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The growth in corporate brand licensing –

- Risking brand equity to win brand equity

New products define a brand's direction and vitality. In 1993, 37% of Gillette's sales were accounted for by products launched in the five previous years. By launching new innovations when the previous ones are barely established, Gillette keeps ahead of the competition[1]. Brand extension communicates vision, values, direction and vitality, deepening the brand's total meaning. Fashion brands have always understood this. When Chanel produce a limited range of skis and snowboots giving them away free to supermodels hitting the slopes, they strengthened their grip on Chanel's ownership of the quality of luxury: brand extension as marketing.

Quantum or Gradual Extension

Successful brands don't stand still; they develop according to their vision, values and competencies, extending into new products in an ordered sequential way that sends a clear message to their target audience. Successful brands go beyond incremental extensions (VW Golf version 1, 2, 3, 4) and seek to own the quality of precision engineering by producing VW Golf Clubs.

Kellogg's Nutri-grain is a product that redefined the Kellogg's brand and opened up a completely new market sector. Kellogg's risked their brand equity to create the cereal snacking sector. Without the willingness to fail dismally, this quantum leap would never have been made and Kellogg's would still be a cereal maker rather than have a strong position in healthy snacking.

Growth of brand equity can also be achieved gradually: Heinz sells ketchup, and can take a natural step into mustard. Mustard is used in sandwiches so Heinz can claim a share of the sandwiches sector. From sandwiches it's possible to see how a Heinz ready meal could be developed. By following simple logical steps, establishing and building on new extensions, Heinz can deepened their meaning and grow their market share with small risks into new extensions that allow for further risk. Brand management as risk management.

To grow a brand and market share brands can:

- Spend more money on marketing
- Develop and extend into new markets
- Do nothing and let the momentum carry them forward

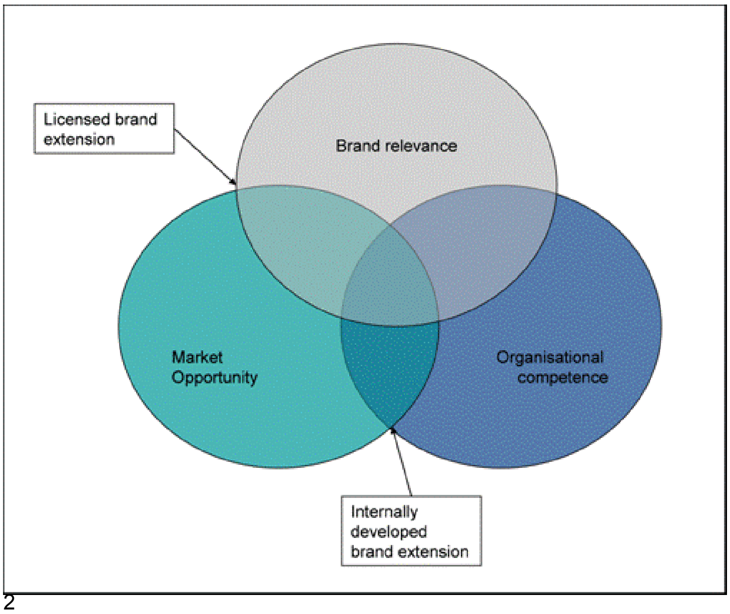
Needless to say, doing nothing is the riskiest option. One of the key reasons to extend into new markets is that failure is tolerated. In fact, failure is relative – provided the

[1] Jean Noel Kapferer, Strategic Brand Management, p147

economics are not destructive and poor quality execution is not the problem, then failure shows a brand in its best possible light: bold, full of ideas, creative and coping constructively with feedback. Virgin is a brand that is built on the notion of heroic failure. Virgin has failed in: PC's, Vodka, Clothing and Cosmetics. Richard Branson's round the world ballooning attempts all ended in failure, but the brand is stronger as a result. Like the customer whose resolved complaint makes him more deeply satisfied, acknowledgement and resolution of failure strengthens a brand.

Corporate Brand Licensing

Massive distributor power and pressure to generate value is forcing large corporations to look for extensions that go beyond their own competencies, making brand licensing an increasingly useful option in the brand manager's toolkit.



[2]

When a brand has relevance beyond its owner's competencies it should explore brand licensing as a route to market for new, brand-enhancing, revenue-generating products that appeal to a latent market of brand aficionados. Good examples of outsourced brand relevance include Nichols Foods who are responsible for Malteser and Galaxy powdered hot drinks (in 2004 they achieved 21% of the UK's drinking chocolate market). Walkers licensed the Marmite brand into crisps and discovered a massive latent market, selling more than £6M worth of crisps in less than a year. Johnson & Johnson have taken Evian out of the bottle and put it on the face of consumers looking for that special hydrating quality in a face cream, and there is a growing list of large companies licensing in brands from other large companies.

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[2] David Aaker, Brand Portfolio Strategy, p 79

A side effect of extending beyond the company's core competencies is that it can result in a change of perception and direction for the brand, Caterpillar's successful vault from heavy machinery to the fashion business took off in 1994 with retail sales of around $1 billion worldwide. 'What is happening' according to brand guru Wally Olins, 'is much more than product extension. It's attitude extension... Caterpillar brand extension doesn't have much to do with the products the company makes; it's to do with the attributes that the Cat brand is seen to possess worldwide. It's about attitude."[3]

Attitude -> Belief -> Consumption

Market making brand extensions succeed because the new product deepens the meaning of the brand and extends its attitude in a way that is believable and leads to increased consumption.

There are two essential qualities for believable brand extensions: fit and leverage. Fit ensures that the new product is within the domain of the brand, and leverage is the added value of the new product. A Nike portable CD player for example, must be extra jog proof to carry the brand's attitude into the new category. Brand extensions fail without fit and leverage, and resemble merchandise rather than attitude changing extensions.

To ensure that fit and leverage are part of licensed brand extensions, answers need to be found for questions like:

Licensing Strategy

- What is the strategic attraction of licensing?
- What is the prioritised list of target product categories?
- How is the licensing strategy aligned with the brand strategy?

Capabilities

- Does the company have experience drawing up and negotiating license agreements?
- Is there a standard agreement?
- What is the current new product development process?
- Is the company prepared to carry out technical inspections of licensees?
- What support will the company offer to licensees?

[3] Wally Olins, On Brand p 93

Resources

- Are key decision makers available to develop a licensing strategy and approve potential licensees?
- Is there an approved budget for developing a licensing strategy?

The current trend within FMCG is for the brandowner to wait until a suitable opportunity is presented, and the main barrier to a successful application is the company's bureaucracy and approval process. Whilst there are brand managers who recognise the benefits of licensing, few are motivated to spend the time to generate royalty which is rarely fed back into the overall marketing budget, and fewer still have a long term licensing strategy.

The most important contributing factor to the success of a licensed brand extension is the quality of the manufacturer, which is why it is absurd for brandowners to limit their options to only the most persistent courtiers. A pro-active approach requires the brand owner to target potential licensees and develop the tools to assist in the understanding and implementing of a suitable brand extension. The alternative is that a competitor may benefit from a market making extension because the brandowner is not set up to deal with new opportunities.

A licensing agent can help to brainstorm opportunities, scope the market and develop opportunities that might otherwise stall or run out of momentum. The riskiest alternative is to do nothing.

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