



Feature
By **Max Vern**

Time to join forces? Co-branding considerations for trademark owners

While stormy economic conditions may make co-branded ventures more enticing, brand owners must consider all the potential trademark issues that can arise

Co-branding is not a novel tool in the business world and in the last few decades it has become common practice, encompassing a broad spectrum of goods and services at all price ranges, from Starbucks coffee shops in Barnes & Noble bookstores and Target discount retail stores to Breitling clocks in Bentley cars. However, even the best-laid plans can go awry if potential trademark issues are not considered at the outset.

In essence, co-branding is a versatile mechanism for creating a powerful amalgamation of two or more forces that can take different shapes, the dominant of which are the classic placement of two distinct brands under one roof (eg, the incorporation of Apple's iPod technology in Nike shoes) and the creation of a new branded product through parties' synergy (typified by the Meridiist cell phone created by Modelabs, the result of Tag Heuer's foray into the mobile communications market).

The fundamental concept of co-branding is extremely attractive for companies and, in those cases where a good fit exists between the parties and their brands, it provides a powerful medium to introduce brand owners' products or services to new markets, expand existing market share and gain a competitive edge, all while putting an effective cap on investment and mitigating burdens and risks in carving out a new market niche.

One of the additional benefits of such cooperation is that success may lead not only to the goodwill built up in the new business domain, but also to its augmentation in the original market position.

For example, Diageo might have been reluctant to jump into the frozen confectioneries market, while General Mills and its licensee, Nestlé, could have been equally hesitant to extend the Häagen-Dazs brand to alcoholic beverages. However, joining forces in the Baileys Häagen-Dazs ice-cream was a successful fit between two mutually complementary brands; as was the co-branding venture between Starbucks and Jim Beam that created the Starbucks coffee liqueur.

A question of use

Co-branding may be particularly enticing in economically

challenging times, when cost leveraging and the diversification of risks, coupled with the prospects of exposure to new markets, appeal to brand owners which, under the circumstances, may be more willing to commit their brands to the uncertainties of a joint effort.

That said, co-branding involves multiple inherent risks and, without careful structural construction of contractual provisions, may come at an excessive cost, undermining the endeavour or even inflicting damage to the brands in their original markets. Inherent in this are numerous practical trademark-related considerations which require attention when shaping the co-branding contract.

From the brand protection standpoint, trademark use and control over such use are key issues in any agreement where a party other than the trademark owner has the right to utilise the mark, such as licence, franchise and distribution relationships. In a co-branding agreement, such provisions should be even more cautiously worded and control over their implementation should be closely exercised throughout the programme's lifespan.

First and foremost, attention should be paid to the precise definition of trademark licensing provisions, leaving no room for ambiguity or multiple interpretations. Such licensing language, shared by any trademark use-related arrangement, should be unequivocal and very specific in a co-branding arrangement.

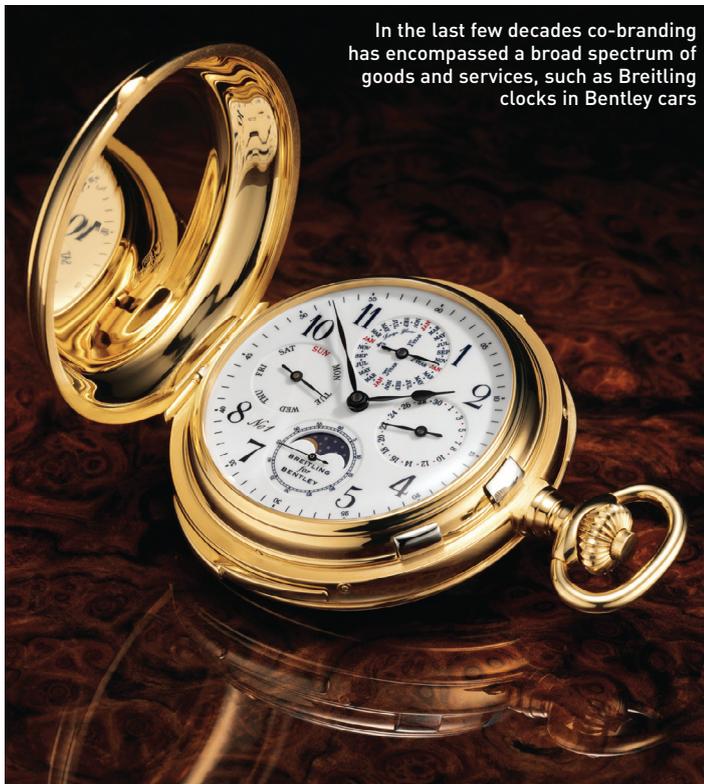
Usually, when multiple parties bring their respective brands into the co-branding programme, the licence is reciprocal. Accordingly, it is advisable to delineate strictly the permitted forms of trademark uses, the quality control to be exercised by the marks' owners, the retention of rights by the owners upon termination of the agreement, and strict adherence to the protocol of policies and procedures in use of the mark by any party other than the trademark owner. The agreement should also provide for the mechanism of effective monitoring of the brand's use, its promotion and marketing.

Compliance with the above provisions should be judiciously followed by the brand owner in order to prevent dilution, tarnishment or collateral damage to the brand due to omissions of the co-branding party.

Preparing for the downside

It is equally important to stipulate that use of the marks, resulting in the creation and retention of goodwill, will inure solely to the benefit of the original owners, since the presence of two or more distinct marks in the co-branding programme may have an inevitable dilutive effect, especially if one brand is stronger than the other in the specific market niche.

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Key issues in co-branding

Joining two or more forces under one roof is a powerful tool in economically tumultuous times, but the legal aspects should never be overlooked and detailed provisions stipulating the IP elements of the agreement are a must:

- Articulate in detail brand ownership rights, permitted scope, form and territorial restriction of use, as well as provisions on reciprocal use of brands, when applicable.
- Include retention of rights by each brand's owner upon termination of the agreement.
- Provide for the mechanisms of monitoring brand use, promotion and marketing.
- Stipulate that use of the brand/s will inure solely to the benefit of the respective owners.
- Include fiscal results goals and define programme cost-sharing as well as profit sharing and/or royalties mechanism and control over each element thereof.
- Discuss exclusivity during the life of agreement and for a certain period upon its expiration.
- Define the term of agreement and termination options, including early termination and provisions for breach and possible cure.
- Consider the possibility of a relatively short initial period with extension options.
- Include representations, warranties, liability and indemnification provisions.
- Define choice of law and methods (eg, arbitration) and forums for conflict resolution.

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A striking example is the quad-branding programme that created Disney's Oral B Duracell-operated power toothbrush by Braun. Each brand appeals to certain market segments and may be perceived differently by the respective consumer groups, possibly resulting in different benefits for brand owners. One of the risks embedded in such co-branded products is that consumers may view one brand as dominant and attribute lesser value to the other. Thus, a carefully worded agreement may provide the necessary balances (eg, royalty and profit-sharing clauses) to compensate for the marketplace inequality in such a scenario.

Another hazard is that a negative image of one brand may impact on the other, even if there is no direct crossover or integration of technologies and each co-branded line of products is also featured independently in its primary areas.

For instance, a question that the consuming public may answer with their wallets is whether the massive recalls of Toyota cars and a recent (albeit more limited) recall of Toyota's Lexus vehicles will adversely impact on the image and goodwill of Harman International's Mark Levinson audio systems featured in the Lexus cars in a co-branding deal, but also sold as standalone audio components.

Closely related to the issue of control over a mark's use is the question of exclusivity during the co-branding agreement and for a certain period upon its conclusion. The core question is whether a party may enter into a parallel agreement with a third party that may either undermine the initial agreement or adversely impact on the other party. Such is the case of contemporaneous co-branding agreements between, say, a 'sponsor' brand owner and two competitors.

For example, the Bulgari Hotels & Resorts are the product of cooperation between Bulgari and Marriot's Luxury Group, which manages the Ritz-Carlton hotels. Both parties would be vastly interested in the exclusivity of their cooperation because, apart from business considerations, its breach may be detrimental to their brands' goodwill in the respective industries and beyond. Bulgari would not wish the hotels to feature personal care products under any brand other than its own. Equally, Luxury Group would be anything but enthusiastic if Bulgari engaged with another hotel group, in particular if such hotels were inferior to its Ritz-Carlton hotels. The principal danger is therefore not in the direct competition between the personal care product lines or the hotel groups (especially if they are in different weight categories), but in

brand dilution and damage to the goodwill. Such danger would be very much palpable, as both parties are at the forefront of their respective industries.

Time is of the essence

Another important aspect of co-branding is the term and termination options, as parties may be reluctant to commit their brands for an excessive period of time, at least at the beginning of a new partnership.

Of foremost concern is compatibility between the brands or success of the mutually developed brand, neither of which can be easily predicted in advance. If there is no fit or if the new brand stumbles, the parties may not wish to tie up their resources and chain their goodwill to a failed deal. Therefore, it is common to stipulate in the agreement a relatively short initial period of the co-branding programme, with detailed provisions for both options – extension if the programme hits the jackpot or early termination if the brand ‘marriage’ fails.

It is difficult to predict whether a co-branding project will ultimately fail or succeed, as even an apparently perfect fit between two brands, from product match to fiscal parity between the parties to shared strategic vision, may ultimately fail. Thus, a co-branding agreement should not only create a structure for entering into relationship, but also offer a thought-through exit strategy and include (along with breach and cure provisions) a clause on early termination in case of certain eventualities, such as bankruptcy, dissolution of the parties or buying into by a third party.

The latter scenario is not an automatic death warrant to the co-branding programme, but may certainly undermine it if the newcomer is a competitor or has a different marketing vision.

Finally, an integral element of a co-branding agreement that merits discussion deals with representations, warranties and confidentiality provisions, as well as liability and indemnity clauses. Of particular interest are the confidentiality and liability provisions. The former guarantees that the privileged information – such as technology and know-how, as well as proprietary product placement information (eg, market research data, proprietary marketing tools) – brought by the parties into the joint effort is not disclosed to third parties during the programme or upon its conclusion.

In turn, the liability and indemnity clauses deal with liability (and hedging against it) to which a party may be exposed as a result of the other party’s activities in the course of the co-branding programme. Although primarily a matter of tort law, and putting the product liability aspect aside, a direct effect of such exposure may be the negative reflection on the brand’s goodwill and, consequently, its value.

Creating your own success

Some partnerships last for decades, others fail within a matter of months – and the latter turn of events is more likely during periods of high market volatility and economic woes, such as the ‘dot.com’ bubble of the late 1990s and the recent recession, with fears of a ‘double dip’ still looming.

Positive examples are certainly out there – the cooperation between Ford Motor Company and Eddie Bauer is a lasting success, continuing for more than two decades, notwithstanding even the latter’s 2009 bankruptcy. However, perhaps against type, media headlines commonly feature loudly touted examples of successful co-branding, rather than the failed partnerships that often go unnoticed by all but a narrow sector of the industry. In truth, though, a sizeable share of co-branding ventures fail.

Ultimately, co-branding is not a ‘holy matrimony’, but rather a

contract of convenience, having a certain lifespan that may be cut short for many reasons, such as failure to meet fiscal targets. Quarterly reports, pressure to show profits and, eventually, shareholder votes are the immediate tools that prevent the lingering of a doomed programme and its transformation into a money vortex. Examples of such little-publicised, yet clearly unsuccessful co-branding attempts are AOL AAdvantage, a joint consumer loyalty venture between American Airlines and America Online, and a co-branded credit card programme between Amazon.com and NextCard. Perhaps more high-profile was the demise of the relationship between Martha Stewart Living and K-Mart.

Co-branding is therefore not a universal tool that can be mechanically stamped on in each and every scenario. It is rather an element of corporate strategy with the benefit potential for all parties, but subject to in-depth research, marketing analysis, addressed marketing of the co-branded products and a genuine joint effort to create synergy between the parties.

A successfully executed co-branding programme can bestow significant advantages and can be particularly attractive during periods of economic instability, when the intrinsic advantages of co-branding outweigh the risks and a good match between the co-branders may carry them away from stormy conditions. [WTR](#)

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