

Trade mark licensing

A trade mark licence is an agreement between a brand owner (licensor) and another party (licensee) in which the licensor permits the licensee to use its trademark commercially. This is usually in the form of a written contract and can often vary in complexity, depending on the goods or services involved.

Typically, a licence includes details such as: the trade mark; the territory in which the licensee is allowed to operate; how the trade mark will be used; the type of goods permitted; how the licensee's goods will maintain a level of quality in line with the licensor; the duration of the licence; the exclusivity of the licence; and the royalties the licensor will receive.

What are the benefits of trade mark licensing?

For licensors, the main benefit of licensing a trade mark is that they can expand their operations into new markets and increase sales of their brand, without actually manufacturing more products themselves. This can be especially useful when a business that conducts research and product development does not wish to sell or distribute goods. Licences are also a great tool for companies that cannot afford the process of mass manufacturing. A licence can also help turn a potential competitor into an ally, by collaborating with the licensee and creating substantial market share in a particular field. A licence can be an additional revenue source to the licensor, as they will usually receive royalties from the licensee's sales.

For the licensee, an arrangement with a larger brand can help boost its own sales and bring it prominently into the public eye. Trade mark licensing can also help the licensee when it comes to advertising and marketing a product. For example, when David Beckham collaborated with Adidas and lent his name to one of its running shoes, Adidas not only benefited from having the David Beckham trade mark on the product, but was able to make David Beckham the focus in its advertising campaign.

What are the risks of trade mark licensing?

Despite the enormous benefits of trade mark licensing, it is also important to consider the risks; especially as a licensor. There is the potential risk that the licensor's own products may sell considerably better than the licensed products themselves, making the arrangement unproductive. This can be avoided by analysing the nature of the licensed goods and the market in which they will be sold, before entering into any arrangement. To do this, it is imperative that quality control clauses are incorporated into the licence agreement.

These provisions include production methods, supervision and the standard of raw materials. In addition to this, there is the potential that the licensor may lose control of the trade mark, especially if the licensee is local to the traders to whom they are selling, and the licensor is foreign or not known locally. Where that happens, the licensee can turn into a competitor, causing the licensor to gain less from the royalties than it would have if consumers had bought products directly. Again, this can be avoided by ensuring that the licensor registers their trade mark in each country in their own name before permitting anyone else in that country to use it.

Trade mark licensing in sport

Despite these possible risks, trade mark licensing can be extremely beneficial in expanding a brand and bringing it to a wider audience. A recent example of this can be seen with the FIFA series of video games. Since 1993, FIFA and EA Sports have had a licensing agreement in place in which EA Sports has the exclusive right to release FIFA-brand action and management video games (including the official FIFA World Cup video games). FIFA 2013 sold more than 12 million copies in its first quarter and the licensing agreement currently runs until 2022.

Do I need an attorney?

Whilst it is not mandatory for a trade mark attorney to help draft a licence agreement, it is certainly useful, as they can help ease the negotiations and identify potential problems. Trade mark attorneys will also advise about local requirements and anti-competition laws. It is very important for the licensor to maintain in control of the arrangement, as it needs to ensure that the value of its trade mark is not jeopardised. Furthermore, a licensor needs to control the use of its trade mark to ensure that it has not become misleading or generic. Involving a trade mark attorney can help minimize the risks associated with licensing and ensure everyone gets a fair deal.