BRANDING AND RETAILING OF TEXTILE AND CLOTHING PRODUCTS USING TRADEMARKS FOR DOMESTIC AND INTERNATIONAL MARKETING

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1.- Importance of trade marks for the Textile Sector

Trade marks, are one of the most important , if not the most important asset of a company. Successful companies, such as for example Versace or Ferré would be nothing without their trade marks.

A trade marks gives value to the product, because it serves as an instrument to help consumers identify its origin and quality. Likewise, a trade mark creates trust on consumers. A trade mark makes the consumer develop certain expectations on the features of the product bearing the trade mark. Everybody knows exactly what to expect when they enter into a Benetton store. This trust that trade marks generate on consumers is the basis for developing a loyal clientele, which is essential for the commercial success of a company.

The importance of trade marks varies depending on the sector. In the fashion and textile industry the value of trade marks is unquestionable. In this sector, consumers are even willing to pay more for a product just because they bare a certain trade mark. This is so, because trade marks project an image on consumers and are also associated to values such as reputation and prestige.

Using trademarks in business is not a bed of roses, the brand owner must be prepared to face several problems and solve situations where a clear vision of where the company has to go is crucial. The three main parts of this path to success are registration, defence and use in business of the trademarks

2.- Trade Mark Registration

The most effective way of protecting the investments made and the reputation gained by the trade mark is through its registration. This should be done at an early stage and not when the trade mark has already become known in the market.

The registration of the trade mark entitles its holder to prevent third parties not having his consent from using identical or similar trade marks to distinguish identical or similar products in the course of trade.

- *Selecting the trade mark*

The first step is selecting the sign that is going to identify the company in the marketplace. When choosing the appropriate sign, it is important to take into account the grounds for refusal settled in the trade mark regulations. The absolute grounds for refusal that are included in most trade mark regulations prevent the registration of the following:

1. signs devoid of distinctive character
2. signs that consist exclusively of generic or descriptive indications
3. signs that consist exclusively of a shape that
    a. results from the nature of the goods themselves,
    b. is necessary to obtain a technical result,
    c. gives substantial value to the good
4. trade marks that include emblems or badges of public interest
5. trade marks which are of such nature as to deceive the public.

Likewise, signs that are identical or confusingly similar to a previously registered trade mark would fall under the relative grounds for refusal. Therefore, before filing the trade mark application it is very convenient to carry out a trade mark similarity search in order to determine the availability of the sign.

Moreover, when selecting the sign, it is also necessary to bear in mind other commercial related factors such as the impact of the trade mark on consumers. The trade mark must be perceived ab initio positively and therefore it is important to avoid words or signs that may have a negative connotation. The fashion industry is generally not limited to the local market but as other consumer goods, it is directed to the global market. Therefore, when selecting the sign, it is essential to ensure that it does not have negative implications in any relevant language.

A trade mark may consist not only of words but also of other signs such as designs, shapes, numerals, symbols and even sounds and smells. In order to provide the trade mark with a higher level of distinctive character, it is convenient to use graphic elements such as colours and designs to enhance the impact of the trade mark on consumers.

- *National, Regional and International Trade Marks*

The registration of a trade mark grants its holder exclusive rights only in the territory in which it is registered. The territory or territories in which the trade mark should be registered depends on the relevant market, which should also include any market in which the company may have an interest in the future. The laws of each country determine the requirements and registration procedure to obtain a national trade mark right. However, there are also systems that facilitate the registration of a trade mark in various countries.

The so called **Regional Route** facilitates the registration of a trademark in a certain region of the world. The regional offices that administer these systems are:

1) The African Regional Industrial Property Organization (ARIPO)

The headquarters of ARIPO are located at Zimbabwe. The following fifteen States are members of ARIPO: Botswana, Gambia, Ghana, Kenya, Lesotho, Malawi, Mozambique, Sierra Leone, Somalia, Sudan, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

The Banjul Protocol on Marks, which was adopted in 1993, establishes a trademark filing system by which an applicant may file a single application at one of the contracting states or directly with the ARIPO Office designating the countries in which protection is sought.

2) The *« Organisation Africaine de la Proprieté Intellectuelle »* (OAPI)

The following 15 States are members of OAPI: Benin, Burkina Faso, Cameroon, Central Africa, Congo, Cote d'Ivoire, Gabon, Guinea Bissau, Guinea, Mali, Mauritania, Níger, Senegal, Chad and Togo.

The Bangui Agreement is the law governing industrial property rights in each of the member states of the OAPI. According to this Agreement, the OAPI undertakes the examination, registration and publication of trademarks and service marks according to a common procedure. The registration of a mark effected under the provisions of the Bangui Agreement and having effect in at least one member State produces the same effects in each of the States party to this Agreement as if the trademark had been registered with the OAPI.

3) Benelux Trade mark Office

The countries that make up the Benelux territory are: Belgium, the Netherlands and Luxembourg. The Uniform Benelux Law on Marks came into force on 1 January 1971 and gave rise to the Benelux Trade Mark Office. Trade marks that are registered with the Benelux Trade Mark Office have unitary effects in the whole of the Benelux territory. Since the implementation of this law, it is no longer possible to obtain protection in just one country of the Benelux.

4) Office for Harmonization in the Internal Market (OHIM)

The Council Regulation EC 40/94 on the Community Trade Mark is in force since 1994. A community trade mark grants its holder a uniform right applicable in the 15 Member States of the European Union. This means that the effects of the community trade mark are Community-wide. Therefore, the rights conferred by the registration of a community trade mark extend automatically and indivisibly to all 15 Member States of the European Community. The community trade mark is obtained through one single registration procedure, which is handled by the OHIM, located at Alicante. The cancellation, refusal or the expiry of a community trade mark applies for the whole of the Community. Since the community trade mark is one single property, it can only be transferred for the whole of the Community. Nevertheless, community trade mark holders may grant territorially limited licences for a particular Member State.

Another of the main advantages of the Community trade mark is that its holders may file infringement proceedings before the Community trade mark Courts, which are national courts designated by the Member States to have jurisdiction in respect of Community trade marks. The decisions issued by the Community trade mark Courts have effect throughout the EU. Furthermore with the enlargement of the European Union, that will take place on May 2004, the community trade mark will have effects in a total of 25 States.

On the other hand, the **International Route** refers to the Madrid system of international registration of marks. This system is governed by two treaties: the Madrid Agreement Concerning the International Registration of Marks, and the Protocol Relating to the Madrid Agreement. The Madrid system is administered by the International Bureau of the World Intellectual Property Organization (WIPO).

In order to use the international route, the country of origin of the applicant must be a member of the Madrid system. Currently, more than 70 countries are party to the Madrid system. The Madrid system enables the registration of a trade mark in several countries by simply filing one application with a single Office, in one language, with one set of fees and in one currency.

The international application produces the same effects as if the trade mark had been applied for in each of the countries designated by the applicant. The national trade mark offices carry out the substantial examination of the trade mark according to the applicable local laws. Likewise, the Madrid system simplifies the management of the mark, since it is possible to record changes such as, for example, the ownership of the mark and to renew the registration through a single procedure before WIPO.

On October 27 2003, after seven years of negotiations, the accession of the European Community to the Protocol relating to the Madrid Agreement has finally been approved This means that Community trade mark holders may register their trade marks internationally on the basis of their Community trade mark. Likewise, the accession of the EC to the Protocol relating to the Madrid Agreement permits the registration of a Community trade mark on the basis of an international registration.

3.- Protecting Trade Marks against Infringers

The registration of the trade mark is just the first step towards its protection. Trade marks, especially when they have become popular and therefore valuable, are exposed to the infringing activities of third parties. In fact, as it is commonly stated, when a trade marks starts to be imitated or counterfeited, it is the first symptom of its success.

The consequences of trade mark infringement can be devastating for the business. As I first explained the success of the trade mark is based on the trust consumers develop on the same and such trust is irremediably lost when third parties use the trade mark in an infringing way to sell products of lower quality. Therefore, in order to protect the efforts made on developing a successful trade mark, it is essential to take action against infringers.

There are basically three kinds of trade mark infringers:

- *Imitators*

Imitators are those who use a sign similar to a prior trade mark to distinguish the same or similar kind of products with the purpose of creating confusion among consumers. Moreover, it is not uncommon that the similar trade mark is used in combination with a product with a design that resembles that which has become popular and that bears the prior trade mark.

Certain imitators even apply for the registration of the similar sign and obtain a trade mark right. If imitators do not hold a registered trade mark it is much easier to file a civil action, because they cannot base the use of a similar sign on a registered right. In order to avoid this, it is very convenient to keep watch on the Trade Mark Bulletins where the trade mark applications are published so as to file oppositions and prevent that similar trade marks are granted.

However, if it is not possible to detect a similar trade mark before it is granted, a cancellation action may be filed against the same based on the existence of the prior trade mark. However, most legislations include a time limit, normally of five years, to file a cancellation action on the basis of a relative ground for refusal. Therefore, it is very convenient to continually keep watch on the market and to take action against imitators as soon as possible.

Although, it is more rare, there have been cases of infringers that have registered logos as designs and use them to sell similar products to those for which the prior trade mark has been granted. Therefore, it is also convenient to keep watch on the Design Bulletins in order to prevent the registration of prior trade marks as designs by third parties.

As per the determination of when two trade marks are confusingly similar, according to most trade mark regulations the likelihood of confusion includes the risk of association. This means that the use of a similar sign constitutes trade mark infringement not only if there is risk that the public might believe that the goods or services in question come from the same undertaking , but also if they believe that they come from economically-linked undertakings. Likewise, the likelihood of confusion on the part of the public must be assessed globally, taking into account all factors relevant to the circumstances of the case. It is also essential to take into account the relevant consumers when assessing the existence of a likelihood of confusion.

When the trade mark has become well known in the market, the use of the same by third parties may provoke its dilution in the market. Dilution is defined as the unauthorized use of a well known trade mark by another in a manner which is detrimental to its distinctiveness. This takes place when a third party starts to use an identical or similar trade mark to distinguish goods that are not identical nor similar to those for which the well known trade mark has been granted. In these cases, although the product or services are not similar, such use of the well known trade mark would still constitute an infringement.

- *Counterfeiters*

Counterfeiting is the use by a third party of a trade mark that is identical or indistinguishable from a registered trade mark to sell similar or identical goods. Counterfeiting constitutes a criminal offence in most countries. It is currently a world wide phenomena that affects particularly the fashion and the music industry. Moreover, it seems to be a chronicle disease that affects most famous trade marks. Counterfeiters act in an organized way. Commonly mafias that are involved in the traffic of drugs, and other crimes also are implicated in counterfeiting activities.

Currently, the way in which certain trade mark holders fight against counterfeiting is by taking action against anyone who is selling false goods. However, in many cases the costs of the criminal procedure are higher than the amount that may be obtained in the event the case is won and an indemnification is obtained. Therefore, some trade mark holders are opting to only start actions against counterfeiters that sell a significant amount of goods. In order to fight counterfeiting the key is to locate the origin of the false goods. The collaboration with the State Security Forces is fundamental to obtain significant results.

In the last years the governments of most countries are implementing new policies to fight counterfeiting. However, the road towards the eradication of counterfeiting is still long.

- *Parallel Importers*

Parallel importers are traders that purchase goods in one jurisdiction with the purpose of selling them in another country, usually for a better price. This phenomena is due to the existence of differences in the prices for the same goods in different economic areas.

The exhaustion of the trade mark rights affects the extent to which trade mark holders may control the distribution of their goods. The principle of exhaustion settles that the trade mark holder is not entitled to prevent the use of his trade mark in relation to the goods which have been put on the market by himself or with his consent. Depending on the jurisdiction, the exhaustion of the trade

mark right may be
national, regional or international.

National exhaustion means that the trade mark right is exhausted once the trade mark holder or a third party with his consent has commercialized the goods in the country in which the trade mark is registered. In the European Community the applicable regime is regional exhaustion which means that the trade mark right is exhausted once the trade mark is put on the market anywhere in the Community. Finally, the principle of international exhaustion provides that the exhaustion of the trade mark right takes place when the goods are put on the market anywhere in the world.

Parallel goods can be detected by using different labels on the products depending on the regional markets in which they are to be sold. It is also frequent that products manufactured for a certain region have specific characteristics, based on stile, fabrics, sizes etc. This way it is possible to track down the way in which the good has bas been introduced in the market.

In Europe, the parallel import of goods from outside the European Union without the consent of the trade mark holder constitutes trade mark infringement. Therefore, trade mark holders may file actions and interim injunctions to seek the cessation of the infringing conduct and obtain a compensation for damages.

As indicated before, a brand owner must be prepared to face the infringement of the trademarks and this should be done in a professional way. Dedicating a budget, establishing clear policies, priorities etc are the basics of such activity. As a famous brand owner told me some years ago, “infringement of our trademarks is like a chronicle illness, this will not kill us provided that we are ready to undergo a prolonged course of treatment”

4.- Doing business with trade marks

Trade marks constitute a part of the assets of a company and are an object of property that may be transferred or used in business as any other property. Likewise the trade mark right plays a significant role to help undertakings enter into the global market.

There are many ways through which the trade mark owner may obtain an income by negotiating with the trade mark right. A trade mark can be a source of profits to its owner also by permitting others to use the trade mark.

<u>A) Trademarks as a source of income</u>

- *<u>Licensing</u>*

When the trade mark holder is interested in commercializing new products with his trade mark or in entering into new markets, but is not willing to assume the consequential risks and making the necessary investments, licensing the trade marks may be a good option.

Assuming that a trademark has obtained a reputation in some national markets, the natural evolution should be to extend its use to other countries and other range of products.

The textile and clothing business is becoming more and more specialized and a manufacturer of men and women clothes would be interested in selling underwear and swimming products, household linen, etc. However, the manufacture and commercialization of that kind of products can be difficult for a company not introduced in such market niches.

But the need of specialization becomes crucial for products such as shoes, watches, sun glasses, leather, jewelry, perfumes and toiletries, etc. Such kind of products are designed and manufactured by specialized companies, having its own distribution network and consequently being capable to successfully commercialize branded products.

But further to the above, it must be taken into consideration that a trademark must be used, otherwise any third party may file a cancellation action based on the non use. When a trademark is registered in many countries and/or for a wide range of products, licensing is a preventive medicine against the lack of use serious illness.

In two words, licensing can be an important source of income for the trademark holder and secure his right against third parties attacks.

A trademark licence is an agreement by which the trademark owner, grants another party a right to use the trade mark under the conditions settled. The trade mark owner is known as the licensor, while the party that will make use of the trade mark and pay the licensor a royalty is the licensee.

In some countries, the licence agreement must be recorded before the Trade Mark registry in order to be effective against third parties.

According to most regulations, licence agreements must be evidenced in writing. The essential elements that should be identified in the licence agreement are the trade mark that is licensed, the nature of the goods for which the licence is granted, the term of the agreement, the territory for which it is granted, the price and whether it is exclusive or not. If the licence is not exclusive multiple licences can be granted at the same time for the same right. The kind of licences granted has effects on the remuneration that the licensor may obtain. Commonly the higher the exclusivity granted the higher the price that will be paid for the licence.

In the licence agreements, usually a royalty is paid for the use of the trade mark. The royalty may be fixed or variable, which means that it increases or decreases with the passing of time and/or the sales of the license in the territory. Likewise, the licensee may also agree to pay a lump sum in advance when the agreement is reached.

It is very convenient to include a quality control clause that will enable the licensor to monitor that the licensee is using the trade mark according to certain quality standards. As I have previously mentioned, the trade mark represents the reputation gained by the trade mark owner and if the licensee does not meet the consumers´ expectations this will have a negative impact also on the trade mark owner.

Likewise, it is advisable to include a clause describing in detail the permitted usage of the trade mark. Such clause should settle certain specifications on the manner in which the trade mark must be used by the licensee and for what kind of uses the licensee must request the licensor's authorization

- *Franchising*

Franchising can be described as an extensive licence because the franchisor usually provides the franchisee with more than just a right to use his trade mark. In a franchising agreement it is common to also provide the franchisor with relevant know-how, supplies and starting materials that may be necessary to run the business. Likewise, a franchise agreement may involve the transfer of a set of IP assets that may include design, patent and copy rights.

Another common characteristic of a franchising agreement is that the franchisee practically assumes the identity of the franchisor in the market. This is actually one of the reasons why the franchisee is interested in entering into a franchising agreement, because this will enable him to take advantage of the good will obtained by the franchisor.

Franchising, as in the case of licensing is a business strategy that involves permitting the use of a trade mark by a third party, hence the trade mark holder must ensure that such use does not result in a devaluation of his trade mark. Therefore, when a franchising agreement is reached it is also advisable to include a quality control clause to monitor the use of the trade mark.

B) Trademarks as a support for business

Trademarks are not only signs for identification of products, but also important and valuable intellectual assets. Consequently trademarks can be effectively used to help the business, for instance as a warranty in the process of financing of the company. But the first step is to know the value of the portfolio, in order to determine how strong that support may be.

- *Valuation of the Trade mark*

Valuation of the trade mark is the process by which the economic value of the trade mark is established. Determining the value of a trade mark is crucial for its holder to be able to decide the most beneficial way to make business with the trade mark.

There are various methods that may be used and that can be included in the following categories.

1) The Cost Approach determines the value of the trade mark on the basis of the investment that the company would need to make in order to obtain a similar trade mark either by acquiring it from a third party or by developing it internally. However, the cost of obtaining the trade mark is not always equivalent to the objective value of the trade mark.

2) The Market Approach is based on the comparison with the amount obtained by the sale of a trade mark in a similar sector. The problem with this method is that it is necessary to have information on the price of the transactions that take place in the relevant sector. Unfortunately this information is rarely available, so the use of this method is not frequent.

3) The Income Method refers to the aptitude of the trade mark to generate income. Basically the value of the trade mark is obtained by estimating the approximate income that the exploitation of the trade mark may produce during its commercial life. This may be done by calculating the amount that would be received as royalties for licensing the trade mark. The presumed royalty can be calculated on the basis of market experience and there are entities such as the Organization for Economic Co-operation and Development (OECD) that publish guidelines on the royalty rates that are normally agreed in each sector.

The most suitable approach depends on the case, but whenever possible it is advisable to combine various methods in order to obtain a more trustworthy valuation.

- *Rights in rem*

According to most legislations a trade mark may be the subject of rights *in rem,* and consequently be the warranty in a loan agreement, either as a security or as a result of a chattel mortgage agreement. In order for these legal acts to have effects before third parties in many countries it is necessary that they are entered into the Trade Mark Register and published.

- *Securitization*

Securitization is a way of raising funds secured by an identified and predictable cash flow derived from the trade mark right. Securitization is the pooling of revenue-generating assets and issuing securities backed by them. Through the securitization of IP assets it is now possible to raise in a few countries, a bank loan without loosing control over the securitized assets with more reasonable terms, including repayment over a longer period of time, than is possible by traditional methods[1].

The basics of that type of operations are the following:

- A company (commonly known as "originator") having an identified portfolio of IP assets, in our case trademarks, sells same to a company called Special Purpose Vehicle (SPV). Identification comprises not only the number and characteristics of trademarks, but also the prospective stream of revenues, via royalties, that the portfolio may generate.
- The SPV is a company that really owns the portfolio and this company, as not being influenced by the eventual financial situation of the originator, generates in capital markets a better image. Even in case of originators having a clear and healthy financial situation, securitization results in a lower cost financing.
- Although the ownership is transferred to the SPV, the originator is still able to manage the portfolio, as the one having the best knowledge about how to obtain a better result.
- The SPV issues securities to capital market investors, using the capital obtained to pay the originator. The investors normally take the decision of investing in the securities, based on the ratings assigned to securities by the rating agencies.
- The investors are repaid ass the royalties of the portfolio are collected, taking consequently it s decision based on the value of the cash flow the portfolio may generate, rather than the balance sheet of the originator

The first known case of securitization of IP rights is the one of the so called "Bowie Bonds" where the famous artist obtained funds of $55 million dollars, based on his music rights. Although other music rights were used as basis for the issuance of securities, certain difficulties caused by uncertainties of cash flow generation, created some doubts among investors.

However, recent operations based on trademark and patent portfolios have regenerated trust in that financial operation. Such operations are the one by which "Guess?" obtained $75 million, based on its trademarks, and the Yale University $100 million based on a patent portfolio.

A company having a diversified and stable, portfolio of trademarks, for different categories of products and registered in different countries is a good candidate.

[1] Valuation of Intellectual Property: what, why and how. WIPO Magazine /Sept-Oct 2003

However, small companies could be also eligible for that way of financing. The last tendency is pooling the royalty rights of a number of companies, diversifying consequently the risk. The key s not the size of the company but the stream of revenues its portfolio may generate

5.- Conclusions

Trademarks, as other IP assets are an effective way of differentiating products but further to this, are a clear source of income for companies. If treated carefully by its registration, extended adequately and prevented from infringes, trademarks may be the most stable and profitable asset a company may have.