

# CHAPTER 5

## TRADEMARKS AND GEOGRAPHICAL INDICATIONS

In Shakespeare's *Romeo and Juliet*, guileless Juliet from her moonlit balcony asks:

*What's in a name? that which we call a rose  
By any other name would smell as sweet;  
So Romeo would, were he not Romeo called,  
Retain that dear perfection which he owes  
Without that title.*

Act II, Scene II, *Romeo & Juliet*, William Shakespeare.

Alas, as poor Juliet learned, names are important. So with trademarks, a name is powerful because of what it represents. A trademark is a symbol of the product; it communicates a message to the consumer about what he or she is seeking to buy.<sup>1</sup> For example, the trademark Dove™, the name of a kind of bird, when used as a trademark for soap, evokes a series of associations: peacefulness, cleanliness, purity, etc.<sup>2</sup> A bird by another name, when used as a trademark for soap, say Sparrow, Peacock, Ostrich, or Mudhen, would communicate a very different message.

In the business world, trademarks are an important part of marketing strategy. A trademark (also known as a "mark")<sup>3</sup> can be a word, a slogan, a logo, and a color or a combination of colors, sounds, or even a fragrance.<sup>4</sup> An established trademark with positive customer recognition may be the single most valuable intellectual property asset, or even the most valuable asset of any kind, that a business can possess. For example, the trademarks Coca-Cola™ and Marlboro™ have proven to be extraordinary economic assets in terms of return on the original and continuing investment made in creating and protecting them.<sup>5</sup>

This chapter describes the macro-economic and micro-economic functions of trademarks: how they benefit society and consumers by fostering innovation and investment, as well as how they are used strategically by individual enterprises.

Because trademarks play a strategic role in business, they interact dynamically with the constantly changing business environment. We will

explore the changing uses of trademarks in a new global economy characterized by international trade in goods and services, technological complexity, and the Internet.

We will also examine the related IP concepts of service marks, certification marks, collective marks, trade dress, and geographical indications. *Service marks* are names used to identify a service, as opposed to a good (e.g. Tata Group™ is a service mark, whereas Tata Indica™ for a car is a trademark) and function like trademarks. *Certification marks* are used to indicate that a good or service complies with a standard or specification (e.g. UL logo to show electrical safety). *Collective marks* are marks used to identify the goods and services belonging to members of an organization (e.g. UAW for United Auto Workers). *Trade names* are names used to identify a business (e.g. Sony Corp.). *Trade dress* is the distinctive overall appearance of a business, and in some cases of a product, and generally includes one or more trademarks and service marks in the form of symbols, slogans and logos. *Geographical indications* identify a good as originating from a region or locality, such as "Champagne", "Chianti", or "Darjeeling".

Trademarks and their related legal concepts are powerful tools for IP empowerment. Uniquely among all other forms of intellectual property (except the most closely guarded of trade secrets), a mark properly maintained and used endows its owner with exclusive rights *forever*. Trademarks, therefore, are an important element of wealth creation strategies for enterprises.

## THE ORIGIN OF TRADEMARKS

Marks have been used to identify the source of goods for a long time. There is evidence that, as far back as 4,000 years ago, craftsmen from China, India, and Persia used either their signatures or symbols to identify their products. Roman pottery-makers used more than 100 different marks to distinguish their work, the most famous being the Fortis mark, which was imitated by many on counterfeit goods. These craftsmen are believed to have used marks for several purposes, including as an adver-

tisement for the makers of the products, as proof that the products belonged to a particular merchant in the event of an ownership dispute, and as a guarantee of quality.<sup>6</sup>

In the Middle Ages, the use of marks eventually became associated with the development and growth of skilled trades, and hence the term “trademarks.” Marks were used to show that a product was made by a member of a guild known to have experience in the trade. In French, the term is “marque déposée”, where déposée meant that the mark was registered with a trade guild. In modern times, trademarks have developed into identifiers of products from individual companies and are important business assets. As branding has become an important marketing concept, the legal protection afforded to trademarks has grown in importance as well. Today “trademark” has become almost synonymous with “brand”. The term “brand equity” denotes the financial value of trademarks in their contribution to the good-will associated with a business.

## ECONOMIC BENEFITS OF TRADEMARKS

Trademarks serve two primary macro-economic functions: (1) they facilitate consumers’ decision-making about their choice of products in the market; and (2) they provide incentives for an enterprise to invest in development and delivery of goods and services with the qualities consumers desire.<sup>7</sup> Trademarks aid consumers’ decisions in situations where it is difficult to verify product source or service quality quickly and cheaply. For example, when buying television sets, automobiles, or computers, consumers should be able to rely on trademarks as symbols distinguishing goods or services provided by different enterprises and indicating products’ features and qualities. Trademarks encourage investment in quality when businesses recognize that brand equity is built only when customers’ post-purchase experiences confirm the message communicated by the trademark and the claims made in the advertising associated with the trademark. Businesses are willing to invest in non-obvious quality features because the long-term reputation of the brand depends on consumer satisfaction.

These two functions are complementary and mutually reinforcing. When customers chose a product because of the qualities suggested by its mark, and when businesses invest in quality to continue to build brand reputation, the result should be improved quality that yields customer loyalty to the brand.

## TRADEMARKS FACILITATE CUSTOMER DECISION-MAKING

Consumers are faced continually with the problem of choosing between goods offered for sale that look alike, but whose superficial similarity may conceal differences in features and quality. Often it is only by chance that consumers select the product with the desired qualities. While it is appropriate for sellers to offer goods with different levels of quality, consumers need a “shorthand” method to identify these differences in quality in order to arrive at a satisfactory purchase decision. Trademarks can help consumers to reduce their search costs.”<sup>8</sup> Trademarks are used in conjunction with advertising (product promotion, literature, packaging and point of sale displays) that communicates information about the product. The consumer may have previous experience with the product and the associated trademark; he knows whether in the past the connotations of the trademark were supported by the actual quality of the product.

It is easy to understand the valuable information-providing function of trademarks if one imagines living in a world in which all products are sold in beige boxes, without trademarks to represent (and call the consumer’s attention to) product attributes and features. Choosing a camera, for example, would be difficult indeed. Some might argue that information could be communicated effectively by simply having a list of features affixed to the box, without the benefit of trademarks, similar to lists of ingredients on containers of food. However, visual, artistic and symbolic representations help consumers who may not have time to process and read all of the detailed information about a product, provided the representations are accurate, of course. Even the hypothetical “features” list is helpful only if it is truthful. A trademark may indicate to the consumer which list, and the product it describes, is more reliable than another.

Consumers appreciate the way that a trademark telescopes and condenses important product information, based on the consumers' perceived need for the product. For example, the term "EAZY" when used in conjunction with a trademark and applied to a product (e.g. "TMXXXEAZY") signals to the consumer that the product is relatively easy to use. This may be as important and useful as a detailed technical description of the features that makes the product easier to use than another.<sup>9</sup> Also, trademarks may be used by informed consumers as a supplement to more detailed product information, as a way to narrow choices and make good buying decisions.

Advertising has been viewed by some economists as unnaturally creating demand and perpetuating oligopoly through artificial product differentiation.<sup>10</sup> It has also been seen by some critics as a form of psychological manipulation that could influence consumers to differentiate mentally between products that are in reality similar or identical and to persuade them to accept exaggerated or false quality claims. According to this analysis, advertising allows a trademark owner to gain sales based on psychological suggestion alone and also to gain power over pricing by enabling the trademark owner to charge more for a product than it should, based on its quality and features.<sup>11</sup> Recent critics of globalization portray trademarks and logos in particular as part of a negative cultural phenomenon in which brands have become cultural icons or abstract expressions of emotions and psychological states, rather than beneficial tools for consumers.<sup>12</sup>

A different, more positive perspective asserts that trademarks and advertising convey useful information to consumers who are capable of making intelligent decisions based on available, if imperfect, product information, as well as on prior experience with the product.<sup>13</sup> This view is based on the distinction between a product's simple characteristics that are observable (such as price, shape, and product category) and its more complex characteristics that can only be experienced (for example, taste or long-term durability or complex feature sets).

The pro-advertising view emphasizes that advertising and trademarks reduce consumers' search costs and foster quality improvement in goods and services, resulting in more orderly marketing of goods and

services and less consumer deception.<sup>14</sup> Trademarks may enable consumers to economize by saving the time they would otherwise spend searching for products of the desired quality. They also help consumers realize that, for example, even though two products have a similar chemical formula, they would not necessarily be of equal quality.

### TRADEMARKS MOTIVATE SELLERS TO INVEST IN QUALITY

The second macro-economic function of trademarks is that they motivate sellers to invest in product quality so that the trademark's positive connotations will be confirmed by the consumers' experience with the product and services. Trademarks that have become popular are often good indicators of the level of quality of the product or service to which they relate and the public's general satisfaction with them. This motivates many firms that are successfully using their trademarks to continue producing products or providing services that can satisfy their customers based on a long-term business perspective. Thus, trademarks encourage sellers to invest in product quality, maintenance, and improvement, which benefit society as a whole.<sup>15</sup>

In short, the trademark owner reaps what he sows – customer loyalty in exchange for investment in quality. Conversely, poor quality associated with a trademark is extremely damaging to a business. Negative customer experience with the product will reflect poorly on the trademark, and it will become a symbol with the opposite of its intended effect. By providing a conspicuous form of identification, trademarks create accountability. As a senior executive of the Indian conglomerate, Tata, put it, "[A]s economies develop and consumers have more spending power, people don't buy products. They buy a promise. A brand is nothing but a way of expressing a promise."<sup>16</sup> A consumer buys a product because the brand "promises" a certain quality, but if the promise is broken and the product is disappointing, the consumer is discouraged from buying the same brand of product again.

Trademark protection has significant economic advantages for a society because it encourages sellers to invest in the quality of products that are being advertised.<sup>17</sup> Sellers make such investments in quality because they know the power of branding. They appreciate that the consumer's experience with the brand and the product may not be short-lived but can lead to a long-term product preference because of brand loyalty based on repeated satisfactory experiences with the product.<sup>18</sup>

## STRATEGIC USE OF TRADEMARKS IN BUSINESS

Trademarks are used by enterprises as marketing tools in a variety of ways. The most common is in consumer advertising to promote product sales, but trademark use has become increasingly sophisticated and varied. Today, the litany of trademark uses is long (see Box - 5.1).

### BOX-5.1 AN ESTABLISHED TRADEMARK CAN

- increase unit sales,
- cement customer loyalty,
- assist in response to competitive pressure,
- increase revenues and profitability,
- expand and maintain market share,
- differentiate products,
- help introduce new product lines,
- gain royalties through licensing programs,
- provide the foundation for franchises,
- support strategic partnerships and marketing alliances,
- justify corporate valuation in financial transactions,
- raise awareness of charitable causes,
- signal compliance with safety requirements,
- show fulfillment of technical specifications,
- ensure interoperability of complex technical systems.

## INCREASING CUSTOMER SALES

The most obvious use of trademarks and service marks by businesses is to promote the sale of products and services. Customer brand recognition increases sales in terms of numbers of units sold, as long as the message the trademark communicates is a positive one. This phenomenon of brand value has been dealt with above, and there are abundant case studies and examples of trademarks used to increase sales. However, it is important to recognize that a trademark campaign alone may not boost sales. The trademark must be an effective one – meeting the legal and marketing requirements for a distinctive mark – that communicates the right message to the consumer. Moreover, a good trademark or service mark will function most effectively when it is related to a total business and product improvement strategy (see Box - 5.2).

### BOX-5.2 BANYAN TREE RESORTS BUILT ON SOLID ROOTS

A Singaporean couple, Ho Kwon Ping and his wife, Claire Chiang, had once lived in Yung Shue Wan, or Banyan Tree Bay in Hong Kong\*. It was a relaxing place with sentimental meaning for them. In building their successful chain of spa resorts, they knew a good trademark and logo were essential. "We wanted to create something that would conjure up certain images – romance, rejuvenation, intimacy – in people's minds. Everything we've done has tried to reinforce that." They chose BANYAN TREE RESORTS as their service mark, but knew that using the name of a known plant, their trademark also had to be established as representing something special, otherwise the name might be adopted by any unscrupulous hotel owner and be diminished by use with lower quality accommodations. They built almost all their resorts from the ground up, and made certain that distinctive, pleasurable features of each resort were maintained as an expression of super-luxury. They declined licensing of the trademark, insisted on operating their hotels rather than outsourcing management, and declined certain commercial opportunities. They felt there was "a premium in keeping the brand small and exclusive". In 1999, Banyan Tree Resorts

was named number 18 in a list of Asia's top 50 brands issued by Interbrand, a major branding consulting firm.

\* "Hong Kong Special Administrative Region of China" – hereafter referred to as "Hong Kong SAR".

Source: Far Eastern Economic Review "Putting Down Roots", May 25, 2000.

## CEMENTING CUSTOMER LOYALTY AND RESPONDING TO COMPETITION

A closely related trademark and marketing concept is that trademarks help to cement customer loyalty. Studies show that customer retention is as effective in generating revenues as the attraction of new customers. "Reducing defections by just 5 percent generated 85 percent more profits in one bank's branch system, 50 percent more in an insurance brokerage, and 30 percent more in an auto-service chain".<sup>19</sup> Thus, to the extent that marks help to cement customer relationships, they are extremely valuable. A trademark reflects the image of what the company stands for and its products or services. It represents the goodwill that a firm has earned by making the types of investments in product quality described earlier in this chapter. Its principal benefits are the positive image, acceptance and trust that consumers associate with the company, and its ability to help ensure long-lasting customer loyalty.

A classic study of trademark use to cement customer loyalty is the story of the Kodak™ brand. An effective campaign was developed over the years to associate the trademark Kodak™ with quality film that can be trusted to capture intangible and fleeting elements of "hominess" and family relationships.<sup>20</sup> A key purpose of the very successful advertising campaign was to convey to customers that Kodak™ film was familiar, reliable, and could be trusted. It was hoped that customers, having been so used to seeing Kodak™ film used by their families when they were growing up, would be encouraged to purchase Kodak™ film for their own family photos, rather than taking a chance on new brands that might be less expensive.

Trademarks may be used to combat predatory pricing (selling a product below cost in order to drive a competitor out of business) and other unfair business practices such as where a competitor sells a functionally similar but lower quality product at below cost or very low prices, trading on the good will of another company, in order to gain a competitive edge. One of the most effective methods of preventing sellers of low-quality products from driving out the sellers of high-quality products is through the use of brand names.<sup>21</sup> A strong brand gives the producer of the higher quality product an opportunity to communicate to the potential consumer the superiority of that product.

## INCREASING REVENUES FROM PRODUCT SALES

In addition to increases in unit sales, trademarks can serve to increase revenues from the sale of products because customers may be willing to pay higher prices for products if they feel that the product and its quality and features – as communicated by an effective trademark – are worth the price. Businesses use trademarks to differentiate products to show superior quality or differences in features and characteristics. Trademarks enable companies to stake out a higher end market, to show customers that their products appeal to more discriminating purchasers or purchasers with more esthetic or more stylish "taste" (see Box - 5.3). Trademarks may even communicate that a business is willing to take risks that other companies are not willing to take, in order to reach higher levels of quality or innovation.

An interesting example of such a trademark strategy may be seen in the case of Asahi Beer's Asahi Dry™ mark. Asahi recognized that Japanese customers value innovation as an independent quality. It therefore promoted the concept that its new trademark "Dry" beer was the latest innovation in beer, creating a new product. This campaign over the last decade, claimed to have "completely changed Japanese beer", offering an "alternative taste" so that Japanese consumers now prefer a "light and dry" taste which enabled Asahi to obtain the top market share in Japan for the first time in 2001.<sup>22</sup>

### BOX-5.3 PICKWICK STYLE MAKES FASHION STATEMENT

Today Pickwick is a stylish Italian clothing company appealing to thousands of young adolescents across Italy and, increasingly, across Europe. But not long ago, Pickwick™ was just an imaginative mark, depicting a young faceless boy with a rebellious hairstyle, in the mind of its creator Diego Barbaresi. Mr. Barbaresi initiated his company by selecting clothing, adding his distinctive mark and, with the help of his partner, distributing it to the local Rome shops. The trademarking activity was carried out in a garage on the periphery of the Italian capital at very low cost.

Pickwick is today seen as a story of successful marketing and of highly effective use of trademarks. Clothing manufacture is still subcontracted, and Pickwick focuses on production, adding the trademark, marketing, and distribution. Young Italians perceive the Pickwick™ logo as fashionable and pay extra for clothing with the Pickwick™ trademark. A good trademark may indeed be the crucial ingredient for a successful business.

Source: La Repubblica, October 23, 2000.

## GAINING OR MAINTAINING MARKET SHARE

Trademarks are used to introduce a new player into an established market and also as a tool to gain a larger share of the market in which the trademark owner is playing. Apple Computer Inc.'s extraordinary "Think Different" campaign is an example of the use of trademarks to remind customers of the unique contribution of Apple to the development of computers, in an attempt to regain market share (see Box - 5.4). There are numerous stories of companies whose executives were dissatisfied with middling market share and embarked on a campaign to stake out a larger territory, a larger group or set of consumers, by means of an advertising campaign associated with a trademark or slogan.

Despite such success stories, it is important to recognize that a trademark and advertising campaign must be intrinsically connected to the business proposition of the company. The trademark is the tip of the iceberg; beneath the successful trademark campaign there is a massive foundation. Much work must go into defining the market segment that is to be attracted; determining how and why it will be attracted to the product; designing the product so that it meets the target customer's desires; identifying a mark that relates to and symbolizes what that customer wants; making sure that the product actually will meet customer expectations in all of its aspects; and coordinating marketing, pricing, packaging, distribution, service, and advertising efforts. Without a solid foundation, even the most clever trademark is unlikely to be a strategically effective marketing tool.<sup>23</sup>

### BOX-5.4 THINKING DIFFERENT - THE APPLE COMPUTER CAMPAIGN TO REGAIN MARKET SHARE

From the late 1970s through the early 1990s Apple Computer, Inc., was a leader in the sale of personal computers with very high profit margins and large market share, especially in education, scientific and design applications, and personal computing. The original Apple Computer operating platform was followed by the Macintosh™ computer (in North America, Macintosh is the name of a variety of apple). However, in the 1990s the company found itself in the precarious position of losing market share to IBM-compatible computers using the competing Microsoft "Windows™" operating system. Once the darling of computer enthusiasts, Apple was struggling to keep its ever-diminishing market share, watching its strong markets diminish and its base of developers for the Macintosh™ platform decrease. There was fear that Macintosh™ systems seemed doomed to extinction.

Apple's founder, Steve Jobs, returned to the company with a fanfare in 1997, and one of his first steps was to launch the bold "Think Different" advertising campaign. This campaign featured a series of advertising still shots featuring famous people (Gandhi, Jane Goodall, Alfred Hitchcock, Albert Einstein, etc.) who had dared to take a

different path and yet succeeded in some extraordinary way. The ads utilized an understated black and white design and the simple, ungrammatical words “Think Different” placed off to the side in Apple’s familiar font.

The ad campaign generated controversy, with some critics pointing out the slogan should have been corrected to “Think Differently” and that it emphasized individuality over business acceptability. However, Jobs’ gamble was successful. The Think Different campaign – a gutsy assertion that consumers would do better if they dared to be different – celebrated Apple’s association with creativity and individuality. Paired with product development work to support the message, this slogan put Apple back into the race. It reminded consumers who had previously purchased Apple computers why they had valued them and should return to them, and attracted new customers who appreciated the qualities of Apple computers.

## INTRODUCING NEW PRODUCTS OR REPOSITIONING AN EXISTING PRODUCT

Trademarks may be used to introduce new products where the trademark has already been established in connection with an old, well-respected product, and the trademark thereby gives the new product a market boost. The introduction of a new product into the market is usually a very expensive undertaking, as considerable effort is needed to acquire the recognition by consumers of the product among other competing products on the market. Consider, for example, that there are more than 750 brands of automobile, 150 brands of lipstick, and 93 brands of cat food.<sup>24</sup> With this overwhelming variety of choice, many consumers may be reluctant to try new products. Thus, only the brand names that have developed superior consumer acceptance get noticed.

Trademarks facilitate the introduction of new products when such products are marketed in connection with established brands. In recent years, new products have often been marketed in association with old brand

names, in an effort to assure the prospective consumer of their quality.<sup>25</sup> This practice has become popular as companies have come to realize the economic power of well-established brands. Indeed, successful brands tend to have a long life span, providing higher returns and thus increasing their worth. For instance, Ivory™ (soap), Eveready™ (batteries), Nabisco™ (biscuits), Kellogg™ (cereal), Kodak™ (cameras), Gillette™ (razors), and Coca-Cola™ (soft drinks) were the leading brands in 1925, and they continue to be leading brands today.<sup>26</sup> Investments in building up strong brand names have proven to be a good strategy for long-term growth, and for reaching different sections of the marketplace.

Trademarks may also be useful in introducing or repositioning an existing product, or in changing the public’s perception of a product with which it is already familiar in some form. An interesting example of this use is the new logo for the 2008 Olympics to be held in Beijing. The new logo takes the old, familiar interlocking rings and stretches them into a calligraphic shape that looks somewhat like a runner, but also looks like a person practicing T’ai Chi. According to Interbrand, an international branding agency, the logo was designed to show that China was extending itself to accommodate the Olympics, creating a new image for itself.<sup>27</sup> Seen in this light, trademarks are used as part of a larger effort to create a new image.

## DISTINGUISHING PRODUCT LINES WITHIN AN ENTERPRISE

Trademarks work to distinguish different product lines within the trademark owner’s enterprise. For example, if a company has several different business units or product lines, trademarks may be used to avoid the confusion that might arise if the consumer was faced with several different products with the same name. Compound marks may be used so that a single unifying mark, often the company name, is used with several product-related marks (see Box - 5.5).

### BOX-5.5 SWEET STRATEGY: ARCOR GROUP (ARGENTINA)

Arcor is a world-leading manufacturer of candy and the biggest chocolate manufacturer in Latin America. In order to support its international expansion and to enhance its competitiveness, the Arcor Group redesigned its corporate visual identity. The new corporate logos symbolize Arcor's new corporate strategy and help the company achieve its strategic goals in two ways: (1) they provide the Arcor Group with a new visual identity and (2) they individualize the different areas that constitute the company's core business (foods, sweets, chocolates, and cookies).

Source: [www.arcor.com.ar](http://www.arcor.com.ar) and  
[http://www.arcor.com.ar/quienes\\_somos/grupo\\_historia.asp](http://www.arcor.com.ar/quienes_somos/grupo_historia.asp)

## EARN ROYALTY INCOME THROUGH LICENSING AND FRANCHISING

Trademarks are used by businesses as the linchpin of lucrative licensing programs.<sup>28</sup> There are many different types of trademark licensing. Sometimes, there is a simple license of the trademark, often for use in a different market segment than that exploited by the trademark owner (e.g. licensing the name of a baseball team for use on a coffee mug). Character licensing is a common type of trademark license, where a popular character from a book or a movie is licensed to licensees who exploit the character in a different business segment catering to the same customer base. In such cases, the rights to exploit the characters may turn into an intricate maze of different rights to different market segments. One example of a highly lucrative character license is the Warner Bros. acquisition of worldwide merchandizing rights for the Harry Potter™ character in the popular children's book series by J.K. Rowling. Warner Bros. has in turn divided up these license rights among various of its business partners/licensees: Hasbro will have the rights to develop and distribute trading cards and youth electronic games; competitor Mattel will make toys; another company has the rights to make "interactive candy"; Electronic Arts, the California software entertainment

company, is licensed to make Harry Potter™ computer and video games; and Coca-Cola secured still other rights relating to the marketing of the first Harry Potter™ film.<sup>29</sup> Seen in the context of this complex network of agreements, the trademark license becomes a way of "extending the brand" and co-marketing, so that each product helps sell the other products by reinforcing the popularity of the character. Visualizing the network of licenses like a series of streams running into a larger river, one can see that the various licenses potentially channel increasing royalty revenue flow back to the trademark owner.

A trademark may be only part of a larger licensing program for a package of intellectual property (e.g. licensing the right to manufacture a pharmaceutical, including patent rights, rights to technical documentation, and rights to use the trademark drug name in connection with its sale and distribution).

The important point in the latter case of a comprehensive IP license is that the trademark is often the handle or pivotal point that makes the entire licensing transaction effective from a business perspective. Thus, the right to manufacture and sell a patented product is rendered far more valuable if the right to use a recognized drug name is included in the deal. In some cases, the good-will in a trademark is such that the grant of other IP rights might be commercially weak without the corresponding trademark license. Imagine an international license to manufacture and distribute a popular soft drink, but without the right to use the name. Some drinkers might recognize the taste, but most would have to be convinced to develop a taste for the drink as if they had never tasted it before.

## TRADEMARKS AND FRANCHISING GO HAND IN HAND

A good set of logos, slogans, and trade dress is the *sine qua non* of franchising. The International Franchise Association estimates that franchising accounts for one-third of all US retail sales, including the sales of firms such as McDonalds, Coca-Cola, General Motors, and Re-Max.<sup>30</sup> The way franchising works is that the franchisee and

franchisor conclude an agreement that has several components, generally including terms concerning purchase of equipment and supplies, but always including a trademark license. The trademark license permits the franchisee to conduct a business using the franchisor's trade name, trademarks, trade dress, methods, and procedures. In exchange for these rights, the franchisee pays a royalty and/or a flat fee and agrees to conduct the business in ways that maintain the good-will associated with the mark.

As with licensing deals not involving franchises (see above), often the greatest element of value in a franchise agreement is the right to use the franchisor's trademark. A license to sell McDonald's™ hamburgers and a purchase agreement to buy McDonald's™ supplies, but without the right to use the familiar logos, wrappings, or the all-important name, would be a diminished license indeed; it would lack the good will that has attached to the McDonald's™ brand throughout the decades of its existence. Some McDonald's™ fans might recognize the taste of the hamburgers, but the number is probably low.

## ESTABLISHING STRATEGIC ALLIANCES AND PARTNERSHIPS

Trademarks are useful in establishing strategic alliances because the marks of one company may complement the other, just as the products of the two companies may be complementary. Co-branding arrangements reinforce joint marketing programs. With the advent of the Internet as a powerful marketing tool, it is common to see websites where marks of different, distinct companies are combined to demonstrate to the user the complementarity of products or the utility of joint ventures. In particular, "partner pages" are common, where web links are made to companies with whom the website owner has some type of established business relations. The logos and names of these companies are arranged in a constellation around the logo of the web site owner.<sup>31</sup> This display gives the user an immediate visual understanding of the businesses that are in some way involved in the product.

The overall effect of co-branding arrangements is, as always, to communicate a message to the potential consumer. The message that co-branding often conveys is the classic and age-old message that the sum is greater than its parts; that the companies have joined forces to accomplish something larger than they could accomplish successfully alone, whether it be better products, larger markets, interoperable equipment, joint solutions to technical challenges, tools that enhance each other's performance, reliability of service, or some other feature. A classic application of the strategic use of a trademark to cement strategic alliances is the Intel Inside campaign (see Box - 5.6).

### BOX-5.6 INTEL INSIDE

An American manufacturer of microprocessors, Intel Inc., produced successive generations of "X86" microchips (the 8086, 286, 386, and 486). However, Intel did not take trademark protection for its numbering system. As a result, its competitors such as AMD, Chips and Technologies, and Cyrix also used the X86 name for their own processors. Realizing its mistake, Intel, in 1991, started encouraging computer manufacturers such as IBM, Compaq, Gateway, and Dell to put the "Intel Inside™" logo in their computer advertisements and on their packages. The incentive to computer companies was a cooperative advertisement allowance paid by Intel that amounted to 3 percent of the company's purchases of Intel's processors (5 percent when the logo is put on the packaging).

The campaign resulted in more than 90,000 pages of advertisements in an eighteen-month period, with a potential US\$10 billion exposure. The recognition of the Intel brand among business end-users went up from 46 percent to 80 percent. After a full year of the Intel Inside campaign, Intel's worldwide sales went up by 63 percent in 1992. Prominent display of the Intel Inside logo by the leading computer manufacturers have influenced consumers to think that Intel's microprocessor must be very good.

Source: Chiranjeev Kohli and Mrugank Thakor, "Branding Consumer Goods: Insights from Theory and Practice," *Journal of Consumer Marketing* 14, No. 3 (Spring 1997); Aaker, David A., *Building Strong Brands*, The Free Press, 1996: 12-13.

## TRADEMARKS AS ASSETS IN FINANCIAL TRANSACTIONS

Because trademarks are powerful marketing tools, they have become important as elements of value in financial transactions such as acquisitions and mergers. Indeed, brand names have become the most valuable assets of a growing number of companies, often exceeding the value of their physical assets. In recognition of the value of its long-established brand name, Nestlé acquired Perrier for US\$2.5 billion.<sup>32</sup> Similarly, Philip Morris acquired Kraft for US\$13 billion, which was more than 600 percent of its book value. Through this purchase, Philip Morris expected to gain the loyal consumer franchise of Kraft, to be used to leverage the grocery trade, and as a brand name that could be extended.<sup>33</sup> More examples of the value of brand names are shown in Table - 5.7.

**TABLE-5.7 THE WORLD'S MOST VALUABLE BRANDS 2001**

Rank	Brand	2001 brand value (\$MM)	Percent change (2001 vs 2000)	2000 brand value (\$MM)	Market cap of parent company (@ July 2001)	Brand value as percent of market cap (@ July 2001)
1	Coca Cola™	68,945	-5%	72,537	113,400	61%
2	Microsoft™	65,068	-7%	70,197	380,000	17%
3	IBM™	52,752	-1%	53,184	198,700	27%
4	GE™	42,396	11%	38,128	498,600	9%
5	Nokia™	35,035	-9%	38,528	104,200	34%
6	Intel™	34,665	-11%	39,049	202,200	17%
7	Disney™	32,591	-3%	33,553	60,000	54%
8	Ford™	30,092	-17%	36,368	45,900	66%
9	McDonald's™	25,289	-9%	27,859	35,400	*
10	AT&T™	22,828	-11%	25,548	148,950	15%

\* The value of this brand takes account of all the earnings made both by the parent company and its franchisees. Because of this, a comparison with the parent company's market cap is not legitimate.

Source: Interbrand Survey - [www.interbrand.com](http://www.interbrand.com)

## TRADEMARKS USED TO SHOW COMPLIANCE WITH SAFETY AND TECHNICAL SPECIFICATIONS

Collective marks show membership in a group, and certification marks are used to show that a product complies with a safety standard or a technical specification. An example of the former is the mark indicating a product was made by members of an American labor union. An accompanying advertising campaign featured a large group of workers singing, urging consumers to "look for the Union label™".

The consumer knows that it is important that a product not explode or cause electrical fires or some other safety problem. Generally, unable to ascertain whether a product meets safety requirements based on inspection alone, and unable or unwilling to test the product, consumers may benefit greatly from seeing a certification mark that shows that testing has been carried out. The most famous of the safety certification licensors is Underwriters Laboratories, which licenses the famous "UL™" logo to certify that the licensee has complied with safety testing for electrical appliances.<sup>34</sup>

## TRADEMARKS USED TO RAISE AWARENESS OF CHARITABLE CAUSES OR PROJECT A NATIONAL IMAGE

Trademarks may be used in non-commercial contexts to raise awareness of, or create sympathy for, charitable causes. "A charity uses and promotes its trademark to associate its cause with a unique name and/or symbol. Donors quickly recognize and associate the trademark with the cause and are assured that their donations will go to the intended charity".<sup>35</sup> A familiar example of a charitable trademark is the red Salvation Army shield, a trademark first used in 1918 and registered in 1965.

A recent interesting phenomenon has been the practice of nations using trademarks, especially slogans and logos, to emphasize their distinctive traits for purposes of attracting tourism, investment or political favor. The slogan or logo is used to communicate the image that the country wishes to project; the image is for a nation what a brand is for a commercial

product.<sup>36</sup> It is said that a picture is worth a thousand words; certainly a strong graphical logo and a few words, repeated in international advertising, is worth a great deal in terms of tourism revenues or other anticipated benefits. Viewers of the televised coverage of the US Open Tennis Tournament, in addition to the usual display of IBM™, Nike™, Adidas™ and other logos on sports attire and backboards, were treated to frequent commercials showing the colorful ESPAÑA™ sun logo communicating the message that Spain equals sun, sport, and excitement.

## EMERGING TRENDS IN TRADEMARKS

The use of trademarks reflects changes in marketing and business realities. As technology has become more of an important component of business, uses of trademarks have changed and become more complex. Three significant trends are (1) the increasing technological complexity of many products; (2) the prevalence of the Internet as a marketing and distribution channel; and (3) the emergence of branding as a global marketing and cultural phenomenon.

### (1) TRADEMARKS AND THE INCREASING COMPLEXITY OF TECHNOLOGY PRODUCTS

With the increasing complexity of technology products available to the average consumer, the role of trademarks extends beyond the simple function of serving as a symbol of general associations and connotations. In contrast to the consumer of 100 years ago, today's consumers are faced with choices of staggering technical complexity as they negotiate purchases of computers, televisions, espresso-makers, audio systems, etc. The "Intel Inside™" logo may provide a certain level of comfort regarding computers, but how many consumers would think to ask who manufactures the various parts assembled in a television set? They rely on a "name" brand they believe they know.

Even some food products require technical inquiry in order to verify compliance with specifications. For example, some organic food products are in compliance with certain tests, and producers of those products are permitted to obtain a certain certification mark.<sup>37</sup> In our changing world, a turnip is not simply a turnip, whose quality is obvious to any one who enjoys eating this vegetable, but a turnip may be a tested and certified turnip, sporting a certification mark that communicates a comforting message to the consumer who prefers organic food.

Because of the trend towards complexity in the goods and services offered for sale, one of the most important emerging trends in trademarks is the expanding use of certification marks and collective marks to signal to the consumer that a product meets technical specifications and has passed certain tests. As discussed earlier in this chapter, the "certification mark" is a trademark that ordinarily is licensed by the owner of the trademark to businesses that pass technical requirements or tests or that comply with technical specifications. The trademark is often accompanied by a logo and is displayed on the product as a "prompt" or easily visible signal to the consumer. It is usually displayed as a third-party mark alongside the mark of the manufacturer/distributor of the product itself.

Trademarks showing compliance with a specification are used in a number of different ways. They are used as a sign that a product meets performance or feature standards. When the mark is conferred by a third party, the trademark may be registered as a certification mark. Sometimes, the licensor of the trademark is also the manufacturer or distributor of the product and the trademark, who also licenses the same trademark to other companies making similar or related products. For example, ColorSync™ is a registered trademark of Apple Computer that is used in connection with the distribution of computer software and hardware products to show that they use a proprietary Apple color matching software. Apple licenses out the "Made with ColorSync™" logo to other companies who are licensees of the ColorSync™ technology and make software or other products that use ColorSync™.<sup>38</sup> Thus, by this trademark licensing approach, a trademark is used to create a "family" of technologically related products offered by unrelated companies.

The effect of a trademark program for a technology platform initiative is to convey to the consumer that the product is enhanced by a technology that is both “cutting edge” and broadly accepted in the industry as a desirable technology. From the licensor’s point of view, the trademark enhances the value of the technology itself, transforming a hard-to-read technical specification into an understandable consumer concept. The technology license alone (in this case, a color-matching specification and technology), without its memorable and distinctive trademark, would not have the same value.

From the licensee’s point of view, it receives not only a useful technology to enhance its product, but also a marketing tool that is leveraged over several businesses and powered by a larger marketing program than it might be able to afford. From the consumer’s point of view, the trademark conveys in a quick, easy-to-understand, visual sign, what would otherwise be a complicated message: the fulfillment of a technical specification. An excellent example of using a trademark to create a marketing edge in a family of technical products, was the “Dolby Sound™” trademark licensing program (see Box - 5.8).

### **BOX-5.8 DOLBY, A SOUND HEARD ROUND THE WORLD**

Dolby Laboratories, a privately held company headquartered in San Francisco in the United States of America, develops audio signal processing systems and manufactures professional equipment to implement these technologies in the motion picture, broadcasting, and music recording industries. Dolby also licenses these technologies, along with its trademark and logo, for use in the consumer electronics industry.

Beginning in the 1960s Dolby began to achieve some fame as a technology leader in sound when it pioneered the technique known as analog “noise reduction”. Dolby noise reduction works by lowering the noise when no audio signal is present while allowing strong audio signals to cover or mask the noise at other times. Dolby revolutionized tape recording in the late 1960s and early 1970s with Dolby A-type (for professional applications) and Dolby B-type (for consumer applications)

noise reduction. Later in the 1970s, Dolby revolutionized film sound with the Dolby Stereo™ analog sound system. Then in the 1980s both tape recording and film sound saw significant improvements through the use of Dolby SR™ (Spectral Recording). In the late 1980s and early 1990s Dolby came out with Dolby Surround Sound™ and Dolby Pro Logic™ for the new field of home theatre. By the 1990s Dolby applied its analog noise reduction work to digital audio technology, introducing Dolby Digital™.

According to Dolby, not just anyone can license the Dolby™ logo. Extensive technical and testing requirements must first be met. The reward for fulfillment of these requirements is “access to recognized and respected Dolby™ logos”.

The effect of the Dolby trademark licensing program has been to make the reach and appeal of its name far greater than the sale of Dolby-manufactured products. The Dolby website lists stunning statistics on the number of Dolby “licensed products sold: 1,071,970,000” as of August, 2002. This figure refers only to products sold by third party licensees and does not include the large family of Dolby filmtrack and broadcasting products.

A testament to the success of Dolby licensing is that almost two-thirds of its revenues comes from licensed products.

Dolby’s technological innovations are protected with patents, which will expire one day. But it is the trademark that has provided the engine for Dolby’s licensing program, and the trademark, potentially, can be preserved forever. Through its trademark licensing program, Dolby parlayed its name into a trademark that is synonymous with state-of-the-art video and audio. The “Dolby Sound™” became an important mark for any consumer electronics product to be able to display. From the consumer’s perspective, it became important to see the Dolby™ logo on the equipment to be purchased. The name has cachet.

Source: <http://www.dolby.com/stats/> and  
<http://www.dolby.com/digital/diggenl.html>.

In the increasingly common practice of using marks to convey fulfillment of technical requirements, there are a number of variations on the general theme. A true certification mark must not be controlled by a manufacturer of the product being certified. Thus, potential users may form an association or consortium of companies that seek to promote a technology platform. The technology to be certified may have been developed by one member of the consortium, and then adopted by other members through licensing arrangements, but an independent entity must be created to bestow a certification mark. The certifying entity may also be authorized to license the technology as well as being responsible for certification testing and technical validation of the technology users.

Another variation is that the owner of the trademark may not actually manufacture any product itself. A UK technology start-up company called NXT designs slim-line loudspeakers and openly emulates Dolby's licensing model, except that at some point they determined that they would no longer manufacture any speakers themselves.

Another variation is that the certification mark may signal to potential purchasers that the product is interoperable with other products bearing the same trademark. This use of trademarks has become increasingly common in the new economy, especially in the computer business where hardware and software products must work together or risk shutting down the entire operation, yet are often developed by different companies. Without the identifying mark, the purchaser without a technical background has no way of evaluating whether a product he wishes to purchase will work with other products that he has already purchased. Thus, the trademark, in the form of a word or a logo, is a signal to the consumer not so much of the quality of the item, but that the product will work with other products of the same type. An example of this use of trademarks was the Microsoft flag logo, a very successful trademark licensing program designed to give consumers a high degree of confidence that all products bearing the "Windows™" flag will operate with each other and with the Windows™ operating system (see Box - 5.9).

### **BOX-5.9** MICROSOFT WINDOWS™ LOGO, FLYING THE FLAG

One of the most successful and comprehensive trademark licensing and certification programs has been Microsoft's "flag" logo program. Microsoft designed a colorful and distinctive logo, a multicolored waving flag, and licensed it to developers who designed programs that worked with Microsoft software products. In order to display the flag, developers were required to sign a trademark license agreement. The license agreement required the licensees to comply with various requirements, including technical requirements relating to interoperability and functionality. To verify compliance with these requirements, Microsoft required the licensees to undergo a certification process. Currently, as Microsoft is introducing its new operating system, XP, a new trademark licensing and certification program is underway. Through a strategic use of trademarks, Microsoft not only promotes its brand by having licensee's display the logo, but also confers a benefit on the licensee by enabling it to demonstrate its relationship to Microsoft products. The logo program also promotes the broad Microsoft platform, creating a conspicuous Microsoft "family" of products that suggests to users a comprehensive product offering a high level of organization and integration.

Trademarks may also be used by a developer of auxiliary products that work compatibly with products distributed by the licensor. The developer, in order to display the trademark, is required to design and manufacture its product in compliance with a specification, which compliance is then tested by the licensor or its agent. The trademark owner is the owner of the flagship product and, by use of the mark, becomes the leader of a fleet of auxiliary products that work well with its product. Thus, trademarks may serve an important economic function of promoting interoperable technical systems, and at the same time, facilitate consumer choice.

## (2) THE RISE OF THE INTERNET AND ITS EFFECTS ON TRADEMARKS

In addition to the increasing technological complexity of trademarked products, another trend affecting trademarks has been the rise of the Internet. In the short space of ten years, the Internet has transformed the sale of goods and services, as well as many other areas of life. Trademarks and trademark law have been profoundly affected.

Marks are essential in e-commerce. Enterprises need to build recognition and goodwill and inspire confidence in themselves and their brands. Consumers rely heavily on marks as a means of identifying suppliers of products and services, particularly when operating in virtual markets in which face-to-face interactions are infrequent and there is little or no opportunity to inspect goods or services before purchasing them. In some respects, a mark used on the Internet may have broader impact and possibly greater value than in the physical world, as it is visible to a potentially global public and might be considered to have a global reach.<sup>39</sup>

With the development of e-commerce, the number of applications sent to trademark offices for marks intended to be used on or in connection with the Internet dramatically increased in some countries. For example, in 1999, the USPTO received 33,731 applications for marks that covered an Internet-related product or service. Five years earlier, it had received only 307. In 1999, 12,000 trademark applications included the “.com” suffix. In 1994, a mere 4 had this suffix.<sup>40</sup>

Owners of trademarks used in e-commerce are placed under considerable strain when confronted with the challenges of the Internet. One area of conflict stems from the relationship between marks and domain names. Domain names are a simple form of Internet address, designed to enable users to access locations on the Internet easily. Domain names have become valuable in their own right as unique identifiers, akin to marks, showing the Internet address, but also often capitalizing on the brand strategy of the owner of the website. Their value is heightened because there is only one spot for each word as a domain name in a particular address. For example, there can be only one ABC.com; even if

there is another ABC brand for a different product, there is simply no alternate spot for the ABC brand as a domain name on the .com domain.

The relationship between marks and domain names raises numerous complex issues. For example, what happens when a party seeks to register a domain name that is identical or similar to a mark? One form of violation of the rights of the owner or owners of a registered mark that has emerged on the Internet, involves the intentional registration of domain names similar or identical to marks that are owned by another party, in an attempt to extract payment from that party. This practice has come to be known as cybersquatting (see Box - 5.10). In response to this particular issue, WIPO has developed the Uniform Dispute Resolution Policy (UDRP) which provides an administrative proceeding and remedy against cybersquatting.

### **BOX-5.10 NANDO'S: A SOUTH AFRICAN SUCCESS STORY**

In the heart of the local Portuguese community in Johannesburg, chicken was prepared according to a well-kept secret recipe. When Fernando Duarte introduced his friend Robert Brozin to the dish, the latter had his first taste of what was to become his dream – the dream of sharing something this good with the rest of the world. The two men became partners, and in September 1987, Nando's was born. Today, Nando's is a fast-growing restaurant chain with over 200 outlets across Africa, Australia, Canada, Egypt, Israel, Malaysia, Saudi Arabia, and the United Kingdom. The company has developed considerable international reputation and goodwill in its Nando's™ mark, which is readily and distinctively associated with its fast-food chicken outlets around the world, so much so that it now owns an extensive international portfolio of registered trademarks surrounding the word Nando's™.

Nando's was listed on the Johannesburg Stock Exchange in 1997. In October 2000, the group was ranked as South Africa's eleventh most global company in a survey conducted by PriceWaterhouseCoopers, providing clear recognition of the stature and presence that the Nando's™ brand has achieved in the international arena. The strength

of the Nando's™ brand has also allowed the company to diversify into other sectors, which include Nando's™-branded retail products and merchandise. "We're probably one of the biggest non-American global brands in quick-service restaurants. A lot of South African companies have bought global brands, but no one has taken a South African brand and gone out to trade in the high street. That's what we're trying to do," said Mr. Brozin.

In March 2000, Nando's filed a cybersquatting case with the WIPO Arbitration and Mediation Center under the Uniform Dispute Resolution Policy (UDRP) applicable to generic top-level domains adopted by the Internet Corporation for Assigned Names and Numbers (ICANN). The respondent, had registered the domain names *nandos.com* and *nandoschicken.com* and offered to license or sell them back to Nando's. The administrative panel found the case in favor of Nando's and ordered the Registrar to transfer the domain names to the company.

Sources: *Nando's International Limited and the Financial Times (London)*.

The global nature of domain name registration raises another type of issue arising from the territoriality of trademark registration. The Internet is global in scope, whereas trademark law is national, so that the same mark registered in different countries by different parties may compete for the same unique spot as a domain name. For example, the mark "ABC" registered in the UK may have a different owner and a different secondary meaning than the same mark registered in Singapore, and both owners could come into conflict if they seek registration of "ABC.com" as a domain name in the same Internet domain space.

Still another set of issues relates to the kinds of identifiers, other than trademarks, that should be protected in the domain name context. For example, the use of personal names, geographical indications of source, geographical terms, trade names, names of international organizations, and names of international nonproprietary pharmaceutical substances are the subject of the Report of the Second WIPO Domain Name Process.<sup>41</sup> The Report explores the issues related to the use in the domain name system of these types of names that act as identifiers, in some respects, like trademarks.

These issues are compounded by the fact that there are now numerous generic top level domains (gTLD), approved by ICANN (among others, .com, .org., and .net; and new ones such as .aero, .info, .pro, .coop, .name, .museum, and .biz). In addition, there are country code top-level domains (ccTLD), such as .mx for Mexico. Recent technical developments adding further complexity to the issue are the creation of non-roman character domain names (for example, in Arabic, Chinese, or Hebrew) and the development of a parallel set of new top-level domains outside the aegis of ICANN.

From the perspective of the trademark owner, each new domain poses a challenge for enforcement because each domain has a potentially different set of protection measures against misuse of trademarks and a different enforcement system. Great strides have been made by WIPO in terms of encouraging application of the Uniform Dispute Resolution Policy by ccTLDs and gTLDs worldwide.

### (3) EMERGENCE OF BRANDING AS A GLOBAL MARKETING AND CULTURAL PHENOMENON

The preceding section of this chapter has identified two emerging trends in trademarks, the increase in technological complexity and the rise of the Internet. A third emerging trend is the use of trademarks as cultural icons. Critical commentators point out that increasingly, customers choose a product because its brand seems to represent a way of life or a set of ideas.<sup>42</sup> The argument is made that companies today do not create value in their products, but in their brands; they are not marketing products but images. Indeed, it is argued, the brand is now more valuable and more important both to the consumer and to the shareholders of the brandowner than the product it is ostensibly designed to promote. As one marketing executive explained:

Nike, for example, is leveraging the deep emotional connection that people have with sports and fitness. With Starbucks, we see how coffee has woven itself into the fabric of people's lives, and that's our opportunity for emotional leverage. A great brand raises the bar – it adds a greater sense of purpose to the experience,

whether it's the challenge to do your best in sports and fitness or the affirmation that the cup of coffee you're drinking really matters.<sup>43</sup>

The consequences of this trend toward enlargement of the brand concept are difficult to assess, however, it has been observed that the greater the expectation for the brand in terms of emotions, the greater the vulnerability of the brand to factors extrinsic to the product qualities and performance. The public may judge the brand and the corporation on the totality of its image, not just whether the product is good or has attributes that the consumer wants. "The more companies promote the value of their brands, the more they will need to seem ethically robust and environmentally pure."<sup>44</sup> To protect these valuable but vulnerable brands and the established reputation and corporate image they project, the conduct of a company is supposed to meet consumers' expectations for the company's correctness with regard to politics, ethics, environment and contribution to civil society. Thus, brand owners may find themselves under increasing pressure to invest in corporate activities that support their valuable brands but that are not directly related to the qualities or functions of the products they sell.

## GEOGRAPHICAL INDICATIONS<sup>45</sup>


A geographical indication, like a trademark, communicates a message. It tells potential buyers that a product is produced in a particular place and has certain desirable characteristics that are only found in that place. A legally recognized geographical indication has the effect of giving the regional or local producers an exclusive right to use the indication in the countries which are bound by the relevant bilateral, regional and multi-lateral agreements (e.g. tea producers in other parts of the world may not use the term "Darjeeling" to describe their tea, even if the tea has similar taste).

When considering geographical indications as a category of intellectual property, it is important to distinguish them from trademarks: whereas a trademark identifies the enterprise which offers certain products or services on the market, a geographical indication identifies a geographical area to which a quality, reputation or other characteristic of a product is

essentially attributable. However, geographical indications are similar to trademarks in their concept and effect, and can be used to promote national and regional economic development, and are also used strategically by businesses to promote their products.

So, a lover of fine cheeses will look for Roquefort made in the region around Roquefort in France. The use of the term Roquefort by non-French cheese makers would be illegal in most countries.<sup>46</sup> An aficionado of Vietnamese food will look for the real fish sauce, from Viet Nam, Phu Quoc fish sauce, and he can accompany his authentic meal with Vietnamese Shan Tuyet Moc Chau tea (see Box - 5.11).

### BOX-5.11 FISH SAUCE FROM VIET NAM



Phu Quoc fish sauce and Shan Tuyet Moc Chau tea recently became the first products from Viet Nam whose appellations of origin are recognized worldwide. Phu Quoc Island off mainland Kien Giang Province in the Mekong Delta is famous for a variety of fish sauce products, so the term "Phu Quoc" is often referred to as fish sauce in the country, especially in the southern provinces. Shan Tuyet Moc Chau tea is produced in Moc Chau in the northern mountainous province of Son La.

In June 2001, a ceremony took place in Hanoi to announce the appellations of origin as well as Viet Nam's decision to renew a cooperation program for geographical indications and prevention of trade fraud with France. The Vietnamese Deputy Minister recognized the strategic and developmental importance of these products and their new legal status: "This [recognition] will pave the way for us to promote the protection of appellations of origin of Vietnamese goods on the world market."

Source: The Saigon Times Daily; Ho Chi Minh City; June 7, 2001.

A legally protectable geographical indication denotes a quality link between the product and its area of production.<sup>47</sup> Agricultural products typically have such qualities that derive from their place of production and are influenced by specific local factors, such as climate and soil.

By contrast, designations that are simply descriptive statements of where a product is from, without a quality link between the location and the product, are considered generic and not legally protected. Dijon mustard is a term that is now considered generic because over time it was produced by so many non-Dijonnais that it came to be associated with a type of mustard rather than a place. Whether a term is generic is determined by national law, so this area has given rise to a number of differences in approach.

Several types of protection are used for geographical indications, which include (1) *sui generis* legislation or decrees, (2) a register of indications, and (3) laws against unfair competition or the tort of "passing off". In the last category, to use a geographical indication for a product that does not originate in the specified region may be considered an unfair trade practice. Geographical indications are also protected by the registration of collective marks or certification marks.

Strategically, geographical indications have many of the same powerful business effects that trademarks do. Regional specialties may have their stature enhanced in the eyes of the consumer when a regional collective and its members enjoy the exclusive right to use the particular geographical indication. This is especially true of gourmet food products but the same principle can be applied to herbs, woods, costumes, rugs, and various other products. Like trademarks, geographical indications may add dynamic marketing power to a product, especially when the quality for which a region is famous is actually supported by user experience over time. Because geographical indications are inherently collectively owned (all cheese makers in Roquefort region are the actual "owners"), they are an excellent tool for regional or community-based economic development. Any region that has a specialty associated with it, where a quality link exists or can be established between the product and the region, should consider the advantages of using a geographical indication to distinguish its products from lower-quality, non-regional competitors.

Australia's experience with wine is a good example of strategic use of geographical indications to enhance a local industry. Australian wines have, in the last 10 to 15 years, become popular and gained a reputation for high quality and good taste. This recognition led Australia to conclude the Australia/European Community Wine Agreement, as well as enacting domestic implementing legislation, providing protection for geographical indications. The Australian wine industry has benefited from the recognition of geographical indications: one wine company used "icon marketing," branding, and the Australian wine indication to help increase wine importation to the United Kingdom from 5,000 cases in 1986 to 1 million cases in 1994, and in 1995 claimed to be the top selling wine brand in the United Kingdom, surpassing even French and California wines.<sup>48</sup> The story of Tequila in Mexico is another success story for geographical indications (see Box - 5.12).

#### **BOX-5.12 TEQUILA: ONLY WHERE THE AGAVE GROWS**

Tequila, a Mexican drink, has acquired a distinct identity, often enhanced by bottle designs featuring some of Mexico's characteristic symbols. What few people know, however, is that tequila has been protected as a geographical indication since 1977, and is produced only within a delimited area in Mexico where its primary raw material, the cactus-like agave plant, grows. The Presidential Decree establishing tequila as a geographical indication was published on October 13, 1977, and referred to four Mexican states (later extended to five) which held the exclusive right to produce the beverage.

The protection of tequila enabled its producers to market their product worldwide and ensure that no other product made with alternative ingredients could be marketed as tequila. Today, over 190 million liters of tequila are produced annually and sold worldwide, with an 83 percent increase over the last five years. Tequila, moreover, gives direct employment to over 36,000 Mexicans, including agricultural workers, technicians, and other workers, as well as indirect employment to many more in transportation, distribution, and other related activities.

In 1978, tequila was registered under the Lisbon Agreement administered by WIPO, thus establishing its international status. The sale of tequila has been further enhanced as a result of this registration and the Mutual Recognition Agreement signed between Mexico and the European Union for the reciprocal recognition of geographical indications in 1998, because producers were able to guarantee the quality of the product and they could avoid the name being used for products made with different ingredients which could taint the reputation of the original Mexican product and deceive customers. The protection meant that tequila production became an exclusive right of Mexican producers and the reputation of the product could be enhanced via a joint effort among all tequila producers who had a common interest in making the product renowned worldwide.

*Source: Tequila Regulatory Council.*

This chapter has demonstrated that trademarks and geographical indications are more than mere names; for a number of reasons they are more important financially and culturally today than ever before. They are powerful tools that are used strategically by businesses and nations in many different ways, as described in the first section of this chapter. The uses of trademarks and geographical indications have changed and expanded as society, products, and technologies have become more complex.

Furthermore, the market in which trademarks function today is international because the liberalization of economies worldwide has globalized market competition. This development has resulted in an increase in the number of companies competing in global markets with similar products. This has led to growth in the importance of marks and geographical indications as strategic tools in penetrating markets and that may confer both macro-economic and micro-economic benefits.

At such an important time for marks and geographical indications, the emergence of new technologies, especially the Internet, has brought problems and provided unprecedented opportunities for those keen on brand-making. The situation has also highlighted the weaknesses of the traditional territorially administered rights system, and the need, as well as the capability, to transcend traditional boundaries through new technologies on the part of the enterprise sector. The enforcement of trademark rights and related issues are discussed in Chapter 9.

- 1 As Justice Felix Frankfurter stated: "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". *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. KresgeCo.*, 316 U.S. 203, 205 (1942).
- 2 For article on the Dove™ brand, see "The Making (or Possible Breaking) of a Megabrand", *New York Times*, July 22, 2001.
- 3 In this book, for ease of use, when referring to trademarks, we include service marks.
- 4 See for discussion of color, color combinations, sounds, and fragrances as trademarks, Adam L. Brookman, *Trademark Law: Protection, Enforcement and Licensing*, (Panel Publishing, 1999): sections 2.01[D-G].
- 5 Robert P. Merges, Peter S. Menell, and Mark A. Lemley, *Intellectual Property in the New Technological Age*, 2<sup>nd</sup> ed. (Gaithersburg, MD: Aspen Publications, 2000): 563.
- 6 *Merges*: 557 et seq.
- 7 William M. Landes and Richard A. Posner, "The Economics of Trademark Law," *The Trademark Reporter* 78 (May-June 1988): 270-271.
- 8 *Id.*: 270-277.
- 9 A classic example of such marketing using trademarks is the KODAK INSTAMATIC™, a successful camera trademark that signaled ease of use and automaticity. See "What High-Tech Managers Need to Know About Brands", *Harvard Business Review*, July-August, 1999: 91.
- 10 See *Merges*: 561 quoting Joan Robinson, *The Economics of Imperfect Competition* (1933).
- 11 See discussion in *Merges*: 559-563.
- 12 See the recent provocative work by Naomi Klein, *No Logo*, Flamingo Press, 2001; see also Peter van Ham, "The Rise of the Brand State", *Foreign Affairs*, September/October 2001.
- 13 See, e.g. Scott Ward, Larry Light and Jonathan Goldstine, "What High Tech Managers Need to Know about Brands", *Harvard Business Review*, July-August, 1999; Nicholas S. Economides, "The Economics of Trademarks", *78 Trademark Review*: 523; Stigler, Georges, "The Economics of Information", *69 J. Pol.Econ.*: 213 (1961) (cited in *Merges*: 561).
- 14 See J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, §3.1 (4<sup>th</sup> Ed. 1998) discussing role of trademarks in preventing public deception.
- 15 William M. Landes and Richard A. Posner, "The Economics of Trademark Law," *The Trademark Reporter* 78 (May-June 1988): 270-271.
- 16 Interview with R. Gopalakrishnan, Director, Tata Sons, Limited, [www.tata.com/0\\_people/interviews/20000729\\_r\\_gopalakrishnan.htm](http://www.tata.com/0_people/interviews/20000729_r_gopalakrishnan.htm)
- 17 Jack H. Hirshleifer, "Where Are We in the Theory of Information?" *American Economic Review* 63 (2): 31-39.
- 18 Benjamin Klein and Keith Leffler, "The Role of Market Forces in Assuring Contractual Performance," *Journal of Political Economy*, 89(4),1981: 615-641.
- 19 Aaker, David A., *Building Strong Brands*, (New York: The Free Press, 1996): 22.
- 20 *Ibid.*: 2-7.
- 21 *Ibid.*: 562-564.
- 22 <http://www.asahibeer.co.jp/english/company-e/superdry>
- 23 For discussion of living up to the brand promise, see "What High Tech Managers Need to Know about Brands" *Harvard Business Review*, July-August, 1999: 92-93.
- 24 David A. Aaker, *Managing Brand Equity: Capitalizing on the Value of a Brand Name*, New York: The Free Press, 1991); Chiranjeev Kohli and Mrugank Thakor, "Branding Consumer Goods: Insights from Theory and Practice," *Journal of Consumer Marketing* 14, No. 3 (Spring 1997): 206.
- 25 "The Making (or Possible Breaking) of a Megabrand", *New York Times*, July 22, 2001, discussing the difficulties inherent in extending an established brand to a new product.

- 26 Thomas S. Wurster, "The Leading Brands: 1925-1985," *Perspectives*, Boston Consulting Group 1987. Also, Kohli, "Branding Consumer Goods."
- 27 [http://www.interbrand.com/features\\_effect.asp?id=50](http://www.interbrand.com/features_effect.asp?id=50)
- 28 Stephen A. Degnan and Brian Napper, "Trade, Service, Persona Marks Get Big Royalties," *LES Nouvelles* 34, No. 3 (1999): 125-128.
- 29 "The Harry Potter Phenomenon", Interview with Nils V Montan, President of International Trademark Association, *Managing Intellectual Property*, April 2001: 18 et seq.
- 30 *Ibid.*: 126.
- 31 See e.g. [http://www.arm.com/armwww.ns4/html/semicon\\_partners](http://www.arm.com/armwww.ns4/html/semicon_partners); or <http://www.intel.com/eBusiness/affiliates/index.htm?iid=eBus+homeWW3303&>
- 32 Kohli, "Branding Consumer Goods."
- 33 David A. Aaker and Alexander L. Beil, *Brand Equity and Advertising*, Kohli, "Branding Consumer Goods."
- 34 An illustrative explanation of various certification marks and how they may be used on electrical appliances may be found at the Underwriters Laboratory website: <http://www.ul.com/mark/index.html>.
- 35 *Century of American Innovation*, US Patent and Trademark Office Review, 1999: 18.
- 36 See interesting discussion in Peter van Ham, "The Rise of the Brand State", *Foreign Affairs*, September/October, 2001: 2 et seq. The author claims that we live in an age where "brands and states often merge in the minds of the global consumer", and where states distinguish themselves by creating a brand in order to attract foreign investment: "Smart states are building their brands around reputations and attitudes in the same way smart companies do".
- 37 See e.g. California Certified Organic Farmers Organization which certifies organic produce based on inspection and testing and confers a logo to producers that pass the test. See, <http://www.ccof.org/certification.htm> which details the "seven steps to certification" and offers certified companies "the most recognized seal in the organic industry".
- 38 See ColorSync license and documentation at [www.Apple.com/ColorSync](http://www.Apple.com/ColorSync).
- 39 For further details, see the WIPO e-commerce primer at <http://ecommerce.wipo.int/primer/section3.html>
- 40 "A Flood of Trademark Applications Clearly Shows That the Internet is a Place Businesses Want To Be," *New York Times* (May 15, 2000).
- 41 See <http://wipo2.wipo.int/process2/>
- 42 Naomi Klein, *No Logo, Flamingo*, 2000.
- 43 Scott Bedbury, Vice President of Marketing at Starbucks and former head of marketing at Nike, quoted in Klein, *No Logo*: 21.
- 44 "Pro Logo: Why Brands are Good for You," *The Economist*, September 8, 2001.
- 45 The expression "geographical indications" is used in this book to cover also appellations of origin (such as wine labels) and indications of source, all of which have different legal meanings. Geographical indications have, in the TRIPS Agreement, a specific, narrow meaning.
- 46 "Roquefort" for cheese produced in France is protected in the European Union under Regulation (EC) No. 2081/92. Geographical indications are recognized in European Community Council Regulation No. 2081/92, July 14, 1992 on the Protection of Geographical Indications and Designations of Origin for Agricultural Products and Foodstuffs, as well as in Articles 22-24 of the TRIPS Agreement. See also the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration.
- 47 WIPO Intellectual Property Handbook, 2001, §2.675.
- 48 See WIPO Symposium on the International Protection of Geographical Indications, co-sponsored with the Government of Australia, April 5-6, 1995, WIPO Publication No. 739(E).