Licensing in India

Distribution First, Brand Second

By Sid Shah, president, The Wild East Group

India is as interesting as it is complex in both culture and in business. Because India has traditionally been a trading and export hub, the domestic retail market gave rise to a very complex, multi-layered distribution system that varies from state to state.

Licensing in its various forms has been a growing practice for about 10 years, with character licensing having the strongest foothold. Companies such as Viacom, Disney, and Mattel have invested heavily in building their distribution and retail network and are starting to see the returns on that investment. On the other hand, licensing for lifestyle, corporate, and celebrity brands is very new and beginning to gain momentum in India.

Most organized retailers or department stores that are pan-India are glorified real estate agents, and rent space takes a percentage of margin and rarely holds inventory. Ninety percent of the market is still in the unorganized space, which is largely governed by the distribution model and multi-brand outlets (MBOs), which also present the largest opportunity.

The biggest challenge in India is compliance and payments, as it is almost guaranteed that the brand will only receive the minimum negotiated guarantee. The biggest challenge for brands from a compliance perspective is what happens after the product leaves the licensee and goes into the magical black box of distribution. Cash payments, multi-layered margins, and sales or returns are just part of the compliance nightmare. Once companies get deep in the weeds in the distribution layer, they can really understand how the process works and where the real opportunity is.

Simultaneously, the most ardent argument a licensor will hear in India is, "Why should I invest in your brand when I can just create my own?" The argument that brand awareness can increase shelf space and consumer demand is often dismissed in favor of higher margins. Additionally, the value of a brand is still something people don't completely rally around.

At the end of the day in this growing brand-conscious market, consumers are looking for brands that they have heard of and trust; however, it is the distributors and unorganized retailers that favor margins and push products where they can maximize their revenue, which leaves a gap.

Considering those challenges, how does one still give the consumer what they want, and work with the multi-layer distribution system? One model is to convince brand owners to forego the licensing model and go straight into the distribution model via their licensing agency. Manufacture the product, sell to distributors with healthy margins, and push the product with little (or no) marketing. This is a new model we recommend to some of our clients, typically for commodity products such as innerwear, grooming, and hygiene products that might follow their category leaders, such as apparel. It is all about getting the product into the market for categories that can succeed off of margins alone. With 1.2 billion people, the potential in India is huge, but brands have to look at the big picture and be flexible on different models in order to crack this market. ••••

Sid Shah is president of The Wild East Group, a business development and brand extension agency focused on celebrity, lifestyle, and corporate brands in India. Its clients include Hrithik Roshan, Playboy, Times of India, Miss India, Paul Frank, Yash Raj Films, and the Kolkata Knight Riders.