

Brands in the Boardroom 2008

Avoiding trademark dilution through brand protection strategies
PricewaterhouseCoopers LLP

A supplement to *Intellectual Asset Management* magazine
www.iam-magazine.com

iam

This text first appeared in the IAM magazine supplement 'Brands in the Boardroom 2008' April 2008

Avoiding trademark dilution through brand protection strategies

By **Michael J Yachnik** and **Mark Walters**,
PricewaterhouseCoopers LLP

As this article highlights effective brand protection strategies related to trademark dilution, let us first define the terms “trademark” and “brand”. A trademark is any distinct word, phrase, symbol or picture, or combination thereof, that identifies and sets apart the goods of a specific business or organisation. It is commonly referred to as a mark and is also used at times to describe a service mark (which covers services instead of goods). While commonly considered synonymous with trademark, we consider a company’s brand to be comprised of not only the trademark, but also a product or collection of products, trade dress, advertising and promotional programmes, and its marketing strategy. The use of trademarks is wide ranging and utilised in numerous industries. In this article we highlight general brand protection strategies that have alignment with many of these industries.

Today, a major portion of the value of public companies is derived from intangible assets as our economy has become increasingly knowledge-based. This is a far cry from the situation 30 years ago, when the economy was still largely industrial and intangible assets represented only a minor portion of a company’s value. Since intellectual property – which includes trademarks/brands – is typically one of the most significant components of intangible assets, the importance of protecting your brand has grown just as significantly. The implications of not doing so can have a negative impact on a company’s value, from lost profits to brand/trademark dilution.

How do companies continue proactively to protect their trademark(s)?

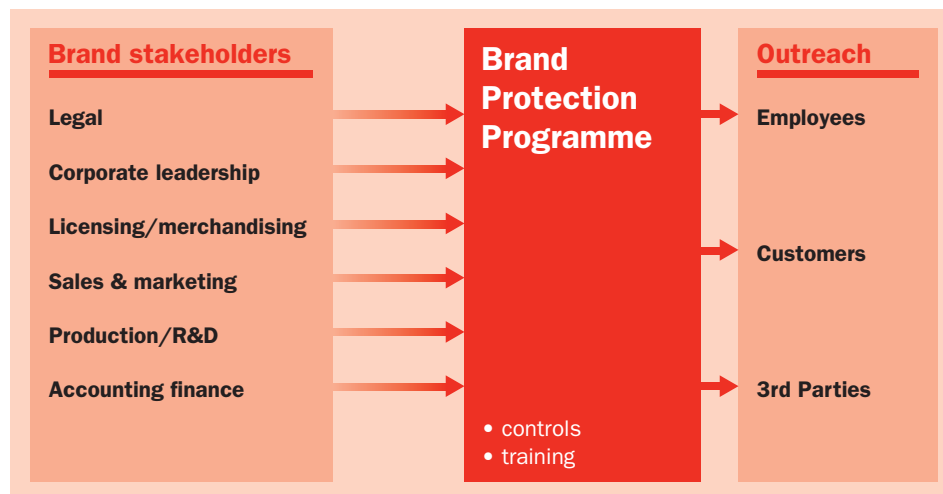
Many companies (both large and small) do not have a complete and accurate

inventory of what brands their company “owns”. Usually, the legal department will have an inventory of the registered trademarks by country and possibly summary-level data in some type of database (anything from an electronic spreadsheet to an enterprise-wide intellectual asset management system). However, all trademarks may not be considered equal due to various factors, including brand strategy, licensing arrangements (in and out-bound), joint venture/co-developing arrangements and the extent of brand globalisation (eg, the trademark for a given brand is registered in only a few jurisdictions). Creating an inventory map that allows companies to understand what they are trying to protect will greatly enhance the development and execution of a brand protection programme.

Our approach to brand protection is based on working with companies of various sizes in a broad spectrum of industries. It is important to note that an effective brand protection programme must be tailored to meet the needs, culture and unique characteristics of a company. In this article we describe what we believe is required for an effective brand protection programme.

A critical component of a brand protection programme – or any intellectual property protection effort – is to secure the “buy-in” of top management. Without their commitment and effective communication of that commitment, the ability to align the various stakeholders would be an uphill battle. In this regard, there is a growing trend taking place to create a position commonly referred to as a chief intellectual property officer (CIPO). One of the main job responsibilities of the CIPO is setting the strategy within your organisation related to your IP. This can include everything from aligning the company’s IP with the strategy related to that IP down to ensuring you have effective controls and programmes in place to protect your IP.

Figure 1. Brand protection programme



Many larger companies have a senior person responsible for brand management, although in some companies his or her focus is primarily on strategy and profitable growth. Other companies, while not having a formal position responsible for IP, have developed formal/informal IP committees that are comprised of individuals from the various IP stakeholder groups within the company, including legal, sales/marketing, licensing/merchandising, production, accounting/finance and research and development. Whether oversight comes from one individual or a committee, there needs to be resources responsible and accountable for establishing, enhancing and executing a brand protection programme.

Figure 1 provides an overview of the flow of a brand protection programme. Input from the various stakeholders will help define the brand protection programme, which includes establishing, enhancing and executing a brand protection strategy. This strategy will help you define, monitor and enforce your controls, and create training programmes, all of which will engage your employees, customers and third parties in protecting the IP of your brand.

The first step in developing a brand protection programme is to conduct a brand protection analysis. The purpose of this analysis is to determine the current “as is” state. One of the first steps in the analysis should consist of interviewing key stakeholders – both internal and external. A second step is to analyse your existing policies and procedures. Based on the results of the interviews and analysis of your policies and procedures, you need to develop action items and align the results with not only your business today, but also where your strategy will take you in the future. This is important as the best brand protection strategies can easily get caught up in reacting to issues and “putting out fires” versus being proactive and addressing problems or issues upfront and anticipating them before they arise.

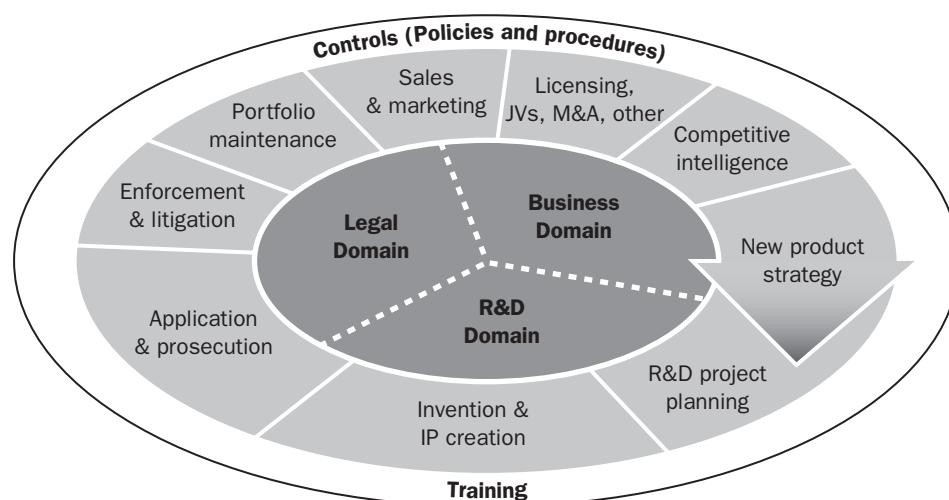
Let’s now delve a bit deeper into two major components of brand protection strategies – controls and training – and how they depend on collaboration among the key stakeholders.

Controls (policies and procedures)

With the heightened awareness around controls, mainly as a result of Sarbanes-Oxley, and the focus on enhanced internal governance, one could argue that controls related to intellectual property are one of the most important controls within the organisation. You need not look any further than the earlier reference to how large a component of a public company’s value is represented by intangible assets to understand the materiality of having effective controls in place to protect those assets. A first step is documenting your organisation’s current controls across all functional areas and how they are aligned to each stage of the brand lifecycle. This will essentially lay the foundation for your overall controls. Figure 2 provides an overview of the brand lifecycle.

Next, you must determine the level of compliance with existing controls and policies. Throughout this process, companies can easily determine where they need to

Figure 2. Protection throughout the brand lifecycle



apply immediate focus, as well as strategic focus, which may need to be developed and baked in to the controls. Typically, as you start this process you may find high-level controls are not being adhered to, such as something as glaring as lack of fully executed agreements – whether they be distributor, licensing or other types of agreement – or lack of inclusion within employee agreements as to non-compete or sharing IP sensitive information. The output of this exercise may very well expose areas in which your organisation has gaps and this should be expected. This is where a CIPO can have a major influence by helping to identify corrective actions needed to close the gaps. As the control environment assessment can result in considerable changes within the organisation, you must have buy-in and support from the top in order to implement such changes.

Of paramount importance from a legal sense is ensuring that your trademark is properly protected and properly registered throughout the world. Failure to prevent losing

control of your trademark is of significant importance to all companies. One does not have to look far back in time to identify the fallout related to loss of control over major trademarks, especially in the retail/consumer products industries. Additionally, your legal department should be involved in the prevention of infringement or counterfeiting. In some companies legal resources dedicate 100% of their time to infringement prevention.

Training

One of the most important aspects of a brand protection programme is training – not just of employees, but also of business partners. Training should also be viewed as an ongoing process and should be held at least annually. At a high level, the training should cover all groups and make them aware of the trademark and its value. This would include such items as the look of the trademark, the jurisdictions in which the trademark is registered and counterfeit trends related to the trademark. Additionally, the focus of the training should include intellectual property



Michael J Yachnik is a partner in the Advisory Services practice of PricewaterhouseCoopers, where he specialises in intellectual asset management and business analytics. He has more than 18 years of diversified financial, economic and management consulting experience working with corporate management and attorneys.

Mr Yachnik's experience has focused on the area of managing intellectual assets by helping corporations leverage them to increase shareholder value and develop effective risk assessment and compliance programmes around their IP. He works with corporations to enhance internal organisation and business processes, design and implement portfolio management systems, and conduct financial and business analyses in support of transactions to extract greater value from corporate intellectual asset portfolios.

Mr Yachnik is a CPA and is accredited in business valuation by the American Institute of Certified Public Accountants. He received his MBA from New York University and his BSA from Villanova University.

Michael J Yachnik

Partner

Email: michael.j.yachnik@us.pwc.com

Tel: +1 646 471 8314

PricewaterhouseCoopers LLP
USA

www.us.pwc.com/Advisory



Mark Walters is a director in PricewaterhouseCoopers' Advisory Services practice. He serves as the firm's New York Metro Regional Leader for Licensing Management Services. Mr Walters primarily consults with companies regarding intellectual property, specifically related to licensing management programmes and contract compliance-related issues. He has over 17 years of professional experience, including 12 years primarily focused on development of contract compliance programmes. Mr Walters has worked across a broad spectrum of industries and has analysed over 350 contractual agreements. He has twice written for IAM magazine in matters relating to IP and specifically licensing management-related issues.

Prior to joining PwC, Mr Walters spent 10 years with a global provider of disbursement-related consulting services, where he served as VP of Operations for the Eastern Region. He received his BSA from Ithaca College, Ithaca, New York.

Mark Walters

Director

Email: mark.c.walters@us.pwc.com

Tel: +1 646 471 3038

PricewaterhouseCoopers LLP
USA

www.us.pwc.com/Advisory

rights, the development of the trademark (or its acquisition), maintaining the intellectual property (also related to the registration requirement highlighted above), as well as the protection of the intellectual property.

In addition, your distributors need to understand the importance of your intellectual property and how they can assist in protecting it. One consideration is to have your business partners (eg, distributors, licensees) provide information about the product (eg, packaging, distinct look) on their websites. Additionally, from an external perspective, companies should continuously educate duties and customs officers as to changes to the packaging of your product, as they play an important role in helping to protect your brand.

Conclusion

The information you gather from the steps described above should allow you to perform a “gap” analysis that will indicate what actions you need to undertake to strengthen and enhance your brand protection programme. Companies must ensure that their programmes are evaluated on a regular

basis and are kept aligned with the other facets of an overall intellectual asset management programme.

© 2008 PricewaterhouseCoopers LLP. All rights reserved. “PricewaterhouseCoopers” refers to PricewaterhouseCoopers LLP or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity. The information contained in this article is for general guidance on matters of interest only. Given the changing nature of laws, rules and regulations, there may be omissions or inaccuracies in information contained in this article. This article is provided with the understanding that the authors and publishers are not herein engaged in rendering legal, accounting, tax or other professional advice and services. It should not be used as a substitute for consultation with professional accounting, tax, legal or other competent advisers. Before making any decision or taking any action, you should consult a PricewaterhouseCoopers professional.