grasp

# … a licence to print money

In many ways, the licensing of brands into businesses was the hot marketing topic of 2004 with articles in all the major marketing and fast moving consumer goods titles. Supermarket shelves have seen more licensed products than ever before: from the traditional stock of children's characters to the latest diet solutions from the USA. But is licensing right for your business?

## Why license a brand into our business?

Licensing a brand into your business can offer you a number of advantages:

- **Access to the reputation of the brand** (and it's parent business) – Assuming your reputation is not as strong as you would like in a specific market, but string enough for the brand-owner to want to deal with you!

- **Tapping into the "call-to-action" in the brand's current marketing** (not just a reputation built through historical advertising) – Assuming the marketing supports the brand, not just a single product under the brand.

- **Creating trust in the end user, encouraging trial purchase of the new product** – Assuming that the category you are licensing into is logical addition to where the brand currently works, or (at least) very compelling one!

- **In a market dominated by commodity products, a high-profile brand can give you "stand-out" and economies of scale** (eg one product for many customers, and many channels)

- **All of the above can help prevent your competitors taking your business** – Assuming you are dealing with a strong player (eg brand leader in their home market), are first to market and/or have a strong positioning for the brand in your market … ideally all three!

## Where does licensing fit?

In deciding whether to get into licensing, or how to do it, it is important to consider all your options. Using someone else's brand in your business by "licensing it in" is one option on the spectrum of branding opportunities that are open to every business (in order of your increasing control) …

- Contracting-in an exterior brand (making something for a brand owner)
- **Licensing-in an exterior brand**
- Cross promotion with exterior brands
- Licensing-out your own brand
- Contracting-out manufacture of your brand
- Stretching your existing brand internally (into non-traditional markets)
- Developing and extending an existing brand (eg into similar markets)
- Forming a new brand.

Clearly, each of these options has very different cost implications that can also vary in their application between one market and another. If you are a branded business you could create a positive cash flow by "sweating" your brand equity through a programme of licensing it out.

Hamel and Prahalad assert that brand awareness has an "S curve"; **you need to spend massively to reinforce a brand before your customers start to recognise it and need less persuasion** (1994, p282-283). They quote a study that shows persuading customers to try a new product cost c.36% less for a brand that has been "stretched" onto a new product than for a new product under a new brand. In one multinational covered by the study only 30% of new brand launches were still selling, versus 50% of the stretched launches.

A survey of marketing directors revealed that **80% believed brand stretching would be the main way to innovate over the next 2-3 years** (Bashford, 2004, p35). Many of these businesses will be able to stretch their brands within their current operational competences, others will stretch beyond these and license-out the solution in some form.

## What brands should we look at?

Consumers are increasingly accepting of some surprising brand stretches: the Apple iPod is arguably the latest, most successful challenging pull in a new direction for a major brand. In other words, as you start to brainstorm the brands you could work with: **think big as well as small, and think laterally as well as literally**. Professional facilitation of such sessions can be useful to help big, lateral thinking.

Once you have your list of prospects, they can be filtered and prioritised through some simple exercises (again facilitation can help). grasp believes that the three key factors for deciding on a brand to licence-in are:

1. **Your ability to manage the incoming brand** (your positioning, budget, culture, management expectations)

2. **Your ability to genuinely add value to the incoming brand** to make a case to the brand owner that you are supporting their brand equity.

3. **The receptiveness of customers** (current or prospective) to the new proposition.

Once this "corporate fit" has been examined, it is essential to understand the best way to apply the incoming brand. It is quite possible (and sometimes lucrative) to repackage existing lines under a brand, a practice often disparagingly referred to as **"brand-slapping"**.

Alternatively intellectual development (rather than product development) can lead to a licensed brand being used as a promotional mechanic alongside an existing product brand. For example, Jacob's Crackers ran an on-pack "grand day out competition" within their Wallace & Gromit licensing programme.

Whilst many markets (giftware, clothing, "plush" soft toys) have had to develop products specifically for licences, other categories such as food and drink have been able to take easier routes such as those above. To avoid any licensed product being labelled a gimmick, it is increasingly common for them to be the result of a new product development process. Where this NPD is a significant departure from current product offerings**, it is a great idea to research the propositions** to:

- Identify winning and losing concepts
- Refine and improve the winning products
- Learn from the losing concepts
- Develop selling and marketing plans
- Assist with production forecasting.

**Ideally you will end up with your product under a new brand, and a whole that is greater than the sum of its parts** ... As you go through the licensing process you can also develop your business in ways that significantly outlive the licence agreement (eg acquiring brand marketing skills).

## At what point does a brand stretch "snap"?

Research will help you answer this question. It is may be important to be clearly differentiated with your new licensed-brand offering, but there is a risk in over-stretching a brand (bic underwear anyone?). You, and the brand owner, are unlikely to want to actively damage the equity of a brand by getting the balance wrong!

In other words, the research should be designed to tell you how "elastic" the brand is in terms of your core competences but also your customers' perceptions. Your thought-process and research should tell you what your customers and consumers find credible (but different). Virgin is usually elastic enough to stretch, but Vodka became a notable snap in 1998 (Bashford, 2004, p.35).

## Summary

- The benefits of licensing the right brand, in the right way, could be enormous.

- Careful consideration of all the brand opportunities is an essential first step, if licensing is right then creativity and imagination can produce some excellent ideas. Get an outside perspective if you can to help with this and with screening / prioritising ideas.

- Make contact, highlight the mutual opportunities and negotiate terms. Then refine your New Product Development concepts and research them thoroughly. Be careful not to stretch too far!

## References


Bashford (2004) *"Path to Extension"* Marketing, 24 10 04, p.35-36.

Davis (2004) *"Character Building"* Incentive Today, 10 04, p.16-17.

Hamel & Prahalad (1994) *"Competing for the Future"* Harvard Business School Press, Boston.

Hook (2004) *"Healthy Interest in Characters"* The Grocer, 23 10 04, p.49-50.

Max Publishing (2004) *"The Licensing Source Book"* Max Publishing Ltd., London.

Whiteling (2004) *"Joined-up Thinking"* Marketing Week, 21 10 04, p.41.



robin@grasp.org.uk
0794 112 9025
www.grasp.org.uk

grasp
**business development**