



International Distribution Institute

## **Workshop 3**

**Rebranding and Changing Know-How in Franchising**

**9 - 10 June 2017**



International Distribution Institute

## Workshop 3

### Rebranding and Changing Know-How in Franchising

#### Panel

### Rebranding Provided for in the Franchise Agreement

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(Italy)

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Alphabeto  
(Uruguay)

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Daudpota International  
(Pakistan / United Arab Emirates)

**Pornchai Wisuttisak**  
Chiang Mai University  
(Thailand)



## **Clause A**

Franchisor and Franchisee agree that in the event that the registration of the name “XXX”, is determined by a court of competent jurisdiction not to be valid or to infringe the right of a third party, then Franchisor may register an alternative name (“the Substitute Mark”) to the reasonable satisfaction of Franchisor as being compatible with the franchising system in the Territory. In such an event, Franchisee will then only use, the Substitute Mark and replace the “XXX” Mark with the Substitute Mark wherever the “XXX” Mark appears.

Franchisee shall be responsible for the expense of adopting the Substitute Mark in its operations, including, but not limited to, on signage, publications, literature, supplies, inventory, advertising or any other display of the “XXX” Mark.

In the event that Franchisee are required to use the Substitute Mark then Franchisee shall immediately cease use of the “XXX” name.



## **Clause B**

The Franchisor may at its sole discretion change, modify any Mark, it shall give notice to the Franchisee, who shall comply with such modifications according to the terms and conditions indicated by the Franchisor.

The Franchisor declares and the Franchisee recognizes that the Know-how is evolving according to the investments of the Franchisor and the development for the Franchising Network. Consequently such Know-how may be from time to time modified by the Franchisor and the Franchisee shall have to comply with such modifications.



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### **Clause C**

If it becomes advisable at any time, in the sole and absolute discretion of the Franchisor, to not use, or to modify or discontinue the use of any or more of the Marks and to use one or more additional or substitute names, marks, and/or copyrights, Franchisee agrees immediately to promptly comply with Franchisor's directions in such regard, including (but not limited to) replacement of all signage, advertising etc., at the sole expenses of the Franchisee.

Franchisee furthermore agrees that it shall not be entitled to receive any damages from Franchisor because of such modification.

### **Clause D**

If it becomes advisable at any time, in the sole and absolute discretion of the Franchisor, to not use, or to modify or discontinue the use of any or more of the Marks and to use one or more additional or substitute names, marks, and/or copyrights, Franchisee agrees immediately to promptly comply with Franchisor's directions in such regard, including (but not limited to) replacement of all signage, advertising etc, at the sole expenses of the Franchisee.

Franchisee furthermore agrees that it shall not be entitled to receive any damages from Franchisor because of such modification and will make no claims in connection therewith, except that Franchisee shall have the option to terminate this Agreement within 30 days advance notice to be given within 60 days from the notice or request by Franchisor of such modification.





## **Clause E**

*“Tax Depot may choose to replace or modify certain licensed Marks. Franchise agrees to adopt and use, at the Franchisee’s cost, all Licensed Marks which Tax Depot designates in the Policy and Procedure Manual. Franchisee agrees to cease use of all Licensed Marks as indicated in the Policy and Procedure Manual”*

*[U.S. Court, 2003 MBQB 174, Halligan v. Liberty Tax Services Inc].*



# IN FRANCHISE CONTRACTS, THE BRAND IS NOT A SECONDARY CONSIDERATION

- NOT ALL THE LEGISLATIONS INCLUDES IT AS ESSENTIAL PART OF THE DEFINITION OF FRANCHISE
- BUT IN THE FACTS, IT'S A CRUCIAL PART OF THE BUSINESS:
  - THROUGHOUT THE MARKET IDENTIFY THE STORES
  - IT'S "THE" MESSAGE TO THE CONSUMERS (they consider this part of the deal/ they don't care who the store belong to)

## 2 POINTS OF VIEW

- In favor to the re branding clause:  
COLLABORATION DUTY
  - GOOD FAITH IN THE EXECUTION OF THE CONTRACT
- Against: ABUSE OF A RIGHT OR ABUSE OF A DOMINANT POSITION



# SOME LEGAL ISSUES

RE BRANDING  
CLAUSE

- RESISTENCE WITHOUT ANY REASON

- RESISTENCE WITH REASONS

IN THE JURISDICTION OF THE FRANCHISEE  
THE TRADEMARK IS NOT AVAILABLE

- AND/OR business names, domain names and company 's name

–IN THE FRANCHISEE MARKET THE BRAND IS

- NOT ACCEPTABLE (bad word, refer to an incompatible product –as candy and poison-, ...)

- NOT SO GOOD FROM FRANCHISEE POINT OF VIEW (franchisor think it is a bad decision to re brand)

“REBRAND  
CLAUSE” AS  
A CAUSE OF  
TERMINATION

# URUGUAY

## RE BRANDING CLAUSE AS AN ABUSIVE CLAUSE

- AGREEMENT BETWEEN EQUALS
    - “ABUSIVE” CLAUSES ARE VALID
  - AGREEMENT BETWEEN NOT EQUALS
    - WITH A CONSUMER
      - NOT NECESSARY TO PROOF THE ABSENCE OF EQUALITY
      - LAW DECLARES THE INVALIDITY OF ABUSIVE CLAUSE
    - WITH A NON CONSUMER
      - NECESSARY TO PROOF THE ABSENCE OF EQUALITY
      - THERE’S NO LAW THAT DECLARES INVALIDITY.
- JURISPRUDENCE 2 POSITIONS:
- INVALIDITY
  - GENERAL RULE OF ABUSE: DAMAGES

# INVALIDITY OF RE BRANDING CLAUSE IN CIVIL CODES

- Article 1253 **Uruguayan** Civil Code (1256 Spanish Civil Code)
- the validity or the compliance of the contract cannot depends of the will of one of the parts
  - Would be different if there´s an external cause to rebranding (in a new market the brand is not acceptable and requires changes in all the network)

# AN OTHER POINT OF VIEW:

- IF THE FRANCHISOR IS AN ECONOMIC CONTROLLER OF THE FRANCHISEE
  - AND DECIDES TO RE BRAND IN ITS BENEFIT OR IN THE BENEFIT OF THE INTEREST OF THE NETWORK:
    - COULD BE INTERPRETED AS AN ABUSE OF CONTROL: CLAIM FOR DAMAGES (to the franchisor and its board of directors)
- THERE IS AN OBLIGATION TO ACT IN PROTECTION OF THE INTEREST OF THE SUBJECT TO CONTROL  
(Company Law)





# ARGENTINA

Argentinean Civil and Commercial Code :

Article 988: invalidity in standard form contract:

- a) clauses that change the nature of an obligation of the proposer;
- b) clauses that mean the resignation or limitation of the rights of the other part

Article 1519: INVALIDITY OF THE CLAUSES THAT FORBID THE FRANCHISEE:

- a) TO BRING INTO QUESTION (WITH ARGUMENTS) THE RIGHTS OF THE FRANCHISOR RELATED TO INTELLECTUAL PROPERTY





# IF IT'S NO POSSIBLE TO RE BRAND:

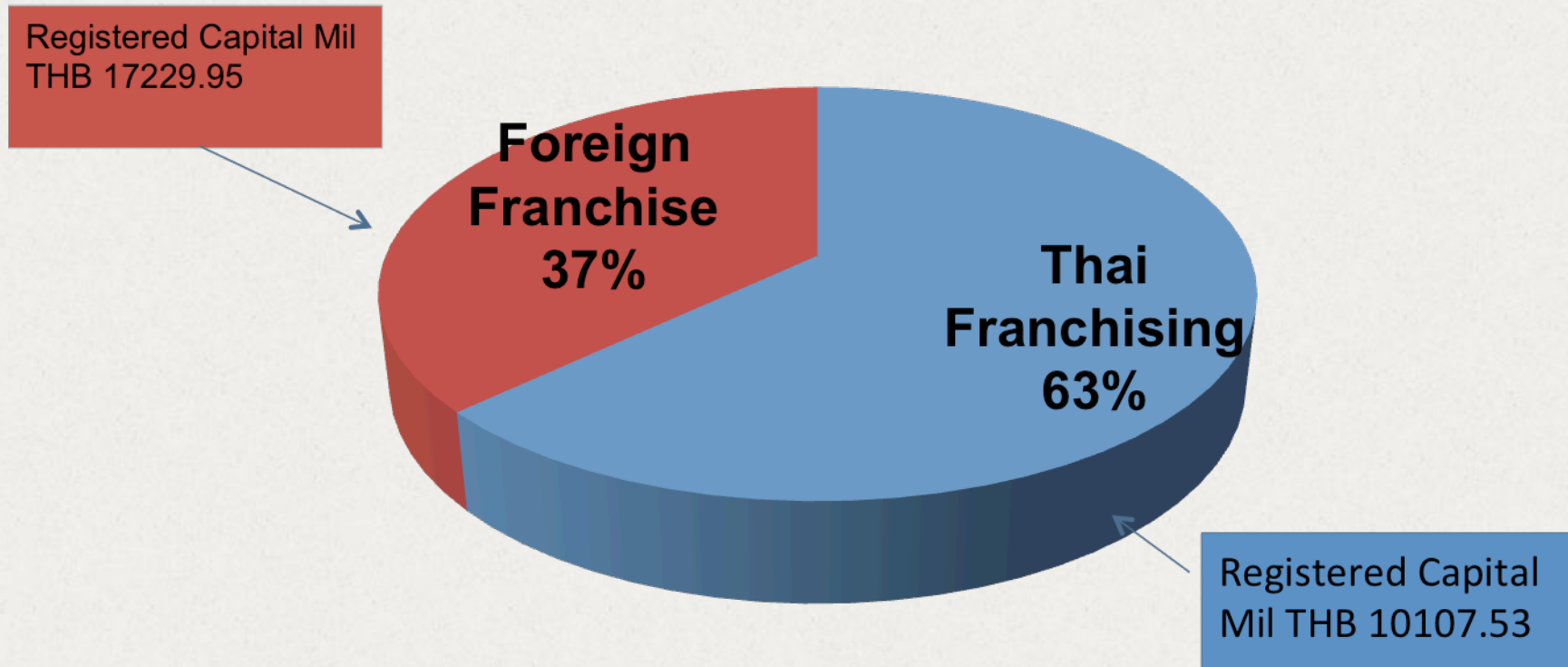
- INVALIDITY OF THE RE BRANDING CLAUSE:
  - THE REBRAND CLAUSE AS A CAUSE FOR LEGAL TERMINATION OF THE CONTRACT
    - NO OBLIGATION OF PAYING DAMAGES (no breach)
    - ¿COMPENSATION? URUGUAY: NO RULE. ARGENTINA: A. 1497 CCom C (1 year commission maximum -average of last 5 years-)
  - RIGHT OF THE FRANCHISEE TO GO ON IN BUSINESS WITH THE OLD BRAND:
    - FRANCHISOR BREACH OF CONTRACT: THE FRANCHISEE RIGHT TO BELONG TO A NETWORK (NO MORE IDENTIFICATION OF THE CONSUMERS; INCOMES COULD BE AFFECTED)
    - IF THE USE OF THE OLD BRAND AFFECTS THE IDENTIFICATION OF THE FRANCHISEE WITH THE NETWORK, COULD AFFECT DE OBJECT/ CAUSE OF THE FRANCHISE CONTRACT ITSELF



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# **Rebranding provided in the franchise agreement: Thailand**

# Local and Foreign Franchise Market Shares in Thailand



## General legal frameworks on franchise agreement

- Thailand has not yet passed a unified legislation to regulate franchising
- Various laws broadly applied - including;
  - ***Civil and Commercial Code,***
  - ***Intellectual property laws, and***
  - ***Trades practices laws***



“Starbunk case” where the Starbucks Coffee (Thailand) Co., Ltd sued the Starbunk - a street coffee vendor - due to the Starbunk’s logo violated Starbucks Coffee’s registered trademark



Picture Source: <http://www.theguardian.com/world/2013/oct/20/thai-coffee-stall-starbucks-starbung>



# Legal framework on rebranding and franchising agreement

- *Trademark Act (NO. 3) B.E. 2559*
  - Registration of trademark according to section 6-67 of the Trademark Act
  - section 68 of the Trademark Act sets out that any licencing of trademarked must be registered with Department of Intellectual property (DIP), Ministry of Commerce

# Opinion on trademark licensing and franchising agreement

- Two legal opinions
  - The first legal opinion considers the trademark licensing is an integral part of franchising agreement and DIP should accept a registration of franchising agreement with trademark licencing.
  - The second legal opinion considers that the franchise agreement is separable from trademark licencing agreement.

# Legal issues

- **first issue** is that if there is no rebranding clause, the franchisor is not able to obligate franchisee to follow any changes of the franchise brands. It is due to the liberty of contracting party under section 369 of the Thai Civil Code.
- The **second issue** is that if the franchising agreement includes a clause on rebranding, the franchisors may not be able to register the new trademark licence with Department of Intellectual Property.
- The **third issue** is that if the franchising agreement includes a clause of rebranding with a separated agreement on trademark licencing agreement, the franchisee can refuse to register the trademark licencing agreement of a new franchise brand.

## Supreme Court case (No.9753/2551)

- In the case the franchisor is a brand owner of *Family Mart* convenient stores. In the agreement franchisor permitted franchisee to use Family Mart brand
- The franchisee was under obligation to pay royalty fee for using the brand and mark of Family Mart
- The franchisee did not pay the royalty fee.
- The court finally decided in favour of franchisors and that the franchisee has to pay royalty fee to franchisor



# Conclusion and recommendation

- The franchise agreement should include rebranding clause in the franchising agreement with obligation to permit franchisor to replace or modify certain trademarks.
- The clause must also prescribe franchisee to consent to a change of a new brand
- The clause should obligate franchisees to accept a registration of new trademark licencing





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# Conclusion

A horizontal graphic element consisting of a white rectangular area with irregular, torn edges, set against a light gray background.

**THANK YOU !**