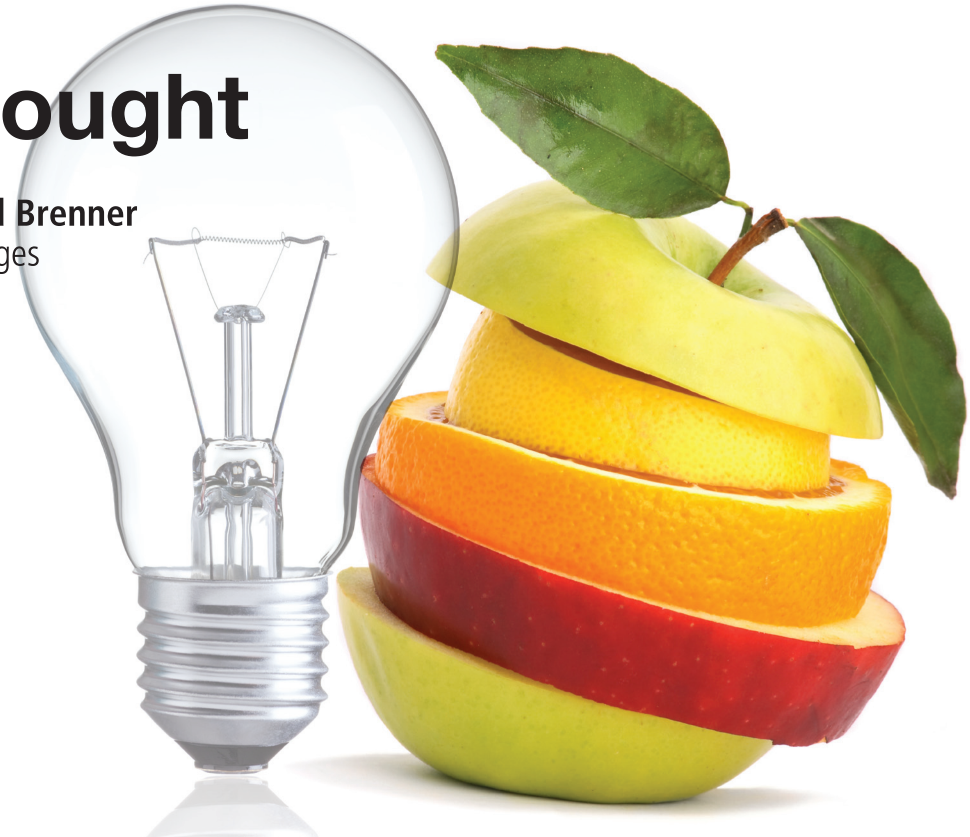
Food for thought

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 barbeque 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.

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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 built portfolios of unique, equity-enhancing licensing products.

Resources are also an important consideration when deciding on a licensing strategy. A merchandise-based approach takes a lot of human resources to manage and control versus an equity-based programme, which lends itself to smaller licensors with limited internal resources to manage the licensing programme.

Three approaches to licensing

There are three licensing approaches that can be used to expand food and beverage brands: food to food, food to non-food and non-food to food.

Food to food

This approach can be profitable because of the high sales volume potential of consumable food products. It also supports the licensor's own business directly when it can extend its brand into closely related food categories. Examples include Life Savers frozen novelties, Southern Comfort Egg Nog, and TGI Friday's frozen appetizers. Savvy use of this option can increase a brand's sales by creating additional consumption occasions (ie, desserts), expanding into new distribution channels (ie, convenience stores), or extending the flavour into closely related food categories (ie, candy into ice cream.

Food to non-food

These licensed products help create 'visibility status' for the brand. For example, a brand gains a real boost in relevance if people are willing to wear it or a celebrity is spotted with a shirt emblazoned with the brand (ie, Jennifer Love Hewitt wearing a Harley Davidson T-shirt). These products help consumers experience a brand or are tied to usage with a core branded product. For example, the Tabasco special edition Crock-Pot Slow Cooker or a Jack Daniel's themed game room.

Non-food to food

This approach is often used on children's products with popular characters or upcoming movie releases. In particular, entertainment brands use this approach to extend into the food category with products that are complementary to their brand and are consumed by the same target market. Examples include Care Bears Fruit Snacks, Pebbles Cereal, and Scooby Snack Dog Treats.

Benefits and risks

Leveraging another brand through licensing is lower cost than building a new brand. Licensed products reach the market quicker and many have higher survival rates than new brands. One example is US-based baked goods franchise Cinnabon's licensed products, which were introduced between 2003 and 2007. 85% were still in the market after 24 months. Because licensed brands are known, licensees can focus their promotional dollars on selling versus creating awareness about a new brand.

Leveraging another brand's attributes can put a new spin on an existing product line. Such is the case with California Pizza Kitchen and its frozen pizza line with Kraft. The licensed product is an upscale alternative in a highly commoditised category, allowing both the brand and the category reach new users.

Licensing an established brand 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 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 licensors 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.

Author

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*.