Brand Extension Thrives in Food and Beverage

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An increasing number of licensors are extending their brands into new product categories. These brand owners are finding that “brand extension licenses” can provide substantial marketing benefits and generate significant, ongoing royalty revenue. As a result, brand extension licensing continues to grow in food and beverage products.

Healthy Choice, Newman's Own and Snackwell's have shown that certain brands can be successfully extended across categories and venues. Other brands such as Del Monte, Dole and Sunkist have successful brand extension license programs that generate many millions of dollars in royalty revenue every year. Sunkist reports annual royalty revenues of $1.2 billion.

Why brand extension licensing?

Extending a strong brand into a new category is less risky than creating a new brand and can generate increased exposure for the brand across the store. Brand extension products are also less likely than traditional line extensions to cannibalize sales of the original brand. In fact, extending a brand into certain categories may actually intensify the brand image and enhance brand equity.

While there are many benefits to brand extension licensing, there is also the risk of diluting the brand image or brand equity. For this reason, it is important to carefully plan and manage the licensing program, and create controls and processes to minimize this risk.

The licensor should consider a variety of market trends when evaluating brand extensions: consolidation; demographic changes; and emphasis on “perimeter” department categories.

Consolidation is changing the packaged goods industry

There have been numerous food manufacturing mergers to counter the purchasing clout of as a result of recent supermarket mergers. The top five chains account for over 38% of U.S. supermarket sales, and Kroger’s sales at $49 billion are equivalent to nearly 13 % of total U.S. supermarket sales.

There has also been dramatic consolidation on the manufacturer side with over 1,000 mergers and acquisitions since 1997. It's a long list:

- Unilever acquired Ben & Jerry's
- Slim Fast, Best Foods
- Philip Nabisco Holdings merged Nabisco into Kraft Foods
- ConAgra acquired International Home Foods
- General Mills acquires Pillsbury
- Kellogg acquired Keebler Foods
- Pepsico acquired Quaker
- Nestle USA acquired Ralston Purina
- Suiza Foods and Dean Foods merged
- Sara Lee acquired Earthgrains Company.

Demographic shifts are creating new product opportunities

While the retail world is changing, the demographic mix of consumers is in flux. The ethnic population is booming, the senior segment is growing, and the eclectic Generation Y kids are expanding. Consumers are taking advantage of their channel options, and heavy category buyers satisfy their category needs across multiple retail channels.

Clearly, demographic changes are reshaping the U.S. food industry. Rising average age, growing ethnic diversity, and changing lifestyles are important trends. The baby boom generation accounts for nearly 77 million people between 37-55 or 30% of the U.S. population. These consumers focus more on nutrition and weight maintenance, have less time available for exercise, and their metabolisms are also slowing.

Children aged 5 to 17 are also an important group, and are projected to grow as a group to 52.4 million by 2005, according to Census Bureau estimates.

Perimeter categories are ripe for brand extensions

Some of the product categories accounting for the largest percentage of buying households are food, beverage and snacks. With almost 100% penetration, the top ten list includes: bread and baked goods, fresh produce, paper products, fresh meat and poultry, snacks, cheese, condiments, gravies and sauces, candy, milk and carbonated beverages.

According to recent studies, fresh produce, bread and baked goods bring consumers back into stores about every eight or nine days. So grocery retailers spend much time and energy focused against their perimeter departments.

Many marketers agree that it is these perimeter categories that represent excellent branding opportunities. Indeed, brand licensing has been successful in several “commodity” categories in the produce aisle: Green Giant, Mott’s, Welch’s, and Tropicana have all expanded into fresh fruit via licensing.

Perhaps the most important consideration for licensors is to understand and plan for the often too short life-cycle of new food products. For many licensors, this limiting factor is off-set by the many benefits of developing a new brand extension product with national distribution.

Author Bio

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