Department of Economic Development, Jobs, Transport & Resources

Wine E-Commerce Seminar

2.00pm-5.00pm, Thursday 1st October 2015

Legal pitfalls for exporters
- key brand and distribution protections

presented by:

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<u>Distribution issues to consider</u>

- What is their focus – on premise, off premise, etc
- Does the distributor specialise in the wine market? What sort of experience do they have (not just a trophy investment for owner)?
- If off premise – do they have a captive branded chain of stores?
    - How long has the chain been going?
    - How many stores?
    - What is the rate of churn?
    - Is there a geographic focus where the stores are located?
    - What is the prospect of growing sales / reputation outside that branded group?
- Will you stand out in the portfolio?
- Full books – need a compelling offer – if it sounds too good, it probably is
    - if is too easy to get in – question competence, etc of the distributor

The Distribution Agreement

- Exclusivity – do they have any other Australian producers on their books? What about other producers from your State / Zone / Region?
  - Whether to stop them signing up any more producers?
  - Same price point?
- Stop them developing their **own brand** from your area – even if it is at a different price point – need to consider providing this yourself as a last resort – control the brand.
- Consider restrictions on deals with the major chains – require your consent – e.g. brand may be heavily discounted
  - if you are in the chains, other retailers and restaurants may not want to stock you
- If they say they are "national", check what this involves
  - If they promise they will be national, get specific dates when this will happen
  - Don't make termination the only penalty for failure – e.g. reduce their fees (or pay reduced fees until they become national)
- Reserve right to make sales yourself
  - Duty-free
  - internet sales
  - direct sales to chains (probably need to pay commission / management fee on these)
  - direct marketers (Cellarmasters, The Wine Society, etc – even use this channel to establish initial sales so you have a more compelling offer for new distributor)

- IP protection – it's not a breach if they register your name in the foreign jurisdiction – unless the contract says they can't
- Prevention of cross-border sales + the flip-side – make sure they **only** buy from you – not from a cheaper market elsewhere
- Payment terms
  - Whatever they are, be tight on them – Distributors are notoriously bad payers – start out the way you mean to continue.
  - If and when terminate, work out lowest point in the cycle – minimise amount outstanding at the time – it will be hard work to collect it all

Advertising and promotion

- They will charge a lot for this – 30% margin + 5% A&P – but what will they actually do as a minimum – what are **you** expected to do
  - Quantify this in terms of actual cost, actual activity, at least for the first year, and specify this is to be a minimum
  - Get them to justify / substantiate what they have spent – not just a "slush fund"
  - Make sure they are not acting as just a 'box mover'
- Manage the process of promotions – want consistency throughout the year, not just a 2-week window when it is "your turn"

Termination

- Be very careful with the payout provisions – Australia has no laws entitling the distributor to payment for goodwill, so they will try to word this in the contract

- Consider re-purchase of stock at landed cost [including 'out of condition' or old stock, at a discounted price] – if not, they can 'dump' it on the market, damaging the brand and the prospect of any sales at the start of the term
  - If approached by a new distributor, get them to wear any costs of changeover as part of the negotiations
- Specify performance requirements – allow termination for failure to reach them
  - Work through the clause to make sure it works – don't want to have to endure 23 months' bad performance before being able to terminate

<u>Domestic Distribution</u>

- WET producer rebate – need to have the right to renegotiate if there is a change in the producer rebate (amount or method of calculation)

<u>Brand Protection</u>

Domestic

- Get protection properly sorted domestically first
- **<u>Essential</u>** to understand the difference between:
  - Registered business name
  - Company name
  - Registered trade mark
  - Domain name
- **<u>Only</u>** a trade mark registration gives you **<u>ownership rights</u>** in the brand
- What are the essential elements of your branding?
  - Do you have any key sub-brands? (e.g. Penfolds + Grange)

International

- Two Options
  - Madrid Protocol
    - through IP Australia
    - need an Australian registration
    - single registration for multiple countries
    - single form for changes, renewals, etc
    - considerably cheaper, if more than one country

        - can add additional countries in future ("subsequent designation"), at lower price
        - Base Fee is approx. A$800, individual country fees range from A$100 up to A$400
        - Some countries still not participating (e.g. Hong Kong, Canada)
        - Usually have to use a foreign attorney if application not initially accepted by foreign TM Office
    - Use foreign attorney
        - Usually more expensive – e.g. about US$1,000 for US
        - But may be able to file so it is accepted (e.g. if your name is a surname, in the US need to file on the Supplemental Register for first 5 years)
        - Most 'faulty' issues with Madrid application can be addressed through foreign attorney
- As mentioned earlier, critical that Distributor Agreement prohibits distributor from registering your TM (and any business name or domain name) – or anything like it. Furthermore, if they do so in breach, they have to assign to you.
- Beware of TM squatters – China especially bad
    - Consider applying for protection before entry / appointment of distributor.