

Managing brands in a down economy: a discussion for management

Companies cannot afford to forgo investment in their valuable brands and trademarks, but at the same time are bound by today's economic realities. Full and frank discussions between brand managers and senior counsel are thus more important than ever

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Just when you thought that consumers might be shying away from their favourite brands and that slow-selling brands may be disappearing from the shelves, news comes of a revolt. Earlier this year, the familiar TROPICANA "orange with a protruding straw" disappeared from TROPICANA® orange juice cartons in stores across the United States. In its place was a simple glass of orange juice and a redesigned logo in plain sans serif font. Tropicana's customers wasted no time in letting the company know it had made a terrible mistake. "This looks like a generic orange juice" and "we want the orange with a straw", the company was told. And so the company is going back to its well-known and valuable "orange with a straw" package. This story demonstrates the continued importance of trademarks even in a down economy.

As we write this article, we cannot predict what news reports you will be reading about the global economy or what conversations you will be having with your senior business leadership. We expect, however, that the reports will not be substantially different from what we are all reading today: global recession, credit crisis,

increasing unemployment, company layoffs and budget cuts. As a result, the pressures to reduce the costs associated with acquiring and protecting trademarks and brands are enormous. Discussions with business decision makers will become even tougher.

This article dispels some myths and confirms some truths of trademark portfolio acquisition and enforcement, to help guide and inform the difficult decisions that in-house counsel, brand managers and senior management are likely facing.

False: trademarks are less important in a down economy

As the TROPICANA story demonstrates, trademarks and brands are still as important as ever. Consumers may be shifting some of their buying patterns, but they have not stopped shopping. When they can, consumers will choose a brand they trust. In fact, they may do so even more often in an uncertain economy, when every dollar counts. McDonald's, Dunkin Donuts, Target and Wal-Mart: these companies are thriving because they have found their way into the hearts of Americans who are struggling financially. The MCDONALD'S® Dollar Menu suddenly looks appetising. Dunkin Donuts' inexpensive latte may be a bit more satisfying — as may Starbucks' new VIA™ instant coffee. Target's "New Day" advertising campaign hits home by inviting us to appreciate the simpler, less costly things in life, like a home haircut, a bicycle ride or a night in front of the television. Wal-Mart continues to reinforce its place as the lowest-priced retailer. And even luxury brands have their place in a tough economy. Consumers may not be buying as many BMW® and Lexus® automobiles, but these cars still sell because consumers can count

on them for their reliability and performance – both essential elements for peace of mind in an otherwise uncertain time.

It is your role as in-house counsel or brand manager to look for examples of why brands matter and to remind your company of the importance of continued investment in its trademarks and brands. It is crucial, even in a down economy, that a company not lose sight of the value of its brands and of the trademarks which embody them.

False: trademark acquisition and maintenance are routine and administrative, not strategic

Determining the right mix of ownership rights is strategic. Most of the world operates on a “first to file” basis and in many countries the identification of the goods or services in a registration can be broad. At the same time, many countries still use a sub-class system or even a system that cross-references subclasses. Thus, your company’s ability to use and protect its own trademarks will be determined by the ownership rights it establishes through its trademark portfolio.

When too narrow a trademark portfolio is created or maintained, a company may find itself buying its own mark back from a pirate. Even in cases of bad faith – where the bad guy blatantly copied your mark or logo – you may not be given the opportunity to prove this bad faith if you do not own a trademark registration with prior rights. Alternatively, a company may learn that because the original filing strategy included a narrow identification of goods, the company does not have sufficiently strong rights to stop an infringing third party. Often, the impact of a strong – or weak – trademark portfolio is felt only when a crisis hits: business cannot pursue its branding strategy with its mark of choice, an interloper has pirated a mark or a nimble competitor has launched a “too-close-for-comfort” advertising campaign.

To succeed in any economy, but particularly in a down economy, in-house trademark attorneys and brand managers must educate the business about the challenges in creating and maintaining the company’s trademark portfolio and about the risks in failing to do so. This means choosing battles carefully – such as fighting for protection of core marks and taking greater risks with secondary marks. It means providing visuals to help business leaders understand the risks of failing to pursue trademark applications or certain enforcement activities under different scenarios. It means providing management

with specific options, asking for firm decisions and ensuring that management understands it is accountable for the short-term and long-term implications. And it means that you too must be credible. There is no “one size fits all” answer to the appropriate mix of rights a company should own. The analysis and decisions are strategic, the implementation tactical.

True: some aspects of trademark portfolio ownership may be routine, yet are not mindless

Some aspects of acquiring and protecting trademarks involve administrative or routine tasks. Often, a brand owner will have hundreds, if not thousands, of active matters, all of which have deadlines. While technology has improved the efficiency of maintaining a docket and accessing the information in the database, the docketing system and the information it contains are reliable and accurate only if the data has been entered correctly. Even administrative or routine activities can have important implications. For example, an incorrect company name or address, an incorrect local language translation of the company name, an improper power of attorney, a change in the identification of goods thought to be benign or what appears to be a simple disclaimer request all could result in significantly weaker trademark rights – indeed, in some cases in no trademark rights at all.

The bottom line is that “administrative” or “routine” does not mean mindless. Even these tasks need to be handled with attention to detail and with an expertise that allows the person handling them to know what the information means and to identify when an issue is more complex than it may first appear. The team approach to trademark portfolio management is critical so that tasks are completed at the correct level with the appropriate amount of oversight to be efficient and still strategic.

True: a strategically focused trademark portfolio adds value to the business

A trademark portfolio must support the business objectives. In a down economy, businesses often refocus their branding efforts. For example, Kraft Foods Inc recently stopped selling “Handi-Snacks” pudding to retail customers. HJ Heinz Co announced its intent to remove two products for each one it introduces. And Sara Lee Food Corp announced it will cut its product offerings by 8% this fiscal year. Just as business seeks to simplify and cut costs by developing and offering fewer products,

the trademark portfolio can be slimmed down or reworked to support this change. However, there is no reason to overreact and slash for the sake of slashing. Changes to the trademark portfolio must be well considered. It is your responsibility to maintain both a short-term and a long-term view: you not only support the immediate business units, but also owe a fiduciary duty to the corporation and its shareholders. So even as you review the portfolio for ways to streamline, you need to make sure you are not cutting too deeply or giving up valuable trademark rights and protections that the company may need when the economy heats up again.

How you simplify your trademark portfolio will depend on both your company's business model and the maturity of its brands and marks. For example, if your company owns a worldwide, famous mark, you may be able to pare down the portfolio and maintain registrations only in those core international classes that are most important to your business. You may be able to rely instead on the fame of your mark should you need to enforce against someone that adopts your mark for similar or even dissimilar goods or services. This strategy, however, comes with risks and may incur greater costs if you have to fight a battle that registration might have prevented.

Alternatively, the down economy could be the perfect time to pursue a focused multi-regional or even worldwide filing programme for your company's core mark(s). When times are tough, it is even more likely that unscrupulous and "opportunistic" businesses will spring up in countries around the world and you may find yourself trying to buy back your own marks in years to come.

True: tactically focusing your enforcement efforts adds true value to the portfolio

To protect your company's trademark rights, you may not have to object to every infringement or misuse, but you need to understand which infringements are harming the business. You also need to advise the company as to which infringements may have a long-term impact on its valuable trademark rights, even if the infringements are not having an immediate business impact. Thus, a tactical enforcement programme is one that balances the immediate business needs and the long-term health of the trademarks against the investment the company is willing – or can afford – to make in its brands.

For example, a counterfeit product in a country where you have little business activity, which poses no health concerns and which is not being exported may be something you leave alone for a time. Instead, you may want to stop an egregious infringer which is developing trademark rights in marks much too close to your trademarks. The geographically remote counterfeiter is committing fraud and likely can be stopped at any time. If you fail to act in time against the egregious infringer, however, you may substantially narrow your trademark rights in that country forever.

You may consider a similar calculated approach as you police infringements online. For example, it may not be necessary to pursue every cybersquatter that registers and merely parks domain names. Instead, you can monitor their activities and act only when the websites become active. Traffic measuring tools such as Alexa.com can help you to determine whether an infringing site is drawing enough traffic to harm the brand. In tough economic times, "no harm, no foul" could be a guiding enforcement principle.

Staying on top of fan sites or commentary about your brand may allow you to create better relationships with your consumers and enhance your brand image, because you will be able to react quickly and appropriately, much as Tropicana appears to have done in the case of its premium orange juice packaging. Companies such as cable giant Comcast now have "digital detectives" monitor business-related comments on social networking and user-generated content sites such as Twitter, FaceBook and YouTube. Tools such as these should enable you to address customer concerns quickly.

False: trademark acquisition and enforcement are expensive nuisances

The money that most companies spend to acquire, maintain and enforce trademarks and brands often pales in comparison to the overall value of the brand. This is true whether brand value is measured by inherent value of the goodwill of the brand or as compared to royalty revenue from licensing or dollars spent on marketing. However, there are risks associated with the failure properly to procure and protect trademarks. For example, in the *Tiffany v eBay* litigation last year (576 F Supp 2d 463, 581 (SDNY 2008)), the trial court was quick to criticise the jeweller for having budgeted only \$14 million on enforcement over five years, an average of 0.1% of annual revenue, on its anti-piracy programme.

Thus, while the costs associated with

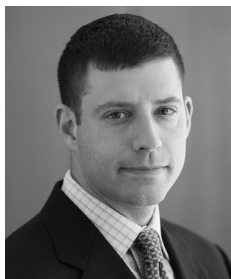
the acquisition and enforcement of trademarks can be high, both the return on that investment and the pitfalls in failing to make that investment are often substantial. The concern that it is too expensive to own and protect a brand rings hollow when you look at the value of the top 10 worldwide brands (on average, each worth more than \$40 billion, according to the Interbrand Best Global Brands 2008 Survey), or when you consider that entire businesses turn on the licensing of their brand. Trademarks are valuable corporate assets whose investment should not be overlooked, just as R&D or investment in the marketing and sale of the product should not be overlooked.

Final thoughts

It is more important than ever that in-house counsel or brand managers have direct and open discussions with senior management and outside counsel. Tough decisions are going to be made in the next 12 to 16 months: decisions that demand honest vetting and full support.

Acknowledging that we often see

different value and different requirements in managing and protecting a trademark portfolio is the first step towards having that open and honest discussion. Trademark acquisition, maintenance and enforcement are strategic, tactical and valuable. No company can afford to forgo investment in its brands and in the trademarks that embody them. At the same time, no in-house counsel or brand manager can afford to ignore the economic realities in the short term. Indeed, it is essential to balance the immediate business needs and the long-term health of the trademarks against the investment the company can afford to make in its marks. In today's marketplace, down economy or not, trademarks remain a key tool upon which consumers rely in making their purchasing decisions. If brand owners do not properly continue to invest in and protect their trademark rights, they will lose an immensely valuable corporate asset: their goodwill with the consumer. They also will find they may have significantly increased long-term costs and put the company's valuable brands at risk. **iam**



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