# Retailer Licensing Continues to Grow

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Consumer goods manufacturers are scrambling as a growing number of retailers gain control of powerful brands. Much to the dismay of brand marketers, retailers are securing licenses to develop exclusive products that attract more shoppers while reducing the shelf space they devote to the leading national brands.

Historically, food and drug retailers have used private labels and generics to offer their customers lower priced alternatives to national brands. For the most part, this strategy has been effective and private labels remain a dominant factor in many food product categories.

Over the past decade, licensed products have flourished in many food and non-food product categories. Companies with strong brands discovered that manufacturers were ready, willing and able to commit significant resources into building new licensed product lines. Indeed, licensed products are abundant in the housewares industry and retailers have taken notice.

## Retailers see growth in brand extension licensing

Today, retailers such as Wal-Mart, Target and Home Depot have found that new products in a wide range of categories can be quickly developed under license. These retailers have found that “brand extension” licensed products can be very appealing to consumers looking for something new and different, and provide exclusive products and greater profits.

Many consumer goods marketers believe that brand has become more important than ever before, and the only differentiator in many product categories. Brands with strong consumer recognition, relevance and loyalty have been successfully extended into new product categories for many years.

When a brand has a clear image, high awareness and consumer trust, the brand can have very strong consumer appeal in certain product categories. As a result, successful brands are in greater demand by manufacturers and retailers looking to differentiate their product lines.

Some things haven’t changed. Companies seeking to acquire strong brands have basically two options: buy or license. Licensing represents the lower risk option and an alternative to high purchase prices.

Consider two recent brand acquisitions: Salton, Inc.'s $137 million purchase of the George Foreman name and Disney Co.'s $350 million outlay for rights to Winnie the Pooh characters. Companies that can't afford to invest or risk that kind of capital often use licensing to secure the exclusive rights to a brand.

## Category killers are licensing major brands

Major retailers are using brand licensing to invigorate mature products. As retailers secure the rights to powerful brands and extend them into new products, it is a major shift in leverage and serious threat to the existing brands in those categories. Brand licensing has become a strategy for retailers to gain even more power and control in the sales of consumer products.

Examples of retailer licensed brands can be found in a growing number of categories: Wal-Mart's GE-branded housewares; Target's Phillips small appliances; and Home Depot's Scott's outdoor power equipment. K-Mart also had tremendous success last year selling over $1 billion of Martha Stewart home products.

## Licensors should proceed with caution

The key to success for brand licensors is to be very cautious and extend the brand only into product categories where the brand has relevance and appeal to consumers. Retailers need to work closely with licensors and licensees to ensure that new brand extension products are consistent in product quality-value, packaging-communications, and wherever possible, features-benefits.

Licensors must also weigh the pros and cons of entering into retail licenses, and carefully analyze the dynamics and trends of new product categories since these decisions can have a major impact on their core business.

Not surprisingly, brands are playing an increasingly important role in the trademark licensing business. Licensing industry reports indicate that trademarks and brands accounted for $18 billion, or 24%, of the $74 billion in retail sales of licensed products in North America in 2000.

Going forward, brand licensing should become even more prevalent as a strategy used by manufacturers and retailers. One thing is certain: the market leverage and power will continue to reside in brand owners. The question is, will it be manufacturers or retailers that control the brands of the future?

### Author bio

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