

LEGAL AND PRIVACY

## Must-know basics of trademark law for the luxury business

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*Louis Vuitton, one of the world's leading luxury brands, has assiduously protected its trademarks worldwide. Shown: Louis Vuitton's new Monogram Giant handbag collection, available exclusively online. Image credit: Louis Vuitton*

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Brand names are the most valuable asset of many luxury goods companies.

Such famous names as Rolex, Louis Vuitton, Chanel, Cartier and Herms each lie at the center of multi-billion-dollar businesses.

What protects this valuable asset? Trademark law.

As an intangible right, trademarks cannot be protected with a security system only the legal system keeps thieves at bay.

Understanding the fundamentals of trademark law strengthens the ability of luxury goods companies to protect this most valuable asset when making business decisions about use of their trademarks.

So here are eight basic things you need to know:

1. Trademarks: It is all relative

What is a trademark?

The legal definition is any word, name, symbol or device used by a business to identify and distinguish its goods or services those manufactured or sold by others and to indicate the source of the goods.

In short, a trademark is a symbol that answers the questions: Who made this? Who stands behind this?

Over 100 years ago, the United States Supreme Court stated that there is no such thing as a property right in a trademark *except* as a right "*appurtenant* to an established business."

Appurtenant is fancy legal term for relating to, or secondary to. A trademark is like a person's name it has no independent existence, but is a shortcut to refer to a business as the source of goods or services.

The appurtenant doctrine has many ramifications in trademark law.

One example: trademarks are owned only with respect to certain kinds of goods and services. It is thus possible for two different companies to own the *same* trademark in two different fields. DELTA is a registered trademark for both an airline and a plumbing supply company.

So, a trademark is the right to use a certain term or symbol to identify a business as the producer of certain goods or services.

## 2. Trademark rights are acquired and maintained by use

How does a business acquire trademark rights? By using the trademark commercially with goods or services.

U.S. law is different from the laws of many other countries in insisting that use not registration is the basis for a business gaining rights. The first to use a mark for certain goods gets the right to use it, at least in the geographic area in which it is used.

Many foreign trademark holders fail to appreciate this, believing that registration alone, without actual commercial use, gives them rights. It simply does not. U.S. trademark rights are dependent on use in commerce.

And that use has to continue.

If a company stops using a trademark and has no intent to resume it, that constitutes abandonment of the mark, and trademark rights are lost.

The Trademark Act presumes that after three years of non-use, the trademark has been abandoned.

So not only do you need use at the beginning, you need continued use. "Use it or lose it" is a basic principal of trademark law.

## 3. Registration: Many advantages

Since use is the basis for trademark rights, no registration is required.

A business that first uses a trademark for certain goods obtains "common law" trademark rights as to those types of products and can enforce those rights against junior users in court.

So, what is the point of registration? Registration with the U.S. Patent and Trademark Office confers several advantages on the trademark owner.

First, the registration creates a *presumption* that the trademark is owned by the registrant and is a valid trademark.

Second, a registration confers *nationwide* rights, even if the trademark is only used locally.

Without a registration, common-law rights are limited to the geographic area where used.

Third, the trademark registration puts the rest of the world on *notice* that the registrant has rights in the mark. This can mean that a later user of the same or similar mark will be deemed to have acted in bad faith, since it should have checked with the Trademark Office's register, which is now conveniently online.

In applying for a registration, besides identifying the trademark, one must identify the goods or services for which the registration is requested.

A trademark registration is issued for particular goods or services. This is another ramification of the appurtenant principle.

## 4. Two kinds of registration: Use and intent to use

There are two bases to apply for a registration.

One is called use among other things, one must show that the applied-for mark is being used for those goods or services listed in the application.

The other is called "intent to use."

One can apply for a trademark registration for a trademark that has not yet been used for those products. The Trademark Office will review the application, and if approved issue a Notice of Allowance. This is not yet a registration one must subsequently show use, and then a registration will issue.

The advantage of this option is that, once the registration issues, then the priority date will be retroactive to when it was applied-for, giving the registrant priority over later users.

This can be a powerful tool for many luxury goods companies.

If there are plans to use a new mark next year, then it is advisable to file today an intent-to-use application.

When the company starts using the mark next year, it will then retroactively have priority rights to the filing date.

## 5. Marks have to be distinctive

To be a valid trademark, a mark has to be "distinctive" which means it can identify the goods as those of a particular company.

Some proposed marks are not "distinctive," so they cannot function as trademarks.

Trademark law recognizes a spectrum of marks, some protectable, some not, some protectable sometimes. What is critical, however, is that this can only be evaluated *relative to the goods at issue*.

For example, generic words can never be protected as a trademark. But one cannot know whether a term is generic unless one knows the goods.

Is APPLE generic? For fruit, sure. For music, not. For computers, not.

The law recognizes a spectrum of trademarks:

*Generic terms:* Identify the category of goods, for example, watches or handbags. These can never be protected as trademarks.

*Descriptive terms:* Describe a quality of the goods. These are not generally protectable. But, if after extensive promotion and use, the consuming public associates the term solely with a single company, then it may be protected. This is called "acquired distinctiveness."

*Suggestive terms:* These also describe some aspect of the goods, but they require some level of imagination to appreciate the connection. Such marks are immediately protectable but may be considered weak.

*Arbitrary or fanciful terms:* These are either made-up terms, or terms that have no connection to the goods. For example, Montblanc means white mountain and refers to a mountain in the French Alps. But that term has nothing inherently to do with pens and similar products produced by the company. Arbitrary or fanciful marks are the strongest mark and are immediately protectable.

These categories only describe the inherent distinctiveness of a trademark.

In addition, the law considers a trademark's commercial strength, which is built up over time through promotion, sales and media exposure. The stronger the mark, the more protection it will be afforded.

One category important to luxury brands is surnames.

Some of the most famous luxury brands Chanel, Vuitton, Burberry, Gucci, Cartier, Dior are surnames of the original founders or designers of the company.

Surnames can be protected as a trademark but only if one shows "acquired distinctiveness."

In other words, they are not immediately protectable, but can be protected once public recognition has been achieved.

## 6. Confusion: Basis for infringement

Here is another ramification of the appurtenant doctrine, when a trademark is infringed.

Owning a trademark is not a monopoly on a word or symbol. Trademark rights only preclude a certain kind of use a commercial use that creates a "likelihood of confusion" with the owner.

If Rolex owns the rights to the ROLEX mark for watches, then another company cannot use that mark to sell watches, as watch consumers would believe Rolex had manufactured it.

Non-confusing uses, on the other hand, are not an infringement. This could include uses for unrelated goods.

To use one off-beat example, Herms is used as a trademark, apart from the luxury goods company, by a company

that operates a high-intensity gamma-ray generator, used by electronics manufacturers to test its products for resistance to nuclear radiation.

A more common example is references to the brand that do not generate confusion, such as criticism, comparative advertising and truthful references to the brand. All do not involve confusion and would not infringe.

For example, courts have allowed references to well-known perfume brands by other brands "Smells like Chanel No. 5" so long as it is made clear that a different company is the manufacturer.

Or, another example is if the goods are genuine, then any retailer can use the trademark for the purpose of identifying the goods as those brands.

There is no legal requirement in U.S. law that a retailer be authorized. So, any retailer that has obtained genuine Brand X goods for sale may advertise that they are available. What the retailer cannot do is imply that it is an authorized dealer if it is not.

## 7. Types of confusion

The law recognizes several different types of "confusion."

The most basic type is point-of-sale confusion, where a consumer is confused about the source of the goods when making a purchase decision.

But there are other forms of confusion that the law recognizes.

The most important one for luxury goods companies is post-sale confusion. This means that even if the purchaser is not confused, if someone else sees the item later for example, being worn then that confusion constitutes trademark infringement.

This applies to the sale of cheap counterfeits.

As one court aptly put it, the person buying a \$25 "Rolex" watch on a street-corner likely does not believe that he or she is buying the real thing. But the point is to wear it and confuse others into thinking it is a real Rolex.

That post-sale confusion is where a manufacturer such as Rolex feels the harm, and the law recognizes it as a form of confusion.

Another recognized form of confusion is sponsorship confusion.

Even if it is clear that the goods or services are from a different company, some uses of a trademark may create a false impression that the goods or services are sponsored by a different company.

This is the issue that Chanel has raised in a lawsuit with respect to certain retail outlets that use its mark to sell what they claim are genuine Chanel products.

Such retailers can use the Chanel mark to truthfully identify products as Chanel that is not an infringement. But Chanel has claimed that their overuse of the Chanel mark and logos creates a false impression that the stores are authorized Chanel stores, which they are not.

Such confusion as to sponsorship, assuming Chanel can prove it, is a type of trademark infringement.

## 8. Trade dress: Where design functions as a trademark

Although most trademarks are words or logos, the law does not limit trademark protection to those.

The design of a product or its packaging can function as a trademark and be protected as such. This is called "trade dress."

Famous examples of trade dress include the Coca-Cola bottle and the Rolls-Royce front grille. Each of these designs is strongly identified with the manufacturer and functions to identify the item as from that one source.

There are heightened requirements for trade dress protection.

First, for the design of a product, one must always show "acquired distinctiveness."

Unlike some word marks, a design is not immediately protectable as a trademark. Only once strong public association with the one source is built up does the law protect it.

Second, trade dress cannot be "functional."

Basically, this means that the design provides some advantage to the product apart from its identification with the source.

For example, a handbag design that makes the handbag easier to use, cheaper to manufacture or more durable is "functional," and cannot be protected as trade dress.

Trade dress protection has both advantages and disadvantages over rights such as patents and copyrights.

On the one hand, trade dress protection potentially can last forever, while patents and copyrights are limited in time.

On the other hand, trade dress, like any other trademark, only protects against commercial uses that create a "likelihood of confusion." Sometimes, copyists use this ploy to avoid infringement.

One example is use of a "house mark" to dispel confusion.

Suppose Brand X creates a distinctive design of an item and markets it heavily, achieving trade dress protection. Brand Y then copies the design, but prominently labels its Brand Y on the product and in advertising.

Brand Y might well have an argument that its use of its own house mark (Brand Y) dispels any confusion. That would then become an issue for a court to decide what consumers likely believe.

This illustrates the difference between trademarks, and patents and copyright. If Brand X owns a design patent on the design, then a copy would infringe, regardless of use of the house mark. But infringement of Brand X's trade dress rights only occurs where consumer confusion is likely.

LUXURY GOODS COMPANIES are routinely making and implementing decisions that affect their brands' most valuable assets: their trademarks.

Understanding the fundamentals of trademark law enhances their ability to protect this most valuable asset when making these decisions.

*Next week: Must-know basics of copyright law for the luxury business*



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