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Expanding Your Brand

By Dennis Monroe

With restaurant profits tight, one tactic that is relevant to continued business success is leveraging and expanding a restaurant's trade name and reputation. I call it "brand extension" as it seems to work for small chains and local companies, as well as major restaurant companies. There are various forms of brand extension. The most common is proprietary food products, whether they be frozen, canned, dry goods or even potentially perishable.

So what are my eight key points to brand extension?

1. Evaluate the Strength of Your Brand—The first thing to look at is the consumer acceptance of your brand. Does it have a generally recognizable name? Is it the kind of brand that has wide consumer appeal, or is it successful within a specific niche, like the millennial demographic? In evaluating your brand, you also need to examine the brand's history, looking at its ups and downs. You have to scrutinize your brand very critically, understanding its strengths and weaknesses in order to figure out who the potential consumers are – not just your restaurant consumers, but a wider range.

2. Understand Territorial Aspects of Your Brand—In many cases, brands are initially expanded and sold into retail channels in the areas where the restaurant or the restaurant chain has a well-known name. Therefore it is very important that you understand where the consumers are. Do you have a national following, such as a concept like Rao's, which, when it started expanding its brand, had one restaurant on the Upper East Side of New York but attracted visitors from throughout the country? If you have a regional or local brand, your brand extension should be focused on those locations.

3. Logo and Packaging—It's hard to overemphasize the role of the logo and packaging. In a recent discussion I had with Paul Dzubnar, the CEO and president of Green Mill who's done a wonderful job of brand extension, he talked about items needing to pop off the shelf, whether it's in the frozen, dry good or the fresh section. The branding needs to be colorful and eye-catching, otherwise you'll get lost in the clutter. You need to really evaluate your logo, your colors and other aesthetic brand guidelines if you're going to expand. Obviously you want to be true to your existing marks and logo, but you need to be mindful that consumers are probably looking at your product for two or three seconds at most.

4. Marketing—One of the key things is to have what Phil Roberts, CEO of Parasole, a multi-unit independent restaurant chain based in Minneapolis, calls the spike. If you're going to introduce a new product, you have to have marketing and advertising and, in general, a message that spikes above the competitors—something that's unique in today's market, a little edgy, something that has great social media appeal (social media being probably one of the most important aspects of new product development and brand extension). To get there, you need to hire edgy and talented marketing people.

5. Distribution Channel—What is your distribution channel? Is it specialty distributors; is it a direct route to stores through a dedicated sales person; or is it a broad-line distributor? In all cases, what matters is who is going to take your product on and promote it. Obviously every one of these distributors, unless you're doing it direct, is concerned about how quickly the product moves and how much inventory they have to carry, because they don't want to be stuck with a large inventory that moves slowly. Find a distributor who's dealt with similar products, knows how to get your product into the stores and knows which stores are the best ones. Matching your product with the right store is crucial. If your product is an extension of a QSR concept, you probably want to go into retail stores that would cater more to the QSR customer. If it's a high-end product, you want to target specialty retailers.

6. Financial—You need to understand the total costs of developing the brand-extending product, including upfront packaging, product development, grocery slotting fees and all costs necessary to get your product to the consumer. This cost needs to be amortized over a reasonable period of time, even though for tax purposes it may have to be amortized over 15 years. For financial purposes, assuming you probably want to get a return on your investment within four or five years, the cost should be amortized over that period of time. Also, consider how selling a branded product affects your restaurants' profitability. Is it lowering your food costs—is it driving consumer awareness and thus higher sales?

7. Legal Structure—In all cases, the retail and product extension should be put into a separate entity. In many cases, the intellectual property also should be put into a separate entity and licensed to the product extension company to protect the brand for restaurant purposes if something goes wrong. Ensure you have liability protection, particularly with product sales because of potential product liability and other issues that can arise in the retail chain.

8. Exit Strategy—For restaurants that have been successful with it, brand extension presents another exit vehicle. For example, owners may sell the brand extension off to a large food retail products company; or they may license the name and collect licensing fees from other products developed under that name. In many cases, the sale price for brand extension product company is based on a percentage of gross vs. EBIDTA, because most of the buyers are going to put the product into their channel and create efficiencies.

Extending your brand can be a great way to win new customers and enhance your bottom line.

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