



The Art of Trademark Licensing

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Executive Summary

While there are many negotiation points involved in a trademark licensing negotiation, there are a few that can cause significant barriers in the negotiation, leading to significant time delays or inability to close a deal. The article addresses some of these key trademark licensing negotiation points including: Selection of the licensor, specifically, how does the size of the licensor and its experience in trademark licensing effect the terms of the deal and the duration of the negotiation; Art approval and the significant time that can be spent on it when dealing with licensing of an image or artwork; and the different aspects of protecting the licensor's brand that can find its way into licensing deals.

There are many factors that go into a trademark license negotiation. Some are common to all license negotiations and some are specific to trademark licensing deals. It is important to prepare for a negotiation like you would prepare for any negotiation, doing research to understand the different issues that will be negotiated, determining your own position on each of those issues and how important that position is to you, and trying to understand what the other side's position is.

Trademark licensing is widespread in the consumer product field. Sometimes trademark licensing is obvious, like when it connects two vastly different brands (e.g. Dora the Explorer on Colgate Toothpaste for Kids), and sometimes it is more subtle, like when a trademark is placed on a complementary product line (e.g. Mr. Coffee brand coffees). One thing that is common to all kinds of trademark licensing deals is that each deal started from a license negotiation.

Below are a few key negotiating points that are unique to trademark licensing deals:

Selecting the Trademark (or Licensor)

Licensors can be divided into two groups: companies with large trademark out-licensing practices and companies who rarely do trademark out-licensing. Before

deciding on a trademark to license, it is important to consider who the licensor would be and what implications that provides for a licensing negotiation.

With the large trademark licensing companies (e.g. Disney), a licensee has to represent a large business opportunity (e.g. J&J BandAids) to be able to have some negotiating leverage. Otherwise, the large company will likely impose specific terms on a license and may be fairly inflexible on those terms. A licensee can expect more flexibility with a company who isn't as practiced in trademark licensing.

A large trademark licensing company will often have a trademark strategy that they will impose on a licensee in order to further their marketing objectives. This strategy may or may not support the licensee's own product and marketing goals. For example, the large company may have a specific character that would like to push to a larger audience and may use their negotiating power to get those characters on a wider range of products. However, it may be in the licensee's best interest to use less mainstream characters or focus on a smaller category of products.

On the other hand, a company with a large trademark licensing practice will have a streamlined process for approvals, resulting in more efficient negotiations and quicker closing of deals (if the licensee agrees to the terms). Whereas a company that is newer to trademark licensing may be more hesitant in deals and require a longer time period to get approvals and close a deal.

A licensee should consider what type of company it would like to work with and use this as a factor in considering which trademarks to license. For example, if a licensee wanted to license a children's cartoon character, it could license Winnie the Pooh characters from Disney, if it wanted to work with a company with a large trademark licensing practice, or could license Yo Gabba Gabba characters from Wildbrain Entertainment, if it wanted to work with a smaller entity.

Art Approval

There is a wide range of art approval needs, depending on who the licensor is and what type of work is being licensed. A logo license may only require use of a specific font and color. However, licensing of an art image will likely require a lot more control and approvals by the licensor. When Burton Snowboards licensed a number of images from The Warhol Foundation, it learned that "co-owned" art which includes third party copyrights and trademarks (e.g. Campbell's Soup)

requires licensing approval and art approval from the artist representative as well as from the third party copyright/trademark holder. Negotiations often become more complicated and slower when art approvals are required, as profit, speed, and efficiency are not as important as providing a true representation of the work. Imagine the negotiation process in a merchandiser trying to get approval for a work of art on an umbrella, where the color of the art and the proportions of the piece need to be at a level that would be approved by the curator.

Protecting the Brand

There are many aspects that go into protecting the value of a brand and trademark. They are as simple as maintaining the basic trademark protection by proper labeling of the trademark. They also include more complex aspects like making sure the qualities associated with the trademark or brand are not in conflict with the products that those trademarks are placed on. In maintaining the value of the trademark or brand, a licensee has to be concerned about the type of product it puts its brand on, the quality of that product, how the product is marketed and how its made. A brand can be significantly effected if products with its brand on it are hurting people, breaking constantly, or being made by child labor or with environmentally damaging manufacturing methods. However, it is time consuming and expensive to monitor a licensee's manufacturing methods, quality control, supply chain, marketing plans, etc. So a balance has to be struck between carefully managing one's brand and completely trusting a licensee. As a licensee, the amount of control and oversight that a licensee has can slow down and increase costs of the manufacturing and marketing process, so may be a consideration in picking a licensor.

Conclusion

Jaime Heins, Associate General Counsel at Burton Snowboards and Rachael Schwartz, Senior Manager at ipCapital Group, will present a talk on Monday September 27, 2010 at 3:45pm entitled "The Art of Trademark Licensing: Burton Snowboards, the Warhol Foundation, and Playboy". The talk will address these issues and others that Jaime encountered in negotiating trademark licensing deals with both The Warhol Foundation and Playboy. It will also address some aspects of preparing for a licensing negotiation, be it trademark or otherwise.