IMC LICENSING

Would your brand go well with food and beverage licensing?

by - Cara K. Bernosky

Food and beverage licensing is everywhere. A quick trip to the supermarket will produce Nesquik chocolate milk, Oreo ice cream, and even Sunkist soda. None of these products are made by the companies that own those brands.

Pay attention and you will see food and beverage licensing in other distribution channels as diverse as casinos, fashion retailers, toy stores, and drugstores. A Tabasco slot machine, Jell-O lip balms, Oscar Mayer apparel by designer Paul Frank, a Kool-Aid stand—all take food and beverage licensing not just to new aisles in the grocery store but to entirely new retail locations.

It's no surprise that according to EPM Communications and the Licensing Letter, trademark and brand licensing is the largest segment of the US$ 70 billion licensing industry in the US, of which 37 percent is from food and beverage licensing.

Exploring the Options

How should a company that owns food and beverage brands think about licensing? If licensing is a good fit for the brand strategy, there are a variety of licensing options available to food and beverage brands.

Food to Food. This option tends to be the most lucrative and profitable because of the volume potential of consumable food products. It also supports the licensor's own business directly when it can extend the flavor of an existing food product into closely related food categories. However, as a brand owner, you must be cautious to not cannibalize your existing business; determine whether it is a product you would be best served doing internally or via a licensing arrangement. Examples of food-to-food brand licensing include Life Savers frozen novelties, Southern Comfort Egg Nog, TGI Friday's frozen appetizers and Godiva ice cream. Whether by creating additional consumption occasions, expanding into new distribution avenues or lending a distinct flavor, licensing in this space can prove to be needle-moving for brands.

Food to Non-Food. These licensed products tend to help create "badge status" for the brand. For example, a brand gains a real boost in relevance if people are willing to wear it on their chest, or better if a celebrity is spotted sporting a t-shirt emblazoned with the brand. (For example, a photograph of Kevin Federline, a.k.a. Mr. Britney Spears, wearing a Kraft Macaroni & Cheese t-shirt was published in *In Touch* magazine.) Sometimes products in this realm help consumers recreate a brand experience 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. These types of branded products can help reinforce a brand's dominance in its category.

Non-Food to Food. Especially popular with kid's brands, examples of this category can be found in character-based products such as Care Bears Fruit Snacks, Pebbles cereal and Scooby Snack dog treats.

Identifying the Right Partners

Once you've set your strategy, the next step is identifying the right partners. Due to retailer and manufacturer consolidation, there may only be one or two suitable partners for a particular opportunity. Points of consideration should include if the top player needs to license a brand or if the existing one is so strong as to dominate the category. Perhaps the number two or three player could benefit from licensing a brand that could add a distinct advantage to the category and steal market share from the dominant player.

Thorough due diligence is critical to mitigate the risk addressed earlier in this article, but also to be sure your potential partner is capable of delivering as a licensee. Make sure to talk with other licensors with whom the licensee has worked as well as retailers and banks to ensure you have as much insight into the partner as possible.

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You should consider whether using a licensing agent makes sense as you enter the phase of negotiating the best possible deal. Bearing in mind that this author is an agent (and prone to bias on the subject), it's worth having someone ensure the brand is properly protected with the best possible terms. An agent can help define key elements of the agreement (which can impact rights for years to come), establish appropriate hurdles for a licensee to meet in order to maintain the agreement, negotiate quality control provisions, and assist with other important steps in executing a license agreement.

Managing the Program

Once the deal is signed, your work is done, right? Wrong! Managing a licensing program requires checking in with licensees frequently to ensure compliance with all of those things you've spent weeks or months negotiating into the contract.

It is imperative that someone closely manage product development to ensure the licensed product meets the same exacting brand standards as the brand's core product. This includes verifying the quality control testing requirements and making sure that no collateral materials are released without brand approval. Another potentially time-consuming task will be ensuring the licensees report and pay royalties in an accurate and timely manner. Oftentimes specific considerations that were negotiated into the license agreement never get communicated to the accounting department responsible for submitting royalty payments and reports. If someone isn't paying attention, a licensor can lose thousands of dollars in royalties through inaccurate or uncollected royalties.

Assuming you get the licensee to comply with the basic requirements of the license agreement, you now want to work collaboratively to integrate the licensing program into the brand's overall marketing plan. Typically this requires collaboration between multiple points of contact within an organization. Here you look to refine the positioning of the licensed product to ensure that you are effectively reaching the target consumers with the proper equity message.

Conclusion

In an era of constricting budgets and advertising fatigue, savvy brand managers are giving serious thought to how licensing could reach consumers in new ways and generate tangible returns for their brand. We recommend that brand owners avoid the temptation to react to deals that just happen to come along. Building a strategic program that is right for your brand and supports your core business objectives will go a long way toward building your business. *(©2006 IMC Licensing)*

This article originated from a speech that that Cara Bernosky presented at LINK (Licensing Industry Networking Conference) in New York City on October 5, 2005.

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