BRANDWEEK®
THE NEWSWEEKLY OF MARKETING
VOL. XLVI NO. 24 JUNE 13, 2005

Top of Mind
Perspectives and Commentary

Turning CPG Brands into Licensing Stars

ASK ANY packaged goods manager his or her view on licensing and you're likely to hear a story of have's and have-nots. Those who have engineered successful programs want more of what they've got. Those who haven't made strides shake their heads in doubt.

By Stephen Reily

But lately, in a surprising move, CPG brands that have built some of the biggest licensing programs are almost all scaling back. In the past year, several major U.S. packaged goods brands (each No. 1 in its multibillion-dollar category) have slashed their number of licensees by 25-65%. And they're just getting started.

Why are these companies shrinking their licensing portfolios so dramatically? In my view, it's because the business model has changed (for the better) and major CPG brands are now asking their licensing programs (and licensees) to deliver products that are as distinctive and successful as the branded products they make themselves.

Success Breeds Scrutiny, and Higher Standards

In most businesses, losing half your deals would represent an abysmal failure, and signify a program about to be killed. But the brands I've described generally believe that real growth in licensing lies ahead, and they are funding that belief with bigger budgets and support from senior brand and corporate managers.

This level of support was often missing in the past. Licensing programs that grew often did so under the radar, without a strategic or brand-oriented approach. People did many deals simply because they could get away with them. Now the extra attention from senior-level management means satisfying higher standards. We can expect licensing to deliver great results–in both marketing support and net income –if it can satisfy these three tests:

Worth the risk. Most consumers believe that licensed products, especially products that are "close in" to the brand's own core business, are made by the licensor itself. For that reason, any problem with a licensed product will impact the host brand. When consumers learned that Taco Bell tortilla chips contained genetically modified corn, they turned against Taco Bell restaurants, not its licensee.

All licensing professionals work hard to minimize these risks. But even a quality-conscious company makes mistakes, and a licensed product is worth the risk only when the benefits it will confer on the brand are big enough to justify it. Brand managers today are not avoiding big categories just because a problem would cause them headaches, but they are requiring that opportunities be large enough to justify the problems they might create.

> ***In the past, hyperactive licensing units did many deals because they could. That's bad business.***

Worth the time. Brand managers are increasingly busy. No mature CPG company is expanding head count, and the resulting crunch leaves all staffers stressed for time and less likely to support licensing, even when it serves their goals. Deals that deliver fewer SKUs (meaning fewer rounds of approvals) and greater scale are easier than deals that deliver dozens of SKUs, each with only minimal sales: think OREO ice cream rather than OREO t-shirts.

As a result, licensing professionals must ask their clients to devote time only to programs that will really move the needle. For most CPG firms, this means licensing only those ideas that are as meaningful to consumers as the other products–their own brands–that managers spend their limited time marketing.

Worth the brand. Companies with active licensing programs in the past often did them because no one thought licensing mattered. Licensing has grown from a promotional activity that was merely tolerated to a form of marketing and line extension that requires strong attention and support. The best way to know whether licensing is worthwhile is to ask whether it's worth the brand it represents.

In the past, hyperactive licensing departments did many deals because they could. That's bad business for any company, not just the CPG players. When licensing, however, can add luster to brands, deliver new benefits, markets, distribution channels and audiences with products as unique and inventive as their own, it makes for a winning strategy.

CPG brand managers are control freaks, and justifiably so. They obsess about how their products look, are advertised, sold and used. They ought to be similarly obsessed with their licensed fare. When those products are worth the risk; worth the brand's time; and worth the brand itself, they should gain support and provide real benefits. Until they are, licensing managers will continue to slash programs as they struggle to realize licensing's true potential.

Reily is CEO of IMC Licensing. Clients include Kraft Foods' portfolio of brands, TABASCO, Southern Comfort, Louisville Slugger and Union Pacific Railroad. Contact: stephen@imclicensing.com

IMC LICENSING
111 W. WASHINGTON STREET, SUITE 400
LOUISVILLE, KENTUCKY 40202
(502) 589-7655
FAX (502) 589-7654
WWW.IMCLICENSING.COM