



2008 Annual Food Licensing Report

by - Cara Bernosky

IMC Licensing represents more food and beverage brands and has done more food and beverage licensing deals than any other agency in the country. This 2008 report represents our overview of the activity in the food and beverage licensing sector.

According to The Licensing Letter/EPM Communications, corporate trademarks and brands licensed into food and beverage products generated \$6.7 billion in retail sales in 2007. While we believe this to be the most accurate study available, if it captured all of the entertainment brands licensed into the food and beverage sector, we believe this number would nearly double.

Powerhouse brands like Sunkist are generating over \$1.4 billion in licensed food and beverage product sales, while entertainment brands like Disney are generating over \$1 billion in this sector too. Add in other licensing stars like General Mills, Mars, Kraft, Dora the Explorer and TGIFriday's, and you can see how the numbers would easily exceed \$10 billion in retail sales.

Products, Products Everywhere!

In 2007 over 105,000 new products were introduced at grocery. For better or for worse, about 88% of these will fail. While there is no data on how many of these new product introductions carry licensed properties, we do see in our own work that our product survival rates far exceed these dismal odds. Why? We believe the coupling of a strong brand with an innovative product offering can make the difference in capturing and holding the attention of the fickle consumer.

While we could talk about new introductions and activity in every aisle of the store, we're going to highlight just a few of the major categories in this report.

Produce

Produce is a retail category that had little if any branding five years ago, but is now bustling with licensing activity. Most notably, entertainment properties like Disney and Dora have abandoned the sugary cereal and confection aisles in favor of more healthful alternatives. You name it – apples, carrots, edamame, bananas, tomatoes – all have licenses with popular properties to appeal to mom and deflect the scrutiny from consumer watchdog groups who chastised these brands for contributing to childhood obesity through their connection with less-than-healthy product offerings.



Is it working? As a mom, I certainly know that it has made getting through the grocery more challenging, but my kids still spit out the edamame once it's defrocked from its cute Dora pouch. That said, I'm still willing to try and, apparently I'm not alone. Fresh produce licensee Castellini reports sales increases of 11-44% across its product offerings bearing the NASCAR license over their unbranded offerings. Retailers like Hanaford are reporting that licensed produce is outselling conventional by 10%.



Beverage

There have been a several introductions into the beverage aisle, but I want to focus on just two. The first is particularly interesting because it is one of the strongest consumer product companies in the world licensing a brand IN to achieve what its own brand could not. Procter & Gamble, makers of the declining Folgers brand, licensed in the Dunkin Donuts brand for packaged coffee. (For those outside the Northeast, Dunkin Donuts is as much a coffee brand as it is a donut brand.) Having launched in Spring of 2007, its sales have already reached \$54 million and achieved 80% ACV; a clear sign that licensing is an effective tool to reach consumers.



Another notable introduction into the beverage category was PepsiCo's Gatorade doing a true licensing deal with Tiger Woods for Gatorade Tiger. Industry experts peg this deal to be worth up to \$100 million to Tiger over the five-year initial term; far more lucrative than their typical endorsement deals that are usually in the \$1 million range.

Snack Foods



Probably one of the most robust categories for licensing is in the fast-growing jerky category. A number of the leading players are supplementing their growth by licensing in distinctive flavor equities to offer differentiated product. Major players like Jack Link's hold licenses for multiple brands including A.1. Steak Sauce, KC Masterpiece and Louisiana Hot Sauce. Thanasi offers Jim Beam. And Bridgford has licensed the Sweet Baby Ray's barbeque sauce brand which rolled out to Wal-Mart last year and is rolling out to Walgreen's and other national accounts in 2008.

Inventure Group, formerly known as Poore Bros., has a history of success with licensing as the platform for growth in the snack food aisle. This strategy has helped them make a dent in the land dominated ruled by giant Frito Lay. The TGIFriday's snack food program, now in its eighth year, is doing \$45 million in sales. Inventure is hoping that redoing the packaging and look of the program will help reinvigorate sales for the future. In the meantime, they have taken on other brands like Cinnabon, which they have since abandoned, and most recently Burger King. While I'm clearly not the target audience for 'ketchup and fries' flavored chips, Burger King has embraced licensing as a way to deepen its relationship with its young male target audience. In the first quarter of program sales, they've achieved over \$1 million in sales, primarily through vending channel. Sales are certainly expected to rise as it penetrates mainstream distribution, hopefully leaving everyone totally stoked.

Bakery

Bakery is yet another part of the grocery store that had been largely untouched by licensing is starting to see some licensing activity. We are seeing manufacturers like BC Bundt and the retailers themselves licensing in brands like 7UP, Orange Crush and Dr Pepper to create fresh baked goods. It will be fun to watch what else this category can cook up as brands try to play a larger role in this part of the store





Canned Goods/ Condiments



Martha, Martha, Martha! We can't seem to escape Martha Stewart's domestic diva-dom wherever we go. Macy's, Kmart, now Costco, the lady knows how to employ licensing to build her empire as well as she knows how to whip up a mean frittata. The Costco relationship is an interesting one as the parties agreed to a co-branded relationship between Martha Stewart and Kirkland Signatures, the Costco private label brand. Thus far a signature holiday ham (complete with its muslin wrap that evokes fond memories of her childhood...) and signature soups have been introduced. Frozen foods are expected to follow.

Food, perhaps even more than any other of the categories she is in, is the trickiest to get right given Martha's standards but she also recognizes the potential for scale can be enormous since the products are consumable and can drive repeat purchases at a velocity much greater than home furnishings. And what we know about Costco's average sales per sku at the \$10-12 million mark per year, clearly this program could put up some major numbers as it expands.

And then there's Paula Deen. While she may not be at the Martha level, she too has an ardent fan base and has become quite a phenomenon in her own right. That said, I wonder if she has really found her sweet spot in licensing. She has a deal with Smithfield Specialty Foods for 20 different products including spices, seasonings, dressings and sauces. I wonder if this is really the deal that will allow Paula to achieve better distribution and more penetration of her to satisfy her fans.

Frozen Sweet

Now to one of my favorite sections of the store where there has traditionally been a lot of licensing activity. I am excited by Unilever's introduction of Goya licensed ice cream and frozen novelties as the growing Hispanic population indexes very high in grocery purchasing and is clamoring for products that appeal directly to their tastes.



Another product line adding some "entertainment value" to the ice cream category is the Dryer's Slow Churned American Idol line. Flavors like Mint Karaoke Cookie, Cookies & Dreamz and One Split Wonder aren't a traditional play on extending flavor equity, rather a play on usage occasion (American Idol time=ice cream time) and experiential equities where fans get to vote for the favorite ice cream.

Frozen Savory

Quite a bit of activity is also going on in the frozen savory part of the store. While I could have mentioned it in any number of aisles of the grocery store, Kraft's South Beach Living (formerly South Beach Diet, but re-branded to be more about a "lifestyle" than a "diet") program is one of the most significant licensed programs in the food and beverage category. Spanning 70 products and generating over \$250 million in sales, this is another example of a powerhouse company with mega-brands of its own sometimes turns to licensing to deliver an equity, speak to an audience or communicate a promise that their own brands can't.

Similarly, General Mills has licensed Mario Batali of Food Network fame for frozen pasta dinners for club stores, with the goal of tapping into the \$152 million club store market for frozen Italian entrees.

Now while I'm not one who ever really got into the Crock-Pot thing since I can't possibly think 8+ hours in advance about what I want to eat for dinner and get that process started while I'm eating breakfast, I know many do. And for those that do, I suppose shaving 30 minutes off the front end preparation really does simplify things which is the premise behind the Banquet Crock-Pot Classics meals that you simply need to put in your Crock-Pot and let cook all day. Hey, maybe I really could manage that while I'm eating my Cheerios...



Wine & Spirits

I don't know about you, but all of this licensing talk is making me thirsty! Let's talk a little bit about what's going on in the Wine & Spirits aisle. First, we have the larger than life personality of Donald Trump entering the category with a premium vodka via partner Drinks America. An unusual extension for a man who is a self-proclaimed teetotaler, but I guess that doesn't stand in the way of The Donald doing a deal. Now, in perhaps true Donald fashion, he claims the program has moved 100,000 cases, but the public filings of Drinks America don't seem to support such volume. [But, hey, why let the facts get in the way of a good story.]

Now, perhaps in a more believable mood-altering equity fit, Jerry Garcia wines seem to be well-regarded as a quality product and beautifully feature his art, for which he has built quite a reputation, on the label. This program from the Clos du Bois Winery, owned by Constellation Brands, is turning a respectable 30,000 cases per year.



Other activity in the space includes the Tommy Bahama line of two rums which industry sources rumor to be generating mediocre results; Willie Nelson Old Whiskey River and even a Dr. Dre premium cognac.

Conclusion

As we checkout of the grocery store with our cart full of licensed products, I expect that next year our cart will be even more full. At IMC Licensing we project the food and beverage sector to continue to grow at a rate of 10% per year over the next five years. It's an exciting time in the food and beverage licensing world as the brand marketers and manufacturers become increasingly sophisticated about how to use licensing as tool to achieve results that leave consumers craving for more.

