

## Key Aspects Of Copyright And Know-How In Franchising

In addition to the brand, another two types of the intellectual property which are commonly licensed in a franchise system and which are also extremely valuable assets are copyright and know-how. Copyright is the right, broadly speaking, given to the creator, developer or author who may own the copyright, not to have the work copied or reproduced without authorisation.

It is very important to note that copyright comes into existence automatically, provided that time, effort, labour and skill is expended to create a work with a new original character. The work must be reduced to some sort of material or tangible form. Copyright does not exist in an idea. Depending on the type of work, copyright may remain in existence for 50 more years. Any unauthorized use of the copyright in a work will amount to the infringement thereof, which will attract powerful civil and criminal remedies.

Most franchise systems have at least three types of copyright works including artistic, literary and software works. More specifically these would include the following:

- the operations manual
- franchise website and intranet
- the franchisors corporate identity manual including all logos
- the list of approved suppliers
- data base of customers
- the accounting and point of sale system
- the franchisors product catalogue, list of services or price lists
- the details, specifications and lists of products and services
- the marketing and promotional materials
- the franchisors transactional and business system and related software
- product designs, labels and packaging
- other documentation and materials pertaining to the business system including any related software program

Many franchisors outsource the development of a number of the above mentioned works either initially or on an ongoing basis. A layman's view is that because the creation and development of the relevant work has been paid for, that ownership thereof resides with the franchisor. This is unfortunately not the case and the general rule is that the author of the work is the owner. However, if the author of the work is an employee who created and developed the work during the course of his employment with the franchisor, then although the employee will remain the author, the owner of the relevant work will be the franchisor. Only in the instance of works such as photographs, films and sound recordings, does ownership pass by operation of law. Further, wherever the creation and development or further development of any work is outsourced, the likelihood is that the third party to whom the work was outsourced is the owner of the copyright in that work or the update thereof and the franchisor simply has a license to use the relevant work or part thereof.

As a result, if the franchisor has outsourced the development of his logo, website, manual, operations manual, corporate identity manual, software and any other copyright work and if the specific work of copyright has not been competently transferred to the franchisor in writing, despite the fact the work has been paid for in full, the ownership of the work will remain with that third party. This will of course create substantial difficulties for a franchisor should it wish to enforce its rights against an errant franchisee or any other third party.

The solution is of course that any works outsourced to third parties should be transferred and assigned to the franchisor in writing so as to ensure that the franchisor is the owner of all copyright licensed in the franchise system.

The position is similar with the regard to know-how in that where a third party has developed any know-how for the franchisor, it is likely that the third party remains the owner of the relevant know-how, until such time as it is transferred to the franchisor.

Know-how also includes many essential and key aspects of the intellectual property of the franchisor including confidential, technical and commercial information relating to the operation of the business system and this would include information contained in the operations manual, as well as information known to individuals who are employed by the franchisor and includes promotional, merchandising, administrative, transactional, logistical, operational, distribution, sale and business methodologies, practices, processes, formula, recipes, trade secrets and systems. Any know-how reduced to writing or material form is also protected by copyright.

The key risk with regard to know-how is that if it is not kept confidential, the rights of the franchisor to prevent third parties from using it, becomes unenforceable. It is therefore essential that all reasonable steps be taken to protect the franchisors know-how and that all employees within each franchised business be obliged to sign suitable employment and confidentiality agreements, in terms of which they undertake to keep the franchisors know-how confidential.

In addition, as part of the management of all copyright works, it is recommended that the following short copyright notice be inserted at the foot of each page of each copyright work, where possible:

“© SA Franchise Warehouse 2010”.

Where possible on a larger document, publication or website, the following fuller copyright notice should be inserted:

“This ... Book/Manual/Publication ... enjoys copyright under the Berne Convention. In terms of the Copyright Act, No. 98 of 1978, no part of this ... Book/Manual/Publication ... may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording or by any information storage and retrieval system, without permission in writing from the proprietor.”

In conclusion, it is essential that the franchisor should as far as possible, at all times ensure that it is proprietor of all copyright and know-how used in the franchise system. To do this, the franchisor should for example, ensure that there is, at the very least, a master list or record of all copyright owned and used by the franchisor and that whenever current works are developed, updated or new works are developed, that the ownership thereof is transferred to the franchisor immediately. The same goes for any know-how. An ongoing protocol, process or system for the management of the intellectual property, including of the copyright and know-how (as well as the trade marks) should be in place and managed continuously to protect these valuable assets.