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IP Basics: Trademarks and Business Goodwill

Abstract

This is information all business owners need if they wish to preserve their hard-won goodwill. It discusses, for example, the important differences between strong and weak marks for products and services, the value of state and federal registrations and the importance of searches (to avoid wasting money).

Keywords

customer loyalty, trademark, service mark, registration, PTO

Disciplines

Entrepreneurial and Small Business Operations | Intellectual Property Law

Additional Information

This series began by Professor Field in the 1970s in print booklets continued as web pages and were last updated in 2015.

IP Basics: Trademarks and Business Goodwill

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Last updated 2015

Introduction

Businesses that offer valuable products and services at fair prices work hard to build consumer loyalty. When they succeed, consumer goodwill generates repeat business and referrals. Few businesses would write their names in chalk on the company truck. Yet, for them to ignore trademarks is almost as bad.

Businesses must make the most of trademark protection. Trademarks guard commercial reputations, but people to whom they are most important often misunderstand them. Many do not know, for example, that, in the U.S., trademark rights flow from merely using good marks. This paper explains such matters. It also suggests ways to get the most from what trademark law offers. Those who invest heavily in consumer goodwill must understand how to protect their investments.

What Trademarks Are

- *Their function.* Trademarks are "brand names." They distinguish one company's cornflakes or four-wheel-drive station wagons from another's. Without them, how could you find products you like or avoid ones you don't?
- *Their form.* Think of trademarks as more than words or logos. They may be three dimensional symbols, such as the well-known "golden arches." They even include colors, sounds and scents!
- *Types of marks.* Technically, "trademark" means a symbol used with goods, rather than services. Marks used with the last are called "service marks". For simplicity, "trademark" (or "mark") as used here means any symbol that identifies only one firm or group of related firms.
- *Guarantees of consumer value.* Whatever their type, all marks have this in common: They allow consumers to seek, or to avoid, particular sources of products or services.

Good trademarks do not wear out or expire. Well-chosen marks become more valuable as goodwill grows. Trademarks are often the most important assets of established businesses. Imagine the loss if the company that owns "Pepsi" had to give it up.

What Trademarks Are Not

Trademarks are not copyrights or patents. They cannot be used to stop others from copying goods or services. Nor can trademark rights prevent use of common descriptive (generic) words.

Those with large investments in original research or development should consider patents and other such protection against copying. Still, a day will come when patents and trade secrets are no longer effective. Then, others will have a legal right to copy and to describe their copies.

Truly new items need two names: one as a common name, the other as a trademark. If Sarah invents a "gizmo," she also needs a brand name. She should not sell Gizmo-brand gizmos! Cellophane and shredded

wheat were once valuable marks. Now they are now part of our common language because no other term describes either product.

Obtaining Trademark Rights

In the U.S., formalities are unnecessary for trademark rights. Words or other symbols have legal protection as soon as consumers see them as representing unique commercial sources. Consumers may even create trademark rights. Before the consumer nickname, "Coke," was officially adopted by the Coca-Cola Company, a firm was stopped from selling "Koke-Up!"

Trademark rights are easy to get, but marks should be chosen as carefully as product designs, location or key personnel. That choice is a major business decision. Some would put it at the top of the list. If a firm chooses a good mark, purchasers will have no trouble distinguishing its products or services from those of its competitors.

Choosing Good Trademarks

- *Strong and weak marks.* Take a hard look at a mark's potential market strength, and do not use the first name that pops into someone's head. Strong names cannot be picked by magic formula, but you might take a few minutes to jot down several trademarks you regard highly. Do they clearly relate to a particular producer? Do they have anything else in common?
- *Marks similar to ones used by several businesses are among the weakest.* How many sinus medicine marks begin with the prefix "sinu-"? How many companies in your area use a nickname such as Granite, Keystone or Empire State? I recently counted 27 Granite State firms in the Concord, NH, phone directory. Imagine how many more are in the rest of the state. What if such a shop wants to expand elsewhere or into another line of business? How many businesses use the words national, general or American? Can you keep them straight? (For fun, try a Google search for some of these!)
- *Suggestive marks may be good.* Words that create a favorable impression about a product or service are helpful. "Hotdog" might be good for a sports item where skillful users are called "hotdoggers." How about "jackrabbit?" It suggests speed but may leave a negative impression: In some parts of the country, jackrabbits are a terrible nuisance. (General Motors is said to have suffered south of the border because "no va" translates into "won't go" in Spanish!)
- *Arbitrary or fanciful marks are better.* Terms with no connection to related goods or services also make strong marks. Consider, for example, Hamburger brand automobiles. (Still, a firm using that mark could not prevent use of "hamburger" for sandwiches.)
- *Consider new words or symbols.* These may be more difficult to promote at first. Despite that, as with the Nike "swoosh," they are ultimately the strongest, particularly as registered domain names. What justification could another firm give for using Nike's swoosh on toothpaste, bicycles or anything else? Likewise, you should aim for marks that cannot be used by others for any product or service.

Avoiding Bad Marks

Some famous marks violate the following rules of thumb. But how long did it take before consumers associated them with specific firms?

- *Descriptive terms are weak.* Again, generic terms such as "car" or "TV repair" are useless. If one firm could get sole rights to use such terms, others could not sell in those markets. The law does not permit this.
- *Misspelling affords no advantage.* Consider Kleener. What happens if consumers must ask for the product? Will it be advertised on radio?

- *Surnames are weak.* It is not easy to get rights in a surname (Jones or Smith). It could take years before consumers see it as something besides the business owner's name. Meanwhile, it will be difficult to keep others with the same name from using it -- even on the same goods or services.
- *Geographic names are weak.* Until the name of a location acquires a new meaning through association, others cannot be stopped from using it on very similar goods or services. It will never be possible to prevent others from using it to indicate items made in that location.
- *Deceptively misdescriptive terms are terrible.* Consider "Two Hour" as a mark for a TV repair business. Again, if it merely describes the repair time, it is a poor choice. It is even worse if it leads consumers to expect quicker service than they will get.

A deceptively misdescriptive mark cannot help create or keep goodwill. Merely misdescriptive may be "fanciful" (again consider Hotdog brand skateboards or Hamburger brand automobiles), but if the mark misleads people, try another one.

Avoid Other Firms' Marks!

Marks similar to those used by companies in similar markets are among the worst choices. Firms that sell good products at fair prices do not want to share the not-so-good goodwill of businesses that may not treat consumers as well. What's the likelihood that a copy-cat firm will treat consumers well? Trademark law allows firms to stop such use. It also lets them recover the profits of people who seek a free ride. Even if another's mark is so weak (for example Granite State) that you can use it too, why not pick a strong mark?

Trademark notice

In the U.S., anyone can use a superscripted TM (or SM) to indicate that a symbol is a trademark. However, firms should not use ® [R-in-a-Circle] until their marks are federally registered (a matter discussed below). Be sure to avoid marks with such notices.

Why A Trademark Search is Needed

To see if others already have rights, do a search. Failing to search increases the risk that others can prevent your expansion into new geographical or product markets -- or, worse, the loss of goodwill investments. Avoiding trademark infringement requires more than avoiding known marks.

Imagine two businesses starting at about the same time, making a similar product in different locations. Imagine, too, that they choose very similar marks. Until particular consumers have to choose between them, there is no problem. Yet, unless one fails or both stagnate, trouble is inevitable. When the firms' territories overlap, it may be impossible for consumers to distinguish them. If so, one company can shut the other out of that market. Also, both companies will be limited to only part of the country.

The only way to lessen the risk of being in that unhappy situation is to do a trademark search. Start with preliminary searches, for example, using Google. Remember, however, that this is only a start. Do not adopt a mark without a professional search. For less than \$500.00, you can learn of others that have rights in a mark and, if so, on what. (Compare the cost of real estate title searches.) Still, you must consider the small chance that another has adopted the mark too recently -- or is using it in too limited an area -- to be easily found.

Trademark Registration

In the U.S., the risk of having to share marks can be further reduced by taking advantage of state and federal trademark registers. Registration by one firm will not take away territory already used by others, but it may prevent or deter expansion.

- *The scope of registers.* States register marks for use within their borders, but federal registers cover the entire U.S. with its territories and possessions.
- *Federal registers.* Two registers are kept at the U.S. Patent and Trademark Office (PTO) near Washington, DC. One register confers fewer rights but will take marks, such as surnames, that lack source recognition. The other, for initially strong marks and those enjoying consumer recognition, is more useful.
- *State registers.* State registration is comparatively inexpensive and straight-forward. If a mark is not already taken and conforms to rules set forth above, there should be no problem. Yet, what one gets for the bother is questionable. First, state registration is unlikely to add to the geographic reach already given through use. Later users may take unoccupied areas. Second, state personnel are unlikely to know whether marks are registered in other states or in the PTO. Too few people appreciate that those who register locally will lose to prior federal registrants -- or even applicants. Worse, later federal registrants will get unoccupied state territory. Too many state registrants invest in marks that others already own.

U.S. Federal Registration Requirements

- *Use of marks.* Before one can get federal registration, a mark must be used properly. For goods, this means that the mark must appear on labels, not only in advertising. It also means that word marks should never be used as verbs or nouns. Trademarks are adjectives: The seller of Gizmo brand gadgets must never say that its gadget "gizmos" or refer to its gadget as a "gizmo". It must always use the mark with the word gadget as in "the Gizmo gadget" or "the Gizmo brand gadget." Those who do not heed these rules will get into trouble and can lose their rights. Applications can be filed without prior use, but registration will not occur before proper use.
- *Interstate commerce.* Federal registration may require goods (or possibly customers) to cross state lines. This could cause difficulty for firms far from state borders -- unless, for example, they are in a tourist area and have a substantial out-of-state clientele. Yet, selling on the web should take care of any problem.

Whether to Register with the PTO

Federal registration, costing \$1000.00 or more, may seem expensive. It is the only way, however, to ensure that the entire country (aside from possible areas of prior use) is free for expansion. Conversely, failure to register increases the need to monitor federal trademark registers. Doing neither of those will allow others to get rights in areas still unserved.

For further information, see the U.S. PTO's Basic Facts About Registering a Trademark.

The Need for Experienced Counsel

Attorneys admitted to practice anywhere in the U.S. can register trademarks with the PTO. No examination determines whether they know trademark law or registration procedures. Few have been exposed to trademarks in law school or elsewhere. With many lawyers unaware of basic information presented here, firms should seek trademark specialists.

The Bottom Line

Will it cost more first to investigate prior users and registrants or later to suffer the expense and inconvenience of asking customers to seek your products or services under a different mark?