Through licensing, the licensor avoids many of the risks associated with developing a whole new product line, because in actual fact, the risk of the venture is passed on to the licensee (Raugust, 1995, p. 15). For the licensor as well, however, the business is not devoid of all risks. One of the most significant is the licensor. s failure to exercise quality control over the ultimate licensed products, which can result in a number of damages to the licensed property. Products sold in discount stores could harm the image of a brand and licensed goods of poor quality will hurt a brand name that was previously known for its high quality standards. In an extreme case, all of this could finally lead to the loss of the underlying trademark rights (Raugust, 1995, pp. 13-14).

Licensees

Licensees lease the rights to a certain property for incorporation into their merchandise, but traditionally they do not share ownership in it. Nevertheless, licensing provides a number of important functions to them. By creating a certain image, licensed products can generate consumer interest, patronage and loyalty to a store, and most importantly, having the right license ultimately permits licensees to enter a market that they had been for unable to reach before for whatever reason (Raugust, 1995, p. 11). Faced with the prospect of spending millions or even billions of dollars in research and product development, the licensees view the royalty as a small price to pay for the jump start a license gives them. The investments in a certain property can endow the licensee. s product with unique associations and meanings that differentiate it from other products. By attaching these unique associations to their product assortment, manufacturers are able to create their own product images that finally generate higher price margins, increased sales volumes, and greater profits Raugust, 1995, p. 12).

Realization of product design pre-set in the style guide and manufacture are the licensee. s responsibilities, but they also handle sales and distribution of the licensed products. They generally sell the licensed merchandise to the same retailers that purchase their non-licensed products as well, although the property might also allow them to distribute the items through other channels (Raugust, 1995, p. 12). Responsibilities for marketing the products normally rest with both parties. Licensors advertise to the consumer to strengthen their brand image as well as advertise to the trade to let retailers know where to find the licensed merchandise. It is also the responsibility of the licensees, however, to advertise and market their products, either alone or in combination with their other product lines (Raugust, 1996, p. 57).

The risks that the licensee faces in a licensing program are fewer in number than those of the licensor, but potentially greater in magnitude. The major risk is a financial one, lying in the contractual obligations to the licensor under the licensing agreement, as for example guaranteed minimum royalty payments. In this case a licensee even might have to pay the licensor this guaranteed minimum royalty for products that actually never make it to the market. Alternately, even if the products do make it to the market, there is no certainty at all that they will do well, no matter what property a manufacturer chooses (Raugust, 1995, pp. 14-16).

Other parties

Generally it can be said that any company or person who has a financial or a consumer. s interest in a certain property or licensed products in general may be involved in the licensing effort in some way and thus can be seen as one of the participants belonging to the category . other parties. in the licensing business (Raugust, 1996, p. 53). In the following the four most important types of participants in licensing business are presented, namely, licensing agents, licensing consultants, the media, and consumers.

For licensors it is not uncommon to retain licensing agents to manage their licensing programs. These agents assume duties for their clients such as contract negotiations or the product approval processes. In return the agent receives a certain percentage of all royalty revenues. For the licensor the advantage of retaining a licensing agent lies within the expertise he offers. Particularly for a new licensor the industry contacts and experience the agent possesses are extremely valuable (Raugust, 1995, p. 20).

Manufacturers, on the other hand, may retain a licensing consultant whose duties are similar to those of the licensing agent. The licensing consultant supports manufacturers who are largely involved in licensing, but who do not have in-house employees who are specialized in licensing. It is the consultant. s responsibility to represent manufacturers in their licensing activities, including the evaluation of properties, the checking of their availability or the development and implementation of licensing strategies. The terms of how licensing consultants are paid vary extensively, but the major percentage is paid on the basis of commissions (Raugust, 1995, p. 87).

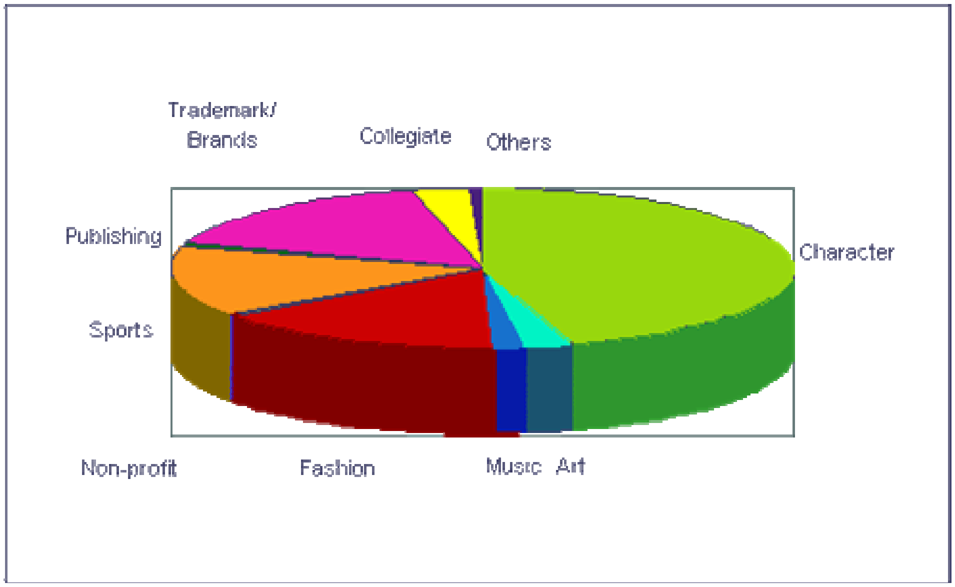
To create a long-term property, that is to say to maintain the customer. s awareness for a given property for a long time, the media are most essential. A variety of different types of media can be used to deliver the intended message to the target audiences of both licensor and licensee. Within each type of medium there are a huge number of different media vehicles which can be selected to carry the message. The way in which this message is conveyed to the target audience varies across media types is also dependent on the type of property and the goals of licensee and licensor (Raugust, 1996, p. 70). Licensed products, at particular in their development, require the use of different media so that the right message may be conveyed and understood by the intended target groups. A new product requires demonstration to communicate the product concept, which in turn has a strong influence on the choice of media mix. To sum up, one can say that media support is necessary because it helps to build consumer awareness and also drives the sales of licensed merchandise (Raugust, 1996, p. 70).

For the consumer the advantage of licensing from an economic perspective is that it lowers search costs, because they are able to recognize a licensed product easily and do not have to engage in a lot of additional thought or processing of information to make a product decision (Keller, 1998, p. 7). Nonetheless, on the part of the consumer an increasing sophistication towards licensed merchandise is detectable. The feature of being licensed does not make a product unique anymore, although consumers are still attracted to licensed merchandise based on properties they like. To make the consumers to buy the merchandise, the product itself must incorporate a qualitative or at least a fashionable value. In the end, all of these features contribute to the final purchase decision of the consumer (Raugust, 1996, p. 40).

In summary, one can say that licensing works and benefits all parties, and that is the reason why it is becoming more and more popular.

- **Types of licensing**

  Licensable properties come from a variety of sources. Different types of properties have been merchandised and marketed in different ways over the years, and the various market segments of the merchandise licensing business have acquired certain unique elements and standards (Raugust, 1995, p. 21). Even so, the distinction between different property types is not always clear and they often overlap. Although every licensing program is unique, there are certain trends and similarities detectable within each property type. Figure 4.1 shows the different property types of licensed merchandise with their relative shares of estimated retail sales in 1999.



Estimated licensing revenues 1999 by property type (taken from LIMA, 1999a, p. 7)

The numbers of estimated licensing revenues present themselves as follows.

Property type	**Estimated licensing revenue** (in millions of dollars)
Art	130
Character (Entertainment, TV, Movie)	2500
Collegiate	180
Fashion	830
Music	105
Non-Profit (Museum, Charities)	30
Sports (Leagues, Individuals)	790
Trademarks/Brands	900
Publishing	30
Other	25

Estimated licensing revenues 1999 by property type in millions of dollars (taken from LIMA, 1999a, p. 7)

The purpose of the following chapter is to categorize the five most important segments of the merchandise licensing industry; corporate trademark/brand; character/entertainment; fashion; sports; and art licensing.

Character and entertainment licensing

Character and entertainment licensing has enjoyed enormous success in the past decade, generating billions of dollars in revenues each year. It is one of the most profitable types of licensing (Raugust, 1995, p. 21). It is difficult to measure the precise revenue from character licensing accurately, however, due to two recent trends in the industry: a trend towards long-term relationship agreements between the licensor and the licensee, and a trend towards structuring of partial payment in terms of equity in licensee operations. Although the predominance of character and entertainment licensing in the merchandising industry continues to erode as a lot of other properties have emerged and are now available for licensing, there is little question that this segment still continues to dominate the market (Battersby/Grimes, 1999, p. 155). This property type is also the most concentrated with just a few large players dominating the licensing activity (Raugust, 1995, p. 21). The major players in character and entertainment licensing are the big movie studios and broadcasting companies. Names such as Disney, Warner Brothers, Nickelodeon, and Fox come to mind immediately, and these companies are launching some of the most successful licensing programs, such as the famous old (comic) book characters Peanuts, Winnie the Pooh, or Batman, TV-based properties as Looney Tunes, The Simpsons and Sesame Street or properties based on movies such as Star Wars, one of the most successful licensing programs ever. New entertainment licensing properties also stem from the videogame section such as Nintendo and Pokémon.

Corporate trademark and brand licensing

When company names, logos, or brands are licensed on products, this is referred to as corporate trademark or brand licensing, one of the fastest-growing segments of the licensing industry. Much of the growth is spurred by the fact that licensing provides enormous strategic, marketing and earning benefits. An ever-increasing number of major corporations in the trademark/brand sector are using their corporate trademarks and brands to build marketing visibility for a core brand by licensing its use in non-core businesses; to protect the company. s trademarks; to enhance their brand images; to increasing their brand exposure; and to generate extra revenues and profits (Raugust, 1995, p. 29). The profit appeal can be enticing as there are no accounts receivables, no inventory, and no manufacturing expenses. Thus for firms corporate trademark and brand licensing is a relatively risk-free and cost-effective way to enter a new product category.

Corporate trademark and brand licensing involves some firms with the highest brand equity, as for example Coca-Cola or Harley Davidson. As may be expected from a group that includes vast differences in experience with licensing activities, there is a wide variation in licensing programs. This most likely represents strategic concerns about brand extension and dilution of equity; it could also be partially due to the fact that the early phase of licensing activities as corporate licensing was nil 15 years ago (Battersby/Grimes, 1999, p. 184).

Fashion licensing

Fashion licensing can be defined as the licensing of the name of a kind of clothing or a product designer on a designer or apparel brand. It is one of the well-established areas in the business, which can be divided into two major groups: apparel brands such as GAP and designer names such as Calvin Klein, Tommy Hilfiger, or Donna Karan (Raugust, 1995, p. 29). Although practice in the fashion industry varies significantly between firms, the first priority of fashion licensing is brand extension, which is largely being achieved by designers through licensing products other than their main apparel lines (Raugust, 1995, p. 29). At Calvin Klein, for example, licensing income has tripled over the past three years, this is a side benefit of the fact that licensing, which accounts for more than 90 percent of sales, has driven the brand. s global retail volume from $2.1 billion in 1994 to the $5 billion range in 1997 (License, 1998, p. 47). While most firms still license their trademarks in the product segments that would be considered non-core (e.g., watches), some of them have already started to license the property even in their core business (e.g., apparel). Alternatively, some firms have purchased non-core businesses and are now manufacturing products in-house that were previously licensed. This applies to labels, such as Donna Karan, which license very view products (Raugust, 1995, p. 29). This is likely to make year-to-year comparisons in licensing revenues difficult until trends stabilize. Nearly all the major fashion players including accessories designers are positioning themselves as . lifestyle. brands, suggesting growth opportunities. However, a conjunction of countervailing forces . a generally soft apparel accessories market, and a simultaneous expansion of some large companies. licensing efforts . caused a 2% decline of retail sales of merchandise bearing fashion licenses in 1998 in the U.S. and Canada (TLL, 1999a, p. 4). Thus future revenues from licensing may depend upon strategic decisions about production and line extension.

Sports licensing

Sports licensing has been transformed from the relatively small and fragmented industry it once was and has evolved into a highly sophisticated, $13 billion-plus industry. According to *The Licensing Letter* data, sports licensing, with average annual gains of 27%, has been one of the fastest-growing segments in the business from 1985 to 1993 (TLL, 1998a, p. 3). From 1990 through 1994 *The Wall Street Journal* even reported that sports-licensed product sales rose 144 percent. In the late 1990s, however, the sports licensing segment has shown continued growth, but not at the double-digit rate of the recent years. Although retail sales of sports-licensed merchandise dropped 8% in 1998, according to *The Licensing Letter. s Annual Licensing Business Survey*, sports licensing continued its domination as a property type, still representing eighteen percent of total industry sales (TLL, 1999a, p. 3).

While there are many professional sports that have their respective licensing programs, professional sports licensing particularly refers to the licensing programs of the four major leagues . National Football League, National Basketball Association, National Hockey League, and major league baseball . accounting for a large proportion of the licensing revenue. A license of this property type offers a variety of rights, but primarily includes the name, and the logo, of its teams as well as other related indices (Battersby/Grimes, 1999, p. 191). Other significant licensing campaigns are successfully built around several other large properties, including NASCAR, and the World Wrestling Federation, or worldwide sports events such as the Olympics, or the World Cup. In addition about 160 colleges and universities in the U.S. are involved in collegiate licensing, marketing their rights primarily to the apparel market with sometimes very respectable revenues, depending on the performance of their sports teams and the size of the university or college.

Although the field of sports licensing is still dominated by the four leagues, other properties are on the advance and it is sure that it is, and will remain, one of the most dominant property types in the industry.

Art licensing

Art licensors are relatively small and very fragmented relative to the size and concentration of key players for other properties. They include museums, print houses, fine artists, and designers who create their art in order to exploit it commercially by selling their own properties for licensed art merchandise (Raugust, 1995, p. 34). Almost every museum has some unique artifacts that are suitable for licensing as replicas, so the number of individual artists, as well as the number of institutions and organizations who are actively licensing their artwork continues to increase every year (Battersby/Grimes, 1999, p. 136). By producing some badly-needed revenue, licensing is primarily a means of financing. In addition art licensing also provides a real opportunity for the artist or the museum to enhance their own reputation and to promote their licensed artifacts (Revoyr, 1995, p. 31).

Once a forgotten aspect of a huge entertainment licensing business, art licensing now comprises many different facets of the art world. Today both manufacturers and retailers readily recognize the value of art licensing as a means of reaching new and more diverse segments of the consumer buying public (Revoyr, 1995, p. 31). Manufacturers and retailers equally benefit from licensed artwork and artist-brand properties because they allow them to tap into a marketplace where consumers are purchasing products that reflect their own senses of style, color and design (Battersby/Grimes, 1999, p. 136).

Today art licensing, because of its timelessness, the ability to target specific niches, a year-round profit potential and moderate costs, is a vitally important segment of the worldwide licensing industry (Battersby/Grimes, 1999, p. 136). Industry surveys indicate that sales of art-licensed products have increased dramatically over the past few years and are commanding a greater percentage of ail sales of the licensing revenues in the U.S. and Canada. The licensing of art properties is likely to continue to grow at a healthy pace.

The role of marketing communications

At last year's Executive Licensing Conference of LIMA in Palm Springs, California, the President of Design Plus, Meyer Janet, explained:

The marriage between licensing and marketing has proven difficult because of the different origins of their management culture and because the true value of licensing as an instrument for the generation of brand awareness has never been realized or valued. This often results in the licensing department being left out of the marketing loop with regards to information and budget. Marketing departments have no problem spending millions on advertising programs, but hesitate to invest in the tools that make licensing campaigns successful because up until now there has been no way to measure their effectiveness (LIMA, 1999b).

Since increased awareness, goodwill created by the campaign, and consumer association of a property or brand are hard to measure, it is still difficult to quantify the results and effectiveness of licensing economically. Despite these kinds of uncertain elements, today this attitude has slightly changed in the heads of marketing professionals: For many companies, commercial partners, licensees and retailers alike in numerous businesses, categories, and trade channels, licensing is no longer a sideline business: it has become an important part of overall marketing strategies. Especially in marketing communications, licensing plays an important role, as this approach to business is one of the most powerful and cost-effective marketing tools available today (Battersby/Grimes, 1999, p. 190).

Definition of marketing communications

There is no generally applicable definition of the term . marketing communications. and although many interpretations of the subject exist, for a large part of marketers, DeLozier. s (1976) definition is of particular importance and is also used by The Chartered Institute of Marketing:

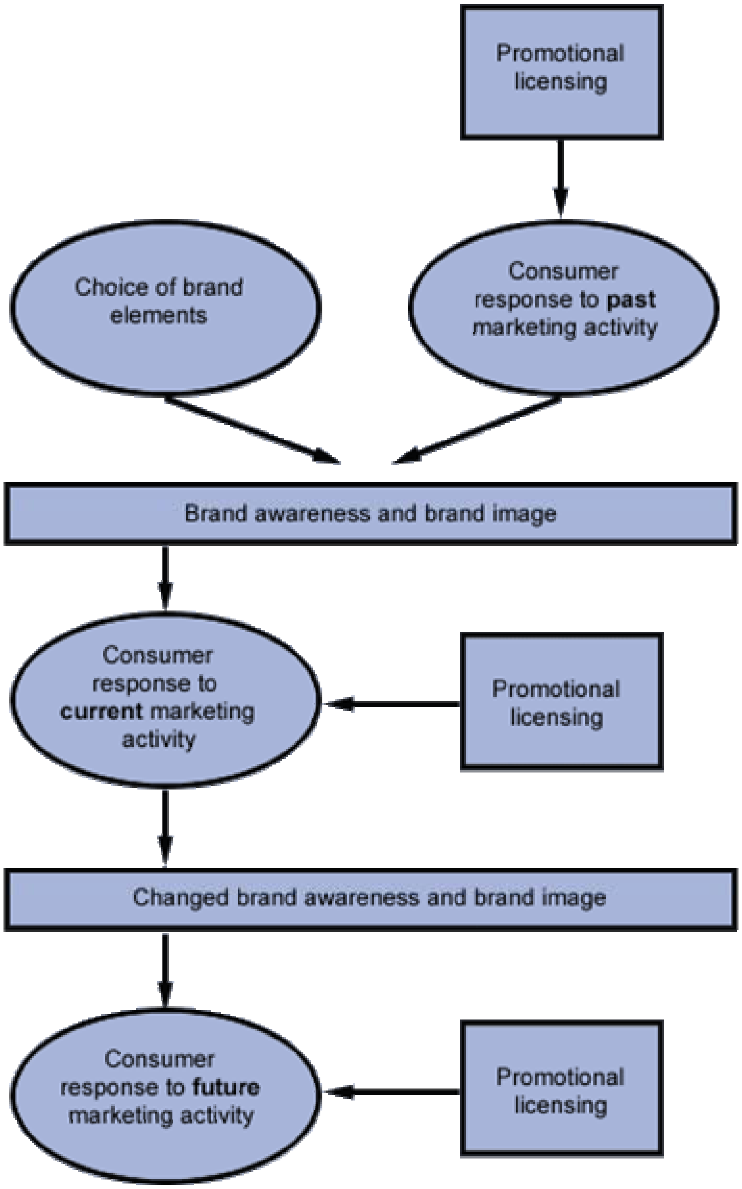
The process of presenting an integrated set of stimuli to a market with the intent of evoking a desired set of responses within that market set [...] and [...] setting up channels to receive, interpret and act upon messages from the market for the purposes of modifying present company messages and identifying new communication opportunities.

Most marketing practitioners and academics agree on the fact that realizing the complexity of transmission processes and in particular the concept of exchange is essential for the understanding of marketing communication processes (Berndt/Hermanns, 1993, p. 21). For an exchange to take place there must be at least two parties who are willing to participate in the exchange process and who can offer something of value to one another (Fill, 1995, p. 1). Thus marketing communication is a sharing of experience between the source or sender of a message and the recipient of that message. Due to the fact that communication gives companies the opportunity to provide their potential customers information, to make them aware of offers, as well as to remind long-standing customers of the benefits of past transactions, communication is of vital importance in all of these exchange processes. Another advantage of marketing communications is that through the images it creates, it may dissociate one brand from another. This is of particular importance in markets where there is little to separate competing products and brands (Fill, 1995, p. 2).

Traditionally, the tools of marketing communications consist of four elements: advertising, sales promotion, public relations and personal selling. However, new communication approaches have been developed in response to changing market conditions, and different tools are being used (Fill, 1995, p. 6). From the perspective of consumer-based brand equity this growth of non traditional marketing activities makes sense, since for example tools as promotional licensing are a extremely cost-effective way to affect brand knowledge and thus, ultimately, sales (Keller, 1998, p. 73).

Marketing communications, promotional licensing and brand equity

Apart from product, price, and place, promotion is one of the elements of the marketing mix, the so-called 4Ps. Without denying that there is also important communication that takes place through the other elements of the marketing mix, in this chapter the main stress is placed on promotional licensing, because of its outstanding ability to affect brand equity through brand associations, and perceived quality (Keller, 1998, p. 221).



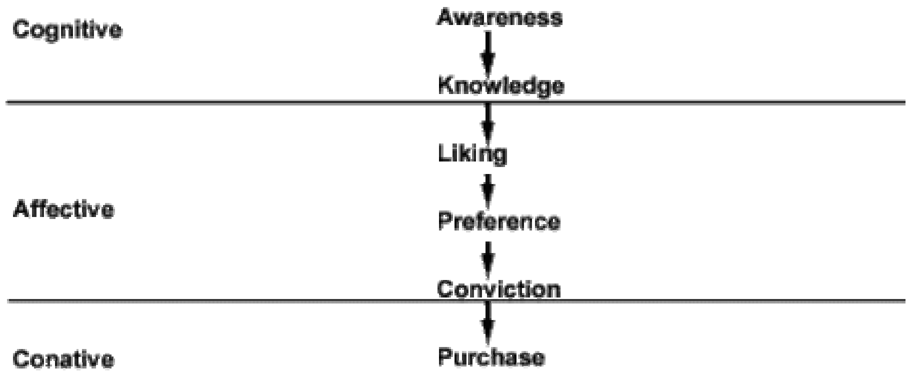
The effects of marketing communication actions (e.g. promotional licensing) on brand equity (adapted from Keller, 1998, p. 502).

The role of marketing communications is to contribute to brand equity by establishing the brand in memory and linking strong, favorable, and unique associations to it. (Keller, 1998, p. 73). Promotion is a means to communicate the marketing offer to certain target groups, and thus, to build brand awareness and brand image (Fill, 1995, p. 4). Brand equity is the final result of this knowledge structure network built by marketing and promotional activities. These knowledge structure network can be illustrated as above.

One implication that can be drawn from this model is that through promotional licensing, consumers. may be more likely to react to measures of marketing communications and respond favorably (Keller, 1998, p. 64). In general, the number of benefits of a strong brand are obvious. Apart from greater revenues and lower costs, a brand. s ability to attract new customers, to resist competitive activity, to introduce line extensions, and to cross international borders, are the most important (Keller, 1998, p. 53).

Systems model for integrated marketing communication

As already mentioned, the benefits that result from creating brand awareness and a positive brand image can be seen on the basis of consumer response to marketing communications. One way to illustrate this response to marketing communications is the . hierarchy of effects model.



Hierarchy of effects sequence (taken from Lavidge/Steiner, 1961, p. 61)

According to Fill (1995) this model assumes that consumers move through a series of mental states, from awareness to actual purchase, on the basis of a marketing communication. The condition is that a series of mental effects must occur with the necessary fulfillment at each stage, before progress to the next stage is possible (p. 230).

The obvious difficulty in creating a successful marketing communication program lies within the fact that for a consumer to be persuaded, there cannot be any failure in any step along the way. As a result, marketers must attempt to increase the likelihood that each one of the six steps occurs (Keller, 1998, p. 220). But how is this to be achieved? As a matter of fact a marketing communications program for a brand with greater deal equity is processed differently by consumers, because it has already created some knowledge structures in consumers. minds (Keller, 1998, p. 64). This implies that by virtue of the awareness, recognition, exposure, goodwill, and strong, favorable, and unique association that an established brand, name, logo, copyright, or any other intellectual property comprise, promotional licensing is extremely valuable, as it increases the likelihood that consumers will pass through various stages of the hierarchy. It additionally has the ability to target and deliver to a particular customer, as well as to attract new customers (Battersby/Grimes, 1999, p. 190).

Developing integrated marketing communications programs

There are a number of means of creating integrated marketing communications programs. Most importantly, the entire marketing program should be designed to build a consistent and complementary brand image. This implies that any integrated marketing communications program should be evaluated along two dimensions, namely consistency and complementarity. Consistency demands that the different communication options used for creating a knowledge structure network are consistent and thus mutually reinforcing. Complementarity considerations relate to the fact that different communications options have different strengths, can accomplish different objectives, and may target different market segments (Keller, 1998, p. 257). However, the communication options should be designed such in a way such the strength of one option makes up for the disadvantages of another option. Thus, . the ideal communications program would have a large number of communication options sharing some core meaning but differing in a way to capitalize on the advantages but compensate for the disadvantages of each option. (Keller, 1998, p. 257). This is why marketers, when considering marketing communication strategies to improve brand awareness, should evaluate all possible communications options available to create knowledge structures in customers. minds.

For the strength of brand associations, the manner in which the brand elements are integrated in the various marketing communications is extremely important (Keller, 1998, p. 74). What does that mean for implementing or managing a licensing program? By explicitly linking marketing communications to a licensed property, stronger associations may be created. Through licensing, identifiable characters, labels, brands, names, slogans or trademarks placed in or on product packages or places of business can serve as cues or reminders to communication effects; thus consumers will pay more for a licensed product because of this recognition and image lent by the trademark, character or other identifying feature (Keller, 1998, p. 65).

Licensing programs vary depending on the property type, the goals of the licensor, the target audience as well as the available resources. Before embarking on a licensing effort, the participants should develop a certain strategy to promote or rather communicate the property to the target customers. The promotional support, which can occur at any time during the life circle of the property, can include a wide range of components, but the main element is the property itself. To succeed, the promotional tie-in should be innovative and unique. Strong promotional elements help to drive sales of licensed merchandise and help to build awareness for the property. Promotional tools (as for example promotions with packaged goods) or the use of entertainment vehicles (such as in-store concept shows, live events or personal appearances by a celebrity endorser or a costumed character) are particularly important at a property launch in order to maximize the visibility of the property (Raugust, 1995, p. 147). As these promotional tie-ins emphasize the property, they also serve to maintain its longevity by keeping consumer awareness (Raugust, 1995, p. 73). It is their advantage that they do not only retain the interest of the property. s customers, but also attract new fans. Promotional tie-ins can be appropriate for both long- and short-term properties, and will often target consumers and the trade at the same time, as it promises major advantages for both. For licensors, promotional licensing adds value to their property by generating income and by providing the property with additional exposure. For licensees, the major benefit of additional promotion of the property lies within the generation of consumer awareness and greater revenues (Raugust, 1995, p. 145).

- **International licensing management**

In recent years, globalization has become a key theme and now, as we approach the twenty-first century, it is clear that we are truly, for the first time, experiencing the age of the "global economy". New emerging markets are everywhere, and in the licensing business the move from domestic to global communications has also grown in line with the internationalization of licensing activities.

Industry estimates indicate that international territories currently account for about one third of the worldwide total of licensed product revenue. Not so many years ago, most if not all properties that were successful internationally were created and developed in the U.S. and then licensed in international markets (Raugust, 1995, p. 133). While this is still happening, as more international licensors enter the business or expand existing activities, a healthy exchange of properties across the international arena can be expected at long last. Creators of new properties naturally are trying to focus on international appeal as much as possible, as the investment in developing and marketing a property has risen considerably. The use of licensing properties internationally to endorse a range of products potentially reduces both marketing costs and the volume of advertising otherwise required for promoting the property individually (Hankinson, 1996, p. 5). There is no doubt that international licensing has important advantages for companies that either cannot or do not wish to invest overseas or export their products, but before developing multinational campaigns, licensors should keep a number of key issues in mind, such as the many cultural, linguistic, legal and financial differences that exist in different territories. Thinking globally involves the ability to understand markets beyond one's own country of origin and requires knowledge of the political and economic situation in the country where a license is to be granted. Of particular importance is the understanding of global consumer behavior and the knowledge of the prospective licensee and his needs and capabilities. The following chapter identifies some of these particulars that have to be considered by licensors before they begin to do business internationally.

Factors before entering a new region

As companies seek to tap new markets in other countries, the question arises as to whether licensing strategies which are effective in one country will also be effective in other countries. Therefore it is particularly important for a licensor to realize that each country differs in its specifics and must be looked at as a separate territory. Differences may exist, not only in response to different licensing strategies, but also in several other categories, such as different market structures from one country to another.

As licensing is based on contractual agreements, licensors should be particularly aware of the differences in laws that exist from one country to the next. These differing laws will have an effect on the structure of an agreement. Not only might these be laws concerning intellectual property laws but also, for example, tax laws, antitrust laws, and customs laws (Battersby/Grimes, 1999, p. 104).

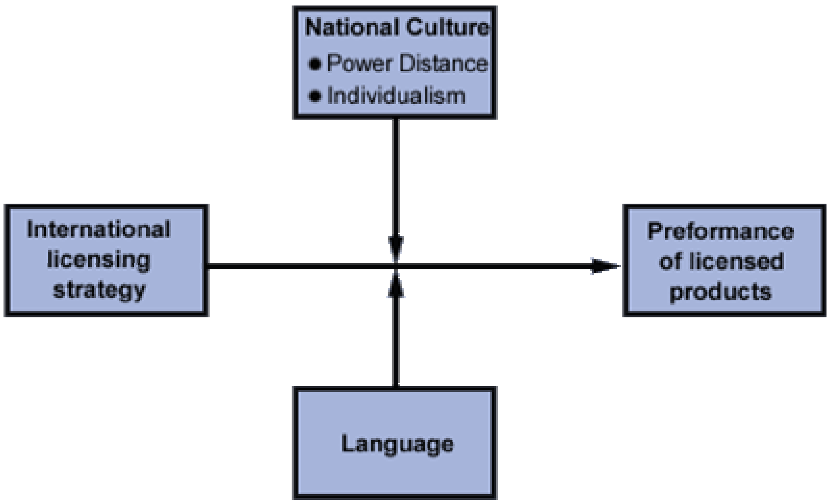
Foreign licensing also requires knowledge of the economic situation in the country where a license is to be granted. Differences may occur in the rate of market growth. While some countries may have high rates of economic growth, others may be stagnant, which could affect overall levels of profitability, as well as product development and pricing (Raugust, 1995, p. 142). In addition to that factors such as the average income level determine the selection of the licensed products that are being introduced to the foreign market, and currency fluctuations could have an effect on the possible revenues (Raugust, 1995, p. 142). Due to variations in retail structures it is essential for the licensor to find out which method is dominant in the target region and how the retailers there buy licensed merchandise. The latter often depends on regional tastes that play a decisive role in what kind property will do well and sell in this particular region (Raugust, 1995, p. 135). Language considerations are another important point. Since languages vary from country to country, this has an effect on the licensee. s packaging; due to the different product specifications, it can impact the products as well. Regarding brand licensing, brand names can also prove problematical since, in the interests of standardization, they are usually not translated. However, some brand names are simply unsuitable for international purposes, since they sometimes have totally different meanings in other languages. The Chevy Nova, for example, bemused its Spanish audience, for whom "no va" means "won't go".

Despite this infinite number of differences in international licensing, the globalization of licensing programs continues. Such issues suggest a need to examine how differences in market structures may affect the performance of licensed products and the effectiveness of various licensing strategies in achieving the desired result. The best way for all licensing professionals from around the globe to face all these difficulties and to create a successful licensing program is to be open and willing to adapt, as necessary, for each market.

Effects of language and culture on global licensing strategies

In more and more product categories, the ability to establish a global profile is essential for success, but many properties that do well in their home-based market, or in a select group of territories, do not translate well around the globe. But why is that so? Before designing and implementing a licensing strategy, in the first place, licensing professionals must be aware that the audience in their target market is composed of individuals placed in different cultural frameworks. These cultural frameworks shape consumer needs, as do other factors such as language or social and socioeconomic factors. In order to implement a property successfully on a foreign market, "adapted" licensing strategies geared to the specific needs of the audience may be appropriate. These licensing strategies must be designed to appropriately position the property for the target market segments.

The following figure presents a conceptual model of influential effects of language and national culture on the performance of licensed products. In addition, there are a number of externally generated influences that impact information processing and decision making of consumers that will not be addressed here.



The effects of language and culture on the performance of licensed

products (adapted from Roth, 1995, p. 165)

What follows now is a brief description of the manner in which language and culture shape consumer needs and subsequently affect global licensing strategies.

Cultural variations

In his book *Primitive Culture*, E. B. Tylor defines culture as . that complex whole which includes knowledge, beliefs, art, morals, law, custom, and any other capabilities and habits acquired by man as a member of society.. Since every individual is a product of his culture, this fact has long been considered as an environmental characteristic that affects an individual. s ways of perceiving, constitutes his values and affects attitudes, norms, beliefs, habits, knowledge, capabilities, and life-styles (Roth, 1995, p. 164). An individual is brought up with a given interpretation of stimuli, and often because there is a lack of exposure to different cultures, he may never be aware of the fact that his interpretations are influenced by his own culture (Britt, 1978, p. 189). Since culture pertains to consumer behavior, an important consideration in overseas licensing is recognizing and accounting for different cultural frameworks before developing international licensing programs (Raugust, 1995, p. 135).

In his work on cross-cultural value systems Hofstede (1984) identifies three aspects of culture that can be related to consumer needs and brand images, namely, power distance, uncertainty avoidance, and individualism. For creating and implementing international licensing strategies, the aspect of power distance, which can be defined as the extent to which culture is conducive to social inequality, is of extreme importance. In high power distance cultures, social consciousness is elevated, and people tend to emphasize the importance of prestige and wealth in shaping boundaries between social and economic classes. The consumer decisions in high power distance cultures are clearly motivated by the need to conform with those in their class or in classes for which they strive (Hofstede 1984;

Inkeles 1960; Lenski 1966). In terms of consumer needs and, in turn, licensing strategies, it appears that properties which create social brand images are well-suited for high power distance cultures because people are highly motivated by social status to live up to norms and conventions (Roth, 1995, p. 163).

Another implication on how global licensing strategies are biased by culture is given by Steuart Henderson Britt in his book, *Psychological Principles of Marketing and Consumer Behavior*, where he claims that . a message that is significant to members of an audience because of their cultural background is more likely to be learned and remembered than a message not related to their cultural background. (p. 296). Hence, centralized marketing strategies for licensed products which still preserve local custom and tradition in the advertising can be even positive for products sold in more than one country . even in diverse cultures.

Language

As much as cultural context refers to the degree of information consumers infer from implicit, contextual cues . those which are non-verbal and non-written . language refers to the degree of information consumers infer from literature, oral and written. Although no inherent relation exists between language and culture, they are closely associated in practice.

Since lexicon is the index of culture, and in its totality presumably can describe the culture, we would expect the greatest correlation to be here: the lexicon expresses the meanings, which *are* the culture. But the correlation of the more purely linguistic and structural parts of language with culture is indirect, and therefore less responsive to cultural change (Haugen, 1958, p. 774).

It is clear that language is a part of culture, and both not only affect every action we make, but also influence what and how we learn (Britt, 1978, p. 293). Language is a learned cultural response, and both language and culture are so interrelated that the words and phrases that make up any language have meaning only by inference with the cultural framework. Due to differences in language perception, a message may not be learned and understood in the same way by all segments of an audience. Hence, the effect of language on cognitive behavior has applications to persuasive communication and strongly influences consumer behavior (Britt, 1978, p. 294). Therefore, when a message aims for mental participation in a given action, both communicators and communicatees must infer the same cultural meanings from the language if a message is to be effective. International communication which focuses on aspects of one particular culture to the exclusion of others may limit the effectiveness of that communication (Britt, 1978, p. 294). As a result, for designing and implementing global licensing programs that intend to be effective in their communication, licensors intentionally may have to exclude parts of their mass audience and should rather concentrate on their actual target audience and seek to reach them through their similarities in order to communicate clearly with them.