

Licence to kill: how trademark licensing can strengthen your brand

A licensing programme can be an excellent way to leverage value from a trademark. However, a poorly constructed licence can leave you vulnerable and even jeopardise your rights to your own mark

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A trademark is your identity, an indicia of the high quality of the products and services that you offer the public. A trademark, including the goodwill that accompanies it, may also be the most valuable asset in your business. In today's global marketplace, the importance and value of trademarks are more evident than ever before. Your trademark distinguishes you from your competitors. How you choose to maximise the use of your trademark impacts on your business's bottom line.

As companies today are painfully aware, economic conditions within the global marketplace present significant challenges to maintaining, if not increasing, profitability. It is critical to implement creative business solutions in order to succeed. A business practice that is designed to promote sales, increase profits and improve the overall image of your business is one way in which companies can not only survive, but also expand their profile internationally. Leveraging the value of your trademark fits precisely into this plan of action. One way to leverage a trademark's value is through a strategically designed and implemented licensing programme.

Extreme care must be taken in any licensing programme to ensure that your

trademark is used properly and consistently, and to reduce the risk of diminishing the trademark's value or – worse – losing all rights in it. Failing to take the appropriate steps and care in licensing your trademark can lead to you losing the financial asset that the trademark defines and losing your business reputation. In other words, the trademark licence that you grant may be a licence to kill your business and the goodwill associated with it.

This article focuses first on the potential value that a successful trademark licensing programme can bring to a company. It then discusses the potential risks of an unsuccessful licensing programme. Finally, we examine actions that can be taken to ensure that your company's licensing programme enhances your trademark's value.

Everything for a man on holiday: controlling a valuable asset

Your trademark represents the quality you bring to consumers through your products and services. Your very reputation is at stake with each sale made. Maintaining control over that quality is one way to ensure that you protect your reputation so that your reputation is enhanced and fortified with each sale made.

Accordingly, your licence – the permission that you give another to use your trademark and put it out to the public – should have certain controls in order to protect you, as well as the consumers who anticipate a certain level of quality from your products and services. In this case, you are the licensor and the party to which you grant the right to use your trademark is the licensee. That licensee then represents your company's quality and reputation. When a licensee sells products or services under your trademark, consumers are buying

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those products and services because of your company's quality and reputation.

What's at stake is now in the hands of someone else. Keeping sufficient controls in place is a good way to protect the precious asset that is your trademark. Quality control over products and services; control over the appearance of the trademark on products, packaging, advertising or other print material (including how the trademark appears on the Internet or how it is used via radio or other non-visual media); and mandates for the font, colour, size and proportionality are all important aspects of the licensor's control. If your mark is not being properly used (which can include not being used when it should), your rights to it may be jeopardised and rivals may be able to claim these rights by arguing that you have abandoned them. Similarly, if your mark is incorrectly used, your rights to it may be in danger.

Once the appropriate controls are put in place, one way to increase incoming revenue stream is to grant licences that allow your trademark to be branded to more products and services than you can offer. Through a specifically designed licensing programme, you can then license your trademark to companies with their own sales forces, bringing the value of your trademark to more consumers and spreading the word of your goodwill to more markets. With an expanded sales force working on your behalf, you may be able to reach further internationally in a concerted and crafted effort to empower consumers with the value that comes from products bearing your trademark and services rendered under your trademark. If more goods and services with your trademark are sold to a wider market of consumers, you can collect more royalties and ultimately increase your profitability.

There's \$2 million in that suitcase; I'll split it with you: how to get best value

In some instances, the licensee may pay the licensor a flat fee for the right to use its trademark. A trademark licence intended to increase your bottom line should be structured so that the licensee pays a certain royalty amount for each item sold that bears your trademark. In these royalty-based licences, the licensee may pay the licensor a predetermined amount for every sale made using the licensor's trademark. The more the licensee sells, the more royalties the licensor can collect. Such an arrangement enables the licensor to obtain revenue from a stream of commerce that it might otherwise be unable to enter. Therefore, it is generally advantageous for everyone involved if the licensee is successful and for the licensor to support that success in creative ways.

A successful licensing programme may include activities that are designed to enable cross-marketing among licensees. Licensors should monitor and/or participate at some level in any such activities. One mechanism for this sort of enablement is for a licensor to host a retreat for all of its licensees. Workshops may help to act as catalysts for creativity between licensees that have never met previously, but that may be able to work together on cross-marketing and co-advertising projects to boost sales of each other's items. Brainstorming sessions can allow licensees to share successful marketing strategies, discuss the trademark and think of new ways to cross-market it. For example, if you have one licensee working in bedding and another in bathrooms, the two could work together to promote a coordinated set of matching items. All of this is calculated to increase licensees' sales, with the direct result of increased royalties paid to you, the licensor.

In the end, if a group of licensees can market your trademark cohesively, both the licensees and you – the licensor – should benefit in the marketplace by capitalising on the goodwill associated with your trademark in order to increase profitability. A successful licensing programme should be designed to increase revenue for all involved.

It's purely business: preparing for the unexpected

There are serious risks to any licensing programme. You may be turning over your most prized possession to a complete stranger. Even a contract containing all the appropriate safeguards may not be enough to reassure the anxious rights holder. Therefore, as licensor, you must diligently keep track of your licences and police the use of your trademarks by your licensees (and others – but that is a subject for a different article). In short, you still are responsible for maintaining control of your trademarks in order to preserve or enhance their value.

First, and as a minimum, you should keep track of which trademarks you license, the licensees, the purposes for which these licensees are allowed to use your trademark (especially if there are restrictions) and the duration of the licences. Serious issues may arise if you lose track of this information. If you are unable to monitor accurately, police and enforce your trademark usage, then you may ultimately lose the value of everything you have worked for.

Second, track the limitations within these licences. Although this follows logically from the first premise, it may go sight unseen if not properly managed. You could open yourself and your company up to a plethora of financial liabilities by inadvertently granting overlapping rights. If more than one company discovers that you have licensed them both the same rights, you may be headed into litigation that might otherwise have been easily and inexpensively avoided. The same could be said of granting rights to another entity and then selling these to a rival in potential violation of that granted right, depending on the applicable contract terms. Understanding the differences between “exclusive” and “sole” rights that you grant to others in any country and keeping track of the terms of each licence should better enable you to avoid problems, boost sales and enhance revenue. Depending on the structure of the royalty payments, the more that your happy licensees earn, the more you should earn.

In addition, it is important to make certain that royalties or other payments are made in a timely manner. The payment of fees by a licensee to a licensor is just one aspect of the control that the licensor exercises over the licensed mark to maintain its right in it.

Your licence to kill is revoked – hand over your weapon: terminating a licence

As part of monitoring and policing the use of your marks, it is important to ensure that your licensees do not continue using your mark past the term of the licence granted. These potential risks can be mitigated by putting certain terms into the contract that explain to all entities involved what is supposed to happen at the end of the relationship to items such as outstanding inventory, advertising material and the like.

Your licences should include provisions requiring the licensees actually to use the marks that are the subject of the licence; non-use of a particular mark may jeopardise your rights due to abandonment. Therefore, when monitoring the use of your mark, if you or your counsel notices that a particular mark is not being used or has not been used by a particular licensee, you should inform the licensee accordingly. If such non-use continues for a period of time, you and your counsel must determine the appropriate course of action, which might include a letter to the licensee, cancellation of the licence or even filing suit for breach of contract.

When your licensees are using your marks in commerce, it is imperative that they:

- Reproduce the marks accurately.
- Indicate that they are owned by you.
- Use them in connection with the appropriate goods.

These should all be specified in the contract. If a licensee fails to meet these conditions, you may have a means of recourse that is clearly set out in the contract or even consider a breach of contract action.

At the early stages of any licensing programme, it is wise to consult with your counsel in order to consider the kind of structured programme that could capitalise on the potential value of your trademark. If a licensing programme is already in place, it is wise to consult with your counsel to review the licences in your portfolio and proactively address any potential issues or examine any new opportunities for future profits.

In addition, you might consider a trademark audit to determine whether there are any unused opportunities to enlarge your revenue stream by licensing your trademark while not granting overlapping or conflicting rights. This can put you in a position to monitor use and non-use of the diamonds that may be forever in your trademark portfolio.

Conclusion

Your trademarks have infinite value; they

may be the most valuable asset you own. You may be able to leverage that asset through a structured trademark licensing programme. Be wary of the potential risks, but take advantage of the expansive nature of trademark rights. When licensing the right to use your trademark – your reputation – proactively monitor the licences you grant and the use of your marks. In the end, you want to ensure that a licence you grant is not a licence to kill. **iam**



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