

SPECIAL REPORT



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by AMANDA CIOLETTI

FUNKO IS NOT your average toy company.

In fact, it doesn't necessarily consider itself a toy company at all, but rather a business that trades in pop culture, offering goods to fans who, for all intents and purposes, demand product that keeps the pace of social media. Funko brings licensed collectibles, novelties, apparel, accessories and now gaming (both analog and digital) to market at the speed of fandom, banking on the fact that "every-one is a fan of something."

Speed is Funko's greatest asset, making the company one of the world's largest and most prolific licensees. And with more than 1,100 licenses in its portfolio from best-in-class licensors like Disney, Warner Bros., Netflix and Microsoft (and many niche licensors as well), this in and of itself is a huge achievement.

Funko first came to be in 1998 when founder

Mike Becker saw a white space in the collectible community and launched a bobblehead and novelty company out of his garage in Snohomish, Washington. His first item? A licensed Bob's Big Boy mascot bobblehead, a popular Southern California quick-service restaurant, whose oldest remaining location in Burbank (just around the corner from the Warner Bros. lot) was declared a historical landmark in 1993. The item, and Becker's penchant for nostalgic novelties, set the tone for the organization that Funko would become.

In 2005, Becker sold Funko to current chief executive officer Brian Mariotti, who then took the foundation of the company and leveled it up, bringing in new product ranges and increasing its breadth of licenses hand-over-fist, ultimately taking the company public in November 2017. Becker recently rejoined Funko as vice president, apparel.

Aptly described as "fast fashion of pop culture" by Mariotti, the company deals primarily in bringing beloved licensed properties—from entertainment, sports and music to familiar, nostalgic corporate brands and mascots—to market largely via its Pop! vinyl figurines range, a now core



BRIAN MARIOTTI
chief executive officer, Funko



MOLLY HARTNEY
chief marketing officer, Funko



ANDREW PERLMUTTER
president, Funko



DOLLY AHLUWALIA
vice president, licensing, Funko



product offering and the company's No. 1 seller. (Mariotti introduced Pop! figures to Funko after he took the reins. Pop! moved 140 million units in 2018 alone, he says.)

It's a business model that is working for the company.

"We truly believe that our business model is running unopposed," says Mariotti.

"We do not have

competition. When you look at what the bigger companies are doing—everyone from Spin Master to Hasbro and Mattel—all are great companies, but they all have very small licensing portfolios. They are all also very toyetic and aimed at younger people, [with products that] require longer lead times. We're not that. We are fast fashion."

This fast fashion mindset is the crux of Funko's success and at the heart of all that it does—it delivers goods that are of-the-moment, capitalizing on the most current fads and trends in pop culture that deliver surprise and delight to a very diverse range of retail doors. Enter any store and you can find a truly massive array of Funko product, from Pop! figures that sport Freddie Mercury or Notorious B.I.G. iterations to *The Little Mermaid*-branded apparel or *Star Wars* on-model figurines. The foundation of Funko and its product is built upon property diversity, and it's a proposition the company approaches thoughtfully yet without taking itself too seriously. And it's this approach that keeps the company's bottom line padded.

"The mix is what works. We're not only a studio licensed product company, and we don't need to rely on any one studio to hit a manufacturing guarantee because of how much product we do and because of our fans," says Dolly Ahluwalia, vice president, licensing, Funko. "Our fans are clamoring for kitschy stuff that's interesting. Also, everything we do is in one sense limited-edition. We retire our Pop!, which drives our collectability."

"For every product we make, we're tracking sell-through and we're making really wise business decisions to say, 'We've made enough of this, let's go make something new.' That's the idea behind developing 4,000 unique SKUs per year—there is always something to replace what is out there," says Mariotti.

This healthy business is reflected in the numbers. Funko

reported its 2018 Q4 earnings in February, which indicated stellar growth—up 38 percent in net sales. Last year, the company increased its net sales by 33 percent to \$686.1 million, with a gross profit rise of 30 percent to \$258 million. (Adjusted EBITDA increased 29 percent to \$116.2 million.)

Wall Street has its own ideas about what Funko is, and that doesn't always jive with the company's internal identity.

"I think there is a common misconception about Funko and our audience, and it's something that we're continually trying to educate the broader public about," says Andrew Perlmutter, president, Funko, who rose through the ranks internally, beginning his career on the sales side. "Wall Street looks at us as a toy company, but we sell 'Golden Girls' figures, which not a lot of kids are playing with. As a matter of fact, not a lot of people play with Pop! figures at all, yet it is our No. 1 brand. We deliver not only classic tentpoles like *Avengers* and *Star Wars* but also more nostalgic properties like cereal icons. These are properties that could not be less toyetic."

The Pop! form, which Mariotti argues is a platform unto itself not unlike evergreen brands such as LEGO, is well-established and interprets literally thousands of properties through its cute yet decidedly not on-model lens, but also allows the company to move quickly. In fact, Funko can turn around a Pop! IP interpretation in as little as 70 days, from design development to shelf. It takes the company as few as





24 hours to develop an initial design, thanks in part to its stable of nearly 150 in-house artists.

“Our creative team works at a pace and with a passion that you probably won’t find at any other company in our industry,” says Perlmutter. “We have a very flexible product development approach that allows us to keep space open because we know that there will be events that we’ll want to take advantage of every single month.”

“We have forms and design styles that lend themselves to speed,” says Mariotti. “It is important that if something is having a moment, we chase it very fast to get it into the marketplace. The retailers then trust us on a week-to-week basis to keep the content fresh.”

Funko’s speed is why it’s able to capture retail dollars around key pop culture events, such as character reveals in episodic TV (like it did last year

for HBO with the much chattered about “Game of Thrones” Night King and Icy Viserion reveal).

“The day after the ice dragon debuted on ‘Game of Thrones’—and HBO did not give us any assets in advance—our team was sculpting and working on a Pop! that we got up for pre-sale in 72 hours,” says Ahluwalia. “It’s those kinds of things that set Funko apart, and it comes from our leadership, down. When something hits and becomes a pop culture phenomenon, our people are on it. This is what we live, eat and breathe.”

The current appetite for Epic Games’ “Fortnite” is something that Funko too got behind, coming to market first with branded product; Funko was an early adopter of Netflix’s surprise “Stranger Things” hit; and for Marvel’s *Guardians of the Galaxy* franchise, Funko was one of the earliest to offer fan favorite character baby Groot on shelf.

With that said, you may think that the big studio, current fads in pop culture are the company’s bread and butter when it comes to market performance, and that’s simply not the case. In fact, one of the biggest moments for Funko in modern sales history centers on ‘80s era television icon, artist Bob Ross, whose “happy little trees” soothed generations of fans on basic cable.

“Everyone fell in love with Bob Ross, and when we finally

made it [for public sale], all of the hunches the team had about the popularity it could have took off like gang busters,” says Perlmutter, whose fandom for “Golden Girls” is another “hunch” that is paying off at market.

The diverse array of licenses is what Funko attributes in part to its demographic breakdown—51 percent female versus 49 percent male, with a core buyer that averages 35-years-old.

“Licensing is at the heart of the business—we’ll tell you that we have more licenses than any company on the planet. That is our secret sauce,” says Mariotti. “We don’t use spreadsheet analysis to determine whether we should do Bob Ross, ‘Golden Girls,’ ‘Friends’ or *Bill and Ted’s Excellent Adventure*; we’re just going to do things that we love and we think there is fandom for.

“When you take movies, TV, video games, anime, music, sports or comic books... that’s mainstream because everyone is participating in that in some sort,” continues Mariotti. “That is pop culture and it needs to be represented as diversely as possible. We’ve never strayed from that philosophy. Everyone is a fan of something, so we are going to go out there and sign every license we can for what we think is moving the needle in pop culture.”

It’s this bent toward the nostalgic, the laser-focused eye to what’s trending and the innate ability Funko has to pick out that special moment that will resonate with fans that truly sets the company apart from the pack. Take its licensed IP-branded cereal, for instance. Not an obvious product line extension (who knew you needed ‘Golden Girls,’ Pennywise or Beetlejuice cereal in your life?), and certainly not one that could have been easy to execute, but necessary to Mariotti and Funko because it speaks to the essence of the company.

“When I brought the idea of a cereal line to the board, they thought I was nuts,” says Mariotti. “But I also think that’s the reason why they backed us as a company and have been so supportive. They know there is a whimsy to what’s



in my brain and around the company's ideas and thoughts on how we make products. When you're passionate about something you usually find a way as a group to get it over the finish line, and I think that this is one that has paid off. We're not trying to change the cereal world, we're just trying to create fun, whimsical products within our pop culture statements."

The Pop! range and the "Wacky Wobblers" the company were founded on are not Funko's only product category. In fact, Funko offers an increasingly diverse range of products, from plush to apparel, accessories like handbags and now even consumables.

Product and marketing channel diversity is a tenet that Funko puts much stock in, attributing it in part in safeguarding the company from the tumultuous times the shaky retail climate is experiencing.

According to Funko, its retail channels are agnostic, with no individual customer accounting for more than 10 percent of sales. This is critical in a climate where one singular retail closing (Toys 'R' Us) can account for a dip in an entire industry (2 percent down in 2018, according to The NPD Group).

"Our biggest partners are no surprise and pretty much



the same for most—GameStop, Target, Walmart and Amazon, but for us, the big differentiator is that no one account is more than 10 percent of our sales, perhaps even less, and also that 30 percent of our business comes from stores that have less than two doors," says Ahluwalia. "If we shift a point between Target, Walmart, Amazon, FYE, Hot Topic/BoxLunch or GameStop, it's not as concerning because we know that retail sales are always ebbing and flowing. But the growth in the mom and pop and one-off channels and the dominance we have there... that's what completely sets us apart from everybody else."

Funko's approach to retail is cross-channel and that is unique, as is the access that it is granted with placement thanks to its wide breath of properties and exclusive offerings.

"We are able to develop product for specific channels," says Perlmutter. "For example, I don't think that Foot Locker will ever be buying a ton of 'Game of Thrones' Pop!, but they do love NBA Pop! because they are a sport footwear company. Foot Locker might also sell *Avengers: Endgame* [product]. They may not go as deep as Walmart, Target or Barnes & Noble, but they will have good representation.

"People ask us all the time what our channel segmentation or strategy is: our channel segmentation is different than most because we offer such a wide range of product that we can drive foot traffic into all of our retail partners using exclusives," continues Perlmutter. "There is some inherent channel segmentation built in by licensing. We build programs around what makes sense for our retailers."

Funko's attention to pop culture helps it to break new ground with retailers as well, opening more doors to an ever-widening array of opportunities through specialized ranges, particularly in the specialty, value and drug channels.

Funko is also growing as a company.

In January 2017, Funko made its first big acquisition—U.K.-based Underground Toys, a licensed toys and entertainment products manufacturer, which effectively operates now as Funko EMEA.

In May of the same year, Funko bought Loungefly, a contemporary fashion accessories company, complementary in that it too operated with a licensed IP model.

This past February, Funko made another big buy, scooping up board game development company (and fellow Seattle, Wash., neighbor) Forrest-Pruzan Creative, creators of mega hits like *Cranium*.





bigger at nearly 40,000-sqaure-feet, positioned conveniently adjacent to many of Funko's key licensor partners.

"The stores are a perfect play for Funko and show the world what we are really about," says Molly

Hartney, chief marketing officer, Funko. "You don't always get that surprise feeling from retail because there tend to be strict rules around branding—there's only so much that you can do. But our stores, and the user-generated content that comes out of them, is priceless. From a branding standpoint, it really helps people to understand that Funko makes product for everyone and that you can still be a kid no matter how old you are."

Ultimately, however, Funko is only as successful as the fans it serves allows it to be, and delivering to them is the company's main remit, as are its employees who make the company what it is.

"At the end of the day, you're only as good as the people who help create and build the product, the feeling and the moment," says Hartney. "If you can't instill that in your employees and they don't have a reason to believe, then what will your customers believe? I think that is the magic of Funko. People laugh and say that Brian is Willy Wonka and we're all here in this magical, mystical place, and I see that." ☺

"Forrest-Pruzan are great people that are very smart in business and extremely creative—that's what the main draw was," says Perlmutter. "To me, buying Forrest-Pruzan was the cleanest and most effective way to build our games strategy. I wanted to buy the team to help us make the games that we want to make, as opposed to buying an existing manufacturer who already makes games and sells them into market. I want Funko to build really good quality, rich game experiences that allow us to tap into a new segmentation."

"We see our acquisitions as tuck in," says Mariotti. "We find companies that are smaller than us and that do something really, really well that mostly have a licensing background. Loungefly had been doing what they were doing for 15 years, making amazing Pokémon backpacks and *Star Wars*, Marvel, Hello Kitty and Disney bags. We didn't have a core competency in those categories, so the buy made total sense."

Funko also has an animation studio it purchased in December 2017 (formerly A Large Evil Corporation) that it is leaning on not only for marketing efforts but to foster growth in its own IP like Pop! and a newer property, Wetmore Forest, a preteen-targeted property named after the street Funko's headquarters resides on. Through Funko Animation, the company has launched shorts in partnership with Marvel that connect the super hero universe to the Pop! platform, as well as the "Freddy Funko" show, an animated series based on Funko's mascot, Freddy Funko, and whose YouTube channel (Original Funko) has more than 321,000 subscribers.

Funko's stores are increasingly becoming an opportunity as well, and it's no wonder. After all, Funko's Everett, Wash., corporate headquarters have slides between floors... not exactly a suit and tie joint. Built on its ground floor is a Funko retail wonderland, a destination in and of itself, complete with massive displays of key licensed IP and every Pop! out at market. You can also find a complete selection of Pez (a licensing deal with Pez to co-brand), it's Loungefly offerings and a full range of Funko-branded cereal all stocked in one tidy location. A new Hollywood, Calif., store was just announced and promises to be even

