

### 5.13.1 Licencing Agreements

Licencing agreements are used to convey the right to use the respective object of licence from the proprietor or licensor to the licensee, exclusively or non-exclusively, in whole or in part. The licensor receives the right to collect royalties in return – up front payments, lump sums, running royalties or milestone payments, either individually or in combination.<sup>808</sup> Both brands and trade marks can be licence objects. It is up to the parties to each agreement to negotiate the scope of the object of licence to their satisfaction. Ideally, this scope provides for both satisfactory remuneration for the licensor and an increased product differentiation and successful product positioning in the long term by transferring the brand image and its values on the licensee's products or services, thus enabling expedient commercial exploitation of the licence object for licensor and licensee. A number of types of licence agreements specific to the brand area such as brand and line extensions are specified above at 2.3.2.2.

There are two types of exclusive licences. Licencing agreements which are exclusive in the strict sense give the licensee an extremely strong position since he is the only person being allowed to use the mark (not even the licensor is allowed to). The licensor merely remains in a formal position as title holder in the respective mark. The second form of exclusive licence – often denoted as 'sole licence' – differs from an exclusive licence in the strict sense merely in that the licensor is entitled to continue to use the object of licence. In contrast to that, under a non-exclusive licence, the licensee is one legitimate user of (potentially) many.<sup>809</sup>

Agreements of licence may provide for limitations of the use of the respective trade mark or brand to specific geographic regions, certain products or services or other. It depends on the negotiating skills of the parties and on market success whether such limitations are de facto in line with the relevant party's strategy and portfolio or turns out to be a stumbling block on the road towards a fully satisfactory exploitation of its IP and product/service portfolio.<sup>810</sup> In order to reduce risk of failure, licensors usually contractu-

808 Cf. above at 2.3.2.2.

809 *Fammler*, Der Markenlizenzvertrag, p. 88.

810 For instance, *Exnorm*, a German producer of prefabricated houses, licenced the RTL logo (belonging to a TV station) yet the RTL houses turned out to be a flop. On the other hand, *Junghans* is successfully marketing LEGO watches, cf. *Fischer*, *Geliehener*

ally ensure quality control of the respective products and/or services, which should include the right to demand samples prior to the start of production, the right to enter the licensee's or producer's premises, and other.<sup>811 812</sup>

In the course of a sale or other transfer of the licenced trade mark or brand, the existence of the licence can be an impediment for the proprietor, as it does not automatically terminate upon sale of the licenced object.<sup>813</sup> Hence, the transferor of the respective trade mark or brand may get less in consideration than in case the trade mark or brand was not licenced. Whether this is effectively the case depends on the actual circumstances, such as the strategy of the transferee and the type of licence (exclusive or non-exclusive). It may well be that the transferee, acquiring a non-exclusively licenced brand, appreciates this already existing income stream.

This shows that it always depends on the concrete situation whether a licencing agreement – in whichever form – is beneficial or detrimental to the value of the brand in question. However, one can say that there are a number of

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811 *Groß*, Marken-Lizenzvertrag, pp. 8, 21; *Fammler*, Der Markenlizenzvertrag, p. 117 et seq.

812 There are situations in which this degree of control and extension of the brand does not suffice for the proprietor's purposes. He may want to make sure that the identity of the licensee completely comes second to the brand name and identity. In this case he will resort to a special form of licencing: franchising. In the course of an average franchise, the franchisor provides the franchisee with more than a right to use a certain mark or brand. For example, he provides the franchisee with physical items such as store signs and product displays. It is also common to give the franchisee access to the use of other IP rights such as designs and copyrights. All of this is necessary to reach the franchisor's purpose of tying the franchisee to his own (the franchisor's) products or services and the marketing identities built around these products or services. The benefit a franchisee derives from the franchising agreement is the ability to enter a certain market with relatively small effort in relatively short time due to the use of the franchisor's brand and corporate appearance. This will be the more financially viable the higher the recognition of the franchisor's brand is within the target audience (provided that the target audience is brand focussed at all). However, should the franchise come to an end and the franchisee decide to continue a similar business by himself, the franchise is likely to constitute a major stumbling block which will have a negative financial impact on him. There are two major reasons for this, the first of which being the fact that the former franchisee will have to carry out brand innovation, i.e. build a completely new brand, and make himself known in the market. However, this would also have been necessary if he had wanted to enter into the market before or without concluding a franchising agreement. The second reason why a terminated franchise may be detrimental is that the franchisor will have prudently made sure to insert a non-competition clause in the agreement, prohibiting the engagement of the franchisee in the same or similar business for a certain period of time after termination of the franchise. More on franchising e.g. in *Dvorak*, Der Lizenzvertrag im Franchising and *Flohr*, Franchisevertrag.

813 *Binder*, Lizenzierung von Marken, p. 534.