

HMAVIEWPOINT

Licensing Licensing Licensing



Peter Vetri
*Atlantis Models,
HMA President*

Being a manufacturer can be very exciting, especially if you have products or want to make products that require licensing. First, you have to find the right contact at the licensor or third party who handles this for the company. Typically, after some negotiations, you will be offered a term sheet. The term sheet will state the licensed marks you are looking to use, length of the deal, which is two to three years in most cases, licensed territory, distribution channels, the upfront advance and finally, the royalty rate.

That royalty rate typically falls between 3.5 to 10% of net sales. Once you agree to the term sheet and sign off, you will then be forwarded a formal contract. In most cases, you should retain an attorney to complete the deal and sign off for good.

After the deal is signed, you go through the costly approval process, which involves sending artwork and samples back and forth for approval. These development costs are not included in the deal and are almost always paid by the manufacturers. After all, without the licensor's permission, there is not much you can do with the products without an official deal in place. The good thing is, once you get the deal, you can then develop a marketing budget to raise awareness about your license and use the popularity of it to excite dealers and the general public.

Now to get a bigger licensing deal, you need to have enough product to justify what you are paying. So, for instance, if you make a new tool for a new Ford model car, if you have only one car on that license, no matter how cool it is, you will never cover the cost of having the license in the first place. You need at least five SKUs to make the license a profitable business model. For smaller licenses that don't cost as much, one or two SKUs will work. When you look at companies who come out with licensed products, you will notice that they apply that license to many different products. It may not always be the best fit, but the license gets paid.

At some point along the line, the royalty rates and advances have gotten really high. The inflation of the license compared to the MSRP that you can sell the products for just doesn't make sense in some cases. We are working on ways to get these costs lowered for manufacturers as there is not enough shelf space to put the licensed products on. I just don't think these licensors understand this problem within the hobby industry. Manufacturers certainly do.

So when you go look on your hobby store shelves at some licensed products, hopefully, you will have a better understanding of what goes into getting that licensed product on hobby dealers' shelves and into your customers' hands. **HM**



Hobby Manufacturers Association

1410 East Erie Avenue, Philadelphia, PA 19124 • Phone: 267-341-1604
E-mail: heather.stoltzfus@hmahobby.org • Web: www.hmahobby.org