Brand creation and protection: a multifaceted approach

Practitioners from China, Germany and the United States discuss how to manage the brand lifecycle, exploring how counsel can ensure robust, innovative and effective creation and protection strategies

While the creation and management process is where much of a brand's real value comes from, subsequent protection strategies ensure that, once established, brands are not destroyed by infringers seeking to capitalise on their goodwill.

With this in mind, *World Trademark Review* assembled a panel of industry experts from key jurisdictions – Johnson Li and Justin Jiang of China Patent Agent in China; Christian Thomas of Kuhnen & Wacker in Germany; and Kristen McCallion, Catherine Stockell and Cynthia Walden of Fish & Richardson in the United States – to examine the role of trademark counsel in the creative process, consider techniques to promote internal awareness of trademark law and explore practical strategies to enhance brand protection in different media and markets.

From a legal perspective, what are the various aspects of a brand that need to be considered in terms of securing protection and are there any restrictions on the types of right that can be registered?

Cynthia Walden (CW): The term 'brand' is often used synonymously with the term 'trademark', but a brand also incorporates a reputational and emotional component tied to the feelings and associations which consumers have about a company and its products and services. Brands are created and cultivated through consumer experience with the underlying products and services in the marketplace and a company's brands are among its most valuable assets. First and foremost, though, a brand is anchored around a trademark.

Trademarks can comprise a word, design, symbol or combination thereof which is used to identify products and services and signify their source and quality. A trademark can be a slogan (eg, Nike's "Just do it!"), a colour (eg, brown for UPS or magenta for T-Mobile), product packaging or product configuration (eg, the shape of the Coca-Cola bottle or the wrapper on a Tootsie roll) or the distinctive lay-out of a store or restaurant (eg, the Apple store or a McDonald's restaurant), and can even extend to sound marks (eg, the roar of the MGM lion) and scent marks. All of these marks can be registered with the US Patent and Trademark Office; although descriptive terms, product packaging, product configuration, colour marks, sound marks and scent marks all require a showing of acquired distinctiveness in order to qualify for registration.

Christian Thomas (CT): In Germany and the European Union, it is always advisable to conduct prior trademark searches in order to avoid (or at least reduce) problems after registration. Since the responsible offices do not search for older marks, merely registering a mark is no guarantee that no older rights are being infringed. Thus, before starting to use a mark, it is highly advisable to search for older rights. In addition, a trademark watch should be installed to keep the rights holder informed about the activities of competitors so that it can take all measures necessary to prevent the registration of identical or similar trademarks.

With respect to the types of trademark which can be registered, applicants can choose from olfactory marks, sound marks, three-dimensional (3D) marks, slogans, colour marks, figurative marks and word marks. In general, the requirements for all of these types of mark are not high and are quite similar – although it can sometimes be difficult to convince an office that an applied-for mark is distinctive.

Johnson Li (JL): To protect a brand in China, it is crucial to get the underlying trademark registered since an unregistered mark is protectable only if it is well known. Several aspects should be considered for trademarks. The first is the type of right – whether the mark comprises words, devices, letters, numbers, 3D marks, colour combinations, sounds or a combination of these. Additionally, in terms of registration, the trademark must be distinctive and there must be no prior similar or identical

> **"An internal usage manual is an essential legal document for protecting a company's business and product identity**

registered trademarks or applications with respect to similar or identical goods or services. Finally, the trademark must not be similar to symbols of governments or international organisations, and cannot deceive or mislead the public or be contrary to public policy or accepted principles of morality.

In some organisations it can be hard to get stakeholders to understand the contribution that trademark counsel can make to the brand creation process. How can counsel best state their case and position themselves as creative partners rather than roadblocks to creativity?

JL: Ultimately, counsel should ensure that stakeholders realise that their work is vital to the normal operation of the company and the creation of value. For example, in-house trademark counsel may work closely with the corporate legal team and other departments, such as the marketing, advertising, communications and product line management departments. Aside from filing and prosecuting trademarks, in-house trademark counsel may need to review advertising materials, manuals, internal and external communications, packaging materials, company websites and technical specifications for the proper use of trademarks. Trademark counsel is therefore an essential part of the business team responsible for protecting an organisation's valuable trademarks rather than a roadblock to creativity.

CT: One of the best ways to achieve understanding is to have personal meetings or (at least) frequent conference calls with the responsible persons. These provide an opportunity to explain the legal situation and sometimes even result in the creation of new trademarks. Explaining to a client why a certain trademark should not be chosen (and used) is crucial to sensitise him or her not only to the potential risks, but also to the potential opportunities. A client who understands these is usually open to comments from legal counsel. Instead of simply rejecting a proposal, counsel should take the time to explain why a certain mark could cause issues and get involved in the process of creating and finding a suitable trademark – as far as this is possible.

Catherine Stockell (CS): Collaboration is key to this effort. In order to transition from a roadblock to a trusted partner, it is imperative for trademark counsel to understand their clients' business, to listen to the branding goals of the marketing department, to explain issues from a brand protection perspective and to proactively offer alternative means of accomplishing the branding goals – in other words, work in collaboration with the marketing department. When assessing the availability of a proposed new mark, discuss the issues in terms that are most important to marketing – for example, is the mark available for use irrespective of registration, is it available for registration and is it protectable?

If the answer to any of these questions is no, suggest alternative variations which may address the concerns raised. Even if marketing does not accept your suggestions, it will start the ball rolling on productive discussions as to how it can successfully reach its branding goals in a manner which trademark counsel can defend and protect for years to come.

How important is an internal trademark usage manual and what key elements should it include?

CT: This is really something that varies from client to client. Some clients are heavily involved in trademark licensing and for them, it is very important to have a clear and exhaustive manual for trademark usage. The same is true for bigger companies, which need to ensure that their marks are properly used by all departments. This can be achieved by implementing an internal trademark usage manual, which should usually contain a number of key elements.

The first is how the trademark should be used (this is crucial to guarantee that all departments use the trademark in the correct size, font and colour). Second, specify what types of product should carry the mark (this is important to guarantee that the mark is used only for those products for which it is registered). Conversely, are there any products on which the trademark should not be used? Sometimes a company is forced (eg, by agreements or a legal situation) to ensure

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that a trademark is not used on certain goods or services – a good manual can help to avoid inadvertent infringements). Finally, specify where (ie, the territory) the trademark can be used and include a special usage guide for social media.

Kristen McCallion (KM): I would argue that a trademark use manual is an important tool to have for every type of company – large and small. It promotes consistency in how the company's trademarks are used and displayed to consumers, and ensures proper use of trademarks by marketing and business executives. A manual can range from just a few pages to 100. It should clearly set forth rules for creating a unified, consistent and identifiable presence for the company's brand names, taglines and logos. Some of the key elements include advising readers of:

- the proper colour, size and placement of logos when used on brochures, emails, letterheads, advertising and websites;
- the proper font or typeface for any stylised word mark or logo design; and
- the precise colour palette of corporate branding, which often includes a reference to the proper Pantone colours and their allocated numbers.

Justin Jiang (JJ): Ultimately, an internal usage manual is an essential legal document for protecting a company's business and product identity. The key elements which should be included in such manuals include permissible use (ie, specifying the products or services designated by the trademark and the kinds of use of the mark that are regarded as permissible) and the relationship between marks and products or services (ie, by using accurate, descriptive taglines, such as 'for use with Lenovo computers' or 'designed using Lenovo computers'). A good manual should also address the use of trademark symbols (eg, when referencing any trademark, to mark it with a TM or ® sign) and attribution (ie, that all marketing materials bearing the trademarks should include a trademark attribution, such as "Lenovo is a registered trademark of Lenovo Group Limited"). Finally, consider appearance – company names or logos, products or services name and graphic identities should be significantly larger than any reference to the trademark. For instance, if references are made to a Lenovo product, the full name of the product must be referenced at the first and most prominent mention (eg, 'Lenovo® computers').

Once a brand identity is chosen and protection is in place, attention turns to building identity. One way to do this is through advertising. What constitutes misleading or deceptive advertising in your jurisdiction?

JL: According to the relevant Chinese laws, ads must not be deceptive or misleading to consumers and advertisers are responsible for the truthfulness of an ad's content. The following are considered misleading or deceptive advertising in China:

- ads which contain the national flag, national emblem or national anthem or the names of government organs or government functionaries;
- ads which contain words such as 'state level', 'highest level' or 'the best';
- ads which fail to make distinct and clear the specifications, place of origin, uses, quality, price, manufacturer, validity period or promises – if any – of the goods or the content, form, quality, price or promises – if any – of the services offered;
- ads which fail to address data, statistics, survey results, excerpts or quotations; and
- ads which falsely claim that a product is patented.

CW: In the United States, advertising is considered false or misleading if it contains the use of any word, term, name, symbol or device or any combination thereof, or any false description of origin or false or misleading description or representation of fact which misrepresents the nature, characteristics, qualities or geographic origin of goods, services or commercial activities. Advertising can be misleading if it is deceptive or if it has the tendency to deceive, even if it is literally true. Determining whether an ad is misleading or deceptive depends on how it is perceived by a substantial portion of prospective purchasers. Surveys are the most common method for measuring whether advertising is misleading or deceptive. Brand owners should take care to ensure that all claims made in advertising are truthful and can be substantiated. If photographs of the product are used, they should depict the actual product as a consumer would experience it. If comparative claims are made regarding another company's products or services, these should be independently verified. Anyone who may be damaged by false or misleading advertising can pursue an action in federal court under the Lanham Act. The Federal Trade Commission (FTC) is also empowered to take action against unfair or deceptive advertising that involves health or safety claims or might result in economic injury.

CT: In Germany, there is a very strict Unfair Competition Act, which sets out the conditions under which an ad will be classed as misleading or deceptive. The following are examples of advertising measures which are governed by the act:

- Sales promotions, such as rebates, premiums and free gifts are prohibited unless the seller states the conditions of participation in a clear and unambiguous manner.

> "Brand owners should take care to ensure that all claims made in advertising are truthful and can be substantiated

- Advertising that is liable to impair freedom of choice for consumers or other market participants by way of psychological pressure, unreasonable and non-factual influence or in an inhumane manner is prohibited. This applies in particular to activities exploiting consumers' lack of business awareness (in particular that of children), gullibility, anxiety or exigency.
- The act also prohibits the allegation or circulation of facts concerning the goods, services or business of a competitor, the proprietor or a member of the board which are liable to damage the operation of the business or the credit of the proprietor, unless those facts can be proven to be true; the burden of proof falls on the person alleging or circulating the facts.
- Misleading advertising is prohibited *per se*. As an example, it is misleading to advertise goods if the quantities held in stock are not adequate to satisfy anticipated demand (so-called 'decoy offers'). An inventory level is deemed to be adequate if it is sufficient for two days' (anticipated) sales.
- It is also misleading to base sales promotions on price cuts if the original (higher) price has applied for an unreasonably short period (so-called 'moon price advertising').
- Comparative advertising is permitted, but only under very strict conditions.

Native advertising is a relatively new phenomenon. Who regulates this and what restrictions are in place?

CW: 'Native advertising' refers to digital advertising which appears to be embedded or assimilated into the surrounding content (eg, news, featured articles, product reviews, infographics, computer games, emails, entertainment or other material) in such a way that it is not readily recognisable as paid advertising. The FTC regulates native advertising under its authority to combat deceptive and unfair practices, and has issued an Enforcement Policy Statement on Deceptively Formatted Advertisements which provides guidance on how to ensure that advertising is truthful and not misleading. For those who engage in native advertising, the key point to remember is that it must be clear that the content is recognisable as advertising and not editorial content. The FTC recommends including clear and prominent disclosure of advertising content to avoid any risk of deception.

CT: Although native advertising is regarded as a comparatively new form of advertising, it is already subject to far-reaching legal and self-regulating rules designed to ensure that campaigns are clearly distinguishable as advertising. This is designed to eliminate any leeway for legally deceiving users with regard to the advertising character of the content – known as 'surreptitious advertising'. The core of these provisions are so-called 'recognisability' or 'separation' principles. The recognisability principle is established in the Unfair Competition Act for all types of media. For example, advertising disguised as editorial content which is financed by the advertiser is generally prohibited. According to the Supreme Court, it is crucial that the nature of the content be evident to the average observer at first glance and not after careful analysis. The Teleservices Act, which applies to online services, establishes that commercial communications must be clearly distinguishable. Therefore, concealed advertising in online media or blogs is prohibited under both competition and telemedia regulations. In addition, telemedia content is subject to specific guidelines issued by the Interstate Broadcasting Agreement.

JJ: In China, native advertising is primarily regulated by the Advertising Law and Interim Measures for the Administration of Internet Advertising. Native advertising is regulated by the administrations for industry and commerce, at different levels. The Advertising Law stipulates that: "mass media should not in any way publish an advertisement in the disguise of a news report. Whenever an advertisement

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is published in mass media, for not to mislead consumers, a clear indication should be shown to distinguish it from non-advertising information". In addition, the interim measures states that: "an internet advertisement should be able to be clearly recognisable by the customers that it is a kind of advertisement by a remarkable indication 'advertisement'. Paid search advertisements should be clearly separated from organic search results."

Social media is equally important; yet there are many pitfalls in this environment. What strategies should be put in place to monitor brand-related activity and discussion – both by internal staff and in the wider environment?

CT: In our opinion, it is crucial to monitor activities on social media carefully. While the same regulations generally apply to advertising on social media as to print media, the people responsible for social media are often different from those responsible for other advertising activities and thus they do not always have the same experience. Staff should thus receive regular training about the potential risks of advertising on social media, while the company's trademark usage manual should establish strict criteria on how to use a company's trademarks.

KM: Setting up and enforcing social media guidelines is certainly a good idea. Effective guidelines include a variety of rules and practice pointers, which include both legal advice (eg, do not copy content from third parties) and practical advice (eg, pause before posting and use your best judgement).

JJ: The following strategies should also be implemented by social media sites to monitor brand-related activity and to help brands. First, social media network sites should set up their own internal regulations concerning brand-related activities which make clear what kinds of activities are prohibited and the consequences of breaching this prohibition. Second, it should establish a team to monitor brand-related activity and take measures to prevent brands from being infringed. If a user is reluctant to rectify his or her behaviour, the social media site may have to suspend his or her account. Finally, in the wider environment, laws regulating such activities urgently need to be enacted. These should make it clear that the user's brand-related activity should comply with trademark law and that social media sites should be legally able to intervene in a user's brand-related activity in a timely manner.

A recent phenomenon is cease and desist letters going viral online, causing headaches for those tasked with protecting brands. To what degree should this be taken into account when considering action and what is the best response when letters go viral?

KM: It should very much be taken into account. Before firing off a cease and desist letter, it is important to consider the real-world effects of an overly aggressive letter going viral, which can quickly have a negative impact on the sender's image. The best step is to try to prevent this from occurring. Toning down the language in a letter and taking the time to communicate – in plain English – the business's concerns can go a long way towards communicating the matter effectively and achieving the desired result. If you are faced with a negative viral campaign, act fast to acknowledge it and do not avoid it or let it simmer – this will simply inflame the issue. Also, be transparent. A public explanation of why the letter was sent is often received positively and will quickly undermine the negative reaction.

JJ: I agree that the phenomenon of cease and desist letters going viral should be given serious consideration. Although the sender may label the cease and desist letter as 'privileged and confidential', recipients may still make such letters public and condemn the senders as bullies, creating a PR crisis. As such, before sending such letters, research the recipient in order to assess its likely reaction. Additionally, personalise the letter by using a tone that is appropriate to the situation. In some cases, polite language may bring a favourable reaction, while aggressive words are less likely to bring about a desirable response. If a cease and desist letter does go viral, the sender's PR team and legal team need to work together to deal with the resulting crisis. The sender may be able to explain the situation to the public so that they understand that the recipient's behaviour is indeed an infringement of its rights.

CT: While it is important to explain the potential risks of a cease and desist letter to the rights holder, if it has a good case it will not usually fear the fact that a cease and desist letter may be made public. Further, German courts provide swift assistance where cease and desist letters are published online – such publications infringe the rights holder's personal rights and therefore it is possible to request a preliminary injunction, which is usually issued within three days.

Licensing offers a quick – and potentially lucrative – route to expansion and brand building. When entering into partnerships, what are the key legal considerations for trademark counsel?

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CT: So many different aspects need to be considered. The first and most important question is always whether a licence will be exclusive or non-exclusive. Further, it is vital to ensure that trademark usage is clearly stipulated and that the licensee knows exactly what it is allowed to do with the mark – and what it is not. Royalties are also an important topic, but the way that these are determined varies from case to case. Aside from these contract issues, it is also important to ensure that the licensing partner fits with the brand philosophy and is a reliable partner. Since a trademark needs to be used after the five-year grace period for non-use in Germany and the European Union, a licence might also be of interest to a rights holder if it is unable to use the mark for all goods and services itself. We often encounter situations where rights holders are not using their trademarks for all goods and services and want to avoid the risk that marks will be cancelled for non-use. A licence is an easy solution, as use by the licensee counts as use of the trademark.

JL: When entering into licensing partnerships, there are a number of key legal considerations. For instance, if the licence needs to be recorded with the national trademark office, then it is crucial that the trademark is also registered. The scope of the licence should not go beyond the goods specified under the mark and the licensor should closely supervise the quality of the goods to which the licensee intends to apply its mark. In return, the licensee should guarantee the quality of the goods to which it intends to apply the mark.

CS: If carried out properly, licensing is a terrific means of expanding the reach, recognition and fame of a brand. However, it is important to control brand expansion in a way that protects the brand's core values. As such, before engaging in a licensing programme, establish a business plan which articulates your licensing goals. Also bear in mind that you are entering into a business relationship with this entity, so be sure that the licensee shares your business values, and that the proposed products or services are natural extensions of the original brand and compatible from a consumer perspective (eg, rum spirits and rum cakes). Aside from the definition of the licensed goods or services, the key terms in any licence agreement are exclusivity, royalty, term, termination, geographic scope, ownership and, especially in the United States, quality control. In the United States, the absence of quality control provisions can be fatal to a licence agreement and, in extreme cases, to the brand itself. Further, aside from legal considerations, quality control is a necessary element in any trademark licence from the business perspective of safeguarding the original brand's reputation.

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Another market strategy is to launch co-branded products in association with third-party brands. What are the main contractual considerations when entering into such relationships?

CT: Opening up additional growth opportunities is a central objective for short and long-term cooperation between brands. Moreover, cooperation often helps to enhance the brands' profiles and address new target groups. Co-branding partnerships offer further benefits, such as potential synergies and mutual cost saving through cost sharing. However, co-branding may be a double-edged sword and the potential risks should not be underestimated. For example, there may be a risk of negative transfer in case of incompatible brand connotations or quality-related problems; a brand may even risk losing some of its own core customers. Thus, before entering into a brand cooperation, the following issues should be considered and (if necessary) dealt with in the contract:

- Does the brand cooperation provide any real rational or emotional benefit or advantage to consumers? What is the market potential?
- Are the other brand's marketing objectives in line with those of your brand?
- Do the partner brands fit together with

regard to image and price relation?
- Will the brand values and the positioning of your own brand be supported or even improved by the partner brand?
- How strong are your own and your partner's brands?

CW: While co-branded products can be an excellent way of expanding business and creating new revenue opportunities, unless the agreement governing the co-branding arrangement is carefully written, co-branding can also present a real risk to a brand's value. To ensure the best outcome, co-branding agreements should include clear provisions which confirm:
- ownership and control over the use of the underlying brands;
- the scope of permitted use of the parties' respective brands;
- obligations to provide each other with the opportunity to review and approve promotional materials and to ensure the quality of the co-branded products;
- the duration of the agreement;
- the geographic scope of the agreement;
- termination provisions which specify when and how the agreement may be terminated and what happens to remaining co-branded products in this event;
- the financial terms of the agreement;
- an agreement to cooperate in enforcement efforts;
- warranty and indemnification provisions; and
- that the agreement may not be transferred or assigned without the written consent of the other party.

JL: When entering into a relationship to launch co-branded products in association with third-party brands, the co-branding agreement should be commercially beneficial to both parties and should include articles specifying whether the co-branding partner is permitted to enter into other third-party agreements. Another important contractual consideration relates to terms and termination. Typically, the initial term should be relatively short (eg, two to three years) and renewable, so that the parties can test whether the co-branding relationship is working and then decide whether to extend it. In addition to the normal conditions for terminating agreements, co-branding agreements may be terminated for failure to meet specified threshold performance levels or violation of IP restrictions, such as counterfeiting, misuse or dilution of a party's marks. Branding and marketing specifications then cover the appearance and positioning of the respective brands (eg, location, colour, size and proximity) and any modification of the brands, as well as the types of marketing employed. Finally, co-branding agreements generally involve the licensing of one or more trademarks between the parties which should cover guidelines for use of the respective brands, trademarks and other IP assets by the co-branding partners.

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Finally, brands evolve over time and some marks may be used short term as part of the wider brand-building effort. What issues need to be considered when deciding whether to maintain marks which are not currently in use?

JJ: As far as China is concerned, the following may need to be considered when deciding whether to maintain marks which are not currently in use:
- whether the mark may be put into use in the future (ie, although the mark may not be used currently, the registrant may need to maintain it if the mark is to be used in future); and
- whether the mark was filed for defensive purposes (such marks can prevent third parties from diluting the registrant's house marks or other important marks, making it essential that they be maintained).

KM: In the United States, a mark must be used in commerce in order to obtain and renew a federal trademark registration. Generally speaking, with goods, this means that the mark is used on or in close connection to a product which is shipped across state lines – although there are additional ways for a trademark to be used in commerce. One important issue to consider when deciding whether to maintain a mark which is not currently in use is whether there is any basis for maintaining it before the USPTO. A representation to the USPTO that a mark is used in commerce when it is not could constitute fraud, rendering the registration vulnerable to cancellation.

CT: We often encounter situations where clients look into their trademark portfolio and revitalise older marks which have not been used for a longer time. This usually comes with lower costs and fewer risks compared to creating and installing a totally new brand. In addition, sometimes a new brand is needed quickly in order to launch new products – in such situations it can be highly advantageous to have a portfolio which includes older, unused trademarks. However, since unused trademarks do also cost money and also require some administrative work, the brand owner should consider carefully whether it wants to renew an unused trademark. Another potential risk is that a third party might file a cancellation proceeding due to non-use, which could involve additional costs. However, in our daily practice, we have never experienced such a case which could not be solved amicably (eg, by entering into a licence agreement, following the guidance mentioned previously). **WTR**