

# **Exploiting Intellectual Property Assets: Overview of Licensing, Franchising and Merchandising**

**Training of the Trainers Program on Effective Intellectual Property Asset Management by Small and Medium Sized Enterprises (SMEs)  
WIPO & IPOM, Mongolia  
Ulaanbaatar, October 8 to 10, 2013**

*Susanna H.S. LEONG  
Associate Professor & Vice Dean  
NUS Business School, National University of Singapore*

# Commercial exploitation of a trade mark

- Commercial exploitation of a trade mark generally takes the form of either an **assignment** or a **licence** of the mark by the trade mark proprietor.
- These two forms of commercial exploitation may appear similar at times but they are in fact quite distinct.
- Simply put, an **assignment** of a trade mark involves an outright sale under which there is a one-off transfer of the personal property in the trade mark to the new owner.
- Thereafter, the original trade mark proprietor (the assignor) ceases to have any rights over the trade mark.
- In contrast, a **licence** of a trade mark involves only a granting of a limited right to use the mark (duration of use and geographical restrictions) by the trade mark proprietor to a particular person or persons.

# Assignment of a Trade Mark

- A registered trade mark is assignable and transmissible in the same way as other personal or movable property, and is so assignable or transmissible either in connection with the goodwill of a business or independently.
- An assignment of a registered trade mark is essentially a contract under which property rights in the trade mark are transferred from the trade mark proprietor (assignor) to the new owner (assignee) and contract law applies to issues such as formation of contract, terms and conditions, discharge of contractual obligations and remedies for breach.

# Assignment of a Trade Mark

- In a split assignment (where the assignment of the mark is not accompanied by the acquisition of the assignor's business), the onus is on the assignee to make the necessary arrangements with the assignor to ensure that the mark will continue to be exclusively indicative of one trade origin or source (namely, the assignee) after the assignment.
- Failure to take the necessary precautionary steps by the assignee in a split assignment to ensure distinctiveness may risk the registration being revoked on the ground that the mark has become deceptive as to the trade source it denotes.

# Licensing of Trade Marks

- **Types of Licences**
  - **Exclusive licence contract**
  - **Sole licence contract**
  - **Non-exclusive licence contract**
  - **Sub-licence contract**
  - **Cross licence contract**

# Licensing of Trade Marks

- **Exclusive licence contract**
  - An exclusive licence means “a licence (whether general or limited) authorising the licensee to the exclusion of all other persons, including the person granting the licence, to use a registered trade mark in the manner authorised by the licence”.
  - Accordingly, an exclusive licensee is the only person authorised to use the mark within a stipulated territory.
  - The licensor is not permitted to grant licences to any others within the territory and he is also not allowed to compete with the licensee in the specified geographical location.
  - It is however possible for the licensor to grant exclusive licences to different individuals in different territories.

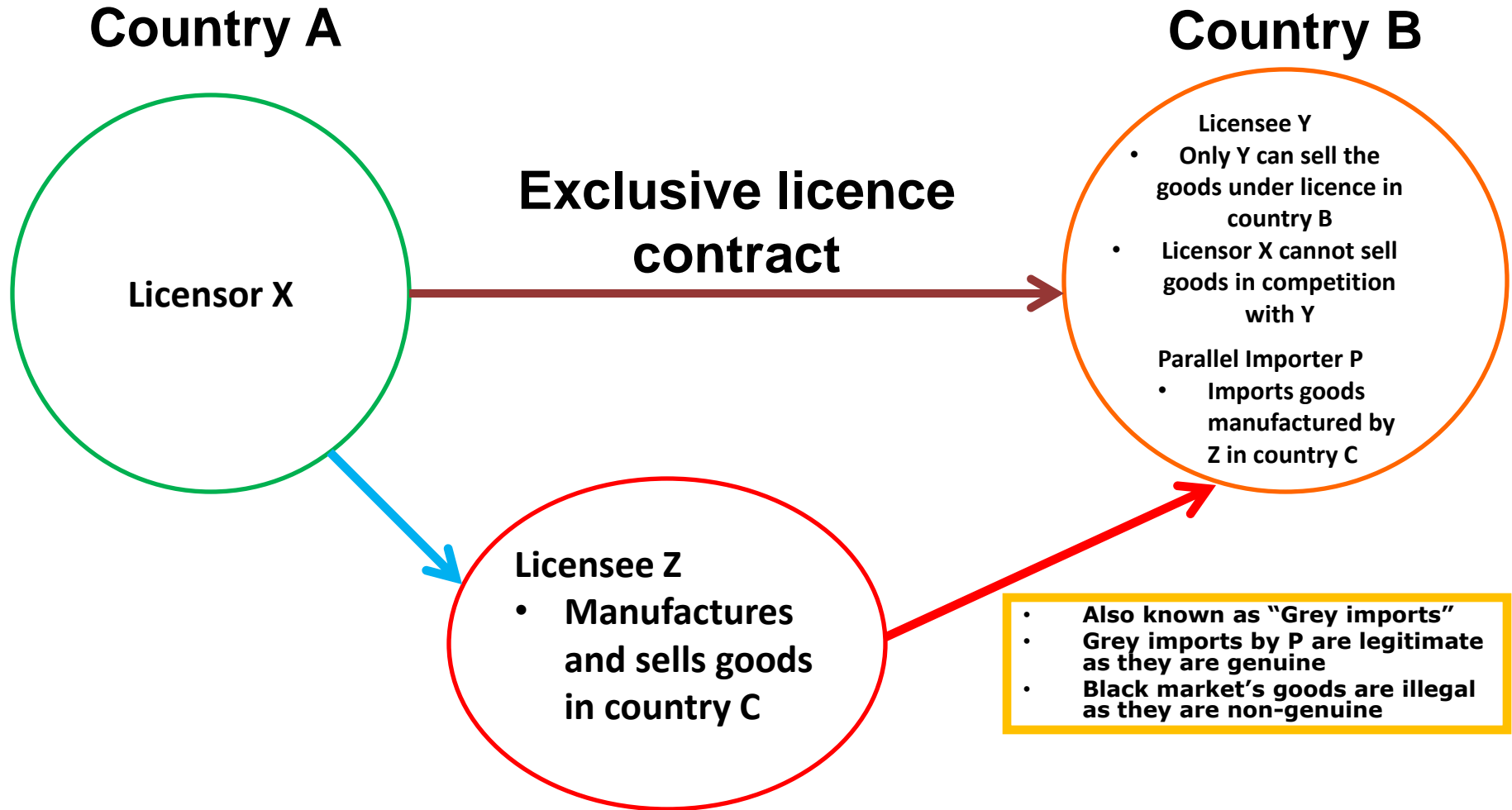
# Exclusive licence contract

Country A

Country B



# Parallel Imports

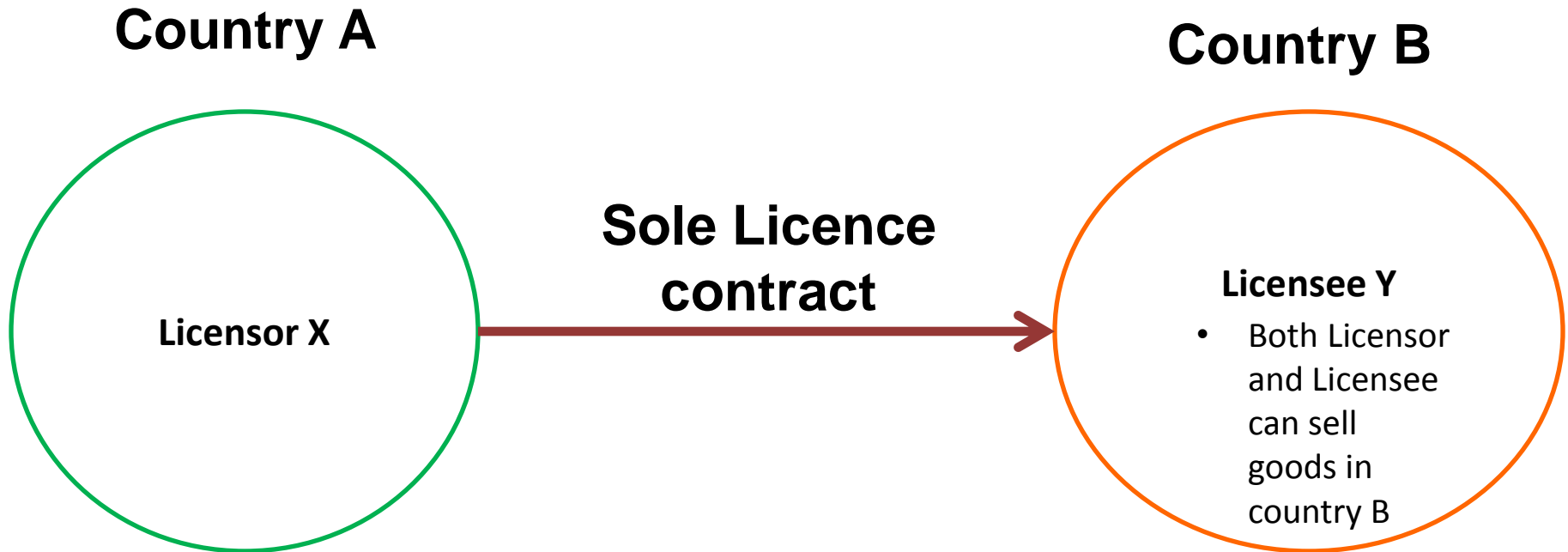




# Licensing of Trade Marks

- **Sole licence contract**
  - Under a sole licence, the licensor grants to the licensee the right to use the trade mark for a limited period of time to the exclusion of others but not the licensor himself.
  - This means that the licensor may still use the trade mark and compete with the licensee.

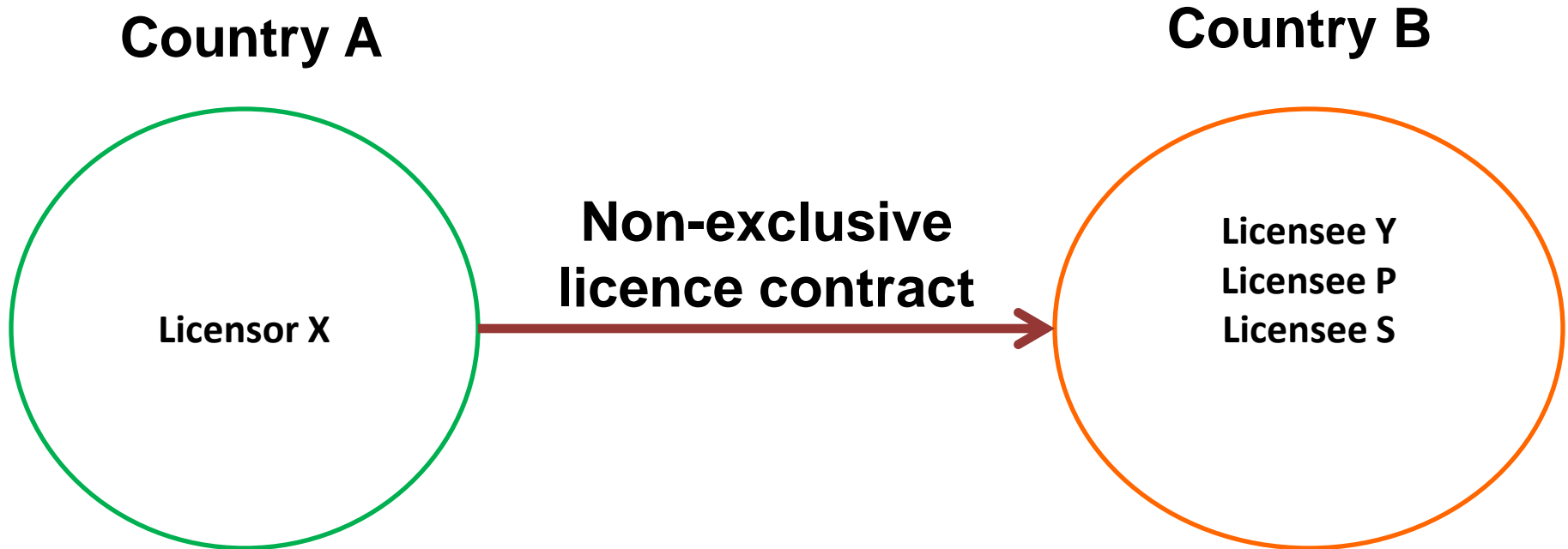
# Sole licence contract



# Licensing of Trade Marks

- **Non-exclusive licence contract**
- Under a non-exclusive licence, the licensor grants to the licensee non-exclusive right to use the trade mark for a limited period of time.
- This means that there can more than one licensee.

# Non-exclusive licence contract

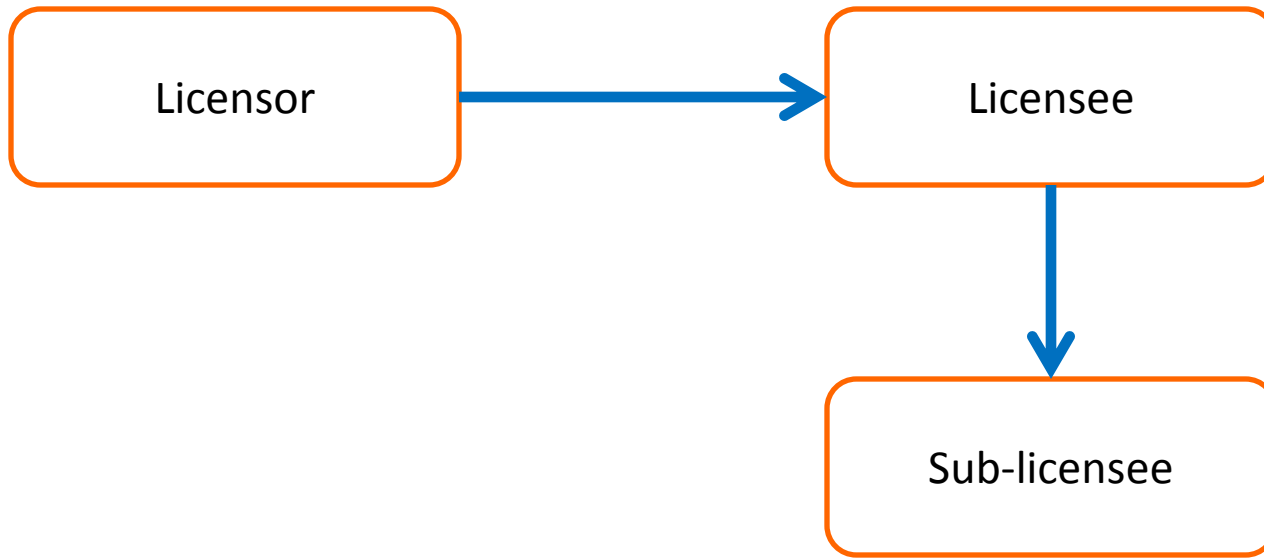


# Licensing of Trade Marks

- **Sub-licence contract**

- A sub-licence is a licence granted by a licensee to a third party in accordance with the terms and conditions of the original licence.

# Sub-licence contract



# Licensing of Trade Marks

- **Cross licence contract**
  - A Cross licence is a contract between two or more parties where each party grants rights to their intellectual property to the other parties.

# Cross licence contract





# Licensing of Trade Marks

- Previously, the law requires trade mark proprietors to grant licences to others for the use their trade marks under a complex system whereby, at the Registrar's discretion, a person could be registered as a "registered user".
- The use of the registered trade mark by the "registered user" was regarded as "permitted use" and such use was deemed to be use by the proprietor.
- The proprietor was obliged by law to maintain control over the use of the trade mark and the quality of the goods or services provided by the "registered user" and this control in turn ensured that there continued to be a *trade connection* between the trade mark proprietor and the goods ultimately sold to the consumers by the "registered user".
- Under the system of "registered users", the trade source as denoted by the registered trade mark after the grant of a licence continued to be with the trade mark proprietor.

# Licensing of Trade Marks

- The system of “registered users” has since been abolished.
- Under the new law, there are no explicit restrictions on the powers of trade mark proprietors to grant trade mark licences.
- However, courts continue to require trade mark proprietors to exercise “*some* control or supervision of the use of the trade mark by the purported licensee” in order to establish the requisite trade connection for a valid trade mark licence.
- The absence of control on the part of the trade mark proprietor of the use of the registered trade mark by the licensee may render the mark deceptive and liable to be revoked under the law.

# Licensing of Trade Marks

- It is therefore advisable for the trade mark proprietor to ensure that *a trade connection* is maintained between him and the goods sold or services rendered under the licensed trade mark in the form of some quality control or supervision over the use of the mark by his licensee.
- In summary, the onus is on the parties, in particular the trade mark proprietor, to take the necessary steps to make sure the licensed mark does not become deceptive and revocable on the ground that the use of the mark by the licensee is liable to mislead the public, particularly as to the nature, quality or geographical origin of the goods or services in question

# Licensing of Trade Marks

- A licence must be in writing signed by or on behalf of the grantor otherwise it is “not effective”. A licence to use a registered trade mark is binding on every successor in title to the grantor’s interest:
- (a) except any person who, in good faith and without any notice (actual or constructive) of the licence, has given valuable consideration for the interest in the registered trade mark; or
- (b) unless the licence provides otherwise.

# Licensing of Trade Marks

- The exclusive licensee assumes the position of the trade mark proprietor for all intents and purposes and he may bring infringement proceedings, against any person other than the proprietor, in his own name.
- Any such rights and remedies of an exclusive licensee are concurrent with those of the proprietor of the trade mark.
- When an exclusive licensee brings proceedings for any infringement of the trade mark in respect of which he and the proprietor have concurrent rights of action, he need not join the proprietor as a plaintiff or add him as a defendant unless the court orders otherwise.

# Franchising

- A franchise is a licence given to a manufacturer, distributor, trader etc to enable them to manufacture or sell a named product or service in a particular area for a stated period.
- The holder of the licence (franchisee) usually pays the grantor of the licence (franchisor) a royalty on sales, often with a lump sum as an advance against royalties.

# Franchising

- Obligations of the parties.
- The franchisor is involved in securing protection for the trademark, controlling the business concept and securing know-how.
- The franchisee is obligated to carry out the services for which the trademark has been made prominent or famous.
- There is a great deal of standardization required.
- The place of service has to bear the franchisor's signs, logos and trademark in a prominent place.
- The uniforms worn by the staff of the franchisee have to be of a particular design and color.
- The service has to be in accordance with the pattern followed by the franchisor in the successful franchise operations.
- Thus, franchisees are not in full control of the business, as they would be in retailing.

# Top 10 Franchises for 2013

RANK	FRANCHISE NAME	STARTUP COSTS
1	<a href="#">Ranked #1 in 2012</a> <a href="#">Hampton Hotels</a>	\$3.7M - 13.52M
2	<a href="#">Ranked #2 in 2012</a> <a href="#">Subway</a>	\$85.2K - 260.35K
3	<a href="#">Ranked #15 in 2012</a> <a href="#">Jiffy Lube Int'l. Inc.</a>	\$196.5K - 304K
4	<a href="#">Ranked #3 in 2012</a> <a href="#">7-Eleven Inc.</a>	\$30.8K - 1.5M
5	<a href="#">Ranked #14 in 2012</a> <a href="#">Supercuts</a>	\$103.55K - 196.5K
6	<a href="#">Ranked #11 in 2012</a> <a href="#">Anytime Fitness</a>	\$56.3K - 353.9K
7	<a href="#">Ranked #4 in 2012</a> <a href="#">Servpro</a>	\$134.8K - 183.45K
8	<a href="#">Ranked #7 in 2012</a> <a href="#">Denny's Inc.</a>	\$1.18M - 2.4M
9	<a href="#">Ranked #6 in 2012</a> <a href="#">McDonald's</a>	\$1.03M - 2.18M
10	<a href="#">Ranked #9 in 2012</a> <a href="#">Pizza Hut Inc.</a>	\$297K - 2.11M

- Franchises are common in the fast-food business, petrol stations, travel agents etc.



- **Example of a successful franchise**
- **Singapore's own brand "BreadTalk"**



# Merchandising

- Character or personality merchandising refers to the business practice of marketing goods and services by the association with a real or fictitious character or personality.
- The name, photograph or drawing of the character is applied onto everyday items such as T-shirts, water bottles, lunch boxes, pencil cases, pendants, key-chains, cups and saucers, bags *etc* to enhance their appeal to consumers.
- Some characters are “evergreen” and are of enduring marketability such as the popular Disney character “MICKEY MOUSE” and Japanese Sanrio owned “HELLO KITTY”. In contrast, other characters of popular movies or programmes are perhaps nothing more than mere passing fads.
- However, character merchandising is big business because it enables the owners of such “characters or personalities” (either real or fictitious), whether enduring or short-lived in popularity, to generate licensing revenues from the use of the characters.
- It is advisable for licence agreements to include provisions under which the owners of the characters will exercise control over the quality of the resulting merchandise but it is also very common that the merchandise is produced by many different manufacturers located in different territories resulting in products of varying degree of quality.

# Merchandising



# Merchandising

- It should be noted that in Singapore, as it is in the UK, there is no specific right that protects the use of a person's name, photograph or likeness as such.
- This is in contrast to the position elsewhere, for example certain States of the United States provide for a right of publicity.
- Certain civil law countries recognise a personality right such that it is against the law to photograph an individual, whether in a public or private setting, without his or her consent.
- Without the protection of a right of publicity or a personality right, owners of these "characters or personalities" can only look to the intellectual property regime of copyright, registered designs or registered trade marks in an attempt to protect their "characters or personalities" from unauthorised third party use.
-

# Merchandising

- Real personalities, or owners of fictitious “characters or personalities”, whose names and images have been applied by traders on products or services without their consent have also relied on the common law action of passing off to restrain unauthorised use, but this strategy has generally not proved to be effective.
- Essentially, claimants in a passing off action seeking to restrain unauthorised character merchandising practices face difficulties in three particular aspects:
  - (a) whether “characters or personalities” are distinctive badges of origin to which goodwill may attach;
  - (b) whether the requirement of a deceptive misrepresentation is satisfied; and
  - (c) the need for a common field of business activity between the claimants and the unauthorised third party character merchandiser.

# Character merchandising and goodwill

- It should be noted that courts in the UK have generally taken the view that when the public buys an item which depicts the character, real or fictitious, the public is not concerned who made, sold or licensed it.
- The character's name or image is simply not viewed by the public as a distinctive badge of trade origin to which goodwill may attach.
- One possible way around this is for the courts to accept that the claimant in a passing off action involving character merchandising enjoys goodwill in its licensing activities.
- In *Mirage Studios and Others v Counter-Feat Clothing Company Limited*, a case which involved the unauthorised merchandising of the popular fictitious humanoid cartoon characters Teenage Mutant Ninja Turtles, Browne-Wilkinson VC made the point that although the plaintiffs (Mirage Studios) were plainly in the business as the creators and marketers of cartoons, videos and films of their characters, they were also involved in the business of licensing the right to use the characters on goods sold by third parties.

•

•

# Deceptive misrepresentation

- It is trite law that to succeed in an action for passing off, the claimant must prove there exists an *actionable misrepresentation* by the defendant, *ie*; that the misrepresentation causes confusion in the relevant section of the public. In the case of a passing off action involving character merchandising, one could argue that as a result of the peculiarities in the way the goods are marketed or advertised, an inference of association with a particular trader may be drawn.
- In other words, a substantial number of the buying public knows and expects that where popular or famous characters are reproduced and applied on merchandise, this is the result of a licence granted by the owner of the rights in the characters. Therefore, the misrepresentation made by the defendant in a character merchandising situation is that the merchandised products or services are produced under the grant of a licence when they are not.

# Deceptive misrepresentation

- Such an argument is only tenable if the courts are willing to accept this is the public's understanding of the business practice of character merchandising.
- In *Tavener Rutledge v Trexapalm*, Walton J refused to accept that there was a public understanding on the practice of character merchandising and it was only much later in *Mirage Studios and Others v Counter-Feat Clothing Company Limited* that the courts took judicial cognizant of the public's general understanding of character merchandising and its effects in the market place.
- In cases like *Mirage Studios and Others v Counter-Feat Clothing Company Limited*, where the plaintiffs were involved in extensive licensing activities, it may be easier for the plaintiffs to establish a deceptive misrepresentation by the defendants, but in other cases, where the plaintiffs had not engaged in any licensing activities the evidentiary burden of proof could be a heavy one to discharge.
- Therefore, in *BBC Worldwide v Pally Screen Printing* (unauthorised use of pictures of the "Teletubbies" characters on T-shirts) and *Grundy Television Pty Ltd v Starttrain Ltd* (unauthorised use of the title of the show "Neighbours" on the frontispiece of a magazine), English courts are reluctant to find that the use of the characters or show titles gave rise to a relevant misrepresentation, *ie*; that these are goods made without the plaintiff's approval.
- Instead, it has been the court's view that members of the public simply see the products as they are, *ie*; T-shirts bearing the artwork of "Teletubbies" characters and a magazine about the various characters in the television show "Neighbours".



# Common field of business activity

- On the basis that to succeed in an action for passing off the claimant must prove damage to its goodwill, English courts have been reluctant to find the element of damage proved in cases where the plaintiff (owner of the rights in the famous characters or personalities) is engaged in a completely different field of business (whether in the business of acting or singing, or in the creation of such popular characters) from the defendant, who is likely to have an established business and goodwill in the supply of such merchandise.
- Judicial sentiment in recent cases appears to indicate that parties in a passing off action need not be in competition. This was evident in the court's interpretation of the common field of activity in *Lego System Aktieselskab v Lego M Lemelstrich Ltd*.
- Further, in *Mirage Studios v Counter-Feat Clothing Company Limited*, the court was prepared to accept in the majority of cases involving character merchandising, the plaintiff might be in a primary business (acting, singing or producing and creating the characters) which was completely different from the defendant's. A large part of the claimant's business also lay in licensing the reproduction of the characters' images on third party merchandise.
- See *Lyngstad v Anabas Products* [1977] FSR 62. Contrast the position in Australia, see *Hogan v Koala Dundee* (1988) 12 IPR 508 and *Hogan v Pacific Dunlop* (1989) 12 IPR 225.

# Common field of business activity

- More recently, in *Irvine v Talksport Ltd*, Mr Justice Laddie gave the clearest pronouncement that the requirement of a common field of activity was not a pre-requisite to an action of passing off.
- The plaintiff, Eddie Irvine, was a famous and successful Formula One racing driver.
- He sued the defendant Talksport Limited for passing off in respect of a brochure issued to potential advertisers that portrayed a doctored picture of the claimant holding a portable radio to which the words "Talk Radio" were added.
- "Talk Radio" was the name of the radio station owned by the defendant.
- The plaintiff asserted that the brochure was a false or unauthorised endorsement and the distribution of the brochures constituted passing off.
- Mr Justice Laddie held that, in a case where it was established that the plaintiff had a significant reputation to which goodwill attached, this property right in his goodwill was entitled to be protected from unlicensed appropriation in the form of a false claim or suggestion of endorsement of a third party's goods or services.
- It was not necessary in such a situation to show that the plaintiff and the defendant shared a common field of activity. The plaintiff was successful in his action for passing off.

# Common field of business activity

- In Singapore, the Court of Appeal in *CDL Hotels International Ltd v Pontiac Marina Pte Ltd* was inclined to the view that a common field of activity is not a necessary requirement.
- It is always relevant to consider whether the parties are in competition or not, since the plaintiff's case will invariably be strengthened if they do share a common field of activity.
- For character merchandising or false endorsement cases, it is therefore a question of fact whether the plaintiff is able to establish the element of damage to goodwill.
- To this end, evidence of the loss of licensing revenue as a result of the defendant's misrepresentation, whether in the form of false endorsement, recommendation, approval or false claim that the goods are licensed, must be adduced by the plaintiff if he is to succeed in a passing off action.
-

# Thank You!