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Licensing Agencies Post Beanstalk/Bailey Merger Paint A Variety Of Scenarios For Other Agency Combinations

"I hope so. Send them my way."

That's one recurring refrain when we ask licensing agents if they think Omnicom's acquisition of licensing agency Nancy Bailey & Associates, and the merging of that company with The Beanstalk Group, paves the way for more such deals. The caveat is, "For an entrepreneur, you want your company bought, but not you. I don't want to work for anybody else."

A second recurring refrain is, "Don't send buyers my way — we're looking for acquisitions."

Of course, the realities are more nuanced.

In discussions with more than a dozen small, medium, and large licensing agents — all off-the-record — there is a great deal of speculation about "why" this deal. Everyone understands from Nancy Bailey's perspective. Apart from the dollars, it gives her agency global reach and access to resources such as in-house legal counsel and research that few small companies can afford on their own.

"The only place you can grow is overseas," says one agent, and Bailey had no presence internationally. "But there's a lot of education needed to cultivate business in other parts of the world," adds another U.S. agent that has experimented with various ways of establishing itself better on a global basis while acknowledging that that education process is easier when there's someone local on the ground.

But what about Omnicom and Beanstalk?

Two theories are most common:

One is that Omnicom wants the two licensing agencies' Procter & Gamble business combined to give it leverage in wooing more P&G business for its core (and much larger) advertising agency side. Countering that notion is that licensing is such a small revenue stream for a P&G that it is unlikely that that would sway the decision for the core brands when it comes to selecting an ad agency.

The second is that, as a public company, Omnicom has to show topline growth across its divisions, and about the only way for a licensing

agency to show growth in these times is through acquisitions.

Both Nancy Bailey and Beanstalk co-founder Michael Stone have acknowledged that the latter has pursued the former for more than a decade (see interview with both, pg. 12). And the bottom line, so to speak, may actually be that it was simply a gut of a good fit, even if the two companies have very different operating styles: Bailey's organization is built around individual executives serving specific clients; Beanstalk is more sector-oriented.

"If there's a fit and the math works, why wouldn't you do it?" asks one agent.

As for the likelihood of this deal spurring others, "The competition to Omnicom has to be

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A KISS IS JUST A...

Licensed Tween Lip Balms Are Gateway To Cosmetic Use, Brands

The way to a tween girl's wallet is through her lips.

Lip gloss and balm are the most widely used cosmetics by tween girls — 78% of girls 12-14 use these products, according to Mintel — and the most heavily licensed.

Among the key players, Bonne Bell works with Mars, Dr Pepper, and Paul Frank for branded Lip Smackers. Lotta Luv sells balms featuring Disney, Hostess, Hershey's, Nestle, and Pepsi properties. Cosrich Group offers products with Strawberry Shortcake, My Little Pony, Looney Tunes, and Winx Club. And Boston America has deals with Fox, Classic Media, and Hello Kitty, among others.

"Next" Bieber Is "A Big Red Flag"

The tween cosmetics industry has developed into a fertile opportunity for licensors. And

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in short

Authentic Brands Group, the private equity-funded company founded by ex-Hilco executive Jamie Salter, together with toy, apparel, and collectibles manufacturer NECA, have acquired the intellectual property of Marilyn Monroe LLC from Anna Strasberg, widow of Lee Strasberg.



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Licensing Agencies Merger

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LICENSING AGENTS TELL IT LIKE IT IS (FOR THEM)

THE YEAR PAST

"You didn't feel 2009 until 2010. So 2010 was not a great year. But deals started happening late in '10 and are coming through now. It's almost irrelevant what '10 will be. But '11 and '12 will be excellent."

"2009 was great. 2010 was the worst in 15 years."

"2009 was pretty sucky. We were up in 2010 because our clients were in more stores."

DEALS

"Getting people to say 'yes' or 'no' — that's the frustration."

"Speed — or the lack thereof — is causing consternation for everybody. There is a pervasive conservatism, so everyone is moving slowly and cautiously. Am I romanticizing the past?"

"There's no long-term outlook, no precedent for the business. You do deals as they work best for you and your partner — just for now."

"One client is so revenue-driven, they're constantly pushing me to do deals. I smile every time they call because I know it's going to mean more business. That's much better than a client who says yes and then nixes everything you bring them."

PRIVATE EQUITY

"Private equity buyers want to pay you with your own money."

"Some clients you can't get without it."

"Companies are not going to sell core properties to private equity."

"You're hiring a licensing agency, not the deep pockets behind it."

"They're all swimming in the same pool."

RETAIL

"Brands — licensed and not — are buying retail space. Agents who represent smaller portfolios can't wriggle onto the shelves."

CELEBRITY LICENSING

"Anybody is a license. You should be a license. I should be a license."

YIN-YANG

"We have licensees who want exclusivity and longer-terms for their product category. The licensors want shorter terms and no exclusivity, or they want to be paid extra for exclusivity."

PRODUCT/PROPERTY GLUT

"There's a big trend toward SKU rationalization. We're seeing more research and testing a proposition before rolling out."

AGENTS GIVING GUARANTEES

"I did it once 15 years ago. It got me in the game. No way I'm writing a check today unless I have complete control of the categories."

OPTIMISM?

"There's always an opportunity to license in new categories, even in the worst of times."

looking at doing something similar," one agency head tells us. But he, like several others, sees a different organizing principle behind such deals: Mergers between international and domestic agencies. "Until now there have been strategic alliances" or sub-agenting deals, but the next logical step would be actual mergers.

Another type of existing strategic alliance that could be upgraded to a merger would be agencies with complementary expertise — say, an agency with extensive apparel background combining with one that knows food/beverage. Each brings a unique set of contacts and knowledge, creating an organization better equipped to handle all of a client's needs — and to appeal to a wider array of clients.

Combining companies isn't a slam dunk. Apart from cultural issues, physical location (Bailey herself is in Miami, her main office is in Atlanta, and several key executives work out of their homes in other parts of the country, while Beanstalk has offices in New York, London, and Hong Kong), and other such considerations, most agency clients have the contractual right to decline sticking with a company that undergoes an ownership change. This is similar to a licensor having the right to decline continuing to do business with a licensee that changes hands.

Another variation on the traditional licensing agency business model emerged with the recent announcement that Michelle Alfordari's MODA Licensing is an equity partner in Joe DiMaggio, LLC, a new entity that controls the DiMaggio estate's rights to the iconic baseball player's name and image.

Creative agencies have sometimes had equity in properties they work with, one consultant notes, and the last few years have seen the development of a few private equity-funded companies that acquire properties outright, including Saban, Iconix, Hilco, Authentic Brands Group, Brand Sense Partners, and others. These companies are licensors, though in essence their role is agent on their own behalf.

Of the MODA deal, one competing agency comments, "Interesting model. It reminds me of the day when brands wanted a guarantee from an agency to get the business."

As for the competitive landscape for licensing agencies, several of which found themselves with clients who went bankrupt last year, others with clients that pulled out when they realized licensing wasn't going to be a quick infusion of cash, and still others who lost major clients to competitors, "We only compete for one moment, when we're trying to sign the next client," says one agent. "And then we don't."

in short

Rovio's Angry Birds is represented in the U.S. by Striker Entertainment, which also handles Twilight and The Hunger Games ... Swarovski has licensed Groupe Clarins to market its first fragrance, Aura. The manufacturer will market multiple limited editions in different bottles to appeal to the Swarovski collector market ... The Kardashian Kollektion for Sears is produced under license by Australian designer Bruno Schiavi's Jupi. Schiavi estimates the line will generate \$200-\$300 million in sales its first year, according to WWD.

Stone, Bailey On Change & Growth

When Beanstalk co-founder Michael Stone and Nancy Bailey & Associates founder Nancy Bailey announced the merger of the two companies in mid-January, it wasn't a total surprise. Beanstalk, owned by advertising agency holding company Omnicom, had been openly looking for acquisitions, and Bailey had spoken to several other ad agencies.

As others comment elsewhere in this issue (see pg. 1), the deal brings a variety of Procter & Gamble's licensed brands under one roof, adds global reach for Bailey's clients, brings her clients a wealth of resources a small agency can't afford, and expands Beanstalk's expertise to additional sectors.

"Three years ago," Stone tells us, "we looked at how to grow this business, and there were four paths: One, organically, by attracting new clients, doing bigger/better licenses for existing clients, and taking on more brand extension projects. Two was international expansion. Third were alternative models that didn't work out. And fourth was through mergers and acquisitions.

"Pre-Omnicom, we would have had to raise money for acquisitions, and Seth [Siegel, co-founder of Beanstalk with Stone] and I didn't have a taste for that."

Omnicom's resources, however, mean an M&A strategy for the next five years covering "agencies overseas to expand our reach; domestic agencies that do things we don't, such as creative; and agencies where there's a strategic reason to do it," such as expertise in areas where

Beanstalk is not as experienced.

In the latter regard, he points to Bailey's "strong pedigree" in food licensing, a sector in which Beanstalk has had less experience.

Both Bailey and Stone see the licensing agency business in need of change. "The current structure is a dinosaur," says Bailey, and both agree — as do those in the lead story this issue — that change is afoot. Among the key areas:

- ▶ Compensation models [we'll be looking at that evolution in upcoming issues—Ed.];
- ▶ Building in "kill fees" when clients nix deals (see TLL 9/20/10, pg. 1);
- ▶ "Licensing taking a seat at the marketing table," with agencies "understanding the client's marketing problems and providing solutions, not just making deals;"
- ▶ Agencies taking equity. "Look at Brand Sense Partners acquiring Shabby Chic, MODA with Joe DiMaggio, The Licensing Agency buying into representing Iconix internationally. It's coming," says Stone.

There are questions regarding such equity investments, though: "Does the agency put more time and effort into those properties they own?" asks Bailey. "And how much control will the agency have? What client will let you control the program?"

Both also call for better analytics to demonstrate the impact of licensing on core product sales.

"Licensing today is like social media," says Stone. "You're connecting with consumers who are 'liking' your brand by buying a product."



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