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Italian Licensing Industry Survey 2012



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*The First Survey of the Italian
Licensing Market*



1. Introduction

We are proud to present the first edition of the Italian Licensing Industry Survey 2012 (hereinafter “the Survey”). The Survey was commissioned by Licensing Italia Srl, representing the LIMA (International Licensing Industry and Merchandisers’ Association - www.licensing.org) in Italy, and conducted by the Licensing Management department of PricewaterhouseCoopers, Milan. It was completed in reference to the period from 1st January 2011 to 31st December 2011, using a 17 questioned survey.

Through the Survey undertaken we were able to address three key objectives:

- *to understand the trends and market developments in the Italian Licensing Market, identifying its market characteristics;*
- *to assess the Licensing market through Revenue levels generated by Italian Brand Owners;*
- *to allow knowledge sharing for businesses, providing an understanding of the Italian Licensing Market as well as assisting their development and implementation of market growth strategies.*

This document reports our key findings in relation to these objectives, outlines our approach to conducting the Survey and provides detailed analysis.

Where possible we also make reference to the trends identified in the US LIMA Licensing Industry Survey 2012 (hereinafter “Lima US Survey 2012”).

A total of 190 Italian Licensors and Licensing Agencies were requested to take part in completing the Survey, featuring over 15 different business markets, ranging from Luxury Fashion Goods and Apparel, to Entertainment and Media.

2. Methodology

A total of 190 companies were contacted to take part in the Survey. Each received an email which included a web link to complete the Survey. This email contained secure log-in details which were required to access the Survey. The capabilities of the online survey allowed users to enter their details, save them as a draft, and return to finalize their responses at a later date. Of the 190 invitees, 53% responded to the Survey, therefore our findings are only based on the percentage of companies which responded. The questions of the Survey considered 4 key sections, as detailed below.

1. Contact Information & Company Profile

Companies were requested to supply information regarding the structure of their business and their licensing involvement. Key data requested included Company Foundation Date, Business Activities Undertaken, Operating Countries, Number of Branches, Number of Licensees managed, and the Industry types of the Licensees managed.

2. Information on the Licensing Industry

Worldwide Information was requested on company revenues relating to the global market and the demographic of the market. Hence, the Survey requested details of revenues derived from Licensing activities and also the general target market of customers.

3. Information on the Licensing Industry in Italy

Information was requested in order to gain an understanding of the Licensing Industry in Italy. Specifically, responses related to Revenues by Domestic Market Sector, Revenues derived from distribution channels, Sectors in Growth/Decline during the reference period, and awareness of any changes in perceptions within the market.

4. Anti Counterfeiting

Companies were requested to provide their perception on “Counterfeiting” and its impact on the Licensing Market. The questions of the Survey were aimed at obtaining information on the assessment of the issue by companies, and any solutions that they use to counter the problem, such as holograms, alphanumeric codes, and authenticity certificates.

Data collected across these areas has been assessed and analyzed to give an insight into the type of businesses operating within the Italian Licensing Market and their product and property types, as shown within our results.

Privacy

All responses were kept strictly confidential. The data contained in the Survey was treated separately from the name of the company surveyed. Data analysis and results of the Survey did not make any reference to individual companies to ensure anonymity.

3. Highlights

Our results and analysis have been compiled within this report after months of collaboration, monitoring, collecting, surveying, and interpreting of data received from a wide range of companies.

From the responses received in relation to the Survey, we note the following key trends and outcomes which will be analyzed in the following pages:

- The estimated Global Revenue of the Italian Brand Owners operating in the licensing market is equal to Euro 350 Million.
- Italian Brand owners derive 56% of their revenues from Europe, with 19% coming directly from Italy. The smallest revenue market is South America, which accounts for just 1% of Italian brand owners' Global Revenues.
- The property types "Corporate & Brand Names" and "Characters" produce the highest proportion of revenue for Italian Brand owners, accounting for 37% and 35% respectively. This amounts to a total of 72% of Global Revenues in 2011.
- "Music and Video" products account for the largest proportion of revenues for Italian Brand owners, totalling to around 21% of total Italian Revenues. Other popular products include "Accessories", "Apparel", and "Toys", which cumulatively total to 33% of the market.
- The 2011 Italian Licensing Market has grown since 2010 by an average of 6%.
- 76% of Companies surveyed reported that Royalty revenues related to Brand Licensing increased by 16%.
- "Accessories", "Apparel", and "Merchandising" are perceived to be the business areas which have recorded revenue increases.
- Of companies surveyed, only 41% use Anti-Counterfeiting tools, most commonly through using Holograms (35%), with the remainder using Alpha Numeric Codes, Special inks, or Certificates of Authenticity (6%).
- Only 12% of companies surveyed believe they are able to control the risk of Counterfeiting.

The estimated Global Revenue of the Italian Brand Owners operating in the licensing market is equal to Euro 350 Million.

The percentage of companies believing they can control the risk of Counterfeiting.

12%

The proportion of Italian licensing revenues arising from Corporate & Brand Names and Characters.

72%



4. Detailed Findings





Sample & Response Details

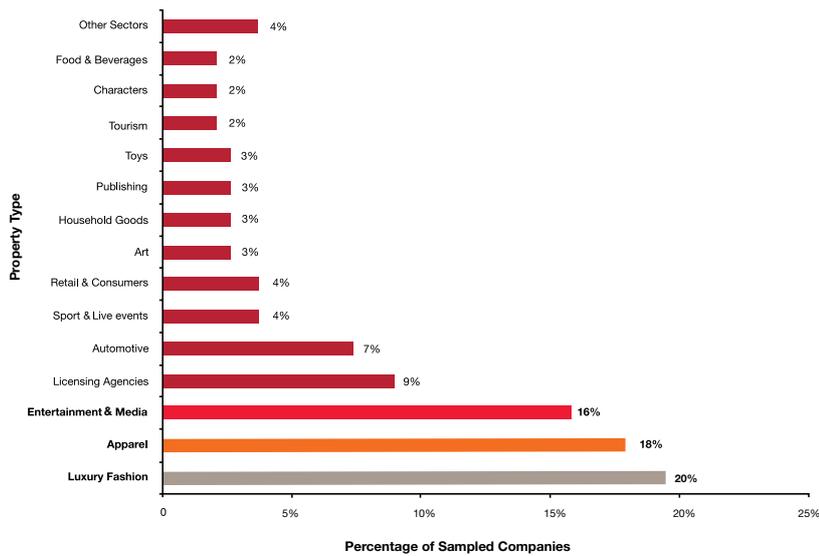
A total of 190 companies were contacted to take part in the Survey, of which 53% responded. The top three Business Types in this sample relate to “Luxury Fashion”, “Apparel” and “Entertainment & Media”, accounting for 20%, 18% and 16% respectively of the total population. This contributes to a total of 54% of our sampled population.

Table 1: Sample Companies Composition

Property Type	Number	Percentage
Luxury Fashion	37	20%
Apparel	34	18%
Entertainment & Media	30	16%
Licensing Agencies	17	9%
Automotive	14	7%
Sport & Live events	8	4%
Retail & Consumers	8	4%
Art	6	3%
Household Goods	6	3%
Publishing	6	3%
Toys	5	3%
Tourism	4	2%
Characters	4	2%
Food & Beverages	4	2%
Other Sectors	7	4%
Total	190	100%

Given the tastes of the Italian Culture, Global market trends, and the number of companies operating with these types of Intellectual Property, such a high percentage was expected. The Chart and Table show the complete breakdown of the companies involved. We note that the “Other Sectors” category includes “Communications and Technology”.

Chart 1: Sample Companies Composition



Revenue Analysis by Market Destination

Global Revenues arising from brand licensing activities of the companies responding to the Survey totalled to approximately Euro 350 Million during 2011. The revenues derived within Italy (i.e not by overseas branches, only by Italian Brand Owners) equate to 19% of this value, while 37% arises from other European Countries. Following on from the European market, 27% of Italian Revenues are driven by the Far East Market and 16% from the North American market. However, we note that the technology sector plays a big role in the Far Eastern market, as it is the industry leader in this market. Excluding the Technology industry from the data gives a 38% share of revenues for Italy and 51% for Europe.

Chart 2: Global revenues of Italian brand owners (values are expressed as a percentage)

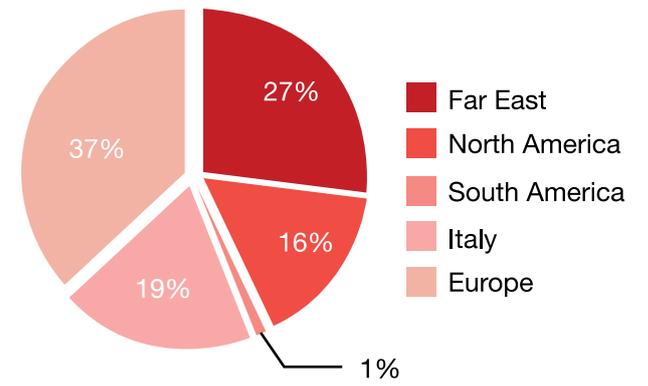
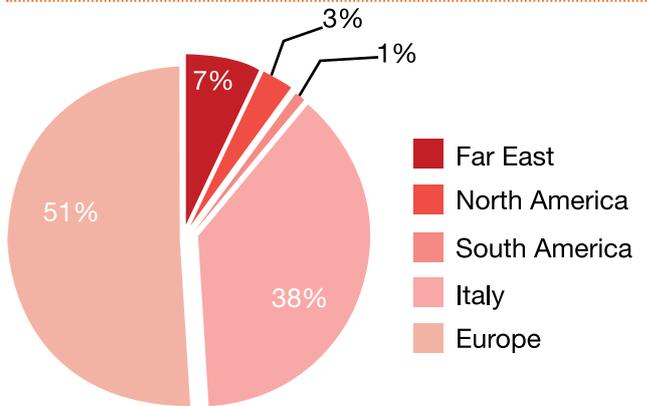


Table 2: Global revenues of Italian brand owner (values are expressed in Euro)

Region	Revenues (Euro)
Far East	94.500.000
North America	56.000.000
South America	3.500.000
Italy	66.500.000
Europe	129.500.000
Total	350.000.000

Chart 3: Global revenues of Italian brand owners (excluding Technology sector)



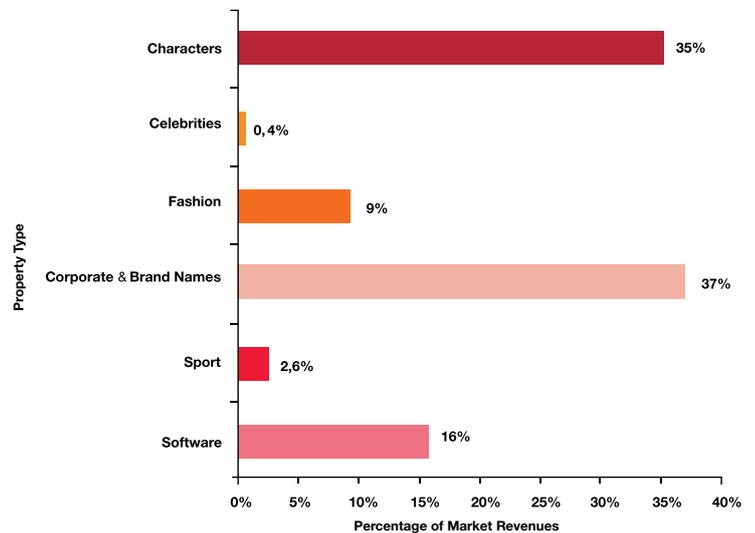
Across all industry sectors, only 19% of Licensing Revenues are derived from Italian branches

Revenue Analysis by Property Type

Property Types can be classified in various different categories (for further details see “Terminology” section). During 2011, revenue within the Italian Licensing Market, by Property Type, was mainly driven by the use of “Corporate and Brand Names”, attributing to 37% of revenues. This was closely followed by “Characters” (35%) and “Software” (16%). Chart 4 summarizes the revenue split across differing property types.

Generally, “Character” Property Types and “Corporate & Brand Names” are considered the most common forms of Property Types given that their licensing properties are extremely visible. One key factor in successful licensing is awareness. Given that “Characters” (e.g from television shows, etc.) and “Corporate & Brand Names” will already have a popular presence in the consumer market, dependant on consumer tastes and trends at the time, there is a great incentive to license such Product Types. As such, it is not surprising that the majority of Italian Revenues are derived from these two Property Types.

Chart 4: Revenues of Italian brand owners by property type

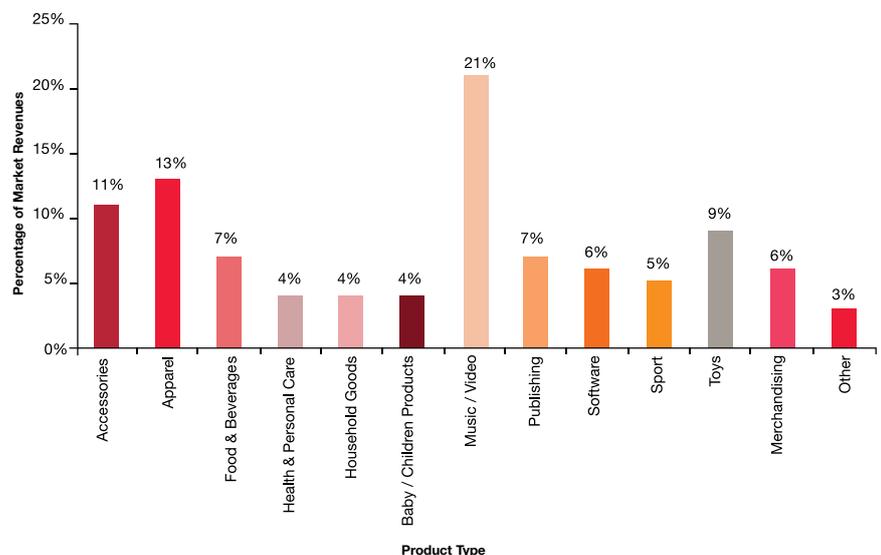


This trend is also similar to that identified in the LIMA US Survey 2012¹, which also identified “Characters” and “Corporate & Brand Names” as the largest revenue contributors. However, the US proportion of these two property types is diverse, with 46,7% of licensing revenues being attributable to “Characters”, whereas “Corporate & Brand Names” accounts for 17% of licensed revenues.

Revenue Analysis by Product Type

Based on Product Types, the “Music/Video” sector in the Italian Licensing Market has the largest percentage revenues, accounting for 21% of total revenues. This is mainly because such product types are generated by the Technology industry which registers the majority of its revenues in this market. Other key product types within the market are “Apparel”, “Accessories”, and “Toys”, accounting for 13%, 11% and 9% respectively of the total market. Chart 5 illustrates the breakdown across the varying product types observed during the Survey.

Chart 5: Revenues of Italian brand owners by product type (by Percentage Share)



¹ The “Licensing Industry Survey 2012”, conducted on behalf of the international Licensing Industry Merchandisers’ Association (“LIMA”), led by the research team of Ravi Dhar (Professor of Marketing at Yale School of Management), related to a statistical analysis of the US licensing industry.

Product Type by Property Type

Using the data relating to Property Types and Product Types, it was possible to assess the nature of the products sold on a Property Type basis. As expected the “Fashion” Property Type is largely dominated by “Accessories”, and “Apparel”; two Product Types key to the fashion industry. For “Celebrities”, the most popular Product Type is “Baby / Children” Products, which signifies the important use of target marketing by businesses in order to sell these Property Types.

Both “Characters” and “Corporate & Brand Names” are sold via the various different product types. There is an even spread of products which highlights the strength of these Product Types and how their flexible characteristics allow successful sales across a wide variety of different products. “Sport” and “Software” property types are largely dominated by “Publishing” and “Music/Video” Products respectively. The Charts and Table illustrate these trends.



Table 3: Property Type by Product Type trends

	Property Type						
	Fashion	Celebrities	Characters	Corporate & Brand Names	Sport	Software	
Accessories	54%	0%	8%	8%	3%	0%	
Apparel	44%	0%	14%	10%	8%	0%	
Food & Beverages	0%	0%	11%	8%	14%	2%	
Health & Personal Care	0%	0%	6%	5%	0%	0%	
Household Goods	0%	0%	5%	5%	5%	0%	
Baby / Children Products	0%	0%	6%	5%	1%	0%	
Music / Video	0%	7%	7%	9%	0%	98%	
Publishing	1%	21%	7%	9%	51%	0%	
Software	0%	0%	5%	10%	8%	0%	
Sport	0%	0%	5%	8%	0%	0%	
Toys	1%	0%	11%	14%	5%	0%	
Merchandising	0%	72%	7%	8%	5%	0%	
Other	0%	0%	8%	1%	0%	0%	
Total	100%	100%	100%	100%	100%	100%	

Chart 6: Property Type by Product Type trends – Fashion

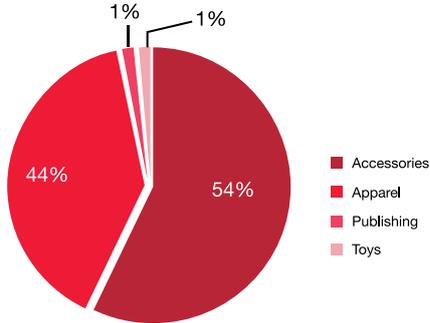


Chart 7: Property Type by Product Type trends – Celebrities

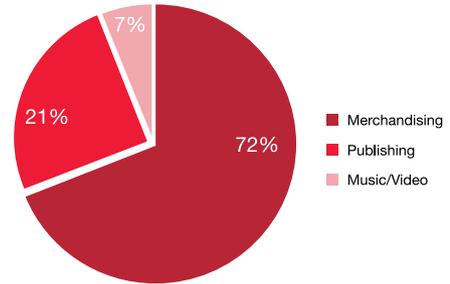
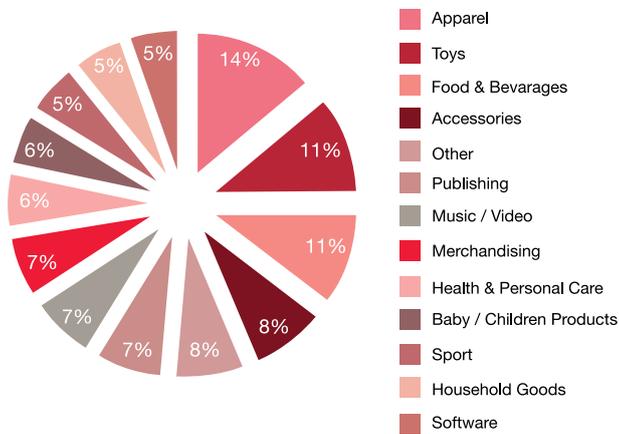


Chart 8: Property Type by Product Type trends – Characters



“Characters” and “Corporate & Brand Names” are sold through a wide range of Product Types. “Software” and “Celebrities” only use 2 and 3 Product Types respectively.

Chart 10: Property Type by Product Type trends – Sport

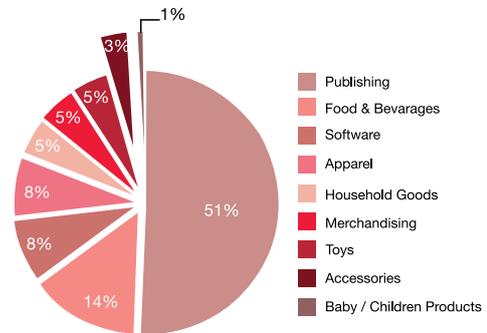


Chart 9: Property Type by Product Type trends – Corporate & Brand Names

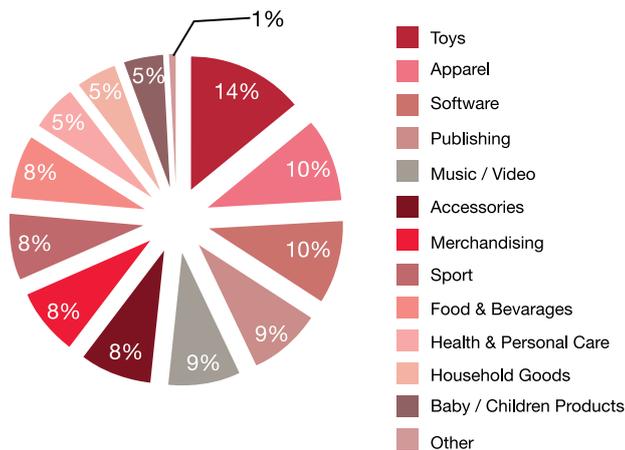
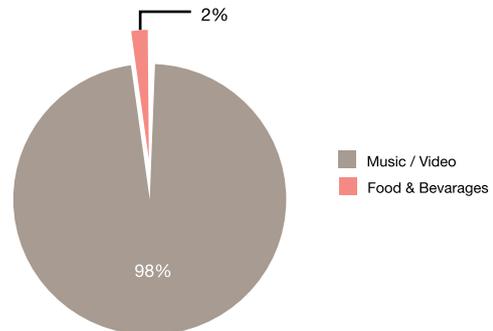


Chart 11: Property Type by Product Type trends – Software



Values for Charts 6 to 11 and Table 3 are expressed as a percentage of Property Type revenues.

Yearly Trends

From the yearly data obtained from the Survey the following results were noted. First of all, there has been an overall increase in the value of the Licensing Market by an average of 6%. This increase is of similar magnitude to the increase noted in the LIMA US Survey 2012, which noted an increase in total revenues by 5%. We noted that during the period 2010 to 2011, 76% of companies participating in the Survey reported that royalty revenues related to brand licensing increased by 16%.

Moreover, according to the companies surveyed, “Accessories”, “Apparel”, and “Merchandising” are the most profitable businesses during 2011. In particular, 40% of surveyed companies noted a 13.8% revenue increase in “Accessories”, 35% noted an 18% increase in “Apparel”, and 25% noted a 18,6% rise in “Merchandising”.

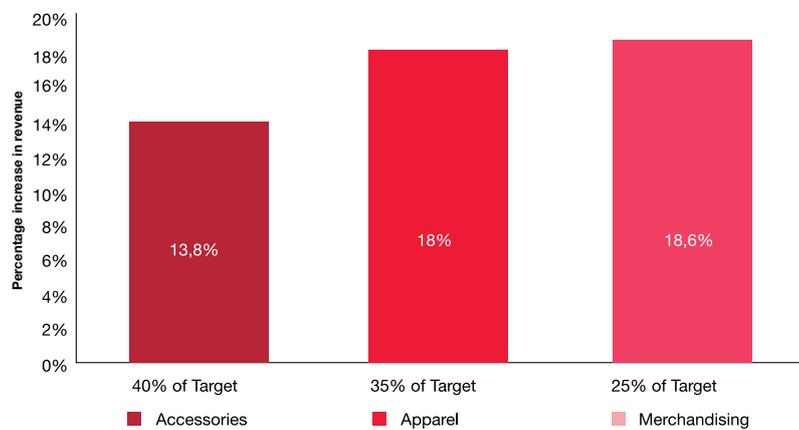
In addition to revenue changes, surveyed companies provided their perceived views of other changes to expect going forward in the Licensing market. Generally there were three common themes. Firstly, despite the current economic crisis, many believed that there would be an influx of new activity segments, through new companies and industries entering the market.

However, on the other hand, many expect to see a reduction in royalty payment percentages agreed in contracts given the financial pressures facing many Licensees. The key impact on revenue for owners of Property Types will be the length of contracts they already have in place with such Licensees.

Long term agreements will enable them to continue to receive higher levels of royalties. However, increased financial pressure increases the probability of fraud and misstatement, and thus there will be a greater incentive for Licensees to understate their Royalty Returns.

Finally, a reduction is expected in the minimum guarantee included contractually.

Chart 12: Growing Sectors the Licensing Industry



The percentage increase in the value of the Italian Licensing Market during 2011.

6%

Anti-Counterfeiting

In developing the Survey the phenomenon of “Anti - Counterfeiting” has been analyzed as it is considered a growing market and a key risk which applies to all companies involved in licensing. This is largely due to the ease in which fraudsters are able to reproduce licensed Intellectual Properties. Counterfeiting allows production at a low cost without the impact of costs for design, brand maintenance, or regulatory compliance. In a recent study conducted by Indicam², the estimated Italian counterfeiting revenues within the Italian market are approximately Euro 3.5 Billion, with 60% relating to fashion and clothing products.

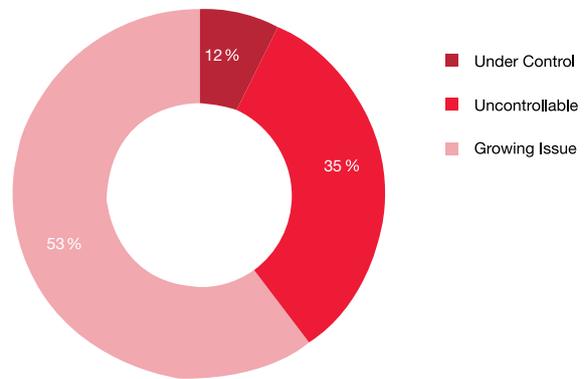
In order to understand the perception towards counterfeiting, participants were asked if they believed the issue was growing, under control, or impossible to control. The results show that 53% consider counterfeiting to be a growing issue within the licensing market. A further 35% believe that is impossible to prevent the issue, with only 12% of companies maintaining that they have the problem under control. This is evidenced by Chart 13.

In relation to “Anti-Counterfeiting” procedures, the Survey highlights two key tools used by companies in order to combat the risk of counterfeiting: holograms and alphanumeric codes. Of the 53% of companies classing the issue as growing, 44% use holograms. However, the remaining 56% do not use any anti-counterfeiting prevention tools.

Of the 35% of companies believing counterfeiting is an uncontrollable matter, 34% use anti-counterfeiting tools (holograms and alphanumeric codes) with 66% unprotected to the risk of counterfeiting. Finally, 50% of companies perceiving counterfeiting to be under control use holograms to mitigate the problem.

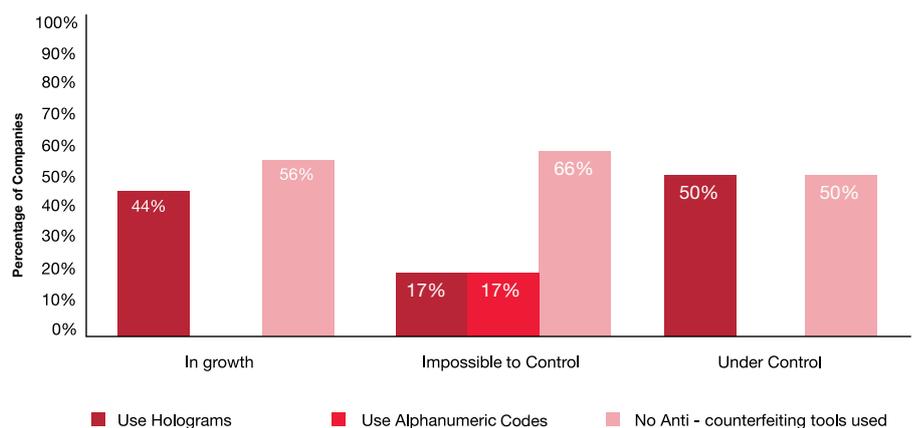
Chart 14 summarizes these perceptions.

Chart 13: Perception on “Anti – counterfeiting”



² Taken from www.indicam.it
INDICAM represents nearly 180 Companies, industry associations, law and IP firms, security consultants and other organisations, and is engaged on a daily basis to combat counterfeiting activities that impact branded products.

Chart 14: Controls used by Companies against the risk of Counterfeiting



5. Terminology

Property Types

Property types are the forms of Intellectual Property which can be merchandised or licensed to other companies. There can be various different property types ranging from brand names and titles, to celebrities and technology.

Brand Owners

Brand owners are parties that own the rights to a property type.

Product Types

Product Types are the products sold which use Property Types. Hence, they can range from t-shirts and bags, to Mp3 players and food & beverages.

The following gives a brief description of the Property Types identified from the responses received from the Survey.

Property Types Identified within the Survey

Corporate & Brand Names

There are innumerable companies which have a corporate or brand name. With regards to this property type, companies can use their commercial and corporate power, to maintain their brand awareness and popularity within a market. However, for such companies, Licensing and Royalty Revenues are not the core business elements and markets. But such is the extent of the awareness of their brands and popularity, they are able to take advantage of opportunities through licensing products.

Fashion

Designers use their brand as a method to promote awareness of their products. There are a large number of brands within this product type given the size and popularity of the fashion market. The key factors in relation to all licenses of fashion items are design and quality; the public's perception of these criteria can play a huge role on the revenue levels generated from licensing within this market.

Software

Intellectual Property from software involves licensing the technology and the design of a software piece which has been created for a specific use. Users, which can be individuals or companies, pay for the right to use the software for their own personal use, or in conjunction with their business operations.

Characters

Characters represent fictional figures created for entertainment or media services, and thus can range in nature, from characters from a popular book to characters on a video game. Their popularity can often lead to the licensing of their image and name across a variety of product types.

Celebrities

The licensing of celebrities is the use of their name, appearance or likeness on individual product types, or in conjunction with advertising or promotion campaigns. The key factor in determining the level of licenses due to a particular celebrity is their popularity. Hence, revenues received can often fluctuate depending on changes in public taste and perception toward an individual.

Sport

Given the popularity of sport, across the various types of Popular Sports, Sport licensing remains a global business. Property Types can relate to both individuals, and associations or leagues. Individuals, such as established athletes in their field of sport, can use their popularity to promote and market a wide range of products; similarly to those noted within "Celebrities". Product Licensing for sports associations can work in a similar mode, whereby the association lends itself to a selection of Product Types. Licensing revenues for associations are usually key to their development.

Other Definitions

Licensing

Licensing is the term used to describe transactions where the owner of an intellectual property gives permission to another party to use the property, usually in an exchange for a fee or compensation.

Licensor

The Licensor is the owner of the intellectual property or property rights. They determine which other Third Parties are permitted to use these rights and receive compensation for their usage.

Licensee

The Licensee is the party receiving the rights to use the intellectual property, or property rights for use within their business.

Global Revenues

For the purposes of our Survey, Global Revenues have been classified as actual income from royalties, and not sales of licensed products.

Royalty Revenues

Royalty revenues are revenues which are usually based on a percentage of gross or net profit, or on the quantity of goods to which a property owner allows another party (Licensee) to use their property to sell or manufacture goods.

Branches & Overseas Branches

Branches are those Licensees using the Property Type owned by the Licensor. They are classed as Overseas Branches when they are located in a different country to the origins of the Property Type. The Licensor then derives royalties from these overseas operations.

Licensing Agencies

Licensing Agencies are used by Brand Owners to extend the reach and awareness of their property. Agencies can extend the life of a brand and assist with the identification and penetration of new markets.

Brand Licensing Activities

Brand Licensing Activities are generally those licensing activities which involve a corporate brand name.

Counterfeiting

Counterfeiting represents the imitation or falsification of a licensed property without authorisation or permission from the license owner to use the rights of the property.

Anti-counterfeiting Measures

Holograms

Unique holograms are attached to products which are registered to ensure the authenticity of the products. Counterfeit products are then easily identifiable as they do not possess this unique tag.

Alpha Numeric Codes

A unique code is placed upon products, via a bar code or other labelling. This enables authentic products to be monitored and registered, and assist further in identifying counterfeit products.

Certificate of Authenticity

Certificates of Authenticity are usually seals or small stickers included on a product to demonstrate that an item is authentic.



6. Contacts



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Information on PwC Forensics Services:

The Global PwC Forensic Services Network offers a wide range of professional services relating to Licensing Activities. We can assist in implementing an effective program of licensee reviews as well as conduct individual licensee royalty examinations to determine whether they are reporting and paying royalties accurately under the terms of the agreements. Our experience in this area spans a range of industries including Entertainment & Media, Music, Gaming, Technology and Pharmaceutical sectors.

<http://www.pwc.com/it/it/services/forensic>