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Brand Licensing Deals: Fresh Start or Beginning of the End?

Licensing firms have a reputation for buying famous but faded labels and milking them dry. Will Brooks Brothers, Barneys and others in bankruptcy today meet the same fate?

BY **CATHALEEN CHEN** SEPTEMBER 30, 2020 05:27

The Juicy Couture show during London Fashion Week in February 2018 | Source: Getty

NEW YORK, United States — The licensing formula is simple: take a well-known brand, lend it out to manufacturers who will slap its logo on socks, sweatpants or perfume, and watch the royalties roll in.

It's a model that worked for Christian Dior in the 1950s and Juicy Couture in the 2010s. The only downside is that most licensed brands have a limited shelf life. Eventually, consumers wised up to the fact that Yves Saint Laurent pantyhose contained little of the legendary designer's magic, or forgot about Emanuel Ungaro entirely.

Now a new group of household names are about to go through the licensing machine, including mall staples like Brooks Brothers, Forever 21 and Ann Taylor that were brought down by fast fashion competition or the pandemic. Their new owners say they have a plan to avoid the fate of Halston or Ungaro, or the countless zombie brands owned by portfolio companies that end up exclusively in department stores like Macy's or J.C. Penney.

"We believe most of these [licensors] are attacking opportunities transactionally," said Ramez Toubassy, a 17-year veteran of the licensing game who recently launched his own brand management firm, Spotlight Brands. "We have loftier goals."

Toubassy, who previously oversaw Wet Seal and Laura Ashley at licensing and liquidation specialist Gordon Brothers, said the online, direct-to-consumer business model creates a path to resurrect struggling brands, rather than simply squeezing out the last dollars from their name.

He's not the only one. Revenue Ecommerce Ventures, founded last year, is operating Dressbarn and Modell's Sporting Goods as pure online plays. Marquee Brands, the operator of BCBGMaxazria and Motherhood Maternity among others, is owning the entire e-commerce experience of their brands, from fulfilment to customer service. Authentic Brands Group, the licensing giant that recently acquired Brooks Brothers out of bankruptcy, operates over 1,500 stores for its brands and says it's investing more in marketing than its predecessors in the business.

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It remains to be seen whether any of these companies can successfully revive a failed brand – or whether they're putting a modern retail sheen on a business model that hasn't fundamentally changed for decades. Some form of direct sales was inevitable: department stores, once a top source of revenue for many licensing firms, are themselves in decline.

But there may not be much incentive to shake up the system.

"Before even closing [on a deal], firms like ABG know what licensees will pay them and can estimate what the revenue will be," said David Tawil, president of distress-focused hedge fund Maglan Capital. "It's an almost riskless transaction. It's a phenomenal formula."

Licensing 101

Buying a brand's intellectual property at a bargain price, often as part of the bankruptcy process, makes for an alluring investment. Brands like Brooks Brothers spent millions of dollars over decades ensuring they were well-known to consumers. Their new owners can coast off of these efforts, counting on anything bearing a famous logo to sell with minimal promotion.

Consumers may welcome a beloved brand suddenly appearing in new forms, but it's a temporary outcome unless the brand manager continues to invest marketing dollars in the label. ABG-owned Juicy Couture, for instance, saw its earned media value — or the equivalent cost of advertising that would garner the same user engagement on social media — dip about a 21 percent between 2017 and 2019, according to data analytics firm Tribe Dynamics.

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History has shown that licensing a brand may be lucrative, but rarely sustainable. A label's value can further degrade as it's passed from licensor to licensor, sometimes with jarring results; Halston, once worn by Bianca Jagger and Elizabeth Taylor in the 1970s, today adorns sweaters sold for $15 on QVC. Iconix Brand Group, which built vast portfolios in the 1980s and 1990s, has fallen on hard times, while even more recent ventures like Sequential Brands Group are struggling to adapt.

"When the public loses sight of a brand, it's hard to do anything with it," said Gary Wassner, investor and founder of Hilldun, a financial firm that helps fashion vendors finance their wholesale orders.

Brooks Brothers and other brands risk the same trajectory, Wassner said.

ABG Takes Centre Stage

When Authentic Brands Group won the bid to buy Barneys out of bankruptcy, fashion insiders feared that the department store would be stripped for parts, its name slapped on keychains, T-shirts and CBD creams.

That hasn't come to pass (the only announced plans so far are to create Barneys shop-in-shops inside some Saks Fifth Avenue locations). But Barneys fans could be forgiven for their apprehension. Founded in 2010 by licensing veteran Jamie Salter, the private equity-backed ABG began its acquisition spree with wrestling brand Tapout and Marilyn Monroe's name and likeness. In the decade since, it's bought numerous brands across fashion, celebrities and sports.

"I see us as in the business of unlocking the value of brands," said Nick Woodhouse, president, chief marketing officer and managing partner at ABG. "There's a lot of nascent value to be unlocked — or re-unlocked — from those brands."

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This process of value extraction doesn’t always go smoothly. After ABG acquired Sports Illustrated last year for $110 million, it quickly sold a 10-year licensing contract for its digital operations to media startup Maven. Within days, Maven laid off a significant number of the magazine’s staff, including many of its most acclaimed writers, a move that was widely criticised by media pundits and longtime fans alike.

But ABG has also brought some brands back from the brink of liquidation. The company acquired Aéropostale in a 2016 deal that included Simon Property Group and another mall landlord, and today operates hundreds of stores. ABG and Simon teamed up again to buy Forever 21, Lucky Brand and Brooks Brothers earlier this year, with similar plans to keep many stores open. The company said it runs all the marketing for its brands in house, from content creation to events.

ABG’s 50 brands are on track to generate more than $14 billion this year, making it one of the biggest licensing firms in fashion. Its backers include Leonard Green, General Atlantic, Lion Capital and BlackRock. Wholesale remains an integral part of ABG’s distribution strategy, in addition to online growth that will “naturally occur,” according to Woodhouse.

“Staying relevant is incredibly important but there’s a huge percentage of people who are not Gen Z who want our brands,” he said. “Our strategy is to keep brands relevant through smart messaging and making sure we’re in the right distribution channels to get to that consumer.”

Still, ABG’s focus remains on securing long-term licensing deals – sometimes before a bid goes through — and reaping the profits, sources say.

“They’re doing what others are doing, except a little bit more conservative, a little bit smarter,” said Tawil of Maglan Capital.

A Licensing Refresh?

The playing field for licensors is growing. Newcomers are entering the market, such as Toubassy’s Spotlight Brands and WHP Global, an Oaktree-backed brand acquisition firm founded in 2019. Among the top prizes on the market are the bankrupt Ascena Retail Group’s Ann Taylor, Loft and Lane Bryant. (Private equity firm Sycamore Partners reportedly made a bid for Ann Taylor this week, according to a *Bloomberg* report.)

Spotlight wants to spend more dollars on marketing and run its future brands as if they were “new DTC brands,” Toubassy said. While he still plans on using wholesale as a primary distribution channel, the goal is to make things easier for his licensees with digital advertising and celebrity endorsements. He said he envisions a future where his portfolio of brands could exceed their former peaks by making the right investments.

Marquee Brands takes more of a hands-on role in its brands, actively building infrastructure to customer relationships across its portfolio. For instance, the company is working toward direct control over operational elements from product assortment, shipping and customer service. In May, it began working with a third-party fulfilment company so it can manage and distribute its inventory.

“The key touchpoints to the end consumer beginning with your first click to your final purchase are directly managed by our digital team,” said Jonathan Greller, head of strategy and corporate development at Marquee Brands.

WHP Global, which owns Anne Klein and Joseph Abboud, said it too prioritises digital commerce. Its founder and chief executive Yehuda Shmidman (formerly the CEO of Sequential Brands) told BoF he expects the ratio of digital to non-digital apparel sales to reach 50-50 in the near term — a goal that he’s striving for with his brands too, starting from running his own e-commerce operations to commissioning TikTok ads for Anne Klein.

“We’re looking to rescue great legacy brands with antiquated business models, and a lot of that today is focused on distribution,” Shmidman said. “If the question is if Anne Klein was a Gen Z brand, you probably wouldn’t say so. But do we have the ability to reach that customer as she enters the workforce through our communicating and distributing where they shop? I believe yes.”

Revenue Ecommerce Ventures, founded last year by ex-NASA scientist Alex Mehr and social media self-help influencer Tai Lopez, is foregoing the wholesale process altogether. It operates its 10 retailers exclusively online, though Lopez said in an interview with *CNBC* last month that it may open stores in the future.

But running ads on social media alone is not enough to build a customer base these days, even if distressed brands already have name recognition. Operating an online business itself is tough: shipping and marketing expenses add up. Trendy nascent direct-to-consumer upstarts themselves are struggling, burning through cash to retain customers and chasing an elusive path to profitability.

“Without an exceptional markup, e-commerce has proven difficult to run profitably,” said Matt Kaden, managing director at boutique investment bank MMG Advisors, the advisor to Vince Camuto in ABG’s acquisition of the shoe brand in 2018. “But I think we’re watching history unfold … These are the new accumulators.”