

5 KEY TAKEAWAYS

Franchise Laws and Your Trademark Practice: What Every Trademark Attorney Needs to Know

On April 14, [Kilpatrick Townsend's](#) Brand Licensing and Franchise Partner [Marc Lieberstein](#) joined **Jason Adler**, General Counsel at Cellairis, a global franchisor in the wireless accessory and repair retail space, **Janaki J. Parmar**, Vice President and Senior Counsel, Marriott International, Inc., a global hospitality franchisor and enterprise, and **Peter V. Snell**, Partner, Gowling WLG [Canada] LLP to present a webinar for the International Trademark Association (INTA) titled, "Franchise Laws and Your Trademark Practice: What Every Trademark Attorney Needs to Know." The panel provided an overview of U.S., Canadian and international franchising, the importance of compliance with federal, state and local laws governing franchising, the valuable role of trademarks and other IP assets for franchisors, and how to spot the "accidental franchise" in other related IP transactions, like trademark license and distribution agreements.

Here are five takeaways from the program:

1

Franchising is big business in the U.S. which supports ~7.5M jobs, with over \$670B in economic output in 2020 despite the pandemic. Projections for 2021 are for significant growth in most business sectors. But trademark lawyers should know that franchising is subject to a complex set of regulations, which include federal, state and local-country laws and regulations that govern franchise sales and franchise relationships. At a minimum, before offering to sell a franchise in the U.S., Canada and other foreign countries, e.g. Australia, a franchisor must have a Franchise Disclosure Document (FDD) that complies with the federal laws (in the U.S., 16 C.F.R. §436). In at least 14 states in the U.S., a franchisor must first file an application to register its franchise with the state. Failure to do so can result in damages, sanctions, and penalties, and could also invalidate or compel rescission of any agreements the franchisor signed if it was not in compliance.

2

What is a franchise? In general, a franchise encompasses (1) a license to use or otherwise be associated with another's trademark, (2) along with a method of doing business wherein the brand/business owner is providing significant assistance and/or exercising significant control over the other party's operation of the business, and (3) a fee paid to the brand/business owner. Be advised that this definition varies from state to state, and the state definitions may vary from the federal-law definition, as perfectly exemplified by New York's definition of a franchise which omits Element (2).

3

The franchise definition sounds a lot like a brand license or distribution agreement. So, how can you avoid franchising? To avoid a franchise the brand owner should make sure that at least one element of the franchise definition is omitted from any brand -related license agreement. More likely than not, the easiest element a brand owner can avoid will be the significant assistance/control element. Brand owners can avoid this element by strictly limiting any brand owner controls/assistance to the brand itself, and quality control provisions associated therewith. Brand license agreements should omit provisions that relate to a licensee's business, employees, and operations.

4

IP is at the heart of any franchise system. Brand owners in franchising must make sure they maintain their trademark value, conduct clearance, and employ filing strategies to keep trademark registrations in line with use; have strict controls over trademark and IP use by franchisees to ensure quality control; monitor for unauthorized use; and develop enforcement strategies to maintain the distinctiveness of the trademark.

5

The structure and elements for most franchise agreements is similar to brand license agreements, and include (1) provisions on franchise fees, renewal fees, royalty rates, marketing, and technology fees; (2) formation of a franchise association, territory, Area Development Agreement option, training requirements, and fees; (3) franchisee compliance obligations with operating the business; (4) monitoring and industry/legal compliance obligations; (5) termination provisions; and (6) redesign/update obligations. Royalties range from 5-10 percent depending on the basis (gross or net revenue); Marketing/Advertising/Technology fees range from 1-4 percent of revenue; and Franchise/Renewal fees range from \$0 to \$75K, but this varies among the franchise sectors.

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