Part Or Parcel?

Above: Adam Bass, md of Golden Goose.

Licensing is the profitable process of outsourcing a brand's new product development into new categories and markets outside the brandowner's reach, in exchange for a small share of revenue and a very large share of brand equity.

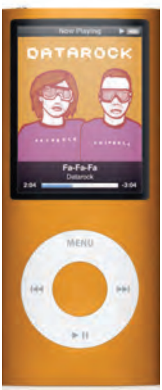
Adam Bass of corporate brand licensing agency Golden Goose asks are you licensing your whole brand, or just part of it?

What is it about humanity that thirsts for the new? If I ask you after you've just finished a sumptuous chicken dinner whether or not you'd like the same thing in a week's time, you'd expect yourself to want something new. In research, however, when it comes to the meal a week later, most people actually opt for the familiar chicken dinner defying their own expectations. That's why it's such a safe bet to extend a brand into a new category: it ticks both the 'innovation' and 'familiarity' boxes.

Brands are constantly extending but often miss opportunities, even within their own markets: Microsoft could have built Google, Facebook could have built Twitter and Sony could have built the Ipod, for example. Developing an effective licensed product outside the brand's competencies is then, not surprisingly, challenging.

In today's outsourced manufacturing economy knowing 'what to make', 'when to make it' and 'who to sell it to' trumps knowing 'how to make it'. When it comes to licensed product development, brandowners risk trusting their licensees to make these vital decisions. Unfortunately, most licensees have their roots in manufacturing or distribution rather than branding, which makes outsourcing these decisions very risky indeed.

Right & below: There are missed opportunities in NPD: Facebook could have built Twitter and Sony could have built the Ipod.



Manufacturer and brandowner mindsets are very different. Manufacturing is a vertical business constantly striving for incremental improvements. Branding is a lateral business focused on owning moments of consciousness and consumption across a wide range of categories. The main thing brandowners and manufacturers share is a fear of redundancy and the need to make the most of the latest innovations.

The challenge for brandowners looking to develop effective licensing programmes is to ensure licensees harness the whole brand so that new branded products are customised and marketed specifically to fit both the category and the brand.

Left: Skinny Cow has tapped into its brand values of low-fat and great taste to expand its range into new areas.

Circular Arguments

In an ideal world new product development would be 'a straight line process' that starts with a clear brand strategy and ends when the new product flies off the shelves. New products need to be marketed, however, and their resulting sales have a huge impact on the brand. This makes NPD part of a larger circle.

Branding's virtuous circle is formed when consumers' needs are met by a product, consumer product loyalty generates trust in the 'brand' which can then satisfy new needs with new branded products. The history, trademark, consumers, products, and retail strategies of the brand create a structure within which new products can be developed. With careful management these new products echo the original need/satisfaction and grow the brand by offering innovative benefits with familiar packaging. Nestle's Skinny Cow brand is a good case in point – the brand offers women low-fat and taste across a number of normally indulgent dairy products. Having met their target consumers' need in ice-cream, the brand is now expanding its product range to include drinking chocolate.

NPD Aspects

New Product Development is complex involving:

Market research
Product Design
Packaging Design
Product Manufacture
Merchandising Manufacture
Retail sales
Pricing Promotion
Website
Advertising
Launch PR

A Balancing Act

How much of the risk and cost of new product development and marketing that a brandowner can 'delegate', will depend on the power of their brand. If Bulgari decided to licence out the option to make Bulgari perfume there would be a number of companies bidding to take the licence because of the brand's premium associations. According to the laws of supply and demand, competition for the licence would allow Bulgari to delegate the entire new product production process as a condition of its licensee selection process. A weaker brand would have to do more to court their potential licensees, perhaps by going directly to a potential retailer and securing an exclusive agreement with them first and before sourcing and clinching a licensee.

Above: In the example of Bulgari, licensees would clamour to have the licence to produce perfume for the brand's premium connotations.

Even if you're able to use licensing to drive all of your new product development, you'll have to manage approvals and support every step along the way to deliver and market a new product. In entertainment licensing it's common for a brand to support licensees with trend work, style guides, and retail concepts. When Disney decided to go into home electronics, it did its own market research, commissioned working new product designs and sourced Chinese manufacturers before going out to find a licensee. This confident,

Lateral Thinking

Branding is lateral, manufacturing is vertical.

Pampers Kandoo:

Procter and Gamble launched the children's babywipes under its Kandoo brand in 2005. The Kandoo range now features instant foaming shampoo, foaming body wash, flushable wipes and foaming handsoap. This is clearly a horizontal brand focused on developing kid's ownership of their personal hygiene.

Above: Pampers' Kandoo brand has had lots of horizontal brand developments since its flushable wet wipes launched.

Patek Phillipe:

This manufacturing brand is obsessively focused on deep mining for improvements in quality within one sector. With more than 70 patents, it is "the only manufacturer that crafts all of its mechanical movements according to the strict specifications of the Geneva Seal." Whatever that means!

Above: Patek Philippe is one brand that has stayed true to its product sector.

front-loaded approach meant that the licensee only had to underwrite the manufacturing and distribution costs.

Sourcing and managing a licensee is a delicate balancing act with a fluid exchange of power that can shift dramatically during the term of the relationship. At the beginning a licensee will usually depend on the licensor to give them guidance but, over time, consumer and retail feedback will give the licensee an ever increasing authority to take on the role of an outsourced category manager for the brand, leading the NPD process rather than simply following the brand guidelines.

Pressure on this delicate relationship - through poor products or low sales – will cause it to buckle if the responsibility for each stage in the new product development is not clearly allocated at the beginning.

Relationship Advice

Tensions between the brandowner and the licensee occur when the brand falls out of step with its licensing programme. A disconnect between the brand and its licensing can lead to wrong product categories and consumer confusion.

The limited edition Lamborghini Christmas baubles which were lampooned on Top Gear last year, certainly bring to mind the most obvious question that occurs when you see a weird brand extension: 'what were they thinking?' The wrong brand extension is not necessarily damaging to the brand although it does risk the brand equity.

The other potential problem is a disconnect between the brand and the licensed product marketing which leads to wrong product quality and price point and/or

inappropriate retail distribution. When a brandowner thinks its licensed watch should be competing with Rolex and the licensee wants to distribute through ASDA, these compromises are brought starkly into contrast.

Above right: Not everyone seemed to understand the logic of launching Lamborghini Christmas baubles.

Avoiding Tension

It's the licensor's responsibility to have completed a full internal sell-in before executing a licensing strategy. This should involve creating a set of criteria for new categories, an internal approval process for any new product and marketing related to licensed products, and buy-in from the brand's consumers as well as the internal marketing, legal, technical, and accounts departments.

If a licensor fails to licence the whole brand, the licensing director who signed the deal risks having to hide under their desk whenever the CEO of the company walks past!

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