

THE LICENSING LETTER

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Off-Price Retailers Are Expanding Rapidly, Offering Important Opportunities For Licensed Goods

Recently, we've reported how mass, flash sales sites, and dollar stores are bucking the retail slump. Now it's time to add off-price retailers such as TJMaxx, Marshalls, and DSW to the list as a potential avenue for growth.

"For a long time, this channel was under the radar; now it's not," says Michael Stone, Beanstalk Group. Off price retailers "have a reputation that is entirely consistent with what's going on in terms who today's customer is," he says. That consumer is brand conscious — always good for licensors and manufacturers — and price conscious.

"The channel is especially important now since they have been very successful during the down economy," says Hal Snik, Nickelodeon.

Consumer demand for off-price goods is only getting stronger. But other factors contribute to the health of these (mostly smaller) chains. These include the availability of large empty flagship stores and falling rents. And many operate on lower profit margins than the traditional department stores from which much of their merchandise comes.

Here are some reasons that now is the right time for licensors and licensees to explore the off-price channel:

- ▶ Extensive and rapid growth;
- ▶ Consumers' value-orientation, and the likelihood that that isn't going to change when the economy finally turns around;
- ▶ Off-channel buyers need product in season and closer to season to fill their expanded footprints, rather than two-year-old remainders;
- ▶ Broader than ever array of categories at these once apparel-focused chains, from publishing to luggage to tabletop;
- ▶ Opportunity to supply product for the chains in now thinly assorted categories such as publishing and plush;
- ▶ An easing of the stigma for brands; Jimmy Choo and Prada shoes were recently sight-

ed at TJMaxx, Gucci bags at DSW — in significant quantities, not a few one-offs that would have shown up a few years ago.

Rapid Growth

Much of the activity is centered in Manhattan,

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TOY TRENDS

Hot Holiday Toy Trends: What Are The Real Key Items, And How Much Do They Really Cost?

Even during back-to-school season, retailers started touting their hot toy lists, and as Black Friday approaches, marketing them by brand, exclusivity, and critically, ever-shifting prices through Thanksgiving and beyond are all factors. But how do these competitors really stack up?

Walmart, Target, Toys "R" Us, Kmart and other retailers are playing death-by-price, challenging each other to ever-more-drastring loss leader pricing and promising to meet competitors' print ad prices. All also say they will have varied sales offers throughout the holiday season.

Walmart is aggressively going after customers on price this season, and recently unveiled a Top Toys list to guide parents' purchases to specific items. Its executives have publicly stated that the retailer has set "unbeatable" prices this season — but has the retailer delivered? It convinced consumers that the price was right for its Toy Story 3 Talking Woody Action Figure at \$14.97, which is out of stock online as of mid-November. However, the same SKU is selling for less at both Target and Kmart, and at \$14.99 at Toys "R" Us (see sidebar p. 4).

For another of Walmart's hot holiday toys (and — bad news for licensors — virtually none of its picks for the list were licensed, except for its Woody Toy Story 3 figure, though toy brands such as Mattel, Hasbro, and Lego are featured), the price of its Hasbro U Build Monopoly game is

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in short

At Target, a licensed Sonia Kashuk eye shadow quad sells for \$12.99, while a Cover Girl quad retails for \$4.84.



Off-Price Opportunity

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where high traffic can pump up sales volume to warrant the higher rents and other costs of doing business.

Among national chains, TJMaxx just opened a number of big box units in Manhattan, with stores being constructed on East 59th St. as well as in the Time Warner Center right across town. These in addition to a previously opened location on the Upper West Side. Footwear off-pricer DSW has established a toehold in Union Square, near the newer off-price Nordstrom Rack.

Just because the buyers at Daffy's or TJMaxx don't currently have depth of stock for Disney or other licensed books, toys, and layette items does not mean that there isn't a market for those products in the off-price channel.

Marshalls added a new Manhattan location last month in a former Filene's Basement location. Some of the licensed merchandise on sale includes Jessica Simpson footwear, Ralph Lauren gloves, CK outerwear, and Steve Madden accessories. In addition to licensed apparel and accessories, cookware and décor brands, including DKNY Home merchandise, are also available.

Century 21, six-store New York area operation that is a multi-category department store, is opening its second Manhattan store next year in the retail space currently occupied by Barnes & Noble near Lincoln Center.

Similarly off-price apparel retailer Syms, which operates in 12 states, is developing a new off-price retail brand, fbSY. There are plans for fbSY to open a 34,000 sq. ft. unit at Fifth Ave. and 43rd St., as well as an Upper West side unit, both joining Syms' long established Park Avenue and Wall Street locations. Syms acquired bankrupt chain Filene's for \$55 million as well. According to the National Retail Federation, Syms is the fastest-growing retail chain in the U.S.

One off-price apparel chain, Loehmann's, is closing stores, but this is likely due to the cannibalization of its business by other off-pricers in the NYC area. Its lock on high-end designer goods has been diminished as brands are freely selling Daffy's and TJMaxx, so Loehmann's is not delivering the same exclusivity on the higher-end off-price merchandise as it did even one year ago.

The expansion of off-price retail is not limited to Manhattan however: TJMaxx for example has had store openings in Alabama, California, Florida, Illinois, Michigan, Texas and its home base of Massachusetts, among others, this year.

As a result of massive expansion for these

large stores, there is a need for more inventory than in the past, combined with improved buying power. Instead of acquiring years-old merchandise sitting in a warehouse, now in-season merchandise is showing up at off-pricers, even if it is at the tail end of a season. And thanks to improved lead times, supplying licensed wares with tight turnarounds is possible.

Broken Brand Barriers

Part of the reason for the growth of these off-pricers is that they are now able to acquire inventory that was previously out of reach, both in terms of quality and quantity. These include

designer licensed lines such as Just Cavalli and Marc Jacobs footwear; Gucci, Prada, Fendi, and Christian Dior. Just a year or two ago, you would never see these labels in most off-price chains — and definitely not in the volume seen today. There is more luxury overstock merchandise available (and speaking of which, luxury items including Yves Saint Laurent leather bags are on sale at online off-pricer www.overstock.com), and buyers have the deep pockets to obtain merchandise from brands formerly unwilling to be seen downstairs.

Today, there is no shame for consumers buying such brands at these stores, and with traditional department store chains experiencing consolidation and scaling down, there is a need for high end store such as Saks — as well as for manufacturers — to find a home for excess inventory.

It used to be that it mattered if customers purchased their Prada at Saks or Neiman Marcus. Now, consumers feel empowered if they can buy those brands at a trusted off-price resource, as long as they know the merchandise is authentic. Brand loyalty is to the retailer that gives them what they want for the least amount of money, and even with a 20% off coupon for Bloomingdale's, most off-pricers can't be beat.

The same goes for character brands: There is no reason that the moms or aunts shopping these chains would look askance at seeing branded children's merchandise on the shelf. "If established designers can exist at off-price retailers without tarnishing their brands, so can character product," says Snik.

There is also more competition in terms of off-price pricing: if three chains are selling the same Tom Ford sunglasses within blocks of one

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Grow Your Emerging Markets Licensing Programs

INTERNATIONAL LICENSING

A STATUS REPORT BY SNIK

Includes 29 spreadsheets with key data by region and country

DID YOU KNOW:

- Brazil accounts for 48% of the market for licensed merchandise in Latin America.
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Off-Price Opportunity

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another, the same shopper will buy them where they are the least expensive.

Categories Of Interest

There are still-untapped areas to expand in aside from the obvious fashion apparel, accessories, and footwear categories. Marshalls has discounted licensed books and novelties, including a *World of Eric Carle* storybook with caterpillar plush for \$9.99, and an Enchanted Fashions magnetic Disney Princess playset for \$6.99. But the levels of this kind of inventory are much lower than the classic off-price fashion categories.

“Off price retailers will either buy merchandise from the manufacturer of origin or brokers or other sources; our products — remainder goods — will wind up there sometimes but rarely, since most of our stuff sells through,” says Bruce Morrison, Disney Consumer Products. He adds that he has not yet “seen a lot of movement of our merchandise in those channels.”

However, just because the buyers at Daffy’s or TJMaxx don’t currently have depth of stock for Disney or other licensed books, toys, and layette items does not mean that there isn’t a market for those products in the off-price channel.

If these chains had access to more licensed goods, to be positioned near the cash registers so mom can add them to her cart before checking out (and the registers at TJMaxx are lined with enough merchandise to serve as boutiques in and of themselves), it could open a new channel for licensors and licensees alike.

Celebrity Fragrances

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Tweens and teens can't get enough (right now) of pop phenom Justin Bieber — but will they want to smell like him, too? Etoile Nation Beauty is launching a line of wristbands and dog tags infused with My World, a unisex fragrance, rolling out at Walmart on Black Friday in hopes that energy-filled young ones will drag their parents out post-Thanksgiving dinner.

Justin Bieber may be slightly younger, but he has nothing on fellow pop sensation Taylor Swift. Swift has a fragrance licensing deal with blue chip beauty brand Elizabeth Arden. Product hits the market in fall 2011 in North America.

Fresh on the heels of the news that superstar Mariah Carey is expecting her first child, HSN announces a deal with Carey for a new lifestyle brand. Launching on Nov. 29 (Cyber Monday), the line includes jewelry, footwear and a new limited-edition perfume. Price points range from \$39.99 to \$199.90, and 25 bottles of Mariah Carey Luscious Pink Deluxe Edition Perfume in flacons featuring Swarovski-crystal embellished butterfly cap will retail at \$275 each.

Carey’s a mainstream star, and her deal is, appropriately, as mainstream as it gets. She is no stranger to licensing, having had a variety of licensed fragrances on the market for years.

Other celebrity singer fragrances include Jessica Simpson’s Fancy and Fancy Love through Parlux, which also produces Paris Hilton’s library of fragrances including Paris Hilton, Paris Hilton for Men, Heir, Heiress, Just Me, and Fairy Dust.

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