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Selling the intangible in fashion: what does it mean for trademark protection?

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As major fashion brands launch their own non-fungible tokens, others are testing the limits of trademark enforcement in the digital realm, say Cynthia Walden and Sarah Kelleher of Fish & Richardson.

Selling the intangible or questionably valued is nothing new, but the issue currently on many brand owners' minds is whether the new non-fungible token (NFT) trend is here to stay—and more importantly, whether NFTs are worthy of new trademark filings and enforcement efforts.

While arguments exist that infringement of trademarks in connection with virtual goods and services should be covered by the "natural zone of expansion" doctrine, best practice would be to file applications for important brands for virtual versions of the brand's goods or services and to ensure enforcement efforts cover this new market.

Industry leaders in the luxury and apparel space are leading the way with new filings and enforcement strategies that can aid brand owners in navigating the novel NFT marketplace.

NFTs are here to stay

NFTs are only the latest eyebrow-raising trend that involve goods and services that are intangible or intrinsically difficult to value.

NFTs are data units stored on a blockchain used to transfer ownership of physical items or digital media with smart contracts. The NFTs act to authenticate these items. Similar trends from conceptual art to domain names can provide insight into whether this trend is here to stay.

Conceptual art in the 20th century proved that concepts themselves can have a hefty price tag and act as currency in the marketplace. In the 1960s, the conceptualist artist Sol LeWitt never sold a physical work of art, instead selling mere blueprints for museums and art buyers to use on their own.

Half a century later, the art market went crazy for a formaldehyde shark that sold for $12 million, the price tag having nothing to do with the physical object but instead the conceptual novelty. As is the case with NFTs, it is not the token people are willing to spend on, it's the new and edgy concept.

Even more similar to NFTs, domain names for coveted URLs like www.carinsurance.com and www.voice.com have sold for tens of millions of dollars over the past few years. When domain names first became available for sale and then later with various popular extensions, many brand owners questioned whether purchasing domain names that included their trademarks and trade names was worth the spend.

Just as domain names and the internet created a new marketplace ripe for monetisation and infringement, so too has the Metaverse and NFTs, which have created a new virtual space for brand owners and infringers to make money.

Although NFTs have been around since 2014, the high value of goods and services authenticated by NFTs became apparent to the masses in 2021 when the artist BEEPLE sold his work "Everydays: The First 5,000 Days" (2021) at Christie's auction house for $69 million.

Now, other mainstream institutions have backed NFTs with the development of NFT platforms, such as Sotheby's Metaverse and Pace Gallery's Pace Verso. As technology and art advance, markets are never far behind.

Now, luxury brands and other apparel and consumer goods companies are diving in. Gucci launched SupperGucci NFT and Gucci Grail collections/experiences. Prada and Adidas partnered to create an NFT collection. Dolce & Gabbana launched an NFT collection titled Collezione Genesi that brought in more than $5 million in sales. Also, Ray-Ban recently launched the first pair of NFT Ray-Ban Aviator sunglasses.

These companies are using the Metaverse and NFTs to sell virtual versions of their goods and services and to drum up consumer excitement around their brands.

But, as brand owners race to keep up with these new technologies and marketplaces, questions arise about the cost-benefit of registering important marks and related enforcement efforts.

To file or not to file

Luxury brands have been some of the first to file applications related to NFTs, but the associated goods/services and classes vary. The US Patent and Trademark Office (USPTO) Trademark ID Manual offers some guidance as example provisions including NFTs were added in October 2021.

Ralph Lauren has filed for its core goods and services with the added term "virtual". For example, through its related entity, the retailer recently filed for virtual goods featuring clothing, fragrances, etc. in class 9, as well as retail services, organising fashion shows, providing hotels and operating restaurants—all in the virtual world—in classes 35, 41 and 43.

Ralph Lauren also filed for other software related goods in class 9 such as downloadable multimedia files containing artwork, all authenticated by non-fungible tokens, and downloadable computer software for use as a cryptocurrency wallet in class 9.

Elsewhere in the apparel space, American football quarterback Tom Brady has filed an application for 'Tom Brady' for NFTs and downloadable virtual goods in class 9. Both Nike and New Balance have also filed for downloadable virtual goods (eg, footwear and clothing) for use online and in online virtual worlds in class 9, as well as retail store services and entertainment services featuring virtual goods in classes 35 and 41, respectively.

In the entertainment space, Coachella Music Festival has filed for financial services in class 36 (eg, electronic transfer of virtual currencies and providing a virtual currency for use by members of an online community), in addition to class 9 downloadable audio and video recordings authenticated by NFTs.

Arguments exist that virtual goods and services should be within the "zone of natural expansion", meaning that brand owners can rely on existing rights to pursue enforcement instead of filing new applications.

Under this doctrine, if company A is offering apparel under a mark and then expands to offer a new type of good or service under that mark but company B has already used that mark for those same goods or services prior, company A will still have priority as long as it can show that the expansion to the new good or service is a "natural" one. Courts look to whether the use by company B when it commenced was likely to cause confusion with company A in relation to its original goods or services.

The US Court of Appeals for the Second Circuit has found that expansion of apparel goods via a new retailer is a natural expansion where an apparel company challenged a brewing company for their use of the ROGUE mark on apparel but it was found that the brewing company had senior common law rights from sales within breweries where expansion into more traditional retail outlets would be natural (*Excelled Sheepskin & Leather Coat Corp. v. Oregon Brewing Company* (897 F.3d 4132018)).
It is likely that consumers shopping for a new Gucci handbag in the virtual world will assume that the handbag is being offered by (or at least authorised by) the fashion house, meaning such an expansion by the fashion house would be a natural one.

That being said, best practice would be the belt-and-suspenders approach to file new applications for important marks in connection with the core consumer goods and/or entertainment/hospitality services, especially if the brand or its clientele are innovative and already in the social media/virtual space.

As for what goods/services and classes to include, brands should take a tiered approach. First, file in existing core classes for "virtual" versions of the goods and services (including retail

services if applicable) or with reference to those goods being authenticated via contracts stored on a blockchain, *and*, if practical, then file for virtual downloads in class 9 (and possibly entertainment services in class 41).
Filings that cover financial services in class 36 and even software in classes 9 and 42 raise questions about whether the applicant is offering those services or whether the blockchain operator or online platform is the source. It may be beneficial to not mention NFTs specifically to avoid pigeonholing the filings to this specific technology/trend and instead only limit to the virtual marketplace.

Enforcement in the metaverse

Outside of filing applications, brand owners have a duty to police the marketplace, including the virtual marketplace, for infringements. Adding a watch service covering filings for classes 9, 35, 36, 41 and 42 and ensuring a domain name watch is in place are good ideas. This allows brands to identify infringers attempting to register trademarks or domain names using well-known marks.

If infringing NFTs becomes an issue, brand owners could also consider working with a brand protection company to aid in scrapping NFT platforms. It is also imperative to consider language in licensing agreements to avoid issues that may occur with licensees using marks in the virtual world.

Just as brands were unsure whether to invest in internet endeavours and domain names in the 1990s, we may be at the watershed moment for NFTs and the new virtual marketplace.

All brand owners in the consumer goods and entertainment and hospitality services industries should consider allocating part of their budget to protecting their brand in this new space, especially if the business and clientele have an appetite for innovation and novelty and want to try to capitalise on a new marketplace in the metaverse for their brands.

Even for brands that are not yet seriously contemplating a business model that includes a revenue stream tied to selling virtual versions of their goods and services in the metaverse, it is interesting to know others are doing so and it is an area to keep an eye on in the coming years.

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