



Six Negotiating and Drafting Tips for Licensees (And a Bonus)

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In an [earlier post](#) I provided several tips to help Licensors avoid many common pitfalls. To even the playing field, this post will discuss tips for Licensees.

- Why Are You Licensing:** Know why you're licensing a brand. "Everyone else is doing it" is not a good enough reason because of financial risks and resources required. Are you looking for brand recognition, a new or fresh look to differentiate yourself from the competition, tapping a new customer base, or is your goal to maximize your manufacturing or sales force capabilities? Knowing what your goal is will put all your other efforts into focus.
- Scope of License:** Make sure your rights are broad enough to accomplish your goals and deal with unforeseen contingencies, the good (demand exceeds our capacity – we need another subcontractor!) and the bad (factory strike – we need another subcontractor!). Get the right to manufacture and have product manufactured, *anywhere in world* if the territory you're given is limited. And the Holy Grail of licensing – *Exclusivity*.
- Marketing:** Can I market the brand name in all media outlets? If you are licensing an individual designer, make sure you can use his/her likeness in ads. And get the Licensor to help in the marketing and promotion of products. You are in this *together*. And if Licensor doesn't respond to requests for approval of ads within a reasonable period, then it should be deemed approved (based upon the ancient legal maxim, "*You snooze, you lose*").
- Intellectual Property Rights:** Get assurances from the Licensor that all trade names, trademarks and distinctive designs are adequately protected with an indemnity which tells you the Licensor is unafraid to stand behind its agreement. And it wouldn't hurt to do a little due diligence of your own. Anyone can log in to <http://www.uspto.gov>.
- Termination Rights:** Licensors and Licensees, whenever you enter into any agreement, always be focused on how it is going to end, or how either party can end it. Is the Licensor demanding a minimum amount of annual royalty payments? If so, how do you get out of the deal with as little pain as possible if the lines flop? What if the Licensor is involved in a scandal and his or her reputation is tarnished (on the other hand could a little scandal sell? Maybe a little but not a *lot*).

6. **Consequences of Termination:** Since all good things (and even bad ones) eventually come to an end, let's make sure we have a soft landing. We need the right to continue selling off existing product and completion of work on existing orders. We don't want to be stuck with items in inventory we can't sell off once the license is terminated (particularly if they have some type of distinctive design associated with the Licensor). And certain rights, including the indemnification obligations, will need to survive.

7. **Bonus Tip:** Finally, as always, do your homework before you enter into any arrangement. Assess your Licensor's reputation as a Licensor – is he/she known to be responsive, aggressive, supportive of licensees? Will the Licensor's reputation fit into your overall image and long term goals? But don't be too put off by the challenge, *there's gold in them there brands*.

As always, please share your thoughts at [Jerry FT Blog](#) or email me at jcohen@ctswlaw.com.

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