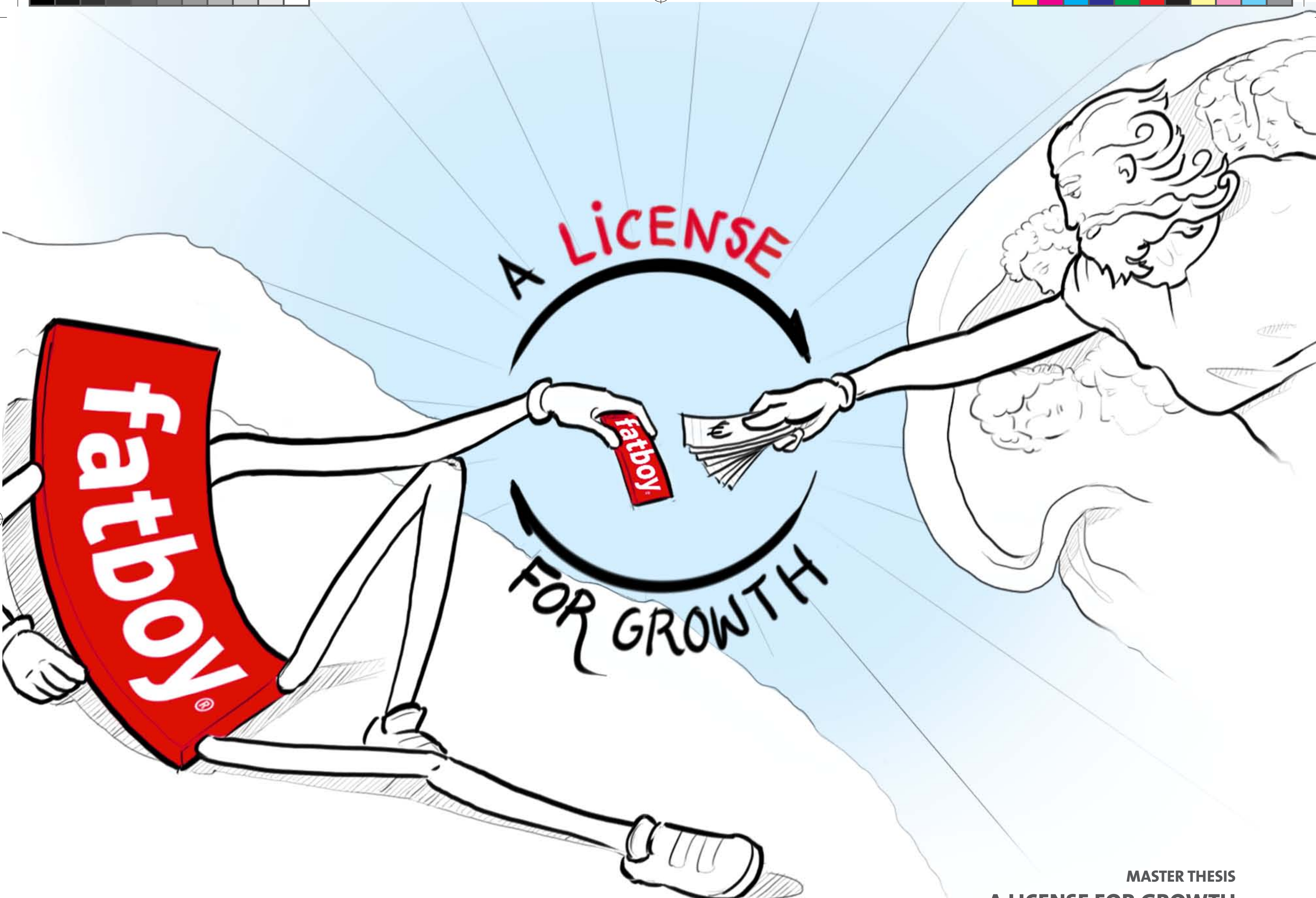

MASTER THESIS

A LICENSE FOR GROWTH

AUTHOR: T.A. TOLL

OCTOBER 2012

DELFT UNIVERSITY OF TECHNOLOGY

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PREFACE

The report you are about to read is a documentation of my graduation project from the faculty of Industrial Design Engineering (IDE) at the Delft University of Technology (DUT). At the same time it is a closure of a ten year study period, of which the last six at this faculty. The master program I followed is called Strategic Product Design (SPD) and focuses on all strategic aspects around product design, from innovation to market introduction, using left brain logic and right brain creativity.

This report includes an advice for Fatboy regarding brand licensing, which is the main topic of this project. It was written for Fatboy so that they can readily use and benefit from it.

I approached this graduation project rather broadly by thouroughly examening the Fatboy brand (including internal interviews). I also took the liberty to provide my point of view on how the Fatboy vision, values, and brand promise which in my opinion could be tweaked to increase the consumer relevance of the brand. My vision, however, is not included in this report for two reasons.

Firstly, refining a brand asks for an intensive process with all Fatboy key players and external experts involved. My vision might be usefull as example, but does not cover this intensive process with all keyplayers.

Secondly, as mentioned on the left, the focus of my graduation project, thereby this report, was licensing only.

Illustrations are provided to understand licensing compared to other brand extension types (i.e. outsourcing and co-branding). These illustrations (appendix D. and attached poster) include actor networks, value chains, and a criteria flow for when to opt for which option. Theoretical background and definitions can be found at the end of this report (Appendix A.)

The style and layout of this report are kept simple and clean, compatible with the Fatboy tone of voice. I truly hope you will enjoy reading this report, and even get some insights in the world of licensing. For questions regarding licensing, my project, or my recommendations and vision regarding a brand refinement, please do not hesitate to contact me at all times.

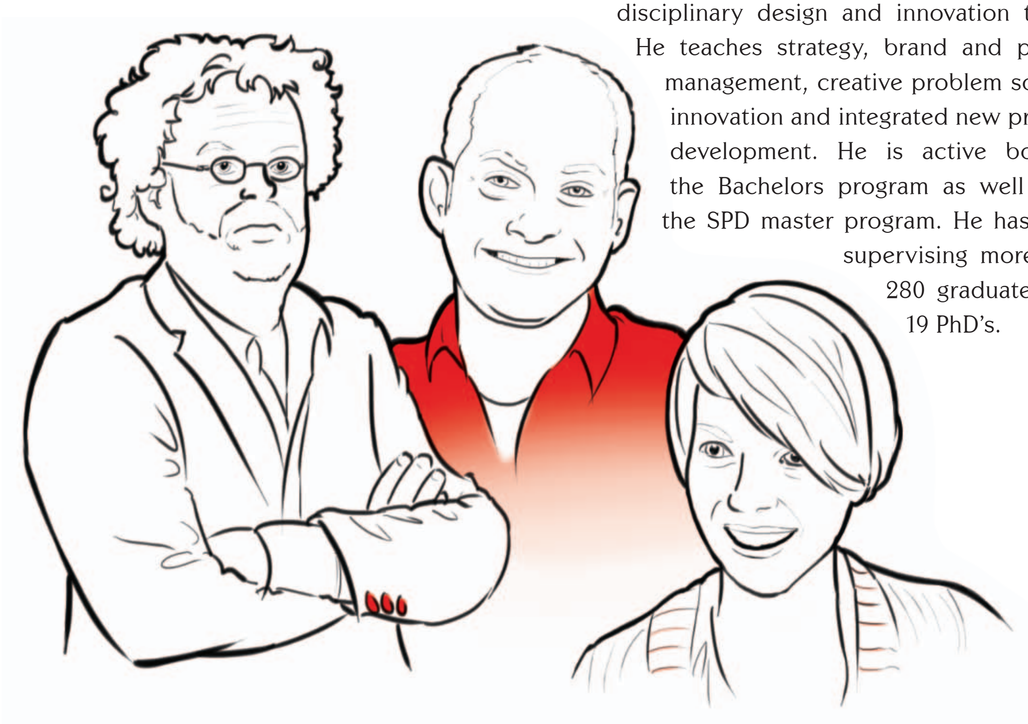
SUPERVISORY TEAM

In conducting this graduation project, I was guided by a supervisory team consisting of three persons: Jan Buijs as chairman of the team, Erik Roscam Abbing as mentor, and Femke de Jonge as company mentor.

PROF. DR. IR. J.A. BUIJS

Jan Buijs (1948) is for more than 25 years full professor and chair in product innovation and creativity at the IDE of the DUT. He was educated as an industrial design engineer (MSc in Delft 1976), and received his PhD (also in Delft) in 1984. Before working at the DUT he spent ten years as a management consultant.

He is responsible for research in management of product innovation, creativity and multi-disciplinary design and innovation teams. He teaches strategy, brand and project management, creative problem solving, innovation and integrated new product development. He is active both in the Bachelors program as well as in the SPD master program. He has been supervising more than 280 graduates and 19 PhD's.



IR. E. ROSCAM ABBING

Erik Roscam Abbing (1969) also has a background in Industrial Design Engineering. He worked for 10 years as a product designer (Flex the innovation lab, Zilver product design) before he embarked on a masters in design management. He wrote his graduation thesis on brand driven innovation and the subject hasn't been from his mind since. Erik combines strong analytical skills with a great passion for branding and design, and a strong empathy for his clients. Next to his consultancy work for Zilver, Erik teaches at the Delft University of Technology (Brand and Product Strategy) and at Eurib in Rotterdam.

IR. F. DE JONGE, BRAND DIRECTOR

Femke de Jonge (1983) started her professional career at Fatboy after finishing her graduation project for them. Currently she fulfills the role of Brand Director within the company. Her background is from the same faculty at the DUT. She followed the Strategic Product Design master program from which she graduated Cum Laude.

ACKNOWLEDGEMENT

I like to thank everyone who helped, supported, guided, or inspired me during this project. But I would be unsatisfied not giving a few persons special attention:

To my supervisory team, thanks for all advice, guidance, and for trusting and believing in me doing it right. Femke, thanks a lot for giving me the opportunity doing my graduation project at Fatboy in the first place. I also like to thank you for the inspiring conversations we had, the personal coaching you gave me and your guidance and tips in writing my thesis.

Secondly, Jan and Erik. Jan thank you for being patient with me and your infinite experience in coaching, and the field of innovation. Thank you for reminding me to focus on the essence only. Erik, thank you for your inspiring, practical and pragmatic comments and viewpoints regarding my project. It helped me to focus and set priorities.

Thirdly, I would thank all Fatboy employees I interviewed who shared their viewpoints and thoughts with me for understanding the Fatboy brand. Tanks Danny, Denise, Cheryl, Floortje, Leendert, Lotte, Neco, Patrick, and Philip. Also the rest of the Fatboy family for all Friday afternoon drinks, sometimes even ending in the middle of the night. Especially I would like to thank Danny and Cheryl. Thanks for all the fun and laughs we had.

Furthermore, during my project I exchanged thoughts with several experts in the field of licensing. Thank you Adam Bass (founder of Golden Goose, London, United Kingdom), Pete Canalichio (CEO at The Atlanta Dream, United States of America), and Stephanie Raber (co-founder of PS Not Just Another Agency, Amsterdam, the Netherlands) for reserving time and sharing thoughts with me.

Personal appreciation goes to mom, dad, Bram and Lilian. Many thanks for the moral support and your comments and fruitful thoughts. You know I love you.

During the first few months I worked quite a lot at Brainlab. Rik, thanks to your hospitality I did not have to get up too early. Thanks for staying at your place.

Thanks Ron for reviewing my report and your support. Thanks to all other friends who gave me the chance to escape reality every now and then. You guys recharged me.

Also many thanks to my fellow graduates Aernout and Jelle. Thanks for all conversations, discussions, reflections, and reviews while enjoying a coffee or beer. We did it guys!

Finally, there is one more special person I really like to thank: Asher Cohen. Thank you for listening, being patient and guiding me. I've learned a lot with and from you during our laughs and discussions. Thanks for your knowledge, hospitality and embracing me as a friend.

Tommy Toll

ABSTRACT

Fatboy aspires to be a lifestyle brand serving their consumers in their daily life with playful and edgy, yet simple and stylish products. The question from the Fatboy stakeholders is:

Can licensing the Fatboy brand be used to generate extra revenue, as if so, how?

Licensing is a form of brand extension that enables a secondary firm to use the name, logo and tone of voice of a brand owner in order to develop, market and sell its own goods in turn for a royalty fee. All within an agreed territory, for an agreed period of time.

To be able to provide tailor-made advice, we first examine the Fatboy brand as is. This helps us to understand how licensing could fit their business. In this context, theory is reviewed regarding branding, portfolio extension, and licensing in particular. All to be find in appendix A.

Illustrations are provided to compare licensing to other brand extension types (i.e. outsourcing and co-branding). These illustrations (appendix D. and attached poster) include the actor network, value chain, and a criteria flow when to opt for which option.

Combining theory with the Fatboy brand objectives, culture, and past experiences, the author advices Fatboy to only use licensing if:

1. New knowhow is needed that is not (yet) available to Fatboy.
2. A distribution channel is needed which is not available and in which Fatboy can not or will not invest.

However, in both cases Fatboy should adhere to a strict set of criteria to make a go, no go, decision. Key is whether the new proposition fits the Fatboy brand concept. In case of choosing licensing anyhow, several steps are conducted to set up a proper licensing deal (page 38 and the attached poster)

Licensing brings great benefits for companies who want to extend their portfolio with non-core business products without the need for unique design or radical innovation.

Part of the Fatboy brand equity are their unique category interpretations and product design. Strict control is therefore recommended should they want to ensure that all brand extensions are designed consistent with the brand values.

Moreover, Fatboy should also determine which parts of the value chain they want to control under all circumstances. To do so, Fatboy may consider to always do the concept development and detailing themselves. This implies that a licensee would only produce and distribute the portfolio extension.

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GETTING

STARTED

PROJECT LAUNCH

EMERGENCE

In 2012, Fatboy celebrates their tenth anniversary. It all started back in 1998 when Finnish interior architect Jukka Setälä - who graduated from the University of Art and Design Helsinki - came up with an oversized beanbag, called the Original. In 2002 Dutch entrepreneur Alex Bergman brought this beanbag to the Netherlands and immediately created a portfolio of similar products. The company Fatboy the original B.V. was born.

From this moment on the company has grown in employees, countries they are selling in, and portfolio size. This portfolio has grown to around 25 items available in different fabrics and colors. To date, the Original is still their best-selling product, and no other proposition has become as iconic as this beanbag.

CHALLENGE

So far, brand awareness of Fatboy is mainly driven by *the Original*. Other products appear to be less present in consumers' minds. This gave Fatboy the label of being a beanbag brand. Because of its great success the last years, many copycats and other competition arose. In addition, companies such as Fatboy experience financial pressure due to the global recession.

To stay ahead of competition and generate revenue growth, Fatboy has chosen to accelerate innovation and add more blockbuster products to their portfolio. To this end a Brand Innovation & Marketing Council was set-up. The Creative Director, Brand Director, Marketing Manager and CEO work closely together to decide on matters of brand strategy, innovation, and marketing priorities as well as on budget and resource alignment. Key in this effort is to make sure that long term brand building and short-term revenue generation do not conflict.

ASSIGNMENT

The shareholders want to know whether brand licensing can be used as a brand portfolio extension strategy for Fatboy to achieve short-term revenue generation. Note that this project only examines licensing the Fatboy brand as a portfolio extension strategy not visa versa or other strategies i.e. outsourcing or co-branding. However, to fully understand licensing, a comparison is made between licensing and the other two extension executions (appendix D. and attached poster). Accordingly, the assignment is:

Can licensing the Fatboy brand be used to generate extra revenue, and if so, how?

THE FATB

OY BRAND

This first section describes the current state of Fatboy. Only the aspects relevant for answering the assignment will be addressed.

FATBOY AS IS

COMPANY MISSION

As stated in the assignment description, Fatboy wants to shift from being a 'beanbag brand' to being a lifestyle brand. This is an ongoing process for the past few years. With their portfolio they try to convey the lifestyle message through a variety of products (page 18).

PLAYING FIELD

The Fatboy playing field can be described as indoor and outdoor lounge living environments, i.e. home furniture for indoor and outdoor usage to live and lounge. This includes lighting and accessories. The current portfolio is clearly focussed on the consumer's home, garden, or park. Furthermore, Fatboy distinct *relaxed indoor*, *relaxed outdoor*, and *relaxed on the move*. With on the move they mean products which easily can be brought to other locations such as their Edison the Petit, a portable and rechargable light (page 18).

Indoor and outdoor lounge living environments to relax and recharge your everyday life.

SOURCE: DISCUSSION WITH BRAND DIRECTOR

ACTOR NETWORK

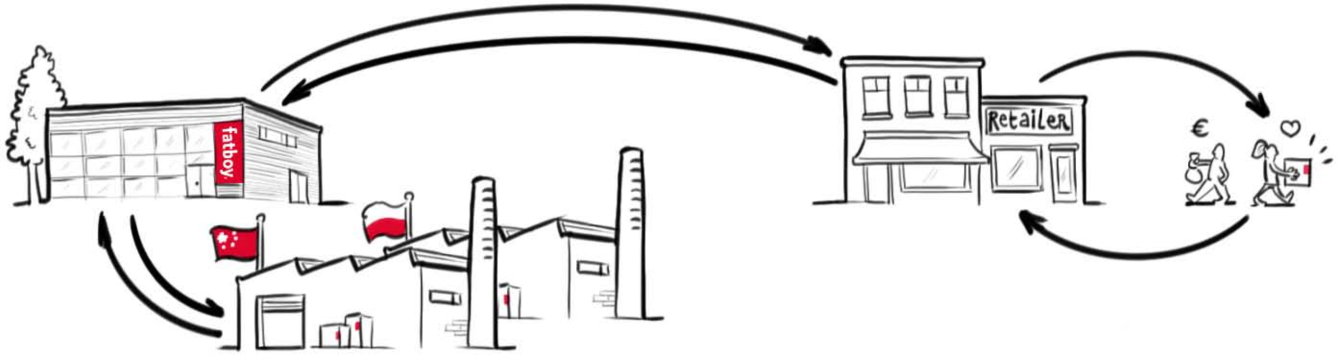
To understand the way Fatboy is running their business, we should take a closer look at the actors involved. The top image on the next page shows the connections and interactions between these actors.

The Business Model Canvas is used as an underlay in order to function as a checklist for all stakeholders involved. Running a business is about the interaction between all stakeholder and what value they exchange. Therefore the author used *Network Focused Design* founded by creative platform *Booreiland*, combined with the principal of the *Business Model Kit* designed by *The Board of Innovation*.

THE BUSINESS MODEL CANVAS
Strategic management and entrepreneurial tool. It allows you to describe, design, challenge, invent, and pivot your business model.

NETWORK FOCUSED DESIGN
A hands-on approach to design Meta Products. It guides you to think in networks and to focus on the relationships that build them.

BUSINESS MODEL KIT
Designing business models is about multiple revenue streams, tens of partners, and many transactions going back and forth. The Business Model Kit helps in a visual way to create overview.



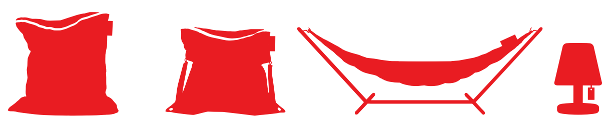
PORTFOLIO

As stated earlier, Fatboy started with an oversized beanbag. From there, the firm developed diverse products for usage indoor, outdoor, or both. Fatboy uses bright colors, a recognizable oversized red label, high quality, and playful naming.

They offer oversized products for a relative higher price segment trying to make a statement, combined with smaller and lower priced items. In this way Fatboy wants to cover a broad product range and serve a wide audience. For each item they offer, Fatboy has made an icon, shaped as the product silhouette as seen on the right. In this way Fatboy communicates the simplicity of their products. Current blockbuster products are the Original (1), the buggle-up (2), the Headdemock (3), and Edison the Petit (4). These, and most other products, are in a high-end category with premium prices.

PRODUCTION

Since this project is about portfolio extension, it is important to understand Fatboy‘s manufacturing capabilities. Fatboy does not own a production facility. Instead they outsource production to preferred suppliers located in China, Poland, and the Netherlands. Their suppliers are able to work with diverse textiles, plastics, steel, and even electronics for lighting.



1. 2. 3. 4.


Edison the Petit
portable & rechargable
fatboy
DELETING DULL

DISTRIBUTION

Distribution is key to connect the target group with the propositions. When extending a portfolio, new additions may require new distribution channels. Therefore it is important to first analyze the current channels of Fatboy. These are divided into business to consumers and business to business channels. The first are via consumer retailers, the latter to other companies for their customers or clients. Table 1.1 shows an overview of the channels Fatboy has. In addition, Fatboy works with agents who can be seen as Fatboy brand representatives with their own channels.

ORGANIZATION

CULTURE

Communication at the Fatboy headquarters is very informal. Everybody is treated equally regardless of his/her role in the organization. This makes it a dynamic environment to work at, with fun and pleasure as core values. Besides their enthusiasm, Fatboy is a company willing to change when necessary. Fatboy strives to turn any collaboration with outside parties a fun experience for all involved.

STRUCTURE

There is no hierarchy between departments. Althoug, the CEO and management team are on top of all departments to lead and stear the company as intended.

BUSINESS TO CONSUMERS	BUSINESS TO BUSINESS
- High-end furniture stores	- Savings projects for a company's customers
- Luxurious gift shops also selling brands such as Bodum and Eva Solo	- Project developer
- High-end outdoor retailers	- Interior architects
- A few design stores	- Business and holiday gifts, e.g. Christmas
- Web-shops such as www.fonq.nl	- Event organizer
	- Renting companies
	- Hotels, restaurants, beach clubs, etc.

TABLE: 1.1 DISTRIBUTION CHANNELS FATBOY

LICEN

ISING

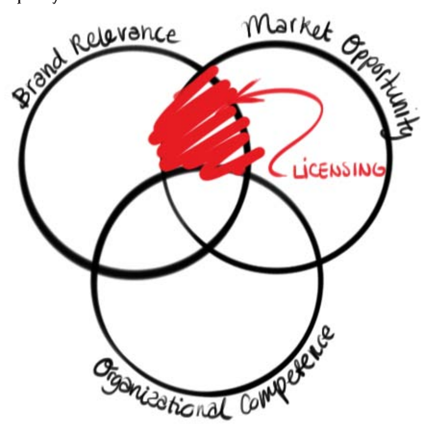
To address the earlier introduced graduation question, we must explore what licensing is about including benefits and pitfalls.

INTRODUCTION TO LICENSING

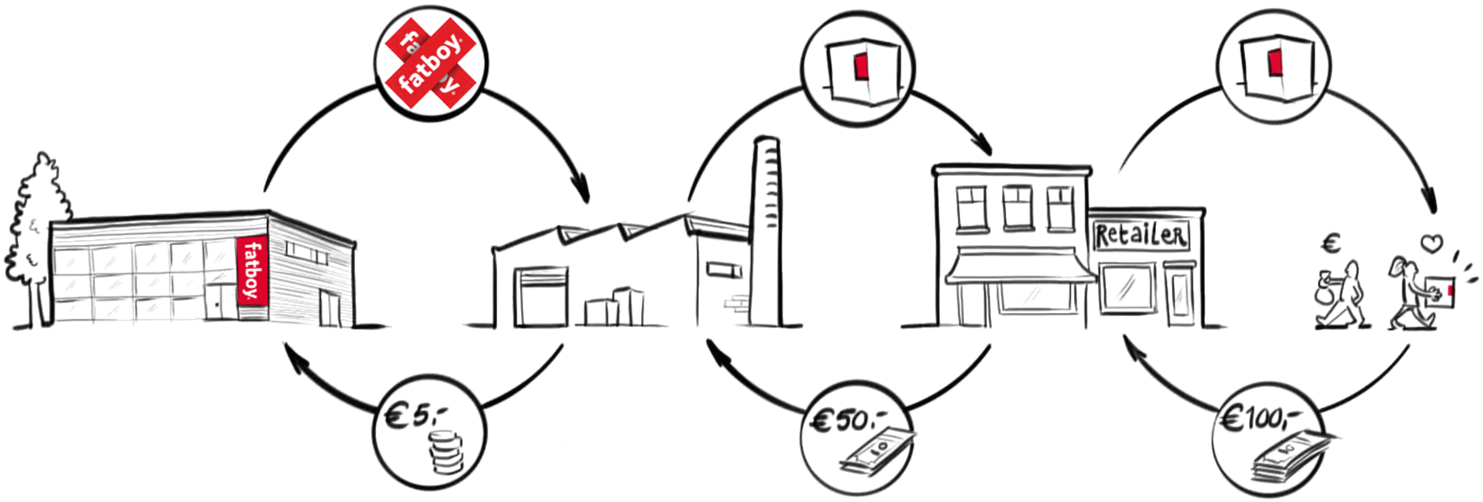
The verb license means to give permission for something. The noun license refers to that same permission as well as to the document recording that permission, i.e. the license agreement. As mentioned earlier, licensing is defined as a form of brand extension that enables a firm to use the name, logo and tone of voice of a brand owner in order to develop, market and sell its own goods in return for a royalty fee. All within an agreed territory, for an agreed period of time (Keller, 2008, p.301).

Currently, Fatboy offers beanbags and parasols with a licensed Marimekko pattern. Marimekko is a Finnish textile and clothing design company renowned for its original prints and colors. In these cases, Fatboy pays royalties to the Marimekko company for using their name, logo, and prints. Thus licensing also works the other way around for Fatboy. However, the project assignment is about how to increase the Fatboy portfolio by making use of their own carefully build brand equity, not visa versa.

Licensing can therefore be seen as a tool to innovate outside a company's current market category and competence. The licensee, or manufacturer, gets access to all positive aspects of the brand owner such as the trademark and reputation to increase their sales. Using this approach, a parent brand may get even more brand exposure in both existing and new markets without having to manufacture or distribute the new item (Taylor, 2004). In this way both parties can increase their income stream and build on their brand equity.



name, logo and
tone of voice



royalty fee, e.g. 10%
+ access to new consumers

net sales

consumer
price

THE SPECTRUM

Licensed products are all around us and range from merchandise items such as pens, mugs, or key chains, to products such as clothing, toys, books, or even music. The most extreme variant is franchising where the licensee has little free space. On the right several examples are provided to get a feeling of the possibilities.

CHARACTER LICENSING

When popstars, sports heroes or any other character, alive or created are licensed. This does not apply for Fatboy since they lack a character or mascot.

CORPORATE LICENSING

When a brand name, logo, tone of voice, or company identity are licensed. This could be suitable for Fatboy.

MOVIE > MERCHANDISE

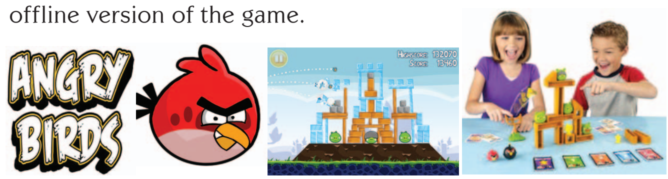
Pixar's animation Brave was, just as with many movies, supported by diverse merchandise items.

MR. CLEAM >

When Proctor & Gamble (P&G) launched their Mr. Clean brand in the 1960's, consumers expected the brand also to come up with supporting products such as mops, buckets, or wipes. Instead of developing, producing and distributing these items themselves, P&G granted other manufacturers to produce these items carrying the Mr. Clean brand name and logo.

ANGRY BIRDS > HARDWARE

The popular software application was translated into an offline version of the game.



NY > NEW ERA CAPS

New Era produces mainly all baseball caps, including for the New York Yankees

HUGO BOSS > PERFUME

Many fashion brands extended their portfolio with perfumes or other cosmetics.

SUNGLASSES

Close to fashion are asseccoiries. Sunglasses may fit a brand well and complements it while adding value.

PAUL FRANK > STATIONARY

Close to fashion are asseccoiries. Sunglasses may fit a brand well and complements it while adding value.

JACK DANIEL'S > FOOD

Jack Daniel's Properties Inc., well known for their Old No. 7 Tennessee Whisky, extended into the food category by licensing their brand for ready to eat meat.

FERRARI > CLOTHING AND LIFESTYLE PRODUCTS

Ferrari offers a wide range of Ferrari branded products, Their initial proposition was the sports car and now they expanded to pens, plush dolls, football shoos, watches, and even a fitness home training device. None of them are produced by Ferrari themselves, yet all are characterized with their Ferrari-red color.

G-STAR RAW

Fashion brand G-Star RAW launched multiple clothing stores via a licensing strategy. All stores convey the same message.

INTRATUIN

Besides retail interiors, employees wear the same uniform to convey one message across all stores throughout the country.

BENEFITS AND ADVANTAGES

This chapter summarizes licensing benefits according two stakeholder perspectives: brand owner and licensee.

BRAND OWNER'S PERSPECTIVE

Four potential benefits for Fatboy can be distinguished:

1. Expertise benefit
2. Distribution benefit
3. Time benefit
4. Risk benefit

1. EXPERTISE BENEFIT

Licensing enables a brand owner to profit from the skills, expertise, expansion capital, or other capacity of a licensee. That being the case, many offsprings can be created in very diverse categories (i.e. category extension) of which the brand owner has no knowledge or experience at all. Brand extension can therefore be used to exploit the brand equity (Aaker & Keller, 1990).

For example Jack Daniel's Properties Inc. has a lot of knowledge in brewing the perfect bourbon. Yet processing food, sauces and marinades requires a different expertise. The company Completely Fresh Foods has this required expertise and was therefore the perfect partner for this licensing deal.

2. DISTRIBUTION BENEFIT

New type of propositions may require new distribution. Hiring and training a sales force or finding new retailers may cost quite some time and money that can be outsourced through licensing. A licensee may help reaching new demographic or psychographic market segments with the help of his existing channels. As a result, brand awareness will increase since new propositions may result in higher brand visibility (d'Astous, 2007; Aaker, 1990; Pitta & Katsanis, 1995; Tauber, 1981) and name recognition (Aaker, 1990).

Continuing on the Jack Daniels example, the ready to eat meat, sauces, and marinades needed to be sold at different places than their whiskey. In addition to the required expertise, the company Completely Fresh Foods also has the needed distribution channels.

3. TIME BENEFIT

With licensing, several steps from the value chain are outsourced (page 66). A value chain is a set of phases required to develop a new proposition. This outsourcing saves time compared to do everything inhouse. Especially when the manufacturer has a lot of experience with product types similar to the extension. In those cases, time to market can be shortened. The other time benefit is when the extension requires different launch cycles regarding a brand's current offerings, e.g. Ferrari clothing or fashion requires faster launch cycles than their cars. Licensing could fulfill this time benefit.

4. RISK BENEFIT

Since licensing imlies that development, manufacturing, storage, and distribution is done by an other player, little or no investment by the brand owner is needed (Gilbert, 2004, p.276). Therefore it is a relatively inexpensive and an easy way to enter new product categories were the licensee carries all financial risk (Taylor, 2004). Next to this, royalties will increase the revenue stream (Albanese, 2000-2001).

For example the portfolio of the Mr. Clean brand is complemented with products such as mops, buckets, or wipes without having to invest in production lines, molds, or distribution.

LICENSEE'S PERSPECTIVE

From licensee's point of view, a licensing collaboration can have two benefits:

1. Equity benefit
2. Awareness benefit

1. EQUITY BENEFIT

Building a strong brand that is favorable to consumers requires a lot of time, effort, and money. When a manufacturer owns a great expertise but lacks a strong brand, licensing could ben quite benificial. It provedes the manufacturer with a strong brand's assets including awareness and reputation. With licensing a royalty fee is paid in return for using such a strong brand instead of building it themselves/

2. AWARENESS BENEFIT

Licensed products are less likely to fail due to existing brand awareness and brand acceptance compared to new branded products. Associating a lesser-known manufacturer with Fatboy by a license agreement would be an effective way to strengthen the manufacturer's position (Saqib & Manchanda, 2008).

PITFALLS AND BOTTLENECKS

With licensing, many possible pitfalls may occur. This chapter highlights these possible pitfalls.

PITFALLS

Eight types of pitfalls can be distinguished. In the section on recommendations, I will come back to these potential pitfalls regarding Fatboy.

1. Development pitfalls
2. Expertise pitfalls
3. Distribution pitfall
4. Marketing pitfalls
5. Time pitfall
6. Commitment pitfall
7. Financial pitfalls
8. Legal pitfall

1. DEVELOPMENT PITFALLS

VULNERABILITY

A strong brand name only is not a guarrantee for the extension to be accepted and become profitable. The extension may be initially successful but vulnerable for competition on the longer-term (Aaker, 1990). This, so-called, logo slapping often results in portfolio blur. Consumers could perceive the company only financially exploiting the brand.

FIT VERSUS CANNIBALISM

Adding propositions without brand fit, may negatively affect the parent brand (Czella, 2003). Association dilution may occur, especially when there are multiple extensions without any coherence (Sharp, 1993; d'Astous, 2007). Creating coherence is therefore key priority for portfolio extension. On the contrary, if the extension is too similar to existing propositions from the same brand, cannibalism may occur. Cannibalism is when extension revenues come at the expense of other offerings of the brand (Ries & Trout, 1981; Aaker & Keller, 1990; Aaker, 1990).

ASSOCIATIONS

Positively evaluated parent brand or core product associations may be liabilities for extensions (Pitta & Katsanis, 1995) e.g. when soup brand Campbell's wanted to introduce their thick pasta sauces, they were associated with their thin soups and therefore negatively evaluated.

Although an extension itself may be successful, even on the long-term, it still can harm the parent brand's image by creating undesirable associations for the rest of the portfolio. In those cases, however, revenue may increase on the short-term, brand equity will be damaged and will decrease on the longer-term (Ries & Trout, 1981; Tauber, 1981; Aaker, 1990; Aaker & Keller, 1990; Pitta & Katsanis, 1995).

2. EXPERTISE PITFALLS

If the licensee's expertise is not as good as expected, negative brand associations regarding durability or performance may spill over to the rest of the company's portfolio (Sharp, 1993). Further extension in similar categories will be harder or even unaccepted (Aaker, 1990). Besides product quality, market understanding and expertise can be disappointing as well.

3. DISTRIBUTION PITFALL

Since licensing implies that distribution is performed by the licensee, Fatboy has less control over the where or via what channels will be sold.

UNAPPROVED RETAILERS

A scenario could be when high-end Fatboy products are sold at unapproved mass discount retailers. This will affect the brand image.

COMPETITION

Competing brands sold at the exact same place may harm sales of the licensed goods because price or quality differences (Meyer, et al., 1985).

4. MARKETING PITFALLS

IMPLEMENTATION

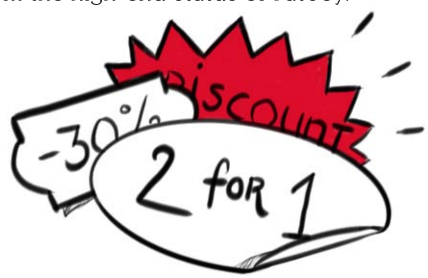
Carefully build brands can be diluted when a licensed proposition is bad implemented (Saqib & Manchanda, 2008). Due to the parent brand's logo, inferiorities will come at the expense of the parent brand since consumers assume that they are responsible for the quality, performance, warranties, and such (Meyer, et al., 1985).

TONE-OF-VOICE

All promotional activities such as advertisement or catalogue presentation influence marketing quality and brand appearance (Meyer, et al., 1985). With licensing, the licensee executes the marketing activities for the licensed items, which should be in line with the communication of Fatboy. In case of unsynced tone-of-voice, confusion at consumers may occur.

PRICE DISCOUNTS

Licensing would give a licensee the possibility of having huge discounts or other price reductions that may harm the high-end status of Fatboy.



5. TIME PITFALL

Time saving should be a benefit provided by licensing (page 27). However, this benefit can be undone if a licensee causes (unforeseen) delays in launching the proposition.

In such cases, sales may be missed. Especially when it concerns a productmeanyt for a seasonal activity such as a sports event or holidays.

6. COMMITMENT PITFALL

Over time, commitment of the licensee may decrease. In worst case scenario, the licensee uses Fatboy's resources and competences and turn into a direct competitive threat by producing and launching a slightly different proposition.

7. FINANCIAL PITFALLS

SHORT-TERM FOCUS

Short-term sales boosts can be tempting, however, according to Stevenson (1993) a more profitable route for a brand owner is on the long-term. Long-term focus gives the ability of building and maintaining a strong brand equity which lasts longer then short-term profits. A licensee may differ in intent of strengthen the brand image and rather opt for a short-term revenue increase.

INVESTMENTS

The characteristics of licensing (outsourcing of development, production, distribution, marketing, and sales) could fund the expectation of having no investment costs.

However, it is important to realize that Fatboy still should invest time and effort in finding the best licensee for the job, negotiating the agreement, and such. No investment costs in tools or machinery, yet still significant time and effort to setup and manage the process.

8. LEGAL PITFALL

Negotiating the fee and other agreements can be quite a challenge. The less is defined, the more legal problems may occur. For example trademark infringement is potentially expensive (Meyer, et al., 1985). An other aspect is the royalty fee. It may happen that royalties are not payed on time or not payed at all. Also, the license contract can be under pressure due to changes at any of the stakeholders. For example when a licensee is taken over by an other manufacturer. This may change elements such as parent brand interpretation, durability, or communication. All may harm the brand image enormously.

RECOMME

NDATIONS

This section provides recommendations regarding the project assignment.

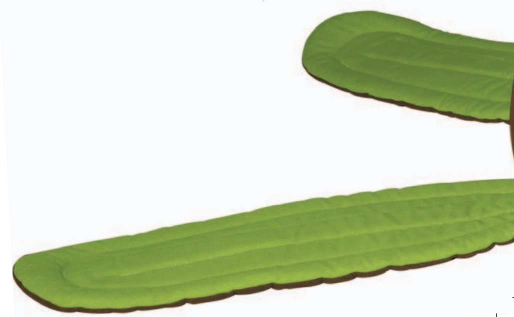
RECAP

The Fatboy shareholders want to know whether brand licensing can be used as a strategic brand portfolio extension tool. Recall, the assignment is:

Can licensing the Fatboy brand be used to generate extra revenue, and if so, how?

PAST EXPERIENCE

Last year Fatboy was approached by a manufacturer with a request to license the Fatboy brand for a new product that they would develop, produce and distribute. After agreeing a licensing contract, twice the licensee put forward a proposal for the product design, only to be rejected by Fatboy on grounds of 'lack of brand fit'. Consequently, Fatboy put a lot of time and effort in redesigning the item. This experience illustrates how hard it is for a third party (e.g. manufacturers) to match the Fatboy design language and standards. In practice, the theoretical 'time benefit' did not materialize. Fatboy could, however, make use of the licensee's manufacturing knowhow and distribution channels.



RECOMMENDATIONS

All things remaining equal, licensing is not a recommended strategy for Fatboy that it is a brand driven company with a long-term view on brand development. In these kinds of companies, full control must be exerted over brand equity and brand extensions.

Having said this, practical considerations such as short-term cash flow and revenues might force Fatboy to consider a licensing strategy anyhow. Licensing can bring great benefits to companies by leveraging their brands to:

1. Generate incremental revenue (royalty fee).
2. Increase brand awareness.
3. Extend their portfolio with non-core business items, without the need for unique design or radical innovation.
4. Access new distribution channels and territories.

This however does not come without risk to the brand. An example as mentioned in the chapter on pitfalls (page 28) would be the opportunity to distribute Fatboy products through a mass discounter channel. Although this may result in an instant surge in brand recognition and revenue, this might be detrimental to a Fatboy positioning as a lifestyle brand. For Fatboy, their unique category interpretations and product design are their raison d'être. For example their recently launched oversized *CO9* (see below). This calls for a robust framework for taking 'go no go' licensing decisions covering potential pitfalls and bottlenecks.

WHEN TO LICENSE

Combining theory with the Fatboy brand concept, company culture, and past experiences, the author recommends to only use licensing in one, or a combination of two circumstances:

1. A product opportunity which requires know-how that is not available in the company e.g. cosmetics or food.
2. A new distribution channel is required that Fatboy has no access to and can or will not invest in developing.

In both cases, if the answer is yes the proposition must fit the Fatboy brand concept as described in the paragraph on fit (Page 55).

Even if an opportunity meets all the above criteria, we still recommend using the 6 licensing steps (page 46 and attached poster) to assess the strategic merits of a licensing opportunity.

A FEW MORE CONSIDERATIONS

If Fatboy choses licensing after all, the following conditions or considerations should be kept in mind:

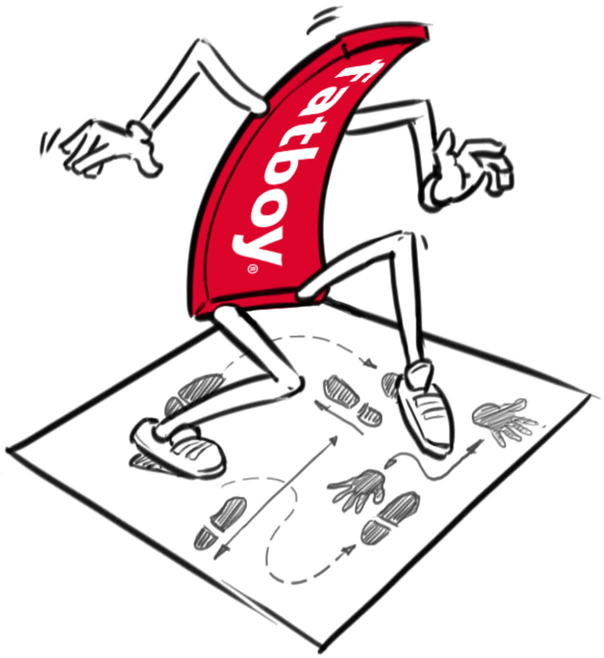
1. To be noticed and to be credible, it is preferable to *claim space* in a product category with a range of complementary products, e.g. not only a barbecue, but also barbecue tools and perhaps even aprons and cutlery to complement it. In this context I would recommend that Fatboy should seek licensing agreements with partners that have the capabilities to create such a 'conceptual range' and distribute it.

2. I recommend working with *one partner* that can cover the full scope of a product category. This is because multiple licensees in one product category imply high coordination complexity and thus costs.

3. In the licensing process, Fatboy must, at all times, maintain *full control over parts of the value chain* that are critical to either brand and design identity, or intellectual property. This must of course be subject to a positive business case and asks for clear and solid agreements that cover all stages of the value chain.

STEPS TO TAKE

This chapter elaborates on the steps Fatboy should take to assess the strategic merits of a licensing opportunity.



A. BRAND FOCUS

1. Define Raison d'Être
2. Determine strategic intent
3. Design Brand Bible
4. Choose potential propositions

B. LICENSING

B.1 WHEN TO LICENSE

1. Other brands
2. Experience and knowledge
3. Manufacturing and resources
4. Timespan and market introduction
5. Distribution and communication channels
6. Investment and risk

B2. LICENSING STEPS

1. Find best-in-class licensee
2. Negotiate royalties and contract
3. Licensee develops proposition proposals
4. Analyze and approve proposals
5. Licensee produces, distributes and markets
6. Monitor and evaluate

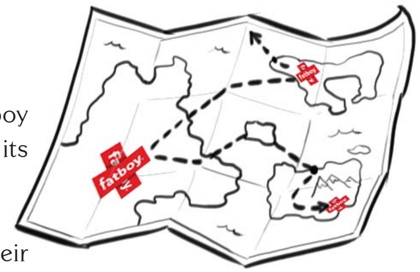
A. BRAND FOCUS

A1. DEFINE RAISON D'ÊTRE

Defining the raison d'être is essential to determine who you are and why you exist. Fatboy should be driven by a purpose, a cause, a belief. If they talk about what they believe, they will attract those who believe what they believe. What Fatboy offers should be the proof of what they believe in. A raison d'être should include:

- Company mission
- Key consumer insight
- Brand promise
- Brand vision
- Brand values
- Playing field

A2. DETERMINE STRATEGIC INTENT



Strategic intent is spelling out in which domains Fatboy will materialize its vision and mission, and express its brand and design language.

To maintain financial health, in expanding their portfolio, Fatboy must think beyond the first new extension and create a long-term roadmap. New extension directions should be looked at, and the question asked: What new categories fit the brand concept, or even better, what new categories will strengthen the brand equity, convey the brand concept, and fulfill the brand promise?

To define relevant domains and propositions fitting the brand concept, Fatboy should:

- Look for fit with their brand values
- Collaborate with external experts
- Interact with target consumers to validate proposals for new products and brand extensions.

The key benefit of spelling out this strategic intent is that it implies a proactive approach to product portfolio management and to actively searching the right strategic licensing partners to fulfill the intent.

A3. DESIGN BRAND BIBLE

A Brand Bible is a visual documentation of the raison d'être and is intended to help licensees to detail and produce new propositions, and to communicate with the same tone of voice (Meyer, et al., 1985). Informational overkill can be avoided by designing a general Brand Bible, and Bibles for specific situations such as a season or events such as the Olympic Games. Each Brand Bible could then contain own unique elements.

A good brand understanding may result in directly approved designs by the Fatboy management team. This in turn will speed up the development process, which is financially interesting for both parties. The Brand Bible should include:

- Company/brand vision & mission
- Target groups
- Consumer insight
- Brand promise & values
- Playing field - domains
- Tone of voice
- Graphic guidelines
- How to work with retailers
- How to promote
- Possible usage of materials

A4. CHOOSE POTENTIAL PROPOSITIONS

Once the strategic intent and the brand bible are in place, Fatboy needs to design propositions. To this end, Fatboy could use external input such as a design contest, crowd sourcing, hire a designer, artist, or agency. However, a brand that gains a reputation as a "Jack-of-all-trades" is often outcompeted by specialists. Most consumers associate a prestige-oriented brand such as Fatboy with rarity and focus (Sharp, 1993). Fatboy must therefore carefully choose the design propositions it will specialize in. Ideally, any new proposition should improve:

- Brand awareness
- Brand associations
- Brand communication
- Brand availability
- Brand loyalty

But most importantly, Fatboy must ensure their licensed products bring value to the consumer regardless their logo (Sharp, 1993). Therefore logo slapping and me-too propositions should be avoided. Cannibalization should be avoided by designing each new proposition as different as possible in appearance, set of features, and benefits from current offerings, but with sufficient brand fit to be accepted (Sharp, 1993). Besides following the Fatboy brand values (step A1), Fatboy must define a bill of proposition requirements.

Focus groups, polls, or other consumer testing, helps in validating the brand stretch. Testing the idea or concept may reduce the number of inappropriate, ineffective, or negative brand associations passed on to the extension (Pitta & Katsanis, 1995). The Fatboy Facebook fan page is growing by the day. This is an interesting channel to interact with the Fatboy target group to find out what is on their minds and which stretch propositions are relevant and acceptable. To increase the chance of success even more, a strong benefit that is unique, favorable, and distinctive should be incorporated (Sharp, 1993).

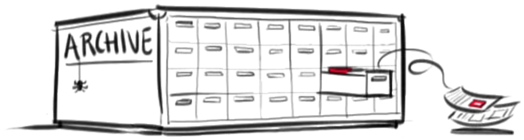
For both internal and external communication, ideas and concepts should be made highly visual while explaining how the proposition adds value to Fatboy and how it will fulfill the brand promise. Think of sketching, rendering or prototyping. When communicating the added value, emphasize on positive extension attributes and benefits rather than attempting reinforcing positive parent brand association (Aaker & Keller, 1990). Giving the concept a ‘cheeky humorous’ name, as applies to most Fatboy concepts, will add the final touch.

B. LICENSING
B1. WHEN TO LICENSE

1. OTHER BRANDS
Is there another brand with an interesting image Fatboy can benefit from? Is this brand both complementary and consistent with the Fatboy brand? If yes and they want to bundle their strengths to create synergy, co-branding is an option.

If the licensee owns a powerful brand, and their brand's equity is stronger, the question arises why they would want to collaborate with Fatboy in the first place. The answer may be that, If they believe Fatboy can contribute unique brand associations that are necessary to guarantee a product concept's market success, they would be inclined to seek co-branding. In such case, licensing is not the way to go.

2. EXPERIENCE AND KNOWLEDGE
If the new proposition is similar to products Fatboy is already familiar with, they may already have considered a partner that owns the required knowhow. If not, they need to gain the required know-how somewhere else. Perhaps via licensing.



3. MANUFACTURING AND RESOURCES
When designing new propositions, Fatboy should keep in mind the production capabilities and resources of their current suppliers. If other production methods or resources are needed, other parties must be found for production, maybe a licensee.

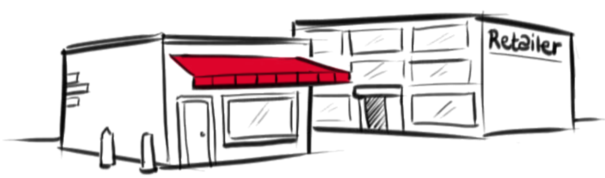
4. TIMESPAN AND MARKET INTRODUCTION
The available amount of manpower and other scarce resources can determine the possible date of a strategic product launch. The scarcity of such resources may lead to a licensing option.

5. DISTRIBUTION AND COMMUNICATION CHANNELS

With every new product launch Fatboy needs to define for whom the product is meant and where it should be available to purchase. If Fatboy does not have access to the needed distribution channels it should decide whether to develop the channel, invest in new contacts, or find a partner that already has access to those channels. Fatboy should set up a new distribution channel if:

- Financial resources are sufficient
- There is enough time to do it
- Manpower to do so is sufficient
- The sales prospects are high
- Fatboy wants to spread multiple propositions via that new channel

If the answer to one or more of the above criteria is negative, licensing may be considered.



6. INVESTMENT AND RISK

The decision to license or not also depends on the investment needed and the risk of failure. Some extensions require investments like molds, research, or development. A licensing decision will often depend on the forecasted revenue.

Finally, if the outcome is licensing indeed, Fatboy should have a vision on the type of relationship it will pursue with the any licensing partner. Will it invest in a long-term relationship or is it a one off collaboration. The first case makes it more attractive to invest in the relationship with Fatboy and will encourage the licensee to develop multiple propositions over time. In the latter case, Fatboy should wonder whether it is worth putting effort and time in a one off deal. Fatboy should anyhow make a realistic planning and sales forecasts before finding the best-in-class licensee.

B2. HOW TO LICENSE

1. FIND BEST-IN-CLASS LICENSEE

1A. FATBOY'S PERSPECTIVE

Fatboy should collaborate with the best in class developer, manufacturer, and distributor only. Fatboy can use online search engines, use the yellow pages, ask around, visit retailers, or check competing brands' experiences.

The proposition's quality standard can be set by benchmarking with existing products, or by commenting on models and prototypes provided by the licensee during development. The licensee must sufficiently competent to incorporate the brand's attributes in such a way that when peeling off the logo, the brand still is recognizable. Furthermore, the licensee must be competent and capable enough to fulfill the sales forecast. Fatboy should make a strict but realistic planning to invest in setting up a licensing deal, including approaching and screening licensees. Potential licensees must be screened on:

- Knowhow and expertise
- Resources and production capabilities
- Available distribution channels (mass, online)
- Sales territory
- Commitment and curiosity
- Financial stability and reliability
- Reputation
- Category presence and competition
- Service level and customer support

If a licensee does not meet the requirements or does not fit the Fatboy brand, the execution is likely to fail and the Fatboy brand equity risks being damaged. That being the case, a license agreement should be seen and treated as a long-term relationship with commitment from all parties involved. Accordingly, Fatboy should put a lot of effort in setting-up and maintaining the relationship with a licensee.

Finally, a minimum royalty rate must be defined to ensure licensee commitment. Minimum royalty rate is a payment made when the contract is signed upfront the development. This payment makes up around 25% to 40% of the sales forecast. It ensures the brand owner that the licensee will produce and launch the licensed good to cover his investment.

1B. LICENSEE'S PERSPECTIVE

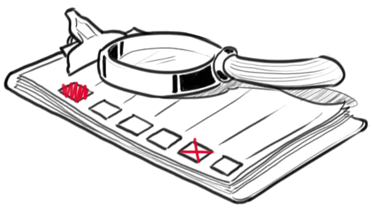
Potential licensees should only agree on collaboration if they are confident they are able to meet all the requirements. Furthermore, manufacturers will check Fatboy's reputation of protecting its propositions by legal means. Lastly, a licensee must have steadfast conviction in the power of the Fatboy brand; enough to warrant the risk and investment.

2. NEGOTIATE ROYALTIES AND CONTRACT

Legal knowhow within Fatboy is essential to draw up all contracts and to mitigate all potential pitfalls (page 28) (Meyer, et al., 1985; Albanese, 2000-2001). The contract is the result of a fruitful negotiation with the licensee and must be transparent and avoid complexity. In appendix C., page 62 you can find a list of topics and issues a licensing contract should cover. Once all issues are agreed on, the contract can be signed, the minimum royalty fee is paid, and the relationship begins.

3. LICENSEE DEVELOPS PROPOSITION PROPOSALS

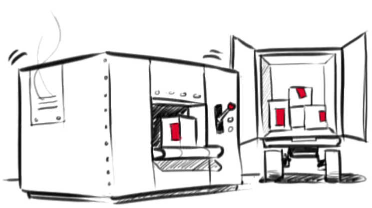
According Fatboy's input, the licensee starts refining and detailing the concepts into tangible models and prototypes. While making models and prototypes, the quality level of the proposition can be adjusted and determined for the final design as mentioned in step B1. Important for the licensee is to thoroughly understand the Fatboy brand concept. This is where the Brand Bible proves valuable.



4. ANALYZE AND APPROVE PROPOSALS

Besides testing the extension's quality, Fatboy should check to what extend the proposal fits their bill of requirements. During this phase Fatboy can comment, delete, add, or reshape elements of the proposal before approving it for production and market introduction. This includes:

- All products and supporting marketing/advertising/ packaging materials
- Brand usage on packaging, marketing, and promotional material.

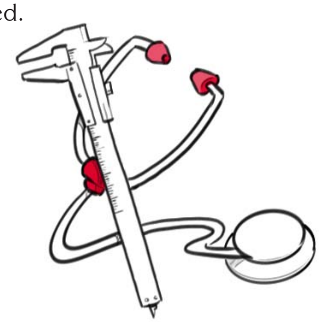


5. LICENSEE PRODUCES, DISTRIBUTES, AND COMMERCIALIZES

The overall success of an extension highly depends on the marketing program and communication actions (d'Astous, 2007). That being the case, a licensee must adopt Fatboy's tone of voice to avoid confusion. Furthermore, royalties must be paid according to agreed terms. In order to ensure that the correct royalties are being paid, a licensor has the right to inspect a licensee's books, records, and accounts.

6. MONITOR AND EVALUATE

As consumers should not see a difference between Fatboy products and licensed products, all negative experiences will come at the expense of the Fatboy brand. Monitoring and evaluating aspects such as product quality, retailer and shop presentations, service, price, availability, and communication regularly over time helps to control the brand image (Meyer, et al., 1985). Fatboy is allowed to inspect products and factory on short notice. If product or factory fails the inspection, Fatboy can freeze production and sales, forces product recall, or terminate the agreement. This way Fatboy can stay in control of their brand and how it is perceived.



Licensing can bring great benefits to companies. A licensing deal, however, cannot be taken lightly. It should be treated as a long-term partnership from which both parties stand to gain, provided both are committed to live up to their part of the agreement. In the absence of such commitment, both parties stand to lose. Fatboy, however, stands to lose the most as its brand reputation is at stake.

APPEN

NDICES

The first section of this report introduced important Fatboy aspects to address the graduation assignment. This appendix introduces some remaining aspects to understand the whole Fatboy brand.

A. THEORETICAL BACKGROUND

LICENSING

Licensing is a form of portfolio extension that enables a firm to use the name, logo and tone of voice of a brand owner in order to develop, market and sell its own goods in return for a royalty fee. All within an agreed territory, for an agreed period of time (Keller, 2008, p.301). Or in short: to use a brand on a product.

ROYALTY FEE

A royalty fee is a payment expressed as a percentage of sales (negotiated in advance), paid each quarter by the licensee to the licensor for using the brand.

LICENSOR

The brand owner permitting another company to use name, logo and tone of voice in order to license.

LICENSEE

The firm that uses the name, logo and tone of voice of the licensor in order to license.

MERCHANDISE

Merchandise products are meant for supporting promotional activities to explain, and communicate propositions and brand values. Together it makes the brand more recognizable by creating more awareness (Meyer et al., 1985; Albanese, 2000-2001).

FRANCHISE

A franchise is when a brand concept is shared and exploited towards other units, owned by local managers. This type of licensing is often the case with restaurant chains (Cao, et al.) or retailer stores. The parent brand decides how and what the concept and tangible execution looks like, and even how they should do their business. This includes shelf spaces, background music, or where they should order their supply and via what channels. Strict contracts are needed to set rules and restrictions, controlled and checked by an authorized brand owner. The local managers have little free space but benefit from the strong brand equity.

PORTFOLIO EXTENSION

Portfolio extension is when new propositions are added to a brand's current offerings (Keller, 2008, p.491). Existing theory provides two subcategories of brand extension: line extension and category extension.

LINE EXTENSION

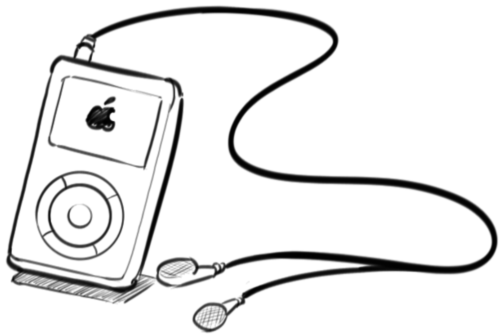
Line extension is when an existing brand name is used to enter a new market segment in the same product class, e.g. when Coca Cola decided to launch Coca Cola Zero as an addition to the regular Coca Cola.

CATEGORY EXTENSION

Category extension is when a company uses an existing brand name to enter a product category that is new to that company (Tauber 1981; Farquhar, 1989, p.30; Aaker & Keller, 1990, p.27; Keller, 2008). For example when Apple launched the first iPod.

VALUE CHAIN

All steps or stages needed to develop, produce, distribute, market, and sell any new proposition.

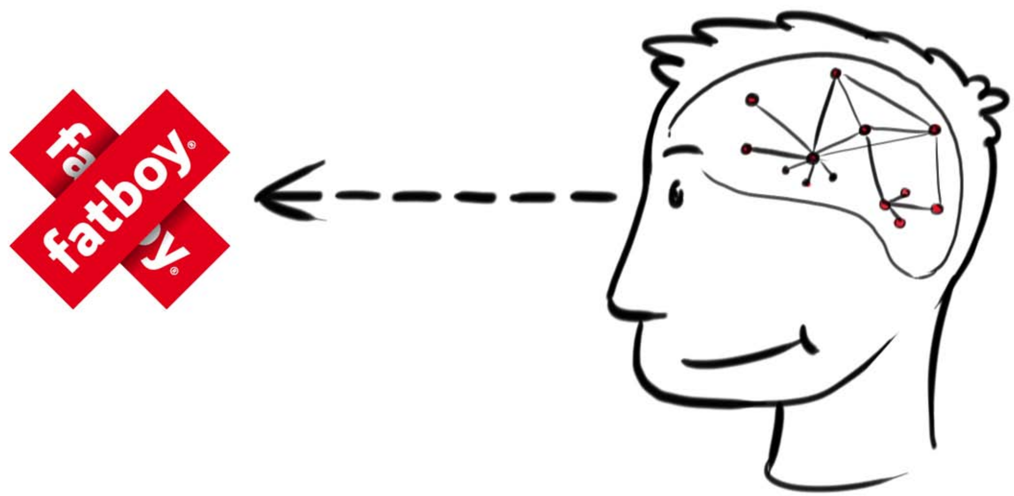


BRAND

Products, their quality and appearance, can easily be copied or imitated. It is about the added value which include both the product and the brand's associations (Albanese, 2000-2001). Therefore a brand can be characterized by a name, term, sign, symbol, design, or a combination of them, intended to identify the offers of one seller or group sellers and to differentiate them from competition (Kotler & Keller, 2009, p.783). Because of the emphasis on identification, it is about how the receiver of the brand story, the consumer, understands the product, service, experience, or organization (Neumeier, 2006, p.3 / p.160).

BRAND ASSOCIATIONS

Keller (1993) defines associations as nodes containing information such as color, shape, sound, or smell in consumer's memory linked with and to the brand. Together these nodes form a meaning and overall attitude towards that brand. These associations must be strong, unique, favorable, and distinctive to result in a positive brand evaluation. The strength depends on the amount of linked nodes and the ease of linking. Every touch point, extension, or any form of communication results in (a set of) associations with the brand.



BRAND AWARENESS

Brand awareness can be defined as the likelihood that a brand name will come to mind and the ease which it does so (Keller, 1993). The more associational brand nodes are created, the higher the awareness will be (Albanese, 2000-2001). The higher the awareness, the higher the likelihood the sales will increase. It is therefore recommended to generate as many as possible positive brand associations to be better remembered by consumers. The level of brand awareness can be increased by a coherent and integrated marketing campaign using elements such as logo, packaging, banners or even a jingle. Brand awareness can be qualified in a few levels: brand recognition, brand recall, and brand dominance:

BRAND RECOGNITION

With brand recognition consumers need a cue such as a logo to be able to recognize the brand (Albanese, 2000-2001; Dementev, et al., 2001).

BRAND RECALL

Brand recall ensures the brand is remembered prior to the purchase moment (Albanese, 2000-2001; Dementev, et al., 2001). In this case, searching for a product begins by looking after a specific brand: What do consumers type in Google when searching for a family car, dog food, or a beanbag?

BRAND DOMINANCE

When a brand is that strong that its name is equally used with the product class, the dominant brand is born. “I always put Maggi in my soup.” or “Could you please hand me a Kleenex?” are examples of this.

BRAND AVAILABILITY

Availability is needed to actually provide consumers with the product, service or experience. The availability depends on a retailer's stock but also how easy the goods or services are to get to. For example Coca Cola's main asset is the availability of their beverages due to a carefully build infrastructure. Although their commercials may be perceived funny and catchy, without the availability of their soft drinks, consumers would find it hard to appreciate the brand.

BRAND LOYALTY

For any company it is relatively more expensive to gain new customers than to keep existing ones. Therefore a company must ensure the brand's associations are strong, unique, distinctive, and favorable. Furthermore the brand must have high awareness, high perceived quality (page 56) and the availability should be high. In those cases consumers are more likely to return. Furthermore, satisfied consumers will spread perfect word of mouth advertisement. Once brand loyalty is high, the brand is less vulnerable for potential competitors.

FIT

A brand and its propositions together should tell one coherent story. If there is a strong fit between parent brand and an extended product, consumers are likely to transfer their existing feelings and attitudes about the parent brand to this new product (Keller, 2008). In those cases, consumers are more likely to accept it and even try, buy, use, or consume it. When talking about fit, an extension is compared to the existing brand perception.

PRODUCT-LEVEL SIMILARITY

Brand extension success seems plausible when using attributes that gave the original brand's proposition its differential advantage and acceptance. In spite of that, it would be wrong to assume having just any functional features in common justifies sharing the brand name.

BRAND CONCEPT CONSISTENCY

Brand concept consistency is on a higher concept level and should be pursued (as well) to increase consumer acceptance (Aaker & Keller, 1990; Dementev, et al., 2001). Brands with a focus on prestige rather than function such as Fatboy, have more potential for wider extension since brand associations are on a more abstract level (Dementev, et al., 2001; Park et al., 1991). The more abstract brand associations are, the more categories will fit in.

THREE FORMS OF FIT:

1. Transferability: When brand assets and skills are applicable on an extension too (Aaker & Keller, 1990) e.g. a specific technology, material, or physical attribute.
2. Complementary: When a current proposition and extension are used or consumed at the same time to satisfy a certain need (Aaker & Keller, 1990) e.g. when Colgate added the toothbrush to their portfolio.
3. Substitute: When the extension can be seen as a replacement of an original proposition (Aaker & Keller, 1990). In this case both propositions offer the same kind of benefit e.g. when a ski brand starts producing snowboards. Beware that cannibalization should be avoided at all times.

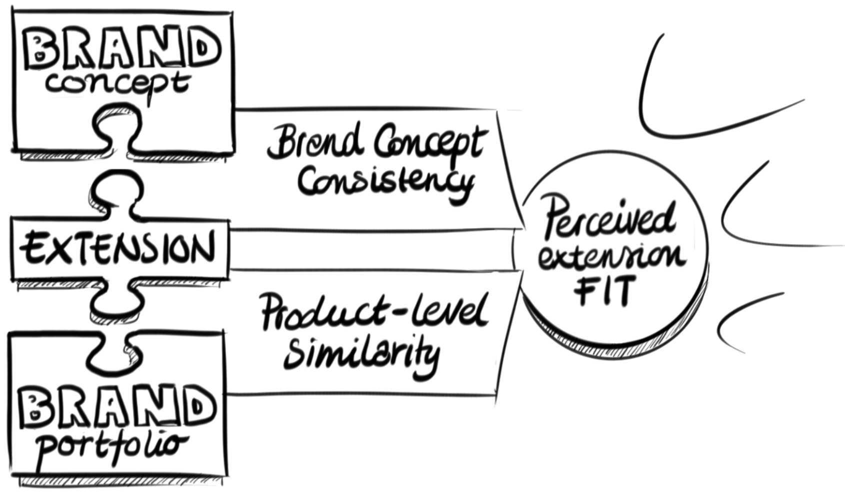
Transferability and complementary appear to be the most important fit variables for extension acceptance. Fit on one of them is enough, little is gained by having fit on multiple dimensions (Aaker & Keller, 1990). When extensions are added in categories too far from current products or brand concept, loss of dignity and skepticism or even laughter might occur. Such negative associations could spell-over to the brand's other offerings (Aaker & Keller, 1990).

CANNIBALISM

Cannibalism is when extension revenues come at the expense of other offerings of the brand (Ries & Trout, 1981; Aaker & Keller, 1990; Aaker, 1990).

PLAYING FIELD

A playing field is the area or field a company operates in.



DIFFICULTY

The perceived level of difficulty reflects how difficult or complex it would be to develop, manufacture, or execute a specific product, service, or experience. When an extension is perceived too easy to make, consumers may feel the company is financially exploiting the brand. On the contrary, too difficult would imply the company does not have the needed know-how to create the extension.

Credibility problems may be reduced by testing ideas and concepts on forehand. When another firm becomes developer or manufacturer such as with licensing, the consumer will rely on the manufacturer rather than the parent brand's name to warrant the quality (Aaker, 1990). Quality is therefore one of the aspects on which agreements have to be made between manufacturer and brand.

QUALITY

Perceived quality is a consumer perception about the excellence or performance of a product, service, experience, brand, or organization related to the intended purpose, and relative to alternatives (Zeithaml, 1988). High perceived quality enables companies to charge higher prices on a whole product range offered by that brand. Sometimes it is even harder to create a high perceived quality than actually delivering that quality (Aaker, 1990). However, this does not imply that delivering actual high quality is less important. No marketing or communication can make up for the lack of quality on the long-term (Albanese, 2000-2001).

A strong relation between high perceived (product) quality and positive extension evaluation, can only exist when there is a form of fit, as described earlier. To be evaluated positively, the perceived quality of an extension must be at least equal or higher compared to current propositions. Aspects such as product durability or customer service influence this perception largely.

B. FATBOY AS IS

The first section of this report introduced Fatboy aspects needed to address the graduation assignment. This appendix introduces some remaining aspects to understand the whole brand.

A.1 FATBOY CONSUMERS

Fatboy aims at two different target groups: the design elite and the modern mother. The first, called Bart, stands for a niche market of early adopters, trend setters, and opinion making consumers. The latter, called Rachel, represents a more mass market of trend followers that are family minded. This makes up the bulk of Fatboy's sales. For this reason, main focus is on the 'modern mother' without alternating the niche design elite.

Both persona descriptions are a result of earlier consumer research done by *Zilver Innovation*, and later *Sid Lee*. These persona's are not gender fixed, but rather give an impression of the behaviors of the targeted consumer.

Zilver Innovation is a creative consultancy which is specialized in connecting the disciplines of branding, design, and innovation. (http://www.zilverinnovation.com)

Sid Lee is a multidisciplinary creative team that conceives and communicates brand experiences. (http://www.sidlee.com)

A.2 BRAND VISION

Fatboy uses a vision statement to guide strategy making, inspire employees in their daily work and communicate its intent to the outside world. The vision was jointly drafted by Fatboy and strategic agency Sid Lee:

With our international lifestyle brand we facilitate an unexpected everyday living experience to our consumers by supplying authentic affordable design products.

Fatboy explains their vision as follows:

international	Current turnover mainly comes from countries outside the Netherlands.
Lifestyle brand	A lifestyle is about a way of living, how people live their lives, and with what values. A lifestyle brand should support you in your way of living, and help you to communicate your personality and identity. Meaning that this brand should be present in multiple domains and categories.
Facilitate	Not prescriptive
Consumers	Bart the design elite and Rachel the modern mother
Authentic affordable design products	Fatboy creates originals: basal interpretations of authentic products with the characteristic of an icon, for a relaxed way of living

A.3 BRAND VALUES

Together with strategic agency Sid Lee, Fatboy defined nine brand values to describe their brand complementing their brand vision.

bold, colorful, open-minded, cheekily humorous, surprising, relaxed, sympathetic, imaginative, and stylish.

C. LICENSE CONTRACT

The following topics or issue should be covered in the license contract. This helps decreasing the chance of failure.

LICENSED ITEM

- What product, service, or experience is going to be licensed?
- Is the brand owner entitled to change the concept, product, or service during development?

LEVEL OF QUALITY

- Define the level of quality for the proposition for high-end positioning.
- Is the licensee allowed to outsource some parts in order to develop the approved licensed item?

GRANT OF LICENSE

- Determine the region or territory the item is sold by the licensee, e.g. city, country, continent, etc.
- Is the licensed good only available via the licensee's channels, or also directly at Fatboy?
- Define the aimed market segment is, i.e. who is the target group for the licensed articles, nice or mass?

TIME

- For what term or duration will the license take place, i.e. when does it start and when does it end?
- Under what conditions may the agreement be prolonged?
- In what time-span will the item be launched, i.e. what is the time-to-market?
- If it is a long-term collaboration, in what cycle should the licensee come up with new propositions?

MARKETING

- The licensee must agree to only use adverts, promotional material, displays, or whatsoever approved by the brand owner. The use of logo, visual tone of voice, product icon, and packaging must be according the Brand Bible
- The licensee must pay for al marketing, promotion, and communication.
- Via what channels will be distributed, i.e. which retailers: department stores, online, etc.?
- Via what channels will be communicated, e.g. radio ads, social media, etc.?
- At what level should the customer service be?

EXCLUSIVITY

- Is the licensee the only manufacturer authorized?
- Is the licensee allowed to produce the same item for another brand? Probably not.
- Non-competition clause: no similar products with direct competitors during Fatboy's promotion.
- How about confidentiality?

RATE AND TERMS OF PAYMENT

- Agree on royalty rate: 10-12% for well-known brands (5-6% for upcoming brands) of the net sales. The royalties must at least be sufficient to offset all costs (Meyer, et al., 1985).
- Check the licensee's sales forecast to determine the minimum royalty rate, paid each calendar quarter
- Payment conditions of royalties such as time and frequency.
- The licensee must keep accurate sales records of licensed items to monitor the royalties.
- At what price will the licensed proposition be sold to retailers and consumers, with the high-end positioning in mind?
- How to cope with price promotions, i.e. what is allowed and what not regarding discounts? Discount associations may occur when dramatically dropping prices, which inflicts with the high-end positioning of Fatboy products.
- Under what conditions may the licensed items be resold?

COMMITMENT

- What is the commitment of the licensee in maintaining the reputation of the brand?
- How about commitment to ethical manufacturing?

LAWS AND WARRANTEE

- The licensee must guarantee the product meets all formal and legal restrictions given by law regarding the determined territory.
- Who takes care of the proposition's warrantee, licensor or licensee?

PROTECTION OF RIGHTS

- Who is responsible for taking action towards copycats and other infringement? The licensee knows the category best and benefit the most when forgers are legally eliminated.
- How are the trademark, intellectual property, and copyrights registered?

TERMINATION AGREEMENT

- When licensee fails in paying royalties, decreases product quality, changes tone of voice in their communication, or whatsoever, the agreement should be put on hold, or terminated.
- When licensee sells the licensed goods to an unauthorized party
- When the licensee or licensor goes bankrupt or is taken over by an other company.

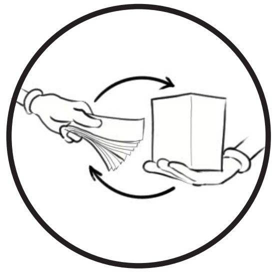
DISPOSAL OF STOCK

- Terms of repossession branded items to licenser such as left-overs
- After termination of the agreement due to failing licensee, licensed goods that are still in stock should be destroyed, brought to brand owner, or sold to a new authorized party.
- When ending the contract for other reasons, the licensee has the right to sell the left-overs for a maximum amount of time, for example six months.

(BRUIJN, DE & SCHALEN, 1992, P.21)

D. EXECUTION OVERVIEWS

Extensions vary in type such as line or category which influence the required expertise, production facilities, or distribution channels. Several criteria on these aspects determine how Fatboy should execute the product development process of a portfolio addition. Below possible ways of executing an extension are introduced and compared to illustrate differences on value chain.



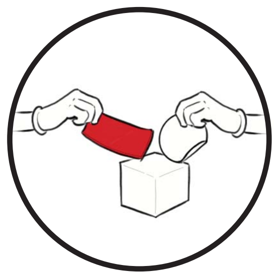
1. EXECUTION TYPES

OUTSOURCING

Outsourcing turns fixed costs into dynamic expenditures since a company only pays for the services that are really needed for a determined period. Fatboy outsources their production to low labor countries such as China and Poland which is called offshoring. Distribution, marketing, and sales is done by Fatboy themselves.

LICENSING

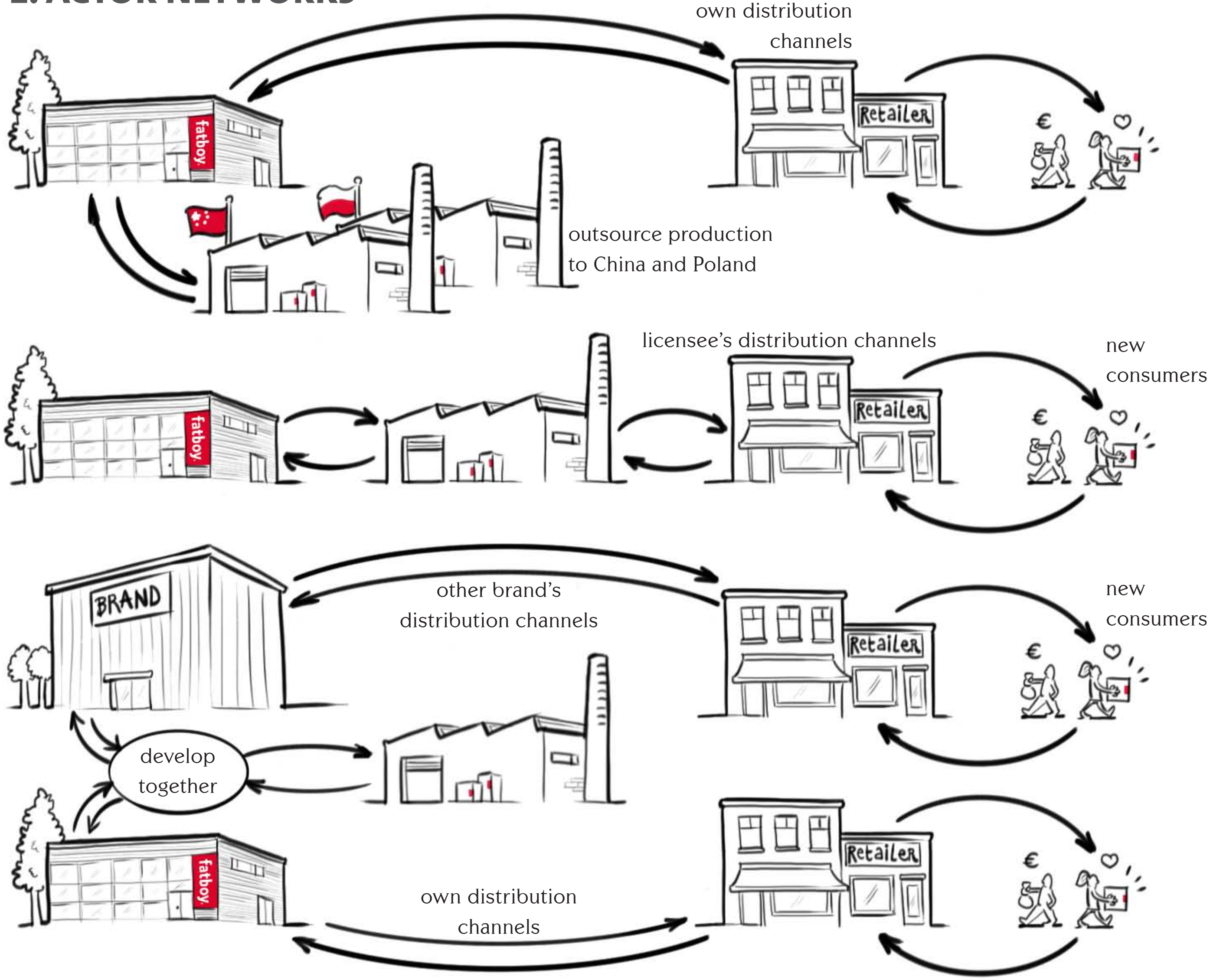
Because licensing is the main topic of this graduation project, section III. is completely devoted to this theme. Licensing is a form of brand extension that enables a secondary firm to use the name, logo and tone of voice of a brand owner in order to develop, market and sell its own goods in turn for a royalty fee. All within an agreed territory, for an agreed period of time (Keller, 2008, p.301).



CO-BRANDING

When two or more companies combine their brands on a single unique product to enhance appeal and differentiation explicitly to the consumer, it is called co-branding (Taylor, 2004, p.97; Bouten, 2010). The key objective is to create synergy to strengthen both brands on the long-term, and increase the revenues on the short-term.

2. ACTOR NETWORKS

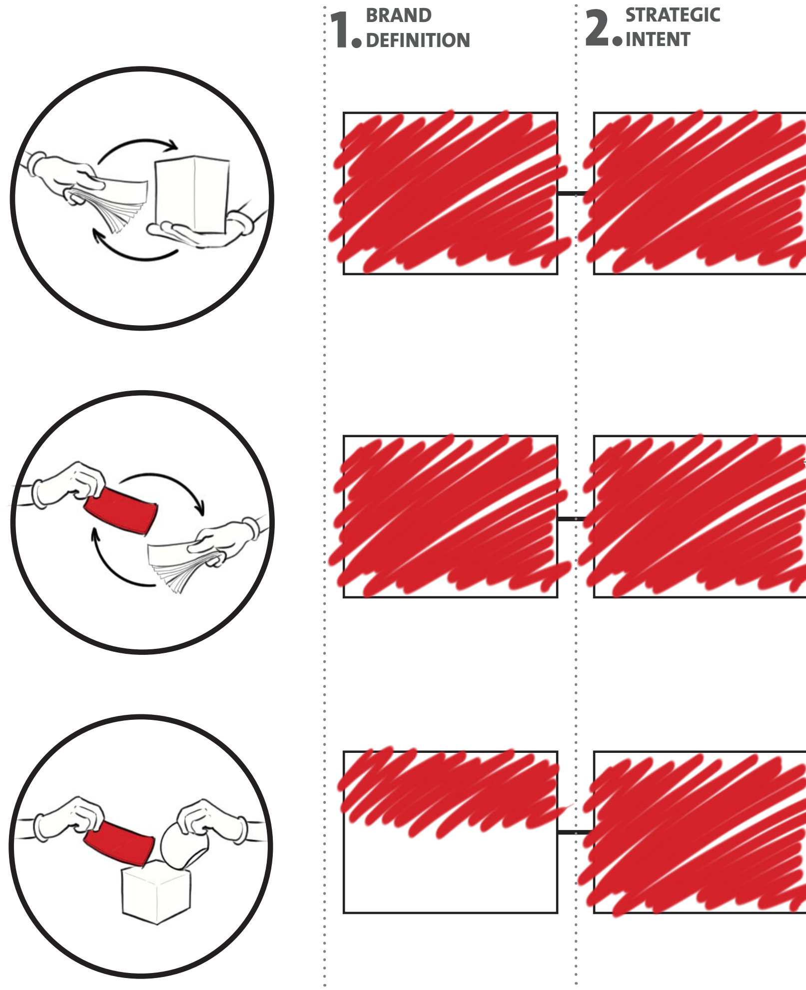


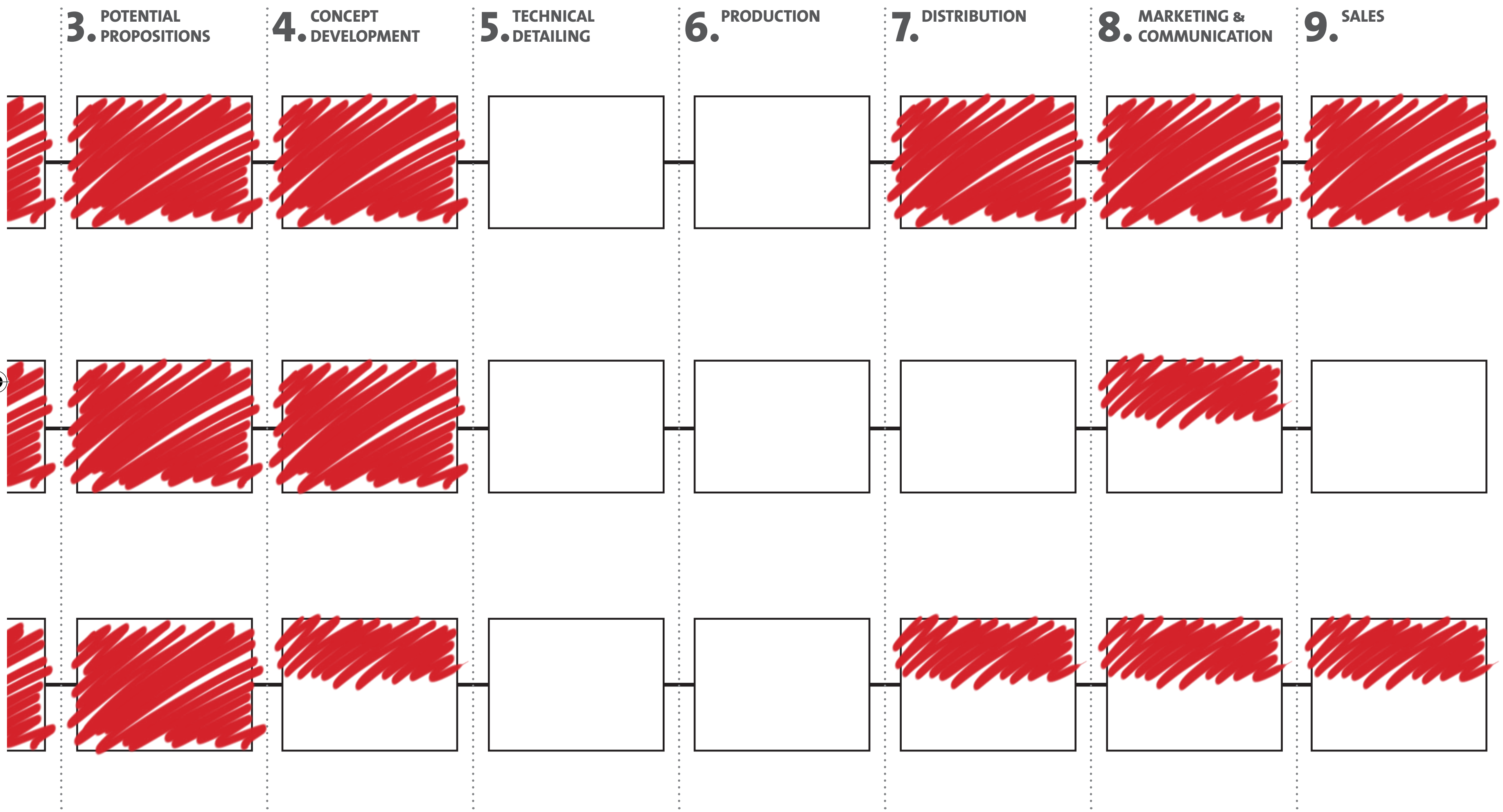
3. DIFFERENCES REGARDING THE VALUE CHAIN

To illustrate the differences from development perspective, we can look at the total value chain. Depending on the execution type, some proceedings are or are not executed by Fatboy. The schemes in the figures on the right illustrate the main differences.

VALUE CHAIN PHASES

1. Brand definition
2. Strategic intent
3. Potential propositions
4. Concept development
5. Technical detailing
6. Production
7. Distribution
8. Marketing communication
9. Sales

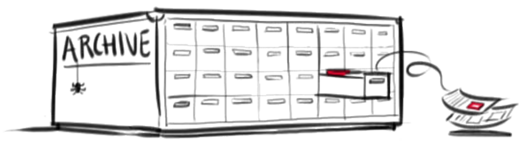



3. POTENTIAL PROPOSITIONS
4. CONCEPT DEVELOPMENT
5. TECHNICAL DETAILING
6. PRODUCTION
7. DISTRIBUTION
8. MARKETING & COMMUNICATION
9. SALES

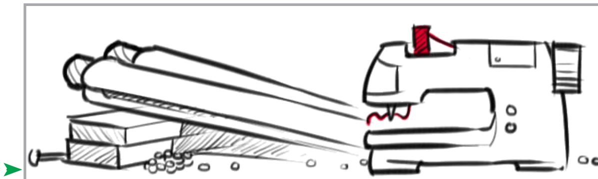
POTENTIAL PROPOSITION

1. OTHER BRANDS
Is there another brand with an interesting image Fatboy can benefit from? Is this brand both complementary and consistent with Fatboy?

Does this other brand want to bundle their strengths to create synergy?



2. EXPERIENCE AND KNOWLEDGE
Is the required knowhow to manufacture the new proposition already within the reach of Fatboy?



3. MANUFACTURING AND RESOURCES
Are the production capabilities and resources of current suppliers sufficient?

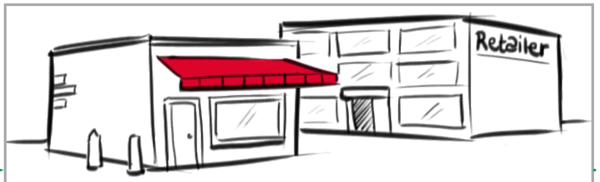
Is Fatboy able to gain the required knowhow and skills themselves?

Is Fatboy able to gain the required production facilities and resources themselves?

4. CRITERIA FLOW

CO-BRANDING

4. TIMESPAN AND MARKET INTRODUCTION
Is Fatboy able te develop the potential proposition within the aimed time schedule and with the available manpower?



5. DISTRIBUTION AND COMMUNICATION CHANNELS
Does Fatboy have access to the required distribution channels?

OUTSOURCING PRODUCTION

Can and will Fatboy invest in setting up those new distribution channels?

5. DISTRIBUTION AND COMMUNICATION CHANNELS
Does Fatboy have access to the required distribution channels?

Can and will Fatboy invest in setting up those new distribution channels?

OUTSOURCING DEVELOPMENT & PRODUCTION

LICENSING

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EXPERTS

Adam Bass, founder of Golden Goose, London, United Kingdom
Pete Canalichio, CEO at The Atlanta Dream, United States of America
Stephanie Raber, co-founder of PS Not Just Another Agency, Amsterdam, the Netherlands
Femke de Jonge, Brand Director Fatboy

OTHER

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SID LEE

Multidisciplinary creative agency specialized in conceiving and communicating brand experiences.
http://www.sidlee.com

ZILVER INNOVATION

Creative consultancy specialized in connecting the disciplines of branding, design, and innovation.
http://www.zilverinnovation.com

THE BUSINESS MODEL CANVAS

Strategic management and entrepreneurial tool. It allows you to describe, design, challenge, invent, and pivot your business model.
http://www.businessmodelgeneration.com/canvas

NETWORK FOCUSED DESIGN

A hands-on approach to design Meta Products. It guides you to think in networks and to focus on the relationships that build them.
http://www.metaproducts.nl

BUSINESS MODEL KIT

Designing business models is about multiple revenue streams, tens of partners, and many transactions going back and forth. The Business Model Kit helps in a visual way to create overview.
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