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# Burning the Candle at Both Ends: How to Balance Potential Profitability and Brand Protection when Licensing Brands



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# Burning the candle at both ends: how to balance potential profitability and brand protection when licensing brands

## Abstract

**Design/methodology/approach** – In a vignette study, 121 brand licensing professionals evaluated the attractiveness of up to eight hypothetical brand licensing opportunities with different levels of risk and profitability.

**Purpose** – Drawing on transaction cost economics, we conceptualise brand licensing as a form of alliance. Its performance may be affected by a licensee's potential opportunism resulting from an imbalance of specific investments in brand-building prior to signing the licensing agreement. From the licensor's perspective, brand licensing represents a trade-off between brand protection and additional revenues. This study examines how this trade-off shapes licensors' evaluations of the attractiveness of brand licensing opportunities.

**Findings** – From a licensor's perspective, high brand quality and distribution risks decrease the attractiveness of a licensing opportunity, although the latter risks are more pronounced. High potential profitability has a positive and significant effect on attractiveness.

**Research limitations** – The risks outlined in this study refer to licensee behaviour. The licensor may also behave opportunistically. We encourage research designs that enable a dyadic evaluation of licensing opportunities because a comparison of a licensor's and a licensee's assessments of the same scenario would be illuminating.

**Practical implications** – The findings enable the development of an evaluation template that directs brand owners' attention to the risks and gains of brand licensing opportunities. It supports licensors in choosing the "best" opportunity.

**Originality/value** – This study identifies risks emanating from a licensee's potential opportunism from a licensor's perspective. It juxtaposes these risks with the potential

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profitability of brand licensing opportunities. It is thus one of the first studies to address a licensor's decision-making trade-offs in a large-scale empirical setting.

**Keywords** – Brand licensing, quality risk, distribution risk, profitability, opportunism, trade-off, vignette study

**Paper type** – Research paper

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## Introduction

In brand licensing, a brand owner temporarily grants a licensee the right to use and commercially exploit their brand in return for a specified payment (Canalichio, 2016; Jayachandran *et al.*, 2013). This provides opportunities for the licensor to generate royalty revenues, but, if managed improperly, can lead to brand equity dilution (Colucci *et al.*, 2008). Ralph Lauren is a case in point. At its peak in 2004, the brand's licensing income contributed 10% or $268.8 million to corporate sales (Danziger, 2020). However, these revenues were unstable, marked by fluctuating home décor licensees, insourcing of previously licensed businesses, and varying numbers of stores operated by licensing partners (Forbes, 2016). This can indicate deteriorating licensing relationships, which may then damage a licensor's brand. For example, WestPoint Stevens, a bedding and bath accessories licensee, filed for bankruptcy in 2004, generating negative media coverage that included its licensing relationship with Ralph Lauren. Such crisis incidents can have reputational spillover effects on the licensor's brand (Swaminathan *et al.*, 2020), and customers may oppose the brand because of the licensee's circumstances. Such developments are not uncommon in the high fashion meta-industry, which often relies on licensees to help manufacture and distribute broad product categories, including beauty, eyewear, underwear, or furniture (Abboud, 2021; Forbes, 2016). They are further aggravated by the licensor's limited interference in the licensee's actions during an ongoing relationship (Cross, 2015). This explains the licensor's need to carefully balance the gains and risks of brand licensing before signing an agreement with a licensee. Hence our work aims to explore the intricacies of brand licensing decision-making from the licensor's perspective.

Brand expansion and extension are fundamental topics in marketing (Brexendorf *et al.*, 2015; Brexendorf and Keller, 2017; Spence and Essoussi, 2010), made even more pressing by rapid internationalisation and the omnipresent quest to increase shareholder value (Robinson *et al.*, 2015). These aspects are reflected in the increasing volume of brand licensing, with

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global sales of licensed goods reaching $292.8 billion in 2019 (Licensing International, 2020), providing evidence of the "bright" side of brand licensing. The Ralph Lauren case illustrates that there is also a "dark" side: a licensor's vulnerability to a licensee's actions because of unilateral dependence. Specifically, the licensor's investments in brand-building prior to signing a licensing contract are higher than those of the licensee. Therefore, the licensee may behave opportunistically, and the licensor may become subject to a holdup risk (Cobbs and McKelvey, 2009; Colucci *et al.*, 2008; Jayachandran *et al.*, 2013; Jiang and Menguc, 2012). For example, the licensee may exploit the licensed brand by violating the licensor's quality standards or selecting inappropriate distribution channels (Robinson *et al.*, 2015). The licensor should therefore balance the bright and dark sides of brand licensing from the outset of the relationship.

Extant research tends to focus on the bright side, i.e., the licensor's gains (e.g., Bass, 2004; Jayachandran *et al.*, 2013; Robinson *et al.*, 2015). Despite the growing importance of brand licensing (Stone and Trebbien, 2019), insights into the dark side regarding risks emanating from a licensee's potential opportunism are sparse. Their examination is essential for both researchers and marketing practitioners. It would assist researchers in more accurately interpreting context-specific risk-return options, while managers need a balanced perception of the pros and cons of their choices. Our first research objective is therefore to highlight these risks, which leads to the first research question: *What risks related to a licensee's behaviour should a brand owner consider while making brand licensing decisions?* Our second research objective refers to the abovementioned trade-off between gains and risks, which has rarely been studied (for exceptions, see Fosfuri, 2006 and Jayachandran *et al.*, 2013). To explore how licensors make brand licensing decisions factoring in bright and dark sides, we ask: *How does the trade-off between profitability expectations and the need for brand protection affect a brand owner's evaluation of brand licensing opportunities?* Drawing on a vignette study (e.g.,

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Aiman-Smith *et al.*, 2002; Atzmüller and Steiner, 2010), we used responses from 121 brand licensing professionals who evaluated the attractiveness of up to eight hypothetical brand licensing opportunities with different levels of risk and profitability. Their answers suggest that high brand quality and distribution risks reduce the attractiveness of a licensing opportunity, while high potential profitability increases the perceived attractiveness.

Addressing both research questions, we make theoretical and methodological contributions. Our first contribution is theoretical in nature. We define brand licensing as a special form of marketing alliance, chosen after evaluation of asset specificity, uncertainty, and transaction frequency, the outcomes of which can be affected by the licensee's potentially opportunistic behaviour. Transaction cost economics (TCE) conceptualises opportunism as a major behavioural risk in the presence of specific investments (Williamson, 1985). Supplementing other theories in branding research (Swaminathan *et al.*, 2020), TCE explains how and why a licensee may behave opportunistically and how governance can help the licensor mitigate risks stemming from opportunism (Sampson, 2004). In adopting TCE, we follow prior strategy and marketing research on alliance governance (e.g., Bai *et al.*, 2021; Hoetker and Mellewigt, 2009; O'Donnell, 2009), and add a governance approach to the prevailing firm strategic perspective on marketing alliances (Swaminathan *et al.*, 2020). TCE allows a governance approach to the costly activities related to alliance formation (Mellewigt and Decker, 2014). The brand owner's evaluation of a brand licensing opportunity's attractiveness is part of the licensing agreement formation (Al-Khalifa and Peterson, 1999). Our second contribution is methodological in scope. We develop a "paper people study" design (Aguinis and Bradley, 2014), which highlights a licensor's decision-making processes in the licensing agreement formation stage. It also makes a licensee's potential opportunism visible, a behavioural assumption in TCE, which is rarely measured explicitly.

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The remainder of this study is organised as follows. Next, we review the literature on brand licensing. Then, we develop hypotheses and describe our data and methods. Finally, we discuss our results and implications for research and licensing practice.

## Licensing brands

### *The bright and dark sides of brand licensing*

Brand owners can license their brands to expand or extend them (Brexendorf *et al.*, 2015; Brexendorf and Keller, 2017; Spence and Essoussi, 2010). Brand expansion into new geographical markets via licensing is an alternative to exporting when, for instance, high transportation costs or product characteristics, such as limited durability, make exporting less practical (Moore *et al.*, 2000). Usually, licensed products belong to the same category as the brand owner's offering. The Ralph Lauren case demonstrates how existing product categories like home décor can be licensed out to international partners (Forbes, 2016). Brand extension licensing involves stretching brands into new, unfamiliar product categories (Cross, 2015; Stone and Trebbien, 2019; Uggla, 2006). Ralph Lauren exemplifies how an apparel manufacturer enters categories ranging from cosmetics to eyewear (Forbes, 2016).

In either case, brand licensing helps licensors and licensees generate additional revenues. Licensors benefit from a licensee's manufacturing expertise, market intelligence, or sales networks (Jayachandran *et al.*, 2013). They can enter new markets and strengthen their brand's local presence at a lower cost than direct entry. Licensees' characteristics and their fit with the licensor's product categories are important for the success or failure of a licensing relationship (Jiang and Menguc, 2012). Licensees can achieve higher profit margins by selling branded products without investing in developing their own brands (Robinson *et al.*, 2015). Thus, the basic rationale for brand licensing is to leverage existing resources (i.e., an established brand, on the one hand, and local market access, on the other) while minimising

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further investments (Colucci *et al.*, 2008). Nonetheless, licensing decisions are not trivial for the licensor.

Most studies adopting a licensor's perspective have focused on the bright side of licensing, underscoring the licensors' gains. These studies can be delineated in terms of content and methodology (see Table I) and provide evidence for the beneficial impact of brand licensing announcements on the licensor's shareholder value (Robinson *et al.*, 2015), economic and institutional factors such as target market size or IP regime type on royalty rates levels (Jayachandran *et al.*, 2013), and the fit between the licensor and the licensee's product portfolios on brand positioning and customer relationships (Bass, 2004).

--- Insert Table I about here ---

However, previous research falls short of adequately illuminating the dark side of licensing from a brand owner's viewpoint (i.e., the potential risks), although "a deeper understanding of the nature of [licensing decisions] and their contextual variations is required to provide brand managers with appropriate guidance in leveraging and sustaining their brand" (Jayachandran *et al.*, 2013, p. 121). This shortcoming has been tentatively addressed by research that provides initial guidance to licensors making brand extension decisions (Colucci *et al.*, 2008). These studies have emphasised the ability to measure brand extension performance and to reduce product category-specific investments as prerequisites for choosing licensing over manufacturing the product extension in-house. However, the trade-off between a licensor's gains and risks remains largely unaddressed.

*The licensor's dilemma*

Although licensing can provide additional revenues, licensors may jeopardise one of their key assets, namely brand equity (Bass, 2004; Jayachandran *et al.*, 2013), which has been defined as the "differential effect of brand knowledge on consumer response to the marketing of that brand" (Keller, 1993, p. 2). Brand equity is the value or price premium that a brand adds to a

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product (Pitta and Katsanis, 1995; Keller and Lehmann, 2006). Hence, brand equity dilution, "the loss of the meanings that differentiate a brand from its competition" (Hsu *et al.*, 2016, p. 265), is a key concern in brand licensing decisions (Cobbs and McKelvey, 2009; Colucci *et al.*, 2008; Jayachandran *et al.*, 2013).

Building a brand requires high specific upfront investments in, for example, advertising, promotions, market research, product quality, new product development, product and services innovation, trademark registrations, and monitoring of the brand's offerings (Brexendorf *et al.*, 2015; Crass *et al.*, 2019). TCE sees specific investments as a source of opportunism, defined as "self-interest seeking with guile" (Williamson, 1985, p. 47). Opportunism arises in any inter-organisational relationship because one or both partners are required to make specific investments. These investments support the relationship and would be of less value in other applications. To the extent that one partner contributes specific assets to the relationship, they put themselves at risk, as the other partner may attempt to reap individual benefits through holdup or other opportunistic behaviour (Williamson, 1985).

In brand licensing, the higher the brand owner's upfront investments, the more a licensee may feel tempted to behave opportunistically. Because of their asymmetric investments in brand-building, the licensor is already vulnerable to partner opportunism during the licensing agreement formation (Cobbs and McKelvey, 2009; Colucci *et al.*, 2008; Jayachandran *et al.*, 2013; Jiang and Menguc, 2012; Moore *et al.*, 2000). The licensee also makes specific investments, mainly in manufacturing, marketing, and logistics (Cobbs and McKelvey, 2009; Jayachandran *et al.*, 2013), but these typically occur later in the licensed brand's value chain (Canalichio, 2016); for example, after a licensing contract has been signed.

Distorting a brand owner's licensing opportunity evaluation, a licensee may, for example, mispresent their capabilities or resources for meeting the licensor's standards for quality or the commercialisation of the brand. During a licensing relationship, a licensee can

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shirk their contracted responsibilities by, for instance, manufacturing a licensed product in low quality, using inappropriate packaging, misrepresenting the brand owner's logo, discussing the licensed brand with the media despite the brand owner's "no media" policy, or applying technical specifications and information regarding the manufacturing of a licensed product to their own goods or other licensed products (Robinson *et al.*, 2015; Stone and Trebbien, 2019). Compared to other inter-organisational relationships, a licensor has limited ability to control the licensee's actions once the licensing agreement has been signed and the licensee is using the brand (Bai *et al.*, 2021; Hendrikse *et al.*, 2015). As a brand licensing executive interviewed by the authors put it, "[licensors] give away their brands and hold up their hands". This leads to the licensor's dilemma: How much risk from a licensee's potentially opportunistic behaviour can or should they bear in return for specific gains? This question points to the licensor's need to evaluate a licensee (Al-Khalifa and Peterson, 1999; Cross, 2015; Robinson *et al.*, 2015). An evaluation encompasses the licensor's capacity to mitigate the licensee's potential opportunism and thus ensures satisfactory outcomes from the relationship's inception (Hoetker and Mellewigt, 2009).

*TCE and the licensor's decision-making*

Opportunism cannot be completely precluded from any inter-organisational relationship. TCE conceptualises opportunism as a major behavioural risk in the presence of specific investments. Supplementing other perspectives used in branding research (Swaminathan *et al.*, 2020), it explains how and why a partner may behave opportunistically and how governance can mitigate risks stemming from opportunism (Sampson, 2004). A licensor is not helpless. Although they cannot control brand equity subjectively perceived by customers, they can gauge the risks stemming from a licensee's activities (Colucci *et al.*, 2008).

TCE allows us to add a governance approach to the firm strategic perspective, which is considered one of three dominant perspectives in branding research (Swaminathan *et al.*,

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2020).[1] It provides a useful framework in which to address how a licensor can manage licensing decisions to reduce costs arising from licensees' potentially opportunistic behaviour (Colucci *et al.*, 2008).[2] We consider brand licensing to be a special form of alliance governing a "make or buy"-transaction (Hoetker and Mellewigt, 2009). Performance differences across licensing relationships may be explained by variations in the governance instruments that licensors apply (Sampson, 2004). Given the licensor's high upfront investments in brand-building and their limited control over the licensee's actions, licensee opportunism may arise, leading to performance outcomes that fail to meet the licensor's expectations due to unexpected governance costs during the relationship. For instance, a licensor may use an in-house licensing team or engage a licensing agency to better understand why the licensee's accomplishment remains disappointing (Cross, 2015). Associated costs reduce the licensing gains for the licensor. They explain a brand owner's need for a thorough evaluation of the attractiveness of brand licensing opportunities before signing a contract.

Evaluation of a brand licensing opportunity includes the assessment of a licensee's abilities and trustworthiness, which affect the success or failure of a licensing relationship (Al-Khalifa and Peterson, 1999). This evaluation involves costs related to money, time, and personnel needed to search for and assess licensees. Although these investments are part of transaction costs, activities related to the formation of an inter-organisational relationship are rarely considered a governance instrument, even if they reduce cooperation and coordination problems from the outset (Mellewigt and Decker, 2014). In line with TCE, we conceptualise the evaluation of brand licensing opportunities as a brand owner's governance instrument used to prevent licensees from exploiting a licensing agreement for their own purposes.

**Hypothesis development**

We interviewed managers engaged in brand licensing to enhance the understanding of the bright and dark sides of licensing. As noted earlier, we suggest that managers must cope with

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certain risk-return trade-offs when selecting worthwhile licensing opportunities. Specifically, they must offset prospective royalty rates with brand equity dilution risks stemming from a licensee's potentially harmful actions throughout the licensing relationship. Thus, in the interviews, we focused on understanding how managers make brand licensing decisions.

*Managerial interviews*

Following the procedure outlined by Jayachandran *et al.* (2013), we conducted face-to-face and telephone interviews with 14 industry experts (five licensors, three licensing agents, and six marketing and brand consultants with over 10 years of professional experience on average). In most cases, the interviewees were approached through the alumni network of a leading German business school, and they represented industries ranging from cosmetics, media, and entertainment to healthcare and children's toys.

Most of these executives consistently emphasised three key risks they face from licensees when making licensing decisions. First, 12 of the 14 managers pointed to the risk of the licensee's failure to meet predefined quality standards. When discussing quality, managers often mentioned safety standards, manufacturing processes, certifications, or compliance with the licensor's corporate identity. They related quality deficiencies to publicity scandals, customer confusion, and spillovers onto the licensor's core product portfolio, especially in more sensitive categories such as children's toys or beauty products. Most interviewees believed that quality risks could be mitigated by choosing licensees with a similar positioning to the licensor because they are more likely to understand how to address the envisioned target customer group appropriately. Similarly, executives cited the licensee's experience and prior agreements with renowned brands as proxies for the likelihood of adhering to higher quality standards.

Second, nine of the 14 licensing experts mentioned the risk of a licensee's inability to commercialise the licensed product. They equated commercialisation with the ability to sell or



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distribute the product through an adequate organisational network or channel mix. Some managers indicated the licensee's capacity to secure shelf space in retailers' outlets, especially in the context of fast-moving consumer goods, as well as their local market share and product listings. Managers were particularly aware of the licensor's limited options to re-enter a category-based or geographical market after a licensee's sales-related failure. They emphasised the inability to address the relevant target group, the likelihood of confusing customers, and fostering of "grey" market growth as possible consequences of selling through unsuitable channels. They also stressed the importance of partnering with financially strong and experienced licensees to increase the odds of successful distribution of a licensed product.

Finally, our interviewees mentioned brand equity dilution as a prevalent risk facing licensors. Six of the 14 experts raised concerns about brand equity dilution being disproportionately high in relation to expected profits. Some managers believed that brands with higher equity are subject to higher downside risk because licensees may have a greater incentive to "free ride" on them. When questioned about their understanding of free riding, the executives tended to re-emphasise the likely use of inferior quality standards and inadequate distribution channels.

In sum, the interviews provided insights into the intricacies of licensors' decision-making when selecting licensing opportunities. Subsequently, we apply these insights to inform our conceptual framework explaining how licensors make brand licensing decisions.

*Conceptual framework*

We apply a framework developed from the existing literature (Bass, 2004; Jayachandran *et al.*, 2013; Robinson *et al.*, 2015) and our expert interviews. Previous studies suggest that to make the "best" licensing decision, managers must trade the risks of an envisaged relationship against expected gains. Thus, there is a dilemma for the licensor to resolve at the licensing agreement formation stage (Cobbs and McKelvey, 2009; Fosfuri, 2006; Jayachandran *et al.*, 2013).

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Among the many future risks, those stemming from the licensee's potential opportunism and encompassing brand quality and distribution are key, as they are partly assessable by the licensor (Colucci *et al.*, 2008). They are also, as the interviewees suggested, intertwined with brand equity dilution, a major threat to the licensor. Likewise, royalty rates constitute the most common gain over the course of a licensor–licensee relationship (Canalichio, 2016). Regardless of risk level, high royalty rates are beneficial for the licensor. In a low-risk context, high royalty rates result in increased revenues for the licensor. In a high-risk context, the licensor can use increased revenues to cover the costs of monitoring and active oversight of a licensee throughout the licensing relationship (Jayachandran *et al.*, 2013; Lind, 2018). Hence, both risk and gains play a role in evaluating the attractiveness of brand licensing opportunities and ultimately in forming licensing agreements (Fosfuri, 2006; Jayachandran *et al.*, 2013). According to Zajac and Olsen, potential "gains often outweigh transaction cost considerations in inter-organisational strategies" (1993, p. 132). Similarly, Jayachandran *et al.* (2013) suggest that brand owners consider higher royalty rates as a measure to account for the increased future monitoring costs required in risky licensing environments. Licensors should therefore concurrently assess and balance their objectives for profit generation and brand protection (Ambler, 2003).

*Brand quality risk*

Brand quality risk refers to the licensee's potential failure to meet the licensor's quality standards. Research in brand licensing associates brand quality mostly with product characteristics (Jayachandran *et al.*, 2013) and high manufacturing standards (Robinson *et al.*, 2015). Similarly, our interviewees mentioned high safety specifications, sophisticated manufacturing processes, certifications, and compliance with the licensor's corporate identity. It is in the licensor's interest for the licensee's products to be indistinguishable from their own.

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As one interviewee put it, "The licensee's commitment to quality is key so that the customer cannot differentiate between a licenced and an in-house product."

Previous studies highlight the importance of evaluating brand quality risk for the licensor's decision-making, indicating various consequences that are likely to affect the licensor in the event of opportunistic behaviour by the licensee. For instance, the amount of royalty rates agreed upon in a licensing contract may depend on the licensee's quality standards. More specifically, licensees offering high quality standards tend to be offered lower royalty rates (Quelch, 1985). However, lower revenues might be offset by a lower likelihood of brand equity dilution or by lower levels of customer confusion due to a better fit between the quality standards of the licensor and the licensee (Bass, 2004; Robinson *et al.*, 2015). Brand quality risk is similarly factored in when the licensor assesses the likely impact of their monitoring efforts on the attractiveness of a licensing agreement (Jayachandran *et al.*, 2013). Higher monitoring costs lead to increased transaction costs in the licensing relationship. At the licensing agreement formation stage, the expectation of higher transaction costs makes a licensing opportunity less attractive for the licensor. Moreover, as our interviews show, licensors are aware of the link between quality deficiencies and publicity scandals. Similarly, quality variations between the licensor's and the licensee's products may create negative spillovers onto the licensor's core product portfolio.

For example, Burberry, the British fashion powerhouse, experienced a period of dynamic licensee reassessment following the appointment of Angela Ahrendts as CEO in the late 2000s (Vermond, 2015). The distinctive Burberry tartan (the firm's core corporate identity and brand differentiator) had been licensed out to a wide range of partners, who used it on mundane products such as umbrellas and dog clothing, thereby undermining the brand's image over time. Buying back or reallocating more than 23 licences from these firms helped to refocus Burberry on its iconic apparel and luxury staples (Felsted, 2012; Vermond, 2015).



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These theoretical arguments and the Burberry example jointly suggest that brand quality risk is likely to influence the licensor's decision-making in selecting a licensing opportunity. In particular, brand quality risk affects a licensing opportunity's attractiveness (i.e., the subjective balance of bright and dark sides as perceived by the licensor). Consequently, we propose the following hypothesis.

***Hypothesis 1.*** Brand quality risk is negatively related to the perceived attractiveness of a licensing opportunity.

*Brand distribution risk*

Brand distribution risk refers to the licensee's potential failure to deliver the offering to its envisaged market. Academic studies highlight sales through inappropriate distribution channels (Jayachandran *et al.*, 2013) and poor overall market coverage (Bass, 2004). Likewise, our interviewees referred to ensuring adequate distribution through a well-chosen channel mix or securing sufficient shelf space with retailers. Distribution channels are key because they serve as external cues about a brand's characteristics to buyers (Sattler *et al.*, 2010). Furthermore, according to one interviewee, "Reaching agreement about distribution channels allows for coordinated promotional actions."

Research shows how important it is for the licensor to consider brand distribution risk when making licensing decisions. Jayachandran *et al.* (2013) suggest that the licensee's distribution channel structure can influence royalty rates. Likewise, Robinson *et al.* (2015) indicate that a licensee deliberately selling licensed products through unauthorised channels may hurt the brand's image. Moreover, a higher number of distribution channels used by the licensee raises the complexity of various licensing activities and makes it more challenging for the licensor to limit licensee opportunism (Robinson *et al.*, 2015). Consequently, higher monitoring is needed, which leads to higher transaction costs, reducing the attractiveness of a licensing opportunity for the licensor. The executives interviewed here echoed these findings

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by pointing to the link between a licensee's distribution opportunism, on the one hand, and fostering "grey" market growth and the inability to address relevant target groups, on the other. One interviewee underscored the "eminent difficulties to re-enter a market once a licensee has confused customers as to where to buy the sought-after brand."

For example, in 2015, Burberry refused to renew its over-40-year-old brand licensing agreement with Japanese firm Sanyo Shokai (Fasol, 2015). Over the years, the licensee's national distribution network, which predominantly carried the more moderately priced product lines, had increased its number of outlets to almost 400. This, according to Burberry's CEO, resulted in brand overexposure, threatening the brand's distinctiveness in customers' eyes (Ahrendts, 2013).

These theoretical and practical arguments indicate that brand distribution risk is likely to impact the licensor's decision-making in selecting a licensing opportunity. Distribution risk is likely to determine the attractiveness of a licensing opportunity (i.e., the subjective balance of bright and dark sides as perceived by the licensor). Accordingly, we propose the following hypothesis.

***Hypothesis 2.*** Brand distribution risk is negatively related to the perceived attractiveness of a licensing opportunity.

*Licensing opportunity profitability*

According to Keller and Lehmann (2006, p. 748), "no problem is more critical to CEOs than generating profitable growth." Brand licensing constitutes welcome growth for many firms (Colucci *et al.*, 2008; Cross, 2015). To make such growth sustainable, licensors must anticipate not only the potential risks manifested in transaction costs but also the transactional value associated with a licensing opportunity (Zajac and Olsen, 1993). In other words, licensors must balance the bright and dark sides of licensing. This notion is supported by one interviewee, who stated that they "look for long-term partnerships with licensees who offer the best risk–

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return option." The bright side (i.e., the potential profitability of a licensing opportunity) is mainly determined by the level of the negotiated royalty rates that licensees pay in return for the right to use the licensor's brand to commercialise their products and services (Jayachandran *et al.*, 2013). Royalty rates are defined as a percentage of licensee net sales but can also be linked to gross sales or sales volumes (Canalichio, 2016); thus, the transactional value of licensing opportunities can vary.

For example, in 2013, Burberry took back their fragrances and cosmetics licence from Interparfums after their licence income of £25–£30 million had fallen to less than £10 million of earnings before interest and tax (Daneshku and Pooley, 2017). Reassigning the licence to Coty in 2017 increased management's confidence in expanding the cosmetics category's overall revenue to match the industry average (Sandle, 2017). These theoretical and managerial considerations lead us to propose our final hypothesis.

***Hypothesis 3.*** Potential profitability is positively related to the perceived attractiveness of a licensing opportunity.

## Methodology

### *Research design*

We chose to conduct a vignette study (or scenario-based design), which is useful to examine how certain criteria jointly affect decision-makers' attitudes and behaviours in a given situation. This design qualifies as a "paper people study," "presenting participants with vignettes typically in written form (and hence their name) and then asking participants to make explicit decisions, judgments, and choices" (Aguinis and Bradley, 2014, p. 354).[3]

Respondents were asked to evaluate a fixed number of hypothetical brand licensing scenarios (or vignettes) included in a questionnaire. Each respondent contributed multiple appraisals to the analysis (Aiman-Smith *et al.*, 2002). The scenarios represented short descriptions of brand licensing opportunities, including factors affecting the licensor's decision

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for or against a licensee. These factors, also called scenario dimensions or cues, varied. Each scenario represented a unique combination of variations of the different dimensions (Atzmüller and Steiner, 2010). Specifically, we varied four binary-coded dimensions in the scenarios. Accordingly, the scenario universe, which is the total number of unique combinations of manipulations of the dimensions (Atzmüller and Steiner, 2010; Auspurg and Hinz, 2014), comprised 16 scenarios (see Appendix for full scenario specification).

Prior scenario-based research reported that the inclusion of excessive scenarios in a questionnaire could cause respondent overload and increased attrition (Aiman-Smith *et al.*, 2002; Atzmüller and Steiner, 2010; Auspurg and Hinz, 2014; Decker and Baade, 2016; Oll *et al.*, 2018). Hence, we used a fractional (vs. a full factorial) design (Graham and Cable, 2001). We included a subset of eight vignettes per respondent, resulting in two versions of the questionnaire. We enhanced the robustness of our fractional design through randomisation, leading to varying subsets and scenario orders per questionnaire (Bridger and Wood, 2017).

We conducted a pretest with 20 professionals (brand licensing managers, marketing/brand consultants, and researchers) to ensure the validity of the scenario and the clarity of the general survey instructions and licensing opportunity descriptions. The participants perceived the descriptions as realistic, which supports the external validity of the vignette study (Karren and Barringer, 2002). Completion of the questionnaire required approximately 12 minutes.

*Data and sample*

To enhance flexibility in the data-collection process and cater for the needs of different respondents, we designed paper-based and online questionnaire versions. The content of the two versions was identical. First, we collected data from a sample of active brand licensing professionals in the autumn of 2017. The paper-based questionnaire was distributed at the annual Brand Licensing Europe fair in London. With over 300 exhibiting brand owners and

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more than 7,000 visitors, this fair is the main pan-European event dedicated to brand licensing and brand extensions. In total, 67 out of 110 exhibiting brand licensing companies that were personally contacted by the first author agreed to participate. Eventually, 50 licensing professionals completed the paper-based questionnaire, yielding 400 observations.

Second, to administer the online questionnaire, we cooperated with the President of the International Licensing Industry Merchandisers' Association (LIMA), who agreed to circulate the survey among LIMA members by featuring it in their e-newsletter. The newsletter mailing list included 2,910 contacts, and we received 110 online responses. We excluded incomplete answers and eventually obtained 71 online questionnaires (568 observations). Thus, our final sample consists of 121 questionnaires (968 observations).

*Variables and measures*

*Scenario dimensions.* The scenarios described hypothetical brand licensing opportunities. To avoid potential framing effects, no real brand names were used (Decker and Baade, 2016). As irregular numbers of levels can distort results (Karren and Barringer, 2002), the four dimensions included in each vignette were defined by two levels. Each dimension describes a condition which can be understood in terms of either high or low variations, resulting in a 2 × 2 × 2 × 2 experimental setting.

Our expert interviews identified important factors for inclusion in the vignettes. We used established measurement approaches whenever possible, as the variable manipulation in a vignette study typically "requires a balancing act between consistency with established measures in academic literature and creating a hands-on environment that is reflective of the key informants' knowledge" (Mellewigt *et al.*, 2017, p. 2359). If the two levels that a dimension can exhibit are not clearly different from each other, respondents have difficulty evaluating a vignette (Ohly, 2019; Schafheitle *et al.*, 2020). Therefore, we opted for strong



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terms, with the aim of ensuring that the scenario dimensions were accessible and informational from a licensing professional's point of view.

Brand quality risk was operationalised as the degree of quality positioning (dis-)similarity between licensing partners, which is an indicator of how well the potential licensee will be able to comply with a brand owner's quality standards. Licensing opportunities with a high level of quality risk is a potential agreement between a premium-quality brand owner and a licensee that neither represents nor owns premium-quality brands. Because of this dissimilarity between the licensor and the licensee, the likelihood increases of, for example, a licensee using substandard parts to produce a licensed good (Robinson *et al.*, 2015). The low-quality risk scenario is a potential collaboration between two premium-quality branded product providers where the risk of the licensee skimping on the licensor's brand quality is comparatively low.

Brand distribution risk was measured in terms of licensee distribution capabilities. First, licensing opportunities with high brand distribution risk include licensees that are characterised by weak distributor relationships (Morgan *et al.*, 2009). Second, according to findings from the expert interviews indicating that brand managers often consider licensees' market shares and product listings to evaluate licensee distribution capabilities, opportunities with high distribution risk also include licensees with low market shares in the respective product category. Comparatively weak distribution capabilities allow a licensee to make false promises about the number of customers they can reach and the access they may be granted (Stone and Trebbien, 2019). Conversely, licensing opportunities with low brand distribution risk include licensees with strong relationships with the most relevant distributors and a high market share in the respective product category. In this case, the licensee's promises regarding the number of customers that can be reached and the channels that are available are trustworthy.

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Potential profitability was measured in terms of royalty rates. Licensees pay ongoing royalty fees that are usually defined as a percentage of net sales generated by the licensing agreement. In some cases, royalty rates are defined as a percentage of sales volume, gross sales, or profits (Canalichio, 2016). Additional upfront fees are relatively rare in licensing. Thus, using royalty rates as an indicator of potential profitability is realistic from a licensing professional's perspective and in line with previous research (Jayachandran *et al.*, 2013). A brand owner can obviously make a profit without licensing. Seizing a brand licensing opportunity reflects a brand owner's hope of increasing their profits (Cross, 2015), thus creating transactional value (Zajac and Olsen, 1993). Licensing opportunities with high potential profitability have royalty rates above the industry average, whereas licensing opportunities with low potential profitability have royalty rates at or below the industry average. We did not use percentage values, because average royalty rates vary widely across four-digit SIC licensing industries (Aulakh *et al.*, 2013). The scenarios were not industry specific. Depending on their professional background, brand licensing managers have different views of the same royalty rate percentage value.

We included brand equity at risk, which has empirically established links with brand licensing (Colucci *et al.*, 2008; Jayachandran *et al.*, 2013) but does not describe the licensee's behaviour. Nonetheless, it is an important signal for a licensing opportunity's attractiveness and should be understood as a control variable in our research design (Mellewigt *et al.*, 2017). It was captured using the licensor's customer-based brand equity at the point of licensing agreement formation. Following Aaker (1991) and Keller (1993), who identified brand awareness, brand image, and brand loyalty as key dimensions of customer-based brand equity, we defined high- (low-) equity licensor brands by high (lower) awareness, a strong (weak) consumer brand image, and a strong (weak) consumer preference to buy the brand.

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*Dependent variable.* The dependent variable represents brand licensing professionals' evaluations of the attractiveness of licensing opportunities. This formative variable consists of three items: the licensing opportunity is (1) appealing, (2) attractive, and (3) adds value to the brand (Shah and Swaminathan, 2008). Respondents were asked to indicate on a 7-point Likert scale the extent to which they agreed with each item. A principal component analysis yielded one component with an eigenvalue greater than 1 (EV = 2.741; $R^2$ = 0.91; KMO = 0.76).

*Control variables*. We controlled for respondent licensing function by coding a dummy variable, with 1 indicating a licensor and 0 for an agent/consultant, a licensee, or any other background (Connelly *et al.*, 2016; Mellewigt *et al.*, 2017). We included years of professional licensing experience as an occupation-related control variable (Fosfuri, 2006). To account for personal characteristics, we controlled for age, gender and attitude to risk, based on Dohmen *et al.* (2011). We asked respondents to indicate how realistic the scenarios were (Atzmüller and Steiner, 2010; Karren and Barringer, 2002). We used median splits to recode experience, age, attitude to risk, and realism of the scenario as categorical variables, with 1 indicating a high level and 0 indicating a low level. Table II provides an overview of all variables and items.

--- Insert Table II about here ---

Table III further shows the correlations among the study variables. We calculated the variance inflation factors to consider potential multicollinearity (mean VIF = 1.20). The highest value was 1.72 (licensing experience), which lies well within the acceptable range (Hair *et al.*, 1998).

--- Insert Table III about here ---

## Results

### *Descriptive findings*

The descriptive statistics are reported in Table IV. On average, respondents were 40 years old and had 11 years of professional licensing experience, including different roles, such as brand licensor, consultant, agent, and licensee. Typically, licensing professionals change roles

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throughout their careers. Because of their diverse professional experiences, they are aware of the brand owner's perspective. Therefore, we did not exclude licensees, agents, or consultants. In terms of gender, respondents were approximately evenly distributed.

--- Insert Table IV about here ---

*Hypothesis testing*

We used hierarchical ordinary least squares (OLS) regressions with robust standard errors adjusted to 121 individual-level observations. Since each respondent assessed eight scenarios, the observations were clustered at the individual level to account for potential autocorrelation. We used the complex samples option in SPSS 27 to control for nested data at the individual level.

--- Insert Table V and Figure 1 about here ---

Table V reports the results of the regression analyses for the effects of risk and potential profitability on attractiveness. Model 1 includes the control variables. Hypotheses 1 and 2 suggest that high levels of brand quality risk and brand distribution risk negatively affect licensing opportunity attractiveness. The results reported in Models 2, 3, and 5 support both hypotheses. The effect of high potential profitability on attractiveness is positive and significant (Models 4 and 5), which supports Hypothesis 3.

The coefficients reported in Table V indicate that the effect of brand distribution risk is stronger than the effect of brand quality risk. Because a separate assessment of both risks does not reveal their joint impact on the attractiveness of a brand licensing opportunity, we deliberately went beyond our hypotheses and tested their interaction. We created a product term (quality risk × distribution risk) and estimated a hierarchical OLS regression with robust standard errors by, first, exclusively calculating the effects of the variables and, second, adding the respective product term to the regression model. The results are also reported in Table V (Models 6 and 7). We plotted the interaction effect in Figure 1; it shows that a brand licensing

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opportunity is perceived as most attractive if both risks are low, and least attractive if both risks are high. Attractiveness decreases if the quality risk is high, but the distribution risk remains low. The trend in decreased attractiveness is the same for low and high distribution risks, but the overall attractiveness of a brand licensing opportunity is lower if the distribution risk is high. This suggests that a licensee's opportunism regarding licensed brand distribution is perceived as more harmful by a licensor than their opportunism regarding quality. From a brand owner's view, the dark side of licensing is driven mainly by the distribution risk.

***Robustness checks***

Although the numbers of completed paper-based (n = 50) and online questionnaires (n = 71) in the final sample differed, respondents in both subgroups had similar backgrounds (i.e., there were no significant differences in function, age, gender, or attitude to risk). To control for potential differences in response behaviours across these subgroups, we calculated the mean value of the dependent variable for each respondent. A Levene test for equality of variances yielded no significant results. Responses did not differ according to questionnaire type ($F = 0.274$, significance level 0.602). We further estimated separate regressions for the different questionnaire versions. The response behaviour was the same in both subgroups. There were no differences between evaluations of the impact of the scenario dimensions on the dependent variable (i.e., the dominant direction of the evaluation was the same).

The final sample consisted of 69 licensors (n = 552 observations), 40 agents (n = 320 observations), nine licensees (n = 72 observations), and three general experts (n = 24 observations). We performed a subgroup analysis to ensure that there were no significant differences between licensors and other types of respondents. First, we compared licensors to all other types of respondents (agents, licensees, and other experts). Results did not differ between subgroups: the dominant direction in which the scenario cues were used was similar. A t-test in line with the procedure suggested by Arnold (1982) for comparing subgroups

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confirmed that there were no significant differences between licensors and other respondents ($\alpha = 0.05$). Second, we performed subgroup analyses for all respondent types. As distinct subgroups for licensees and other experts would have been too small, we merged them into one subgroup (96 observations nested in 12 individuals). The regression coefficients for licensors, agents, and other experts showed no differences in the subgroups' response behaviours. They evaluated the impact of the scenario dimensions on the dependent variable in the same way; in short, the dominant direction in which these cues were used was similar across respondents. Additional t-tests showed no significant differences between licensors and agents or between licensors and other experts ($\alpha = 0.05$).

## Discussion and implications

The examples of Ralph Lauren and Burberry illustrate the importance of choosing licensees carefully. Our findings can help brand owners evaluate licensing opportunities. Quality and distribution risks resulting from a licensee's potential opportunism reduce the attractiveness of licensing opportunities. Licensees that do not comply with the licensor's quality standards, have weak relationships with relevant distributors, or have a low market share pose considerable risks to the licensor's brand. The prospect of additional revenues via royalty rates increases the attractiveness of a licensing opportunity; however, licensors face a trade-off. They can accept the risks and increase their efforts to monitor a licensee's actions after reaching a licensing agreement, but this may reduce profits. Therefore, any meaningful attempt to explain a licensor's decision for or against a brand licensing opportunity must juxtapose potential risks and gains.

### *Theoretical implications*

Our study has implications for future research. First, we extend the prevailing perspectives in branding research (Swaminathan *et al.,* 2020). We found that there is a need to govern licensing relationships as a special form of marketing alliance from the outset of the licensor-licensee

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relationship. Based on this finding, we learnt that looking at the licensor's dilemma through a TCE lens improves the theoretical understanding of brand licensing because it enabled us to develop a governance approach. The need to govern marketing alliances resulting from a brand owner's trade-off between the prospect of additional revenues and the need to protect the brand has not been adequately explored so far. Filling this gap and addressing Swaminathan *et al.*'s (2020) call for research on governance to safeguard against brand equity dilution as a result of stakeholders' harmful actions, our study specifies a governance approach supplementing the strategic approach within the firm perspective on branding. This governance approach advances current knowledge on brand licensing by highlighting both its dark and bright sides and the need to balance them in brand owners' strategic decisions. TCE facilitates the conceptualisation of evaluating licensing opportunities as a governance instrument employed during the formation of a licensing relationship. This governance instrument supports brand owners in proactively balancing potential gains and risks. Conceptualising the brand owner's evaluation of licensing opportunities as a governance instrument helps us to think about mechanisms to control and coordinate relationships, among them partner search and selection.

Second, our vignette study shows how a licensee's potential opportunism affects the outcomes of a given governance structure (brand licensing as a type of marketing alliance; cf. Swaminathan *et al.*, 2020) that a brand owner – the licensor – has chosen previously (Hoetker and Mellewigt, 2009; O'Donnell, 2009). It illustrates how a conceptual framework can be translated into a research design indicating the quality and distribution risks that brand managers often attribute to licensing (Stone and Trebbien, 2019). Moreover, despite being a central behavioural assumption in TCE (Williamson, 1985), opportunism has rarely been measured explicitly. Drawing on interviews with experienced brand management executives and integrating their insights into a vignette design, our study illustrates how opportunism can be made visible and explicit in the brand licensing context. The research design thus advances

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our current knowledge of a central behavioural assumption of TCE, which is crucial in diverse inter-organisational relationships. In future scenario-based research, it could be contextualised to decisions about other governance forms, such as a franchisor's choice between franchised or company-owned outlets in plural form-franchise systems or a brand owner's choice between forming a co-branding alliance or going alone in exploiting a brand's value.

***Managerial implications***

Our findings have significant managerial implications. First, since both risks associated with a licensee's behaviour and potential profitability adversely impact a licensing opportunity's attractiveness, as per our Burberry example, managers should monitor them closely. If, for instance, a brand owner underestimates the risks because they are focused on the potential profitability, their decision to enter a brand licensing agreement may jeopardise the brand. Unfortunately, "opportunities that might be revenue rich but detrimental to the brand are too often pursued" (Stone and Trebbien, 2019, p. 215). To support managers in decision-making, we suggest an evaluation template based on our empirical findings (see Figure 2).

--- Insert Figure 2 about here ---

In Figure 2, the horizontal axis depicts the potential risk (low–high), while the vertical axis shows the potential profitability (low–high). The combination of axes leads to four categories. The first category, low risk and low profitability, implies the decision to deprioritise an opportunity or reassess the efforts needed to pursue it. The outcome of the second category, low risk and high profitability, is the recommendation to start a negotiation with the licensee. An opportunity characterised by high risk and low profitability should be rejected. The combination of high risk and high profitability requires careful consideration of safeguarding measures to protect the licensor's brand.

Second, although this study examines licensing opportunities from a licensor's perspective, it also provides insights for licensees and how they present themselves to licensors.

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The two specified risks mean that a licensee's behaviour is vital in turning a licensor–licensee relationship into long-term success. Licensors expect licensees' focused commitment to the brand regarding quality standards and distribution of the licensed product. However, because of a lack of insight (Lind, 2018), they often do not fully understand a licensee's business while evaluating a licensing opportunity. Licensees should openly communicate their objectives, plans, and timelines in their offerings, demonstrating that they are more likely to act as brand co-owners than as mere brand sellers. This includes their willingness to develop and deliver products in line with the licensor's quality requirements and to market the licensed product actively instead of relying solely on the brand and the licensor's initiatives.

***Limitations and future research directions***

This study has limitations that indicate avenues for future research. First, the risks we outlined refer to licensee behaviour. These risks may not capture the full picture, which is a common downside of vignette studies (Aguinis and Bradley, 2014). For instance, the licensor's managers may underestimate the risks associated with a licensee's intention to use the brand for a product category that is not closely related to the licensor's original product (Bass, 2004). This poor fit may lead to adverse consumer reactions and jeopardise brand equity (Colucci *et al.*, 2008). The licensor may also behave opportunistically, as findings from franchising research indicate (Barthélemy, 2008; Hendrikse *et al.*, 2015). Future studies could consider risks perceived by both parties. We encourage research designs that enable a dyadic evaluation of licensing opportunities because a comparison of a licensor's and a licensee's assessments of the same scenario would be illuminating.

Second, to prevent respondent overload, we used a fractional factorial survey design with eight scenarios per questionnaire (Graham and Cable, 2001). A reduction of the number of scenarios per questionnaire was appropriate for the type of respondents chosen. Although we expected a high educational level among the experienced licensing professionals in our

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sample, implying a relatively high information processing capacity (Oll *et al.*, 2018), we were also aware that they would be short of time. With a reduced number of scenarios per questionnaire, we aimed to ensure that the licensing professionals' evaluations were thorough and realistic. We randomised the allocation of the scenarios to mitigate potential problems with balance and orthogonality of the scenario set (Auspurg and Hinz, 2014), but mainly to ensure wide coverage of the scenario universe. Usually, the procedure to choose and allocate scenarios depends on the researchers' objectives. For instance, in future studies, researchers could choose a clustered random design in which a randomly drawn sample of scenarios is assessed by multiple respondents if the researchers aimed for both respondent-specific and vignette-specific analyses. As an alternative, if the design comprised a small number of scenarios, researchers could apply a quota design, including just one specific set of vignettes to be evaluated by the respondents (Oll *et al.*, 2018).

Third, we measured the licensor's risks and gains based on factors identified in interviews with experts and in the literature. In line with previous vignette studies (e.g., Mellewigt *et al.*, 2017), we aimed for a balance of managerial knowledge and established academic measures. Nevertheless, future studies could consider the role of affect in evaluating licensing opportunities. Aspara and Tikkanen (2008) highlight that licensing managers may also consume products manufactured by a licensee offering to produce goods under the licensor's brand. This personal consumption experience may influence the managers' attitudes towards a licensee. If they are given a choice between several licensing opportunities and find it challenging to evaluate the risks and gains associated with each, they may select the opportunity related to the licensee they know from their own consumer experience. To address these affect-based motivations in licensing opportunity evaluations, studies could use real brand licensing cases and ask managers involved therein about their experiences and

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motivations. Specifically, managers could be asked about their attitude towards a licensee and their expectations regarding a partnership (Aspara and Tikkanen, 2011).

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## Endnotes

[1] Swaminathan *et al.* (2020, p. 25) "distinguish three theoretical perspectives (firm, consumer, and society) and two approaches within each perspective. The firm perspective views brands as assets and examines the various functions and roles that brands serve for firms, both strategically and financially. The consumer perspective views brands as signals (economic approach) and mental knowledge cues (psychological approach). The society perspective presents brands in societal and cultural contexts affecting individual consumers both directly and indirectly through social forces, structures, and institutions. The sociology of brands applies to all manner of commercial and non-commercial entities (e.g., ideas, people)." Therein, brand licensing is conceptualised as a form of marketing alliance, which is mainly studied using a strategic approach within the firm perspective.

[2] We acknowledge that TCE helps explain the choice of governance structures: e.g., whether a firm enters a licensing agreement or opts for marketing their brand in-house (Colucci *et al.,* 2008; Jiang and Menguc, 2012). In line with Hoetker and Mellewigt (2009) and O'Donnell (2009), we apply TCE to explain the operational aspects of a previously selected governance structure. The anticipated transaction costs of the governance structure (here, the costs of enforcing the licensing agreement) are an important criterion for choosing the "best" partner for brand licensing.

[3] In designing our study, we relied on recommendations outlined by Aiman-Smith *et al.* (2002), Karren and Barringer (2002), and Aguinis and Bradley (2014). We also considered extant studies applying this method in different fields (e.g., Connelly *et al.*, 2016; Mellewigt *et al.*, 2017; Ohly, 2019; Oll *et al.*, 2018; Schafheitle *et al.*, 2020). They describe the design variously as a policy capturing, quasi-experiment, experimental scenario, factorial survey, or vignette study. The labelling differs across disciplines (see Mellewigt *et al.*, 2017, p. 2357, footnote 5).

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**Table I. The Bright and Dark Sides of Licensing from the Licensor's Perspective**

| | **Study characteristics** | **"Bright" side** | | | **"Dark" side** |
|---|---|---|---|---|---|
| **Content** | **Author (Year)** | **Bass (2004)** | **Jayachandran et al. (2013)** | **Robinson et al. (2015)** | **Colucci et al. (2008)** |
| | *Journal* | *Journal of Brand Management* | *Journal of Marketing* | *Management Science* | *International Journal of Research in Marketing* |
| | *What can the licensor gain?* | Sharpen the brand's positioning, deepen the relationship with consumers, generate significant royalties, and competitive advantage | Royalty rates | Higher shareholder value | Confidence in making the "right" decision to "make or license" brand extensions under specific circumstances |
| | *What drives the licensor's gain?* | Complementary fit with licensee's products | Target market size, minimum payment guarantee | Greater brand fit with licensee products, greater brand breadth | Ability to measure extension performance, lower product category-specific investments |
| | *What is the licensor risking?* | Success of a licensed product being a bad fit for the brand, customers' confusion about the brand's "real" product portfolio | Variation in royalty rate, brand damage | Brand damage | Making a suboptimal "make or license" decision |
| | *What reduces the licensor's risk?* | Licensing into the "accessory" category | Licensing into high-IPRP markets | Firm size | Product category dissimilarity |
| **Methodology** | *Country of data collection* | UK | Mainly USA and Canada | USA | Italy |
| | *Sample size* | n/a | 93 | 171 | 75 |
| | *Data source* | Case studies, personal communication | Licensing contracts, expert interviews | Brand licensing announcements | Direct survey |
| | *Level of analysis* | Brand | Firm | Firm | Brand extension |
| | *Industry* | Mainly FMCG | Diverse | Diverse | Fashion |

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## Table II. Variable and Items Overview

| Items | Sources |
|---|---|
| **Scenario Dimensions** | |
| **Brand Quality Risk**<br>*Low*: Both the licensor and the licensee have the same level of quality standards.<br>*High*: The licensor owns brands with a high standard of quality, while the licensee represents or owns brands with a lower-level standard of quality.<br>**Brand Distribution Risk**<br>*Low*: The licensee has strong relationships with the most relevant distributors and a high market share in the respective product category.<br>*High*: The licensee has weak relationships with the most relevant distributors and a low market share in the respective product category.<br>**Brand Equity at Risk**<br>*Low*: Consumers are hardly aware, hold a weak image of the licensor brand and show a weak preference to buy it.<br>*High*: Consumers are highly aware, hold a strong image of the licensor brand, and show a strong preference to buy it.<br>**Potential Profitability**<br>*Low*: The expected royalty rates are at best at the industry average.<br>*High*: The expected royalty rates are above the industry average. | Aaker (1991), Aulakh *et al.* (2013), Jayachandran *et al.* (2013), Keller (1993), Morgan *et al.* (2009), Robinson *et al.* (2015), and expert interviews |
| **Dependent Variables** | |
| **Licensing Opportunity Attractiveness**<br>*The licensing opportunity is*<br>*…appealing*<br>*…attractive*<br>*…adds value*<br>*1 (strongly disagree), …, 7 (strongly agree)* | Shah and Swaminathan (2008) |
| **Control Variables** | |
| **Professional Licensing Experience**<br>*in years* | Fosfuri (2006) |
| **Risk Attitude**<br>*1 (not at all willing to take risks), …, 6 (very willing to take risks)* | Dohmen *et al.* (2011) |
| **Realistic Scenarios**<br>*1 (not at all realistic), …, 7 (very realistic)* | Atzmüller and Steiner (2010), Karren and Barringer (2002), |
| **Age**<br>*in years* | Dohmen *et al.* (2011) |
| **Function**<br>*Licensor/agent/other experts* | Connelly *et al.* (2016), Mellewigt *et al.* (2017) |
| **Gender**<br>*male/female* | Dohmen *et al.* (2011) |

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## Table III. Correlations

| | Variables | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|---|
| **1** | Attractiveness | 1.000 | | | | | | |
| **2** | Function | 0.041 | 1.000 | | | | | |
| **3** | Licensing Experience | 0.013 | -0.198*** | 1.000 | | | | |
| **4** | Risk Attitude | 0.031 | 0.004 | 0.333*** | 1.000 | | | |
| **5** | Realistic Scenarios | 0.015 | 0.123*** | -0.056* | -0.006 | 1.000 | | |
| **6** | Age | -0.057* | -0.126*** | 0.604*** | 0.239*** | -0.046 | 1.000 | |
| **7** | Gender | -0.065** | -0.199*** | 0.128*** | 0.184*** | 0.274*** | 0.125*** | 1.000 |

*Notes*: N = 968 licensing opportunity scenario evaluations provided by 121 individuals.
Significance levels: * $p < 0.100$; ** $p < 0.050$; *** $p < 0.001$.

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**Table IV. Descriptive Statistics**

| Variables | Mean | SD | Min. | Max. |
|---|---|---|---|---|
| ***Dependent Variable*** | | | | |
| Licensing Opportunity Attractiveness | 3.677 | 1.851 | 1 | 7 |
| ***Control Variables*** | | | | |
| Professional Licensing Experience | 11.190 | 9.169 | 0 | 39 |
| Risk Attitude | 4.980 | 1.268 | 2 | 7 |
| Realistic Scenarios | 4.800 | 1.320 | 1 | 7 |
| Age | 40.2 | 11.580 | 21 | 73 |
| Function | licensor: 57% | agent: 33% | other: 10% | |
| Gender | male: 46% | female: 54% | | |

*Notes*: N = 968 evaluations provided by 121 individuals.

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**Table V. Regression Analyses**

| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 | Model 7 |
|---|---|---|---|---|---|---|---|
| Constant | 3.570*** | 3.011*** | 2.850*** | 4.042*** | 4.040*** | 2.158*** | 3.358*** |
| | (0.177) | (0.170) | (0.152) | (0.153) | (0.201) | (0.167) | (0.163) |
| Function | 0.116 | 0.116 | 0.196 | 0.116 | 0.204 | 0.199 | 0.179 |
| | (0.137) | (0.136) | (0.143) | (0.136) | (0.145) | (0.143) | (0.142) |
| Experience | 0.252* | 0.252* | 0.214 | 0.252** | 0.210 | 0.212 | 0.222 |
| | (0.144) | (0.143) | (0.146) | (0.143) | (0.148) | (0.146) | (0.144) |
| Risk Attitude | 0.157 | 0.157 | 0.131 | 0.157 | 0.129 | 0.130 | 0.137 |
| | (0.127) | (0.127) | (0.138) | (0.127) | (0.140) | (0.139) | (0.135) |
| Realistic Scenarios | 0.136 | 0.136 | 0.128 | 0.136 | 0.128 | 0.128 | 0.130 |
| | (0.137) | (0.136) | (0.142) | (0.136) | (0.144) | (0.142) | (0.140) |
| Age | -0.319** | -0.319** | -0.381** | -0.319** | -0.387** | -0.384** | -0.368** |
| | (0.142) | (0.142) | (0.143) | (0.142) | (0.145) | (0.144) | (0.141) |
| Gender | -0.273** | -0.273** | -0.265** | -0.273** | -0.264** | -0.264** | -0.267** |
| | (0.127) | (0.127) | (0.129) | (0.127) | (0.130) | (0.129) | (0.128) |
| Brand Quality Risk | | -1.256*** | | | -1.259*** | -1.322*** | -1.687*** |
| | | (0.102) | | | (0.103) | (0.115) | (0.139) |
| Brand Distribution Risk | | | -1.471*** | | -1.610*** | -1.529*** | -2.055*** |
| | | | (0.125) | | (0.115) | (0.114) | (0.129) |
| Brand Equity at Risk | | | | | 1.146*** | | 1.127*** |
| | | | | | (0.101) | | (0.101) |
| Potential Profitability | | | | 0.806*** | 0.767*** | | 0.788*** |
| | | . | | (0.081) | (0.796) | | (0.080) |
| Brand Quality Risk X Brand Distribution Risk | | | | | | | 0.899*** |
| | | | | | | | (0.156) |
| F | 2.28** | 25.18*** | 23.527*** | 15.584*** | 62.67*** | 52.509*** | 54.243*** |
| $R^2$ | 0.013 | 0.128 | 0.170 | 0.061 | 0.435 | 0.297 | 0.450 |
| Adj. $R^2$ | 0.007 | 0.122 | 0.164 | 0.054 | 0.429 | 0.292 | 0.446 |

*Notes*: N = 968 licensing opportunity scenario evaluations adjusted to 121 individual-level clusters. Robust standard errors are reported below the coefficients in parentheses. Significance levels: * $p < 0.100$; ** $p < 0.050$; *** $p < 0.001$.

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**Figure 1. Interaction between Quality Risk and Distribution Risk**

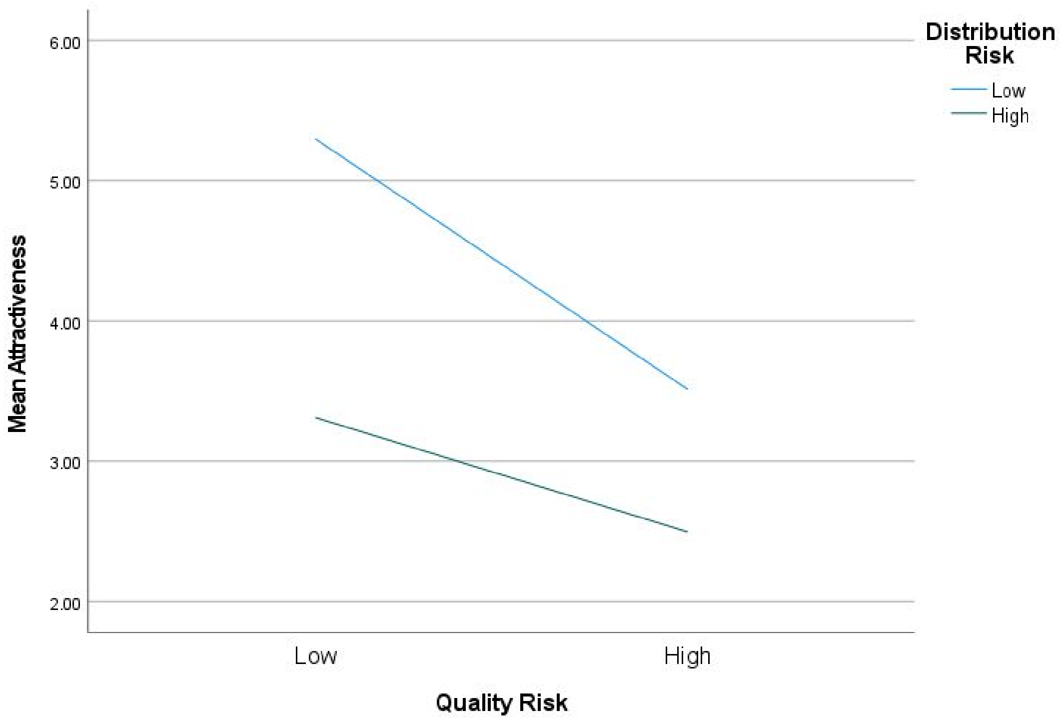


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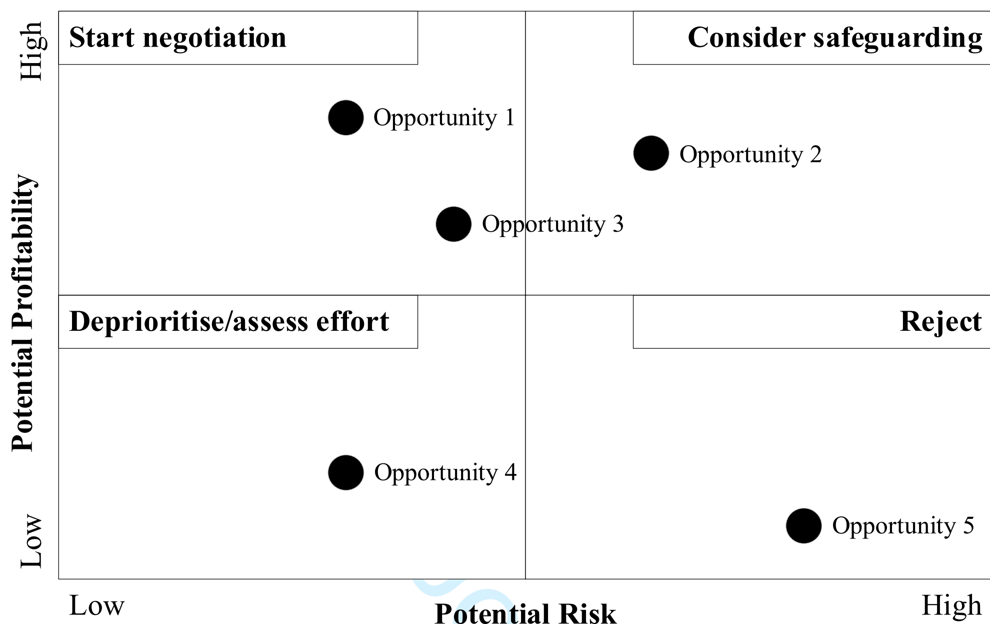
**Figure 2. Brand-Licensing Evaluation Template for Licensors**

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## Appendix. Scenario Example

***Evaluation of Brand Licensing Opportunities***

### A. INTRODUCTION

Please imagine you are the brand manager of a premium quality brand. Recently, you have started thinking about licensing your brand into a different product category to increase brand awareness and generate additional profits. Your colleague has identified **8 different licensing opportunities** and has created brief summaries. Based on these summaries, **you are now asked to evaluate these licensing opportunities** to decide which licensees will make the shortlist for closer auditing and first negotiations.

### B. YOUR EVALUATION OF DIFFERENT BRAND LICENSING OPPORTUNITIES

| **Licensing Opportunity 1** | | |
|---|---|---|
| Quality Positioning Similarity | ↓ | The licensor owns brands with a **high standard of quality**, while the licensee represents or owns brands with a **lower-level standard of quality**. |
| Licensee Distribution Capabilities | ↓ | The licensee has **weak relationships** with the most relevant distributors and a **low market share** in the respective product category. |
| Licensor Brand Equity | ↓ | Consumers are **hardly aware**, hold a **weak image** of the licensor brand, and show a **weak preference** to buy it. |
| Potential Profitability | ↓ | The expected royalty rates are **at best at industry average**. |

**Please indicate to what extent you agree with the following statements.**
(Please rate your level of agreement on a scale from 1 to 7.)

| | Strongly disagree … Strongly agree |
|---|---|
| The licensing opportunity is appealing. | □1—□2—□3—□4—□5—□6—□7 |
| The licensing opportunity is attractive. | □1—□2—□3—□4—□5—□6—□7 |
| The licensing opportunity adds value to the brand. | □1—□2—□3—□4—□5—□6—□7 |

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