

# Practitioners' Checklists

## Licensor's Quality Control

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**Purpose:** This Checklist is intended for use by a licensor in jurisdictions where trademark licensors are required to maintain adequate quality control in any license agreement with another party, either as to the nature and quality of use of the licensed marks, or the nature and quality of the underlying licensed goods or services. Although it covers some important contract terms, it is not intended to serve as a comprehensive license agreement checklist *per se*.

### I. The License Agreement

Include provisions that give the licensor well defined rights to control *both* the way in which trademarks are used, and the nature and quality of the goods or services with which they are used:

#### A. The Mark

1. \_\_\_\_\_ Identify the licensed mark(s).
2. \_\_\_\_\_ Define accepted forms of use of the licensed mark(s), including:
  - Colors
  - Fonts
  - Spacing
  - Locations

3. \_\_\_\_\_ Require licensee to make proper use of proprietary trademark notices.

## **B. Licensed Goods and Services**

1. \_\_\_\_\_ Define licensed goods and services.
2. \_\_\_\_\_ Define goods and services that are not licensed, but instead retained by licensor to use or license to others.
3. \_\_\_\_\_ Define process for adding, changing or deleting licensed goods and services.

## **C. Scope of Exclusivity**

1. \_\_\_\_\_ Define the scope of exclusivity of the rights granted to licensee, considering:
  - Territory
  - Goods/Services
  - Market Segments
  - Marketing Channels
  - Customers
2. \_\_\_\_\_ Expressly retain rights in favor of licensor if exclusivity is not total.

## **D. Quality Standards**

1. \_\_\_\_\_ Define the level or standard of quality of goods and services that must be maintained.
  - Use explanatory terms, such as “equal or better than...”.
  - Incorporate applicable industry or trade standards and government regulations.
  - Set defined standards regarding acceptable labor practices.

2. \_\_\_\_\_ If applicable, set requirements for chain of distribution and pricing, such as only specified department stores, and no discounting.
3. \_\_\_\_\_ Allow licensor to inspect goods, services, and facilities (without notice if possible) and to appoint representatives to do so.
4. \_\_\_\_\_ Require licensee to require its suppliers, vendors or factories to furnish only goods or services that meet the quality standard set forth in the main license.
5. \_\_\_\_\_ Require Approvals, and/or Delegated Control as discussed in Parts E and F below.

#### **E. Approvals**

1. \_\_\_\_\_ Require licensee to submit samples of goods, packaging, labels, signs, advertising and marketing materials, artwork, plans, and other materials for approval:
  - A set number of days before manufacturing or distributing any new goods and other materials bearing the mark;
  - A set number of days before full deployment of each new manufacturing or print run;
  - Upon request of licensor at any time; and/or
  - On a periodic basis.
2. \_\_\_\_\_ Submissions for approval are to be made:
  - By a specific method
  - To a specific contact
3. \_\_\_\_\_ Set a time period within which a licensor must respond, and consider whether items should be deemed approved if no response is provided.
4. \_\_\_\_\_ If possible, allow all approvals to be withheld at the sole discretion of the licensor.

## **F. Reasonable Delegation of Quality Control Duties to Licensee**

1. \_\_\_\_\_ Any whole or partial delegation of quality control duties to licensee should be an informed delegation, expressly defined in general terms in the license agreement, and reasonable under the circumstances:
  - Consider whether licensee is qualified and motivated to carry out its duties.
  - Require feedback from licensee.
  - Allow licensor to take steps to cause problems to be remedied.

## **G. Term and Termination**

1. \_\_\_\_\_ Set definite “Term” for license agreement.
2. \_\_\_\_\_ Allow licensor to terminate for defined causes, including:
  - Failure to adhere to quality control standards set by licensor.
  - Failure to follow instructions on proper use of the marks.
  - Failure either to exploit the licensed marks to the full extent of rights granted, or to meet defined performance, sales or payment thresholds.
3. \_\_\_\_\_ Define which grounds of termination would result in immediate termination and which, if any, would be subject to a cure period of defined length.
4. \_\_\_\_\_ Allow licensor to terminate without cause, with sufficient advance written notice.

## **H. Effects of Termination**

1. \_\_\_\_\_ Require that licensee discontinue use of the licensed marks immediately upon termination, or define phase out period.
2. \_\_\_\_\_ Require that licensee provide licensor with an accurate and complete description of currently-held licensed inventory and outstanding orders of licensed inventory, and define how quickly that information must be provided.
3. \_\_\_\_\_ During any phase-out period, determine process and date by which licensee must dispose of inventory or materials bearing the mark. Specify procedure by which the inventory must be sold off, returned to licensor, or destroyed.
4. \_\_\_\_\_ If exclusive rights are granted, consider partial termination as to exclusivity (i.e., reversion to a non-exclusive arrangement).
5. \_\_\_\_\_ If “Territory” covers more than one country or market, consider partial termination as to country or market.

## **I. Renewal**

1. \_\_\_\_\_ Condition renewal of license agreement or extension of the Term on licensee’s full compliance with key provisions of the agreement. For example:
  - Quality control
  - Quantity sold/ performance thresholds
  - Timely and complete payment of royalties
  - Timely and complete submission of reports

## II. Actual Quality Control

### A. Inspections and Follow Up by Licensor

1.     \_\_\_ Monitor licensee's trademark usage of licensed mark(s).
2.     \_\_\_ Schedule and carry out periodic inspections of licensee's premises, manufacturing and distribution facilities.
3.     \_\_\_ Schedule and carry out periodic inspections of samples of licensed goods and services, and of advertising and promotional materials bearing the licensed marks. Test the licensed goods or services, directly or indirectly.
4.     \_\_\_ Provide feedback to licensee. Monitor and verify improvements.
5.     \_\_\_ Consider commissioning third party customer satisfaction, market penetration and quality control studies.

### B. Collect Available Data and Records

1.     \_\_\_ Collect, monitor, digest and store readily available records about licensee, its performance, and licensee's goods and services:
  - \_\_\_ Examine licensee's existing quality control, quality assurance, "mystery shopper" and other customer satisfaction programs. Organize and retain records.
  - \_\_\_ Collect published records on licensee, including annual reports, securities filings, press releases, earnings reports, productivity reports, product announcements, catalogs, advertisements and promotional materials and the like, and any marketing studies performed or commissioned by licensee.
  - \_\_\_ Collect third-party publications featuring licensee or its goods or services; including

mass market and trade publications, stock analysis or investment research reports, books, etc.

- Consider engaging newspaper, television and/or media clipping services, sort clippings and organize into files or scrapbooks.
- Use search engines and other applications on the Internet to observe and collect mentions of license.

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