

Handling Intellectual Property Issues in Business Transactions 2003
Trademark Licensing/Branding

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Law Offices of Anne Hiaring

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I. Introduction

Trademark licensing can provide additional income streams to established brands by providing brand extensions. ARM & HAMMER toothpaste is only one recent example that comes to mind, an outgrowth of that boring kitchen staple, baking soda. Co-branding is another example of brand extension and trademark licensing: M & M brand candies in KEEBLER brand cookies, or OREO brand cookies in ice cream. Co-branding also arises in joint marketing on the internet, where companies share the marketing space of a web site for their respective products.

II. Discussion

A. Protecting the Brand by Trademark Registration

Before a company can engage in any meaningful trademark licensing, it must ensure that its trademarks are federally registered. This is the first step: a comprehensive filing strategy domestically and internationally, for all brands. Start with core registrations for the products on which the marks are already used, and expand to complimentary products. Typical product extensions would run along these lines:

1. client has hit skateboard product – expand to clothing, footwear, paper products (stickers and the like) backpacks, personal accessories – e.g. from Class 28 to, 25, 16, 18, 14
2. client has industrial earthmoving product – expand to clothing, footwear, toys, video or CD ROMs, figurines, backpacks – e.g. from Class 7 to Classes 25, 28, 9, 20, 18
3. client has sports towel product – expand to bath robes and head turbans,

lotions, bath gels, cosmetics, shampoos – e.g. from Class 24 to Classes 25 and
3

International protection must be considered – the economy is global. Refer to the remarks of Gene Bolmarcich, Trademark Counsel for Caterpillar, Inc., attached to this paper (Exhibit D). Note the availability of the CTM filing procedure and in November, 2003, the Madrid Protocol filing procedure. Use the Madrid Agreement if possible, if foreign subsidiaries exist. Consider the pitfalls of ownership of marks by different entities worldwide. Try to keep it simple with ownership held, if possible, by one entity globally. Consult with tax counsel on the benefits, disadvantages of trademark holding companies.

Generally the sole basis for international (non-U.S.) protection of marks is registration, except in the case of famous marks. Therefore, register important marks internationally as soon as possible.

Be aware of recordation requirements and registered user requirements. These differ from country to country, although WIPO is considering a draft agreement under the Trademark Law Treaty (TLT) which will provide uniform registered user agreement recordation procedures. (Exhibit G).

B. Building Brand Awareness

No brand extension program should be undertaken without a strategic plan. These can be developed in-house or by licensing agents.

Some brands have built-in awareness: universities for example. Their alumni and fans of their teams seek to identify themselves with the university's marks. Many schools have licensing guidelines on their web sites administered by in-house licensing personnel. A model for collegiate licensing is the Collegiate Licensing Company. Please refer to excerpts from their website (Exhibit F). Similarly, sports teams have broad-based pre-existing brand awareness.

For brands that do not have broad awareness, a cost-benefit analysis should be done comparing the revenue likely to be generated from licensing with the cost of building the awareness. A combination of advertising, public relations, product placement and putting in place strong licensing partners builds brand awareness. The cost can be

high, but the payback can be enormous. Intel Corporation is famous for how it built brand awareness of an obscure, invisible computer chip, by creating and promoting the INTEL INSIDE Design mark. The emergence of the CATERPILLAR mark as a fashion brand is another example of successful building of brand awareness.

Co-branding programs on affiliated web sites are a new method of building brand awareness. Please refer to a typical form of internet co-branding agreement, drafted for PLI's 7th Annual Institute for Intellectual Property drafted by Mary Jo Dively (Exhibit B) and the paper for that program, Intellectual Property Issues in Internet Content Licensing (Exhibit A).

C. Enhancing Reputation

Protecting the brand's reputation is perhaps the key element of any trademark license and any trademark licensing program. Core elements of any trademark license are quality control provisions. These include review and approval of all proposed products, advertising for them, and on-going quality control review procedures. Termination provisions must allow for immediate termination of any license and distribution of any product if the licensed product becomes sub-standard. Please refer to the attached discussion of typical licensing terms in Exhibit A and the sample merchandising agreement in Exhibit C.

D. Licensing For Profit

Through use of outside licensing experts or in-house administrators, licenses can be managed and made profitable. Key points: deal with established vendors with experience in licensing, keep control over the product, have uniform sales tracking information to determine what products are successful and which are not, retain flexibility to terminate unprofitable or non-performing licensees. Be realistic in dividing your product among licensees. It may not be wise to have one licensee for cards, a different one for posters, and a different one for calendars since those products can be marketed together, and indeed a good licensee may require licenses in all three categories. Please refer to the remarks of Gene Bolmarcich of Caterpillar (Exhibit D) and the website excerpts from Sunkist Growers (Exhibit E) and the Collegiate Licensing Company (Exhibit F).

Creativity never hurts: note the crossovers between movie products and books, tie-ins

with fast-food vendors, cereal products and so forth.

The company must be prepared to protect its licensees by enforcing its rights against third parties. Remember the cost of enforcing trademark rights. Getting the word out through a strong enforcement program can help stem infringements. Protection of the PLAYBOY brand, for example, has been instrumental in maintaining the source-identifying quality of the name and RABBIT LOGO, most famously in a string of cases involving infringement on the internet. See, e.g., Playboy Enterprises, Inc. v. Universal Tel-A-Talk Inc. 1998 U.S. Dist. LEXIS 17282 (E.D.Pa. 1998).

E. International Expansion

The U.S. market is huge, but the rest of the world is even bigger. Assume that product distribution will become worldwide. It is hard to think of many consumer industries where this is not the case. STARBUCKS, used on coffee and retail services, KRAFT used on cheese and other food products, SANYO used on electronics equipment, MERCK used on pharmaceuticals, LAND ROVER used on automobiles, PEPSI used on soft drinks, all are international brands – and just a handful of international brands we all could think of.

Even, or especially niche products can be expected to enjoy international sales. Hospital equipment, airplanes, biotech laboratory supplies, gene or cable splicers, digital imaging equipment – you name it and the product that is the market leader will have worldwide demand.

The foundation of international expansion must be trademark registration, discussed above. Rights in most countries are based on registration, not use. Register at least in one trademark class for the core product, and expand into registration for the two or three most important ancillary products.

Partnering can be the next most important aspect. Team with in-country companies that can distribute your product, unless and until your company is large enough to expand in-country itself.

III. Conclusion

A company's trademarks can be a source of additional revenue through licensing. They

are assets that can be exploited profitably to create non-traditional sources of income, while also building the overall awareness of the brand in its core product areas.