CHAPTER 1

The Nature of a Trademark

It is September 21, 2012, and thousands of people are lined up outside Apple stores in San Francisco, New York, Hong Kong, Singapore, and many other places, waiting to purchase an "iPhone 5" smartphone. Three days later 5 million had been sold worldwide.

The iPhone 5 had been announced just two weeks prior to when the lines were forming. Philip Schiller, Apple's senior vice president commented, "iPhone 5 is the most beautiful consumer device that we've ever created."[1]

The iPhone 5 was the latest in a series of upgrades to the original iPhone, a revolutionary smartphone product that was introduced in 2007. Seventy-four days after its introduction, the late Steve Jobs, and Apple's former CEO, commented, "1 million iPhones in 74 days—it took almost 2 years to achieve this milestone with the iPod®.

"Three days," "two years," "74 days"—what has driven this phenomenal success story?

Yes, the mobile telephone market has expanded dramatically in the past 10 years to the point where there are over 6 billion subscribers worldwide. Apple, however, does not have a dominant market share in the mobile phone marketplace by any means. And the iPhone is one of the more expensive units on the market. In spite of this, we observed the intense market interest in the iPhone 5, which is essentially an upgrade of an existing product.

So what drove buyers to queue up outside stores in September? Was it the iPhone 5's new display, its new high-performance chip, extended battery life, or faster wireless technology? Or was it the redesign of the unit with a new, thinner, lighter, aluminum body? Or was it the jewelry-like fit and finish? Possibly it was because Apple stores are conveniently located or because store personnel are helpful and knowledgeable. Or was it the confident expectation of high quality performance that prospective buyers felt, based on the past performance of the products and services delivered by Apple under its family of i-prefaced trademarks and service marks?

Or was it all of the above?

We suggest to you that the answer to this question is "yes." Those folks were standing in line because they were influenced in varying degrees by all the factors that we just noted and likely other influences that we did not list.

This is a book about trademark valuation. Certainly the sale of 5 million iPhone 5 smartphones in three days (together with the sales of millions more previously) had a

[1] This quote as well as Steve Jobs's and iPhone sales data is from various press releases provided by Apple Corporation, http://www.apple.com.

significant positive economic impact on Apple Corporation. If our task was to opine on the value of the iPhone trademark, one of our tasks would be to estimate the portion of that economic impact that could be ascribed to the trademark. Clearly, iPhone 5 sales are also driven by the product's design features and the many elements of its built-in technology that deliver the performance smartphone buyers are seeking.

This is not a simple task. But there are tools and methods of analysis available to us and that is what this book is about. Our first step is to examine what a trademark is, not just in the legal sense, but also in the economic/business context.

Trademarks are images with many levels of meaning. They can be nostalgic reminders of times and products past, examples of outstanding graphic design, or the symbols of powerful institutions that influence our lives. As pleasant as it might be to contemplate their nostalgic or artistic aspects, however, we must focus on the role of trademarks in commerce. Trademarks are business assets and must be viewed primarily in the context of a commercial enterprise. Their task is to contribute to the profitability of the parent enterprise. Commerce is driven by *return on investment* (ROI) principles, and trademarks are not exempted from that requirement. Even trademarks that are associated with nonprofit, governmental, or institutional organizations are used for a purpose and promoted with an objective in mind. They must be judged by how well they meet those objectives.

TRADEMARK DEFINED

A trademark generally identifies the source of a product or service and distinguishes that product or service from those coming from other sources.[2] As defined in the U.S. Trademark Act of 1946 (the Lanham Act), a trademark is "any word, name, symbol or device or any combination thereof [used by someone to] identify and distinguish his goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods[.]"[3] A trademark also serves as an assurance of quality—the consumer comes to associate a level of quality with the goods or services bearing a given trademark. Trademarks have also been described as the embodiment of goodwill.

In the United States, the federal law and the courts have addressed these aspects of trademarks in various ways:

> *Trademarks help consumers to select goods. By identifying the source of the goods, they convey valuable information to consumers at lower costs. Easily identified trademarks reduce the costs consumers incur in searching for what they desire, and the lower costs of search the more competitive the market. [...]*[4]

[2] A few specialized trademarks—collective marks and certification marks—are used in conjunction with goods and services but the former indicate commercial origin in a member of a group or the latter certify that certain standards or a level of quality have been met. Trade names refer to a business or enterprise as a whole and do not single out a specific product or service of that entity.

[3] 15 U.S.C. § 1127.

[4] *Scandia Down Corp. v. Euroquilt, Inc.*, 772 F2d 1423, 1429 (7th Cir. 1985), cert. denied, 475 U.S. 1147 (1986).

A trademark also may induce the supplier of goods to make higher quality products and to adhere to a consistent level of quality. The trademark is a valuable asset, part of the "goodwill" of the business. If the seller provides an inconsistent level of quality, or reduces quality below what consumers expect from earlier experience, that reduces the value of the trademark. The value of a trademark is in a sense a "hostage" of consumers; if the seller disappoints the consumers, they respond by devaluing the trademark.

—Scandia Down Corp. v. Euroquilt, Inc.[5]

The protection of trade-marks is the law's recognition of the psychological function of symbols. If it is true that we live by symbols, it is no less true that we purchase goods by them. A trade-mark is a merchandising short-cut which induces a purchaser to select what he wants, of what he has been led to believe he wants. The owner of a mark exploits this human propensity by making every effort to impregnate the atmosphere of the market with the drawing power of a congenial symbol . . . to convey, through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears. Once this is attained, the trade-mark owner has something of value.

—Mishawaka Mfg. Co. v. Kresge Co.[6]

The European Court of Justice offered the following summary:

In addition to its function of indicating origin and, as the case may be, its advertising function, a trade mark may also be used by its proprietor to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty.

Although that function of a trade mark—called the investment function *may overlap with the advertising function, it is none the less distinct from the latter. Indeed, when the trade mark is used to acquire or preserve a reputation, not only advertising is employed, but also various commercial techniques.*

When the use by a third party, such as a competitor of the trade mark proprietor, of a sign identical with the trade mark in relation to goods or services identical with those for which the mark is registered substantially interferes with the proprietor's use of its trade mark to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty, the third party's use must be regarded as adversely affecting the trade mark's investment function.[7]

Trademark Types

The word *trademark* is used in an umbrella sense to refer to the array of specific types of marks in the upcoming discussion. "Trademark" also may be used in a discrete sense to indicate marks that are physically affixed or attached to goods, in contrast, for example, to service marks that are used in advertising to promote specific

[5] Ibid.

[6] *Mishawaka Mfg. Co. v. Kresge Co.*, 316 U.S. 203,205 (1942).

[7] *Interflora, Inc. and Interflora British Unit v. Marks & Spencer plc and Flowers Direct Online Ltd.*, C-323/09, ECJ 2011 (Sept. 22, 2011).

services. Trademark holders give notice of their ownership of marks by denoting federally registered marks with the symbol ® or, if unregistered, by the symbols ™ or ℠ to indicate trademark or service mark use, respectively.

While they may or may not be protected as trademarks, some "spokespersons" or "spokescharacters" can take on a form of secondary meaning with respect to a product or service. Even Charlie Brown's dog "Snoopy," with a strong identity of his own, has become associated with MetLife's financial services.[8] In fact, some trademark holders prefer to create their own spokescharacters to enhance the brand and, in the process, these creations take on trademark significance of their own. Mars, Inc., has used this marketing strategy to maximum effect in the creation of "spokescandies" (referred to by the company as "M&M's Characters")[9] made to look like animated M&M's chocolate candies but exhibiting personality characteristics unique to the color of their candy shell and filling, such as the seductive Ms. Green (dark chocolate), the know-it-all Red (milk chocolate), the gullible but likeable Yellow (peanut), the confident and hip Blue (almond), the slightly paranoid Orange (crispy), and so on.

Trademark Many common trademarks are a form of the name of the entity that holds the mark, oftentimes shown in distinctive type style, or in conjunction with a logo. Examples include:

Source:[10]

Source:[11]

[12].

[13].

Source:[14]

[8] Charlie Brown and Snoopy are characters in the famous comic strip *Peanuts* by Charles M. Schulz.
[9] See http://www.mmsworld.com/charactercategorygroupdisplay.aspx?id=1326.
[10] USPTO Registration No. 238,146 (Owned by The Coca-Cola Co.).
[11] USPTO Registration No. 3,002,164 (Owned by International Business Machines Corp.).
[12] USPTO Registration No. 912,210 (Owned by Goodyear Tire & Rubber Co.).
[13] USPTO Registration No. 878,049 (Owned by General Electric Co. Corp.).
[14] USPTO Registration No. 3,858,395 (Owned by AT&T Intellectual Property II, L.P.).

Trademarks most familiar to consumers are those associated with the merchandise they purchase for private consumption, such as "L'eggs" hosiery, "Birds Eye" frozen foods, and "Tide" detergent.

Service Mark For all practical purposes, service marks function the same way that trademarks do except that they identify services rather than products. Examples would be "MetLife" and "American Express", financial service providers, and "United", which provides commercial aviation services.

Trade Name A trade name is the name of a business, association, or other organization, used to identify it. There is no symbolic identifier associated with trade names and trade names may not be federally registered. Ownership would be governed by common or state law. A trade name is typically not an asset of material value, unless it also functions as a trademark because the buying public recognizes goods and services by their trademark and, in many cases, may be unaware of the actual name of the producing company. As an example, many are unaware that such famous brand names as "Grey Poupon" mustard, "A.1." steak sauce, "Baker's" chocolate, and "Planters" peanuts are products of Kraft Foods. The Coca-Cola Company markets beverages and juices that are branded "Sprite," "Fanta," "Lift," and "Nestea" (under a sublicense agreement with the mark's owner, Nestlé S.A.). Yet other companies, such as Samsung Electronics, choose to include their trade name on nearly every product they have.

Trade names are often incorrectly identified as a trademark or service mark. It is not uncommon for the United States Patent and Trademark Office (USPTO) to reject applications for registration of such marks when the specimen showing actual use of the mark includes the terms, "Corp." or "Inc." For example, letterhead on which the only use of the phrase "Weight Watchers" is at the bottom, followed immediately by the words "International, Inc." and, possibly, a corporate address would be considered evidence of trade name use but not evidence of service mark use, such as "Weight Watchers" weight loss planning, or trademark use, such as "Weight Watchers" frozen meals.

Certification Mark Certification marks identify products that have specific characteristics, such as those marked with the "Cotton" mark of the National Cotton Council or the "Woolmark" registered by The Wool Bureau. Some certification marks signify that specific goods or services comply with certain known standards, such as the Underwriter's Laboratories' "UL" stamp. Standard & Poor's Corporation has registered some of its ratings used to denote the quality of certain types of securities, and the Motion Picture Association of America has registered the phrase, "Restricted under 17 Requires Accompanying Parent or Guardian."

Certification marks are used on goods or services that are not provided by the owner of the mark. The owner of the mark must exert some control over the use of the mark by third parties, however, so that the public is not deceived by its certifying function.

Collective Mark Collective marks are owned by an organization, association, or collective entity but generally are used to indicate that the product or service bearing the designation was manufactured or is being provided by someone who is a member of that specific group. Professional organizations or trade associations permit their members to use the organization's mark in provision of specific goods or services: illustrations include the Society of Certified Public Accountants "CPA", the Institute of Electrical and Electronics Engineers "IEEE", the American Society of Appraisers "ASA", Screen Actors Guild-American Federation of Television and Radio Artists "SAG-AFTRA", and the Financial Analysts Society "CFA". Again, the presumption is that the group supervises the use of its mark to prevent unqualified or nonmember individuals from using it. To the extent that the collective entity itself offers services or goods, it may do so under the same mark.

One variant of collective marks—collective membership marks—is the only type of trademark not designed for use in conjunction with the sale or marketing of goods or services or the running of a business as a whole. Members of the collective use the mark solely to denote membership in the group. As a result, ownership of collective membership marks is not confined to professional organizations and trade associations but also extends to social clubs and beneficial fraternal societies. Examples include the Royal Order of Jesters and the numerous Greek fraternities and sororities inhabiting college campuses nationwide. Once again, the collective must monitor use of the mark by its members.

Trade Dress Trade dress has been defined as "the total image of a product and may include features such as size, shape, color or color combinations, texture [...] or graphics."[15]

W. Mack Webner offers the following comprehensive description:

> *[W]hat catches the consumer's eye, and he or she may come to identify a 'product' with the focal point of its 'package' [...] The elements of a consumer product package: the trademark, the color scheme, the use of opaque or clear containers, geometric design features, the arrangement of the elements—and, in retail establishments, the arrangement of service areas and other public spaces—can all come together to provide a distinctive image, the trade dress, that the public recognizes.*[16]

Some aspects of product appearance that are recognized as protectable trade dress in the United States, such as a distinctive product configuration or distinctive product color, are not protected under trademark law in other countries of the world. In particular, there is no international consensus that three-dimensional marks, such as a product's shape, constitute legitimate trademarks. For example, many countries enact industrial design laws to protect product shape or they limit protection for that aspect of a product's appearance to design patents or copyright law. Additionally, like other nontraditional trademarks, a single color alone may be subject to objections that it lacks distinctiveness or does not meet the requirement found in some countries that a trademark must be capable of graphical representation.[17] As a result, product appearance may be handled differently from country to country.

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[15] *John H. Harland Co. v. Clarke Checks, Inc.,* 711 F.2d 966, 980 (11th Cir. 1983).

[16] W. Mack Webner, "Protecting Trade Dress or, Not All Packaging Is Political," *Remarks: Trademark News for Business* (International Trademark Association) 5, no. 3 (1992): 2.

[17] Other matters that appeal to human perception and may be considered to be nontraditional trademarks are sound, scent, motion, taste, and texture.

Virtual Marks Virtual marks, whether used to test virtual products or services before their introduction in the physical world or to designate virtual products and services that are exchanged for real-world currency, represent value in the real world although they do not constitute traditional trademarks. Because such marks are not affixed to physical goods or used to advertise services available in the physical world, their use may not constitute the type of use necessary to attain legal trademark significance.

Sometimes dubbed "reverse product placement," the practice of launching new brands in a virtual world to gauge their popularity before introducing them in the real world is gaining acceptance among a wide variety of consumer product and service companies. David Edery, video game insider and former MIT academic, explains the reasoning behind the phenomenon: "Why spend tens or hundreds of millions of dollars fighting mature competitors for mindshare and shelf space in the physical world when you can launch a new offering in an uncluttered fictional one?"[18] One commonly cited example is Starwood Hotels' introduction of the "Aloft" hotel brand in *Second Life*, an online virtual world operated by Linden Labs (http://secondlife.com/). Starwood, owner of such renowned brands as "Westin" and "Sheraton," utilized the virtual world launch as a kind of test marketing by allowing visitors in *Second Life* to tour its planned space and offer feedback before Aloft Hotels were opened to the public in the real world.[19] In like fashion, Calvin Klein, a leading designer and marketer of fashion apparel, accessories, and fragrances, premiered a new perfume brand in *Second Life* by giving away virtual fragrance bubbles followed by offers of actual samples of the fragrance.[20]

Sometimes the popularity of the virtual brand suggests creation of a real world product or service. Consider the iconic Harry Potter series of books and movies and its references to "Bertie Botts' Every Flavor Beans," a brand of virtual candy converted into a real world confection by Cap Candy, a division of Hasbro.[21] Similarly, Square Enix, publisher of the *Final Fantasy* video game recognized the commercial possibilities of the game's virtual healing item "Potion" and partnered with beverage manufacturer Suntory to market the "Potion" energy drink in Japan.[22]

Other virtual marks, while not translated to real world products or services, become the subject of commercial transactions in the virtual or real world. Eros LLC, a virtual supplier of erotic products in *Second Life*, is thought to have earned in excess of $1 million in real world currency over a five-year span by selling its products, in which it has asserted trade dress rights, for Linden dollars.[23] Linden dollars can be earned through play in *Second Life* or may be purchased with real world currency.

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[18] David Edery, "Reverse Product Placement in Virtual Worlds," *Harvard Business Review* 84, no. 12 (December 2006).
[19] Reena Jana, "Starwood Hotels Explore *Second Life* First," *Bloomberg Businessweek*, August 22, 2006.
[20] Douglas Macmillan, "Big Spenders of *Second Life*," *Bloomberg Businessweek*, April 16, 2007; and Clement James, "Calvin Klein Launches *Second Life* Virtual Perfume," *ITNEWS*, March 22, 2007.
[21] Edery.
[22] Ibid.
[23] Barry Werbin, "Trademarks in Virtual Worlds," *INTA Bulletin*, December 1, 2009.

Brand-Based gTLDs The widespread incorporation of trademarks into domain names has facilitated transformation of the Internet into a global marketplace. The importance of leveraging a brand through its use in a domain name has been noted by the Internet Marketing Association:

> *The brand is usually part of a company's web site address. It is often entered into search engines to find a company, its products and services. . . . [T]he brand is vital to how a company's consumer traffic is generated on the Internet[.]*[24]

Recent developments suggest that brand incorporation in domain names will assume even greater importance for commercial interests wishing to grow their Web-based presences.

On June 11, 2011, the governing board of ICANN (Internet Corporation for Assigned Names and Numbers) voted that almost any word in almost any language can become a *generic top level domain* (gTLD). This vote paves the way for businesses to apply to become a domain name registrar for what has been termed a "brand" or "vanity" gTLD. According to branding consultancy, Interbrand, "What this means is that companies or associations can now secure a URL address that embeds the brand name even more deeply into its composition."[25] Among the first companies to announce the intention to seek a brand gTLD was Japanese-based Canon. The option of using ".canon" instead of—or more likely in addition to—"canon.com" affords the company enhanced flexibility as it formulates its Internet marketing strategy.

Just how companies will leverage their trademarks by controlling brand space remains to be seen but internet marketers have begun to speculate as to the potential benefits of brand-based gTLDs. Some suggested benefits include:

- Fostering a greater sense of security for clients and customers by reassuring them of the authenticity of the website[26]
- Creating an online community of interests that allows targeted marketing[27]
- Enabling online auction sites to assign a personalized URL to each seller under the auction site's umbrella[28]
- Allowing merging or reorganizing companies to project a single, cohesive brand[29]

The value of brand-based gTLDs, while difficult to estimate at present, promises to be substantial.

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[24] Internet Marketing Association, "Protecting Your Valuable Brand: The Importance of Trademarks," *IMA*, February 22, 2013, http://www.imanetwork.org/protecting-your-valuable-brand-the-importance-of-trademarks/.
[25] Paola Norambuena, Jeff Mancini, and Jerome McDonnell, "What's in a Domain? Generic Top-Level Domains and the New Dotbrand Frontier," *Interbrand,* http://www.interbrand.com/en/Interbrand-offices/Interbrand-New-York/dotbrand-whitepaper.aspx.
[26] Alexa Raad, "Why ICANN's New Domain-Name System Could Benefit Brands," *Advertising Age*, August 16, 2011.
[27] Ibid.
[28] Norambuena, Mancini, and McDonnell.
[29] Ibid.

Trademark Significance

Not every word, symbol, or other indicator is acceptable as a trademark. As the several definitions of trademark illustrate, in its most basic sense, a trademark must perform a distinguishing function. Words that describe a quality or characteristic of the good or service with which it is used, and geographic names or surnames that do not signify a distinctive commercial source, generally cannot be registered in any jurisdiction, and the same is true of commonly used words for an object or good, such as "knife," "cotton," or "cup," otherwise known as generic terms. Marks that would be misleading (vis-à-vis the intended goods or services), or those in poor taste are not registrable. Word marks are categorized by U.S. courts as follows:

- *Fanciful or coined marks*. These are words that are invented and have no built-in meaning, such as "Kodak," "Exxon," "Lexus," and "Cheerios."
- *Arbitrary marks*. These are existing words with no relation to the goods or services with which they are associated, such as "Apple" (computers) or "Shell" (petroleum products).
- *Suggestive marks*. These are words that suggest some attribute of or benefit from the goods or services, but do not describe the goods themselves, such as "Coppertone" (tanning lotion), "Caterpillar" (tractors), or "Whirlpool" (clothes washers).

The foregoing categories are considered to be "technical trademarks" capable of protection from the date of their first use in commerce.

Descriptive Marks These describe some aspect of the goods or services or a characteristic of them. They cannot be protected until they have achieved distinctiveness through use and advertising in commerce, which is called *acquiring secondary meaning*. Examples are "Car-Freshener" for an auto deodorizer, "Rich 'n' Chips" for chocolate-chip cookies, or the descriptor "Gold Medal" for flour or "Blue Ribbon" for beer.

Generic Terms These words represent the name of a product or service category or subcategory and, so, constitute "the name of the thing" and cannot be rendered proprietary for public policy reasons. The National Biscuit Company (Nabisco) learned this lesson almost a century ago in its unsuccessful attempt to claim the words "shredded wheat" as the trademark for its cereal made from strands of whole wheat. Declaring the term to be generic, the U.S. Supreme Court reasoned that competitors would be harmed unfairly if they were unable to advise the consuming public of the name of the thing they wished to sell.[30]

Terms may be generic from the outset, as "shredded wheat" or they may begin their existence as legitimate trademarks but become generic through improper use. The following list details actions on the part of the trademark holder or the public at large that can threaten the trademark significance of a term:

- Use of the trademark as a noun (e.g., "hand me my Nikon")
- Use of the trademark as a verb (e.g., "please Xerox that letter")

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[30] *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111, 116 (1938).

- Use of the trademark without its descriptor (e.g., "this recipe calls for Tabasco")
- Pluralizing a trademark ("move all the Buicks to the showroom")
- Using the trademark as a noun-descriptor (e.g., "it's the Rolls-Royce of electric drills")
- Using a trademark in the possessive (e.g., "the IBM's tape drive is turned off")
- Failing to capitalize, put in quotation marks, or otherwise set apart a trademark in writing

Improper usage will, in time, lead to an inevitable slide toward genericism. Savvy trademark holders are aware of this and police the usage of their marks and conduct campaigns to promote proper use. Xerox Corporation, which has a particularly difficult battle, has placed very imaginative advertising campaigns in the media, encouraging proper use of their marks—"Xerox has two Rs" (one in the word and one in a circle denoting registration). They remind us that a trademark is an adjective and never a verb or a noun. Trademark owners continually monitor the media and remind transgressors of their misuse. This is an exceedingly difficult task because, on the one hand trademark owners *want* their marks to be on everyone's lips yet, on the other, they need to encourage proper usage.

U.S. courts acknowledge that the categories discussed in the preceding are useful in determining the distinctiveness of word marks and logos but are not helpful in making that same determination with regard to trade dress. Courts divide trade dress into the following categories: (1) packaging, generally the label, wrapping, or container for the product; (2) product design, generally the shape or configuration of the product itself; and (3) whatever is not included in the foregoing two categories. Distinctiveness of packaging is generally assessed by how unusual it is in the field in which it is used—consider the distinctive container for baby pants made to look like an ice cream cone, marketed by Playtex International Corp. Product design is treated like descriptive word marks and requires the acquisition of secondary meaning in order to be protected—for example, consumers eventually came to associate the pinched glass decanter with "Pinch" whiskey. A single color alone—think of the color brown used in advertising "UPS" package delivery services—also requires acquisition of secondary meaning. Courts approach other types of "dress" not included in the preceding categories, such as the look and feel of a retail establishment or restaurant, on a case-by-case basis with a presumption toward requiring secondary meaning in the face of uncertainty.

In addition to being distinctive, trade dress must be non-functional to merit protection. The functionality concept in trade dress law represents an area of the law that many find confusing because it is not a reference to utilitarian functionality. In an effort to clear up the confusion, early decisions in this area drew a distinction between de facto or utilitarian functionality, which does not necessarily block trade dress protection, and de jure functionality, which does block trade dress protection for public policy reasons. Consider the iconic shape of the "Coca-Cola" beverage bottle—it performs the utilitarian function of holding liquid and allowing it to be poured for consumption. That function, however, is not dependent upon the bottle's curved and ribbed sides; numerous bottle shapes exist capable of performing the same functions. If, however, the bottle's shape represented the most effective way to contain or pour the liquid, or it facilitated the least expensive manufacturing process, the shape would be considered de jure functional and, therefore, unprotectable. To confer trade dress protection on such an essential design feature would prohibit fair competition. Later court cases omit any reference to "de jure" and simply use the word "functional."

When a purely aesthetic design feature is in issue, courts will attempt to determine whether protecting that feature through trade dress law would impose a significant non-reputation-related disadvantage on competitors. The color black has been held to be functional for outboard motors because it provided an aesthetic advantage to boat owners who wanted a color that was compatible with different boat colors and one that would render a relatively unattractive piece of equipment less conspicuous.[31]

Trademarks and Brands

"You like to-may-toes and I like to-mah-toes."[32] Here, however, we say, "You call it a trademark and I call it a brand."

If asked the meaning of the word "Budweiser," someone in the marketing world would immediately identify it as a famous brand of beer. Someone in the legal or accounting or valuation professions might well identify it as a trademark of the Anheuser-Busch InBev Company. So we need to define how we are going to use those terms in this book.

A trademark, in any one of its various forms, is a bundle of property rights that are defined by law and protected within a legal system. There will be more about that in this chapter, but we keep it simple for this purpose.

It is more difficult to define what is referred to as a *brand*. There does not seem to be any universal agreement as to what a brand is or is not. For our purposes here, we will define a brand as an aggregation of attributes that buyers have come to associate with a particular product or service or organization. The brand terminology is used by those in the marketing field, perhaps because brand attributes attempt to describe the characteristics of the intersection of a product or service with the marketplace.

There is another concept that we believe also contributes to this confusion. It is common in the marketing disciplines, to speak of "brand equity." The equity word, to those in the legal, accounting, and valuation disciplines, as well as individuals on the financial side of the business world, is a monetary term rather than a subjective description. The term "brand equity" as it is commonly used seems to us to primarily refer to the strength of the brand. That is, a strong brand (i.e., well known and with enduring customer loyalty), has high brand equity. We will be revisiting this concept in the next chapter when we discuss the financial aspects of brand valuation.

One of the reasons why there may be little agreement about the definition of a brand is that there are different perceptions of a brand depending upon whether you are its owner or whether you are a buyer of it.

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[31] *Brunswick Corp. v. British Seagull Ltd.*, 35 F.3d 1527, 1531 (Fed. Cir. 1994).

[32] This is a famous line from the song "Let's Call the Whole Thing Off" by George and Ira Gershwin, which is featured in the film *Shall We Dance* (1937), starring Fred Astair and Ginger Rogers. The song lyrics highlighted different pronunciations of "tomato" and the like.

GOING GLOBAL

The Chinese computer firm Lenovo Group Limited was founded in the 1980s by some engineers at the Chinese Academy of Sciences. Years were spent developing the business in China and in 2005 the firm purchased the personal computer business of IBM Corporation and the "ThinkPad" laptop trademark that IBM had built. With the acquisition of this well-established brand, Lenovo's leap from a national brand to an international one was facilitated. The cost? $1.75 billion, including debt assumed. Today Lenovo directs its operations in 60 countries from a headquarters in North Carolina.

Lenovo accomplished the leap from being a national brand to a global brand using ThinkPad as its vaulting pole. Many other enterprises are starting from humbler beginnings and are trying to negotiate the chasm from contract manufacturing to being branded, innovative enterprises. And branding is an important key.

This progression is especially evident in the developing world. In that milieu, a nation or geographic area is often in the position of being able to offer abundant labor and perhaps natural resources in order to gain access to more speedy economic development. Many enterprises in that situation become contract manufacturers for multinational enterprises headquartered elsewhere. We have observed a natural progression that, as a contract manufacturer becomes more skilled, it begins to develop improvements in manufacturing technology and even the design of the product being manufactured for others. Typically, a contract manufacturer is operating under license from its client, who is the primary beneficiary of these advances. At some point, a contract manufacturer or some of its managers or key personnel may decide to break away and use their newfound knowledge to build a branded, innovative enterprise. The next step, of course, is to transcend the national boundaries of the business's origin and go global. This is happening often today and we believe that this business evolution will continue strongly as the world economy improves.

Owner's Perspective To its owner, a brand that is pervasive in the marketplace is valuable because it enhances profitability. The proof of this is everywhere. Brands now fly across national boundaries with ease. But one does not attempt such a flight in a single-engine light plane. It takes a jetliner, with all of the costs that go with the trip.

Buyer's Perspective The buyer of a brand may see and appreciate a different set of attributes such as function, style, color, or current popularity as being the most important.

While it is possible to list all sorts of brand attributes, not all brand attributes are present or associated with every product or service. As an example, a strong brand is dependable—it can be counted upon to deliver what it is supposed to deliver. But things change. Since its beginnings, we have come to expect that any ballpoint pen will write dependably without skipping. So the attribute of dependability is no longer a consideration for a buyer choosing between brands of ballpoint pens. Nor does a high degree of dependability enable the maker of ballpoint pens to charge a higher price. It is a brand attribute that has become irrelevant. Today, a comfortable gripping surface, or simply price, may be more of a defining attribute. So, defining attributes are continually changing as product development takes place and as consumer tastes evolve. The brand landscape is continually changing and the view is different depending on your vantage point. This makes it more difficult to firmly establish the parameters of brand.

In his discussion of the role of brands, David Aaker relates:

> *A brand is a distinguishing name and/or symbol (such as a logo, trademark, or package design) intended to identify the goods or services of either one seller or a group of sellers, and to differentiate those goods or services from those of competitors. A brand thus signals to the customer the source of the product, and protects both the customer and the producer from competitors who would attempt to provide products that appear to be identical.*[33]

This description bears much similarity to the legal definitions of a trademark, and illustrates how the concepts of trademark and brand are intertwined. An example of how brands are built might help clarify the distinction.

Let us assume for a moment that we have developed some technology that would enable us to produce a lawnmower that would be quieter and easier to start than lawnmowers presently in the marketplace. We believe in our ideas and so we decide to form a business to manufacture our lawnmowers. As we form the enterprise, we design a trademark and logo, research other existing marks, and successfully register our new mark and logo.

At this point, our brand is comprised of a registered trademark and logo that are known only to us and some folks at the USPTO. We begin to manufacture lawnmowers that are placed in home improvement and garden centers for sale. We decide to paint all of our models of lawnmower yellow. Our business is launched.

After a year or so, our quieter- and easier-to-start lawnmower is being enthusiastically purchased by homeowners. Happily, these buyers recognize the unique features of our mowers and our market research additionally informs us that our customers appreciate the dependability and long life of our machines. Our customers are also are starting to identify the distinctive yellow color with our machines.

At this point we have begun to build a brand in the fuller sense. We have begun to build the aggregation of attributes that are at the intersection between our marketing efforts and the perception of our customers. If the attributes that are perceived by our customers are positive in nature, then our brand will continue to be enhanced. It may well be that we could extend the use of our brand to other types of lawn care equipment and further grow our business.

Some liken a brand to a "promise." That is, if a customer purchases a lawnmower bearing our trademark, we promise to deliver the brand attributes that the marketplace has come to expect and value. If we deliver, the brand will grow in value.

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[33] David A. Aaker, *Managing Brand Equity: Capitalizing on the Value of a Brand Name* (New York: Free Press, 1991), 7.

At this point the bundle of legal rights associated with our trademarks is unchanged. However, the economic impact on our business of those rights is greatly enhanced. The potential economic benefit available from exploiting our trademarks enhances its value. And the source of that value is the positive brand attributes that we have built.

Stated another way, our trademarks insure that the economic benefit of the brand attributes that we have carefully built stays in our possession. The legal protection of our marks has been firmly linked to the economic benefit of our brand attributes. And that leads us to conclude that trademarks are inextricably combined with the aggregation of brand attributes. As a practical matter, it becomes impossible to separate the trademarks' intellectual property rights from the attributes of the brand. They become, for business and economic purposes, a single business asset. Their future is linked together. If, as an example, we neglected to pay the proper renewal fees to maintain our trademark registrations and thereby lost the rights conferred by registration, our lawnmower business would certainly suffer seriously. We might have to dispose of the business in a distressed sale, or incur the cost of rebranding our mowers and hope to survive the market disruption and consumer confusion. Alternatively, if one of the brand attributes of our lawnmowers turned out to be false or undependable, the economic usefulness of our intellectual property trademark rights would erode.

This concept of a symbiotic relationship of legal rights and economic benefit is not unlike the case of a patent in which the intellectual property rights granted by the patent include, as a practical matter, the right to receive the economic benefits of exploiting the patent. So the value of the patent is dependent on the economic benefit of its exploitation. And so it is with trademarks. The positive or negative essence of the brand attributes resulting from the successful exploitation of a trademarked product or service is the foundation of the mark's value.

AN UNHAPPY TRADEMARK STORY

We are reminded of the example of the "Edsel" automobile that was introduced to the marketplace by the Ford Motor Company in 1958. After years of market research and development of this new automobile line by Ford Motor Company and the expenditure of millions of dollars, the Edsel auto turned out to be a flop. Its end was announced late in 1959 after a total of 84,000 sales have been made. Reportedly Ford lost $350 million (in 1950s dollars) on this venture. Many have opined about the reasons for the model's demise, but it is not important to us to struggle with that. The point here for us is that Ford's intellectual property rights in the Edsel trademark lost whatever value they may have had because the brand attributes were negative. In fact, Edsel became a word of informal usage in America to denote "failure" (e.g., "That idea is a real Edsel."). Obviously, Ford Motor Company could never again use that trademark because it had been so spectacularly damaged.

SEPARATING THE WHEAT FROM THE WHEAT

Early in 2013, Hostess Brands, Inc., a major U.S. baking company, began winding down its operations with the intention of liquidating all of its assets. This large company owned quite a number of well-known brands. The company carefully considered how best to liquidate its assets in order to meet its liabilities. While not likely, it was conceivable that some of the company's large portfolio of trademarks could end up being separated from the recipes, bakeries, distribution centers, and delivery routes that supported these well-known brands. In essence, that would be separating the trademarks from the brand attributes. If that were to happen, the buyers of these separate assets would likely discover that the sum of the parts did not equal the former whole. By mid-year, the first tranche of assets was sold to a newly formed entity, Hostess Brands, LLC. Included were production facilities and the snack cake brands including "Twinkies". By July, 2013 these brands began to appear on store shelves. So far so good, it would seem. We discuss this case in more detail in Chapter 10.

Conclusion In our discussions of trademark valuation, we will assume that a trademark carries with it the other elements ascribed to a brand, that is, the trademark carries with it a "full complement" of all the ingredients necessary to also be recognized as a brand. We will therefore use these terms interchangeably. We will assume that when we refer to a trademark in *economic terms*, we include with the legal rights the drivers of economic benefit.

The reader should not assume, however, that this is always the case. Brand and trademark are, under unusual circumstances, separable. In any trademark valuation, (or a valuation of any other type of property) the task begins with a careful definition of the property rights to be valued.

The distinction between a brand and a trademark is especially important when one considers the economic life of each. Economic life will be discussed in detail in Chapter 5, but the reader can visualize how the economic life of a brand (comprised as it is of many elements) could be quite different from that of a trademark. Within the brand, there may be a constant turnover of its constituent parts, as advertising programs and marketing strategies come and go in order to respond to the *Sturm und Drang* of business and competition, like an actor may appear on the stage now as a cowboy and then as a butler. The economic life of a trademark can even be independent of a particular product if it is sufficiently strong, versatile, and if the transition is carefully managed.

Trademarks and Goodwill

A trademark, or brand, identifies a product or service as coming from a particular source (usually a commercial enterprise). Siegrun Kane describes trademarks as "symbols of goodwill. The value of this goodwill increases with length of use, advertising, and sales. Trademarks used for a long time on successful, highly advertised products have developed tremendous goodwill"[34].

In a 1942 decision, the Supreme Court described this trademark/goodwill relationship as follows:

> *The protection of trademarks is the law's recognition of the psychological function of symbols. If it is true that we live by symbols, it is no less true that we purchase goods by them. A trademark is a merchandising shortcut which induces a purchaser to select what he wants, or what he has been led to believe he wants. The owner of a mark exploits this human propensity by making every effort to impregnate the atmosphere of the market with the drawing power of a congenial symbol. Whatever the means employed, the aim is the same—to convey through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears. Once this is attained, the trademark owner has something of value. If another poaches upon the commercial magnetism of the symbol he has created, the owner can obtain legal redress.*[35]

This linkage of a trademark and "goodwill" is both understandable and the source of confusion. At one time, a business enterprise was thought to consist of only tangible assets and goodwill, but references to "blue sky" persist when valuing the fixtures and inventory of a retail business. Careful analysis reveals, however, several components encompassed within the goodwill "catchall" That analysis enables the valuation expert to understand the difference between computer software, an assembled workforce, or a favorable contract. It is much less clear that there is a difference between goodwill and a trademark, especially when goodwill is described as patronage, or the proclivity of customers to return to a business and recommend it to others, or as above—"commercial magnetism."

The courts have addressed this linkage in considering the assignment (transfer of ownership) of trademarks. Kane explains that, "A trademark does not exist in a vacuum. A trademark is attached to a business—it symbolizes the goodwill of the business. When the trademark is assigned without the goodwill of the business, the assignment is invalid. Some courts characterize the effect of such an invalid assignment (also known as an assignment in gross) as abandonment. It is not precisely clear exactly what must be transferred, along with a trademark assignment, to avoid this potentially disastrous result. In some cases, it has been judged sufficient that tangible assets necessary to carry on the assignor's business were transferred along with the trademark. The overriding principle seems to be that enough other assets are transferred so that the assignee is able to produce the product or service at a quality level indistinguishable from that of the assignor, so that the public is not deceived by the presence of the trademark on the goods or services of the new trademark owner.

No benefit arises from struggling with the unclear concept of goodwill or attempting to draw a bright line between goodwill and trademarks, if indeed that were possible. The remainder of this book will not use the term "goodwill" because

[34] Siegrun D. Kane, *Trademark Law: A Practitioner's Guide*, 2nd ed. (New York: Practising Law Institute, 1991), 10.
[35] *Mishawaka Mfg. Co. v. Kresge Co.*

skillful identification of all the elements of a business enterprise, including the constituent intangible assets, will account for the existence of goodwill.

THE LEGAL UNDERPINNINGS OF TRADEMARKS

A trademark possesses all the attributes of property, a fact apparent from the definitions recited earlier in this chapter. A trademark achieves this status from civil or common law, under which protection is obtained by registration or use in commerce.

The Lanham Act as amended is the primary federal law in the United States governing trademark rights and its protections exist alongside those afforded by state and common law. In order to be protected or registered at the federal level, a mark must be used in a manner that has an effect on interstate commerce, that is, commerce between the states or commerce between the United States and a foreign nation. Each of the various states extends protection or registration to marks that are used intrastate, that is, within the state, whether or not use of the mark or the effect of that use crosses state boundaries. Since the Internet has become a virtual marketplace in which commerce crosses geographic boundaries seamlessly, it is hard to imagine any trademark use that is not interstate in nature. As a consequence, state registration of trademarks offers very few advantages to trademark holders and registration in the USPTO reigns supreme over state registration for those trademark holders who opt to protect their mark in this manner.

Although not required to protect a mark in the United States, federal trademark registration offers numerous advantages to the registrant, advantages that are important for valuation purposes. First, the registration acts as constructive notice of a claim to trademark rights in specific goods or services and may also be cited by the USPTO against applications to register confusingly similar marks. Additionally, a registration confers nationwide priority in the mark as of the date of filing of the application, even though actual use of the mark may have been confined to a small geographic region. Additionally, the registration may form a basis for obtaining trademark protection in other countries or regions of the world. In an enforcement proceeding in the United States, the registration constitutes prima facie evidence of ownership, validity, and the exclusive right to use the registered mark. If the registration has been granted incontestable status by the USPTO, it may be conclusive evidence as to matters of ownership, validity, and use. Finally, a federal registration must exist to pursue counterfeiting remedies, an enforcement mechanism that can lead to harsh sanctions on the civil and criminal fronts and detention and seizure of counterfeit items at the border.

A hallmark of the civil law system is that trademark rights are secured by registration, unaccompanied by any required showing of use of the mark in commerce. Specifically, the system allows non-users to register a mark with an eye toward selling the registration to the foreign holder of the mark when the foreign holder exhibits plans to enter the registrant's national market. Countries such as China that are struggling to gain a handle on the counterfeiting issue must now confront actions within their borders that other nations often consider to be trademark trolling. Harmonization attempts, through multinational treaties providing for equal treatment of foreign trademark holders with domestic trademark holders, widespread enactment of model trademark statutes, or creation of international registration systems, has eased the problem somewhat but much work remains to be done.

Trademark Application

An application for federal trademark registration in the United States is made to the Trademark Office of the USPTO. Most trademark registrations in the United States are filed on the basis of (1) actual use of the mark on specified goods and services in commerce[36] or (2) a bona fide intent to use the mark on specified goods or services in commerce.[37] Although the Trademark Office will examine the latter type of application prior to actual use, no registration will issue until the applicant notifies the Trademark Office that actual use has taken place.[38]

Under the Lanham Act, the Trademark Office bears the burden of proving that a requested registration falls within one of the statutory bars to registration and should not issue.[39] In conformance with that obligation, the Trademark Office conducts a search of its own records for potentially conflicting registrations and the Trademark Office examines the application to determine whether any of the bars to registration exist, including: nondistinctive terms that reflect some aspect or characteristic of the goods or services, including the geographic locale from which they emanate, or terms that falsely describe any of the foregoing; fraudulent or scandalous subject matter; and subject matter that is generic or functional in nature.[40] In addition to the foregoing substantive review, applications are reviewed for compliance with certain formalities. Formalities include generally a signed oath or declaration from an identified individual or entity and address attesting to right of exclusive use of the mark, a description of the mark and the goods or services with which it is in use or is intended for use, a date of first use anywhere and a date of first use in commerce, a drawing of any graphically represented mark, the appropriate fee, and, for marks in use, a specimen of the goods or advertising for the services bearing the subject mark.[41]

There are procedures in place that enable an applicant to respond to a refusal to register and attempt to work out a solution to the condition that gave rise to the

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[36] Lanham Act § 1(a), 15 U.S.C. § 1051(a) (2009).

[37] Lanham Act § 1(b), 15 U.S.C. § 1051(b) (2009).

[38] Less common bases for federal registration exist to enable U.S. compliance with international agreements and treaty obligations. Specifically, the Trademark Office allows foreign applicants for federal trademark registration to obtain issuance of a registration by declaring a bona fide intent to use the mark in U.S. commerce, without making a showing of actual use in commerce in two instances: (1) where they rely upon a foreign trademark registration issued in their country of origin in accordance with the Paris Convention, under section 44(e) of the Lanham Act, 15 U.S.C. § 1126(e) (2009); or (2) when they hold an international trademark registration issued by a country other than the United States that is a signatory to the Madrid Protocol under section 66 of the Lanham Act, 15 U.S.C. § 1141h(a)(3) (2009).

[39] The prefatory language of section 2 of the Lanham Act allocates the ultimate burden of proof to the Trademark Office: “No trademark by which the goods of the applicant may be distinguished from the goods ofothers shall be refused registration on the principal register on account of its nature unless” one of the listed bars to registration pertains. Lanham Act § 2, 15 U.S.C. § 1052 (2006).

[40] Lanham Act § 2, 15 U.S.C. § 1052 (2006).

[41] Lanham Act § 1, 15 U.S.C. § 1051 (2009); 37 C.F.R. § 2.61(a) (2011).

refusal. If the Trademark Office maintains its refusal, the applicant has access to several forums for appeal.[42]

If the Trademark Office determines that no reason exists to refuse registration, it will publish its decision so that anyone who believes he will be harmed by the registration may file an opposition to registration with an administrative tribunal in the Trademark Office.[43] In like manner, one who believes he is harmed by an issued registration may petition for its cancellation in front of the same tribunal[44] or in a court proceeding under section 37 of the Lanham Act.[45]

Evidence of continued use of the registered mark must be filed with the PTO during the fifth year after registration and in conjunction with requests to renew the registration every 10 years.[46] After the registration has passed its fifth year, an additional filing can be made, attesting that the mark has been in use for five consecutive years, a filing that generally results in a grant of incontestable status.[47] Incontestability is not bulletproof, however, and the registration may still be canceled if it was obtained by fraud, or if the mark is vulnerable to several specific challenges, including abandonment and genericism.[48]

In today's global economy, trademark holders very often seek multi-national protection for their intellectual property. In addition to seeking trademark registrations from individual foreign nations, several mechanisms exist to allow trademark holders to obtain international registrations. The International Trademark Association website provides the following summary and links to detailed procedures for each mechanism:

> *Several international agreements coordinate the procedure of filing applications for trademark registration in more than one country. A registration with the Benelux Office for Intellectual Property (BOIP) covers Belgium, Luxembourg and the Netherlands. A Community Trade Mark (CTM) protects a trademark in all of the member countries of the European Union. The Madrid Agreement and Madrid Protocol provide an opportunity to file an application for an international registration that will cover multiple member countries. Filing with the African Intellectual Property Organization (OAPI) protects trademarks in all of the member countries in Africa. There is also the possibility of filing with the African Regional Industrial Property Organization (ARIPO), under which a trademark owner can protect its trademark in the member states in southern Africa.*[49]

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[42] The first appeal is taken to the Trademark Trial and Appeal Board, an administrative tribunal in the Trademark Office, and further appeal may be had to the U.S. Court of Appeals for the Federal Circuit or to a federal district court where new evidence may be submitted, with a subsequent appeal available to the appropriate regional court of appeals.

[43] Lanham Act § 13, 15 U.S.C. § 1063 (2009).

[44] Lanham Act § 14, 15 U.S.C. § 1064 (2009).

[45] Lanham Act § 37, 15 U.S.C. § 1119 (2009).

[46] Lanham Act § 9, 15 U.S.C. § 1059 (Supp. 2012).

[47] Lanham Act § 15, 15 U.S.C. § 1065 (Supp. 2012).

[48] Lanham Act § 33(b), 15 U.S.C. § 1115(b) (2006).

[49] See International Trademark Association, "Fact Sheets Introduction to Trademarks," *INTA*, http://www.inta.org/TrademarkBasics/FactSheets/Pages/InternationalTrademarkRightsFactSheet.aspx.

TRADEMARKS, BRANDS, AND THE PRODUCTS AND SERVICES THEY REPRESENT

We have presented trademark categories from a legal standpoint, and it is useful to know this in order to better understand the legal "roots" of a given type of mark. There is a system of international classes of goods and services which is used to describe the type of product or service with which a trademark will be associated.

These categories do not, however, provide much help in the valuation process. For that we need to think of trademarks using a different structure that will help us differentiate marks by using some of the criteria that affect potential value. To be useful, our valuation methodologies must apply all along the trademark spectrum. For most of us, the word "trademark" equates to the identity of some good or service that we use in everyday life. There are, however, millions of brands developed by those who provide intermediate goods and services (those used in the manufacturing process or in business-to-business transactions), or by governments, organizations, and institutions. Intermediate buyers are motivated differently than consumers, and their needs are more specific and better defined. The trademarks they use must be included in such a classification scheme, and we suggest the following as a structure:

Governmental/Institutional

Federal Government
State Governments
City Government
Governmental Agencies
Armed Forces
Post Office
Internal Revenue Service
Transportation
Hospitals
Universities
Trade Organizations
Charitable Organizations
Fraternal Organizations
Professional Organizations

Extractive/Commodity

Oil & Gas
Coal
Metals
Electric, Gas, and Water Utilities

- Lumber
- Grain
- Cotton
- Chemicals

Semicommodity

- Industrial/Commercial/Residential Construction
- Paper
- Fruits/Nuts
- Meats/Poultry
- Dairy Products
- Plywood/Dimension Lumber
- Specialty Chemicals
- Transportation/Freight

Intermediate Goods/Services

- Services for Industry
- Design/Engineering/Construction to Industry
- Parts/Component Manufacturers
- Machine Tools
- Textiles
- Leather
- Plumbing/Heating/AC/Electrical/Masonry Contractors
- Wholesalers/Distributors

Finished Goods

- Automobiles
- Appliances
- Computer Software (business to business)
- Electrical/Electronic Goods
- Apparel

Retailers

- Mass Marketers
- Malls
- Department/Specialty Stores/Supermarkets
- Small/Intermediate Retail Stores
- Dealers
- Franchisees

Industrial/Commercial Services

Construction
Advertising
Market Research
Management Consulting
Accounting
Legal
Financial (i.e., investment banking, commercial credit)

Consumer Services

Banks/Financial
Telecommunications
Cable Television
Insurance
Hotels
Publishers
Newspapers
Transportation
Restaurants/Fast food

Consumer Products

Soap
Personal Care Products
Apparel
Computer Software (shrink-wrap)
Food Products
Beverage Products

Entertainment

Motion Pictures
Television
Stage
Characters/Personalities/Sports Figures
Sports Teams
Toys/Games

There is a pattern to the list of classifications just mentioned. Generally speaking, as we read down the list, it can be observed that there is *value being added* along the way. Another observation is that the classes move from industrial to consumer goods. Intuitively, we might feel that the importance (and relative value) of trademarks associated with these categories of business activity might also increase from the beginning to the end of the series.

We can test our intuition by examining the categories further. Obviously some trademarks could be placed in more than one classification or it might be somewhat unclear which classification might best describe a given mark. Anything as ubiquitous in our lives as trademarks will resist strict compartmentalization. But our purpose is to superimpose a rationalization that can assist in our specific analysis.

Governmental/Institutional

We tend to dismiss the trademarks associated with organizations in this category, perhaps because we feel that they do not *need* trademarks and just have them because they have to identify themselves in some way or other. To some extent this is true, but we find that trademarks provide these organizations with some of the same benefits that they provide to others. They have their own brand attributes that are emblematic, identifying a vast organization by means of a symbol. The Great Seal of the United States on an aircraft in the farthest reaches of the world carries an unmistakable message. The symbols of the Red Cross, Salvation Army, and United Nations are instantly recognized everywhere. The light blue of equipment and uniforms used by United Nations personnel in conflict zones might well be judged to have achieved secondary meaning.

These trademarks can be guideposts. Anyone who has visited London has come to appreciate the symbols of the Underground and British Rail as they provide guidance through an effective, but potentially confusing public transport system. The symbols of the “T” in Boston, the “METRO” in Washington, and “BART” in San Francisco accomplish the same purpose. All that is needed on a sign is a symbol and an arrow and we are on our way.

Sometimes these symbols are intended to be motivators. The Postal Service wants us to use its services, as do hospitals (which are moving toward a competitive environment), and public transportation systems. The armed services want to encourage recruitment and colleges and universities seek applicants. These symbols are also used as a means of seeking the acceptance of an idea.

Will we ever see a *New Yorker* magazine cartoon where one subway rider says to another, “I really prefer PECO Energy electricity, it’s so smooth and uninterrupted”? Electric power customers have a choice about whose electrons they consume. Many electric and gas utilities are brushing off their images and shaping them in entirely new ways. Brands of electricity are a natural result of this progression. Communications services are strongly into branding.

Extractive/Commodity

Extractive industries, such as oil, natural gas, coal, and mining do not depend on their trademarks in the way consumer products companies do. They and commodity producers sell to other industries for the most part and theirs are price, delivery, or technology-based buying decisions. Even commodity products such as plywood, lumber, coal, and fuel oil that find their way to a consumer market are more likely to be identified, in the mind of the consumer, with the retailer than with their original provider. The retailer’s trademark is then more important than that of the cutter of trees, or the miner of coal. There are exceptions to this, however, and these serve to illustrate our classification system. Sodium chloride, as an example, is mined or obtained by evaporation. It is a commodity chemical. Some is bound for chemical processes (e.g., as a feedstock for chlorine), or for our roads in wintertime, and some is destined for our tables.

The former uses are "unbranded," though chemical specifications, price, and location are very important. The latter is granulated, processed, and packaged, wholesaled, distributed, house branded, or company branded, and sold to us from the shelves of our food market. A trademark has little importance at the beginning of the process, but can be very important at the end.

Crude oil is also a commodity. It is not described by the name of the party who drilled for it, but by its characteristics (e.g., "light sweet crude," or "Texas intermediate"). By the time it is refined into motor oil or gasoline, however, its identity is very important and refiners spend considerable amounts of money to make sure that we as consumers are aware of the unique properties of their product and of their trademark.

Semicommodity

As we have noted, there can be "crossovers" along our spectrum, as specific products move along the manufacturing continuum. Trademarks may be present all along, but their relative importance changes. A container of polystyrene granules coming from The Dow Chemical Company is so marked and is clearly identifiable to the buyer. To what extent, however, did the Dow trademark influence the decision to buy this raw material? We suggest that the decision to buy was made on the basis of chemical specifications, price, delivery (time and quantity), and perhaps other contractual terms, and that the Dow name and reputation as embodied in the trademark was of secondary importance. There is no question that suppliers of commodities and/or intermediate goods or services or components work hard to build strong reputations and are justifiably proud of what their trademarks stand for in the business world. We submit, however, that those reputations provide less "inertia" (in terms of retaining a customer) than that of consumer brands. These buying decisions are (should be) based on more "rational" thinking, and less emotion. One's reputation is only as good as the products or services delivered yesterday. Therefore, product performance, technology, service, support, innovation, and price loom much larger than they do in a consumer's decision to purchase bread, a shaver, or a DVD player, where a buyer does not have the skill or information to perform a technical evaluation of the product and tends to depend on the manufacturer's reputation as embodied in the trademark.

This is not to say that trademarks cannot become important quite early in the process. Assume that Dow Chemical developed a process by which to make polystyrene granules magnetic, and that this property greatly facilitated processing of this material by those who manufacture goods from it. Dow would certainly differentiate this breakthrough product in the marketplace by distinctively trademarking it. This trademark would become important to the manufacturers buying it, though it might not be important to the end user of products made from it (especially if it lost the magnetic property in the processing) because the magnetic property would be important only to the manufacturer, not the consumer. The distinctive trademark would serve as a “shorthand” identifier of the product, enabling a buyer to quickly specify the needed material.

This polystyrene example adds yet another example of branding in the intermediate industries. The Dow Chemical Company itself manufactures foam insulation from polystyrene, which is branded with the trademarked name “Styrofoam.” This product and Dow’s “Saran Wrap” plastic film are both used in industrial packaging and construction applications, but are also well known by consumers. This “early differentiation” of a product from commodity into brand would be expected to affect value.

Intermediate Goods/Services—Finished Goods

Steel, metal castings, plastic, and paint, are commodity components of subassemblies that eventually become finished products such as automobiles and appliances. The trademark we know as a consumer goes on when the finished product is assembled. Automobile antifreeze is a mixture of chemicals and dyes that is sold to us in distinctive packaging. The trademark goes on at the end. Many trademarked products we buy move a long way through the manufacturing chain before the trademark that we recognize is applied.

There are, however, trademarks in use all along the chain. Some of these are associated with the materials used, with subassemblies, or with the manufacturing process itself. There is a myriad of trademarks associated with goods and services that are used to make the products we buy. As a buyer of the final product, we are totally unaware that “Drierite”[50] desiccants or a “Hytrol”[51] conveyor system may have been used in its manufacture. There are those, however, to whom these names represent a product image that is important to them in their work. In the commercial or industrial sales cycle, a new vendor is thoroughly “vetted” and their goods or services are subjected to tests and trials. Once this is done, the successful candidates are put on an approved bidders list. Under the banner of a trademark, such an approved product or service greatly facilitates the approval process for new or related products or services. The trademark paves the way and the selling effort can get right to the essentials, without the “who are we,” “how long have we been in business,” “who else have we served” preamble. This results is both a cost saving and a better opportunity for the trademark owner. A trademark also helps to bridge the gap as sales persons and buyers change employment.

These marks have a role in their particular commerce, but are not as critical as other product attributes that we have discussed. As proof, companies are acquired and it is not uncommon for the acquirer to begin to market the products of the former owner under its own brand “umbrella.” This is done carefully of course, but it is not uncommon. Another way to view this is to imagine that a consumer brand in a competitive market lost its trademark for some reason. This could well mean the demise of the brand. If such an event befell an industrial or commercial brand, a severe result would be much less likely.

The best of all worlds for the manufacturer of industrial or commercial goods or services is to achieve a level of quality or uniqueness that results in being

[50] Trademark of W. A. Hammond Drierite Co., Xenia, Ohio.

[51] Trademark of Hytrol Conveyor Company, Inc., Jonesboro, Arkansas

"specified." That is, when construction or design specifications are written, the description of a unit is stated as "Electric motor, 20 h.p . . . GE Model XXXXX or equivalent." This type of brand strength is built by performance and price, not massive advertising.

Trademarks in the industrial or business setting may be important because of their "implied guarantee" attribute. We are sure that there have been at least some "lemons" among the many models of copier sold by Xerox or Ricoh over the years, but overall they have established strong reputations and it would be an uphill battle for a newcomer to compete. A company purchaser would be hesitant to put his or her reputation on the line by recommending the purchase of a "just as good as" copier, no matter what the price or claims for quality. Everyone wants a trademark that can be inserted in the phrase, "no one ever was fired for buying ____________________."

When the attributes of a trademarked intermediate product are important (or can be made important) to the end consumer, these trademarks can be made to carry through to the marketplace. There are many examples of this such as Dupont's "Teflon" lubricant and "Kevlar" high-strength material, "Gore-Tex" membrane, Intel computer chips, and the like. When this happens, we have "dual billing" in the marketplace, such as outerwear by L.L. Bean, with "Gore-Tex" lining, or a personal computer from Sony with "Intel Inside."

A commercial or industrial trademark can also be extremely useful as an umbrella, under which new products or services can be introduced. Brand extensions can be an important strategy outside of the consumer markets. In Chapter 5, we note how this type of trademark can facilitate an expansion or acquisition strategy.

Retailers

Even after all the hands have carried and added value to a product to bring it to its final, finished state, we may see it and buy it in a retail establishment that has its own trademark. So another brand layer has been added. The retailer's value added is to provide us with a one-stop shop (ample selection), provide display and education, perhaps credit or payment facilities and delivery services, and to act as our "ombudsman" with the maker of the goods.

Retailers can themselves become customer magnets in the marketplace. Manufacturers of goods may vie for display or shelf space in the establishment of a successful retailer. We comment in a later chapter how this can lead to brand extension strategies for some retailers.

Trademarks can be very important in retailing, but there is usually a balancing of importance between the mark of the retailer and the marks of the goods being sold. Some retail locations such as auto dealers, apparel stores, and service stations use the trademark of the manufacturer or service provider. The actual identity of the location owner is immaterial to the consumer. Other retail locations, such as Macy's, Bloomingdales, Eckerd's, or Smith's Toy Shop, have an identity separate from that of the goods sold. That identity, by itself, may be very strong or relatively insignificant, but will always have some relationship to the goods sold or services provided. That is, a retailer's name will become associated with the type, quality, and price of the goods sold. The characteristics of the wares become part of the retailer's "persona."

Industrial/Commercial Services

This is a business classification in which one intuitively realizes a wide range of importance for trademarks. Services are provided by people and so there can be a variety of combinations of personal and trademark power to drive such a business. As a general rule, the character of smaller service firms is formed by their personnel, while that of large firms is more of a "corporate character." Employees of small firms may take customers or clients with them if they move to another firm. This is much less likely to happen with larger service providers. There tends to be a much more personal relationship between the customers and employees of a small advertising, accounting, or legal practice than there is at larger firms.

The relative power of a trademark is still quite evident in professional services. As an example, one could assume that an audit performed in accordance with *generally accepted accounting principles* (GAAP) by a *certified public accountant* (CPA) would be essentially the same service, no matter which firm provided it. We have, however, observed a price difference in the audit services of small versus large accounting firms. In addition, a small- or middle-market company (which would have a free choice between a large or small auditing firm) will most often opt for the large firm if it is contemplating a public offering of stock or seeking other significant financing. The motivation is that investors, and perhaps regulators, take a higher degree of comfort in an audit by a larger, more well-known accounting firm and the process may be smoother as a result. For the same reason, a public company involved in a major transaction will seek the assistance of a major investment banker. It is a bit more difficult, in this case, to ascribe this entirely to the power of the trademark (because of the nature of the services required), but unquestionably the directors of such a company derive some comfort by this action, given the litigious nature of our financial society.

Obviously, a large professional firm, advertising agency, market research, consultant, designer, or constructor can offer "one-stop-shopping" and an ability to handle large tasks. So the advantage is not only from its trademark. But a firm's trademark does become a symbol of its particular prowess and is an attraction in its own right. There are those that feel that receiving a letter from a prestigious law firm will strike more fear and trepidation in the heart of an alleged transgressor than that from an attorney or firm less well known.

Hiring a world renowned management consulting firm can provide an element of insurance against criticism that may not be available from a less well known firm, even though the advice received may be the same. This is the power of a trademark.

Consumer Services

We are becoming a service-driven economy, and so it is not surprising to observe the development of regional, national, and international trademarks for consumer services. This includes banking, insurance, credit card services, brokerage and investment services, and even legal and accounting services. There are also national brands of health care, tax preparation, and funeral services.

We tap into a whole infrastructure when we write a check or buy a mutual fund or make a mortgage payment. The "retailer" with the trademark may have little to do with the whole process. He or she is just the agency through which we obtain access to the system. When we write a check and send it to a mail-order company across the country, we have no knowledge of all the back-office operations involved in accomplishing the flow of funds that enables this transaction. Our contact is with our "value-added reseller"—our local bank branch. That bank is the party that must build brand equity and a trademark in order to create and maintain customer relationships like ours.

Consumer Products

Even though this is one of the largest classifications, in terms of number and importance of trademarks, little needs to be said about this classification of trademarks, because these are what we think of when we use that term. This classification is populated by consumer products bearing marks such as, "Eveready," "Amazon," "Coca-Cola," and a host of other consumer goods. These are the trademarks that are written about, sung about, and are part of our lives on a daily basis. Trademarks in this classification are very important building blocks in the brand equity structure. McCarthy and Perreault provide an interesting analysis of differences within this category.[52] *Staples* are products bought often and routinely and branding is important to assist shoppers in saving time and to locate products of previous satisfaction. *Impulse* products are purchased in an unplanned manner, and their display location becomes very important. *Shopping* products are defined as either homogeneous or heterogeneous. *Homogeneous* products are seen by the consumer as basically the same, and price becomes a dominant force in the purchase decision. *Heterogeneous* products are seen as different and the buyer wants to carefully inspect for quality and performance. Branding may be less important here. *Specialty* products are those for which the consumer is willing to search. This may involve a specific insistence on a particular brand. Finally, there are *unsought* products that are either brand-new in the market or not regularly needed, such as a cemetery plot. It is in this world of consumer products that trademarks loom the largest, in terms of fiscal importance.

Entertainment

At the other end of the range from commodities are the products and services associated with entertainment, games, sports, and toys. This is where trademark is everything. Well, not everything, but certainly extremely important. The fact that licensing of marks and characters is a multibillion dollar industry within this industry underlines the importance of the images that drive profits in this business.

As with all things financial (that are legal) investments with relatively low risk tend to have surer, but relatively low rewards. People *need* automobile tires, so we at least have that need assisting us if we decide to invest money to build a tire brand. People do not need entertainment or toys or t-shirts with a cartoon character on them, so the sale is dependent on the persuasiveness of the image alone. The investment to build a "character" (living or not) is a large and risky one. But the rewards can be huge, if the effort is one of the few successful ones. The owner of such a character can rest assured that "the world will beat a path to his door"[53].

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[52] E. Jerome McCarthy and William D. Perreault, *Basic Marketing* (Homewood, IL: Richard D. Irwin, Inc., 1987).

[53] This popular misquotation, originally attributed to Ralph Waldo Emerson, is actually based on two different statements.

SUMMARY

We are presenting this classification system in order to facilitate our analysis of trademark value. It is intended to provide a structure for a consideration of the elements that contribute to trademark value. It is also intended, as we describe in a later chapter, to provide a structure for an analysis of empirical evidence as to whether those elements are indeed value-influencing. Further chapter highlights include:

- There is an economic business asset created when legal trademark rights are combined with positive market attributes built by its related product or service. The asset is most commonly called a "brand."
- While trademark legal rights and brand attributes are distinct, they achieve their highest value in combination.
- There are many different types of trademarks and the roster is likely to increase as technology enables new means of mass communication to come into existence.
- Trademark and brand issues are international in scope.
- Within the spectrum of industries, the role and value of the trademark-brand asset can vary greatly.
- A trademark valuation must begin with a carefully defined description of the subject property.