



## **26<sup>th</sup> Annual IBA/IFA Joint Conference**

### ***Managing Risks in International Franchising***

**May 18-19, 2010  
JW Marriott \*\* Washington, DC**

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#### **Rebranding franchise networks Case study**

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NIXON EMERSON DEAN Inc—a US company – is the owner of a franchise system for the retail sale of men garments operating under the trade name NIXON EMERSON DEAN. The brand has enjoyed outstanding reputation throughout the years as a prêt-à-porter brand of men clothing for informal attire. Suits, jackets, shirts and ties labeled with the NIXON EMERSON DEAN trademark are the main products which have been traditionally sold in the franchise stores.

The Franchisor operates through a network of independent franchise stores in America and Europe. It has 24 outlets in Latin America, 50 stores in the US and 80 stores in Europe. It has a Master Franchisee in Germany, where the business is very successful and there are 14 franchisees.

After a number of years of litigation with the owner of the trademark NIKOLS EMERZON registered in Greece and in a number of Eastern European countries, the Franchisor has been restrained to use the NIXON EMERSON DEAN trademark in Greece by an order of a court in this country , where it has one franchise store, and has reached a settlement agreement with that company whereby it undertakes not to use the trademark in a number of Eastern European countries where it is, however, planning to launch its retail franchise business.

With a view to expand the business, during the last five years the Franchisor has introduced a range of products branded as NIXON EMERSON DEAN – NICK-E DEE addressed to younger customers and also to respond to customer's needs for casual dress. It includes T-shirts, polos, and chino trousers in addition to some of the products formerly labeled under the NIXON EMERSON DEAN trademark. The NICK-E-DEE brand has been pretty successful and resulted in an increase of sales though not uniformly in all the territories. Success has been enormous in Latin America, quite big in Europe and very limited in the US.

The Franchisor believes that the market is stagnant in the US and is confident that the growth of the business may come from expansion in Latin America and Europe.

After consultation with a number of marketing advisors the Franchisor has decided to rebrand the franchise as NICK-E-DEE in order to emphasize the casual dress range of products and associate the brand image to leisure and to more fashionable trends detouring from its association to formal and traditional style of garment.

The franchise agreement used in America does not contain any provision regarding rebranding or the use of other trademarks. When the agreement was reviewed for Europe in order to accommodate it to former EC block exemption regulation 4087/88 on franchising, some sharp British lawyers advised the Franchisor to include the following clause:

*“Discontinuance or Modification of the Marks. If it becomes advisable at any time, in the sole discretion of Franchisor, to modify or discontinue use of any Mark and/or to require Franchisee to use one or more additional or substitute trademarks, service marks, trade dress, logos, designs, colors and other commercial symbols, Franchisee agrees to comply with the requirements of Franchisor to modify or otherwise discontinue the use of such Mark and/or to use one or more additional or substitute trademarks, service marks, trade dress, logos, designs or other commercial symbols. All provisions of this Agreement applicable to the Marks shall apply to any other trademarks, service marks, trade dress, logos, designs, colors and*

*commercial symbols later authorized by Franchisor for use by and licensed to Franchisee. The term "Marks" shall include any marks developed and/or registered in the future.*

*Franchisor shall have no obligation to reimburse Franchisee for any expenditures made by Franchisee to modify or discontinue the use of a Mark or to adopt additions to or substitutes for a discontinued Mark, including, without limitation, any expenditures relating to advertising or promotional materials or to compensate Franchisee for any goodwill related to the discontinued or modified Mark."*

Same clause is provided in the master franchise agreement used in Germany.

The Franchisor has held a number of general meetings with the franchisees to discuss the Rebranding Project. It has encountered strong opposition on the franchisees side, notably from US franchisees. The latter have expressed the view that the NIXON EMERSON DEAN trademark is a traditional brand which has gained sound reputation over the years and it is rightly placed at a segment of the market matching the expectations of image and the specific requirements of its customers: top executives, lawyers, bankers and other professionals. To the contrary, the NICK-E-DEE products suffer strong competition from well-known brands for sportswear in the US market and franchisees believe that if they concentrate in this brand they will be bound to lose actual and potential customers. Besides, the European franchisees fear that the costs of rebranding will be too high to compensate the eventual benefits of the change and have expressed to the Franchisor a serious concern that the implementation of the Project may bring substantial losses to their business. The Latin-American franchisees appear to be quite happy with the Project since the market for the NICK-E-DEE products is much larger than for the NIXON EMERSON DEAN traditional products due to weather conditions and the customers' dressing habits.

Despite the franchisees' opposition, the Franchisor's management has decided to go ahead with the Project. Franchisor's in-house counsel regularly attends the IBA/IFA annual conferences at Washington DC and given the legal fees contention policy adopted by Franchisor for the 2010, invites the attendees to the Conference this year to join a workshop to discuss the strategy which should be followed to accomplish the Project from a legal viewpoint and to consider any legal risks that may be foreseen as well as any possible means to exclude or mitigate them. In particular, Franchisor is considering the following:

1. To initiate the process by sending a circular letter to all the franchisees informing them that the rebranding of their outlets must start within a month and be completed within three months as from the date of the communication. The circular would include all instructions and documentation regarding the new brand, the arts for the logos and trademarks and sample promotional, packaging and stationary materials for the NICK-E-DEE brand.
2. To spend all the contributions made to the Marketing Fund (which at the moment has a surplus) to cover some of the costs of advertising the rebranding of the stores.
3. How to deal with the situation in some countries where the NICK-E-DEE trademark is not registered as yet though trademark applications are filed and pending.
4. How to deal with any eventual claims from NIKE Corporation. In the past this company has already warned the Franchisor in the sense that the use and attempts to register the NICK-E-DEE trademark for textile products may be a breach of NIKE's trademark rights and/or an unfair competition act. Specifically NIKE has mentioned the availability of legal actions for passing off in the UK.

5. Whether it should discuss possible trademark changes with the franchisees or vet the change with them in any other manner.
6. Whether it should conduct some studies as to how customers will view the new franchise brand and share the results with the franchisees.
7. Whether the applicability of the contractual clause on rebranding to the Project may be challenged by the franchisees and they would have a right to refuse to implement the Project or a right to be compensated for the costs of the Project.
8. Which measures should be adopted by the Franchisor to assist the franchisees in the implementation of the Project.
9. Which ones of the franchisee's costs for the implementation of the Project should be born by the Franchisor.
10. Whether the franchisee's stock of promotional and trading materials bearing the NIXON EMERSON DEAN brand at the date of effectiveness of the rebranding should be purchased or paid to franchisees.
11. How to deal with the situation which may arise in Spain where the sales of the NIXON EMERSON DEAN – NICK-E DEE products have been very scarce and franchisees have been very reluctant to promote them. The reason is that the word "niki" means in Spanish a popular T-shirt for practicing sports and it is normally used by children and non-educated people and the franchisees take the view that the use of this brand damages the reputation of their stores and products.
12. How to deal with those franchisees who have joined the network recently and therefore may not have amortized their investments in the NIXON EMERSON DEAN brand as yet.
13. How to approach the Master Franchisee in Germany who may be reluctant to assume the risk of franchisees claiming for damages against him. Could it claim to have a have a right to opt-out from the Agreement? Should Franchisor consider the possibility to offer it to Purchase the Business under the conditions provided in the Right to Purchase clause of the MFA, or any others?.
14. Whether there is a risk that the franchisees threaten the Franchisor with the termination of the franchise agreements and claims for compensation.
15. Whether there is a risk that franchisees would have future actions for compensation for loss and damage in case that the rebrand would not work well, sales would decrease and the franchisees would suffer losses of goodwill for them.

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