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The Practice of Brand Extension through Licensing: The Spalding Challenge

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INTRODUCTION

When Dan Touhey joined the Spalding marketing department in 1997, the brand was riding the popular fashion trend of sports licensed products and apparel, which had driven growth in retail sales in the category to an all-time high (Sporting Goods Manufacturers Association [SGMA], 2006). Spalding and its competitors were racing to sign licensees who would further perpetuate the growth trend and continue to generate incremental revenues for licensors. At the time, the licensing frenzy seemed to be the only way for Dan and his colleagues to pacify the short-term pressure for profit growth applied by Spalding's investors at OakTree Capital Management, who remained the principle bondholders from the leveraged buyout of the former ownership group, Kohlberg, Kravis & Roberts, a year earlier (Lefton, 2003; Pacelle, 1998). However, Dan suspected that the lack of oversight of Spalding's licensing program in regards to the long-term impact on the Spalding brand could carry consequences in the consumer market. As with any trend, the sports product and apparel licensing frenzy would not last forever and less than a decade later, the time of reckoning had arrived in 2003. Spalding's consumer research had begun to reflect a diluted image no longer propped up by the sports licensing fad that had run its course.

Having moved up to take on the role of Spalding's Vice President for Marketing, Dan had another potential ownership dilemma on his hands as Spalding had just been purchased by Russell Corporation. The Russell CEO, Board of Directors, and acquisition team were finalizing their corporate integration plan and needed to assess the direction and potential of the Spalding brand going forward. Undoubtedly, along with that assessment would be an evaluation of the Spalding executives and employees responsible for overseeing the brand and its financial performance. Opening his e-mail that morning, Dan saw he was scheduled for a three-hour meeting in two weeks at Russell's corporate headquarters in Atlanta, Georgia. The topic was listed simply as "Spalding: Brand Extension through Licensing." Dan called Spalding President Scott Coleman to see if he could get a better idea of the expectations of the meeting and Scott replied,

> "I think we're out on a limb on this one. It seems like Russell wants to get an overview from our executive team of each of our core areas without biasing or limiting our presentations by their team's preconceived notions or expectations. I am presenting a session to them that morning on Spalding's corporate strategy. Other than that title, I'm also in the dark as to their plans. My initial reaction is to present an overview of where Spalding has come from, its current situation, and where I'd like to take the company. Surely, they'll also be making some personnel decisions as they finalize their integration plan so you should keep that in mind too as you prepare your discussion of Spalding's brand and licensing activities."

While talking with Scott offered Dan some comfort in knowing that he was not the only one dealing the ambiguity of the meeting, the discussion did not present any further clues as to what Russell's brand and licensing intentions might be for Spalding. Dan knew he had several licensing contracts up for renewal and with the industry trend in licensed sports products reversing into decline, the negative ramifications of carrying so many licensees had emerged as the benefits of royalty revenues deteriorated. In Dan's opinion, the Spalding brand had become diluted by the over-licensing of the past decade, and he hoped that Russell might take a long-term approach to the brand and unlike past owners, allow for the restructuring of Spalding's licensing strategy to strengthen the core values of the brand. However, he also knew that Russell might view Spalding's remaining brand equity as a source of further short-term licensing profits. Regardless, the ambiguity of the meeting in two weeks presented an opportunity for Dan to demonstrate his own value as an executive if he could structure a licensing vision for Spalding that showed the strong potential for a sustainable corporate advantage.

From Dan's perspective, the key question he needed to address was "How do you unlock the historic, authentic sports brand equity in a mid-sized company like Spalding that had extended into numerous worldwide categories?" (D. Touhey, personal communication, November 30, 2006). In order to approach this question, Dan had to start by convincing not only the team at Russell, but also his own small marketing staff, that Spalding's brand was worth protecting and revitalizing. OakTree's short-term focus on immediate profits had taken a toll on the Spalding marketing staff as well as the brand. The pressure caused several employees to move on to other job opportunities, which allowed OakTree to reduce costs by not refilling the positions. This tactic had negatively influenced morale around the office and the two remaining corporate marketing positions that reported to Dan were occupied by relatively inexperienced, yet hard-working recent hires, Thiago and Karen. Before he could begin crafting his vision for the future of Spalding's licensing program, Dan was wise enough to know that Thiago and Karen's input and commitment to the plan were essential to its success. As a result, Dan decided the best way to start this initiative was to convene a marketing staff meeting and reexamine the foundations of the Spalding brand; foundations that might have been lost on Thiago and Karen given the recent revenue demands they had endured in their limited tenure with Spalding.

THE FOUNDATIONS OF SPALDING

Spalding's brand equity was built on a history of over 130 years that included the introduction of the baseball glove and the creation of the world's first basketball. Consequently, few companies could claim to be as instrumental to the development of modern sports ("Sporting and Athletic Goods," 2004). Yet, Dan knew that the licensing strategy forced by short-sighted past investors had diluted Spalding's position as a leading innovator in team sports equipment technology. Instead, it was now associated through its licensees with everything from camping equipment to recreational lawn games. Dan needed to explicate the lasting ramifications of this current licensing tactic and evaluate *both* the revenue and the brand implications. While his target audience in two weeks was the group of Russell executives, Dan's immediate target was Thiago and Karen. He started the staff meeting with a look back at Spalding's history in an effort to recapture the image on which the brand was founded.

The sporting goods company Albert Goodwill (A.G.) Spalding founded in 1876 grew into a multinational corporation but actually turned out to be A.G.'s second most popular start-up venture. As a successful pitcher for the Boston Red Stockings and Chicago White Stockings, Spalding also helped establish the National League in 1876 ("Sporting and Athletic Goods," 2004). In winning 241 of the 301 games he pitched, Spalding used a baseball he had developed himself. Upon retiring, A.G. partnered with his brother to open their first sporting goods store in Chicago. By 1890, the Spalding Company had expanded to 14 stores and begun selling its manufactured products to other dealers, thus fueling further retail expansion ("Sporting and Athletic Goods," 2004).

Despite roots in America's Pastime, Spalding's early product offerings were hardly exclusive to baseball. In 1887, Spalding produced the first American football with foot leather and rawhide lacing (Spalding online, n.d.). Seven years later, basketball's inventor, James

Naismith, commissioned Spalding to create the first basketball ("Sporting and Athletic Goods," 2004). Over the century that followed, Spalding built its reputation as an innovator in sporting goods technology by creating the first synthetic leather basketball, the first composite leather basketball, and the first internal inflation pump basketball (Spalding online, n.d.). Thiago and Karen were already well aware of Spalding's primary focus on basketball, serving as the game ball supplier and official sponsor to the National Basketball Association, Women's National Basketball Association, National Basketball Developmental League, and USA Basketball. In 2003, Spalding was on the verge of renewing its NBA commitment through the 2012-13 season with a $125 million sponsorship and supplier agreement ("Russell extends," 2004). These partnerships, in combination with its history in the sport and a focus on technology, had enabled Spalding to retain a hefty 50 percent of the retail basketball market ("Sporting and Athletic Goods," 2004). In addition to partnerships in basketball, Spalding served as official ball supplier to the NCAA, King of the Beach Volleyball Tournament, Arena Football League, Pop Warner youth football, and the Major Indoor Soccer League (Spalding online, n.d.).

At this point in the meeting, Karen spoke up. "Dan, it seems that throughout Spalding's history, and certainly recently, we have done a good job of maintaining a consistent image of innovation in competitive athletic sports equipment through relationships where we act as the licensee, such as our equipment contracts with the NBA, WNBA and USA Basketball. However, I'm sensing that Spalding's actions as a licensee are not really where your concerns lie."

Dan was encouraged by Karen's observation. "Yes. You are beginning to see why I've chosen to start our discussion of licensing with a history of Spalding. Throughout our history, innovation has remained a consistent theme driving the business model. In an industry such as inflatable balls, where commodity producers exist as significant competitors, we must continue to set ourselves apart through cutting-edge technology and product development." Dan knew that Coleman, Spalding's president, would stress this focus in his presentation to the Russell executives on Spalding's corporate strategy. Scott had even gone so far as to once claim "a third of our products every year should be new" (Lefton, 2004).

Now Thiago took a turn in offering his thoughts: "Dan, we haven't stopped turning out new products. Our introduction of Infusion internal pump technology in 2001 brought Spalding back to the forefront as innovators in the field, so I'm not sure where this history lesson is leading."

Dan sat back and allowed the building tension to linger for a moment before he responded. "Both you and Karen have pointed out our ability at Spalding to continually innovate and deliver high-quality products in our relationships as a licensee. However, Karen used an interesting term to describe our image as a licensee: 'consistent.' The question I'd like to pose in this meeting is 'Are we consistent in our overall licensing strategy when you consider our relationships as a *licensor*?'"

[insert Figure 1]

This inquiry appeared to strike a nerve with both Karen and Thiago, which illustrated just the point Dan wanted to convey. Karen jumped to defend their tactics as a licensor:

> "Well, it's tough to be consistent year-after-year when we're constantly taking on new licensees with new products in new markets! The breadth of licensees and product categories creates an impossible challenge in controlling the brand name. We've positioned Spalding across numerous distribution channels as a high-end brand in certain product categories, such as inflatable balls and other

authentic core-sports equipment, but some licensees have positioned us as a low-end brand in other categories, such as apparel, shoes, and outdoor leisure games. Yet, almost two-thirds of Spalding's $300 million in branded sales are being generated by licensees spread across the globe, and these licensees have enabled our brand to penetrate diverse geographic markets in a variety of retail environments" (Lefton, 2004; "The constant at Spalding," 2002).

Dan attempted to sum up Karen's thoughts:

"Karen, you're saying that we may be inconsistent with our licensing operations, but the implementation has allowed the Spalding brand to expand geographically while increasing revenues. I don't disagree with that assessment, but I believe Russell's purchase of Spalding provides us with an opportunity to reevaluate our licensing priorities and focus on what is in the best interest of the long-term viability of the Spalding brand. Right now, we're immersed in product categories ranging from fitness equipment, footwear, and sporting goods to European fine leather goods. According to the latest figures from the Sporting Goods Manufacturers' Association, retail revenues for the licensing industry as a whole are consistently flat and the sports category has yet to regain the heights of the 1990's" (see Figure 2).

Sports licensed product retail sales had fallen by almost a quarter from a high of $13.8 billion in 1996 to just $10.5 billion in 2001. "We need to consider the possibility that the days of simply adding more licensees to further boost revenue may be over, and I don't think that is necessarily detrimental to Spalding's future," concluded Dan.

[insert Figure 2]

"Dan, I'm glad to hear you say that we need to consider breaking our habit of indiscriminately compiling licensees, but aren't there revenue implications to that decision that may not thrill Russell executives?" asked Thiago.

"Yes," replied Dan.

"In less than two weeks, I'm traveling to Atlanta to lead a presentation on our brand and licensing program for Russell's CEO, Board of Directors, and other executives. That obviously doesn't give us any time to waste. How about if we reconvene in two days? In the meantime, Thiago, can you outline a distribution strategy that you feel will best suit Spalding going forward? Karen, can you please take a look at some of the consumer research from our market research agency and get a sense of where the Spalding brand stands in comparison to our competitive environment and how we might prefer to be perceived? I will do a little more homework on Russell and the contract status of our current licensees. How does that sound?"

Karen and Thiago both expressed their agreement as they contemplated the work ahead of them. Change can be daunting, but they both seemed to share Dan's enthusiasm for the opportunity presented by Spalding's new ownership.

SPALDING'S CURRENT SITUATION

Forty-eight hours later, the three members of Spalding's marketing team came back together to revisit their licensing situation with more information at their fingertips. Dan quickly outlined his expectations for their meeting.

> "What I'd like to accomplish before we leave today is the development of a rough framework for the future direction of Spalding's licensing program that includes the following elements:
>
> - An overview of how the Spalding brand is currently perceived;
> - A review of our competitive situation and the potential impact of Russell's ownership;
> - A vision of how we would like to position the Spalding brand in the future;
> - A guideline for categorizing our licensees up for contract renewal.
>
> Karen, can you get us started with the information you were able to uncover about consumers' perceptions of our brand?"

"Sure," responded Karen. "Let me begin by listing the four relevant themes I noticed in the consumer research I reviewed:

1. Well-known, but dated sporting goods company;
2. Strongest equity in basketball;
3. Inconsistencies between core products and licensed products; and…
4. Fractured image that confuses consumers and frustrates partners and licensees" (Spalding, n.d.).

"Over the last couple days, I've been able to work with our market research agency to develop a couple of helpful representations of Spalding's brand equity based on our consumer perception data." She passed Thiago and Dan a handout that included two figures (Figures 3 & 4).

> "The first diagram shown in this handout comes from focus groups the agency conducted for us last year. The focus groups were composed of sports participants, either at a varsity or competitive level. My impression is that our brand is well established as an equipment provider with a primary affiliation to basketball and secondary affiliations to baseball, tennis, and golf. Overall, much of our brand equity seems to be functional in nature, or in other words, tied to specific products."
>
> Karen continued.
>
> "The second figure in the handout is based on our wholesale inflatable ball sales and places a value on the different dimensions of our brand equity based on the correlations of the individual dimensions with the overall brand consumer ratings. This representation emphasizes the importance of quality, reliability, and trust to the brand equity we've built in our inflatable ball offerings, which is our strongest category. However, you should also note that the Spalding brand is perceived as being somewhat behind the times, which detracts from our brand equity. This could be the result of a lack of focus in our branded product offerings and a signal of the detriments caused by the broad licensing strategy we've followed recently. I think we can all admit that it has been difficult to control the product quality of our licensees as their number and geographic diversity grew rapidly."

[insert Figures 3 & 4]

"Karen, this is great data," commented Dan, "but do we have an idea of how this compares to our competitors?"

"As a matter of fact, we do have some information speaking directly to that point," replied Karen as she passed another handout to Dan and Thiago (see Figure 5).

> "This table compares our brand image to seven of our competitors on various dimensions. The statistics show the percentage of respondents that rated each dimension as a five on a five-point point scale for each of the brands listed. From this data, Nike and Adidas stand out as the brand image leaders in our industry. The middle tier is composed of Reebok, Wilson, and Spalding; and the lower rated brands within the sample are Franklin and Huffy. The results show that Spalding indexes between 80 and 120 on every dimension except 'products that look good' and 'brand I think is cool,' where we score below an 80 index" (an index of 100 would be equal to the average of the eight brands on a given dimension; while an 80 index is approximately 20 percent lower than the average rating for the sampled brands).

[insert Figure 5]

Although the numbers were not what Dan would like to see as a reflection of Spalding's standing with consumers, he knew this was valuable information as they sought to reevaluate their licensing strategy. "Karen, you have done a great job of getting us started with the first two points we need to cover in this meeting. Let me take it from here and share what I have uncovered about the potential impact of Russell's ownership. Then we'll move on to composing a vision for the Spalding brand going forward that encompasses suggested licensing guidelines."

> "As you both know, Russell's purchase of Spalding for $65 million only includes the sporting goods equipment division, as Callaway purchased the golf business (Herek, 2003). Our purchase by Russell was preceded by their acquisition of Bike Athletic Company for $16.3 million (Harrison, 2003), and Russell has also recently purchased the Huffy Sports brand, a retail backboard manufacturer, for $30 million (Sullivan, 2005). All of these moves have served to position Russell as a major player in the hard goods product category for the first time and better positioned all the brands for sales in the big-box chain retail environment (Herek, 2003)."

Dan continued.

> "While you two have grown up with the big-box retailers such as Dick's Sporting Goods and Sports Authority, they have not always been so dominant. Their rapid growth coupled with the increasing commitment to sporting goods and apparel made by discount super stores such as Wal-Mart and Target has led to a considerable amount of consolidation in the sporting goods and apparel industry."

According to the Sporting Goods Business magazine, Wal-Mart represented as much as 21% of Russell's total retail sales of $1.085 billion in 2003 ("Adding it up," 2004). Driven by the big-box retailers' desire to deal with fewer suppliers and stock more value-priced products, the trend of consolidation within the sporting goods industry had not been unique to Russell and Spalding (see Table 1). Competitors such as Reebok (who acquired The Hockey Co.), Nike (who purchased Converse), and K2 (who bought Rawlings Sporting Goods and V2 Optics sunglasses) had all positioned themselves to negotiate and push product sales through major retail outlets (Harrison, 2003). Dan concluded, "As we rebuild our licensing strategy, we have to consider these changes to the industry and their effects on brand equity and positioning in the marketplace. Where a product or brand is sold sends a signal to the consumer about what to expect from the brand. Thiago, what are your thoughts regarding the retail distribution of our brand?"

[insert Table 1]

> "As you pointed out to Karen and me a couple days ago, A.G. Spalding and his brother started the Spalding brand with specialty sporting goods stores in the late-1800's. However, over time, Spalding has migrated heavily into the mass merchandising distribution channel primarily via our licensees, leaving us in a situation now where over 80 percent of our licensed product sales are via the mass merchandising/discount channel. Although this migration has helped us to increase revenues annually, I believe it has been detrimental to our brand image in certain product categories, which thereby influences our overall brand equity. For example, consumers might not degrade a brand offering inflatable balls via a mass merchandiser such as Target, but when the same brand retails footwear in Target stores, I think the consumer applies a different, cheap stigma to the brand."

"I wouldn't disagree with you on that point, Thiago," Dan commented. "I think that phenomenon is what we were seeing in some of Karen's consumer data. But how do we use that knowledge to reign in our licensees?"

> "My suggestion," continued Thiago, "is to use the distribution channel in combination with the saliency of product category to our brand vision to create an evaluation scheme for our licensees. In other words, we need to figure out what the Spalding brand stands for and who are our core customers. That will help us determine what distribution channel/product category combination is most appropriate. Sporting goods retailers tend to appeal to a customer target that is more serious about their performance and competition within a sport. On the other hand, discount super stores appeal to a more price conscious, casual user."

Dan thanked Thiago and Karen for their work over the last few days. He knew that before they could forge ahead with an examination and suggested reorganization of Spalding's licensees, they had to establish a brand strategy decision model that would guide their reevaluation of Spalding's licensing business. To accomplish this, Dan, Karen, and Thiago combed through the data and engaged in a spirited discussion, eventually agreeing on the Spalding brand's strongest assets, future vision, and a positioning statement.

- <u>Strongest Brand Assets</u>:
    - Heritage
    - Authenticity
    - Performance
- <u>New Brand Vision</u>:
  Spalding is committed to being the highest quality brand of authentic sporting goods equipment in the world. Our reputation will be built on the courts and the fields of play, and serious athletes will trust Spalding when they want the very best.
- <u>New Brand Positioning</u>:
  Spalding is the brand that provides athletes with the highest quality balls and equipment designed specifically for high-level performance. At Spalding, it's not

> about the glitz and hype, it's about respecting the game and providing products that make superior performance possible (Spalding, n.d.).

Following this initial step, they constructed three licensing categories to organize Spalding's current and future licensees: 1) core-product, 2) non-core product logical extensions and 3) non-core products through weak extensions. The core product category included Spalding's foundation of hard goods such as balls, backboards and other core sports equipment goods integral to the actual game. The non-core products with logical extensions category was intended to include apparel or footwear specifically designed for competition in a certain sport or training equipment specific to a particular sport. Non-core weaker extensions were those products that were casually linked to sports but might otherwise be seen as fashionable or recreational as opposed to competitive. The chosen distribution channel often further clarified the distinction between non-core logical extension products and weaker extension products. Non-core logical products were usually distributed through sporting goods retailers that appealed to a competitive sports participant; while non-core weaker product extensions were typically sold via a mass-merchandising channel that targeted consumers more concerned with price.

Licensing: The Brand Extension vs. Revenue Dilemma

With the identification of Spalding's brand values to serve as the platform going forward and a licensee categorization scheme defined, it was finally time to apply the framework to evaluate each licensee's contribution to the Spalding brand image in combination with their licensing revenue. Dan and his team were faced with the dilemma of how to remove their brand from situations not congruent with their stated values while still considering the impact on profits and developing a strategy to maintain and grow profits in the long-term. Several contracts with licensees were up for renewal and each presented a unique situation in terms of revenue generation, market penetration, brand image and association, product extension, and distribution channel. Spalding needed to capitalize on the opportunity presented by these licensee decisions in order to set the future direction for its licensing strategy, and Dan saw this opportunity as a chance to demonstrate to the Russell executives his commitment to the licensing vision.

With 16 contracts up for renewal, Dan believed that absorbing a potential short-term decrease in licensing revenue in order to realign Spalding's licensing strategy with its renewed brand focus was a risk worth taking. However, he would surely be held accountable for his recommendations to the Russell executives and needed to provide proper justification for his decisions and any significant loss of licensing revenue. As he pondered the task of composing his presentation to the Russell executives, he glanced through the list of licensee contracts up for renewal compiled by Thiago that included each licensee's product category and distribution channel for Spalding-branded items, as well as Spalding's 2001 licensing revenue resulting from each contract. Dan recognized that the future of the Spalding brand rested in his hands, and he felt that adapting his presentation to incorporate the application of their newly developed brand strategy to their licensee renewal decisions was a relevant demonstration of his team's ability to integrate the vision into their marketing operations. Now he just needed to get all his thoughts and supporting evidence down on paper in a presentation format that would impress his company's new ownership executives.

[insert Table 2]

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Figure 1. Spalding's dual role in sports licensing

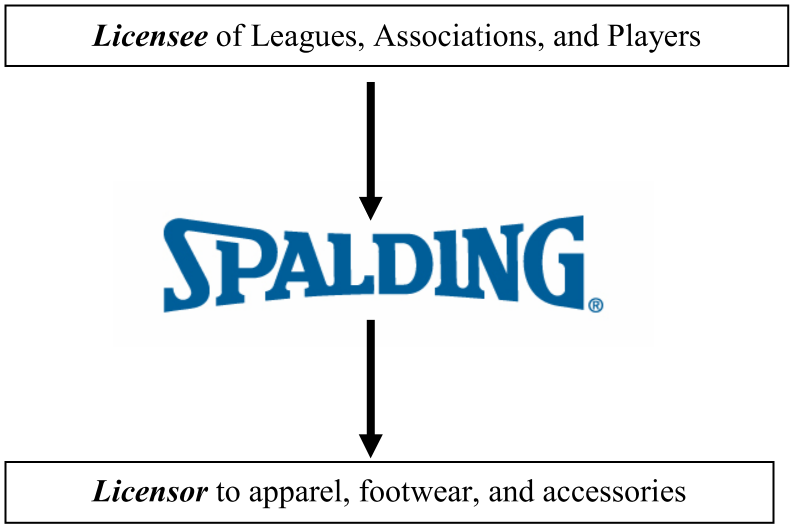
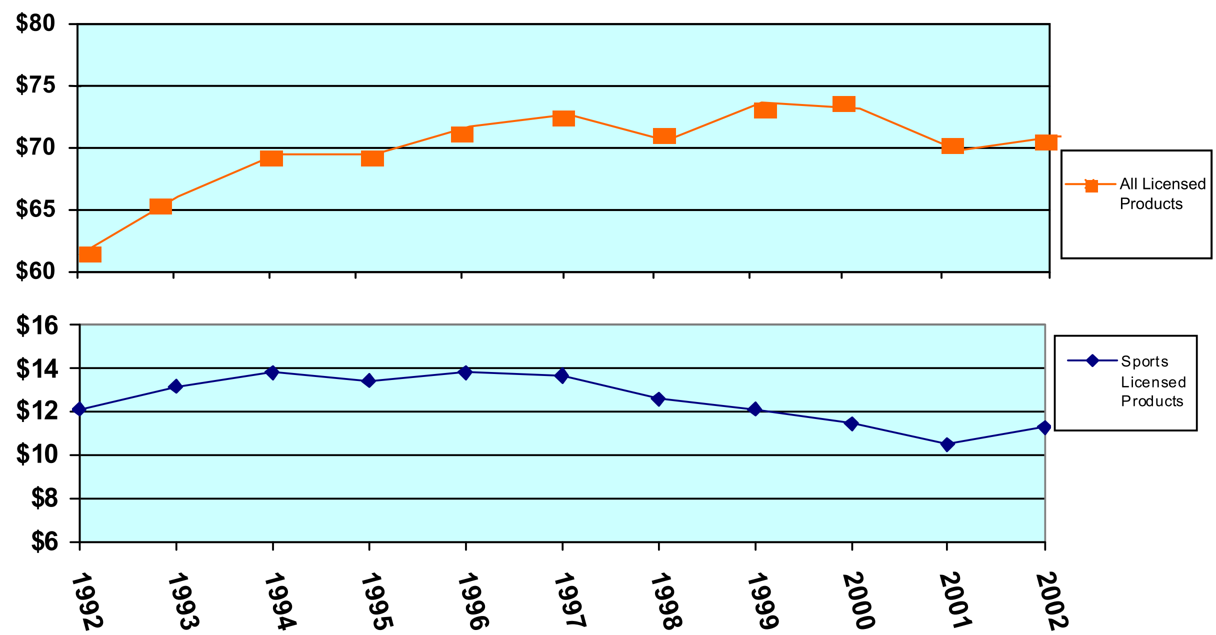


Figure 2: Licensed Product Retail Sales, U.S. & Canada
(in billions of US dollars)



Source: The Licensing Letter (as cited in SGMA, 2006)

Figure 3. Consumer perceptions of Spalding's brand equity.

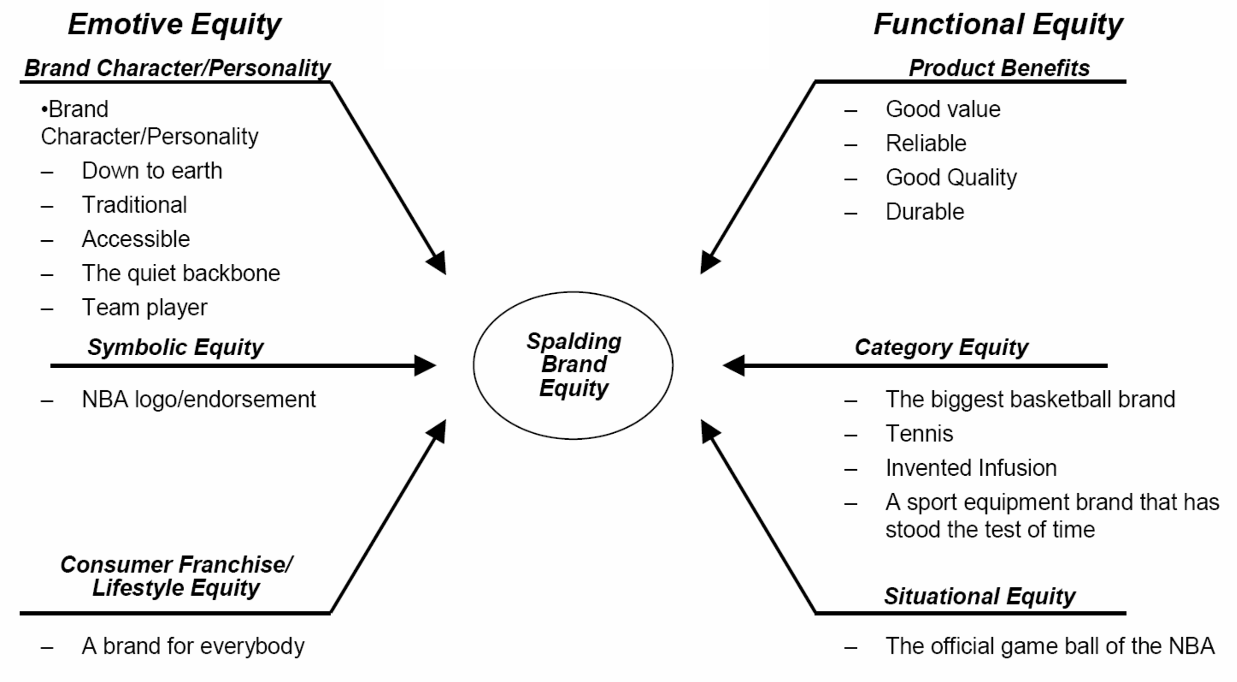


Figure 4. Composite valuation of Spalding's consumer brand equity.

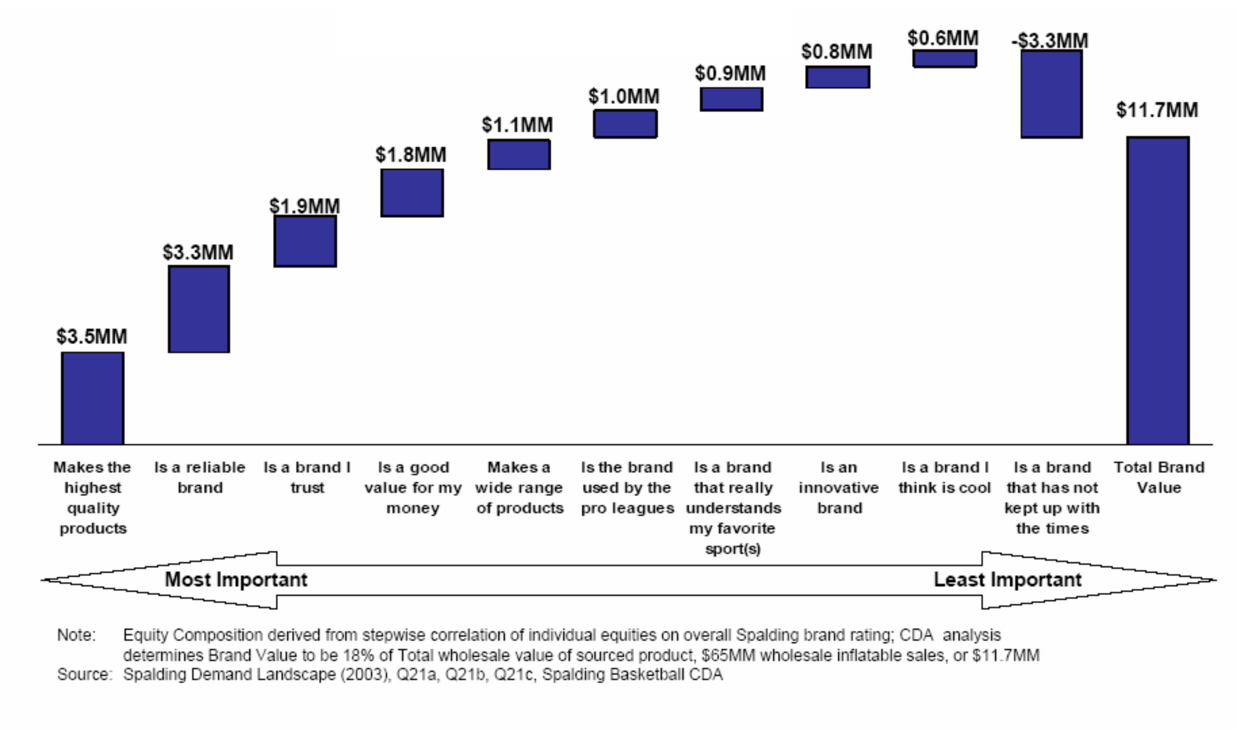


Figure 5. Competitive Brand Image Ratings (percent choosing top rating).

	8-Brand Average	Spalding	Wilson	Nike	Rawlings	Reebok	Adidas	Franklin	Huffy
Is the brand used by the pro leagues	25%	21%	24%	57%	20%	27%	28%	13%	6%
Makes a wide range of products	23	22	26	51	14	26	29	13	7
Is a brand I trust	21	22	26	40	16	20	26	12	8
Makes products that look good	20	16	18	47	13	24	27	9	8
Is always working to make their products better	19	17	19	44	11	19	24	10	7
Makes the highest quality products	18	18	21	36	14	18	22	10	8
Is an innovative brand	17	14	16	43	11	19	22	8	6
Is a good value for the money	17	19	22	22	14	15	18	14	8
Is a brand that really understands my favorite sport(s)	16	17	19	32	14	15	19	10	5
Is a brand I think is cool	16	13	14	38	10	18	23	8	6
Will help improve my performance	12	12	14	24	10	11	15	7	4

Note: Rating on a scale of 1 to 5 where 5 = "Describes brand extremely well"
Note: [box] = 120 index or higher, [oval] = 80 index or lower
Source: Spalding Demand Landscape (2003), Q. 21a

Table 1.
Branded Sports Apparel Leaders with Retail Sales in excess of $500 million

Parent Company	Other Major Sports Apparel Brands
Nike	Converse, Bauer, Starter
Sara Lee Corp.	Champion, JogBra
Russell Corp.	**Spalding**, Jerzees, Bike, Huffy Sports, AAI, Brooks
VF Corp.	North Face
Adidas/Reebok International	The Hockey Co.
Columbia Sportswear	

Source: Sporting Goods Business (“Adding it up,” 2004)

Table 2. Spalding 2001 Licensing Synopsis

Licensee*	Product Category	Distribution Channel	2001 Revenue
ActionReady Corp.	Sunglasses, Watches	Mass Merchandise	$50,000
After Hours, Inc.	Sleepwear, Underwear	Mass Merchandise	$100,000
Beyond	Men’s Apparel	Mass Merchandise	$500,000
Capers	Baseball Equipment	Sporting Goods	$25,000
Clark, Inc.	Men’s Apparel	Sporting Goods	$250,000
Drive Corp.	Football	Sporting Goods	$75,000
Net, Inc.	Backboards	Sporting Goods and Mass Merchandise	$200,000
Nexus	Socks	Mass Merchandise	$25,000
Prep Trainer	Footwear	Mass Merch/Payless	$1,000,000
Rapid	Backpacks	Sporting Goods and Mass Merchandise	$50,000
Rapid	Women’s Apparel	Mass Merchandise	$350,000
Rapid	Children’s Apparel	Mass Merchandise	$100,000
Scribble Corp.	Stationary	Mass Merchandise	$50,000
Toss Sports	Baseball Equipment	Mass Merchandise	$100,000
Toss Games	Lawn Games	Mass Merchandise	$250,000
Zone, Inc.	Sports Drinks	Mass Merchandise	$25,000
		2001 Total Licensing Income	**$3,150,000**

* Note: Licensee names have been changed to protect contractual obligations.

Source: Spalding, 2006