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Making the most of trademark licensing

Licensing can add considerable value to a brand. But some pitfalls must be avoided

It is paramount that companies carefully consider and implement strategies to ensure successful brand management, and wisely thought-out licensing programmes form a vital part of this process.

In the United Kingdom, rights owners can apply for UK-registered trademarks, governed by the Trademarks Act 1994, or Community trademarks. For a licence of a UK-registered trademark to be legally effective, it must be in writing and signed by the licensor. There is, however, no such requirement for a licence of a Community trademark. Although the precise requirements will vary in each case, businesses should always consider the objectives and purposes of the licensing programme before developing it in detail.

A rights holder should first consider the objectives of the licensing strategy. Once the goals have been identified, the licensing strategy can start to take form.

Next, the rights holder must consider the activities to be covered by the licence. Some licences merely permit the licensee to manufacture the product and then require that it hand over the finished good to the licensor or its nominee. Other licences require the licensee to sell and/or distribute branded products, as well as to manufacture them. In some instances, the licensee may be required to manufacture products, but the labelling and packaging will be supplied by the licensor. This offers the advantage of keeping the labelling and packaging under the direct control of the licensor, but exposes the licensor if the quality of the goods is substandard.

The rights holder should also consider whether it wishes its licensees to carry out sales promotions or advertising. This will usually differ depending on the type of model that the rights holder chooses. For instance, it is typical in franchising models for the franchisor to carry out sales

promotions or advertising on behalf of all its franchisees, and the licensee will be required to contribute to the cost of advertising.

If the rights holder owns a portfolio of trademarks, it should consider which trademarks will be covered by the licence. Further, if any other associated IP rights need to be licensed, the rights holder should consider whether the grant of these additional rights should fall under the same licence as the trademark or whether these should be covered separately.

Once a licensing strategy has been decided, the business should then turn its attention to the terms of the trademark licence. Although the precise terms will depend on the business requirements and its negotiations with the licensee, the following should act as a checklist and be considered as a starting point.

Defining the scope of the licence will be key, as this will form the basis of the licensee's rights in relation to the use of the licensor's trademark(s). It is therefore essential to define the scope of the licence clearly. It is typical for the licensor to limit the licensee's use of the trademarks to products and services permitted to be sold or distributed by the licensee. This will ensure that the trademarks cannot be used by the licensee in conjunction with any other products or services.

In the United Kingdom, there is a distinction between exclusive, sole and non-exclusive licences:

- An exclusive licence will give the licensee a right to use the trademark to the exclusion of all others, including the licensor. This option should therefore be considered carefully;
- A sole licence will prevent the licensor from granting any similar rights to third parties, but will not prevent the licensor itself from using the trademarks; and

- A non-exclusive licence will not restrict the licensor from licensing the trademarks to other third parties (ie, other licensees), or using the trademarks itself.

A trademark licence will usually include a limitation on the licensee to use the trademarks only for the permitted purposes within a particular territory. From a licensor's perspective, this will help the licensor to manage its licensees where it is appointing different licensees in different jurisdictions or territories.

The licensor is likely to insist on the licensee's explicit acceptance that the marks are owned by the licensor. Furthermore, the licensor will also probably insist on undertakings from the licensee that it will not challenge the validity of the licensor's trademarks. This is to ensure that the licensee cannot challenge the ownership of the trademarks in territories where the licensor has not previously used the trademarks.

In the United Kingdom, a clause that imposes a general ban on the licensee to challenge the licensor's ownership in the trademarks could possibly be considered as anti-competitive. It is therefore typical in trademark licences for the clause to include a right in favour of the licensor to terminate the licence if the licensee challenges the validity of the trademarks. It is also wise to provide expressly that the licensee may not register any of the licensed trademarks (or associated domain names) in its own name.

The licensor will seek to impose a number of obligations, and some of the main provisions are as follows.

The licensor will insist on provisions that impose responsibilities on the licensee to notify the licensor of any potential, actual or threatened infringements of the trademarks and to include a procedure

for dealing with such threats. The licensor will usually wish to take control of such proceedings and require the licensee's assistance and cooperation.

Given that the brand carries a value to the licensor's business, the licensor will wish to ensure that the licensee maintains the integrity of the trademark. The licensor's failure to control quality will make it run the risk not only of losing its reputation in the marketplace, but also of seeing its trademark revoked if, for example, the products sold by the licensee are not consistent in quality and the mark can therefore be considered misleading.

As discussed above, the decision as to the extent of the licensee's involvement in advertising and promoting the branded products or services will depend mainly on the licensor's trademark strategy.

Marketing and advertising are powerful tools for promoting a business's trademarks and are often very expensive. Therefore, the provisions covering these obligations should be clear. The licensor may wish to set a minimum threshold on the licensee's advertising and marketing spend if the licensee is responsible for such expenses. Alternatively, if the licensor wishes to retain control of these activities, it may wish the licensee to share the cost of advertising and marketing.

The licensor will need to consider whether the licensee is permitted to sub-license the trademarks to third parties. To ensure the maximum amount of control, the licensor may wish to prevent any sub-licensing, except where the licensee has explicit written consent by the licensor. However, this is not always practical.

As an alternative, if the licensor wishes to permit sub-licensing, it may do so subject to certain limitations. Examples of some of the limitations include attaching a list of approved sub-licensors to the licence or ensuring that any sub-licence contains the same provisions as the main licence.

In the United Kingdom, the default position regarding the ownership of goodwill will depend on the circumstances of the case. Licensors should therefore include a provision that any goodwill arising from the licensee's use of the marks will inure to the benefit of the licensor. This will usually be coupled with a further assurances clause that the licensee will, if necessary, execute documents in order to formalise the assignment.

In *Fine & Country Ltd v Okotoks Ltd* ([2012] ECHC 2230 (Ch)), the English High Court held that the use of the trademark FINE amounted to passing off



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and trademark infringement of FINE & COUNTRY. Fine & Country licensed the FINE AND COUNTRY trademark to a network of independent estate agents throughout the United Kingdom. Fine & Country argued that the use of the mark FINE by another agency amounted to both trademark infringement and passing off. One of the defences that Okotoks relied upon was the fact that Fine & Country did not operate estate agency services itself, but licensed others to do so under the FINE & COUNTRY mark, resulting in a situation where the requisite goodwill was enjoyed by the licensees, rather than Fine & Country as the licensor. However, the judge held that the goodwill in the services provided accrued to Fine & Country under the respective licence agreements and as a result of the considerable attractive force generated in the FINE & COUNTRY mark by the licensing and promotional activities of Fine & Country. The case highlights the importance of having an express provision setting out that the goodwill will be assigned and inure to the benefit of the rights holder.

Royalty provisions can be structured in a number of ways. The most common are to specify either an agreed percentage of revenues or net profits, or royalty payments based on particular milestones. Parties typically also agree on either minimum or maximum royalties.

Additional considerations should also be borne in mind when negotiating a licence. Parties should seek advice early on in relation to competition law, taxation and other issues relating to registration of the licence, which may be applicable in some jurisdictions. A sensible termination mechanism should also be provided.

A fixed term of, say, three years gives the licensee comfort that it has time to build up the business, but a fixed term longer than that with no break clause is generally a bad idea – the authors are aware of a case where a licence granted for 10 years with no possibility of termination in the absence of breach killed off an acquisition deal because the licensor had given away a commitment over its brand in a key territory for too long. Ultimately, businesses should seek legal advice early on to ensure that:

- they have a licensing structure in place that will exploit the trademarks to the fullest extent; and
- implementing the licensing programmes will protect the ownership and validity of the trademarks, as well as maximising compliance with applicable laws. [WTR](#)