Food for thought

Licensing Consulting Group’s Rand Brenner explores licensing food and beverages

Food and beverage licensing is big business in the US, Europe and other developed countries. It is done with a variety of different strategies, from the canning and distribution of beverages to the manufacturing and distribution of branded products in both the food and non-food product categories. In the US, this category accounts for half of the total licensing revenues. The category has also experienced significant regulatory changes (in the US and Europe) in the children’s market, requiring manufacturers and licensors to provide healthy options for products aimed at kids.

Success in this category requires building a strategic programme that is right for the brand and supports both the licensors and licensees core business objectives. If licensing is a good fit for the brand, there are a number of options and strategies available.

Developing a licensing programme

For a brand owner, the starting point is to develop a licensing programme. This includes an evaluation of the brand equity, the types of product categories, the target market, and the licensing parameters.

Brand equity

A brand with lots of brand equity can make it an ideal licensing property. Brand equity is the value a brand can offer potential licensees. It includes brand loyalty, brand awareness, perceived quality, brand associations/image and other proprietary brand assets. An example of great brand equity is M&M’s, which has a variety of licensed merchandise including toys, stationery, jewelry, Christmas items and more.

Target market

The licensor should provide information regarding their brand awareness levels, attributes, and core users. This includes positioning of the licensed products for the target customers, distribution channels and packaging concepts for the licensed products. Whiskey brand Jim Beam expanded into the general merchandise category to reach its target customers through its “man cave” licensing programme. Licensed products included bar accessories and pool tables, and extended into tailgating and barbecue products.

Product categories

Brand loyalty and imagery in the minds of consumers drive the extension to new products. The stronger the emotional ties consumers hold with a brand, the broader the product categories that can be considered for licensing. Most importantly, the licensed products must fit the brand. Jelly Belly, a brand that has strong appeal to teens, expanded into product categories such as scented pillows and bath products based on the top selling Jelly Belly flavours. A second point to consider is brand adaptability. Often at times, brands must find ways to adapt to a particular market. The Kellogg Company’s Morningstar Farms, which licensed a cookbook for meat substitute products, is an example of creating an extension focused on health, a hot topic among consumers.

Licensing parameters

Keep in mind that a licensing agreement is more than the royalty rate or minimum guarantees. Also consider other factors in negotiations, such as unique marketing vehicles made available by the licensee or expanded distribution through the licensor’s retail channels.

Goals and strategy

It is important to determine what the goals of the licensing programme will be. These goals include increasing brand awareness, generating revenue, entering new distribution channels, combating infringement, expanding geographically or expanding from a single product category.

An example of an expansion goal is Taco Bell, which expanded its brand beyond restaurants by teaming up with Kraft foods to produce a line of taco, nacho and fajita kits for eating at home.

Some brands use licensing to develop as many consumer products as possible, while others use it to develop the most unique consumer products possible. One strategy is ‘merchandise-based’ and the other is ‘equity-based’. Coca-Cola and M&M’s are two examples of companies that use the merchandise-based approach to licensing. Premium or specialty brands, on the other hand, tend to use the equity based licensing programme.

Two successful examples are Stanley Tools and watch-maker Timex, which have both...
Leveraging another brand through licensing can also leverage the resources of licensees. For example, multiple licensees can integrate their promotional activities, and increase their promotional power within specific retail channels.

Two of the biggest risks are control over the licensor and losing the licensing rights after building the licensed product sales.

For a company producing the licensed product, one of the risks is little control over the licensor. While most large brands are generally stable, other types of brands such as sports personalities and Hollywood entertainers can have some drawbacks, most notably they can get into situations that generate negative publicity.

The other risk to keep in mind is losing the rights to the licensed brand after you have built up product demand. The best way to minimise this risk is to make sure the licensing agreement is properly structured to protect each parties’ rights.

Licensing partnerships – the key to success

The size of the companies involved can make a difference. While entrepreneurs are often very fast and nimble, larger firms do not move as quickly. When considering the licensing partner, look beyond the number one player. The number two or three player could benefit from licensing a brand that could add a competitive advantage to their product line and increase their market share.

The best licensing partnerships are based on the licensee and licensor understanding each other's overall goals. They are long-term relationships that strive to build both the brand and the bottom line.

Making the licensing decision

Licensing a food and beverage brand can be a great strategy for increasing sales or opening new distribution channels. The starting point is identifying a potential brand that makes sense for your product. The second step is evaluating the potential licensor. Consider the type of licensing programme and resources offered by the licensor, as well as the other licensees and the quality of their products. It is also important to understand how the licensor works in terms of product development, approvals and licensee support.

If you are licensing your brand into the food and beverage category, picking the right partners is key. Be sure your potential partner is capable of delivering as a licensee. Check with other licensees as well as retailers and banks to ensure you have as much insight into the partner as possible. Building a strategic programme that is right for your brand and supports your core business objectives will go a long way towards building your business.

Regulatory

Changes to the advertising codes of practice were adopted to restrict how, when and where food is advertised to children. A decline in licensing for the food and beverage sector followed these regulatory changes, as both licensors and major food and drink producers pulled back from character licensing.

Licensors have adapted to this new regulatory environment by refocusing their licensing programmes on more nutritious foods and drinks. Sesame Street has licensed its characters to fruit and vegetable companies as part of its Healthy Habits for Life programme. Nickelodeon partnered with a number of licensees and created a line of fruit and vegetable products featuring its popular cartoon characters.

Food brand owners can generate new revenues and extend their shelf life by expanding their brands into new food and non-food categories.

Licensing an established food and beverage brand is a lower risk and cost option for launching a new product versus building a brand from the ground up.

For a licensed product to succeed, both licensor and licensee must gain financially, and the end consumer must benefit through increased product value.

Rand Brenner is president and CEO of Licensing Consulting Group, an IP consultancy and licensing agency. He has an extensive career as both licensee and licensor, and has developed licensing programmes for several Hollywood blockbusters including the Mighty Morphin Power Rangers and Batman.