



... a licence to thrill?

Last year Popeye celebrated his 75th anniversary, and is one of the first endorsement legends. It all started in the 1930s when the consumption of spinach in the US increased by a third, all because of the sailor man's love of his greens. The character continues to be licensed profitably and is currently associated with 250 manufacturers of products ranging from Centrum vitamins to Nutella.

Another children's licensing success story that received unusually positive headlines, was the Peter Rabbit Organics Range. This "Licensed Product of the Year 2003" was created with help from a nutritionist at Great Ormond Street Hospital. Using well-known brands and celebrity endorsement can be a very effective way of raising the profile of your product.

Do's and Don'ts of Licensing

If you are contemplating entering into a licence agreement to use cartoon characters, famous brands, or a celebrity's name, there are a number of key issues to be aware of. **It is important for companies to evaluate carefully the commercial context of any licensing deal** before entering into negotiations, for example:

- The scope of the licence (exclusivity/geography), your ability to sub-contract manufacturing, agreement on a product specification
- The minimum royalties and sales projections that are required, including promotion/marketing spend obligations
- The term and termination of the agreement

Licence Scope

An initial consideration is whether the licence should be exclusive, and if so, in relation to which products or product categories and/or territories. Specifically **defining the products and the territories in relation to which the**

licensed property can be used is essential for the licensee and the rights owner.

While the licensee may want the opportunity to use the licensed property on a broad product range to maximise exposure and keep competitors off its patch, the rights owner will want to ensure that it is not granting rights that may not be fully exploited.

Sub-Contracting

Rights owners will be concerned to maintain tight control over the use of their property. For this reason, sub-licensing and sub-contracting of the licensed rights is usually prohibited. As these rights will not be implied into an agreement, **licensees need to consider whether they will require rights to sub-contract manufacture or license-on the licensed property** in order to exploit their rights, and (if so) negotiate terms accordingly.



Product Specification and Approvals

Rights owners will often require a product specification to be agreed as part of a licence to ensure that the reputation of the licensed property is not damaged by association with a poor quality product.



Where this is required, a licensee may wish to allow for a margin of permitted deviation from the specification as well as a clear mechanism and timescales for approving samples. Further, if there is a raw ingredient required to manufacture the product, the licensee should link the terms of the supply of the ingredient to the terms of the licence.

Minimum Royalties

Rights owners will often want to impose obligations in terms of a minimum royalty payable, regardless of sales. This is particularly common where the licence is exclusive as such an obligation gives the rights owner a guaranteed income stream.

Obligations to make minimum royalty payments as opposed to minimum sales may be preferable for the licensee if the licensee is anxious to hold on to the rights, even if the product is not as successful initially as anticipated. Typically the rights owner reserves the right to reduce the scope of the licence (for example in terms of



products, territory, or exclusivity), and/or to terminate the licence if minimum royalties are not met.

Term and Termination

The duration of the licence and each party's termination rights are frequently amongst the most important commercial terms. A licensee who has built a strong market position using the licensed rights will not want the rights owner to be able to terminate without cause. Conversely, a licensee may be anxious about committing to a long-term agreement, especially one with minimum royalty/sales targets until it has tested the market.



Licensees using celebrities in connection with their products will want rights to terminate if the celebrity drops out of the limelight or acts in a way which would be damaging to the licensee's reputation.

The parties should also consider what would happen to any stock on termination of a licence. The licensee will usually be granted the right to sell off existing stock for a period of time subject to royalty payments continuing.

Summary

As the consumer purchasing trend for celebrity, cartoon, and brand licensing seems set to continue, **licensing of intellectual property rights will be a must for a great many manufacturers and service providers.** This will be **supported by the availability of licences**, driven by financial demands on brand owners to "sweat" brand equity, develop on-shelf impact (including across categories) and maximise the value of their marketing activity. We also anticipate **increased innovation from licensees** in support of brands, generating trial sales, demonstrating category leadership and differentiating their businesses.

However, as they search for this year's hot promotion opportunities, prospective licensees should also have an eye to the commercial and legal terms of those licensing deals.

This article was written by Claire-Marie O'Grady and Hannah Maslen of the intellectual property team in Eversheds' Leeds office. Claire-Marie is an Associate and regularly advises retailers and manufacturers on licensing.

Hannah is a Trainee Solicitor. grasp is very grateful to Claire-Marie, Hannah and Eversheds for their permission to publish this document.



robin@grasp.org.uk
0794 112 9025
www.grasp.org.uk



claire-marieo'grady@eversheds.com
0113 243 0391
www.eversheds.co.uk

© Eversheds 2005