



Sign Here: Licensing for Profit

Licensing in Sport/Event Marketing

**Allowing others to use
your name**

Good news about licensing

**Risking your reputation
for cash**

World of opportunity

So What



If someone asked you what sport licensing is, you might not be able to answer off the top of your head. You might not even realize that licensed sport products are around you every single day. Do you own a jersey from your favorite soccer team? A hat from your city's baseball team? A pennant from your beloved college football team? How about a bobblehead of one of your favorite players? Chances are you do, and those products are all the result of licensing agreements.

Licensing is a crucial part of any sport marketing strategy, and it's also big business for the organizations and companies involved. Since licensing is important in terms of both promotion and income, anyone who wants to pursue a career in sport marketing or management should have a basic understanding of licensing systems and how they work.

Objectives

A

Explain the purpose of licensing in sport/event marketing.

B

Explain the benefits and risks of licensing.

What is licensing?

With millions of NASCAR fans across the United States, you have most likely seen a Tony Stewart or Jimmie Johnson bumper sticker or window decal at least once. These products are constantly flying off the racks. But since there is no NASCAR manufacturing company pumping out toy cars, trading cards, and can coolers, where do all these products come from?



That's where licensing comes in. Licensing agreements allow one company to use the trademarked property (such as the Jimmie Johnson name and logo) of another company to manufacture and sell its own products. The company that wants to use the trademarked property pays a fee for the permission to do so. It also pays a percentage of its profits back to the original trademark owner.

What licensing isn't

Sport/Event marketers use many different strategies to promote their teams and products, and at first, some of those strategies may seem the same. But licensing is distinct, and it's important to understand what licensing isn't to avoid any confusion with other sport marketing techniques.

They really sell that?!!

For the more adventurous licensed-sport merchandise shopper, check out these choices found at various retail stores and online:

- Major League Soccer beanbag chairs
- Major League Baseball bed frames
- NFL bed sheets
- NCAA wallpaper
- NBA curtains
- WWE underwear???



- **Licensing isn't branding.**

Branded items don't use another company's trademarks. They feature only the logo of the manufacturer. Companies such as Nike have found success by building their own brand as well as using licensing. Over the years, consumers have come to recognize the Nike "swoosh" symbol as easily as they do the Olympic five-rings logo or the Dallas Cowboys' star logo.

- **Licensing isn't sponsorship.**

In a sponsorship agreement, a company pays a fee to a team or an event for the right to affiliate itself with that team or event. You can usually spot a sponsor by looking for its advertisements at the game or its name on the promotions. For example, the PGA tournament lineup includes the Hyundai Tournament of Champions, the John Deere Classic, and the Sony Open. And, at a recent Indiana Pacers game, fans went home with team posters, courtesy of Pepsi.

- **Licensing isn't endorsement.**

In an endorsement agreement, a company pays an athlete or team to promote its products by wearing or using them and by appearing in the company's advertisements. For example, basketball star Derrick Rose wears only Adidas shoes, and football hero Aaron Rodgers can be found in ads for State Farm Insurance.

A quick note about trademarks

All teams and sport events should trademark or copyright their names, logos, slogans, and graphics to legally protect them in a licensing system. Names and pictures of stadiums and arenas should also be trademarked. Neglecting to do so means that other companies could use your name and logo without your permission. If you don't get the copyright, you can't make money from licensing. Period.

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Who are the licensors?

An organization or company that holds the rights to trademarked property is known as a licensor. In sport marketing, there are a number of different types of licensors. Sport leagues and individual teams are licensors, as well as college athletic departments, players' unions, and individual athletes in pro sports such as tennis or golf. Fitness icons like Gold's Gym and sport-related television enterprises such as Monday Night Football and ESPN are also licensors. Sometimes certain licensors, such as leagues and players' unions, become partners and share the profits.



▲ Topps is a licensee of Major League Baseball, the National Football League, the English Premier League, the Indian Premier League, World Wrestling Entertainment, and the Ultimate Fighting Championship.

Who are the licensees?

A company that wants to manufacture and sell products using trademarked property is known as a licensee. Because of the wide variety of sport products to manufacture and sell, there is an equally wide variety of sport licensees. Adidas, Nike, and Reebok are all clothing licensees. EA (Electronic Arts), 2K Sports, and Konami are licensees for video games, while Topps and Upper Deck are licensees for trading cards. Not all licensees are big-name companies, however. Many smaller, unknown companies produce licensed sport merchandise as well. For example, a small pewter-metal company called Siskiyou Gifts is an official licensee of the NFL, the NHL, Major League Baseball, and several colleges and universities.

T-shirts top the list

By now, you've probably realized that licensed sport/event products are everywhere. Key chains, mugs, banners, magnets, boxer shorts, even furniture and jewelry—if you can name it, someone has probably already come up with the idea to manufacture and sell it as a licensed product. But you might not know that clothing accounts for almost 60 percent of all licensed sport merchandise sales. T-shirts are the best-selling licensed clothing item because they're practical and allow people to make clear statements about which team or athlete they're loyal to.

Summary

Licensing is a multibillion-dollar business, and licensing strategies are a crucial part of any sport marketing plan. A huge variety of licensed sport products is available, ranging from the good old T-shirt to novelty items and even furniture. Licensors hold the rights to the property that licensees want to put on their manufactured products. It's important that every name, logo, and slogan of the sport team or event be copyrighted before putting a licensing system into place.



1. What is licensing?
2. How is licensing different from other sport marketing strategies?
3. What is a licensor? Give three examples of sport licensors.
4. What is the most important step in licensing for a licensor?
5. What is a licensee? Give three examples of sport licensees.
6. What kinds of products can be licensed?

The birth of the sport/event licensing industry

Sport licensing wasn't always as prevalent a marketing strategy as it is today. Team owners and management used to view their logos and players' uniforms as very exclusive. During the 1950s, New York Yankees General Manager George Weiss gave a voice to this opinion when he said, "Do you think I want every kid in this city walking around with a Yankees cap?"

However, over the next few decades, professional sports became increasingly popular as they gained more media coverage. As a result, the number of sports fans grew rapidly, and those fans showed their pride by wearing team colors. In the 1970s, T-shirt printing technology was developed, making T-shirts a common form of communication.

Then, during the 1980s, the costs of operating a pro sport team skyrocketed, and team owners and management were desperate for a way to increase their income. Combining their sports' immense popularity and fan loyalty, along with the available technology to produce and sell official team merchandise such as T-shirts, the team owners knew that they had found the solution to their money problem.

Beyond boosting the budget for operating costs, the sport licensing industry has become a major profitmaker for professional leagues and teams. Today, it's a safe bet that the Yankees' managers would be thrilled if every kid in the city had a Yankees cap.



The Ups and Downs of Sport Licensing

Why be a licensor?

Profits. The most obvious reason for a team or league to become a licensor is the enormous income that licensing brings in. Even events that take place just once a year can capitalize through licensing—Wimbledon makes around \$100 million annually in licensing revenue.

Some sport organizations, such as the U.S. Olympic Committee (USOC), use their licensing proceeds to fund their training programs and assist with athletes' financial needs. College athletic departments usually use their licensing dollars to build up scholarship funds and to strive toward financial self-sufficiency. Other organizations, such as players' unions, sometimes donate a portion of their licensing profits to charities.

Low risk. Licensing is a relatively low risk business strategy for the licensor. Because licensees do all the work of developing, manufacturing, and selling the products, licensors save a great amount of time and effort by being able to skip those steps. That means that all the money the licensors make from the products is pure profit, and they don't have to take a marketing gamble to make it.

Free advertising. Another benefit for licensors is the fact that licensing is basically free advertising for their team or league. Another company produces and presents the official merchandise, possibly all over the world, getting the team name out in exciting and creative ways, all at no cost to the licensor.



▲ Wimbledon's licensing program, established in 1979, includes more than 30 licensees globally. Some of its most well-known licensees are Fila (footwear), Polo Ralph Lauren (apparel), and Links of London (jewelry).

THE GRAY ZONE

Teams, leagues, and colleges can't control the way their licensees run their businesses. Many American athletic and footwear companies, including major sport licensees like Nike,

Reebok, and Adidas, have chosen to manufacture a great deal of their products overseas to save money. Since foreign manufacturing operations are not subject to U.S. labor laws, many times children work in the factories. All the workers' wages are very low by American standards. Many Americans view these business practices as unethical and even as human rights violations.

The pressure doesn't stop with the licensees. Many hold the licensors, the professional and college teams whose products are being manufactured, just as responsible for what goes on in overseas factories. As a result, many licensors have issued a code of conduct they expect all their licensees to follow. But the foreign "sweatshops" still exist.

Do you think licensees should pay foreign workers higher wages, considering the U.S. retail value of the products they're making? What if the country's labor laws allow children to work? Is it acceptable for American licensees to employ them? Are licensors responsible for the way in which merchandise bearing their trademarks is produced?





Stockbyte/Thinkstock

- ▲ Many sports fans purchase licensed products so that they can enjoy the “game” anytime, anywhere.



Extra benefits for college athletic departments acting as licensors:

- The selling season lasts longer. Since colleges have different sport teams for every season, they don't suffer from the same off-season sales lull that professional teams do.
- Colleges and universities are everywhere, unlike major league sport teams that are found only in metropolitan areas with large populations. Colleges can create fan bases where some pro leagues cannot.
- Since college athletes are amateurs, college athletic departments don't have to make enough money to cover the enormous player salaries that professional teams do.

Brand building. The sale of licensed sport products serves to reinforce the team's image and brand to the public. Sports fans would have a much more difficult time recognizing the team's logo without seeing official team hats or jerseys in retail stores on a regular basis. This type of positive, continuous exposure is considered “good publicity” and is important to an overall branding strategy.

Making it real for the fans. So many of the reasons people love sports can't be put on the shelf at the store—the smell of hot dogs at the ballpark, the sounds of skates scraping on the ice, the sight of an amazing slam dunk. Licensed sport products are a way that licensors can actually “package” their team. Sport marketers cannot actually recreate a sports fan's cherished memory, but a collector's edition bobblehead doll can serve as a daily reminder of those great times.

Market expansion. Licensors also benefit from licensing when licensees take their team's products into new, untapped markets, such as foreign countries. As a rule, teams and leagues don't have a lot of time or energy to spend pushing into these areas, and licensing helps to introduce them to new markets with little to no effort on the licensor's part.

Control. By using licensing, licensors increase their ability to protect their team's trademarks and logos. A licensing system keeps strict track of trademarks and where they can appear. Without the system, unauthorized manufacturers would find it much easier to “borrow” the trademarks illegally.

How exactly do licensors get paid?

Although the exact language can vary from licensing agreement to licensing agreement, most contracts include the two basic elements of guarantees and royalties.

- **Guarantees**—A guarantee is the fee a licensee pays up front to use the trademarked property. It's a figure based on expected sales.
- **Royalties**—Royalties are a percentage of the actual sales. Once the guarantee is paid off, licensors start receiving royalties, usually anywhere from 5 to 15 percent.

The benefits of becoming a licensor fall into three categories—profit, public relations, and protection.

Is it all rosy for licensors?

Although being a licensor has its benefits, there are certainly risks involved as well. The main risk for licensors is loss of control over the marketing process. Teams can't always guarantee the quality of their official licensed merchandise since they aren't manufacturing it themselves.

Also, when using a licensing system, teams can't necessarily prevent their trademarked property from appearing in a discount store or being on the clearance rack somewhere. If poor quality merchandise is being sold at a low price, the team's public image could possibly be damaged. Even reputable discount stores may not be the best place for licensed sport merchandise to appear. Think about it—how many team hats have you bought at a dollar store?

Why be a licensee?

You might think that the licensors are getting the better end of the deal here, but there are many benefits in the licensing system for the licensees as well.

Profits. As with licensors, the biggest reason to jump in the game is, of course, the income potential. As you know by now, there is an extensive market for licensed sport products. In one year, licensed sport products can generate over \$2 billion in the U.S. alone! Licensees also profit because they are generally able to charge much higher prices for products that are licensed than they would for the same items if they were "plain."

Retail opportunities. Because licensed sport products are in such high demand, retailers often give the best spots in their stores to them. Licensees' products usually enjoy prime shelf space in retail stores, helping them to sell even more quickly.

Brand building. Licensing saves time and money for the licensees as well as the licensors. It takes many years and a lot of advertising dollars to build up the type of brand recognition a company like Nike enjoys. But putting a professional sport team's logo on a product provides that recognition in an instant. Licensees are seeking to establish an image just as much as sport teams are, and licensing helps them accomplish this goal.

Positive publicity. Association with a professional sport team or league is usually very beneficial to a licensee. Most consumers will make the assumption that if their favorite team allows this company to produce its official merchandise, the company must be reputable.



▲ NBA-licensed clothing is a top seller for Champs Sports. The retail chain also sells products bearing NFL, MLB, NHL, NCAA, and World Soccer team names and logos.



Logo from 2000-2012



Logo 2013

Although winning teams typically sell the most licensed products, licensors and licensees have found ways to make profits when on-field times are tough, too. Sometimes, teams make significant design changes to their logos or uniforms, sparking a major sales increase for licensed products.

Risks for licensees

The biggest risk that licensees take is actually signing the licensing agreement. In doing so, they are agreeing to pay a certain amount of money, the guarantee, no matter how much they make in profits. The minimum guarantee must be paid to the licensor no matter what. If licensees don't sell enough merchandise to cover that cost, they have to pay it out of pocket.

Another downside for licensees is the nature of fashion trends—they tend to come and go very quickly. Licensees must try to stay ahead of the “fizzle out” factor of these fads, which isn't an easy task. Today's hot item may wind up in tomorrow's garage sale bin.

One more frustration for licensees is an element that no one can control, and that's the on-field success of the teams they produce merchandise for. Winning teams definitely sell the most licensed products. And while sports fans may love the unpredictability that accompanies each new season, licensees are left to wonder if their teams will help them sell any merchandise this year.

Athletes, teams, and leagues also have the potential to fall into disfavor with sports fans for a variety of reasons, which jeopardizes profits for the licensees involved. Player strikes, in particular, can have a significant effect on licensed merchandise sales. Sometimes a particular athlete's comments or actions negatively affect sales as well. Licensees can find themselves in trouble if an athlete's public image goes sour, and they are left with loads of unwanted merchandise bearing the player's name. Sometimes licensees try to include clauses in their contracts to cover these types of situations.



▲ From 2008 to 2012, the Cleveland Browns football team won just 23 games and had 54 losses. What impact do you think the team's losing record had on licensed product sales?

Licensing around the world

Sport marketers have the edge over all other licensing industries in the international market, thanks to the universal appeal of sports. Even with extreme differences in culture and language, no country in the world is without its sports fans. And, over the past few years, American teams and leagues have used exhibition games in foreign countries to introduce themselves all over the globe. As the U.S. market for licensed sport products becomes more and more saturated, American licensors and licensees are turning to the global marketplace to increase sales. Besides marketing licensed merchandise overseas, American manufacturers are also buying up foreign companies to produce licensed products specifically for local teams and sports.

Summary

Both licensors and licensees take risks and receive benefits with the licensing system. Both sides profit from the income brought in by licensing and usually enjoy boosted public relations stemming from their agreements. Because of the immense popularity of sports all over the world, American licensors and licensees are expanding more and more into foreign markets.

Make It Pay!

Think of at least five licensed sport products you own or have seen in recent weeks. What are the products? Who are the licensors? Who are the licensees? What benefits are they receiving? What risks are they taking?



1. What are the benefits of being a licensor?
2. How do licensors get paid?
3. What are the risks of being a licensor?
4. What are the benefits of being a licensee?
5. What are the risks of being a licensee?
6. What advantage do sport marketers have in the international marketplace?