Imagination Farms, Licensing and Marketing
Disney Garden Fresh Produce to Children

Things are changing at the Walt Disney Company. Since around 2004, growing public awareness of the recent dramatic increases in childhood obesity and the potential role that corporations may be playing in contributing to unhealthy eating patterns, found Disney right in the middle of the controversy. Food offerings for children in its parks and resorts began to receive greater scrutiny. Besides that, Disney has a Consumer Products division (DCP) that includes licensed packaged food and grocery products sold in supermarkets. The Disney brand is synonymous with fun and magic, and with wholesome family values, and has one of the strongest brand equities in the world. Yet, children seem to have been linking fun and magic with less than nutritious food treats—treats that Disney has long provided.

In a growing era of corporate social responsibility, the company began to take a closer look at whether its products and image were properly aligned. Independently, by the end of the 1990s DCP's licensing models had been experiencing some challenges. Retail industry consolidation was impacting profits for licensees, and, in turn, adversely affecting DCP royalty rates. DCP executives believed that the combination of changing licensing models, retail consolidation, and the concern over obesity presented an opportunity to rethink the food and grocery category. As of 2004, DCP leadership embarked on a mission of improving the nutritional value of its licensed food products, and began to explore the possibility of expanding licensing into a new healthful category—fresh produce. Executives were wondering, could the company exercise a leadership role in the food industry and use its "magic" to encourage children to switch to a more nutritious diet?

As the former COO of Green Giant Fresh (GGF), and now a fresh produce marketing consultant, Don Goodwin was familiar with branded licensing arrangements for fresh produce. When he and Matthew Caito, one of Don's clients, heard about Disney's interest in licensing its characters to fresh produce growers they were immediately intrigued. Things moved fast. In July 2005, they had a meeting with Disney Consumer Products that generated great mutual excitement and enthusiasm for Disney's new objective, marketing more healthful food to children. That meshed perfectly with Caito and Goodwin's goal of increasing fresh produce consumption among kids. Who could appeal more to children than Disney they thought. And DCP executives reasoned that for a new and rather fragmented product category like this, it would make sense to deposit the licensing rights in one firm—with fresh produce expertise—that could deal directly with growers for the full fresh produce product line.

This case was prepared by Roberta Cook, Cooperative Extension Marketing Economist in the Department of Agricultural and Resource Economics at the University of California, Davis, Allen Wysocki and Lisa House, in the Food and Resource Economics Department at the University of Florida, as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

Goodwin and Caito brought in a graphic designer and quickly returned to DCP with a presentation showing what the mission of this new company would be, with full storyboards to highlight the level of professionalism and creativity they could bring to the table. There was competition, as others were also seeking the right to serve as Disney's licensing agent for fresh produce. The fact that they were backed by Caito Food Service, a very large Midwest produce distributor with 2 distribution centers, was very much in their favor. Their efforts were successful and Imagination Farms, LLC (I-Farms) was born, offering the newly created Disney Garden™ brand to potential fresh produce licensees.

In March 2006, I-Farms first began acting as DCP's licensee for fresh produce in the United States primarily via retail channels, a right it holds through December 31, 2010. Some foodservice is included in the scope of the agreement, such as at schools and institutions, but excluding large chain restaurants. By January 2008, I-Farms had succeeded in broadening the scope of the agreement to all of North America, again through 2010.

The first challenge for I-Farms was to attract fresh produce shippers, which generally operate as price takers, to pay a license fee with no guarantee of a higher FOB price. Licensing schemes in fresh produce have had ambiguous results. Nevertheless, Imagination Farms executives report that Disney Garden™ product was first shipped by co-packers (licensees) as early as May 2006, reaching 3.3 million cartons shipped in 2007, on target with projections.

The Children's Health Challenge and Marketing Food to Children

According to the Institute of Medicine (IOM), one third of American children and youth are either obese or at risk of becoming obese. Over the past 30 years, the obesity rate has nearly tripled for children ages 2–5 years (from 5 to 14 percent) and for youth ages 12–19 (from 5 to 17 percent), while quadrupling for children ages 6-11 years (from 4 to 19 percent).[1] In 2000, the total cost of obesity-related disease in the United States, not including other diet-related diseases, was estimated at $117 billion.[2]

Diabetes-related costs in the United States total $174 billion per year, up 32 percent since 2002, according to a January 2008 report from the American Diabetes Association.[3] Fortunately, currently only 0.3 percent of Americans under age 18 are estimated to have diabetes, but the growing rate of childhood obesity is of special concern, given the increased risk of overweight children becoming diabetic in adulthood. Eating habits gained early in life can increase the risk of adults contracting a wide array of diseases.

It has been estimated that low fruit and vegetable intake directly contributes about 4 percent of the estimated burden of disease.[4] The consumption of fruits and vegetables continues to be an important, but underutilized, strategy in weight management.[5,6] Only 13 percent of U.S. families with children may be eating the amount of fruits and vegetables recommended in the 2005 Dietary Guidelines for Americans 2005.[7]

The food, beverage and candy industry spends over $7.3 billion annually on direct media advertising (including magazines, newspapers, TV, outdoor, radio, and internet), excluding another estimated $20 billion on coupons, games, in-store incentives and similar gimmicks. [8] Yet less than 2% of all food advertising is estimated to be spent on promoting fruits and vegetables.

In December 2005, the IOM released its report, "Food Marketing to Children and Youth: Threat or Opportunity?"[9] It criticized the food and beverage industry for marketing unhealthy products to children, urging the government to intervene if the food industry doesn't correct the problem. This report supports the notion that the onslaught of marketing junk food to children is endangering their health. The study encouraged the federal government to consider all options, including taxes, agricultural subsidies, legislation, and federal nutrition programs to make fruits and vegetables readily available to children and their families. It suggested that licensed characters, such as SpongeBob Squarepants, should only be used to promote healthful food products.

Numerous government agencies are involved in evaluating current policies and future policy initiatives on food and advertising as they affect children. In July 2005, the Federal Trade Commission and the Department of Health and Human Services jointly sponsored a workshop on marketing, self-regulation and childhood obesity, bringing together a wide range of perspectives to consider ways to increase the development of more healthful, good-tasting, and convenient food products, as well as ways to provide information that will create demand. Fruits and vegetables inevitably play an important role in these endeavors, given their prominence in the 2005 Federal Dietary Guidelines.[10]

Very relevant to the goal of I-Farms are the efforts of the Produce for Health Foundation's (PBH) 5 A Day campaign, urging the consumption of at least five servings per day of fruits and vegetables. PBH has worked through community outreach efforts, supermarket point of sale information, and public relations to generate awareness of the 5 A Day message, with consumer awareness up from 8% in 1991 to more than 50% in 2004. Annual vegetable consumption (processed and fresh) increased from 411.1 pounds per capita to an estimated 430.9 in 2007,[11] however, fruit per capita consumption was stagnant at about 272 pounds between 1991 and 2006.[12]

PBH is working in close concert with government, schools, health entities, such as the American Heart Association and the American Cancer Society, and industry contributors to implement the 2005 National Action Plan to promote health through increased fruit and vegetable consumption. PBH launched the new Fruits & Veggies—More Matters™ brand in March 2007 to replace 5 A Day, targeting Gen X moms and children. This was introduced in partnership with the Center for Disease Control and Prevention (CDC) and its nationwide network of state program coordinators, such as in state departments of health. An expanding network of public and private national fruit and vegetable stakeholders (including trade associations such as the Produce Marketing Association and United Fresh) is generating new momentum and influencing policy at the state, local, and national levels, including playing a greater role in the farm bill negotiations currently underway in Congress.

Creative partnerships to promote healthful fruits and vegetables are proliferating, not only between entities like PBH and corporations such as Wal-Mart, but between Dole and Crayola, Sesame Street and McDonald's, and between Sesame Street and Sunkist Growers. Since 2005 many fast food chains have changed default options for kid's dishes and expanded more healthful offerings, including market leader McDonald's. Clearly, Disney is not the only major brand affected by the social implications of its food and beverage policies. And, walking the walk, Disney recently did not renew its longstanding and lucrative arrangement as a toy supplier to McDonalds.

According to industry statistics, children influence more than $50 billion dollars of their parent's spending power each year. DCP's and I-Farms kid-friendly healthier eating strategies are on trend with the proliferating efforts of numerous stakeholders in the food industry, from consumers, to schools, government, retailers, food manufacturers, producers, and advertisers, to influence these spending decisions in favor of children's health. Will these efforts be enough to actually turn the tide of kids' eating behavior?

The Disney Brand and Food Marketing to Children

Disney is the number one family lifestyle brand (Table 1), and ranks 7th in the world for overall brand value with a brand worth exceeding $26 billion dollars. Research shows that consumers consider the Disney brand to be friendly, fun, innovative, and trustworthy.

Disney does not accept advertising on its cable television network, Disney Channel, but Toon Disney, its cartoon-only sister channel, does broadcast advertisements for children's snacks, cereals, and treats. Disney Media Networks is a vast network of television, radio, and cable television stations, including ESPN and ABC Family, with great power for influencing children.

Consumers throughout the world spend over 11.2 billion hours each year immersed in Disney-related entertainment activities (Exhibit 1). This powerful brand is attempting to capitalize on its leadership position with families by further leveraging its brand in the food category, thereby helping to bring healthful products to families everywhere.

According to Disney President and CEO, Robert Iger, "Disney will be providing healthier options for families that seek them, whether at our Parks or through our broad array of licensed foods. The Disney brand and characters are in a unique position to market food that kids will want and parents will feel good about giving them." It seems that Disney's ongoing consideration of corporate social responsibility has highlighted the strategic implications of Disney's food and beverage offerings within this vast entertainment empire.

Table 1. Best Brands for Families with Kids under 12

Brand	Brand Strength*
Disney	99.0
PBS	93.0
Nickelodeon	86.8
Nintendo	77.2
Sony Playstation	65.5
Sega Genesis	54.8
Warner Brothers	41.8
MTV	32.3
Universal	23.8

* Brand Strength is expressed as a percentile rank score.

Source: 2003 Landor Research. 8,500 Brands, 27 Countries, 40,000 Interviews.

In an October 2006 press release, Disney announced new policies calling for the use of its name and characters on kid-focused products that meet specific nutritional guidelines (drawing on the U.S. 2005 Nutritional Guidelines), including limits on calories, fat, saturated fat and sugar. Among the new policies unveiled was a company-wide plan to eliminate added transfats. By the end of 2007 Disney had reached its goal of all food served at its Parks being free of transfats, as are the vast majority of its licensed products, with the remainder being transfats-free by the end of 2008. Disney also announced nutritionally beneficial changes in the meals served to children at all Disney-operated restaurants in its parks and resorts.

To this end, Disney changed the default choices at its parks (for common “kid foods” like hamburgers and chicken nuggets) from fries and sodas to applesauce or carrots, and low fat milk or fruit juice.[13] According to Reid Leslie, DCP Director of Global Strategic Marketing, Food, Health and Beauty, about 70 percent of guests are making the more healthful choices. Apparently, simple strategies, such as changing availability and first choice options, can indeed make eating healthfully easier for kids and moms on these eating occasions. Both DCP and I-Farms are betting that innovation in product form, “better for you” options, packaging, availability, and messaging can also make it easier and more attractive to make “better for you choices” in the grocery store.

Disney Consumer Products

Licensing agreements revolving around the use of characters to influence sales is a competitive arena where DCP ranks first with $21 billion in worldwide retail sales of its licensees in 2005 (Exhibit 2). According to License Magazine, no other of the character-driven licensors has comparable retail sales (of their licensed products).[14] The second ranked player, Warner Bros. Consumer Products best known for Harry Potter and Looney Tunes, was much smaller in size, with $6 billion in retail sales. Nickelodeon with its SpongeBob SquarePants ranked third with $5.2 billion in worldwide retail sales.

Of course, most of the DCP licensee sales are not in food and grocery, but in apparel, books, toys, etc. Still, DCP is a long-time licensor of packaged foods, with the portfolio historically consisting largely of candy and ice cream-products such as Mickey Mouse fudge bars, co-branded with Blue Bunny, a national ice cream brand. 1n 2004, DCP estimated that its 2,100 branded food products accounted for less than 1% of the children's food market.[15] The focus on sweets and treats reflected food's positioning within DCP as largely an extension of the park experience. Leslie put it this way, "Our strategy then was Disney is about fun, and we should be in fun categories." The model was primarily to co-brand products in partnership with national and global brands, such as Kellogg's and Cadbury, marketing them as premium-priced.

DCP recognized the need to conduct a comprehensive review of the nutritional attributes of its existing food and grocery products compared with its new nutritional standards. This review, starting in 2005, found that 28 percent did not comply and would need to be phased out. Although 41 percent did comply, adjustments needed to be made to an additional 16 percent to bring them into compliance, either by reformulation or changing portion size. The timing of the legacy product line adjustments was determined mainly by licensee contracts but occurred quickly. By September 2005, 75 percent of the food and beverage products sold by DCP in the United States were in compliance. At that time about 15 percent of DCP products were classified as occasional treats and therefore exempted from the nutritional guidelines.

According to Leslie, as of winter 2004, DCP began conducting research to size up the food business opportunity and to determine if Disney's brand equity would transfer to a broad line of children's food products.[16] While DCP knew that moms' loyalty to the Disney brand was strong, they needed to know if that would translate to food (outside of the "treat" category). Leslie explained that their research included shopping trips with moms and kids to see the difference between what they bought and what kids wanted, finding that there was a gap between the foods children requested and the foods their mothers were willing to buy for them. "It showed us the importance and value of balancing our portfolio, and that peer pressure and advertising strongly influence kids' preferences," said Leslie. "Kids demand products that make them 'in' with their peers and that means either national or character-driven products, and moms do indeed transfer to the food category the perception of Disney as magical, high quality and trustworthy."

DCP executives learned that moms' definition of "healthful foods" was broad and included items that were inherently healthful, such as fresh fruits and vegetables, as well as certain "staple" foods, like pasta, that they knew their children would eat and enjoy. To appeal to mothers, products needed to be portion controlled, high quality, taste good, omit or reduce fat and sugar, and be requested by their children. "Kids want fun graphics and shapes, good taste, and great fun," said Leslie. "The products need to make them feel special and must be non-patronizing and mom-approved."

As a result, DCP determined that key product categories were water, fresh food, frozen foods, juice, pasta, soup, cereal, baked goods and dairy. Leslie and his team launched several new categories (in addition to fresh produce with I-Farms), including better for you formulations of pizza, soup, dry pasta and dried fruit. Disney's new objective is to create a "better for you" strategy across the entire grocery store, and Leslie emphasizes, they are not getting out of treats, rather making them "healthier." DCP's expanding food and beverage line is shown by eating occasion in Exhibit 3.

Leslie developed Disney's child nutrition communication program, which includes back panel communication based on the USDA's MyPyramid.com and a website that helps kids learn about healthful eating and exercise in a fun and interactive environment. Disney.com/healthy kids was launched in January 2007, and one year later there had been nearly 900,000 page views on the site. Visitors spend an average of 18 minutes on the site where they can play games related to food and nutrition. Disney also has other sites dedicated to helping kids learn about healthful eating and exercise, such as www.disneychannel.com/passtheplate; and www.jetix.tv/pyramid. Imagination Farms has its own kid-oriented website, I-Farms.com.

DCP management recognized that in making the bold changes to more socially responsible policies affecting the marketing of food to children, profitability might take a hit in the short run. They were prepared to accept the risk. As is evident from Exhibit 4, the food and grocery component of the Walt Disney Company represents a tiny share of total operating income, less than 1 percent in 2007.

Exhibit 4 shows that for the 2005-07 time period, while revenues and operating income grew for the company as a whole, as for DCP, they declined for food and grocery. However, the trend seems to have reversed, as both revenue and operating income did recover somewhat in 2007 relative to the prior year, to $62 million and $52 million, respectively. And, the changing strategies have produced pronounced improvement relative to 2003 (the year Leslie arrived) for the food and grocery component of DCP, when operating income was $44 million. On the other hand, the food and grocery share of DCP's income fell from 11 percent in 2003 to 8 percent in 2007.

Achieving competitive shares in several food categories in the approximately $500 billion U.S. retail food industry is an ambitious goal. DCP executives also recognize that in the short run they are likely to confront a credibility gap, both within the food industry and with consumer advocates. Still, DCP seems to be rapidly leaving behind its legacy portfolio and strategies, and succeeding in coming to market with some compelling and healthful food and beverage products, as noted in a December 2007 review in *Food World* shown in Appendix A.

The Imagination Farms Model

Imagination Farms, LLC, is a privately funded, well-capitalized national fresh produce marketing company. I-Farms does not sell or ship products itself; rather products are sold and shipped by licensees, referred to by I-Farms as co-packers, typically grower-shippers based in production regions. I-Farms has no inventory, no tangible assets. The vast majority of its expenses relate to outside marketing support for the products of its licensees, such as graphics and packaging design.

As such, it is a lean company with only six employees. In addition to CEO Matthew Caito and COO Don Goodwin, there are two people working in sales, and two responsible for marketing and licensing compliance. The sales staff provides a point of reference with retailers and helps co-packers sell-in programs developed by the marketing team. Because this is a non-transactional model, co-packers and buyers negotiate pricing and volumes.

The owners believe that the association with Disney is the way to engage more effectively with moms and kids. As Don Goodwin puts it, “We believe our mission of increasing the consumption of fruits and vegetables along with Disney’s vision of creating fun and safe products that kids love, and are convenient to mom, while being sold at competitive prices, is a win-win for everyone involved. It is our goal to deliver innovative products that are kid friendly, reassuring to moms, ‘funtastic,’ and great tasting.” “Top of mind is the need to deliver products that bring taste, nutrition, and magic to the fresh produce category, in that order,” says Goodwin.

I-Farms relationship with Disney enables it to benefit from its consumer research, graphics design insights and marketing power, all leveraged to support its goal of becoming the number one trusted brand for healthful food choices for kids. Goodwin explains that retail trade awareness of Disney’s goals has helped drive retailer interest in sourcing via I-Farms network of co-packers. Disney’s high profile frequently enables I-Farms to access retailers at the highest corporate level first, prior to the fresh produce management level, as retail executives recognize the strategic storewide value of a greater presence for Disney products and promotional activities.

I-Farms management works with a culinary specialist and experts in packaging and graphics to identify and develop new product opportunities, in conjunction with its licensee partners. Significant oversight is given to selecting co-packers and to new product evaluations, to provide assurance that products will meet strict food safety, quality, and nutritional and other guidelines.

In order to offer a depth of value to engage the consumer, I-Farms offers point-of-sale (POS) materials at retail, a kid-oriented website offering prizes for games played and lessons learned about fresh produce and healthful eating, on-going sweepstakes (web-based), tie-ins with movies and DVD’s, collectible price-look-up (PLU) stickers, consumer press strategy, and other tactics to support the retailer. In 2007, storewide promotions of Disney movie launches included Pirates of the Caribbean and Ratatouille with Wal-Mart, in which I-Farms licensees had the opportunity to participate.

Product Line

Rather than pursuing a strategy of attempting to gain sizable market shares in a narrow line of products, I-Farms aims to be present across the breadth of the fresh produce department (Exhibit 5), achieving brand impressions more through breadth than depth in the early stages. Most products are conventionally grown, and commodities, rather than value-added fresh produce, represent the bulk of volume so far. I-Farms strategy for commodities is to begin to gain share of each key category (at this point there are no specific market share goals per category), with the intent of bringing new, younger users to the category, rather than merely cannibalizing the sales of competitors.

As of January 2008, I-Farms has about 10 SKUs of organically grown commodities (mostly apples). Organics will receive increasing attention in 2008. Goodwin says “We feel strongly that we can convert mainstream shoppers to buy more organics with the Disney brand. Our expectations are low that we will convert the organic ‘lifestyle’ consumer to our brand.”

Great emphasis is being placed on new product innovation by creating an assortment of “kid tested, mother approved” value-added, portion-controlled products, building strategies around “use” or “occasion.” Key products include Quick Snacks, Lunch Box, Side Dishes, Hearty Snacks, and Small Size Whole Fruits. Goodwin explains that their consumer research has focused on specific products like their new Veggies and Sauce line (Exhibit 6). They aim to determine flavor profiles, cut styles, texture preferences, etc., studying both kids and their moms. ”Moms let us know what they perceive as healthful for their kids. For example, mom sees dry sauce packets as unhealthful compared with wet sauces. They do not want the wet sauces to be too heavy (e.g., Velveeta like). We know that kids are more apt to try broccoli cut in smaller pieces (texture) with a light sauce flavored in a way they prefer.”

Foodles, a new value-added product category, will reach store shelves in February 2008. Foodles include fresh produce-based items in a Mickey Mouse shaped tray packaged for freshness and convenience (Exhibit 7). I-Farms executives report a great deal of retailer interest in their value-added products, viewing many as unique. As I-Farms management engages in creative visioning for the future, its ideas include marketing fruit and vegetable varieties bred specifically for taste attributes appealing to kids.

As I-Farms expands into more value-added produce, it faces a very competitive battle for retail shelf-space, in a section of the fresh produce department where slotting fees are the norm. It will be important to provide differentiated, rather than “me-too” products, in order to reduce the significant investment generally required to launch new products. Retailers tend to reduce fees for products they view as exciting and that may help them in the differentiation battle with competitors.

I-Farms Relationship with Licensees/Co-packers

I-Farms surpassed its licensee goal, reaching 21 licensees in the United States by January 2008 (Exhibit 5), with more on the way. In addition, it has about 12 licensees in Canada and 10 in Mexico, having received the rights to license Disney Garden throughout North America at the end of 2007. Co-packers sign license agreements with I-Farms through 2010, increasing the probability that they will make committed, active partners.

I-Farms pays DCP a royalty fee per case, which varies by product type. In turn, I-Farms emulates this arrangement with its co-packers, with minimum volume guarantees. This mitigates risk for I-Farms as co-packers guarantee a portion of the royalty. This differs from some other licensing schemes in fresh produce, such as for Green Giant Fresh, where arrangements with co-packers are passive. While minimum volume guarantees with co-packers are conservative, they still help to encourage buy-in and full commitment to utilizing the Disney Garden brand creatively and aggressively.

I-Farms sales volume, cartons shipped, and future forecasts are shown in Table 2. Sales correspond to the FOB sales value at the co-packer level, with I-Farms receiving royalties based on the number of cases shipped versus sales value, helping to make income more predictable given high price volatility in the fresh produce industry.

Table 2. Imagination Farms: Shipment and Sales Volumes of Licensees

Year	Cases (Millions)	FOB Sales (Millions)
2006	1.2	$ 15.4
2007	3.3	$ 50.0
2008	6.0[f]	$ 93.0[f]
2009	8.0[f]	$124.8[f]
2010	10.0[f]	$156.5[f]

[f] Forecast

Source: Imagination Farms documents.

I-Farms Benchmarks

I-Farms executives recognize that its internal long-term success depends on adding value to licensees/co-packers in excess of licensing and promotional fees paid. This is the only way to continue to attract new co-packers and to achieve a high contract renewal rate.

Key I-Farms performance measures are to help deliver some mix of the following:

1. Higher FOB prices for co-packers.
2. New customers and stronger buyer portfolios for co-packers.
3. Effective management of the enthusiasm of co-packers and ensuring that they are proactive and engaged participants.

4. Ensuring that co-packer sales teams take advantage of the Disney toolkit for growing sales and understand how to best leverage the Disney Garden brand and promotions in their customer sales relationships.

5. Understanding how moms and kids relate to products on the shelf, in all of their dimensions, and how to best create fresh produce demand.

6. Attracting outstanding co-packers with consistently high quality produce, including varieties with attractive taste profiles, essentially a "thoroughbred stable" of co-packers.

As retail consolidation continues to grow, I-Farms executives report that many shippers now feel that they may become irrelevant to large buyers without some point of differentiation. Several of the co-packers comment on greater market access as a benefit of being associated with I-Farms. In other words, the association has enabled them to sell to lucrative chains from which they were previously excluded. Several recognize the importance of becoming more marketing-oriented, with less of a commodity orientation, including investment in more consumer/kid-friendly packaging and product forms. They view I-Farms as contributing to their efforts to reinvent themselves and leave behind the traditional production-oriented model prevalent in the fresh produce industry.

To date, the association with Disney seems particularly of interest for mid-size or second-tier players in their commodity segment. The value proposition seems to appear less evident for some large shippers, most likely because their size already gives them market access to the large retail chains. As grower-shipper marketing alliances have proliferated in recent years, shipper size has grown, giving more shippers the financial and marketing wherewithal to invest in the long-term development of their own "brands"—attempting to take what are really trade labels to the next step. While the idea of using Disney characters to market more effectively to children sounds enticing, many have grown beyond the point of considering giving up their own trade labels/brands. This has led to some category gaps for I-Farms, such as in berries, cantaloupes, and honeydews, where large, year-round shippers appear skeptical of receiving a positive ROI on the licensing fee.

I-Farms concept for commodities is for the brand to be a replacement to what is already being sold by a shipper to a given retail account, rather than an additional option on the retail shelf. This means that a shipper investing in the development of its own brand would not have the opportunity to experiment selling part of its product under its own brand vs. Disney Garden, as a comparative exercise in relative performance and return. Because Disney Garden products are priced competitively at retail, rather than with a premium price positioning, if the co-packer receives a higher FOB price, the retailer is experiencing a lower gross margin relative to sourcing similar products from I-Farms competitors. For this model to work, the retailer must generate higher turnover on Disney Garden products, in order to produce similar or higher profits, and engender retailer loyalty to the Disney Garden brand.

Don comments that "In many cases our value-added items are additions to the product line at retail and are differentiated in a meaningful way. This underscores the importance of having a portfolio balanced between commodities and value-added. It gives us two strategies for placement at retail."

Promotions and Marketing

Participation in special promotions is optional for co-packers, and costs vary depending on the type of activity, with the costs of the following in addition to the royalty fee:

- Label design, such as promoting movies on labels or bags.
- Printing plates and the purchase of packaging.
- Printing any POS material for retail merchandising.
- Shippers contribute toward joint costs of the consumer website, trade advertising, conventions, etc., incurred by Imagination Farms.

I-Farms has evolved to three levels of promotion:

- National—for example, supporting the launch of the Ratatouille movie last year at all accounts and with all shippers who wanted to participate.
- Shipper specific—such as a tie-in to a movie or DVD release that meets seasonal timing of specific shippers.
- Retailer specific—tie-in with specific retailers for movie releases, such as Wal-Mart store-wide promotions of Pirates of the Caribbean and Ratatouille.

All uses of Disney characters must be approved, as Disney closely guards their use. Tie-ins of promotional materials to Disney movies offer licensees the opportunity to provide specific and changing labels/promotions to their customers to support consumer interest and sales. The type of promotion can vary depending on the product and its target age group among children. For example, special promotions took place last year tied with Disney's popular High School Musical movie and programs on the Disney channel targeting "tweens." Research has shown which Disney characters resonate with specific age groups, by gender, and this is taken into account in designing POS materials, packaging and the full-range of promotions with co-packers.

I-Farms executives provide many examples of encouraging consumer responses to Disney Garden promotions. One example is a large retailer who tested their apple program in winter 2007 (Jan-Feb). Based on performance measurements, they rolled out the program to the entire division for all apple SKUs. Early on, in summer 2006, I-Farms was already getting exciting results from its special retailer promotions. For example, management was able to get first-time access for a stone fruit shipper to a large national retailer and demonstrate that the promotional program yielded sales increases of around 15 percent for the retailer in only the divisions participating in the promotion. A Midwest retailer reported a "mid-teen" increase in his pineapple business when he switched to Disney Garden Pirates of the Caribbean pineapples. A large multi-division retailer that ran a Cars (Disney movie) grape promotion in late 2006, reported that it was the most successful grape promotion of the entire calendar year.

Hence, in terms of retailer buy-in, I-Farms continues to increase distribution with new retailers and new items at existing supporters. Goodwin separates retailers into three categories. The first is someone who philosophically has bought-in and wants many of I-Farms items. The second includes retailers who want specific items or categories. For example, they want the Disney Garden citrus program because it is a differentiated offer compared with their current citrus supplier. The final group focuses primarily on promotions. They will support items as they relate to strong promotional properties with lots of support. For example, over 400,000 cases of Disney Garden products were sold with special tie-ins to the Ratatouille movie. The cost to co-packers to support a promotion like Ratatouille can be very minimal on a per case basis, if shippers move enough volume to justify the packaging/label setup costs, such as less than 3 cents per case plus the royalty. The cost of special promotions tends to vary between 3-10 cents per case.

The ROI can be sizable. For example, one co-packer reported gaining first-time access to Wal-Mart when participating in the Pirates of the Caribbean promotion that was store-wide at all Wal-Mart stores. This represented a 100-truckload order. Although the relationship with Wal-Mart has not yet evolved into a consistent one, the co-packer is very pleased with the results to date. Other co-packers report having gained regular access to key accounts.

What about co-packers' experience to date in capturing a sufficient price premium to offset the licensing fee? This has been variable, possibly partly due to specific nuances of product categories or specific sales techniques. In 2008, I-Farms management will be placing more emphasis on helping co-packers sell the program using the right sales techniques. Don notes, "There can be a wide gap between the sales abilities from one co-packer to another. We recognize that we must do a better job of training our co-packers on how to sell a brand effectively. It is much different than selling a commodity."

Are consumers responding? Goodwin reports that during the Ratatouille promotion there were 25,000 entries in their consumer contest, all driven off the package. The website seems to be engaging consumers building to 18,680 hits/month in 2008, with hits highly correlated with sweepstakes and promotions. For a High School Musical sweepstake held between October 2007 and January 2008 there were approximately 22,000 entries with 40 prizes, including scholarships, karaoke, and dance platforms.

Goodwin emphasizes the "learn and win philosophy" that they are attempting to strengthen as they design the website. Kids play games and to earn prizes they must demonstrate that they have learned something about fresh produce. This supports the mission of increasing fresh produce consumption, actually moving the dial, rather than simply eroding sales of competitors.

Milestones and Recognition

Imagination Farms was recently awarded the **Disney Consumer Product Award** for being an outstanding licensee. Criteria were based on exceeding projections for the year and staying true to the mission of increasing the consumption of fruits and vegetables among children.

Imagination Farms' My Size Minis Apple program won the iParenting.com Excellent Product Award. iParenting.com is an online resource and community for expecting and experienced parents that offers parent blogs, expert advice, community message boards, and links to parenting and lifestyle sites and shopping. Clearly, I-Farms understands the need for a brand to become a meaningful part of a lifestyle community in order to grow and prosper.

Branding in Fresh Produce

Branding in fresh produce has not been the norm. Seasonality has typically been a major barrier to consumer branding in fresh produce. Historically, there has been a lack of product differentiation, and inconsistent quality both intra- and inter-seasonally, making it difficult to capture consumer attention and loyalty. In addition, on the supply side, market structure was relatively fragmented. This is also an industry of limited profit margins at the grower and shipper level. All of these factors have largely precluded sustained investments in consumer branding and advertising (except for the very largest firms, such as multi-national banana marketers).

In recent years, as the size of shippers grew in response to buyer consolidation, with most becoming year-round, the ability to brand is improving somewhat. However, most consumer branding in fresh produce is with value-added products (i.e., bagged salads, apple slices), where points of distinction are easier to recognize and maintain; in contrast, most fresh produce is sold as essentially unbranded commodities, (i.e., bulk produce, such as apples, cucumbers, head lettuce with little or no packaging). Most shipper brands in fresh produce are really trade labels, recognized by commercial buyers, with little or no meaning to consumers.

Nevertheless, the presence of branding in the fresh produce department has been growing in tandem with the rapid evolution of the value-added, convenience-oriented, ready-to-eat category. According to the Perishables Group, sales of fresh-cut fresh produce in supermarket channels reached $6 billion in 2007. Total retail fresh produce sales were estimated at $56.3 billion in 2006, so value-added fresh produce likely represents about 10 percent of total sales value, although a much smaller share of quantity sold, due to the higher average prices/pound for fresh-cut.

The wider the product line and units sold of each product, the better for brand development, as the higher the number of brand impressions, the greater the ability to build brand awareness.

Dole, Del Monte, Sunkist, and Chiquita are among the leading fresh produce brands, with their names on many items sold in the United States and abroad, contributing to a large number of brand impressions. The first three brands have a store presence beyond the fresh produce department (even though the non-fresh produce components of their product lines may be sold by separate companies). Still, it seems that few fresh produce companies have succeeded in going beyond consumer brand awareness to achieve demonstrably high levels of satisfaction and loyalty.

When consumers are asked what factors most influence their purchasing decisions for fresh produce, taste, appearance, and quality are the most important factors, followed by price, with brand ranking toward the bottom. Even for value-added produce like fresh-cut vegetables, 74 percent of consumers express no preference for a brand (68 percent for fresh-cut fruit), and only 15 percent say that they both prefer a brand and will pay more for it.[17] This is not surprising given the relatively new development of these value-added product categories, but it is even more a problem for commodity fresh produce, sold with little or no label or brand identification.

In all product categories, brand awareness is a necessary, but not sufficient, condition for building a successful brand. Successful cultural icons, like Apple and Starbucks, exemplify the cultural connection between the brand and the consumer world. These companies seem to have understood that they were creating lifestyle worlds around their products and brands. The formula for success was simple: The more you know about the world in which your product plays, the more successful your brand will be.[18] Yet in fresh produce, relatively little consumer research has been done, and many companies have only a superficial understanding of who consumes their products and why, their media preferences, or how to best influence them to stimulate purchase frequency, willingness to pay, and loyalty.

The Landor Group measures the strength of consumer brands, and its research shows that the most successful brands are those that: 1) build on a foundation of trust, 2) cultivate a brand community, and 3) empower customers with knowledge.[19] These imperatives likely apply to the strength of fresh produce brands, just as to any other type of product, representing a major challenge for the industry for the reasons noted above.

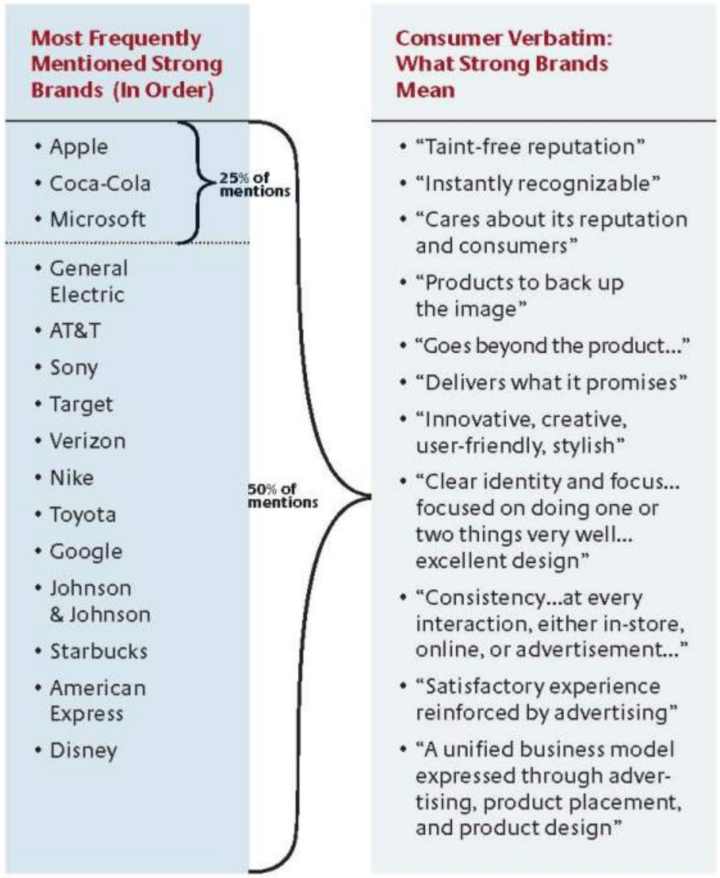
“Organics” is a concept that has gained some marketing traction in fresh produce, precisely because it has become aligned with a lifestyle community. This concept seems to have been appropriated by a segment of consumers highly motivated to understand more about the food products they are consuming. According to the Hartman Group, in 2004, 14 percent of U.S. consumers could be classified as core organic consumers, while 44 percent were mid-level, and 13 percent existed on the periphery of the organic world.

All brands have multiple dimensions, and the on-going trend has been for more consumers to move from the mid-level of the organic sphere, to the core as they gain more knowledge about the various dimensions of where and how their food is grown. While many consumers may not understand (and indeed misunderstand) what organically grown food products are all about, they may want to feel part of the growing lifestyle community that they see associated with the organic movement. Apparently, organics as a concept could be said to be growing into a brand, generating consumer satisfaction, possibly with oneself for making this choice and what it says about how one can make a statement about broader social concerns, all contributing to the health of the brand. Organic sales of fresh produce are now estimated to contribute 3-5 percent of retail sales, and are growing rapidly.

All of the brand strength indicators identified by the Landor Group are evident with the organic movement (independent of any objective assessment of the validity of many of the claims made by those in the organic movement). Hence, so far, one might argue that strong “brand” loyalty and satisfaction in fresh produce has been achieved more by a concept than a company. This movement developed despite the lack of consumer advertising, from the bottom up, by messages communicated (recently often via blogs) by smaller firms, growers, consumer advocacy groups, and food opinion leaders such as Alice Waters, viewed by millions of consumers as authentic and trustworthy. This may provide some interesting lessons for companies attempting to build fresh produce brands, including Disney/DCP and I-Farms.

The perils of focusing primarily on brand awareness, rather than brand health, are increasingly being noted in the management literature. The key elements of brand health noted in one study are: 1) Leadership, 2) Liabilities, 3) Attractiveness, 4) Distinctiveness, and 5) Satisfaction.[20] In measuring strong brands, the brands that perform the best across these dimensions, research shows that only 15 brands account for 50 percent of total consumer mentions. The most frequently mentioned strong brands include Disney and are shown in Figure 1.

Figure 1. What Consumers Say about Strong Brands



Source: Dexter Berg, Julie, Matthews, John, and O'Hare, Constance, "Measuring Brand Health to Improve Top-Line Growth," MITSloan Management Review, Fall 2007, Vol. 49 No. 1, SMR264.

As DCP expands the Disney brand across a wider array of food and grocery products, including I-Farms in the fresh produce arena, Disney executives will be actively managing the brand and what it signifies to consumers and specific consumer lifestyles, in order to continue to build rather than erode its very strong brand health. Brand health can be linked to top-line performance overall and for each customer segment (Figure 2).

Figure 2. The Strategic Importance of Brand Health

Source: Dexter Berg, Julie, Matthews, John, and O'Hare, Constance, "Measuring Brand Health to Improve Top-Line Growth," MITSloan Management Review, Fall 2007, Vol. 49 No. 1, SMR264.

This challenge of maintaining its brand strength may be highest within fresh produce. On the other hand, fresh produce may present the greatest opportunity, given the relatively unexploited, fertile ground that it represents. Yet, will a Disney character truly raise sales by stimulating kids to increase fresh produce consumption? Here is what a mom wrote to I-Farms:

"My daughter is so excited to see the Disney characters when we go to the grocery store. The first Minnie Mouse peach she had she took the sticker off and stuck it right onto her forehead. This has now become a daily ritual with us—I take the stickers and put them on her forehead, and she runs into her room and sticks them into her journal to save. When we go to the grocery store, she asks for her fruit by character, "Can we get 2 Plutos, a couple of Minnies, and some Mickeys too?" If the fruit is in a bin with non-Disney Garden fruit, we need to pick through and make sure each piece we buy has the right stickers on them. She's even gotten her friends to do the same."

Goodwin says, "We continue to hear feedback from produce managers of the many positive comments they get from shoppers. We were pleasantly surprised that they are getting even more comments from parents than kids. We believe that our category growth is leading to more consumption."

Licensing in Fresh Produce

Licensing is the process of leasing a legally protected property in conjunction with a product, product line, or service. Managed effectively, licensing can be a powerful and versatile component of corporate marketing programs, generating greater recognition and increasing brand awareness with incremental consumer impressions. Today, 70 percent of Fortune 100 companies have active licensing programs compared with 10 percent in 1985. Licensing can create a long-term revenue source, and help companies to penetrate new distribution channels, test possible acquisition options, and shorten the learning curve in new categories.

For DCP and its choice to deposit fresh produce licensing rights with I-Farms, it appears to represent a cost-effective way to enter a new category. Of course, expanding a brand name too quickly and widely could lead to unwise choices in brand fit or product quality, thereby diluting or degrading the brand. Another risk is poor business relationships with licensees, requiring excessive monitoring and management time. In the case of DCP's agreement with I-Farms, at least so far, the arrangement seems to be achieving the benefits without incurring any negative consequences.

While licensing in fresh produce is not new, as noted earlier, it is often viewed with skepticism by commodity shippers. One of the best-known brands in fresh produce is Sunkist, which has successfully licensed its name to firms selling food, beverage, and vitamin products in many countries, particularly in Asia. In 2006, worldwide sales of Sunkist licensed products approached $1.4 billion, generating $22.4 million in royalty income for Sunkist Growers, Inc. However, the majority of the licenses are not for fresh produce (citrus is largely grown by its owners), but rather in consumer-packaged-goods categories that are traditionally branded. Some question whether Sunkist has chosen its product license categories wisely, such as in the case of soda, and whether it is investing sufficiently in growing and strengthening the brand. Recently, it entered the value-added, fresh-cut fruit business in an arrangement with Taylor Farms to broaden its brand impressions in this healthy arena.

Other examples of fresh produce licensing arrangements are between Bolthouse and Earthbound Farms for organically grown carrots and between Tropicana and Dole for chilled juice. Licensing royalties usually range from 1 to 10 percent of sales, with hot entertainment properties like Disney, Nickelodeon, and Warner Brothers toward the top end. In fresh produce, royalties tend to be under 5 percent, frequently in the 2 to 3 percent range.

I-Farms success, just like that of any other fresh produce licensing model, rests on a foundation of achieving consistent quality produce from its co-packers. The long-standing problem remains of building a consumer brand in a category where inter- and intra-seasonal variation in quality is difficult to avoid. After all, most fresh produce is still grown outdoors, subject to the vagaries of weather. Strengthening the share of value-added product offerings is a strategy for achieving consistent quality, with truly differentiated products, warranting dedicated shelf-space year-round, thereby increasing the potential for achieving consumer satisfaction and loyalty.

Green Giant Fresh versus I-Farms

One of the better-known licensing arrangements in fresh produce is Green Giant Fresh (GGF), whose ownership structure has changed and evolved over the last two decades. Originally, The Sholl Group obtained ownership of the GGF brand under the leadership of Jeff Sholl, a former executive with The Pillsbury Company. The Pillsbury Company had "toyed" with several initiatives in fresh produce without success. Mr. Sholl struck a deal with his former employer to start a private company using the GGF brand in fresh produce, shipping the first cases under the GGF brand in 1995.

Selling under the GGF brand has apparently proved valuable for some mid-tier players as a point of differentiation, helping them to compete better relative to larger shippers, improve their customer portfolios and, in some cases, their prices.

Today, Green Giant Fresh consists of two companies: Potandon Produce, LLC and The Sholl Group II. Potandon is a potato shipper and has the GGF license for potatoes and onions. They manage all sales for GGF potatoes and onions through a network of co-packers and owner/packers. In addition to the GGF brand, they also pack some trade brands and retailer private labels. Potandon's volume is around 25 million cases with about 15 million packed under the GGF brand.

The Sholl Group II (TSG) is a licensing company, which has about 12 licensees with a strong emphasis in fresh vegetables. Its annual volume is around 13-15 million cases, about 75 percent of which comes from two California-based grower-shippers, Growers Express and Bolthouse Farms. TSG also enters into contracts with value-added processors to co-pack certain products, with TSG managing the sales function. These items include green beans, cabbage, peppers, cucumbers, and steam fast vegetables.

Much of GGF's sales come from retailers located east of the Mississippi River. Its penetration in fruit and with customers in the West is minimal. GGF has had a number of failures in licensing (apples and grapes) and new products (sweet corn). The Sholl Group formed a new company in the early 2000s called Colorful Harvest (CH), a licensee of TSG and owned by some members of its management team. CH was granted a license for berries, melons, and avocados, and it also markets a number of items not under the GGF brand. In 2006, The Sholl Group fresh produce interests sold more than 30 million cases of GGF branded products and more than 12 million cases of other branded products.

Although the Green Giant Fresh brand has long been strong in commodity vegetables, it has become increasingly active in the value-added, convenience-oriented fresh vegetable category, in partnership with co-packers, such as True Leaf, now also a licensee of I-Farms. New products include fresh vegetables in microwavable bags, and sweet potato fries and sweet potato cubes. In May 2007, GGF announced, in conjunction with General Mills, the launch of a Green Giant Fresh iceberg lettuce and Betty Crocker Bac-Os coupon cross-promotion. Thus, GGF recognizes the need to provide products with compelling points of distinction to consumers and customers, and the power of partnering with national food brands; as such it is a definite a competitor with I-Farms.

Still, Goodwin feels that there are some key differences between GGF and I-Farms. I-Farms has a clear, consumer based mission, whereas GGF focuses on creating value for the owners by leveraging the GGF brand. This difference is apparent in the sell-in process at retail. According to Goodwin, more buyers are willing to embrace “the I-Farms cause.” Thus, it has been able to gain distribution with larger customers, some of which see the Disney Garden brand as strategic. Specifically, certain retailers see the Disney Garden program as playing a role in their differentiation strategies and efforts to compete effectively in the more healthful food arena, specifically targeting children.

In contrast, the GGF brand is known for consistent quality and for the consistent, professional packaging relative to trade labels, but lacking the broader Disney caché. In some cases, buyers can choose the GGF brand vs. the shipper’s trade label with no additional cost, for example with carrots, making the value of the brand appear somewhat questionable.

Goodwin emphasizes that Imagination Farms team is focused on building sales for co-packers. The Sholl Group team splits their focus between their co-packers, selling their own value-added items, and supporting Colorful Harvest. As Goodwin says, “The core of the I-Farms model is to always serve the co-packer! We hold strong the belief that the number one driver of our success is an enthusiastic co-packer.”

Challenges Facing Imagination Farms

During a recent phone conversation, Don Goodwin reflected on the challenges Imagination Farms faces as it enters the midpoint of the five year contract with Disney Consumer Products Division. Don sees two main challenges, one more internal in nature and the other more external.

The first challenge is how Imagination Farms should proceed in pursuing opportunities in light of the limited resources it has. “We are like kids in a candy store,” Don says, thinking about the pace of progress of the last two and a half years. DCP has been very pleased to date with the progress made in the produce area by Imagination Farms. In fact, they want Imagination Farms to continue expanding the Disney Garden program globally. Imagination Farms already has 12 Canadian, and 10 Mexican licensees. At the time of this writing, Don was planning trips to South America to meet with producers to discuss licensing opportunities with Imagination Farms and Disney Garden.

Don wonders what the best approach might be as Imagination Farms matures in this venture with DCP. Should they focus on growing the number and scope of licensees, or increasing the penetration of current licensees in their markets? Whatever they decide to do, continuing the aggressive approach to marketing will require additional money and resources. Don wonders if he will have to hire additional people. The current staff, lean and knowledgeable, has served Imagination Farms well to this point. Expanding to additional licensees and countries will likely mean additional people. Can the right people be hired and what will their role be? How will expanding the Disney Garden program to new licensees and new markets affect the relationship with existing licensees? Don believes Imagination Farms must continue to expand their relationship with DCP or risk Disney filling perceived voids outside of Imagination Farms.

The second challenge is more external to Imagination Farms. How can Imagination Farms and it licensees continue to keep the Disney Garden idea fresh among retail buyers and consumers alike? At a licensee meeting in early June 2008, Don challenged each of the 21 licensees to look for ways to re-invent themselves when it comes to selling approaches. This may be particularly difficult, as many of the licensees are used to selling in markets dominated by a "commodity mentality." Even though Imagination Farms and the Disney Garden program are barely two years old, Don is sensing both sellers and buyers are becoming complacent. Don wonders what the best approach to keeping the Disney Garden program fresh and exciting.

Further emphasizing the need to be proactive is a threat coming from Warner Bros. On June 4, 2008, Warner Bros Entertainment is partnering with Safeway to launch a new line of Loony Tunes-festooned food and drink items for children, as an extension of the supermarket chain's Eating Right line of more nutritional foods. "Dubbed Eating Right Kids, the new line-up, which will roll out this summer, includes more than 100 food and drink products that will be promoted as helping moms pick more nutritious food for their children." Warner Bros. chairman-CEO Barry Meyer said the deal is a way to turn its well-known cartoon characters into "ambassadors of health and fitness." He said the partnership "allows us to utilize the Looney Tunes characters' enduring popularity with kids and teens to promote a lifestyle choice that's healthier for them." Safeway's Eating Right Kids packaging will exclusively feature such characters as Bugs Bunny, Tweety, Taz, Sylvester, Wile E. Coyote, Roadrunner, Marvin the Martian and Daffy Duck. Included in the line-up are breakfast foods, portable meals, dairy, snacks and beverages. [21]

Don Goodwin is reflective when it comes to Imagination Farms. Much has been accomplished in the first two and one-half years and many opportunities exist for the future. It is a question of how best to proceed.

Discussion Questions You May Wish to Consider

- What are some of the possible alternatives Imagination Farms should consider regarding the internal and external challenges it is facing?
- Can licensing succeed in fresh produce? Does Disney Garden represent a better option (higher ROI potential) relative to other license programs?
- Can Disney characters and the strength of the Disney brand and marketing succeed in changing children's eating patterns?
- Is Disney's corporate social responsibility strategy (in food and beverage) financially sustainable and responsible to Disney shareholders? Is the risk of not pursuing it even higher with greater potential for brand erosion?
- Does I-Farms need to reach market share thresholds in specific product categories in order for it and its co-packers to have the wherewithal to compete effectively?
- Should I-Farms continue to expand the products handled or concentrate resources on fewer product lines, for example, new value-added products?
- Will retailers support the Disney Garden brand for commodities with the current pricing model?
- If we enter a recession, will this impede progress for the sale of Disney Garden products, in case 1) fewer consumers become willing to pay for convenience, value-added products, and 2) retailer profit margins become squeezed for both commodity and value-added fresh produce?
- Should I-Farms focus on international expansion or first consolidate its brand awareness and satisfaction in the United States?
- Does the risk of fresh produce food safety outbreaks represent too much of a threat to the Disney brand?

Exhibit 1. Consumer Time Investment in Disney-Related Entertainment Activities, 2006

Activity	Million Consumer Hours per Year	Percent
Cruising on Disney Cruise Lines	40	0.4
Listening to Disney radio	140	1.3
Logged onto www.disney.com	140	1.3
Watching The Disney Channel	8,400	75.3
Reading Disney books/magazines	500	4.5
Visiting Disney theme parks	800	7.2
Watching Disney movies in the theater	500	4.5
Watching Disney live stage shows	40	0.4
Playing Disney video games	250	2.2
Watching Disney movies at home	350	3.1
Total	**11,160**	**100**

Source: North America Brand Study, 2006, as provided by Disney.

Exhibit 2. Leading Licensors of Character-Driven Entertainment Brands, 2005

Company	Key Characters	Rank	Worldwide Retail Sales (billion $)
Disney Consumer Products	Mickey Mouse, Winnie the Pooh	1	21.00
Warner Bros. Consumer Products	Harry Potter, Looney Tunes	2	6.00
Nickelodeon & Viacom Consumer Products	SpongeBob SquarePants	3	5.20
Marvel Entertainment	Spiderman	4	5.00
Sanrio	Hello Kitty	6	4.20
Lucas Licensing	Star Wars characters	10	3.00
4Kids Entertainment	Yu-Gi-Oh! characters	13	2.80
HIT Entertainment, Ltd.	Bob the Builder, Barney	16	2.25
Mattel Brands, Inc.	Barbie	17	2.20
Universal Studios Consumer Products Group	Curious George	20	2.00
20th Century Fox Licensing and Merchandising	Eragon	21	1.50
Pokemon USA, Inc.	Pikachu	23	1.30
Sesame Workshop	Sesame Street characters	25	1.25
BBC Worldwide	Teletubbies	26	1.20
Peanuts	Charlie Brown	28	1.20
American Greetings Properties	Care Bears, Strawberry Shortcake	36	0.80
Nelvana	Babar, Franklin the Turtle	49	0.55
MGM Consumer Products	Pink Panther	54	0.45
Cookie Jar Entertainment	Doodlebops	76	0.13
Scholastic Media	Magic School Bus characters	97	0.05

Source: Adapted from Dawn Wilensky, “101 Leading Licensors,” License Magazine, April 2006, pp. 22-36.

Exhibit 3. DCP's Food and Beverage Products by Eating Occasion, 2006–2008

Breakfast	**Lunch**	**Dinner / Main Meals**	**Snacks**
Ready-to-eat cereal	Foodles, fresh produce	Dry pasta	Fruit cups
Hot cereal	Peanut Butter	Canned pasta	Applesauce cups
Pop tarts	Jam/Jelly	Pasta sauces	Carrot/celery with dip
Breakfast bars	Mac and cheese	Soup	Sliced fruit with dip
Pancake mix	Cup a soup	Hamburger patties	Refrigerated dips
Syrup	Microwavable pasta	Turkey hot dogs	Baked chips
Muffins	Lunchables item	Frozen chicken nuggets	Crackers
Frozen waffles	Hot pockets	Frozen dinners	Kid-sized apples
Frozen French toast sticks	Frozen snacks	Pizza	Pudding snack cups
Microwavable pancakes	Ketchup	Hamburger rolls	Gelatin snack cups
Breakfast pockets	Mustard	Hot dog rolls	Cheese, character-shaped
Yogurt tubes	Relish	Beverages	Snack cakes
Yogurt cups	Mayo		Ice cream / novelties
Drinkable yogurt	Salsa		Corn/tortilla chips
Bagels	Bread		Pretzels
Produce items	Beverages		Beverages
Beverages			

Source: DCP and I-Farms company documents.

Exhibit 4. Income Statement, Walt Disney Company and Disney Consumer Products, Fiscal 2003-2007, in million dollars

	Walt Disney Company					Disney Consumer Products					Disney Consumer Products Food and Grocery Only				
	2003	**2004**	**2005**	**2006**	**2007**	**2003**	**2004**	**2005**	**2006**	**2007**	**2003**	**2004**	**2005**	**2006**	**2007**
Revenues	27,061	30,752	31,374	33,747	35,510	2,344	2,511	2,127	2,193	2,347	53	53	69	60	62
Costs and Expenses	23,887	26,264	27,443	28,392	28,729	1,960	1,977	1,584	1,575	1,716	8	8	11	10	10
Operating Income	3,174	4,488	3,931	5,355	6,781	384	534	543	618	631	44	45	58	50	52
Net Income	**1,267**	**2,345**	**2,533**	**3,374**	**4,687**										

Sources: Walt Disney Company annual reports; 10k filings; company communications.

Notes: 2006 & 2007 Food & Grocery costs per estimate based upon 2005. Some data for the Walt Disney Company for 2003 and 2004 may be slightly different than shown here due to subsequent adjustments made in income tax reporting procedures.

Exhibit 5. Imagination Farms Licensees/Co-packers and Products

- Silvestri Sweets – caramel apples, low fat
- Chelan Fresh – apples, pears and cherries
- Church Brothers – commodity vegetables
- Crunch Pak – sliced apples
- Four Star – California grapes
- Fazio Marketing – Champagne Grapes
- Hugh Branch – sweet corn
- Ito Packing – peaches, plums, nectarines, California cherries, blueberries, persimmons, pomegranates
- Kopke – Chilean grapes
- L&M – apples, pears, organic apples, cherries
- Prima Bella Produce – sweet corn
- Progreso Produce – watermelons, pumpkins, and mangoes
- Rigby Produce – potatoes
- Russet Potato Exchange – potatoes
- Seald Sweet International – citrus
- Six L's – tomatoes, watermelons
- Stellar Distributing – kiwis
- Sunwest Fruit – citrus
- True Leaf Farms – value-added vegetables
- Turbana – bananas and pineapple
- West Pak Avocado – avocados

Exhibit 6. Veggies & Sauces

Exhibit 7. Foodles

Lunch Box Items

Exhibit 8.

Quick Snacks

My Size Minis

Appendix A

By Roger Soman

A Mouse In The Store!

I wouldn't exactly say that your neighborhood food store is fast becoming "The Happiest Place On Earth," but if you are looking to sell your Disney stock, you might think twice. I had the privilege of attending November's Disney Consumer Products meeting in Anaheim, CA and the company is on a big-time roll. They just announced plans to invest billions in their parks and cruise line. ABC and ESPN are dancing at the top of the heap. Disney theatric and DVD releases dominate the top 10. Enchanted topped $50 million in its first week, Hannah Montana concerts are selling out in seconds and Disney's cable and radio channels are playing to record-breaking audiences. As the management team repeatedly echoed: "This is a great time to be Disney!" Manufacturing licensees of Disney products who were attending the meeting were enjoying unprecedented momentum and it's beginning to show on your supermarket shelf.

Disney Consumer Products (DCP) is Disney's licensing division. The meeting attendees manufacture everything Disney, including apparel, books/magazines, electronics, toys, housewares, and most important to me, food/health and beauty aids. DCP meets twice a year, once at the Licensing Show in New York and the other time in Anaheim. This was my second Anaheim meeting, and the progress the organization has achieved since last year is remarkable.

The cornerstone behind Disney's momentum is its unwavering commitment to come to market with compelling products. In this respect, Disney has put their money where their mouth is. All Disney food products meet or exceed strict nutritional guidelines, so moms won't hesitate to buy them for their kids. Most Disney food items uniquely satisfy a family need. For example, IN-Zone's line of kids' drinks are packaged in toy-like collectable, refillable, character shaped bottles. Think of really cool giant PEZ-dispensers mounted on mini-canteens. Hey, even cooler is the fact that these bottles are virtually indestructible no-spill sip-cups that are kitchen-floor and family-car friendly. Imagination Farms' "Foodles" entry is another compelling product with a reason to be purchased. Foodles are produce-based Mickey Mouse shaped SKUs similar to Kraft's Lunchables concept. Foodles generate interactive 'build and eat' relationships with kids through child-friendly graphics and mom-friendly ingredients. Foodles get kids to eat more good stuff. How great is that?

Disney actively participates with conventional items whose components are similar to current product lines, and they work with these manufacturers to make the new product unique. Differentiation for these "me-to" items is often done in a Disneyesque style by appealing shape and superb packaging which, in turn, make for a compelling sales proposition. Favorable early distribution and sales results are seen in Disney shaped dry pasta from American Italian Pasta Company and canned pasta from Pasta Italiano as well as Birchwood's frozen Mickeyburgers and Frozen Specialty Inc's frozen Mickey Pizza. For other products, packaging plays the key roll. Honey Tree's Winnie the Pooh shaped honey dispenser stands out on the shelf. National Raisin Company recently introduced a 14-count half-ounce raisin item that encourages kids to collect (empty box) trading cards featuring Pixar Cars characters. This is one of six SKUs introduced which won National Raisin the prestigious "Disney Licensee of the Year Award."

Another way Disney is ensuring their long-term success is by staffing DCP with knowledgeable and approachable people who have expertise in the food industry. These 'walk the walk' executives have been effective at spearheading collaborative efforts across licensees that maximize efficient go-to-market efforts. Getting non-related companies to join forces is a bit like herding cats, but so far, the efforts have been successful. Two examples include a shared booth at FMI and the ability to purchase promotional efforts in quantity. DCP is also raising the bar behind the scenes, in important areas such as Food Safety and Crisis Management, where the need to think big is critical. Licensees were briefed on a comprehensive program that was easy to understand. Perhaps the biggest takeaway was the Sr. Manager - Safety & Quality's personal cell-phone number with a sincerely delivered invitation to call "24/7/365" as needed. That's dedication!

Disney branded foods have collectively grown from a few dozen SKUs to many hundreds. Each is painstakingly paired to age- and context-appropriate characters for maximum kid appeal. Disney Licensees benefit from the most comprehensive set of characters on the planet. Continued creative releases and re-releases will help pull product through the system. Also, because of the collaboration effect, tricky issues such as nutritionals and serving sizes benefit from an expanded group of seasoned executives banding together to solve a single problem. As the management from Color-a-Cookie will tell you, it's kind of like having the best and the brightest in your corner. It should also be noted that these products are often retail priced somewhere between Branded and Private Label, so all the added oomph isn't breaking the bank. The common thread between DCP

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continues on page 37

The Data Suggest

From page 30

and the Licensees is that everyone needs to be happy.

Supermarket Disney will be fun to watch over the next few years. It's not a single-cause push like low-carb or no-salt. Disney's emphasis on family and children's health eclipses any sole charity or cause. Personally, I think Old Yeller will hunt for a long time to come. Perhaps Jane Asmar of National Raisin (Disney Fried Fruit) put it best; "You see people at Disneyland laughing and smiling when their children run up and hug the characters like Mickey, Minnie and Goofy. Where else on earth could you tap into such a trusted resource?"

In closing, Joann, Gerad, Grey and I wish you and your family a happy healthy holiday and prosperous New Year. May you get more than your fair share of comfort and joy in 2008.

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Endnotes

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