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Introduction to Brand Licensing

Some useful licensing terms and definitions:

Advance	a percentage of the predicted royalties, which are paid on signature of the licence. Licensors impose an advance as a defence against a licensee taking a license and then not doing anything with it.
Approval	all designs, products, colours, marketing literature and treatments of a property are subject to strict approval processes by the licensor or agent. The approvals procedure is defined in the licensing agreement
Geographical Scope	a licence can be limited in geographical area, depending on a licensee's ability to sell the product in different territories. For example, a licence can be awarded to a European and a US licensee for use and sales in their distinct territories.
Guarantee	this is a negotiable sum, paid by the licensee to the licensor as a commitment to generate a minimum level of royalty income over the term of the licence. Any shortfall is made up at the end of the term of a licence.
Infringement	taking action against copyright infringement is costly, but the licence agreement should state that the licensee should alert the licensor to any infringement and discuss in good faith whether to take action, how the costs of taking action should be apportioned and how the damages awarded would be apportioned.
Licence	the permission to use a brand on a product. Defined by a licensing agreement, a licence is awarded by a licensor to a licensee.
Licensed product	the product on which the licensee has been permitted to use the brand. The nature of the product is usually very specifically defined by the licensing agreement.
Licensee	the party (usually a manufacturer or retailer) that pays for a licence and then makes and distributes product bearing the brand.
Licensing Agent	an agent appointed by the licensor to co-ordinate a licensing campaign.
Licensor	the owner of the intellectual property rights in the brand.
Minimum	a licence is usually subject to achieving a minimum level of sales per year and may state that if a licensee does not sell a certain number of goods in any period, then the licence may be terminated.
Royalty	a payment expressed as a percentage of sales (negotiated in advance), paid by the licensee to the licensor for using the brand. Most agreements require licensees to produce royalty statements and to pay royalties each quarter.
Royalty Auditing	in order to ensure that the correct royalties are being paid, a licensor has the right to inspect a licensee's books and records.



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Style Guide

the 'bible' of the property giving all the visual and design references a licensee should need to be able to use the property correctly on their products. Compiled by the licensor or agent, it often includes brand values, ideas for point of sale and packaging, history of the property etc.

Term

this is the period of time for which the licence lasts. Licensees often renew their licences, or are given a 'sell off' period during which they can sell off any remaining licensed products. Licensors will ensure they have the power to terminate the licence if a licensee is not meeting certain performance criteria such as selling sufficient goods, committing appropriate funds to promotion or maintaining quality standards.