

Licensing in a slumping economy

Grumble...Groan...Sigh... That's basically how most articles on the economy start out these days. For the world of licensing, brand managers, manufacturers and retailers are facing more challenges than ever before getting new licensed products to the consumer. But while others are grumbling and groaning about the state of the economy and their businesses, we at IMC Licensing remain optimistic, but our optimism comes with a healthy dose of reality that deals are going to look different than in years past.

At a time when brands are slashing ad budgets, commodity prices are increasing and headcount is decreasing, licensing remains an attractive tool.

For some brand managers, licensing is a method to get their brands in front of consumers in new ways. For others, it's a way to bring to market new products without taking on the risk and investment internally.

For manufacturers, licensing becomes a way to differentiate in a crowded marketplace where surviving on price alone is a scary proposition. For retailers, proprietary brands help make their doors a destination for consumers.

Stark reality

But the facts remain: consumer confidence is down, retail sales are down, commodity pricing and freight expenses are up and there is only a fixed amount of shelf space at a time of retail consolidation. Not exactly cause for celebration, but having educated parties on all sides of the licensing equation talking openly about what it will take to succeed in this environment is the first step to success.

That's not to say that we don't see brand managers running for cover and choosing to do nothing in hopes that this will all blow over and things will just return to the way they were.

Most major licensors are feeling tremendous pressure to stabilize and grow their core businesses.

Faced with layoffs and other restructuring, they are pulling back resources from any initiatives deemed non-essential, licensing included.

The good news in f&b

In licensing, the good news for food and beverage licensing is that while it is down, it is not as down as much as many other sectors of licensing. The Licensing Letter/EPM Communications reports a 10% decrease in food and beverage licensing while many other



sectors like toys and games and domestics are posting declines of 20% and 17% respectively.

The reason? Even in a recession, people eat. Moreover, at home consumption is on the rise as people cut back on dining out.

However, even with some of these positive signs for food and beverage, retail is still down overall, which means manufacturers are proceeding cautiously with any new products. We see more deals being structured with smaller or phased in advances at key performance hurdles giving all sides a greater sense of partnership as a program works to gain traction.

So while some deals may be structured a little differently these days and they are not quite as abundant, that certainly doesn't mean that deals aren't being done. In this report we will highlight a few of the segments with the most interesting activity to note.

According to The Licensing Letter/EPM Communications, corporate trademarks and brands licensed into food and beverage products generated \$7.34 billion in retail sales in 2008. While we believe this to be the most accurate study available, we maintain if the study were to capture all of the entertainment brands licensed into the food and beverage sector, it would reflect a number nearly twice as large.

Produce: Produce is a retail category that little if any branding five years ago, but is now bustling with licensing activity. Disney, Dora and other entertainment properties continue to infiltrate this segment. With the shift away from the unhealthy licensed food products of years past, entertainment properties are moving en masse to produce and other better-for-you offerings with no sign of abating. And, it's not limited to only entertainment properties. In the United States, NASCAR has successfully licensed into fresh produce via licensee Castellini



who reports the licensed products have shown 11-44% sales increases over their unbranded offerings. Retailers like Hannaford are reporting that licensed produce is outselling conventional produce by 10% so it is likely that we will continue to see growth and experimentation in this area for some time to come.

Refrigerated/Frozen: Just in time for summer grilling, Sara Lee introduced Hillshire Farm Miller High Life Beer Brats. The line of brats are pre-cooked in Miller Beer and bring together the great taste of brats and beer in a different type of six-pack.

In the category of, well that makes perfect sense, the Crystal Light brand has been extended via licensee Matterhorn Group to Crystal Light Freezer Pops. The same great flavors that have been refreshing consumers in liquid form are now available as on-the-go frozen novelties and are available nationally through retailers like Wal-Mart, Kroger and Giant Eagle.

In other news in the frozen section is the shift of the Starbucks ice cream program from its former joint venture partner Dreyer's to a licensing agreement with Unilever.

Starbucks pledged to grow its franchise with consumers and this relaunch of the ice cream program, with flavors like Caramel Macchiato and Mocha Frappuccino, is more in line with Starbucks' beverages.





Now while not on the shelves in the US, the sighting of this product in Germany is just too hard to resist mentioning. Obama-mania has clearly swept the world when his likeness appears on a product called Obama Fingers. Now we know are President has all of his digits, so to be clear, the product is a line of fried chicken fingers with a side of curry dipping sauce.

Entertainment properties aren't only taking the produce aisle by storm, but in Europe it is quite prolific in licensing into wide ranging categories from Bob the Builder liver sausage and Disney lunchmeat to Winnie the Pooh ice cream and Princess cookies. Disney, the world's largest licensor, reports it expects double digit growth from its food licensing initiatives this year alone.

Wine & Spirits: Is there any product Ed Hardy hasn't licensed? The Christian Audigier licensing machine has churned out over 75 different licensed product categories including the seemingly mismatched category of wine.

The wine is bottled in France by the Castel Group and imported by Nicolas Wines in Connecticut.

The tattoo brand whose personality does not seem to meld with that typically associated with fine wine consumption, has alas proven that no category is too far of a stretch for the audacious businessman. Perhaps he is on to something.

A category is always looking to introduce new users and this is certainly a way to appeal to a demographic who might not otherwise wish to make the leap.

Adding a kick to the spirits category, Heaven Hill Distilleries has introduced



TABASCO brand Spicy Tequila. A drink called the Prairie Fire has long combined Tequila with TABASCO pepper sauce, so now consumers – who don't have a mild palette – can get a real jolt with this product.

Another soon to be entrant into the Tequila category is Justin Timberlake with his 901 Tequila named after the area code for his home town of Memphis. AsomBroso Tequila Company is behind the venture which is supposed to release product to select markets very soon.

New realities for structuring deals

Despite the relatively good news in the food and beverage sector, structuring licensing deals in this environment requires all parties to acknowledge the realities of this economy and proceed accordingly.

Some brand owners still have the hubris of a few years earlier when a generous royalty rate went along with a hefty advance payment and even heftier guarantees.

Whether it is directly attributable to the economy or an inevitable progression in sophistication, licensees are becoming less willing to commit significant amounts of cash without some indication that their venture will be a success. Brand owners need to accept this new reality.

We are hearing that market testing provides a level of comfort before diving into the deep end with both feet. We are seeing a lot of deals structured with defined testing parameters and sales hurdles as triggers at key milestones throughout a deal.

For example, one major frozen food program had a benchmark for consumer concept testing before it could move forward to a regional launch.

Then, the regional launch needed to perform at pre-established velocity hurdles before it could move to a national launch. Then, the program needed to achieve certain distribution and velocity hurdles in order to trigger the multi-year renewal. At each of these key gates, additional guarantees and payments became due, giving both parties a level of comfort that the partnership was truly win-win.

Even existing programs aren't safe from this new reality. How do they spell relief? Apparently some licensing partners spell it R-E-D-U-C-E-D-R-O-Y-A-L-T-I-E-S. We and other agents are hearing more

and more requests to restructure deals in a way that can insure long-term success of the initiatives.

Such concessions are not given lightly, but only when the partners can openly discuss the input variables, pricing, competitive landscape and margins can they work together to decide what is in the best interest of the program.

Getting out of the mess

It is true that at times like this, the strong and well-prepared survive. We believe it will be much more challenging for certain types of lesser-known and more unproven properties to succeed. This is not an environment where many manufacturers, retailers and consumers want to take a pure gamble.

But, for strong brands that have established their promise in the minds of consumers, a licensing deal that can deliver that promise into a new category or channel of distribution can deliver the value the consumers are seeking.

Despite the less than stellar economy, we see brand licensing having an ever-growing role in the food and beverage sector.

More and more brands are tapping into the elasticity of their brands via licensing to communicate flavor and other benefits to adjacent product categories while satisfying consumers and retailers with excitement on shelf.

Particularly in a time when consumers want to spend their hard earned dollars on product they feel confident will deliver value, licensing will play a role delivering that reassurance.

So the consumer is out there, don't despair!

The economy is simply forcing a dialog among all the players around the table that was long overdue.

When smart people plan how a brand, manufacturer and retailer can provide consumers value via licensing, everybody wins. ■



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