

Creative Use Of Brand Equity

By Darren Olivier and Justin Barnes*

Brands have become key drivers of corporate value and brand licensing is becoming an increasingly important part of overall brand strategy. Not only can brand licensing have a major impact on bottom line profits but it has the capability of taking your brand to places never considered before, elevating exposure and ultimately, increasing brand value. However, the rewards are not without risk and the fight for consumer attention is only getting more difficult in an age where choice and accessibility are ever increasing. Brand licensing therefore needs to be effective.

Perhaps it's no surprise that *Sport Business* reports that "The Licensing and Merchandising of Sports Brands is now a highly sophisticated, \$17 billion business... So why is there little reliable intelligence on how best to do it?" or that PricewaterhouseCoopers projects that the fastest growing sector of the sports market in the United States to be licensing and merchandising, where sales will reach 18.5 billion in 2008 at a 9.1% compound annual increase.

But it's not just in the sports market that we see brand extensions through licensing. One just has to look at trade mark filing figures released by The United States Patent Office, OHIM (The European Community Trade Mark Office) and the CTMO (The Chinese Trade Mark Office) to see that the protection of brands, has itself become big business across all sectors. If trade mark filings provide a rough guide to investment in brands then we are at new global levels. Given the recent hype on licensing revenues, it is also interesting that of the ten most popular classes covered by new trade mark applications at OHIM, eight are typical merchandising and/or licensing classes.

Trade Mark Filing Trends			
Office	2003	2004	Percentage Increase
USPTO	267,218	298,489	12%
OHIM	57,646	58,848	2%
CTMO	452,000	588,000	30%

Top Ten Classes Covered by Trade Mark Applications at OHIM:

1. CLASS 9: Typical merchandising and/or licensing class covering items such as CD, software, DVDs, sunglasses and certain computer games equipment

2. CLASS 42: Typical merchandising and/or licensing class covering services such as software licensing and intellectual property licensing services

3. CLASS 35: Typical merchandising and/or licensing class covering services such as online selling services, mail order services

4. CLASS 16: Typical merchandising and/or licensing class covering services such as printed matter, calendars and stationery

5. CLASS 41: Typical licensing class covering services covering entertainment and sporting activities

6. CLASS 25: Typical merchandising and/or licensing class covering services such clothing footwear and headgear

7. CLASS 38: Typical merchandising and/or licensing class covering telecommunication services

8. CLASS 5: Non-Typical merchandising and/or licensing class

9. CLASS 3: Typical merchandising and/or licensing class covering services such toiletries and perfumery

10. CLASS 36: Non-Typical merchandising and/or licensing class

Licensing: A Changed Landscape

Trade Mark licensing is different from other intellectual property rights such as patents, know-how and copyright although the licences are often granted side-by-side and in the same agreement. The principle difference with trade mark licences flows from the nature of the trade mark right. Early theories on the trade mark and its functions gave no room to the concept of licensing. In fact the very idea of one's product emanating from another company under one's brand was enough to have the registered trade mark invalidated on the basis that the trade mark no longer served to indicate a single origin—that it no longer guaranteed the quality of the goods and ceased therefore to function as a trade mark.

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The origin theory is still central to trade mark law in Europe and elsewhere but commercial reality has made way for the idea of permitted use. Permitted use was only introduced into UK law through the passing of the 1994 UK Trade Marks Act, effectively allowing a trade mark licensing regime to exist where strict quality control is in place thus ensuring that the trade mark still functioned to indicate a single source. Of course trade mark licensing had been going on prior to 1994 and UK law (which also formed the basis of other national laws on trade mark licensing) catered for that under a more restricted regime, where the licensee's activity could be regarded as registered use.

A trade mark license is required whenever the use of the trade mark by a third party would otherwise infringe the registered trade mark or in the UK amount to passing off. The commercial principle behind trade mark licensing is that by using it the company licensor can:

- expand into different markets
- create new revenue streams
- expand the portfolio of products or services
- create valuable promotional and retail partnerships
- increase brand awareness
- build brand portfolios

Dunlop Slazenger: A Case Study

The Dunlop sports brand is not only a classic example of brand diversification but also of risks and benefits to licensing. Originally only a tyre brand, the Dunlop trade mark grew to be associated with one of the world's longest standing sports brands. The flourishing tyre business at the beginning of the last century created a new challenge for the Dunlop brand, as off cuts from its tyres made great tennis balls! The tennis ball business then became a sports business with an unrivalled international status. By the 1980s Dunlop tennis racquets were used by John McEnroe and Virginia Wade and global reputation was at an all time high.

Then in 1985 the Dunlop business was broken up and BTR (now Invensys) bought the Sports Arm. However, despite steady licensing revenue there was apparently not sufficient attention paid to the sports brand. According to their erstwhile CEO "the company stopped investing in players and operating at grass roots level. It took 100 years to build the brand and 15 years to abandon most of the marketing support behind it. "Then in 1996 the company was purchased by a private equity group who paid over the odds. Saddled with debt, rejuvenating the brand was

an uphill struggle. Nonetheless, through a re-structuring process, use of the equity still present in the brand and effective onward licensing they managed to attract a buyer in 2004—Sports World International, a large retailer with an impressive array of brands, who also saw the Dunlop licensing business as a huge opportunity.

Today Dunlop is sponsoring the likes of recent women's World No.1 Amelie Maureso and licensing the brand into product categories such as clothing, cosmetics, inline skates, bicycles, games software, footwear, sunglasses, camping equipment and inflatables on a global basis. Dunlop's tag line MADE OF THE RIGHT STUFF™ not only epitomises their brand but also their approach to licensing.

The licensing business is run out of division committed to brand management and choosing correct licensee partners. Licensing is extremely well organised and the business is intent on taking the brand to places it has never been before in a controlled and well managed manner, ensuring that its licensee partners buy into its story as the longest standing sports brand of modern times. Licensing revenue continues to grow rapidly as a result.

Effective Licensing

Licensing is far more than royalty collection and name placement. It is a highly sophisticated business that requires expertise in negotiation, quality control, brands, marketing, retail and manufacturing processes, and intellectual property and contractual law. Fundamentally though, it's about building partnerships.

It is critical that licensed product is consistently presented and communicates the distinctive benefits of the brand. Simply branding licensed products with the trade mark does not go far enough—the licensed product must move beyond the trade mark and communicate the powerful ideas behind the brand. The licensed product needs to connect emotionally with the consumer, increase loyalty to the brand, drive sales and ensure that the licensee extracts maximum possible value from using the brand. It goes without saying that there needs to be consistency between the brand licensing strategy and overall business goals. An acute understanding of the consumer is essential.

Selecting profitable and innovative licensee partners presents a major challenge. Developing the profile of an ideal licence partner is critical. It is useful to set up a licensee prioritisation matrix that tracks licensee performance against strategic fit. Each licensee should be determined against the

core business, the support potential of the potential licensed product, the geographic location of the market and values of the licensed brand.

Screening appropriate licensees is also important. Ultimately long-term partnerships are better for the brand and the parties concerned. Licensees interested in short-term profits by nature have no long term allegiance to the brand. Apart from product and brand fit the potential licensee should have stable financials and key competencies. Put simply, are they made of the right stuff?

Innovation is also key. Both licensor and potential licensee need to be able to focus on getting maximum leverage from the brand whilst communicating the correct brand messages. The art of brand management is constantly tested in today's business environment where the amount of choice given to consumers means that brand loyalty may be difficult to build and keep. Relatively new concepts such as co-branding need to be embraced and communication benefits of the internet age explored, to ensure that both licensee and licensor are able to fully utilise the brand.

Protection of the trade mark underpins the entire deal. Both licensee and licensor benefit from proper protection and the risk to the licensor of licensing an unregistered trade mark, particularly in a foreign country is simply too large to ignore. The registered trade mark not only allows the parties to clear out infringing or counterfeit products in a quicker and more cost effective fashion than trying to rely on protection afforded to unregistered rights (which may not even sufficiently exist in certain countries) but also, is a crucial part of quality control.

For the licensor, the registered trade mark means that it can rely on the statutory protection granted by the government of the country concerned, which may be particularly useful if the licensee relationship turns sour. Stories of ex licensees and distributors claiming ownership rights to brands of ex-licensors are frequent. For example, it took Nike Inc. 15 years to reclaim its NIKE trade mark for apparel in Spain from ex-distributor Cidesport!

The protection provided by a registered trade mark is, under most trade mark regimes, prima facie proof of ownership to the brand. However, it also gives additional legal recourse to the brand owner where the contractual relationship with the ex-licensee may have terminated or if the contract is (as sometimes occurs) governed by laws which are not within the jurisdiction of the local Court.

Skillful negotiation is required to bring about

the contractual relationship between licensor and licensee. In summary, the contract will cover the following general areas:

- Grant of licence
- Licensee's and Licensor Obligations
- Reporting
- Duration
- Business Plan
- Financial Provisions
- Advertising Budget
- Design Approval
- Quality Control
- Use of the Trade Marks
- Formal License
- Manufacture on behalf of Licensee
- Infringement of the Trade Marks
- Indemnities
- Limitation of Liability
- Dispute Resolution Procedure
- Termination
- Confidential Information
- Insurance

The negotiating environment has become increasingly important and often requires on hand legal advice in conjunction with the in depth understanding of the negotiating arena. One needs to understand the other side's egos, needs, pressures, internal organisation and overall strategy. In many instances the art of negotiation requires the negotiator to manage the process and become a problem solver, not creator. There will be deal breaking issues which require concession from one party but there will always be ways of ensuring that the other party feels like a partner and not a subordinate. Ultimately, licensee buy-in is crucial to long term success and it is up to the negotiator to ensure that the agreement is reached on that basis. However, the integrity of the brand should at all times remain paramount and an agreement-for-agreement-sake is no solution at all.

Reaching an agreement is only the beginning of the relationship. It is critical that the ongoing commitments are managed properly, that royalty collection and quality control are continuously monitored and that the brand owner provides support to the licensee in the form of marketing updates and materials. Changes in brand strategy need to be communicated effectively to the licensee, who should in turn provide access for auditing and be transparent during the reporting process.

Quality control is fundamental to ensuring that the licence relationship is not detrimental to the brand. Without quality control the trade mark is placed at risk. The primary intention of the concept of quality control is to ensure that the trade mark does not become liable to mislead the public as to the origin of the goods. Proper marking, effective sampling and legal measures, such as recordal of the license, all need to be considered. As the trade mark is a territorial right, quality control becomes an assessment

against individual country requirements.

Conclusion

Licensing is big business and an invaluable tool for the brand owner. No longer is licensing a simple process of borrowing a name and applying it to a product to increase sales. Each licensing opportunity needs to be assessed on its merits. A certain amount of risk is inevitable but the opportunities for building equity in the brand just cannot be ignored. ■