



Interactive Licensing Done Right!

Here we go again ... **this week is the** International Licensing Show <http://www.licensingexpo.com> in **New York City**, the preeminent annual gathering of folks looking to license and merchandise everything from coffee mugs to apparel. In that mix of 168 distinct licensing categories, "interactive" looms large as a potential revenue generator, and some sources believe it will even eclipse toys and games as the primary category in the long run.

From my point of view though, **that simply isn't going to happen** until licensors overcome some misconceptions about the interactive entertainment industry and learn how to properly engage and collaborate with that industry day-to-day instead of once or a few times a year.

For example, if you believe that hanging out your shingle at the Licensing Show and several other licensing and merchandising trade shows is going to allow you to meet all of your potential buyers/interactive licensees, **you are sorely mistaken. Fewer than 10% of interactive publishers are represented at these shows, and fewer than 1% of game development studios are present.**

Most of the majors (EA, Activision, THQ, etc.) will make it to the Big Apple, and while these good folks are important to meet and know, you also need to understand the acquisition parameters they are under. With very few exceptions, the licenses of interest to the top publishers must already have global penetration, be supported by strong non-interactive marketing budgets for cross-promotion, lend themselves to game design on multiple hardware platforms (EA does no single-platform acquisitions), and have reasonable expectations as to their value.

The latter point is critical. We all know that brand recognition is important at retail, but when interactive publishers run their models on a game, they evaluate it both ways -- as branded and unbranded -- if it can, in fact, be made unbranded. Unless the attachment of the license is perceived to increase potential sales by a margin substantially higher than the cost of the acquiring the license, they will make the game unbranded.

For example, in the early days of gaming, FOG did "Champions Forever," bringing together the licensing rights of Muhammad Ali, Joe Frazier, Larry Holmes, Ken Norton and George Foreman, to create a great boxing game. This was when boxing was in its heyday and the key personalities were inseparable from the sport itself. **Today, the top console boxing game from Electronic Arts is "Fight Night," which is totally unbranded.**

So if you aren't the NFL or Nickelodeon, who can expect to sit back and be courted by the interactive industry, what kind of interactive strategy should you pursue ... First and foremost, you have to have a presence *inside* the industry. If you think Hollywood is small and incestuous and tough to break into, wait until you get to know the videogames business. **It is the smallest big business in the world, and relationship is everything!** Game publishers and developers meet at more than two dozen trade shows annually around the world. FOG typically attends 12-15 of these each year, at which we see all the same licensing and product acquisition folks. Rarely do we see licensors attending these shows, but the ones who do take the initiative to attend -- or have a firm like ourselves attend on their behalf -- have a much higher likelihood of getting a placement in the long run.

Games Workshop <http://www.games-workshop.com> (not a current client) is one such success story. For those who may be unfamiliar with them, they are a niche publisher of miniature tabletop games built in fantasy and science fiction settings, “Warhammer” and “Warhammer 40k” being their most successful franchises. Many years ago, FOG did the first boardgame-to-interactive title with one of their properties (“Blood Bowl”), which is now being remade by a European publisher. Games Workshop has content that lends itself well to gaming, but its tabletop games have never achieved anything like the mass penetration it normally takes to attract major publishers. Yet, they worked the trade show circuit diligently, built good relationships, proved themselves to be easy to work with, and eventually built a fantastic franchise of games with THQ which continues to expand and thrive. So, in the right circumstances in our industry, **presence and relationship can overcome mass penetration and global presence.**

The second major obstacle most licensors face is **a lack of understanding about how game publishers do their modeling and projections.** If you approach a game publisher the same way you would a shoe manufacturer, you are leaving far too many variables to chance. Although some publishers do also have in-house development capabilities, typically these teams are working on the established franchises of the publisher and are usually not available to develop new product around a potential IP acquisition. As such, the publisher cannot accurately project their cost of goods until they have sourced an independent developer with the talent, pricing, and availability they need for the game design they envision that would work with your property. In fact, they may also have trouble envisioning what design is best-suited, which means the conversation may stall completely or, as a minimum, it will take them longer to develop an RFP which developers can respond to intelligently and accurately. In the meantime, they can’t get accurate feedback from the sales channels without some sense of what the game is going to be like, and when it will be available to market. So, if you are pressing them to advance the licensing conversation, they will either stall or lowball until they have better data, which can also take all the momentum out of the deal or even kill it outright if they can move on to something easier.

The way to achieve greater success than through traditional methods is by **removing as many obstacles as possible to reaching an informed decision *before* you approach the publisher.**

Here is how we do it at FOG, where we represent both licensors and independent developers, and you can do it with us or you can do it on your own the same way. This method works, and it is why we have done more interactive licensing deals in our 30-year history than all other firms combined.

First, you engage the manufacturers of our industry, which are the developers not the publishers. Think of publishers more as retailers than manufacturers and you will have a more accurate picture than you may have now. Second, you do not approach these companies as potential licensees, but as joint-venture partners in taking a product to market. Yes, some developers do acquire licenses directly, but most do not have the deep pockets to handle upfront advances of any appreciable size, and they certainly can’t give minimum guarantees without assured distribution of the products they intend to create through a publishing partner. Also, developers who hold licenses typically do not leverage as much additional royalty percentage out of a publisher as a licensor can direct. Plus, the licensor in this scenario ends up being paid on a percentage of the developer’s percentage of net revenues, instead of a percentage of net revenues direct. As such, **you will typically make more in the long run by partnering with a developer than by licensing to them.**

So let’s talk about what such a partnership looks like, and what each of the partners should bring to the table.

The structure of the deal is really the easiest part. You as the licensor are selecting a development partner for co-promotion of the potential property. It is not unlike the attachment of talent to a project that is being pitched in the movie industry. The developer is investing some real time and dollars into creating a marketable design and pitch for the

game that includes the production plan and timeline of development, resource and staffing allocations, proposed milestone delivery schedule, and all of the other relevant details that your potential licensees will need to make an informed decision. They are then bringing all of their relationships and industry-insider knowledge to the table, promoting your project at all of the aforementioned trade shows and events you do not attend, concurrent with your own efforts to promote the property. Further, if they are a team that is in demand and well-respected, that factor alone can make an otherwise unattainable licensing relationship possible. **It's no different than the Oprah effect that catapults properties to new heights.** But do you even know who the Oprah-level game developers are?

If a world-class development team is *passionate* about your IP, publishers are more willing to do whatever it takes to work with that team, including accommodation of the licensor in ways they would not otherwise do. So, again, **inside knowledge, association with quality development services, and relationship** can sometimes overcome shortcomings in the other factors with which licenses are traditionally evaluated in other categories.

If the project is successfully placed, two separate contracts are cut, one between the publisher and the developer for the actual creation of the project and a normal licensing deal between the publisher and yourself. You maintain control of your rights throughout the process, and the developer is not precluded from taking on other projects while this one is being pitched. In that respect, **the risk to both sides is minimized, but it is not non-existent.** Remember, some publishers do develop some IPs in house, so it is quite possible still for a publisher to make an offer on the IP and not for the developer. Plus, it is also possible that the developer is unavailable in the window in which the publisher wishes to have the product created. In either circumstance, the developer stands to lose the money they invested in bringing the project to a marketable level, which isn't fair to them and that is why the best developers won't work speculatively without some form of a net to cover their downside. They are in demand so they should not have to do so.

So, the final piece of the puzzle is this: When you identify the right developer for your property, you agree on the budget it takes them to produce the pitch materials described above, then you shoulder the risk 50/50. Some teams will want a small advance, but most will do the work without an advance if you have committed to paying your portion of the investment back after 12 months if the product has not placed with a publisher in the interim. If it places, their costs can be absorbed in the game development agreement with the publisher.

I understand that this runs contrary to how most licensors think, **but that is exactly why there are not more bigger and better licensing deals done in the interactive space.** If you want to keep your exposure low, just do a pitch package and a design, which might cost \$10-25K, of which you would be responsible for half. If you want to further increase your chances of placement, invest in a game demo/vertical slice of what the licensed product would look like. It is prototyping, folks, and that is the best way to get buy-in from interactive publishers the same way it is for retailers in the other licensing categories. **Until licensors make this fundamental paradigm shift in their thinking, the full potential of the interactive category will not be realized.**

One last point. **Landing the interactive deal is only the beginning of a good interactive strategy.** Most licensors do not do enough of these deals to stay current on platform costs, changes to net revenue calculations, and a wealth of other negotiation parameters that can impact the value of their deal. Nor do they have the relevant product-evaluation expertise in interactive to properly manage the approval process. Often, after the products are in market, they also use firms with little audit experience in interactive. If one or more of these circumstances also describes you, then consider outsourcing those services to FOG Studios and to our strategic partner Dimensional Branding Group <http://www.dimensionalbranding.com>, and we would be happy to discuss your particular situation if you reach out to us.

I would add “or one of our competitors” if I knew of anyone else providing all of the above services including developer matching, but frankly I don’t know of any such firms. If you do, let me know. I would love to meet them as well.

In the meantime, folks, have a great Licensing Show. And, as always, Good Hunting!