

Adopting a Strategic Intellectual Property Program

BY ANDRAE J. MARROCCO

It is well established that the intellectual property (IP) of a franchise brand is one of its most valuable assets. Trademark registration is typically one of the first steps franchisors take to protect their brand in a given jurisdiction. While the soundness of such approach is unequivocal, increasingly, the elements that distinguish the quality and appeal of a franchise brand extend beyond trademarks and comprise a broader and more complex network of IP.

Savvy franchisors are stepping up their efforts to identify, protect and manage a more comprehensive suite of distinguishing elements to their brand in order to maximise the value of their system and to create additional revenue generating opportunities. Dedicating the appropriate human capital, time and other resources to create a robust strategic IP program (“program”) upfront is neither an option nor a luxury, but a necessity when it comes to establishing a successful franchise system.

The process begins with identification and profiling of both existing and contemplated IP assets and leads to analysis and strategy on how the assets will be protected and used within the system. As the franchise system develops, the program must be monitored and updated as necessary to capture new and modified IP assets. Failure to establish and maintain a

comprehensive program may see franchisors pass up additional value otherwise attributable to their system, not to mention revenue generating opportunities.

It is important to bear in mind when profiling IP assets that certain assets may fall within more than one category of IP. For example, some designs can be protected as industrial designs, trade dress, and even under copyright. Accordingly, strategic decisions need to be made as to how to characterize and protect those IP assets based on considerations such as the cost, longevity and the nature of the various forms of protections.

This article is not intended to be an exhaustive treatise, but seeks to provide examples of the types of analysis that are involved in profiling and protecting non-traditional IP assets within franchise systems.

Appealing to the five senses

Recent changes to trademark legislation in Canada are intended to make it easier to protect alternative forms of brand identifiers including diverse elements such as colours, shapes, sounds, moving images, textures and scents. Franchisors looking to enhance and reinforce their brands to connect with customers in more powerful ways now have greatly expanded means to do so. Identifiers such as the robin's egg blue of Tiffany & Co., and the famous roar of Harley Davidson's motorcycles, are now eligible for protection on both sides of the border. This provides franchisors the ability to potentially secure rights to truly unique shopping experiences by registering combinations of scents and colours in retail spaces. In addition, it may provide exploitation opportunities as Cinnabon found in partnering with Air Wick to license the "Cinnabon Classic Cinnamon Roll Freshmatic Ultra Automatic Spray Refill."

The look and feel

Trade dress can be another important aspect of franchise branding. In basic concept, trade dress incorporates the total visual image of a brand, its complete visual impression. It can include colour combination of a physical location, the retail décor, arrangement and content of signage, menus, product packaging and more. The protection of trade dress can be a complex matter (due to the nature and interrelation of the IP rights), but rich in opportunities for protecting revenue streams. While trade dress

is perhaps most often thought of as a species of trademark protection, it can concurrently be protected within the confines of industrial design and even copyright with a view to increasing defensive possibilities.

QSRs are a good example of a franchise business that can rely heavily on a trade dress as an element of its branding protection. The distinctive colour packets, packaging sheets and designs, restaurant layouts and other architectural features can all be key factors in customer recognition and appeal. On one approach, a new franchise system might begin by seeking protection through industrial designs and copyrights (which can be less costly and easier to secure, but have a limited protection life) working in parallel with traditional trademark application(s), and culminating in a particular trade dress application which if acquired can provide protection indefinitely (for so long as the trade dress is used).

Best kept secrets

Generally speaking, all of the information and know-how that gives unique life to a franchise system, and which is intended to be disclosed to franchisees only (and not to their customers), should be protected vigorously as trade secrets. This can include, for example, operations manuals, training programs, unwritten instructions, formulae, store designs (pre-construction), business strategy and curriculums.

Trade secrets should be protected by the franchisor's careful treatment and use of such information, including obtaining

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TheFranchiseVoice Summer 2015 35

covenants of non-disclosure and appropriate ongoing protection from recipients. From the outset, before speaking to the first potential franchisee, all such information should be identified, appropriately labelled, and treated in a consistent manner as would support the franchisor's determination that it comes within the category of trade secrets. As the system develops, the information and know-how that comprises the trade secrets may expand. In addition, certain information and know-how may become public and protected by other means.

Franchisors need to tread cautiously with trade secret information, as even "watered down" versions disclosed in discussions with potential franchisees can compromise the protection afforded. As a matter of best practice, it is preferable to have the information and know-how that comprises the system's trade secrets separately and specifically defined in the franchise agreement (as opposed to solely including it in a blanket IP definition) with specific covenants dealing with same. It is imperative that franchisees understand the nature of the trade secrets and the manner in which the franchisor expects them to treat and use the trade secrets.

The advantages of invoking trade secrets as a form of protection include the low cost of implementation, no registration requirements, potential perpetual protection, and potentially more significant damages awards. However, this form of protection may be easily and unintentionally compromised, and is not available for IP assets that are in the public domain.

Creative expression

Copyright protects a broad spectrum of works including literary, artistic, musical and audiovisual material. Where such works are used by the franchise system in such a way that it will be released to customers (ie the public), copyright may be the appropriate form of protection. While such protection is not perpetual, it can last for many decades. Copyright protection arises as a matter of right, without need for registration, but formal registration may be prudent in certain circumstances.

Atmospheric music used by a spa franchise is a suitable candidate for copyright protection. Franchisors should take a strategic approach to commissioning such works and ensure that ownership rights to the works are secured under the contract. Elegant or creative menus designed within a restaurant franchise could also potentially qualify. Art class franchise systems may have pro forma artistic prints used by patrons in which copyright exists. Operations manuals, promotional and advertising materials, training videos, forms, architectural plans, computer programs, and social media content typically used by franchisors may also be copyrightable works. However, the franchisor's strategy and program will dictate as to which form(s) of protection is best.

Hands off my widget

Many franchise systems have proprietary software connecting franchisees to their head operations. In addition, many franchise systems have developed apps for their franchisees to use in individualizing customer experiences. A determination of whether

such assets should be protected by trade secret (remaining outside the public domain) or by patent (which puts such information in the public domain) may be relevant.

Circumstances in which it would be worthwhile to pursue patent protection include where a franchisor is looking to licence the technology to multiple third parties as an alternative revenue generating strategy. It is worth noting that a franchisor will need to negotiate ownership rights to any technology assets developed by third parties on its behalf. In some cases, a determination of which third party a franchisor selects to develop its technology may be based on ownership rights being granted to the franchisor.

Other examples of assets worth protecting through patent registration include medical devices designed and developed by healthcare franchises. With the advent of more mobile services franchises, the specifications and modifications made to vehicles used in such franchises may be amenable to patent protection.

In order for the asset to become the subject of a patent registration it must have an element of novelty and uniqueness, and should be valuable to the operations of the franchise. Importantly, and consistent with the theme of this article, considering these matters up front is critical because once the asset is made public (e.g. use of a medical device with customers of a franchise unit), protection may be lost.

While patents are one of the more expensive forms of IP investment, there is no substitute for protecting core technology and other unique equipment. Patents provide protection at the functionality level, so that even if a competitive product bears no outward resemblance, if its functionality is covered by the patent, then it infringes. Although patents only last up to twenty years, early occupation of a particular field can lead to revenue advantages for many years. Patent registrations can drastically increase the value of a franchise and provide options to the franchisor to use the technology or widget in other business pursuits (e.g. other franchise systems operated by the same investors), or provide additional revenue streams if licensed to other franchisees.

The end

In a time when investment in franchise systems and multi-brand holdings are commonplace, ensuring that the IP assets of a franchise system are adequately identified, protected and managed as part of a sophisticated program will go a long way to establishing a high value to the system. Moreover, taking such approach provides opportunity for franchisors to expand business options and alternative revenue generating opportunities.

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