



## **Brands as International Currency: How to Effectively Manage Brand Migration**

**Intellectual Property**







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## CHEAT SHEET

- **Preparing the migration.** Prior to the acquisition of a brand, it is essential to consider the exact terms of its use in order to ensure its legal strength.
- **Successful brand migration.** A successful brand migration plan does not end with the closing of the transaction, and requires long-term commercial considerations for the marketplace's awareness for the existing brand.
- **Risk of co-branding.** When the use of co-branding allows for the buyer and the seller to mutually control the same brand, it is essential that both parties attain the same degree of control over the legality of the process.
- **Keeping the faith.** Both parties should agree to consult one another in good faith through the process of brand migration in an attempt to foster cooperation and mitigate risk.

In today's global and social media driven world, brands have become the currency of international trade. For in-house counsel, high quality brands provide a bond of trust with your client's consumers. Ensuring that your client's brands are legally secure and high quality is challenging. This is an issue all in-house counsel face. It is particularly challenging in the case of brand migration.

Brand migration is the process of moving the association of goodwill from one brand owner to another, or from one brand to another. This can be achieved through the substitution of one brand for another over a period of time. It can also be done through re-associating an existing brand in the minds of consumers with a new owner. Brand migration takes place in two primary contexts: (1) the phasing out of an existing brand and its substitution for another within a company or (2) in mergers and acquisitions. This article focuses primarily on the second context in both the United States and Europe.

In acquiring an existing business, the buyer is frequently acquiring existing brands, and the goodwill associated with such brands in the minds of consumers, employees, suppliers, distributors, professional advisors, and the public, among other stakeholders. Such goodwill has a tangible value, identified and paid for in the acquisition process. Handled correctly, the post-acquisition/merger brand migration process can not only protect brand goodwill, but also enhance it.

### What is a “brand” and its function?

A “brand” — also commonly known as a “trademark” or “service mark” — is a commercial designation of source. Trademarks function as such designations of source for goods in the minds of actual or prospective consumers of such goods. Service marks function as designations of source in the same manner for services. The term “brand” includes both categories and can refer to word marks, design marks, logos, trade dress, proprietary colors, or, in the United States, even sounds and smells that function as marks. Brands allow consumers and prospective consumers to identify company names, product names, and services as originating from a particular business, and make a quality association with it. This association is a key factor that drives corporate capital value, income, profitability, and financial success. In addition, it forms a significant portion of the value of many acquisitions.

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For a brand to be legally protected and recognized as a property right, it must be used as a mark. Using a mark is a designation of the source of goods or services, in a distinct form. It should preferably have the “tm,” “sm,” or registered (®) symbol placed at the bottom right hand corner of the mark when used. Best practices also include federal registration at the United States Patent and Trademark Office or, for single state use only, with said state’s Secretary of State office in order to create a legal presumption of ownership. To protect a trademark throughout the European Union, a community trademark can be applied for with the Office for Harmonization in the Internal Market (OHIM). To obtain protection only in individual EU countries, a separate application may be made to each country. As registration is a legal prerequisite to claim rights and enjoin use of a third party mark in most EU countries, best practices in the European Union are to apply for a registration at the EU level, where possible. Applications for registration should be made for countries that leave the European Union on a country-by-country basis.

Brands need to be continuously in use for legal rights to be maintained. While a bona fide intent to continue use by the brand owner will overcome a presumption of abandonment for relatively short periods, correct legal use is a critical aspect of legal brand maintenance. The necessity of continued use in order to enjoy registered trademark protection is equally applicable as a legal requirement in the European Union and the United States.

## **Due diligence for brands**

In an acquisition context, ensuring that proper legal use of brands at all stages of the acquisition process is critical. Thought and planning need to be given to each brand being acquired, with consideration for whether it will be used independently, jointly with brands of the acquiring company, or alternatively in favor of a new or existing brand. Leaving such considerations until “post-acquisition” by not securing proper contractual terms in advance risks jeopardizing legal rights to the brands for both the seller and the buyer.

Yet another critical legal requirement to maintain a brand is an active “policing system.” A policing system is a regular review of a third party application for registration on a state and federal basis. There is a similar necessity to adequately police marks in the European Union in order to maintain legally enforceable rights in such brands. A substantial part of the legal strength of a brand is a function of the extent and regularity of the implementation of a policing system.

## **What is the strength of a brand for an acquisition or merger?**

The “strength” of a brand is a combination of several factors.

They are:

- The extent to which a brand may be used to legally exclude others from using the same/similar brand in all geographic markets in which the brand is currently used, or intended to be used, post acquisition;
- The extent to which the use of the brand can be expanded to create new synergies with products or services of the buyer to grow or create new markets; the valuation of the goodwill associated with the brand on the balance sheet of the acquired company in the acquisition; and,
- The extent to which consumers and prospective consumers recognize the brand as the source of the desired goods or services for the subject of the acquisition.

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The calculation of such strength from a legal perspective must necessarily be undertaken on a brand-by-brand basis. Each one must be considered independently in each jurisdiction and for each use. Factors to consider regarding legal strength of a brand for due diligence purposes necessarily include:

- The status of the registration of the brand in each of the jurisdictions where the brand is used;
- The classes of use for which the brand is registered and whether those match the actual uses of the brand on goods and/or services;
- The scope of the recitation of the registration for which the brand has been registered;
- Whether the brand(s) have been in continuous use in commerce;
- Whether they have been adequately policed and enforced, whether they exist in a “crowded field” or “diluted field;”
- Whether they are in whole or in part, geographical names, surnames, descriptive terms, or words that could be of disrepute;
- The infringement history of the brand(s); and,
- How similar the brands are to those of others.

The above analysis may be time-consuming. It is, however, a critical data gathering exercise to effectively determine what the acquiring company is actually buying. It is also critical for planning purposes. Weaknesses identified early can often be corrected, or valuations can be addressed. Those unidentified can turn into crisis or “buyer’s remorse.” For any brand migration strategy, knowing these facts in detail will provide both the baseline required for transition and good estimates for costs and likely outcomes. A “weak brand” may also turn out to be one ripe for substitution with a brand of the buyer. A migration plan for this can then be addressed and made in advance of the acquisition and necessary stakeholders engaged in the migration planning early.

## **How is brand migration implemented?**

In its simplest terms, a brand migration is the change of the name of a brand, or the transfer of the designation of source around an existing brand in the minds of consumers from the seller to the buyer. Brands may be purchased: completely as part of an acquisition or merger; only for use in certain jurisdictions; on certain products/services; or for a certain period of time. Each merger or acquisition transaction will be different. In some cases, it is simply a matter of purchasing a brand and marketing its association with the buyer. In other cases, there will be the substitution of an existing brand for goods or services with the brand of the buyer. In yet other situations, the brand being purchased may become the brand to which goods or services of the buyer will be rebranded. All of these situations require brand migration.

This becomes more complex as certain transactions involve licensing as well as the retention of certain rights between the parties. Brands that previously were used together may now be split in ownership, and therefore in their use in commerce. In its legal essence, brand migration is the reassociation of goodwill in the minds of consumers and other corporate stakeholders around a particular brand; with the buyer as its new source.

The implementation of such a process may take a number of different forms and may comprise a number of unique elements. A strategy applied in one international jurisdiction may be very different to the jurisdiction of another. While unanimity is not required internationally, the impact of the world wide web, social media, and global reach should be taken into consideration to avoid prospective confusion in brand migration. That said, a brand acquired in various jurisdictions often requires a migration to a suitable brand that will appeal to consumers given the cultural differences that may

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exist. Each brand at issue needs to have a brand migration strategy applicable to it for planning purposes from both a legal and commercial perspective, prior to the closing of the transaction.

Successful brand migration does not begin or end with transaction closing. Commercial implementation considerations, both pre- and post-transaction, must be taken into account early and throughout the process. A “brand migration plan” is both a legal and commercial strategy. It starts with an analysis of the identification and legal strength of the applicable trademarks, service marks, and logos. It continues with their legal availability for use with the products made by the seller whose rights will be acquired by the buyer in each designated country, as well as their commercial strength. A brand migration plan will be driven by commercial considerations, such as marketing and advertising budgets and the marketplace’s awareness, perception, and knowledge of the existing brand and its company. A migration of the brand will require a “re-education” of those perceptions.

**The following is a summary checklist of considerations that may be used during the due diligence phase in order to help give shape to a proper post-closing migration process:**

### **WHAT IS THE STRATEGY BEHIND THE ACQUISITION?**

Buyer:

- Strengthen and expand existing brands?
- Acquire a brand with consumer awareness?
- Value of keeping brand name as opposed to migrating?

Seller:

- Exiting market or modifying portfolio?
- Required to divest the brand due to anti-trust concerns?
- Retaining the brand in other territories?

### **WILL THE BRANDS BE SOLD OR LICENSED?**

Territory:

- Is the seller retaining the brand in other territories?
- Does the seller want to carve out retention rights for any particular customers?
- If the brand is being licensed, is it feasible for the seller to re-enter the market after termination of the license?

All good brand migration plans are underpinned by what can be done legally and cost effectively in each market and legal jurisdiction. Such planning needs to take into account relevant stakeholders early in the process. These may include outside legal firms, public relations firms, marketing firms, and advertising firms used by the buyer. These firms should be consulted to integrate brand migration planning into outside communication. Suppliers, distributors, and those involved in the point-of-sale of a good or service will also need to be considered. Transaction documentation needs to specifically address the brand migration plan.

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A brand migration plan will include how each of the marks of the seller and the buyer will coexist, be integrated, or substituted for designated products over a calendar period. It is advisable to include a level of detail in the transaction documents in order to avoid legal disputes post-acquisition. Details missed at this stage of the transaction process become far more difficult, if not impossible to implement later. The buyer needs to give consideration to marketing, advertising, packaging materials, media promotions, and the integration of services to support the surviving brand. This is so that its value is not diminished, but enhanced over the migration planning and implementation period. Consumers are then properly guided from the current brand to the new brand.

There are commercial considerations for each of the aforementioned issues that need to be carefully examined. If the acquisition is a share deal then the brand will be acquired as part of the business and if the legal strength of the brand is not particularly strong, the buyer will want to consider a brand migration to a more robust existing brand. If the acquisition is in the form of an asset purchase, then the buyer will want to consider whether each brand is a strategic fit in its existing portfolio during the due diligence phase.

Secondly, one needs to consider current geographical protection. As the world is becoming increasingly global, the value of a brand's acceptance by consumers and its attractiveness in multiple markets will add to the value of the brand and therefore speak against a migration away from the existing brand. Another factor that needs to be considered is whether the seller is retaining rights to the brand in neighboring territories. If so, the possibility for consumer confusion will escalate.

Where two different parties are using the brand in neighboring territories, it is also likely that parallel trade (gray markets) will occur (i.e., third parties importing the product without the manufacturers consent into another jurisdiction). Due to exhaustion of rights as well as antitrust concerns, this may not be prevented because it relates to passive sales. The parties can agree to limit their sales within their own territories but they cannot prevent distributors and resellers from doing so. It's not a big issue in the United States, where the foreign borders are limited to two countries. However, this poses concerns in Europe where products regularly flow across the borders between countries.

## **Summary of risks and risk abatement strategies for cobranding arrangements during the brand migration process**

In the context of a post-acquisition brand migration, co-branding refers to the use of the seller's brand and the buyer's brand simultaneously on a single product for a specific period of time. The function of a brand in a technical sense is to create a designation of the source of goods or services in the mind of the consumer. In the marketplace, it functions as a recognizable symbol for such goods and services. Co-branding necessarily involves the use and intermingling of existing goodwill of the seller where the brand is already in use by contract.

In the context of brand migration, the buyer wishes to associate the goodwill of one of the seller's existing brands in the minds of consumers with its own or a new brand. From the date that co-branding occurs, all new goodwill generated therefrom will flow to both parties during the co-branding period, through operation of law. Where brands are newly created to be used as co-brands, the creation of goodwill around them will be owned by, and to the benefit of, both parties using them. Such goodwill should be allocated by contract expressly between the parties.

In the context of a post-acquisition brand migration, it may be in the buyer's commercial interest to actually diminish the value of a co-brand in favor of its own during a certain period to gain market



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share and prominence. When co-branding is allowed through licensing (post-acquisition), the new buyer has a potential short and medium term interest in continuing to associate the spun-off business with that of the seller.

Therefore, it is in the interest of both parties that the migration process is handled properly both legally and commercially. As the buyer is steering the post-acquisition migration of the brand, it is imperative for the seller that it attains as great a degree of control over the process as possible if it is going to retain a business interest in the same industry.

For any post-acquisition/merger/divestiture, it is in the interest of the seller to limit the duration of any contractually allowed co-branding period to as short a time frame as possible. This provides less time for brand migration and thus, less risk of changes in the business practices of the buyer to tarnish or diminish the value of any co-brand being retained by the seller. A buyer may be interested in a longer period of brand migration since it allows for consumers to have more time to associate the new brand with the old.

Co-branding between the parties should be addressed by setting forth as many specific uses and parameters in such use delineated as possible by contract. Any use outside these specific parameters should be immediately addressed.

**The different forms of brand migration may include one or more of the following:**

- Change of ownership via an outright sale of the brand whereby the brand remains;
- Licensing of the brand for a set period of time in order to give the buyer time to migrate to one of its existing brands or a wholly new brand;
- Development of cobranding for a particular product post acquisition;
- Development of brand expansion for a particular product group post acquisition; and,
- Development of rebranding strategies for a particular product or product group post acquisition.

The ultimate point of all such processes is to create a strong association with a brand and its owner in the minds of consumers, post transaction.

## **Method of migration issues in the contract**

There are several issues that should be addressed in the “method of migration” section of the applicable agreement. First, it is wise for each party to appoint a single person as their contact person for the migration of the brand. The identity of that person should be notified to the other party. Secondly, the parties should consult with one another in good faith on the process for the migration. Finally, the parties should acknowledge and agree that the migration of the brands will require regular cooperation and interaction between them. Both parties should agree to fully cooperate and interact with one another during the process to facilitate the migration.

## **Field of use issues in licensing**

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Another important issue to consider is what the brand can be used for by the buyer post-acquisition. This will be regulated in the sales and purchase agreement by definition. The importance of carefully drafting this definition to suit one's strategy should not be underestimated.

If the brand is associated with a particular mascot or with a well-known character used in advertisements, the issue of whether these figures may be used by the buyer during or even after the migration phase should be considered. In a complete brand acquisition, it is imperative that the family or marks, characters, designs, trade dress, and other intellectual property surrounding a brand are all incorporated into the purchase transaction.

### **The art of brand migration**

The art of the brand migration is the ability to hold onto existing consumers while ideally attracting new ones. One should not underestimate the emotional attachment that consumers often form with everyday items. The change of a brand name, or the attempt to create its identity with a new source, results in the creation of a risk for the buyer that consumers will not accept the new identity that has been created for the brand.

## **Regulatory filings and statutory requirements**

Any and all formal registrations and regulatory filings required to run the business the subject of the co-branding arrangement need to be considered. Any such regulatory or legal filings need to be able to be undone or redone at the appropriate time contractually in order to fully effectuate the end of the co-branding period.

As brands are fundamentally tools of consumer protection, some jurisdictions may have laws or regulations which can impose certain responsibilities upon brand owners or users, such as adequate policing and enforcement to maintain the brands. These laws or regulations need to be examined prior to entry into any co-branding arrangement in any jurisdiction so that any risk arising from the same may be identified and addressed contractually or through regulatory filings as required.

## **Jointly developed, improved, or derivative intellectual property**

Lastly, the parties need to address in their transaction documents, the rights to any intellectual property developed during the migration period (term of any license or cooperation period post-acquisition). In many cases the product represented by the brand will be improved on, enhanced, or modified during this time period.

## **Conclusion**

As in-house counsel, what you do not know, and do not adequately plan for, can seriously hurt your client in structuring and implementing a brand migration. In some cases, the outcome of poor or incomplete due diligence, planning, or brand migration can result in material diminution in the value of the transaction. This can be, and needs to be, avoided by in-house counsel with a strong transaction process dedicated to addressing issues surrounding brand value and transition.

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Intellectual property provides a company with the legal right to carry out its business only in certain countries where that intellectual property is registered or recognized. If the brand at issue in each desired country of operations is: not registered; not correctly registered; not legally cleared for use in advance; not actually covering the products sold or services rendered; not owned by the seller; not included in the transaction; or not be able to legally expand to cover the products or services desired post transaction, then it can be extremely problematic for the buyer.

In the above circumstances, where brand migration plans will not be able to be carried out in a proper manner, the anticipated and reported commercial transaction value will not be realized, and significant regulatory and litigation costs may be incurred. This bleak outcome is absolutely avoidable for the able in-house counsel willing to address the issues up front in due diligence, through the contract negotiation, and post-closing execution phase. Done properly, a well-executed brand migration plan can significantly add to the value of a transaction and contribute to the long-term profitability of your client.

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