STRUCTURING SHARED SERVICES AND AFFILIATION PROGRAMS SUCH AS UBER AND CROSSFIT TO AVOID THE APPLICATION OF FEDERAL AND STATE FRANCHISE LAWS

Jennifer Brockett
Davis Wright Tremaine LLP

Brian H. Cole
Law Offices of Brian H. Cole
Modern Technology: the more things change
What is a Shared Services Agreement

(a) a technology platform – such as a website or mobile app – operated by one party, *that*

(b) matches individuals who are offering goods or services with customers and clients seeking to acquire those goods or services, *and that has*

(c) a payment mechanism intermediated through the technology platform allowing the operator of the technology platform to deduct a fee from the consumer’s payment before the provider is paid.
What is a Shared Services Agreement

• Terminology:
  • **Shared services**: technology-mediated programs that match goods and services with customers
  • **Platform company**: the company that operates the technology platform (*e.g.*, Lyft or Airbnb)
  • **Provider**: the person that offers services (*e.g.*, a Lyft driver or a Airbnb homeowner)
  • **Customer**: the person who uses the services (*e.g.*, a passenger for Lyft or a renter for Airbnb)
What is a Shared Services Agreement?
What is an Affiliation Network?

• A loose confederation of independent businesses that offer similar (or identical) goods or services

• *May* continue to use own trademarks or service marks in addition to common Mark, or *may* be identified solely by common Mark

• Nature and extent of common elements varies widely
What is an Affiliation Network?

- **Terminology**
  - **Affiliation Network**: a networking or affiliation network of the type described (for example, LexMundi or CrossFit)
  - **Member**: each licensee of an Affiliation Network
What is an Affiliation Network?
Applicable Law and the Inadvertent Franchise
What is a Franchise?
Three Elements

SIGNIFICANT ASSISTANCE/CONTROL or TRADEMARK + MARKETING PLAN or COMMUNITY OF INTEREST + REQUIRED FEE
Unless...

New York Law applies

TRADEMARK + MARKETING PLAN + REQUIRED FEE

or

TRADEMARK + MARKETING + REQUIRED FEE
Unless ... a “two prong” relationship statute applies

- Trademark
- Marketing plan
- Community of interest

or

Significant assistance/control
Most “Accidental” Franchises are Discovered in the Context of Termination of a Contract

• Most shared services contracts permit the platform to terminate the contract on X days notice *for any reason*

• Franchising issues are most likely to be raised after a platform terminates or threatens to terminate arrangement *without good cause*
  • Platform’s conduct that complies with terms of contract is no defense to statutory claim
  • The fact the contract allows the licensee/provider/member the same right to terminate on X days’ notice without good cause is no defense to statutory claim
Is My App a Franchise?

Is My Affiliation Network / Referral Service a Franchise?
Hypothetical—common facts

• New client
• Wants to leverage Ronda “Rowdy” Rousey’s name and her MMA fame
• No deal yet with Rousey – still exploring options
Hypothetical – part 1

Certified Trainer

- Available to anyone who
  - Takes a class
  - Passes a skills test
- Does not allow use of Rousey’s name or likeness in marketing
- Certification is good for 10 years
- One-time fee is charged for the class and the test
Bona Fide Certification Programs ≠ Franchises

• 1979 Franchise Rule (§ 436.2) had an exclusion for certification Marks

• 2007 Amended Rule removed the express exclusion BUT stated that this did not change the rule

• The FTC explained that this would “streamline the Rule”
Bona Fide Certification Programs ≠ Franchises

• A Certification Mark is any word, name, symbol, or device, or any combination thereof—
  • used by a person other than its owner, or
  • which its owner has a bona fide intention to permit a person other than the owner to use in commerce
  • to certify regional or other origin, material, mode of manufacture, quality, accuracy, or other characteristics of such person’s goods or services or that the work or labor on the goods or services was performed by members of a union or other organization
<table>
<thead>
<tr>
<th>Word Mark</th>
<th>CROSSFIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services</td>
<td>IC 045. US 100 101. G &amp; S: Social networking services in the fields of fitness, nutrition, sports, and exercise. FIRST USE: 20030420. FIRST USE IN COMMERCE: 20030420</td>
</tr>
<tr>
<td>Standard Characters Claimed</td>
<td></td>
</tr>
<tr>
<td>Mark Drawing Code</td>
<td>(4) STANDARD CHARACTER MARK</td>
</tr>
<tr>
<td>Serial Number</td>
<td>87031009</td>
</tr>
<tr>
<td>Filing Date</td>
<td>May 10, 2016</td>
</tr>
<tr>
<td>Current Basis</td>
<td>1A</td>
</tr>
<tr>
<td>Original Filing Basis</td>
<td></td>
</tr>
<tr>
<td>Published for Opposition</td>
<td></td>
</tr>
<tr>
<td>Registration Number</td>
<td>9045737</td>
</tr>
<tr>
<td>Registration Date</td>
<td>September 20, 2016</td>
</tr>
<tr>
<td>Owner</td>
<td>(REGISTRANT) CrossFit, Inc. CORPORATION DELAWARE 1500 Green Hills Rd., Suite 201 Scotts Valley CALIFORNIA 95066</td>
</tr>
<tr>
<td>Attorney of Record</td>
<td>Joel R. Feldman, , Jacquelynne J. Regan, and Jamie N. Shipp,</td>
</tr>
<tr>
<td>Prior Registrations</td>
<td>3007458, 4049889, 4053443</td>
</tr>
<tr>
<td>Type of Mark</td>
<td>SERVICE MARK</td>
</tr>
<tr>
<td>Register</td>
<td>PRINCIPAL</td>
</tr>
<tr>
<td>Live/Dead Indicator</td>
<td>LIVE</td>
</tr>
</tbody>
</table>
PMA CERTIFIED PILATES TEACHER

Word Mark: PMA CERTIFIED PILATES TEACHER

Goods and Services: TC 86 -, B.S.B., B.A.S. Providing instruction in the Pilates method of exercise. FIRST USE: 20100315, USED IN ANOTHER FORM The mark was first used anywhere in a different form other than that sought to be registered as early as 06/01/2005. FIRST USE IN COMMERCE: 20100315

Mark Drawing Code: (3) DESIGN PLUS WORDS, LETTERS, AND/OR NUMBERS

Design Search Code: 26.1121 - Rectangles that are completely or partially shaded

Serial Number: 86070689

Filing Date: September 20, 2013

Current Basis: 1A

Original Filing Basis: 1A

Published for Opposition: December 22, 2015

Registration Number: 4911771

Registration Date: March 8, 2016

Owner: (REGISTRANT) Pilates Method Alliance Inc. CORPORATION FL/OE 16000 1655 Kennedy Ct

Attorney of Record: Gordon E. R. Troy

Prior Registrations: 274128, 2784290, 2784487

Disclaimer: NO CLAIM IS MADE TO THE EXCLUSIVE RIGHT TO USE "CERTIFIED PILATES TEACHER" APART FROM THE MARK AS SHOWN

Description of Mark: Color is not claimed as a feature of the mark. The mark consists of the letters "PMA", all capitalized within a box and flush to the bottom of the box, with the words "CERTIFIED" on top of "PILATES" on top of "TEACHER", all to the right of the box centering the letters "PMA"

Type of Mark: CERTIFICATION MARK

Register: PRINCIPAL

Other Data: The certification mark, as used by persons authorized by the certifier, certifies that the user has successfully met the certifier's standards of skill and knowledge to achieve the status of a Certified Pilates Teacher.
“Other Data: The certification mark, as used by persons authorized by the certifier, certifies that the user has successfully met the certifier’s standards of skill and knowledge to achieve the status of a Certified Pilates Teacher.”
Idaho Potato Comm’n v. M & M Produce

“Certification mark licensing programs are a form of limited compulsory licensing, and ... the owner of a certification mark cannot refuse to license the mark to anyone on any ground other than the standards it has set....”

(joined by then 2nd Circuit Judge Sandra Sotomayor)
Hypothetical—part 2

Rowdy MMA

• Available to Ronda Rousey Certified Trainers
• Charges an additional annual fee
• May use Rousey’s name and likeness
• May use the “Rowdy MMA” trademark
• Listed on the Rowdy MMA website
• New optional training routines provided monthly
• Periodic visits by regional supervisors
• No protected territory
FTC Advisory Opinion 04-4

• Network of automobile glass replacement companies
• Minimal quality standards (such as: repair if possible, use new glass for replacements, carry insurance, use specified adhesives, maintain records, offer warranty, comply with laws)
• Assistance in making deals with insurance companies
• The FTC ruled: FRANCHISE
  • quality standards coupled with assistance were sufficient to establish a franchise relationship.
• Note: not all network controls and activities give rise to a franchise:
  • promotional activities to help make sales
  • controls designed solely to protect the trademark owner’s legal rights to the mark, and
  • health or safety restrictions required by law
Hypothetical—part 3
Armbar Nation App

- Ronda Rousey Certified Trainers sign up as providers
- No fees charged to providers
- No protected territory
- Clients sign up for private in-home instruction or to take classes at Rowdy MMA studios
- Studios and trainers are paid through the app; no cash changes hands
- Studios and trainers must maintain a rating of “4 Gloves” or better to remain as providers
**Kim v. Servosnax**

- Servosnax made arrangements with office buildings for operation of [unbranded] cafeterias
- Kim entered subcontract with Servosnax to operate one of these cafeterias, paid fee to Servosnax, and operated according to Servosnax guidelines
Kim v. Servosnax

Held, even though Kim was not allowed to use any of Servosnax’s Marks in connection with operation of the cafeteria, Servosnax never would have been able to sign the underlying contract if not for the reputation and goodwill inherent in its Mark—satisfying the “substantial association” test
Adees Corp. v. Avis Rent-A-Car

- Adees operated Avis facility at Long Beach Airport; Avis supplied cars
- Adees collected money from renters, and deposited in Avis account
- Avis then paid 10% of time and mileage charges to Adees, as well as 65% of refueling charges, but deducted 20¢/day for unrented cars

_Held_, Adees did not pay a “fee” to Avis, so no franchise

(Note: several similar cases in materials)

- Ward’s Equipment was dealer in farm equipment
- Paid manufacturer for training videos, cooperative advertising, tools, parts, and other goods and services
- Two-page Dealer Agreement disclaimed payment of any fees

*Held,* in light of disclaimer, trial court not obligated to accept claim of Ward’s Equipment that it had paid a fee
Mitigation Strategies
STRUCTURING

• Can you eliminate one leg?
  • TM vs. certification mark
  • “Substantial assistance,” “marketing plan,” “community of interest”
  • Fee

• Risks to weigh:
  • Sacrifice to business goals
  • Harm to competitive position
  • Ability to ensure uniformity
  • Ability to generate revenue
The Final Decision

• Look at contract terms (oral or written)
• Course of dealing
• If any statutory element is missing from the relationship, statute does not apply
• Irrelevant what the parties call their relationship
• Contract disclaimers and waivers are void
• Provider must be independent contractor, not employee