



Why Does Licensing Love the Holidays?

by - Stephen Reily, CEO & Co-Founder

In the licensing world, most royalty payments are made on a quarterly basis, and any licensing professional can immediately tell you why the 4th Quarter is his or her favorite: it's where the holidays live. The 4th Quarter – which combines Halloween, Thanksgiving, Christmas, and New Year's – is always the year's biggest quarter for earned royalties. While the royalties may not be reported or paid until late January or February, they are generated from consumer spending in October, November, and December.

The 4th Quarter Drives Consumer Sales for Licensing-Dependent Companies

While many licensed products are purchased throughout the year, many of them fall into categories that generate more holiday-related sales. Those categories include toys, greeting cards, gifts, seasonal foods, and seasonal decorations.

Companies that depend heavily on these categories tend to use licensing to grow – and to grow dependent on the 4th Quarter. Hasbro and Mattel report 1st Quarter sales that are typically only one-half of their 4th Quarter sales. A more substantially licensing-dependent company like JAKKS Pacific sees its 1st Quarter sales drop even more.

Even companies like Disney and luxury brand-owner LVMH (Louis Vuitton - Moët Hennessy), whose products are purchased throughout the year, see this seasonal benefit. Presumably because so many people buy their products (whether luxury apparel, DVDs, or licensed toys) as gifts, both companies see their quarterly sales drop by 20% between the 4th Quarter of one year and the 1st Quarter of the next.

Licensing Leads in Seasonal Categories

What are the product categories that drive this seasonality? Let's look at them holiday-by-holiday:



Halloween

This was the first year I saw Halloween dominate four weekends in October – a sign of how retailers (and others) have made this far more than the one-night holiday I grew up with. We saw the licensing industry do its part to fill the Halloween pipeline with product.

While most candy companies usually do quite well in their own category at Halloween, some get creative about how to extend that reach even further. For example, why be content just EATING the candy when you can BE the candy like we've seen with Halloween costumes themed off of candies like Sugar Daddy, Pez, Junior Mint, among others.

Aside from candy sales, Halloween excites families into buying new costumes and decorative items, an industry now estimated to sell almost \$2 billion in products. Growth in this space led JAKKS Pacific last year to pay more than \$50 million (including license transfer fees) to acquire Halloween costume and décor company Disguise Inc. Disguise had licensed characters from some of the biggest entertainment companies, including Disney, Marvel, Mattel, Hasbro, and Sesame Street. Other costume companies license properties like Nascar, Superman/DC, Star Wars, and Burger King.



I expect to see manufacturers and retailers grow even more dependent on Halloween to generate 4th Quarter sales – and to see licensing grow with it.

Thanksgiving

Of the major 4th Quarter holidays, Thanksgiving sees the smallest licensing impact, but it is growing. My own agency just signed **Butterball** as a client to explore licensing opportunities in other Thanksgiving and turkey-related categories.

Martha Stewart, whose revenues are heavily licensing-dependent, has already cut deals in this category. She licenses Thanksgiving-themed products for the table and kitchen, and she



recently announced a new branded organic turkey (with prices starting at \$70) licensed by Hain Celestial Group's Plainfield Farms brand; you can accompany it with Martha Stewart wine (licensed by Gallo) in a wine glass licensed out by Martha (or Ralph Lauren or Calvin Klein).

Christmas

Rather than use terms like Festivus (George Costanza from "Seinfeld") or Chrismahanukwanzakah (like Virgin Mobile), I will refer to this year-end holiday by its December 25 marker, Christmas. No holiday does more for the licensing industry. Here's a quick summary:



- Flowers. Martha Stewart (once again) is busy in the 4th Quarter, and licenses 1-800-Flowers to make branded poinsettias and other autumn arrangements.
- Holiday food and beverages. Everyone eats and entertains more at the year-end holidays, which also see an increase in the sale of seasonally licensed food products. Those products include candy, eggnog, gift sets, hot cocoa, and baking mixes.
- Holiday Cookbooks, where you see licensed brands like Betty Crocker and Paula Deen.
- Candy Canes. There is so little branding in candy canes that this Christmas category sees a lot of licensing, with other brands like Jelly Belly, Shrek, LifeSavers, and Cinnabon.
- Greeting cards and ornaments, including licensed brands: Peanuts, Barbie, Sponge Bob, Hello Kitty, Blue's Clues, Care Bears, and all of the major sports leagues.
- Toys and games (including game consoles), where every brand develops a license if it can. Properties you can find in the toy aisle include kids' favorites like Elmo, Dora the Explorer, and Sponge Bob, as well as brands like Star Wars, Ringling Bros., automotive brands (on Fisher Price toys and ride-ons) and others.
- Other adult gift categories like fragrance, loungewear, and outerwear. Licensing plays a major role in all of these categories.





Conclusion

Given the licensing industry's dependence on holiday buying and the 4th Quarter, what do we expect this 4th Quarter to bring? Most economists and industry insiders expect it to be flat. Given that last year's holiday season saw an actual decline in sales (the worst results in 45 years), this may not be so bad. Whatever it brings, licensors and licensees should continue looking for ways to exploit 4th Quarter consumer demand for themselves, while they continue to find someone who will invent a new major holiday . . . in January.



About the Author - At IMC Licensing, Stephen is responsible for overseeing licensing strategy and relationships with IMC's clients as well as IMC's business development and marketing efforts within the licensing industry. Stephen serves on the Advisory Board of the Licensing Journal, where for three years he wrote a monthly column on corporate trademark licensing. He serves on the Education Committee and is a past officer of the International Licensing Industry Merchandisers' Association (LIMA), the trade organization of the licensing industry, and is a member of the International Trademark Association (INTA) and the Licensing Executives Society (LES). In addition, Stephen has published articles in BRANDWEEK, brandchannel.com among others, and has been a featured speaker at leading industry events including Licensing University, LINK and The Licensing Letter Symposium. A former corporate attorney, Stephen

graduated from Yale College, summa cum laude, and from Stanford Law School, after which he clerked for Justice John Paul Stevens of the U.S. Supreme Court.