

Reaching for the Olympic rings

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Aaron Lynett/National Post Will Andrew, president of Elevate Sport

Most Canadian businesses can be excused for thinking the Vancouver Olympics is as close as it gets to a sure thing.

After all, who could resist getting even a small slice of a once-in-a-lifetime opportunity to reach out -- and shill -- to the globe, all from your own backyard? If nothing else, getting those Olympic rings on your product has to open a lot of new markets. All you have to do is bid for a licence and, if you win, it might as well be a licence to print money.

Dennis Kim, director of licensing and merchandising with the Vancouver Organizing Committee, expects to rake in more than \$500-million in gross retail sales through the end of the Olympics. "We're on the verge of being the largest [licensing group] next to Salt Lake City," he said.

But with the bigger stage comes bigger risks.

"The larger retailers don't want to set up all these little vendor contracts," said Will Andrew, founder of sports apparel company Elevate Sport Inc., one of 42 licensees. "Some of the guys with niche products are struggling."

Mr. Andrew, who works for Markham, Ont.-based Trimark Sportswear Group, initially started Elevate in 2006 as a side project with an eye to the Olympics. Trimark found out around the same time Mr. Andrew won the licence and bought the company to keep Mr. Andrew in the fold. Since then, Elevate has benefited from a \$5-million boost from Trimark, which has helped it become profitable.

However, other licensees may have no such financial backing and need to find other ways to entice retailers to work with them. This can include scaling up to unwieldy volumes, which can be disastrous.

"They're so optimistic they come up with numbers that are too high. They're not getting volume they need across the country and they've invested too much," Mr. Andrew said. "To get critical mass is really hard for the smaller guys. VANOC cut the categories too fine."

Mr. Kim said he always expected between 35 to 40 licensees, and is happy with how they have performed so far. "If we have a specific licence, it's for a specific product, say plush or video games," he said. If a company has a specialty, it makes sense to have them focus on that.

Brad Cherniak, co-founder and partner at Toronto-based Sapien Capital Partners, warns the giant carrot that is the Olympic Games can convince levelheaded business owners to throw their business plans out the window and shoot for the stars.

"It pulls a lot of companies out of what they do normally, forces businesses to do things outside their normal supply chain," he said. "At best it's a really big order you need to fight like hell to meet or at worst it's a painful exercise where you get pushed around and stomped on. These things can kill you."

Another major factor is the Hudson's Bay Company, the official department store and retailer of the Games. While many of the licensees in VANOC's pool have the option of selling to any retailer, HBC's reach leaves smaller businesses with little

choice but to deal with the behemoth. "It's such a hit or miss proposition. I've got companies ... that live every day on the edge that one company can squash [them]," Mr. Cherniak said.

And considering the size of HBC's business and the scope of the Olympics, one wrong move can wipe a business out.

"A business might think, 'Wow, I've got a million-dollar order on terrible terms, this might put me out of business,'" Mr. Andrew said. "And HBC is thinking, 'Do I really want to negotiate with these guys for a month for a \$100,000 order?'"

This is not necessarily the fault of the larger business, and it does not make them evil either, Mr. Cherniak said, emphasizing that small businesses have to accept the cutthroat nature of big business.

"I've seen many times the letter of an agreement is ignored, and the big company relies on the small company not wanting to take them to the wall," he said. "So often you're at their mercy and that won't ever change."

To further complicate things, HBC has the right to manufacture and sell similar items to those produced by other licensees in some categories. This worries Mr. Andrew, who said Elevate has outsold HBC three to one. "Say we make a nice fleece top, HBC could knock it off and sell it in their shops," he said. "We've got T-shirts selling for \$25, you could go to The Bay and buy one for \$5."

Mark Kinnin, vice-president of Olympics and global sourcing for HBC, said the possibility of this happening is "extremely hypothetical" and that it would not make sense for the retailer to try to do everything on its own. "We know what we're doing and what they're doing, and we try to steer them in a direction that will complement," he said. "I don't really see it as competition per se. You want the best selection, and identical products won't do it."

VANOC's Mr. Kim noted HBC wanted to work with smaller businesses from the beginning. "They could've locked up a lot of those rights, but there was room for participation. They fundamentally want to work with them," he said.

For his part, Mr. Andrew is hopeful about working with HBC, saying the company is their largest customer and it is in his best interests for them to succeed. "They need us, we need them. We have to work together," he said.

Patriotic overtones aside, taking the Olympic leap is just as risky as any other major deal, and a business must ignore the glitz and consider things pragmatically, Mr. Cherniak said.

"It's kind of like spending your entire advertising budget on an ad in the Super Bowl," he said. "It's exciting but it comes and goes in 30 seconds, like the Olympics comes and goes. Then what are you left with?"