

Chapter 1

Defining the World of Licensing

1.1 Definitions and Terminology

Over the years, the licensing industry has developed a set of terms that need to become understood if one is to function effectively in the industry.

1.1.1 Forms of Licensing

The term **“licensing”** typically means any transaction in which the owner of intellectual property grants another party the right to use such intellectual property, typically in exchange for some form of consideration or payment. Absent the grant of such a right or license, the other party’s use of the intellectual property would be considered an infringing use. Thus, the license constitutes a defense to infringement. Licensing is, therefore, the monetization of an existing asset.

“Intellectual property” can take many forms including, for example, musical works, literary works, artwork, drawings, inventions, discoveries, designs, patents, trademarks, names, logos, legends, industrial designs, trade dress, celebrity rights, etc. Regardless of the type, the one constant is that it must be protectable under some form of intellectual property protection, e.g., as a patent, trademark, copyright, right of publicity or trade secret. Intellectual property is frequently referred to simply as **“IP.”**

There are many types of licensing, virtually all of which will depend, in large measure, on the type of intellectual property involved. For example, when the intellectual property being licensed is technology or is covered by a patent, the licensing of such technology or patent is typically called **“technology licensing”** or **“patent licensing.”** Similarly, when the property being licensed is computer software, the licensing of the software is normally called **“software licensing.”** When a trademark is being licensed, it is typically referred to as **“trademark licensing.”**

When a character from a book or motion picture is the property being licensed, such licensing is commonly called **“character licensing.”** Similarly, when a corporate brand is the subject matter, it is typically called **“brand licensing.”**

When one licenses a highly recognizable brand or character for goods or services in categories different from the one where the brand or character had originally been popularized, such licensing is frequently called **“brand extension licensing”** or simply **“merchandising.”**

This book will focus primarily on merchandising, although at times the terms **“merchandising”** and **“licensing”** may be used interchangeably throughout the work. It should be appreciated that the term merchandising may have other meanings, particularly in the retail or marketing fields. In the retailing field, merchandising means something other than licensing, e.g. some form of **“a sales promotion as a comprehensive function,**

Licensing:

The grant of the right to use another party’s intellectual property on their products or services in exchange for financial consideration, typically a royalty.

including market research, development of new products, coordination of manufacture and marketing, and effective advertising and selling.”

1.1.2 Contractual Terms

The grant of a license to a manufacturer is typically done pursuant to a written **“license agreement”** or **“license agreement.”** While oral licenses may occur, the clear majority are granted under formal, written license agreements.

In the context of licensing, the owner of the IP that is granting the license is commonly called a **“property owner”** or **“licensor”** while the party receiving the license to use the intellectual property on their product is typically called a **“licensee.”**

The intellectual property being licensed is normally called the **“property”** or, more accurately, the **“licensed property,”** while the products for which the license is being granted are typically called the **“licensed products or licensed articles.”** If the intellectual property is being licensed for use in conjunction with a service, e.g., restaurant services, those services would be called the **“licensed services.”**

It is quite common to include **“schedules”** in a license agreement to more accurately and completely define both the licensed property and the licensed products or licensed services.

There are different types of license grants. An **“exclusive license”** is one in which the licensee is the only party receiving the right to use the licensed property for the licensed products to the exclusion of everyone, including the licensor. There may be some instances, however, in an exclusive license where the licensor reserves the right to use the licensed property itself for such products, but that would have to be specifically stated.

A **“non-exclusive license”** is one in which the licensee is granted the right to use the licensed property for the licensed products on a non-exclusive basis so that the licensor may make similar grants to other parties. In merchandising, most licenses are non-exclusive, even where the licensor may have no intention of granting a similar right to anyone else. This is done primarily to protect the licensor should the licensee underperform or even declare bankruptcy. In such event, the licensor might be able to find others to step into the shoes of the bankrupt licensee during the pendency of the bankruptcy proceeding.

Virtually all licenses are granted for fixed periods of time, e.g., three (3) years. Products that require a long development period or a large capital investment are often longer, or, alternatively, for so long as the licensee continues to sell licensed products (called **“Life of Product”** license). The length of a license grant is typically called its **“term.”** In many cases, a licensee is given an **“option”** to renew the license for additional terms upon meeting certain conditions. In such cases, the initial period may be called the **“initial term”** and the renewal period may be called the **“renewal term.”**

Most licenses will restrict the licensee’s use of the property to a geographical area, e.g., North America or the European Union, and this is typically called the **“licensed territory.”**

Most merchandising license agreements are non-exclusive even where the licensor may not intend to grant other similar licenses.

Similarly, a licensor may want to restrict the licensee's sales of the licensed products to a specific market or channel of trade, e.g., "mass market" or "Internet" and possibly even specific retail outlets within that market or channel. Such distribution limitations are commonly referred to as the "**channels of distribution.**"

Licensors may want to exclude certain rights from the license grant, either to give it the freedom to exploit those rights itself or to be able to grant such rights to others. Many licensors will exclude the right to use the property as a "**premium**" or in conjunction with a "**promotion.**" The exclusion of premium is very common in licensing agreements for movie and television properties. The reason is that premiums and promotional products are not typically sold as merchandise through the normal channels of distribution but, instead, are given away to the public to promote the licensed property and/or the company offering the premium, e.g., McDonald's BAKUGAN Happy Meal Program, in which BAKUGAN toys were given away by McDonald's to help promote BAKUGAN property and drive sales of McDonald's products.

The most common form of compensation for the right to use a licensed property on a licensed product is the payment of a "**royalty**" to the licensor, which is a percentage of the licensee's "**net sales**" of the licensed products. "Net sales" is always a defined term in any license agreement and will vary from license agreement to license agreement. It is often defined as the licensee's gross sales of licensed products, less certain agreed-upon deductions, usually "**discounts and allowances**" and any "**returns**" by the retailer or consumer.

**Merchandising
licensors will
usually require
the licensee pay
a Minimum
Guaranteed
Royalty and an
Advance.**

At the time a licensee enters into a license agreement, the licensee is typically required to pay the licensor an "**advance**" against its future earned royalty obligations—think of it as a prepayment of royalties. In most instances, the advance is creditable against the licensee's future earned royalty obligations. Thus, if the licensee paid a \$100,000 advance, it would not need to pay any additional earned royalties until such earned royalty obligation exceeded the amount of the advance, i.e., \$100,000.

Most licensors require that the licensee pay a "**guaranteed minimum royalty,**" often referred to as simply the "**minimum**" or "**guarantee.**" Guarantees are intended to protect the licensor if the licensee's net sales prove to be lower than anticipated. As the name implies, the licensee is guaranteeing that it will pay the licensor a certain minimum amount of royalties over a given period during the term of the license regardless of what the earned royalties may be.

Although there are several ways to apply this guaranteed minimum royalty obligation, in most instances it only applies when the licensee's earned royalties fall below the minimum for that period. In such case, the licensee is obligated to supplement its earned royalty payments to meet the guarantee for that period.

In addition to the payment of a royalty, many licensors require their licensees to also contribute to a "**common marketing fund**" or "**CMF**" which the licensor collects from all its licensees and uses to support and promote the property and the licensing program. These payments are occasionally called a "**marketing royalty**" because they are frequently

calculated as a percentage of the licensee's net sales of licensed products in much the same manner that the royalty is calculated.

Many licensees use third parties to manufacture the licensed products for them and/or sell or distribute them. These third parties are called **“manufacturers”** or **“distributors.”** This practice is not **“sub-licensing,”** which is almost always prohibited. In sub-licensing, the licensee grants a third party the same rights that it had received from the original property owner or licensor, not simply the right to manufacture or distribute products for it.

1.2 Types of Properties

There are a variety of different types of properties that can be merchandised or licensed, although most constitute words, names, titles, symbols, designs, character or personality images or likenesses that have acquired a wide degree of public recognition through mass media exposure. Licensing properties typically fall into different categories, including:

- Art
- Celebrity
- Collegiate
- Corporate
- Entertainment
- Fashion
- Music
- Non-Profit
- Publishing
- Sports

1.2.1 Art

Art properties can be virtually any image or work of art. In the case of prominent artists such as THOMAS KINKADE, WARREN KIMBLE or DENA FISHBEIN, the artist's name can also be included as part of the licensed property.



It's been said that in art licensing, “it's all about the image.” Consumers are purchasing the licensee's products primarily because of the artwork or image that appears on the products and licensees are licensing the artwork for the same reason. There are two principle reasons for licensing the artwork of an outside artist: it provides the licensee with unique artwork, and/or lowers the licensee's development costs which makes the licensing of artwork very attractive. While artwork is licensed for a host of different types of licensed products, including apparel and printed matter, it is also extensively licensed for use in advertising and on packaging.

While publishers and manufacturers have been using other people's artwork and images for decades, the practice of licensing such artwork has been a more recent trend. In the “early days,” artwork was typically purchased by a manufacturer for a nominal sum of money, rather than licensed on a royalty-bearing basis.

As the licensing business grew, however, artists (and their agents) recognized that they could potentially earn far more money by licensing such works to the licensee rather than selling it outright as they would then be sharing in the revenues earned by the licensee using the artwork. Consequently, many artists stopped trying to sell their artwork outright

and, instead, turned to licensing to potentially share in the sales that the artwork generated.

As art licensing grew in popularity, so too did the sizes of the advances and guarantees that a publisher or manufacturer was willing to pay for the right to use the artwork. In many instances, these advances and guarantees were significant and, frequently, were never earned off by the licensee.

As a result, the business model changed... again. While most artwork is still licensed rather than simply sold or assigned, the current trend is towards smaller advances and guarantees. Though the artist may still be able to ride the crest of a very successful licensed product, these smaller advances and guarantees protect the licensee if the licensed products do not sell up to the expectations of the parties when the agreement was negotiated. In short, business sanity has set in.

According to the 2018 LIMA Survey of the Licensing Industry, the three largest categories of licensed products for art properties were gifts & novelties, housewares and paper products.

1.2.2 Celebrity

Undeniably, we live in a world in which people are fascinated by celebrities. Magazines such as *People* and *In Touch* have generated subscriber bases in the millions and huge web followings simply because people want to closely follow the lives of their favorite celebrities. The United States has even elected celebrities as its president. It should not, therefore, come as any surprise that when a celebrity elects to put his or her name on a product or otherwise associate themselves with that product, more people will want to buy that product. The celebrity licensing category functions because of this basic premise.



In a nutshell, celebrity licensing is the licensing of a celebrity's name, image or likeness for use on a licensed product or in association with the advertising or promotional material for that product, to enhance the sales of such product. The value of the license is tied directly to the popularity and "fame" of the celebrity which, unfortunately, can change over time, in some cases, very abruptly.

In the early days, the celebrity might be required to act as a spokesperson for the licensed product, e.g., appearing in an infomercial on television or in print ads extolling the virtues or benefits of the licensed product and telling consumers why they should buy it. It has, however, evolved into one where the celebrity often simply licenses the right to use their name or image on the licensed product in a more classic licensing style.

In some instances, the celebrity might be required to make a promotional appearance or two with selected retailers, appear on the Home Shopping Network or to wear the licensed product on the "Red Carpet" before a Hollywood event, but the promotional support required is usually minimal, and has been replaced in many agreements by requiring the celebrity to support the product through the use of some form of social media, e.g., Facebook or Twitter.

Ironically, the celebrity doesn't even have to be alive to be licensable. The licensing of deceased celebrities has become big business and, as a result, there are licensing agencies

that specialize in this niche area. For example, it has been reported that the estates of such deceased celebrities as ELVIS PRESLEY and MICHAEL JACKSON continue to derive significant revenue from licensing the names and likeness of these individuals despite their passing.

A manufacturer needs, however, to be careful when taking a celebrity license for a living celebrity since their fame and public image can be fleeting. If the celebrity's personal life doesn't go the way everyone expected, not only will the celebrity's career suffer, but so will the sales of their licensed products. For example, after evidence of Tiger Woods' marital infidelity hit the media, not only did his golf game suffer but so did the sales of TIGER WOODS licensed products. The insertion of a "Morals" clause affords the licensee some protection in such cases where the behavior of the celebrity generates negative publicity.

According to the 2018 LIMA Survey of the Licensing Industry, the three largest categories of licensed products for celebrity properties were apparel, gifts & novelties, and health & beauty.

1.2.3 Collegiate



Over the past few decades, collegiate licensing has become a very important part of the licensing industry, as colleges and universities now regularly grant licenses to third parties to use their names, logos or mascots for a host of different types of licensed products. The royalty income generated by such licensing programs is used by these schools to support a wide variety of their athletic, academic and other quality of life programs.

While sales of collegiate licensed products were initially confined to college bookstores and alumni catalogs, distribution channels for such products have greatly expanded as collegiate brands have grown in popularity. Today, a significant amount of collegiate licensed products is carried by most major retailers on a national basis.

As one might expect, the success of a college licensing program is frequently tied to the success of its athletic teams. If a college wins a national football championship or makes an appearance in the NCAA's Final Four basketball tournament, the college will almost certainly see a meteoric rise in the sale of its licensed merchandise with a corresponding jump in the royalty revenue that it receives—a double win. It was reported that the 2018 Final Four in which Villanova ultimately prevailed, produced between \$20-35 million in sales of licensed products.

An example of how athletic fame and fortune can translate into increased royalty revenue is BOISE STATE's experience. When it decided to change its logo and take its football program onto a national stage, the college experienced a ten-fold jump in its royalty revenues over a six-year period. More significantly, the sale of its licensed products expanded from local stores to national retailers.

The viability of a college brand is not just limited to success on the athletic field. Schools such as OXFORD, HARVARD and PRINCETON have developed strong licensing programs on the strength of their academic reputations.

Interestingly, even colleges with unique or “catchy” names or from popular geographical regions have found success in the marketplace, e.g., SLIPPERY ROCK UNIVERSITY or the UNIVERSITY OF HAWAII. For many years, UCLA sold a significant number of licensed products in Japan, finding that Japanese consumers were seeking an association with the California lifestyle.

Not to be outdone by its member schools, the NCAA has even jumped into the licensing arena, developing licensing programs based on the names of its various tournaments, e.g., the FINAL FOUR. Similarly, the various football bowl games, e.g. the ROSE BOWL, have licensed such names for a variety of different products.

The collegiate licensing marketplace is an interesting one because more than half of the colleges and universities use the same agent, i.e., IMG College Licensing, formerly The Collegiate Licensing Company (“CLC”). Another significant portion of the schools use Learfield Licensing Partners, while a handful of the remaining schools are either represented by Fermata (owned by Fanatics) or are independent and conduct their own licensing programs. IMG College and Learfield reached an agreement to merge in 2017 and, as of this writing, were still working out the details of such merger. The combined company would include media marketing rights and licensing representation services for a majority of the colleges and universities in the U.S.

According to the 2018 LIMA Survey of the Licensing Industry, the three largest categories of collegiate licensed products were apparel (by a large margin) accessories, video games and sports.

1.2.4 Corporate



In the early years of licensing, the corporate world watched with great interest as the entertainment industry jumped in and found it to be an excellent way of promoting their brand names and underlying products, while generating additional revenue at the same time.

It is, therefore, no surprise that corporations eventually followed suit and used licensing as a means of both increasing their bottom lines and further enhancing their brands’ identities. Today, more and more major corporations with highly recognizable brands and trademarks have turned to licensing.

While the prospect of generating additional revenue is always important to most corporations, many have developed licensing programs for other reasons. For example, some have found it to be a cost-effective vehicle for diversifying their product lines and entering product categories that they had not previously explored.

For example, in the early 1980’s Winnebago Industries was mired in a depressed recreational vehicle market. While sales of RV’s were down dramatically due to the gas crisis, the Winnebago mark was still a widely known and respected brand. Capitalizing on the public awareness of its name, Winnebago decided to diversify into the exploding camping market by licensing the WINNEBAGO mark for a line of sleeping bags, tents and other outdoor products. It was a classic example of how licensing can permit a company to leverage the power of its brand into other markets for little or no capital investment or risk.

Other corporations have entered the licensing arena to help strengthen their underlying trademark rights. For example, the Coca-Cola Company decided to pursue licensing

opportunities at the suggestion of its trademark attorneys who were concerned about the company's ability to enforce their valuable trademark rights against individuals who were selling a variety of COKE products in categories and on goods that were totally unrelated to soft drinks.

Coca-Cola proceeded by setting up what has become one of the largest corporate licensing programs in the world, with more than 300 different licensees manufacturing thousands of such diverse licensed COCA-COLA products as beach towels, boxer shorts, baby clothing, jewelry and even fishing lures. The company opened several COCA-COLA stores around the world carrying a wide array of licensed products, many of which express a nostalgia theme based on early COKE advertising campaigns.

More significantly, the Coca-Cola licensing program has been financially successful beyond anyone's wildest imagination and the revenue that it generates adds directly to the bottom line. At one point, it was reported that the program netted at least \$70 million in annual profits or about 0.3% of its total net operating revenues—all while strengthening the company's trademarks in the process. It also does not hurt, of course, that the wide spread sale and distribution of licensed COCA-COLA merchandise continues to help promote (and some may say advertise) the primary COKE soft drink products.

Some companies, particularly those in the alcohol and tobacco industries, have relied on licensing for promotional purposes since governmental regulations significantly restrict their ability to advertise through conventional media channels. Licensing permits these companies to still convey their marketing messages through the sale of licensed products which bear their marks, while also serving as a lucrative revenue producer.

According to the 2018 LIMA Survey of the Licensing Industry, the three largest categories of licensed products for corporate brands were food & beverage, apparel and housewares.

1.2.5 Entertainment

Entertainment and character properties are, of course, the most visible of all types of licensing properties and always produce the largest revenues in the industry worldwide.

Entertainment properties come from virtually all segments of the entertainment industry, although the largest source of such properties is Hollywood through its motion pictures and television shows. For example, the SPONGEBOB character featured in Nickelodeon's hit television show *SPONGE BOB SquarePants*, has become a major force in children's licensing as well as the subject of dozens of promotional programs for almost all the major retailers and fast food chains.



Similarly, the *Sesame Street* characters, ELMO, BIG BIRD and OSCAR THE GROUCH, have become licensing legends due, in large measure, to the constant exposure that these properties receive every day on television. Such children's characters as MICKEY MOUSE, WINNIE THE POOH, BUGS BUNNY and PETER RABBIT found their origins in various media formats in the early 20th century and remain popular today because of their continued media exposure.

Blockbuster Hollywood motion pictures have produced some of the most successful licensing programs in the industry, the best example being the Star War films. In recent years there has been a string of motion pictures based on superheroes, e.g., SPIDERMAN,

HULK, BATMAN, and SUPERMAN, that have spawned successful licensing programs. The tremendous licensing success of such characters has resulted in the studios creating their own “Consumer Products Divisions”, a/k/a licensing departments, responsible for the licensing of their properties.



Highly popular toys and video games have also been successful incubators for entertainment properties. BARBIE started out as a popular fashion doll for Mattel and, through licensing, has become a franchise. Similarly, the GI JOE action figure by Hasbro has been extensively merchandised for a wide array of products. MARIO, a featured character in an early Nintendo video game called Donkey Kong, has not only been extensively licensed, but has morphed into Nintendo’s official “mascot.”

Interestingly, this category has expanded with the growth of technology. Software, video games and mobile phones have made significant use of entertainment properties as the basis for games, wallpaper and even accessories such as game controllers, mobile phone cases and even licensed earbuds.

According to the 2018 LIMA Survey of the Licensing Industry, the three largest categories of licensed products for entertainment properties were toys & games, software and video games and apparel.

1.2.6 Fashion

Fashion or designer properties have been a staple of the licensing industry for years due, in large measure, to the wide variety of different properties available and the vast number of products for which they are licensed. One need only walk through the clothing section of any department store or, for that matter, look at the different fashion brands in his or her own closet to see the impact that these properties have had. The reason for their success is very simple and one that retailers readily understand: the presence of a fashion brand on a product *sells*.



Consumers have come to expect seeing a fashion brand—any fashion brand—on an article of apparel since it conveys the impression that the underlying product is better designed and of a higher quality than the generic version. Irrespective of whether that proposition is true or not, in fashion licensing, perception becomes reality and, as a result, a vast number of clothing products and related accessories today carry some fashion brand—either that of a real designer or a “house” brand to convey the same impression.

Designers brands such as PIERRE CARDIN, ANNE KLEIN, BILL BLASS, OSCAR DE LA RENTA, and CALVIN KLEIN clearly started the trend and have paved the way for the next generation of designers, including TOMMY HILFIGER, DONNA KARAN and VERA WANG and now TORY BURCH and KATE SPADE. Spin-offs or extensions of these properties, such as TOMMY or POLO, have enjoyed enormous popularity.

Fashion brands don’t always have to be a designer’s name. They can, instead, convey a certain lifestyle image, e.g., NAUTICA, FUBU, TOMMY BAHAMA, GUESS? and HANG TEN. Many retailers have developed their own fashion brands, e.g., the ROUTE 66 apparel line at K-Mart, or Walmart’s ATHLETIC WORKS brand.

The names of some of the famous design houses are also licensable, as demonstrated by the success of the CHANEL and LOUIS VUITTON lines of licensed products where good design prevails.

Some of the top catalogs have not only branded their own products but licensed out their names for ancillary products such as the EDDIE BAUER line of SUV's by Ford. That said, some fashion designers are uncomfortable with the idea of licensing, since they would like the public to believe that all products bearing their brands are produced by their company, not by a third-party licensee.

At the end of the day, however, fashion licensing is all about design and quality. Fashion properties that feature good design and offer quality and value will ultimately prevail and bring the consumer back, year after year.

According to the 2018 LIMA Survey of the Licensing Industry, the three largest categories of licensed products for fashion properties were apparel, accessories, and health and beauty products.

1.2.7 Music



The music industry rocks when it comes to producing hot licensing properties. Such bands and performers (alive or dead) as the BEATLES, ROLLING STONES, TAYLOR SWIFT, KATY PERRY, LADY GAGA, BEYONCE, ELVIS PRESLEY, MICHAEL JACKSON, PINK, JUSTIN TIMBERLAKE AND FLEETWOOD MACK have not only sold a vast amount of merchandise at their concerts and while on tour (called “venue sales”), their licensed products have also found their way into traditional channels of retail distribution.

The JESSICA SIMPSON brand has proven to be enormously successful at retail, most notably through the sale of licensed shoes, handbags and accessories, selling over a billion dollars in licensed products over its first ten years. USHER has licensed his name (and persona) for a wide range of products, including cologne and aftershave lotion. Similarly, the total concert merchandise sales of BRITANY SPEARS' licensed products have been in the tens of millions of dollars, the BRITTANY SPEARS' line of cosmetics for Elizabeth Arden and JENNIFER LOPEZ's line of toiletries have all sold well.

Rock bands have likewise come to recognize the power of their brand. At their height, the all-female British group ATOMIC KITTEN even created its own branded line of clothing called AK BRANDS. The use of music videos has proven to be an excellent way to sell branded merchandise for rock stars, as Australian pop star KYLIE MINOGUE proved when she appeared in a music video that successfully promoted her licensed line of lingerie for Agent Provocateur. Licensing has also penetrated the growing electronic dance music market, as popular DJ's such as DJ DEADMAU5 now have their own lines products including apparel and headphones.

According to the 2018 LIMA Survey of the Licensing Industry, the three largest categories of licensed products for music properties were apparel, health and beauty products and gaming.

1.2.8 Non-Profits

Foundations, organizations, charities and associations regularly use licensing to both convey their message to the public as well as a source of fund raising. Non-profit organizations, such as the American Society for the Prevention of Cruelty to Animals (“ASPCA”), have embraced licensing for these purposes. Revenue generated from the ASPCA’s licensing program helps fund its national humane initiatives while promoting brand recognition in the minds of consumers.



Similarly, the World Wildlife Fund (“WWF”) works closely with companies and individuals in marketing partnerships, where licensees are permitted to use its PANDA logo and WWF name. Again, such programs serve the important dual function of not only generating royalty income for the WWF but also of building awareness for its activities. In addition, the WWF engages in cause-related marketing promotions and sponsorship programs.

Some associations even set up their own related entities to directly engage in licensing. For example, the American Association of Retired People (“AARP”) created AARP Financial Inc. to license and endorse credit cards, insurance products and financial services. The AARP name appears on mutual funds, IRAs, CD’s, and a group that provides financial advice to its members. New York Life sells AARP Life Insurance policies and annuities; The Hartford sells AARP-branded auto and home insurance to AARP members; and other “partners” sell AARP motorcycle and mobile-home insurance. An AARP Visa credit card is offered by Chase Bank.

According to the 2018 LIMA Survey the three largest product categories carrying Non-Profit Properties were apparel, food & beverage and gifts & novelties.

1.2.9 Publishing

Many of the most popular entertainment properties trace their roots back to the publishing industry, particularly the children’s book market.



There is, of course, a fine line between pure publishing properties and entertainment properties since many entertainment properties came from the publishing industry and vice-versa. For example, the PEANUTS and GARFIELD characters grew out of syndicated comic strips of the same name and the popular characters PETER RABBIT and WINNIE THE POOH first appeared in children’s books. Many of the superhero characters that became enormously popular because of blockbuster motion pictures originated in comic books, including SUPERMAN, BATMAN, and SPIDERMAN. The HARRY POTTER franchise is the current leading example of successful publishing to licensing property.

According to LIMA’s 2017 Survey of the Licensing Industry, the three largest categories of licensed products bearing publishing properties were home décor, gifts and lawn and garden products.

1.2.10 Sports



For decades, sports properties have consistently been among the most popular licensing properties due, no doubt, to the worldwide passion for athletics. Sports licensing is a global business and, with few exceptions, appeals to a very wide group of potential consumers. While the popularity of certain sports such as soccer, basketball, cricket and hockey transcend geographical boundaries, others such as baseball and

football are enormously popular, mainly in the United States.

The major professional sports leagues in the United States, i.e., Major League Baseball, the National Football League, the National Basketball Association and the National Hockey League, all have strong licensing programs that are run by the “Properties” divisions of their respective league offices. These entities control the licensing rights for all their team logos and properties. Thus, if a company wants to take a license to use, for example, the NEW YORK GIANTS logo, on its product, it would need to coordinate this through NFL Properties. The same is true for each of the other professional sports leagues.

Team names and logos are not the only type of licensable sports properties, certain individual players are themselves equally popular. Professional athletes, such as LEBRON JAMES, STEPHEN CURRY, TOM BRADY and CLAYTON KERSHAW, are all featured in very prominent and successful licensing programs.

In professional sports, the licensing rights for individual players are typically handled by the player or their agent, while “group licensing rights” are typically handled through the respective players association for that sport, e.g., the NFL Players Association.

Since sports licensing will frequently involve the licensing of both teams and players, it can get complicated. For example, if someone wanted to run a promotion featuring all members of the Los Angeles Dodgers that also included the DODGERS mark, they would need to apply for a group license from the MLB Players Association for the names and likenesses of these players *and* MLB Properties for the right to use the DODGERS mark.

Professional sports leagues and players are not the only sources of sports properties. The United States Olympic Committee (“USOC”) has long relied on its licensing and sponsorship programs to underwrite its costs. Licensees pay the USOC to use the OLYMPICS sponsorship fees and provide the right to be called an “Official Sponsor.” Some of these fees are substantial because of the esteem that a sponsor gains through its ability to associate itself with one of the strongest and most recognized marks in the world.



generate revenue to help regularly pay royalties to LOGO, while sponsors pay goods and services for the “Sponsor” of the program.

The International Federation of Association Football (“FIFA”), which is the international governing body for soccer and who oversees the FIFA World Cup tournaments, also relies extensively on licensing to support its efforts.

Tennis and golf stars such as MARIA SHARAPOVA and TIGER WOODS, and soccer stars such as LIONEL MESSI and CHRISTIANO RINALDO look to licensing as a major source of their income. Not to be outdone, the governing bodies for these sports, e.g., the PGA, LPGA, and USTA, all regularly license out the use of their names and logos to raise money thereby help to support the growth of their respective sports.

According to the 2018 LIMA Survey of the Licensing Industry, the three largest categories of licensed products for sports properties were apparel, gifts & novelties and software and video games.

1.3 Types of Licensed Products

In the early years of licensing, most licensed products were low end, consumer products, typically called “buttons, badges, and posters.” That has changed dramatically as the industry has grown and become more established. Today, licensing has expanded into almost every imaginable product and service category, including those that feature high-end luxury goods and services.

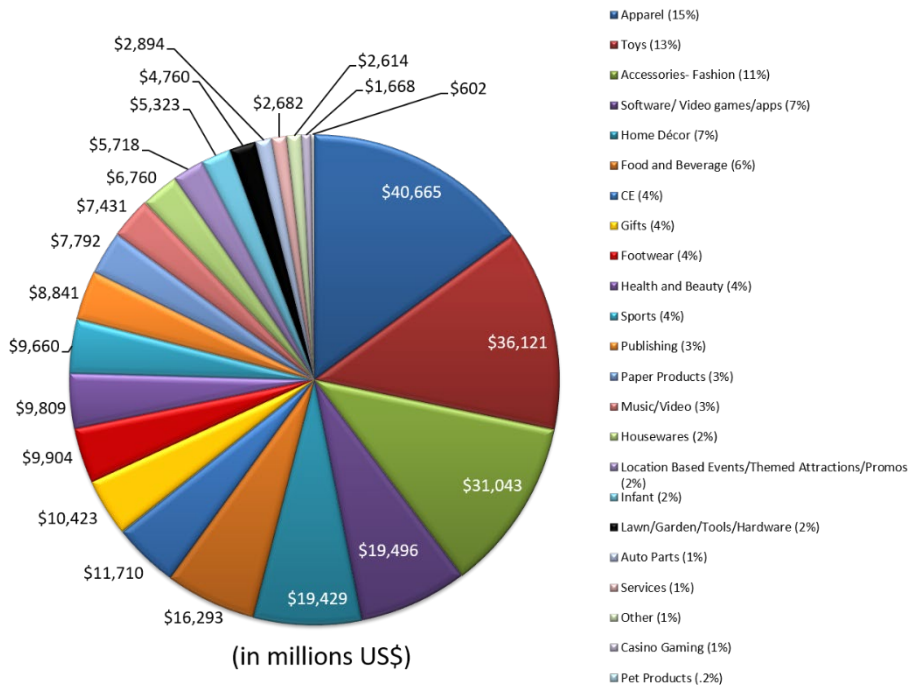
If one simply reviewed the Classification List published by the United States Patent & Trademark Office, they would find that there is at least some licensing activity in more than 30 of the 42 different classes. See Appendix-16 for a list of the trademark classes.

According to LIMA’s 2018 Annual Survey of the Licensing Industry, the following categories of licensed products generate most of the licensing revenue in the industry:

- Apparel: (Adult, Kids)
- Accessories: (Head Wear, Jewelry & Watches, Etc.)
- Food/Beverage: (Beverage, Candy, Etc.)
- Footwear: (Adult, Kids)
- Home Decor: (Furniture, Home Furnishings)
- Gifts/Novelties: (Collectibles, Gift, Etc.)
- Health/Beauty: (Health, Cosmetics, Etc.)
- Housewares: (Kitchenware, other Houseware Products)
- Music/Video
- Infant Products (Apparel, Furniture, Accessories, Etc.)
- Publishing (Novels, Story Books, Calendars, Etc.)
- Sporting Goods (Apparel, Equipment, Etc.)
- Paper Products/School Supplies (Art, Greeting Cards, Lunch Boxes, Bags/Totes, Etc.)
- Toys/Games: (Dolls/Action Figures, Games, Pre-School, Etc.)
- Software/Videogames: (Handheld, Software, Accessories, Etc.)

Of these possible categories, the three categories that recorded the most sales were apparel, toys & games and software and video games. A chart illustrating estimated revenues by product category for 2017 is as follows:

Global Retail Sales of Licensed Merchandise, By Product Category, 2017



While the industry has come to expect licensed toys and t-shirts, there have been some “non-traditional” licenses granted over the years that one prominent licensing agent categorized as, “What Were You Thinking???” Examples of these “non-traditional” licenses include an INDIANAPOLIS COLTS bird bath, NORMAN ROCKWELL boxer shorts, a WIZARD OF OZ Menorah, MICKEY MOUSE full sized toilet seats, a KISS casket and WWE talking soap. *Time* magazine published an article on the “Top Ten Oddball Celebrity Branded Products,” which included: HULK HOGAN’s Pastamania, SHAQUILLE O’NEAL’s Shaq-Fu video game, STEVEN SEAGAL’s Lightning Bolt energy drink and DANNY DEVITO’s Limoncello.

1.4 Advantages Offered by Licensing and Reasons for Its Popularity

What makes licensing so popular? The obvious answer is that *it sells products*. From a property owner’s perspective, there is little doubt that the opportunity to generate additional royalty income is the primary motivating factor behind setting up a licensing program. Licensing also provides many secondary benefits, including:

- Providing additional exposure for the licensor’s underlying products or services;
- Allowing the licensor to better leverage its advertising expenditures;
- Providing a hedge against the normal fluctuations of a licensor’s basic business model;
- Allowing the licensor to achieve a high return on a minimal investment;
- Permitting the licensor to expand into new markets and test different new product areas;

- Providing a terrific merchandising advantage for a brand in a different context;
- Permitting the licensor to test for possible future expansion into other countries;
- Allowing the licensor to expand into other levels and areas of retail;
- Allowing the licensor to further promote products of a type where there are governmental restrictions on what can be said;
- Allowing a property owner to re-launch a brand or product line;
- Controlling how a brand is positioned and appears; and
- Strengthening the licensor’s underlying trademark rights by expanding the breadth of the goods or services on which the brand is used.

For the manufacturer, or licensee, licensing provides the following advantages:

- Reducing the cost of product development;
- Offering a cost-efficient way to expand into other product categories;
- Creating instant consumer awareness and credibility using a well-known, trusted brand or property;
- Enhancing manufacturer’s products with positive attributes;
- Providing a shortcut to the marketplace without the time and cost of building a brand from scratch;
- Providing marketing clout which can help sell other non-licensed products;
- Allowing the manufacturer to create a product line that will generate recognition and appeal to retail buyers;
- Allowing manufacturers to limit the size of their art and design staffs; and
- Giving the manufacturer the ability to compete against larger, more established, companies.

While the benefits of licensing to a licensor far outweigh any potential risks, there are risks, to wit:

- Losing control of a property through shoddy manufacturing, poor quality, use on inappropriate products and negative publicity;
- Dilution of the core brand image or value;
- Shortened lifespan by oversaturation of the market; and
- If the licensor fails to live up to its responsibilities, it may jeopardize its ability to attract good licensees in the future.

The Licensing Industry Merchandiser’s Association (“LIMA”), on its website,¹ identified the following advantages that merchandising offers to licensees:

- **Gaining the consumer awareness and marketing benefit of a well-known brand, character, logo, design, etc.** The most obvious benefit to a manufacturer or service provider that licenses a brand, character, design or other piece of intellectual property is the marketing power it brings to the product. It can take hundreds of thousands or millions of dollars to build a brand from scratch, and licensing represents a way for a manufacturer to take advantage of all the brand building and image building that has gone on before. A child in a toy store doesn’t seek “an action figure.” He’s generally

¹ LIMA Website, 2018 at <http://www.licensing.org/education/intro-to-licensing/why-license/>

looking for a character he's fond of. Faced with a choice among several cleaning implements, a shopper might be drawn by one that bears the brand of a well-known cleaning fluid, rather than a more generic label. In making the decision about whether to take on a license, a manufacturer often weighs the potential royalty payments against the cost of building a brand on its own.

- **Moving into new distribution channels.** Taking on a license might help a manufacturer whose brand has been marketed in, for example, mass merchandise outlets, to market a more upscale, high quality line in specialty stores or department stores that wouldn't carry the lower end products.
- **Reducing in-house costs.** A manufacturer who licenses artwork or designs to be applied to home textiles, wall coverings, housewares, or on apparel has less reliance on in-house art staffs that would otherwise need to be maintained.
- **Enhancing authenticity and credibility.** The publisher of a car-racing videogame might license a host of well-known automotive brands and car models to lend legitimacy and authenticity to the game. Similarly, a maker of automotive parts or accessories will license the car brand to establish it in the consumer's mind that its products will work seamlessly with the cars of the parent brand.