

# Food for Thought

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Food and beverage licensing is everywhere. Consumers can find licensed food products in supermarkets, where you would expect them, and where food and beverage brands give new food and beverage products instant credibility. Think how often we encounter products such as Nesquik chocolate milk, Oreo ice cream, or even Sunkist soda—none of which are made by the companies that own those brands.

But pay attention and you will see food and beverage licensing in other distribution channels as diverse as casinos, fashion retailers, toy stores, cosmetic aisles of drugstores, and home stores. A Tabasco slot machine, Jell-O lip balms, trendy Oscar Mayer apparel by ultra-cool 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 \$71 billion US licensing industry, of which 38 percent is from food and beverage licensing.

## Why License?

How should a company that owns food and beverage brands think about licensing? First you must establish your strategic licensing plan and examine why you want to license. Let's break this down into three major considerations:

1. *Reinforce your brand.* Some licensed products are very much like the brand's core product itself. They may be used the same way (like food products for a food brand); they may be used by the same consumers (like sports apparel for a sports brand); or they may be distributed in the same channels (like hot dog buns for a hot dog brand). These products can achieve every brand manager's goals of supporting brand awareness through new products, usage occasions and impressions. They increase the brand's presence in retail and share-of-mind of shopping consumers, and help sustain market share against competitors.
2. *Build your brand.* Some licensed products not only reinforce your brand, but build it. Licensing can take a brand beyond its core category or channels of distribution, reminding consumers not only of what the brand is, but allow it to mean more. This increases the brand's functional and emotional equities and allows consumers to make it an even more meaningful part of their life.
3. *Improve the bottom line.* Licensing not only reinforces and builds your brand, it also generates independent financial returns on the brand itself. While no brand should enter licensing solely for that income, royalty revenue (generally a percentage of the licensee's wholesale sales) can make an important contribution. In some cases brands evaluate whether licensing out part of their operation would yield a higher return on investment. There are other financial benefits to licensing as well. Cross-promotions with licensees can directly expand sales of the brand owner's core products, and many licensees become important customers of the brand itself for ingredients. Additionally, the value of the impressions generated from licensed products is increasingly part of the calculation on the value of licensing to an organization.

## Exploring the Options

Once you have decided that licensing is a good fit for brand strategy, you must then explore the variety of licensing options available to food and beverage brands:

1. *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 and 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 successes 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.

2. *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 associate with it so much they are willing to wear it on their chest, or better if a celebrity is spotted sporting a t-shirt emblazoned with their brand like when Kevin Federline, aka Mr. Britney Spears, was photographed wearing a Kraft Macaroni & Cheese t-shirt in *In Touch Magazine*. Sometimes products in this realm help consumers recreate a brand experience or can be used with the actual core branded product. For example, someone can put their bold and zesty cooking style to use with the Tabasco Special Edition Crock-Pot Slow Cooker or entertain in their Jack Daniel's themed game room. All of these products help reinforce a brand's dominance in its category.
3. *Non-food to food.* This is another option brand managers can explore. Perhaps licensing IN a non-food brand will help your product sell more. We see this extensively in the snack food and cereal aisle with a plethora of character based products such as Care Bears Fruit Snacks, Pebbles cereal, and Scooby Snack dog treats. The latest trend in this category is many of the biggest character properties are licensing into healthy snacks with products such as SpongeBob SquarePants baby carrots, Dora the Explorer oranges, Elmo cherry apple sauce, or Disney's partnership with Kroger for over 100 branded healthful food items.

## 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 are few suitable partners. In some cases, there may only be one or two suitable partners for a particular opportunity. And you will need to determine if the top player needs to license a

brand or if their 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.

You also need to identify a partner that meets your values and commitment to social responsibility. If you are an alcoholic beverage brand, you need a partner committed to keeping licensed products out of the hands of consumers under legal drinking age. If you are a company committed to doing its part to ward off childhood obesity, licensed products must follow-suit. There are many companies that have policies in place that mandate everything from the nutrition values of foods to the depiction of healthy serving sizes to specifying the channels in which licensed products can be advertised.

Thorough due diligence is critical to mitigate the risk addressed earlier in this article, but you must also be sure your potential partner is capable of delivering what you're looking for in a licensee. Make sure to talk with other licensors with whom the licensee has worked. It is important to understand whether the licensee has honored their obligations under other agreements and if they've been responsive to a licensor's needs throughout the partnership. It is useful to talk to the retail buyers to understand their relationship with them as a vendor and the type of new products or innovation needed in the category. It is also important to run financial checks such as a Dun & Bradstreet report to gain as much insight into the partner as possible. Any questions about financial stability may require guaranteeing a larger amount up front or other creative structuring possibilities to ensure their ability to honor their commitments.

If you are licensing into the food and beverage sector, you will want to take a close look at the potential partner's manufacturing and quality assurance procedures to understand what they bring to the table and if it will meet your criteria. Are they willing to submit to an outside food safety audit or do they conduct another type of audit that may be acceptable? Both parties must be willing to engage in a dialogue about mutual goals and requirements to bridge any variances between audit practices. Many times one company engages in a process conducted by one firm whose methodology varies yet the criteria is largely the same. The National Food Processors Association's Supplier Audits for Food Excellence (NFPA-SAFE) Program was implemented in August 2001 with its goal to promote uniformity of food industry audit standards and auditor practice. These audits can take 3 to 5 days to complete and are expensive and

burdensome to schedule and complete, but they are extremely comprehensive and provide the licensor the highest degree of assurance.

What sort of resources will the licensee bring to the table in terms of product development? Are they willing to work collaboratively with your own specialists in flavor development to ensure they deliver the flavor equities you will require? Will they be buying ingredients directly from you or working with an approved flavor house? When translating a food and beverage brand into an adjacent category, delivering on the flavor promise is essential, yet navigating these waters may be tricky. As such, both sides need to allow the necessary time to develop a variety of formulations that can be tested both in the lab as well as with consumer panels. Sometimes there can be rounds of internal debates about the flavor attributes the product should deliver and a consumer testing panel can help bridge the gap and establish the best possible formulation to ensure success at retail. For non-food products, you should explore what type of innovation the licensee can bring to the table in terms of product design or functionality not previously available in the marketplace.

If you haven't done so already, you will want to consider whether using a licensing agent makes sense as you enter this territory. While it may sound self-serving considering the author is an agent, it is at least worth considering whether an expert who does nothing but licensing would be beneficial. In any event, someone needs to make sure that the brand is getting the proper protections at the best possible terms. An agent can help you consider the various ways a licensing agreement can help you protect your most valuable asset; how to define key elements of the agreement that can impact rights for years to come; establish appropriate hurdles for a licensee to meet in order to maintain the agreement; the appropriate quality control provisions to be negotiated into the contract; and a myriad of other considerations like those mentioned above that will need to be made along the way to executing a license agreement.

## Managing the Program

So 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 will be imperative that someone closely manage product development to ensure the licensed product meets the same exact-

ing brand standards of 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 who is 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 in order to be done well. Here you look to refine the positioning of the licensed product to ensure you are effectively reaching the target consumers with the proper equity message. You need to look at where the licensed product and core product can be integrated. For example, HP Hood, the licensee producing Southern Comfort Egg Nog, the nation's best-selling eggnog, worked hand and hand with the Southern Comfort brand. They made joint sales calls, supported mutual coupons and sampling events where the core product and licensed product could be sold together, developed point-of-sale materials, and did radio tags in markets where they could not be sold together. The brand featured the eggnog in its own advertising as part of its Comfort and Joy holiday campaign. As a result, eggnog has become an ownable strategy for the brand and has spawned on-premise holiday promotions at restaurant/bar accounts as well as led to other eggnog inspired licensed products like cheesecake and coffee.

## Conclusion

In an era of constricting budgets and advertising fatigue, savvy brand managers are giving serious thought to how licensing could reach their consumers in new ways and generate tangible returns for their brand. With a sound strategy in place and avoiding the temptation to react to deals that just happen to come your way, a knowledgeable staff or an outside agent can help you build the type of program that is right for your brand and support your core business objectives—after all it's all about building your business.