



Proactive Licensing

Simple Steps For Strengthening Your Business By Better Managing Your Licensing Portfolio.

By Marty Malysz, Dependable Solutions, Inc.

Many companies saw their performance slide in 2009. As you enter 2010, how about making a formal new year's resolution to reverse these fortunes and set yourself back on a path toward growth? A critical step is to stay on top of all of your licensees' obligations, payments, receipts, and royalties, along with your growing volume of approvals. Here are some simple processes you can put in place to help control your licensed product activities, predict and grow your revenues, and increase cash flows.

Increase Reporting Frequency

With today's trying times, you gain new insight into how well your licensees are weathering the economic storm. Typically, contracts are set up on a quarterly or semi-annual basis, with grace periods of 30 to 90 days each period, so your glimpses into the financial standing of your partners are infrequent and limited. You can change this by shortening your royalty or sales reporting period—from quarterly to monthly, for example—giving you additional views into your partners' business volume and roster of retailers or distributors. This step gives you more power to judge the credit-worthiness of your licensees and their clients and a better gauge of business seasonality.

Requiring more frequent royalty payment cycles helps you improve your cash flow but does not have to put an extra burden on the royalty department to process a larger volume of statements. While the number of transactions triples when you go from a quarterly to monthly schedule, there are automation tools available to help licensors and agents handle royalty statements and licensees validate sales transactions. The benefits of more frequent royalty reporting far outweigh the extra burden in time and money.

Discover Where You're Selling

Licensees bring licensed products to market through a vast array of retailers, distributors and outlets. For the past decade, they have been working with most major retail and wholesale partners using advanced electronic data interchange (EDI), which allows them to delve deeper into sales results and determine what is selling at each individual retailer. Many licensors have ignored this major leap in inventory distribution, however, tracking only category and article sales as a whole. By looking at sales information by individual retailer, licensors can gain important benefits.

When you know where your licensees are selling, you can help them collectively represent your brand to major retailers; all your licensees that sell to JCPenney can be featured jointly on an end cap, for example. Demonstrating sell-through across multiple categories and articles helps all licensed manufacturers secure additional shelf space and helps the licensor better position the brand in-store.

It should be noted that many licensors face initial resistance from licensees when they ask them to report sales by retailer. But if your brand is an important factor in their licensed product strategy, you should be able to convince them of the value of this extra demand.

Finding Out What's Selling

It also is beneficial for licensors to look at their business at the SKU levels, keeping a list of what SKUs are being produced by each licensee. Matching the SKUs being manufactured to the detailed information in the licensee's contract allows the licensor to quickly spot unapproved products at the approval stage, before they get to market. Having a list of SKUs from each licensee also helps in anti-counterfeiting enforcement efforts. If a customs agent finds a suspect item, you can



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immediately determine whether that SKU is on the master list or whether it is unauthorized. Finally, monitoring your business on a SKU level helps you make informed business decisions based on detailed data about what specific items are selling. Any of these areas can help pay for the additional process of checking the more detailed sales information in each reporting period.

“Having the ability to quickly identify unapproved products is a must in today’s market for any licensing organization,” says Neena Gordon of N Gordon Company. “We have seen a dramatic increase in audit claims for unauthorized products over the past few years, often representing a significant percentage of the overall audit findings. Licensors are becoming much more aware of the need to actively monitor licensees’ use of properties and trademarks.”

Catch Up on Late Payments

Several licensors have smartly tied approvals of new products to paid invoices. In other words, if licensees are in arrears on royalty payments, licensors can shut off the product approval process for future products, a step that will get licensees’ attention. If licensees want to keep the creative process going, they will need to be in financial compliance.

This is an easy way for you, as a licensor, to help bring to light overdue receivables. Using your product or advertising approvals as a checkpoint to ensure licensees are paying in a timely manner will heighten your insight into your partners’ financial status and help clear up any misunderstandings before they become bigger issues.

Reminders for Timely Reporting

Have you ever considered reminding licensees before their guarantees are due or royalty statements are required? Each period you can send structured emails noting licensees’ past payments and reported sales per contract, and reminding them of their obligations. One of the biggest advantages of setting up such a reminder system is that you can spot misinterpretations or potential liability issues in advance, avoiding bigger problems down the road.

At the same time, the email notifications provide a good opportunity to note changes in staff, addresses, manufacturers and other details, helping you update your databases and communicate with your licensees in addition to ensuring timely reporting.

“Communication to your licensees each month or quarter can support your business in many ways,” says Sal Di Santo of Licensing Compliance Associates, LLC. “It allows you add a personal touch while at the same time reconfirming contact information.” Regular communication can be an opportunity to send a message that may positively impact your relationship with your licensees, such as “Looking forward to seeing you at the Licensing Show, Booth #1111,” or “Be sure to check out our Spring 2010 offerings at www.ourlicensingwebsite.com.” Meanwhile, you can flag key items, such as licenses due to expire or overdue payments. “Use the communication both as a reminder of outstanding or upcoming obligations and as a marketing tool,” Di Santo counsels.

Putting just one of these processes in place will pay significant dividends. While many can be implemented manually, a good automated system will eliminate human error and help you deal with the huge volume of information you need to monitor proactively. Here at Dependable Solutions, Inc. we have helped 25 licensing companies (agents, licensors and licensees) stay on top of their licensing portfolios through automated solutions.