International Licensing of Foods and Beverages Makes Markets Truly Global

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Peter Paul Mounds and Almond Joy...well-known brands of American candy bars? Löwenbrau Pils...an imported beer? What about a Sunkist drink in Tokyo or Planters nuts in Singapore?

These and many other foods are actually produced and sold by a local firm under license from a foreign firm. The candy bars are brand names owned by the British food and beverage company Cadbury Schweppes and produced in the United States under license by the U.S. company, Hershey Foods. The beer, brewed in the United States under license by Miller Brewing Company, is a brand owned by the German firm of the same name.

And what of the "American" foods abroad? Planters nuts in Singapore are produced by Britannia Brands, Ltd., a Singapore subsidiary of the leading French food manufacturer, BSN, under license from the U.S. firm RJR Nabisco. Sunkist has licensed the Japanese firm Morinaga to produce Sunkist drinks for sale in Japan.

These are just a few examples of familiar brand names that are owned by firms in one country and produced and sold under license by other firms in other countries. Indeed, international licensing of food brands is widespread. Information gleaned from corporate annual reports suggests that the production of foods under license is at least as great as the value of actual food product exports and imports.

Licensing Expands Markets for Brand Products

It is commonly believed that firms sell foods in foreign markets either as exports from their home

Since the mid-1980's, international brand licensing has grown dramatically. A large share of the food manufacturing firms that engage in international brand licensing are beverage and confectionary producers.

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country or as products made in facilities they operate abroad. U.S. food manufacturers, for example, annually export more than $20 billion worth of products, many of which are brand-name foods. And, U.S. firms typically sell more than $80 billion in foods produced by their foreign affiliates.

Yet, that doesn't tell the whole story. A review of annual reports from 120 publicly held multinational food manufacturing firms with annual sales of $100 million or more revealed that at least half are involved in some form of international product licensing.

Many of these firms license foreign firms to use their brands (called outbound licensing), and produce goods under names licensed from foreign firms (inbound licensing). Where there are barriers to direct entry, outbound licensing is a means for a foreign firm to establish a market presence and, thus, generate some foreign earnings from its investment in developing a unique brand name and product image without having to manufacture the product. When changes in demand create a need for new products, inbound licensing represents an alternative to in-house development of a new brand. Consumers have access to a broader variety of products that better matches their shifting demands. Licensing arrangements between breweries in the United States and the United Kingdom illustrate the motivations and market conditions that often encourage international brand name licensing in the food industry (see box).

An international license, as referred to in this article, is a contract by a food or beverage manufacturer which owns a brand name that is well established in one country (the licensor), with a firm in another country (the licensee) to manufacture and sell the brand product in the licensee's home country and/or third countries. In

Licensing Beer Names Abroad: Keeping 'A Head' of the Competition

Facing import restrictions and intense competition, beer manufacturers have turned to licensing their brand names overseas as an alternative to exporting. A profile of the brewing industry in the United States and the United Kingdom (UK) provides insights into how licensing can expand sales.

The brewing industry in both countries is dominated by a few large firms with fringes of smaller firms. In the United States, the three leading firms—Anheuser Busch, Miller, and Coors—each selling a portfolio of brand-name, heavily advertised beers, account for 83 percent of market share. In the UK, brewing has been dominated by six firms: Bass, Allied Lyons, Whitbread, Scottish/Newcastle, Courage, and Grand Metropolitan, with a combined market share of 76 percent.

Although total beer drinking in the UK did not change much in the 1980's, there was a marked shift in consumption from bitter to lager, a type of beer similar to that consumed in the United States. (Lager is brewed with a bottom-fermenting yeast; bitter, the traditional-style beer in the UK, is brewed using top-fermenting yeast.) In the UK, lager is brewed and marketed nationally by the major brewers; local brewers typically produce only bitter.

As tastes shifted, the large UK firms acquired licenses to produce and market foreign brands of lager. For example, Whitbread brews Heineken (Dutch) and Stella Artois (Belgian). Courage, prior to its acquisition by Elders, brewed Fosters (Australian) under license and now brews Miller Lite under license. The license to brew Budweiser is owned by Grand Metropolitan.

In responding to changes in consumer demand, some UK firms apparently found it more profitable to acquire new brands through licensing than through independent product development. Others may have done so in response to their competitors' strategies.

However, this would explain only one side—the inbound side—of a license. To gain insight into the motivation for U.S. and other foreign firms to license their brand names to UK brewers, two additional aspects of the UK brewing industry are important. First, not only do the leading UK brewers own many brands, they also spend large sums on brand promotion and advertising. This conveys a strong commitment to the market by the incumbent firms, which is visible to U.S. and other foreign firms and may discourage their direct entry.

Second, the leading UK brewers, unlike their U.S. counterparts, are vertically integrated into retailing. During the 1980's, the top six UK firms owned more than half of the licensed pubs, which are tied to selling their owners' products. The large brewers have recently sold some of their pubs, following investigation by the UK Monopolies and Mergers Commission into this industry practice. They also own a number of retail outlets that sell beer and other alcoholic beverages for off-premise consumption. Consequently, firms entering the UK market could have problems gaining access to distribution channels. Therefore, direct entry may be difficult.

addition to exclusive use of the brand name, the licensor often provides some technical assistance for producing the product and maintaining quality control. The licensor may also provide a product formula or recipe, supply critical ingredients such as a flavoring extract, and render some financial help for advertising and other market-development activities. In turn, the licensee produces and markets the product in the specified markets and remits to the licensor part of the sales revenues (in the form of a fixed fee and/or per-unit royalty).

Brand name licensing of food and beverages has been used as a commercial activity in the United States for many years. For example, it has been common for leading soft drink manufacturers to license the domestic bottling and distribution of their products.

Such licenses have also crossed national borders. Cadbury Schweppes and Britvic Corona have long held license rights to bottle and distribute Coca-Cola and Pepsi Cola, respectively, in the United Kingdom. But since the mid-1980's, international brand licensing appears to have grown dramatically. A large share of the food manufacturing firms that engage in international brand licensing are beverage and confectionary producers (tables 1 and 2 illustrate firms that enter into licensing arrangements).

Licensing Offers Several Advantages

We examined trade literature and annual reports of many of the world's leading food manufacturers and conducted personal interviews with international marketing executives of several of these companies to gain insights into what motivates firms to engage in international brand licensing.

Licensing abroad offers advantages that a firm may be able to capitalize on in international markets—notably ownership, location, and internalization.

Ownership

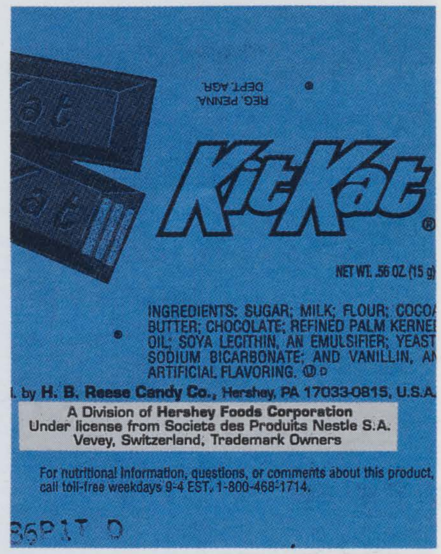
Ownership advantages refer to assets that are unique to the firm, which it wants to both protect and use to generate income. A licensee may have assets in the form of underutilized production, distribution, and/or merchandising capacity. The licensor's asset is the brand name and accompanying product image.

As evidence of such assets, we would expect both the licensee and the licensor to hold leading positions in their home markets and to be making substantial investments in promoting their brand names. For licensors, this leading position demonstrates control over a highly preferred brand or product image. For licensees, this leading position indicates control over an effective production, distribution, and merchandising capability.

Nearly all the firms sampled, whether licensor or licensee, hold a leading position in their home market for the class of product licensed. Forty-one percent hold the largest share of their home market, and 73 percent have either the number 1 or number 2 position. Fewer than 7 percent rank below the eighth largest.

The leading firms studied are equally aggressive in licensing a foreign firm to use their brand names and in selling products in their home market under license from foreign firms. Most executives interviewed said they would not license with another firm unless that firm was already successful in establishing a leading position in its own market.

The firms involved in licensing have made substantial investments in developing and promoting their products and brands. Advertising is one way of measuring such investment. The U.S. firms studied



Brand licensing is an important, but often overlooked, aspect of international commerce in food and beverages. Many familiar product names produced by U.S. food firms actually belong to foreign firms.

spent an average of nearly $350 million each per year for advertising. This level of expenditures is nearly 4 percent of the value of their annual sales, well above the average advertising-to-sales ratio for all food firms.

The book value of a firm's licensed brand names is another measure of a firm's ownership advantage. Albeit substantial, these are intangible assets. As such, they are difficult to value, and many firms do not include them on their balance sheets. However, for the companies in the sample that did so, the average value of their brand names exceeded 12 percent of their total assets. An unpublished study as reported in *Financial World* places the average value of 12 leading internationally licensed food brands at just over $7 billion each.

Locational Advantages

Firms can realize locational advantages from licensing by avoiding barriers to direct international

Table 1

U.S. Firms License Brand Names Out to, and in From, Foreign Firms

Liçensor	Brand name	Licensee
Anheuser-Busch (U.S.)	*Budweiser*	Labatt (Canada)
"	"	United Breweries (Denmark)
"	"	Guiness (Ireland)
"	"	Suntory (Japan)
"	"	Oriental Brewery (South Korea)
"	"	Grand Metropolitan (UK)
"	*Bud Light*	Labatt (Canada)
Hershey Foods (U.S.)	*Hershey's*	Fujiya Confectionery (Japan)
CPC International (U.S.)	*Knorr*	Ajinomoto (Japan)
Geo. A. Hormel (U.S.)	*Spam*	Newforge Foods (UK)
"	"	K.R. Darling Downs (Australia)
"	*Hormel*	Lee Tan Farm Industries (Taiwan)
"	"	Blue Ribbon Products (Panama)
"	*Bacon Bits*	K.R. Darling Downs (Australia)
Adolph Coors (U.S.)	*Coors*	Molson (Canada)
Kraft General Foods (U.S.)	*Kraft*	Epic Oil Mills (South Africa)
Miller Brewing (U.S.)	*High Life*	Molson (Canada)
"	*Miller Lite*	"
"	"	Courage (UK)
Kellogg's (U.S.)	*Kellogg's*	Ajinomoto (Japan)
Ocean Spray (U.S.)	*Ocean Spray*	Pernod Ricard (France)
"	"	Ranks Hovis McDougall (UK)
"	"	Cadbury Schweppes (Canada)
"	"	Pokka (Japan)
Sunkist Growers (U.S.)	*Sunkist*	Morinaga (Japan)
"	"	Haitai Beverages (South Korea)
"	"	Rickertson (Germany)
"	"	Cadbury Schweppes (UK)
Welch Foods (U.S.)	*Welch's*	Cadbury Schweppes (Canada)
RJR Nabisco (U.S.)	*Planters*	Britannia Brands (Singapore)
Cadbury Schweppes (UK)	*Cadbury*	Hershey Foods (U.S.)
"	*Peter Paul Mounds*	"
"	*Almond Joy*	"
Rowntree Mackintosh (UK)	*Rolos*	Hershey Foods (U.S.)
"	*Kit Kat*	"
Haute Brasserie (France)	*Killian's Red*	Adolph Coors (U.S.)
Sodima (France)	*Yoplait*	Yoplait Foods (U.S.)
Löwenbrau (Germany)	*Löwenbrau Pils*	Miller Brewing (U.S.)

trade—a concept often referred to as tariff-jumping. Examples of such barriers are import tariffs and quotas, transportation costs, and local commercial practices. Obviously, licensing local production in a foreign market is a way to avoid import tariffs or quotas. Licensing the brand name rather than exporting the physical good can reduce transportation costs, particularly for bulky and perishable finished goods, such as bottled beverages.

Table 2

Foreign Firms License Food and Beverage Brand Names in Other Countries

Licensor	Brand name	Licensee
Arla (Sweden)	*L + L*	Morinaga (Japan)
Bond (Australia)	*Castlemaine XXXX*	Allied Lyons (UK)
"	*Swan Premium*	"
Brasserie Artois (Belgium)	*Stella Artois*	Whitbread (UK)
BSN (France)	*Kronenbourg*	Courage (UK)
Elders (Australia)	*Fosters*	Beamish & Crawford (Ireland)
"	"	Pripps (Sweden)
Guinness (Ireland)	*Guinness Stout*	Elders (Australia)
Lutz (Germany)	*Lutz*	Nichieri (Japan)
Morinaga (Japan)	*Bifidus Yogurt*	St. Herbert (France)
"	"	Südmilch (Germany)
"	*Morinaga*	P.T. Enseval (Indonesia)
Unilever (Netherlands)	*Lipton*	Morinaga (Japan)
United Breweries (Denmark)	*Carlsberg*	Photos Photiades (Cyprus)
"	"	Beamish & Crawford (Ireland)
"	"	Suntory (Japan)
"	*Tuborg*	Frydenlund Ringes (Norway)
"	"	Unicer (Portugal)
Cerveceria Modelo (Mexico)	*Corona*	Molson (Canada)
Kirin (Japan)	*Kirin*	"
"	"	San Miguel (Hong Kong)
Labatt (Canada)	*Labatt*	Vaux Brewery (UK)
Löwenbrau (Germany)	*Löwenbrau Pils*	Allied Lyons (UK)
"	"	Molson (Canada)
"	"	Asahi (Japan)
"	"	San Miguel (Hong Kong)
"	*Löwenbrau Strong*	Allied Lyons (UK)
Jacob Suchard (Switzerland)	*Sugus*	Nestlé Produtos Alimentaros (Portugal)
"	"	Beacon Sweets (South Africa)
"	"	Sanborn Hermanos (Mexico)
"	*Toblerone*	"
"	*Milka*	"
"	*Suchard*	"
"	"	Tong Yang Confectionery (South Korea)
"	"	Nestlé Produtos Alimentaros (Portugal)
"	*Van Houten*	Chocolate Products (Malaysia)
"	"	General Food Industries (Indonesia)
"	"	Sunshine Allied (Singapore)

As in the case of the beer market in the United Kingdom, licensing can provide a way around restrictive local commercial practices (see box).

A strong signal by an incumbent firm that it will fight the entry of others through aggressive competition, such as intensive advertising or sharp price cuts, can also be an effective entry barrier. Licensing avoids competitive fighting against the foreign brand by the domestic licensee.

Internalization

While a manufacturer could sell a product to a foreign reseller at relatively small transaction cost, the product's quality may be undermined by imprudent handling or merchandising. To protect its product's reputation, the manufacturing company has an incentive to do its own reselling and "internalize" the transaction.

License agreements typically substitute for such internalization by including a quality-control regime that grants the licensor the right to monitor product quality prior to sale. Thus, the licensor and licensee are jointly responsible for protecting the quality and image of the branded product.

Other Reasons for Licensing

We could not find data to measure entry barriers, excess capacity, product quality, and consumer demand for product variety as possible inducements for licensing. However, virtually all of the interviewed executives mentioned these as factors influencing their international licensing strategies.

U.S. Firms More Aggressive in Licensing Abroad

U.S. firms appear to be somewhat less aggressive in pursuing inbound licenses than in licensing the use of their brand names abroad. Our discussions with executives suggest several possible reasons. First, there is a perception among some U.S. executives that American consumers prefer an imported product to a foreign-brand product manufactured in the United States. Second, the large size of the U.S. market may mean that leading U.S. food manufacturers can realize most advantages of size without handling additional products under license. Third, some U.S. food manufacturers have purchased foreign brand names rather than "rent" them through a license. Fourth, a number of leading foreign food manufacturers have built or bought factories in the United States to produce their brands directly for the American market.

All told, it may be that U.S. food firms have an international comparative advantage in developing their own successful brand-name food products—an advantage that translates into more outbound licensing than inbound licensing of brand names.

Making Markets Truly Global

Brand licensing is an important, but often overlooked, aspect of international commerce in food and beverages. Many familiar product names produced by U.S. food firms actually belong to foreign firms. And, an even larger number of American brands of foods consumed abroad are actually produced abroad under license from American firms. Through outbound licensing, U.S. firms extend their reach to foreign customers. Through inbound licensing, they supply U.S. consumers with foreign foods that otherwise might not be available.

Brand name licensing is rational behavior—the licensor gains by capitalizing on its good name in a foreign market, the licensee gains from expanded sales and more efficient operations, and consumers gain from a greater variety of foods and beverages. Brand name licensing is a further example that food markets are becoming truly global.

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