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The winner takes it all

Why leading brands should explore licensing before it's too late

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Introduction

Winning isn't easy but harder still, having tasted victory, is to maintain the same appetite for success. Being a winner is aspirational but winning at all costs leads to the final defeat of an imbalanced life – just ask Tiger. Real champions sustain their winning streak in spite of the rewards, setting an example and communicating personal values for others to emulate. This is what turns a sportsperson into a brand.

Research suggests that winning brands that increase their market penetration also increase their customer loyalty. So to win and stay at number one, brands need to keep bringing in new customers even if (and perhaps especially when) they have 100% market share. This means that brand extension through licensing is as relevant to winning brands as it is to those that have some residual brand equity dating from 30 years ago. But what are the challenges and opportunities faced by these 'Number One' brands when they dip their toe into the licensing waters?

Why everyone loves a winner

With the World Cup and the 2012 Olympics now looming on the sporting horizon, perhaps it's time to ask ourselves, "What's the big deal about being number one?" Why the fascination with winning? Like many British people, I've got a soft spot for the underdog: the heroic failure who cares more about the taking part. Unfortunately, however, from a straight commercial point of view sales of the Eddie the Eagle T-shirts are unlikely to eclipse Bode Miller's Alpine Skiing for PlayStation 2. The obsession with winning is most easily explained, therefore, by the world of business – 'to the victor go the spoils'.

In their legendary book 'The 22 Immutable Laws of Marketing' American marketing gurus Jack Trout and Al Ries explain that, "The main rule is to be number one…the second [man to arrive on the moon] will not be remembered. Being number one is not always possible and certainly not always easy. Number one will need to look ahead to continue its strategy but will also have to look back, to verify what the followers will do. It is difficult to stay number one."

Leadership is more than just a goal, it's a brand's positioning. When Saatchi and Saatchi placed a banner on the newly breached Berlin wall saying, "First over the wall," they were acting according to their brand value of audacious leadership. According to David Aaker in Brand Leadership: "Leadership… can inspire employees and partners by setting a high brand aspiration level… for many customers a

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leadership brand provides reassurance…implies quality...and/or innovation that translates into solid functional benefits.“

To stay at the top, however, brands have to do more than just beat the competition. Research by British marketing scientist Andrew Ehrenberg suggests that customer loyalty is proportional to market penetration. From this, Jean Noel Kapferer in reInventing the Brand concludes that ‘it is difficult to generate increased loyalty in the long term without also increasing market penetration … the future of a brand thus depends on its … ongoing ability to attract new customers in order to increase its market penetration and in the meantime demonstrate its relevance to a changing world.“

Restating this in marketing speak: An increase in market penetration achieves a Massive Double Whammy: driving new customer acquisition and growing existing customer loyalty. For marketing directors considering brand extension through licensing, this is great news. Not only does licensing bring in new customers, revenue and profits but, through increasing marketing penetration, licensing also increases existing customer loyalty.

In the case where a brand is fighting intensely to be number one, the motivation for licensing is never revenue - which will only ever be worth a fraction of a 1% growth in market share. Instead, licensing can be used to subvert the rules, taking the leading brand into a new category that its competitors can’t reach, and thereby winning the game.

<u>Changing the rules</u>

Where a brand has 100% market share or where a category is stagnating and growth is harder to find, sometimes the only means of increasing customer loyalty is by increasing market penetration.

Brands like Branston (99.9% of the sweet pickle market), and Marmite (99.9% of the yeast spread market) have done this dramatically, going far beyond their core categories into crisps, snacks, mayonnaise, beans, ketchup, brown sauce and cereal bars - all in the search for growth. Similarly Red Bull, Lucozade and Coca Cola’s Relentless have continually fought over pack size, format, flavour, diet and other variations, in the search for growth.

Smart brands use licensing as a way to win the battle for market share, consolidating their leadership positioning by extending their brand attributes into new categories beyond their competition’s reach. This subverting of the game is like a high jumper suddenly becoming a pole-vaulter. When Chanel produce a range of luxury skis, for example, they’re not taking on Salomon and HEAD, they’re challenging other fashion

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brands to try stretching into the category. They're showing off their commercially-extendable-luxury.

As the leader in its category, Caterpillar's embodiment of ruggedness achieved retail cut through in the apparel market: appealing to men who preferred Caterpiller's authenticity in comparison to more whimsical fashion brands. Other rugged brands such as John Deere or Stanley have made it into functional clothing - workman's gloves etc – but Caterpillar went one further, taking on Timberland and opening up an entirely new market. This sideways step consolidated Caterpiller's brand leadership within its own category – it was the only brand strong enough to make this quantum leap. Now when choosing between Caterpiller and a rival product, existing customers have a new, extremely valuable attribute to consider – not just ruggedness, but commercially extendable ruggedness.

Stretching the lead

With their superior associations and brand awareness, leading brands can license further and more successfully, consolidating their leadership position by taking their core attributes into new categories.

On the 2009 list of Global License Magazine's Top 100 licensors, Coca Cola was number 43 and the leading FMCG brand, with their licensed products achieving retail revenues of $850M. Notably, the number 2 brand in cola drinks isn't on the list.

Even relatively smaller brands can benefit from the halo effect of having 'winner' etched into their DNA. Ferrari comes in Number 24 on the list of top 100 licensors and has focused on premium licensing deals for its Ferrari Logotype, Prancing Horse and Scuderia Ferrari Shield rights, using a chain of Ferrari stores as a significant retail partner. Consumer products bearing the Ferrari name include a high end sound system priced at a mouthwatering $20,000.

Similarly, leading alcohol brands are constantly in demand by sleepware and keyring manufacturers to develop saleable merchandise, but only a handful can make it into the more lucrative area of food licensing. Jack Daniels Barbecue Sauce might not be an obvious tie up, but its success proves the power and appeal of the Jack Daniels brand increasing customer loyalty by increasing market penetration.

Calling the shots

Being the leader doesn't only entitle you to stretch your brand further than the competition, it also means that you can dictate terms and use licensing to deliver key branded messages. For example, Coca Cola has been able to make licensing part of its social responsibility programme. Jackie Duff, who is responsible for Coca-Cola

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licensing outside the US, says most of the company's licensed products are made from recycled materials, including PET, which is used to make its plastic bottles. 'A few years ago we had a wider range of products. Now we have reorganised the range to be focused around our environmental initiative,' she says. 'We are not going to look for any opportunity to put our brand on a licensed product. The question is whether it can be made from PET.' All of Coke's branded clothing is made from recycled plastic and it offers products such as bags made from ring-pulls and woven from recycled labels.[1]

A successful licensed product promises a big payday for the licensee. Given the size of the prize and the laws of supply and demand, the licensing opportunity needs to be managed carefully so that potential licensees queue up to invest heavily in customised moulds, and specialised tooling up front, rather than being allowed to test, and potentially spoil, the waters with inferior products or the wrong distribution channels.

In addition to a strong brand there are other valuable brand assets that can be put behind a licensing programme to help dictate the terms. Big brands have big advertising and PR budgets that can add significant gloss to a licensing programme. Such is the power of advertising that Vauxhall was able to license out The C'mons a fictional rock band used in viral marketing campaigns to promote the 4th generation Opel Corsa in Europe since 2006. The plush and paper products achieved distribution in major high street gift retailer, Clintons and in a neat circular tie up the products further promoted the Corsa with on pack competitions to win a new car.

<u>So why don’t more big brands license</u>

Any product’s success depends on the relationships between its unique product features, its branding and its distribution, but distribution is king. Given the buying lead times of most retail channels is 9-12 months ahead and a differentiating new product needs at least 3-6 months development, leading licensors should be planning their licensing activity at least 15-18 months in advance of when they want licensed products to appear. Because the average life expectancy of a brand manager is 12-24 months, it’s perhaps not surprising that most licensors fail to recognise and exploit the opportunity.

In addition, many leading brands are frightened of licensing. It does, after all, involve them putting their key asset on the table and letting someone else play the cards. Where the leading brand absconds, hesitates, or decides not to stretch their brand, this leaves a space for secondary brands. For example Burger King recently launched a range of ‘healthy apple chips’ in the USA. If McDonalds had been available in the category they would, in all probability, have blocked this move either by getting there first or being more attractive to the retailer and licensee.

[1] Marketing Magazine, February 3rd 2010

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Conclusion

Being a market leader means you have more customers than your competitors, and, according to research, with each increase in market penetration those customers are more loyal to your brand. This means that to grow your brand you constantly need new customers. As a company takes its brands round the circular process of brand --> innovation--> marketing--> sales, there will inevitably come a point when the opportunity arises to develop new products that are beyond the company's core competency, this is where licensing becomes a real brand building opportunity.

Licensing will feature on the brand management radar either when the brand is on the way up, or when it's on the way back and licensed products are, therefore, a good indicator of brand health. Strongly differentiated, well marketed, successful products show rude health, discount buckets at the pound shop are a contrary indication.

Given the stakes and the opportunity, brands shouldn't wait until their position deteriorates before exploring licensing opportunities, rather they should maximise the superior leverage that comes from being in first place to extend beyond their competition and consolidate their lead at the front. So if you're a leading brand the truth is 'use it or lose it'. But if you do decide to use it, get a strategy together and make sure the licensees and retailers dance to your tune rather than the other way around.

Adam Bass is the director of Golden Goose, the UK's leading boutique brand licensing consultancy.