The Evolution of Brands:
How Innovation Is Changing the Retail Landscape

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Following is material supporting a discussion of the need for retailers to adapt business models to meet changing consumer demands, and how to counsel clients through a changing maze of online apps, augmented reality, and social media, to ensure that IP protection and enforcement efforts reflect the times and are nimble in this ever-changing landscape.

UNITED STATES DISTRICT COURT
DISTRICT OF CONNECTICUT

EDIBLE INTERNATIONAL, LLC and EDIBLE IP, LLC,	:	CIVIL ACTION NO.
Plaintiffs,	:	
v.	:	
GOOGLE, LLC.	:	February 5, 2018
Defendant.	:	

COMPLAINT

This is an action for federal trademark infringement, false designation of origin, and dilution arising under 15 U.S.C. §§ 1114(a), 1125(a) and 1125(c), and unfair competition and trademark infringement arising under Connecticut state law, all arising out of the willful infringement and dilution of Edible International, LLC's and Edible IP, LLC's (collectively "Edible Arrangements" or "Plaintiffs") registered trademarks by Defendant Google, LLC formerly known as Google, Inc. ("Google" or "Defendant"). Defendant's repeated and intentional placement of advertisements for Plaintiffs' competitors in prominent locations throughout search results for "Edible Arrangements," and in conspicuous proximity to a banner stating "shop for Edible Arrangements on Google…," is likely to cause confusion as to whether Plaintiffs' products and services are affiliated with, originate from, and/or are endorsed by these competitors. Accordingly, Edible Arrangements, by and through its undersigned attorneys, complains and alleges against Google as follows:

THE PARTIES

1. Plaintiff Edible International, LLC ("Edible International") is a Delaware limited liability company with a principal place of business at 95 Barnes Road, Wallingford, Connecticut 06492.

2. Plaintiff Edible IP, LLC ("Edible IP") is a Connecticut limited liability company with a principal place of business at 95 Barnes Road, Wallingford, Connecticut 06492.

3. Upon information and belief, Google is a corporation organized under the laws of the State of Delaware with its corporate offices located at 1600 Amphitheatre Parkway, Mountain View, California 94043.

JURISDICTION AND VENUE

4. This Court has subject matter jurisdiction under 28 U.S.C. §§ 1331 and 1338 because Edible Arrangements asserts claims of trademark infringement, false designation of origin, and dilution arising under 15 U.S.C. §§ 1114, 1125(a) and 1125(c).

5. This Court has supplemental jurisdiction over the claims in this complaint that arise under the laws of the State of Connecticut pursuant to 28 U.S.C. § 1367(a) because the state law claims are so related to the federal law claims that they form a part of the same case or controversy and derive from a common nucleus of operative facts.

6. This Court has personal jurisdiction over Edible Arrangements by virtue of the filing of this Complaint, and Edible Arrangements consents to its jurisdiction.

7. Google is subject to personal jurisdiction in this district because it advertises, solicits clients, and conducts continuous, systemic, and routine business in the state of Connecticut and within this district, subjecting it to personal jurisdiction in this district.

8. Venue properly lies in this district pursuant to 28 U.S.C. § 1391(b)(1) and (c) because Edible Arrangements is headquartered in Connecticut. Google's interactive website is viewable in this judicial district and throughout the United States. Google regularly engages in business in this judicial district, and its contacts are sufficient to subject it to personal jurisdiction in this district.

GROWTH OF EDIBLE ARRANGEMENTS' BRAND AND BUSINESS

9. Edible International is the successful franchisor of stores offering fresh cut fruit products, and is best known for its artistically-designed fresh fruit products evocative of floral designs and its dipped fruit products. These highly-regarded products are available through an extensive network of franchises throughout the United States and abroad, and through its websites, its call center, the Internet, and a handful of affiliate-owned stores.

10. Edible IP is the owner and licensor of, among other things, the various trademarks, trade dress, domain names, copyrights, and other intellectual property used and associated with the famous EDIBLE ARRANGEMENTS business and brand, as set forth in greater detail below. Edible IP licenses these intellectual property assets to Edible International for use and sublicensing through Edible International's franchise system and websites.

11. Edible Arrangements is a remarkable American success story, born out of the entrepreneurial spirit of its founder and owner, Tariq Farid. Mr. Farid purchased his first flower shop in East Haven, Connecticut at the age of 16, and within several years had grown his business to four locations.

12. Drawing upon his experience and success as a florist, Mr. Farid developed a unique marketing program of fresh cut fruit baskets bearing designs inspired by floral arrangements. His vision then, and continuing today, was to create and offer to customers the highest quality cut fruit in a format reminiscent of floral designs.

13. In 1999, Mr. Farid opened the first EDIBLE ARRANGEMENTS® store, through which he introduced his unique cut fruit products sculpted to look like flowers and floral designs.

14. Prompted by inquiries from those interested in his novel business and creative branding, Mr. Farid began franchising his business in 2001, with the opening of the first-ever EDIBLE ARRANGEMENTS franchise in Waltham, Massachusetts.

15. From then on, the EDIBLE ARRANGEMENTS brand and business experienced rapid growth and expansion. By 2004, just three years after the launch of the first franchise, Edible Arrangements was recognized as among the top 500 franchises in the United States by Entrepreneur Magazine.

16. By 2006, the 500th franchise opened in Chicago, and by 2011, that number reached 1000. Today, there are over 1200 EDIBLE ARRANGEMENTS stores in at least 8 countries around the world, with more than 1100 stores located throughout the United States.

17. Beyond this growing franchise system, Edible Arrangements markets its goods and services through a number of additional trade channels, including its popular www.ediblearrangements.com and www.edible.com websites, the company's toll-free call center, and affiliate-owned locations.

18. As chronicled by the business media, Edible Arrangements has climbed to the upper echelon of franchisors in the United States. For example, Edible Arrangements ranked ninth on the Forbes 2011 list of top “franchises to start,” was named one of the “Top 100 Internet Retailers” by Internet Retailer magazine; was 38th on Entrepreneur Magazine's 2017 Entrepreneur Franchise 500; and was ranked 3rd on Inc. magazine’s list of top food and beverage companies. Most recently, the Franchise Times has ranked Edible Arrangements No. 128 in its list of the “Top 200 Franchises.”

19. Today, Edible Arrangements enjoys system-wide gross sales of its branded products and services in excess of half a billion dollars annually. Edible Arrangements’ spectacular success is a direct result of its commitment to providing a consistent high-quality,

beautifully-designed product instantly recognizable by consumers as one made by Edible Arrangements, and its aggressive marketing and promotion of the famous EDIBLE ARRANGEMENTS trademark and brand.

20. Edible Arrangements' franchisees share in the commitment to consistently deliver high-quality, beautifully-designed products to consumers that are instantly recognizable as an Edible Arrangements product offered under the famous EDIBLE ARRANGEMENTS trademarks and brand.

21. Any consumer misperception or confusion as to the affiliation of Edible Arrangements or its products with competitors or their products will irreparably damage Edible Arrangements' valuable brand and goodwill, as well as that of Edible Arrangements' franchisees, who devote significant personal resources to running their shops.

EDIBLE ARRANGEMENTS' VALUABLE INTELLECTUAL PROPERTY

22. The Edible Arrangements business is predicated on the high quality of its goods and services and the famous trademarks that designate those goods and services.

23. By marketing and promoting these brand identifiers aggressively in connection with its hugely-popular products and services, Edible Arrangements has created a stable of extremely well-known marks that the public uses to identify and distinguish Edible Arrangements' goods in the marketplace.

24. Of significant importance to Plaintiffs and its franchise network is the famous trade name, trademark, and service mark EDIBLE ARRANGEMENTS (the "EDIBLE ARRANGEMENTS Mark"), which serves as the banner of quality that identifies and distinguishes Edible Arrangements' goods and services in the marketplace.

25. The EDIBLE ARRANGEMENTS Mark, covered by Registration Nos. 2,934,715 and 3,844,160, among others, is incontestable pursuant to the provisions of the Federal Trademark Act of 1946, as amended, 15 U.S.C. § 1051 et seq. (the "Lanham Act"), as is the EDIBLE ARRANGEMENTS Mark and Logo, Reg. Nos. 3,141,566, and 3,844,161, appearing below:

26. The famous EDIBLE ARRANGEMENTS Mark is widely recognized by the general consuming public as identifying Edible Arrangements and its products and services. Edible Arrangements' branding is widely suffused with references to and displays of this famous mark.

27. For example, the EDIBLE ARRANGEMENTS Mark is used as the trade name of every Edible Arrangements store and franchise. Each such store features signage and various in-store and point-of-purchase displays of the EDIBLE ARRANGEMENTS Mark, including on coolers, counters, and other decor. Franchisees at the stores wear clothing that displays the EDIBLE ARRANGEMENTS Mark to reinforce consumer perception that all the goods and services through the stores emanate from Edible Arrangements.

28. Additionally, the Edible Arrangements products sold and delivered to many millions of consumers annually all bear the EDIBLE ARRANGEMENTS Mark on packaging, boxes, and other associated containers and sales documents, such as invoices and delivery notices.

29. Likewise, the familiar refrigerated delivery vehicles that deliver these products to consumers and circulate daily throughout the U.S proudly display the EDIBLE

ARRANGEMENTS Mark prominently along their sides.

30. Edible Arrangements' marketing materials, brochures, catalogs, coupons, and sell sheets all likewise feature the EDIBLE ARRANGEMENTS Mark as a designation of source. Edible Arrangements advertises across all important media — television, radio, print, internet, digital, e-commerce, and social media, for example — and invariably emphasizes the EDIBLE ARRANGEMENTS Mark in those advertisements.

31. Edible Arrangements franchisees also use promotional merchandise, such as jackets, shirts, t-shirts, hats, and store signage, that further display and promote the EDIBLE ARRANGEMENTS Mark.

32. The cumulative effect of this comprehensive promotion of the EDIBLE ARRANGEMENTS Mark is that consumers — whether purchasers, shoppers, recipients, or even viewers of advertising or refrigerated delivery vehicles — are constantly informed that the EDIBLE ARRANGEMENTS Mark designates the source of the Edible Arrangements products that circulate regularly through United States commerce.

33. The EDIBLE ARRANGEMENTS Mark is inherently distinctive. It imaginatively combines the normally disparate notions of flower arrangements, which are displayed for their visual appeal and not eaten, and cut fruit, typically served as food.

34. By virtue of this extensive usage in connection with so many highly-regarded products and services, the EDIBLE ARRANGEMENTS Mark has become widely known to the general consuming public of the United States, has acquired significant secondary meaning, and represents goodwill of enormous value to Edible Arrangements.

35. Indeed, consumer research demonstrates powerful brand recognition for the EDIBLE ARRANGEMENTS name and mark.

36. The EDIBLE ARRANGEMENTS Mark is famous, as it is widely recognized

by the general consuming public of the United States as a designation of source of the goods and services of Edible Arrangements, and it became famous well before Defendant's unlawful activities complained of herein.

GOOGLE & ITS UNLAWFUL CONDUCT

37. In 1998, Google made its first appearance in the consumer marketplace when it unveiled the first iteration of its search engine. The company quickly gained a loyal following, with its web traffic increasing by 3 million queries per day each month in 2000.[1]

38. Shortly thereafter on October 23, 2000, Google launched its now-famous Google AdWords program,[2] as a way to further monetize its search engine. Among other things, AdWords permits and encourages merchants and brand owners to buy keywords that will trigger advertisements when Google users search for the keyword term. Keyword advertising has become a major source of revenue for Google and its competitors—what was only 5% of third quarter total Internet advertising in 2001,[3] became nearly 47% of second quarter total Internet advertising revenue in 2017.[4]

39. Subsequently, on May 2012, Google unveiled its Knowledge Graph technology which was intended to "help [users] discover new information quickly and easily" by "understand[ing] real-world entities and their relationships to one another: things, not

[1] *Google Launches Self-Service Advertising* Program, GOOGLE NEWS (October 23, 2000), https://googlepress.blogspot.com/2000/10/google-launches-self-service.html.
[2] *Google Launches Self-Service Advertising* Program, GOOGLE NEWS (October 23, 2000), https://googlepress.blogspot.com/2000/10/google-launches-self-service.html.
[3] PRICEWATERHOUSECOOPERS, IAB INTERNET ADVERTISING REVENUE REPORT: 2011 THIRD-QUARTER RESULTS (December 2001), 10, https://www.iab.com/wp-content/uploads/2015/05/resources_adrevenue_pdf_IAB_PWC_2001Q3.pdf.
[4] PRICEWATERHOUSECOOPERS, IAB INTERNET ADVERTISING REVENUE REPORT: 2017 FIRST SIX MONTHS RESULTS (December 2017), 9, https://www.iab.com/wp-content/uploads/2017/12/IAB-Internet-Ad-Revenue-Report-Half-Year-2017-REPORT.pdf . In 2017, keyword advertising consisted of the majority of Internet advertising revenue, followed by banner ads at 31%, video ads at 13%, and other at 9%. *Id.* https://www.iab.com/wp-content/uploads/2017/12/IAB-Internet-Ad-Revenue-Report-Half-Year-2017-REPORT.pdf

strings."[5]

40. In conjunction with this introduction, Google developed Knowledge Panels, which have become a familiar source of information about businesses and brands for Google users. "When people search for a business on Google, they may see information about that business in a box that appears to the right of their search results. The information in the box, called the Knowledge Panel, can help customers discover and contact your business."[6] In other words, Google's stated purpose for displaying Knowledge Panels about a business or brand is to assist users in locating and contacting the businesses or brands they search for on Google.

41. According to Google, the Knowledge Graph "enables [users] to search for things, people or places that Google knows about…and instantly get information that's relevant to [his or her] query…[Google's Knowledge Graph] aims to tap[ ] into the collective intelligence of the web and understand[ ] the world a bit more like people do."[7]

42. Despite this self-proclaimed goal of helping users find the businesses they are searching for on the Internet, Google has done precisely the opposite with respect to Edible Arrangements. More specifically, upon information and belief, Google has prioritized increasing its bottom line and exploiting the value of the EDIBLE ARRANGEMENTS Mark for its own financial benefit over providing relevant, responsive, and non-misleading information to consumers looking for Edible Arrangements and its products on the Internet.

43. While Google is far from transparent regarding the operations of its searching and advertising mechanisms, upon information and belief, Google accomplishes this unlawful

[5] Amit Singhal, *Introducing the Knowledge Graph: things, not strings*, GOOGLE BLOG (May 16, 2012), https://googleblog.blogspot.com/2012/05/introducing-knowledge-graph-things-not.html.
[6] *Your business information in the Knowledge Panel*, GOOGLE SUPPORT, https://support.google.com/business/answer/6331288?hl=en, (last visited Jan. 12, 2018).
[7] Amit Singhal, *Introducing the Knowledge Graph: things, not strings*, GOOGLE BLOG (May 16, 2012), https://googleblog.blogspot.com/2012/05/introducing-knowledge-graph-things-not.html.

scheme of exploiting the EDIBLE ARRANGEMENTS Mark through various means, including without limitation its Adwords programs, its marketing and "sale" of Edible Arrangements' valuable trademarks as keywords to Edible Arrangements' direct competitors, the algorithms it uses to display competitive "product listing ads" to those looking for Edible Arrangements, its manipulation of the Knowledge Graph technology, and its means of displaying the famous EDIBLE ARRANGEMENTS Mark in prominent proximity to advertisements for competitors' products.

44. For example, as reflected in Exhibit A, when Google's users enter the EDIBLE ARRANGEMENTS Mark in the Google search bar, they are shown a format of display that is not only at odds with the displays associated with other brand searches, but that also expressly misleads consumers into believing that Edible Arrangements is the source of, sponsors, or is otherwise associated with various competitive brands and their products and advertisements. Thus, when users search for "Edible Arrangements," instead of being shown the customary information about Edible Arrangements in a Knowledge Panel appearing immediately to the right of the topmost search results (as Google describes this functionality), to the right of the search bar they are instead shown "product listing advertisements" that feature advertisements for, links to, and images of competitors' products where the Knowledge Panel should appear. Google thus misleads consumers into making a "connection" between Edible Arrangements and these competitors' products and denies those consumers immediate access to the information that Google promises it will deliver to "help customers discover and contact" Edible Arrangements.

45. To make matters worse and drive home the deception, Google also misuses the EDIBLE ARRANGEMENTS Mark by displaying a prominent header stating "shop for Edible Arrangements on Google" immediately above the competitors' product listing ads. Notably,

Google's "Sponsored" disclaimer appears in smaller, differently-colored font and, upon information and belief, is ignored by most users. Google thus urges those seeking Edible Arrangements' products to "shop for Edible Arrangements" by clicking on competitors' ads displaying directly-competing products. A screenshot of Google search results for "Edible Arrangements," displaying this header, is attached as Exhibit B.

46. The net result of this display is that consumers are deceived into thinking competitive products come from or are associated with Edible Arrangements, Edible Arrangements' valuable trademark is placed in jeopardy, and Google profits handsomely.

47. Indeed, upon information and belief, while Google was engaged in these unscrupulous tactics and unfair business practices with respect to Edible Arrangements, its advertising revenue has increased and represents a significant portion of its total revenue. Upon information and belief, $63.79 billion of Google's $89.46 billion of revenue in 2016[8] was attributed to its advertising revenues—increasing from about $70 million in 2001.[9]

48. At the same time that Google is intentionally misleading consumers concerning Edible Arrangements, it provides non-misleading information in response to searches for Edible Arrangements' competitors. Thus, when Google users enter search terms for Edible Arrangements' competitors, Google neither misplaces the Knowledge Graph nor replaces it with a deceptive prompt to "shop for" competitive brands. Rather, consistent with its stated policies and typical means of display, Google simply displays a Knowledge Panel for the company or brand the user was seeking, so that the user can "instantly get information that's relevant to [his or her] query." Examples of such searches for competitors such as Provide Berries, Inc. d/b/a Shari's Berries, Inc. ("Shari's Berries"), FTD Companies, Inc. ("FTD"), and

[8] STATISTA SURVEY, SEARCH ENGINE USAGE 19, 29 (August 2017).
[9] STATISTA GOOGLE'S AD REVENUE FROM 2001 TO 2016 (IN BILLION U.S. DOLLARS) 38 (February 2017).

1-800 Flowers.com, Inc. ("1-800 Flowers"), where the Knowledge Graph Card appears on the top right-hand side of the search results without any misleading banner or third party ads, are attached as Exhibit C.

49. And although Edible Arrangements has put Google on notice of the foregoing and submitted requests to Google which ask Google to cease misuse of the EDIBLE ARRANGEMENTS Mark and update and fix the "Knowledge Graph" treatment appearing in Edible Arrangements' Google search results, Google has failed to respond to a single request.

50. Google's continued misconduct and unfair business practices are extremely detrimental to Edible Arrangements in part due to Google's popularity amongst Internet users. In fact, upon information and belief, in October 2017 Google represented 78.65% of desktop search traffic in the United States.[10] Because consumers are likely to use the Google search engine before competing search engines, numerous consumers will view Google's deceptive search results for "Edible Arrangements" and be misdirected to websites belonging to Edible Arrangements' competitors. In addition, by using Google, consumers, who are conditioned to seeing key information about a brand next to their searches, are instead denied valuable business information about Edible Arrangements when Google fails to display the corresponding Knowledge Panel about Edible Arrangements.

51. Not surprisingly, Edible Arrangements' customer service center has received numerous phone calls from customers who have mistakenly made a purchase through an Edible Arrangements competitor website after searching "Edible Arrangements" through the Google search engine. For instance, one customer states in a recorded customer service phone call, "I did put in Edible Arrangements but this comes up and it says Shari's Berries … but when I Googled it on Saturday to make the placement I thought I was actually doing it from

[10] STATISTA SURVEY, SEARCH ENGINE USAGE 32 (August 2017).

Edible Arrangements…I don't even know anything about Shari's Berries, I've never ordered from them, I've always used Edible Arrangements, so I'm like pissed about that …I mean I didn't want to order from there."

52. Google's conduct described above is likely to cause, and is in fact causing, confusion, mistake, and deception among the consuming public about the source and origin of Edible Arrangements' competitors' goods and services, and is likely to deceive and has deceived the public into believing that such competitive goods and services originate from, are associated with, or are authorized by Edible Arrangements, all to the damage and detriment of Edible Arrangements' reputation, goodwill, and sales.

53. Google's conduct described above is also likely to dilute, impair, and blur the distinctiveness of the EDIBLE ARRANGEMENTS Mark, which is famous among the general consuming public and has enjoyed that fame since long before Google's misconduct described herein.

54. By replacing the Knowledge Graph with a "shop for Edible Arrangements" banner over third party advertisements, Google uses an identical replica of the famous EDIBLE ARRANGEMENTS Mark and expressly associates it with multiple third-party brands over whom Edible Arrangements has no control. That explicitly-drawn connection impairs the distinctiveness of the EDIBLE ARRANGEMENTS Mark by associating a brand that famously designates a single source with multiple different sources.

55. Google's unlawful conduct has a direct, harmful impact on Edible Arrangements and its franchisees in multiple ways. Upon information and belief, it has caused the diversion of lawful sales away from Edible Arrangements and its franchisees to Edible Arrangements' competitors, many of whom do not offer products that measure up to Edible Arrangements' exacting quality standards. Business that rightfully should have gone to Edible

Arrangements and its franchisees has thus gone to Edible Arrangements' competitors instead, competitors who – unlike Edible Arrangements' franchisees – have not invested significant amounts into television and other advertising to earn the name recognition that initiates the search behavior.

56. In addition to this significant financial damage, Google's unlawful conduct has also caused and will continue to cause irreparable damage to the EDIBLE ARRANGEMENTS Mark and the valuable brand and goodwill it so powerfully represents. Unless enjoined by this Court, Google's conduct will deprive Edible Arrangements of control over its immensely valuable brand and the goodwill it represents, and will undermine Edible Arrangements' investment of time and money over many years in imbuing that Mark with the favorable and unique associations that distinguish the brand in the marketplace. Edible Arrangements has no adequate remedy at law.

COUNT ONE:
(Trademark Infringement Pursuant to 15 U.S.C. § 1114)

57. Paragraphs 1-56, above, are repeated and re-alleged as if fully set forth herein.

58. Google's activities as described above constitute trademark infringement in violation of section 32 of the Lanham Act, 15 U.S.C. §1114(1)(A).

59. By virtue of the foregoing, Edible Arrangements has been damaged and will continue to be damaged absent relief from this Court.

COUNT TWO:
(False Designation of Origin Pursuant to 15 U.S.C. § 1125(a))

60. Paragraphs 1-59, above, are repeated and re-alleged as if fully set forth herein.

61. Google's activities as described above constitute trademark infringement, false designation of origin, and unfair competition in violation of section 43(a) of the Lanham Act, 15 U.S.C. §1125(a)(1)(A).

62. By virtue of the foregoing, Edible Arrangements has been damaged and will continue to be damaged absent relief from this Court.

COUNT THREE:
(Dilution Pursuant to 15 U.S.C. § 1125(c))

63. Paragraphs 1-62, above, are repeated and re-alleged as if fully set forth herein.

64. Google's activities as described above are likely to dilute, impair, and blur the distinctiveness of the EDIBLE ARRANGEMENTS Mark in violation of 15 U.S.C. § 1125(c).

65. By virtue of the foregoing, Edible Arrangements has been damaged and will continue to be damaged absent relief from this Court.

COUNT FOUR:
(Common Law Unfair Competition)

66. Paragraphs 1-65, above, are repeated and re-alleged as if fully set forth herein.

67. Plaintiffs have invested a substantial amount of time, effort, and money in developing their goodwill in the marketplace and that goodwill is inextricably linked to the EDIBLE ARRANGEMENTS Mark.

68. Google has misappropriated Plaintiffs' goodwill in violation of Plaintiffs' valuable intellectual property rights.

69. By virtue of the foregoing, Edible Arrangements has been damaged and will continue to be damaged absent relief from this Court.

COUNT FIVE:
(Violation of CUTPA, Conn. Gen. Stat. §§ 42-110a et seq.)

70. Paragraphs 1-69, above, are repeated and re-alleged as if fully set forth herein.

71. Plaintiffs are persons within the meaning of Conn. Gen. Stat. §§ 42-110a(3) and 42-110g(a) entitled to bring an action under the Connecticut Unfair Trade Practices Act, Conn. Gen. Stat. § 42-110a, et seq. ("CUTPA").

72. At all relevant times, Google acted as a person conducting trade or commerce within the meaning of Conn. Gen. Stat. §§ 42-110a et seq.

73. The foregoing actions of Google constitute unfair and deceptive acts and practices in the conduct of trade or commerce that are unethical, unscrupulous, and offensive to public policy, and are a violation of Conn. Gen. Stat. § 42-110b(a).

74. As a result of the foregoing unfair and deceptive acts and practices, Plaintiffs have suffered an ascertainable loss within the meaning of Conn. Gen. Stat. §§ 42-110g(a) and have suffered damages in an amount to be determined at trial.

75. The foregoing actions of Google show calculated, deceitful, and unfair conduct, and reckless indifference to the rights of the Plaintiffs. Accordingly, Google is liable to Plaintiffs for punitive damages pursuant to Conn. Gen. Stat. § 42-110g(a).

76. Plaintiffs are transmitting a copy of this Complaint to the Attorney General of the State of Connecticut and to the Commissioner of Consumer Protection for the State of Connecticut, as required by Conn. Gen. Stat. § 42-110g(c).

PRAYER FOR RELIEF

WHEREFORE, Edible Arrangements respectfully requests an order and judgment against Google as follows:

1. A permanent injunction against Google directing it to

   A. Cease recommending and selling Edible Arrangements' trademarks to others to generate advertisements that are likely to mislead consumers;

   B. Provide proper Knowledge Graph treatment to Plaintiffs by removing all sponsored ads for others in the location where the Knowledge Graph Card is usually placed;

C. Cease displaying the Edible Arrangements trademarks in product headers for products that do not originate from Edible Arrangements; and

2. That Google be directed to file with the Court and serve upon Plaintiffs, within thirty (30) days after entry of final judgment, a report in writing and under oath setting forth in detail the manner and form by which it has complied with the provisions set forth in paragraph 1, above, pursuant to 15 U.S.C. § 1116(a);

3. That Google be directed to account for and pay to Plaintiffs Google's profits resulting from its unlawful acts, which Plaintiffs believe to be in excess of $9,000,000, and all Plaintiffs' damages realized as a result of Google's mistreatment of the EDIBLE ARRANGEMENTS Mark pursuant to 15 U.S.C. § 1117(a), which Plaintiffs believe to be in excess of $200,000,000.

4. That Google be directed to pay to the Plaintiffs their attorneys' fees pursuant to 15 U.S.C. § 1117;

5. That Google be directed to pay to the Plaintiffs their attorneys' fees pursuant to Conn. Gen. Stat. § 42-110g;

6. That Google be directed to pay to the Plaintiffs punitive damages pursuant to Conn. Gen. Stat. § 42-110g;

7. That Google be required to pay any punitive damages, including treble damages as permitted by all applicable laws;

8. That Google be required to pay the Plaintiffs the costs of this action and interest pursuant to applicable law; and

9. That the Plaintiffs be granted such other relief in law or in equity as this Court deems just and proper.

JURY DEMAND

The Plaintiffs demand a trial by jury on all issues so triable.

THE PLAINTIFFS, EDIBLE
INTERNATIONAL, LLC and EDIBLE IP, LLC

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CERTIFICATE OF SERVICE

I hereby certify that on February 5, 2018, a copy of the foregoing was filed electronically and served by mail on anyone unable to accept electronic filing. Notice of this filing will be sent by email to all parties by operation of the Court's electronic filing system or by U.S. mail, postage prepaid, to anyone unable to accept electronic filing as indicated on the Notice of Electronic Filing. Parties may access this filing through the Court's CM/ECF system.

Pursuant to Conn. Gen. Stat. 42-110g a copy of this Complaint is being forwarded to Attorney General and the Commissioner of Consumer Protection as follows:

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Hartford CT, 06106

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Commissioner
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/S/Kevin P. Walsh

804 F.3d 930 (2015)

MULTI TIME MACHINE, INC., Plaintiff-Appellant,
v.
AMAZON.COM, INC.; Amazon Services, LLC, Defendants-Appellees.

No. 13-55575.

United States Court of Appeals, Ninth Circuit.

Argued and Submitted April 9, 2015.
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932 *932 Eric Levinrad, (argued) and Ryan Stonerock, Wolf, Rifkin, Shapiro, Schulman, & Rabkin, LLP, Los Angeles, CA; Jeffrey Cohen, Millen, White, Zelano & Branigan, P.C., Arlington, VA, for Plaintiff-Appellant.

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Before: BARRY G. SILVERMAN and CARLOS T. BEA, Circuit Judges and GORDON J. QUIST,[*] Senior District Judge.

Order; Opinion by Judge SILVERMAN; Dissent by Judge BEA

ORDER

Judges Silverman and Quist have voted to grant panel rehearing. Judge Bea has voted to deny rehearing. The petition for rehearing en banc is now moot. The Opinion filed July 6, 2015, and appearing at 792 F.3d 1070 (9th Cir.2015), is withdrawn. The Superseding Opinion and Dissent are filed contemporaneously with this order. The parties may file additional petitions for panel rehearing or rehearing en banc.

OPINION

SILVERMAN, Circuit Judge:

In the present appeal, we must decide whether the following scenario constitutes trademark infringement: A customer goes online to Amazon.com looking for a certain military-style wristwatch — specifically the "MTM Special Ops" — marketed and manufactured by Plaintiff Multi Time Machine, Inc. The customer types "mtm special ops" in the search box and presses "enter." Because Amazon does not sell the MTM Special Ops watch, what the search produces is a list, with photographs, of several other brands of military style watches that Amazon *does* carry, specifically identified by their brand names — Luminox, Chase-Durer, TAWATEC, and Modus.

933 MTM brought suit alleging that Amazon's response to a search for the MTM Special Ops watch on its website is trademark infringement in violation of the Lanham *933 Act. MTM contends that Amazon's search results page creates a likelihood of confusion, even though there is no evidence of any actual confusion and even though the other brands are clearly identified by name. The district court granted summary judgment in favor of Amazon, and MTM now appeals.

We affirm. "The core element of trademark infringement" is whether the defendant's conduct "is likely to confuse customers about the source of the products." *E. & J. Gallo Winery v. Gallo Cattle Co.,* 967 F.2d 1280, 1290 (9th Cir. 1992). Because Amazon's search results page clearly labels the name and manufacturer of each product offered for sale and even includes photographs of the items, no reasonably prudent consumer accustomed to shopping online would likely be confused as to the source of the products. Thus, summary judgment of MTM's trademark claims was proper.

I. Factual and Procedural Background

MTM manufactures and markets watches under various brand names including MTM, MTM Special Ops, and MTM Military Ops. MTM holds the federally registered trademark "MTM Special Ops" for timepieces. MTM sells its watches directly to its customers and through various retailers. To cultivate and maintain an image as a high-end, exclusive brand, MTM does not sell its watches through Amazon.com. Further, MTM does not authorize its distributors, whose agreements require them to seek MTM's permission to sell MTM's products anywhere but their own retail sites, to sell MTM watches on Amazon.com. Therefore, MTM watches have never been available for sale on Amazon.com.

Amazon is an online retailer that purports to offer "Earth's Biggest Selection of products." Amazon has designed its website to enable millions of unique products to be sold by both Amazon and third party sellers across dozens of product categories.

Consumers who wish to shop for products on Amazon's website can utilize Amazon's search function. The search function enables consumers to navigate Amazon.com's large marketplace by providing consumers with relevant results in response to the consumer's query. In order to provide search results in which the consumer is most likely to be interested, Amazon's search function does not simply match the words in the user's query to words in a document, such as a product description in Amazon.com's catalog. Rather, Amazon's search function — like general purpose web search engines such as Google or Bing — employs a variety of techniques, including some that rely on user behavior, to produce relevant results. By going beyond exactly matching a user's query to text describing a product, Amazon's search function can provide consumers with relevant results that would otherwise be overlooked.

Consumers who go onto Amazon.com and search for the term "mtm special ops" are directed to a search results page. On the search results page, the search query used — here, "mtm special ops" — is displayed twice: in the search query box and directly below the search query box in what is termed a "breadcrumb." The breadcrumb displays the original query, "mtm special ops," in quotation marks to provide a trail for the consumer to follow back to the original search. Directly below the breadcrumb, is a "Related Searches" field, which provides the consumer with alternative search queries in case the consumer is dissatisfied with the results of the original search. Here, the Related Search that is suggested to the consumer
934 is: "mtm special ops watch." Directly below the "Related Searches" field is a gray bar containing *934 the text "Showing 10 Results." Then, directly below the gray bar is Amazon's product listings. The gray bar separates the product listings from the breadcrumb and the "Related Searches" field. The particular search results page at issue is displayed below:

MTM watches are not listed on the page for the simple reason that neither Amazon nor MTM sells MTM watches on Amazon.

MTM filed a complaint against Amazon, alleging that Amazon's search results page infringes MTM's trademarks in violation
935 of the Lanham Act. Amazon filed a *935 motion for summary judgment, arguing that (1) it is not using MTM's mark in commerce and (2) there is no likelihood of consumer confusion. In ruling on Amazon's motion for summary judgment, the district court declined to resolve the issue of whether Amazon is using MTM's mark in commerce, and, instead, addressed the issue of likelihood of confusion. In evaluating likelihood of confusion, the district court utilized the eight-factor test set forth in *AMF Inc. v. Sleekcraft Boats,* 599 F.2d 341 (9th Cir.1979).[1] Relying on our recent decision in *Network Automation, Inc. v. Advanced Systems Concepts,* 638 F.3d 1137 (9th Cir.2011), the district court focused in particular on the following factors: (1) the strength of MTM's mark; (2) the evidence of actual confusion and the evidence of no confusion; (3) the type of goods and degree of care likely to be exercised by the purchaser; and (4) the appearance of the product listings and the surrounding context on the screen displaying the results page. Upon reviewing the factors, the district court concluded that the relevant *Sleekcraft* factors established "that there is no likelihood of confusion in Amazon's use of MTM's trademarks in its search engine or display of search results." Therefore, the district court granted Amazon's motion for summary judgment.

II. Jurisdiction and Standard of Review

We have jurisdiction pursuant to 28 U.S.C. § 1291.

"The decision to grant summary judgment in a trademark infringement claim is reviewed *de novo,* and all reasonable inferences are to be drawn in favor of the non-moving party." *Surfvivor Media, Inc. v. Survivor Prods.,* 406 F.3d 625, 630 (9th Cir.2005). "Although disfavored in trademark infringement cases, summary judgment may be entered when no genuine issue of material fact exists." *Id.* Indeed, in several trademark cases, we have concluded that there is no likelihood of confusion as a matter of law and affirmed the district court's grant of summary judgment in favor of the defendant. *See, e.g., One Indus., LLC v. Jim O'Neal Distrib.,* 578 F.3d 1154, 1162-65 (9th Cir.2009); *M2 Software, Inc. v. Madacy Entm't,* 421 F.3d 1073, 1080-85 (9th Cir.2005); *Surfvivor Media,* 406 F.3d at 631-34.

III. Discussion

To prevail on a claim of trademark infringement under the Lanham Act, "a trademark holder must show that the defendant's use of its trademark `is likely to cause confusion, or to cause mistake, or to deceive.'" *Fortune Dynamic, Inc. v. Victoria's Secret Stores Brand Mgmt.,* 618 F.3d 1025, 1030 (9th Cir.2010) (quoting 15 U.S.C. § 1125(a)(1)-(a)(1)(A)). "The test for likelihood of confusion is whether a `reasonably prudent consumer' in the marketplace is likely to be confused as to the origin of the good or service bearing one of the marks." *Dreamwerks Prod. Group v. SKG Studio,* 142 F.3d 1127, 1129 (9th Cir. 1998). "The confusion must `be probable, not simply a possibility.'" *Murray v. Cable NBC,* 86 F.3d 858, 861 (9th Cir.1996).

936 Here, the district court was correct in ruling that there is no likelihood of confusion. Amazon is responding to a customer's inquiry about a brand it does not carry by doing no more than stating clearly *936 (and showing pictures of) what brands it does carry. To whatever extent the *Sleekcraft* factors apply in a case such as this — a merchant responding to a request for a particular brand it does not sell by offering other brands clearly identified as such — the undisputed evidence shows that confusion on the part of the inquiring buyer is not at all likely. Not only are the other brands clearly labeled and accompanied by photographs, there is no evidence of actual confusion by anyone.

To analyze likelihood of confusion, we utilize the eight-factor test set forth in *Sleekcraft*. However, "[w]e have long cautioned that applying the *Sleekcraft* test is not like counting beans." *One Indus.,* 578 F.3d at 1162; *see also* *Network Automation, Inc. v. Advanced Sys. Concepts,* 638 F.3d 1137, 1145 (9th Cir.2011) ("The *Sleekcraft* factors are intended as an adaptable proxy for consumer confusion, not a rote checklist."). "Some factors are much more important than others, and the relative importance of each individual factor will be case-specific." *Brookfield Commc'ns v. West Coast Entm't Corp.,* 174 F.3d 1036, 1054 (9th Cir.1999). Moreover, the *Sleekcraft* factors are not exhaustive and other variables may come into play depending on the particular facts presented. *Network Automation,* 638 F.3d at 1145-46. This is particularly true in the Internet context. *See* *Brookfield,* 174 F.3d at 1054 ("We must be acutely aware of excessive rigidity when applying the law in the Internet context; emerging technologies require a flexible approach."). Indeed, in evaluating claims of trademark infringement in cases involving Internet search engines, we have found particularly important an additional factor that is out-side of the eight-factor *Sleekcraft* test: "the labeling and appearance of the advertisements and the surrounding context on the screen displaying the results page." *Network Automation,* 638 F.3d at 1154.

In the present case, the eight-factor *Sleekcraft* test is not particularly apt. This is not surprising as the *Sleekcraft* test was developed for a different problem — i.e., for analyzing whether two competing brands' *marks* are sufficiently similar to cause consumer confusion. *See* *Sleekcraft,* 599 F.2d at 348. Although the present case involves *brands* that compete with MTM, such as Luminox, Chase-Durer, TAWATEC, and Modus, MTM does not contend that the *marks* for these competing brands are similar to its trademarks. Rather, MTM argues that the design of Amazon's search results page creates a likelihood of initial interest confusion[2] because when a customer searches for MTM Special Ops watches on Amazon.com, the search results page displays the search term used — here, "mtm special ops" — followed by a display of numerous watches manufactured by MTM's competitors and offered for sale by Amazon, without explicitly informing the customer that Amazon does not carry MTM watches.

937 *937 Thus, the present case focuses on a different type of confusion than was at issue in *Sleekcraft.* Here, the confusion is not caused by the design of the competitor's mark, but by the design of the web page that is displaying the competing mark and offering the competing products for sale. *Sleekcraft* aside, the ultimate test for determining likelihood of confusion is whether a "reasonably prudent consumer" in the marketplace is likely to be confused as to the origin of the goods. *Dreamwerks,* 142 F.3d at 1129. Our case can be resolved simply by a evaluation of the web page at issue and the relevant

consumer. *Cf. Brookfield,* 174 F.3d at 1054 ("[I]t is often possible to reach a conclusion with respect to likelihood of confusion after considering only a subset of the factors."). Indeed, we have previously noted that "[i]n the keyword advertising context [i.e., where a user performs a search on the internet, and based on the keywords contained in the search, the resulting web page displays certain advertisements containing products or services for sale,] the `likelihood of confusion will ultimately turn on what the consumer saw on the screen and reasonably believed, given the context.'" *Network Automation,* 638 F.3d at 1153. In other words, the case will turn on the answers to the following two questions: (1) Who is the relevant reasonable consumer?; and (2) What would he reasonably believe based on what he saw on the screen?

Turning to the first question, we have explained that "[t]he nature of the goods and the type of consumer is highly relevant to determining the likelihood of confusion in the keyword advertising context." *Network Automation,* 638 F.3d at 1152. "In evaluating this factor, we consider `the typical buyer exercising ordinary caution.'" *Au-Tomotive Gold, Inc. v. Volkswagen of Am., Inc.,* 457 F.3d 1062, 1076 (9th Cir.2006) (quoting *Sleekcraft,* 599 F.2d at 353). "Confusion is less likely where buyers exercise care and precision in their purchases, such as for expensive or sophisticated items." *Id.* Moreover, "the default degree of consumer care is becoming more heightened as the novelty of the Internet evaporates and online commerce becomes commonplace." *Network Automation,* 638 F.3d at 1152.

The goods in the present case are expensive. It is undisputed that the watches at issue sell for several hundred dollars. Therefore, the relevant consumer in the present case "is a reasonably prudent consumer accustomed to shopping online." *Toyota Motor Sales, U.S.A., Inc. v. Tabari,* 610 F.3d 1171, 1176 (9th Cir.2010).

Turning to the second question, as MTM itself asserts, the labeling and appearance of the products for sale on Amazon's web page is the most important factor in this case. This is because we have previously noted that clear labeling can eliminate the likelihood of initial interest confusion in cases involving Internet search terms. *See, e.g., Playboy Enters.,* 354 F.3d at 1030 n. 44 (explaining that clear labeling "might eliminate the likelihood of initial interest confusion that exists in this case"); *Network Automation,* 638 F.3d at 1154 (same). Indeed, MTM itself argues: "The common thread of [the Ninth Circuit's decisions in *Brookfield, Playboy,* and *Network Automation]* is that liability under the Lanham Act can only be avoided as a matter of law where there is clear labeling to avoid the possibility of confusion — including initial interest confusion — resulting from the use of another's trademark." Thus, MTM agrees that summary judgment of its trademark claims is appropriate if there is clear labeling that avoids likely confusion.

938 Here, the products at issue are clearly labeled by Amazon to avoid any likelihood of initial interest confusion by a reasonably *938 prudent consumer accustomed to online shopping. When a shopper goes to Amazon's website and searches for a product using MTM's trademark "mtm special ops," the resulting page displays several products, all of which are clearly labeled with the product's name and manufacturer in large, bright, bold letters and includes a photograph of the item. In fact, the manufacturer's name is listed twice. For example, the first result is "Luminox Men's 8401 Black Ops Watch by Luminox." The second result is "Chase-Durer Men's 246.4BB7-XL-BR Special Forces 1000XL Black Ionic-Plated Underwater Demolition Team Watch by Chase-Durer." Because Amazon clearly labels each of the products for sale by brand name and model number accompanied by a photograph of the item, it is unreasonable to suppose that the reasonably prudent consumer accustomed to shopping online would be confused about the source of the goods.

MTM argues that initial interest confusion might occur because Amazon lists the search term used — here the trademarked phrase "mtm special ops" — three times at the top of the search page. MTM argues that because Amazon lists the search term "mtm special ops" at the top of the page, a consumer might conclude that the products displayed are types of MTM watches. But, merely looking at Amazon's search results page shows that such consumer confusion is highly unlikely. None of these watches is labeled with the word "MTM" or the phrase "Special Ops," let alone the specific phrase "MTM Special Ops." Further, some of the products listed are not even watches. The sixth result is a book entitled "Survive!: The Disaster, Crisis and Emergency Handbook by Jerry Ahem." The tenth result is a book entitled "The Moses Expedition: A Novel by Juan Gomez-Jurado." No reasonably prudent consumer, accustomed to shopping online or not, would assume that a book entitled "The Moses Expedition" is a type of MTM watch or is in any way affiliated with MTM watches. Likewise, no reasonably prudent consumer accustomed to shopping online would view Amazon's search results page and conclude that the products offered are MTM watches. It is possible that someone, somewhere might be confused by the search results page. But, "[u]nreasonable, imprudent and inexperienced web-shoppers are not relevant." *Tabari,* 610 F.3d at 1176; *see also Network Automation,* 638 F.3d at 1153 ("[W]e expect consumers searching for expensive products online to be even more sophisticated."). To establish likelihood of confusion, MTM must show that confusion is *likely,* not just *possible. See Murray,* 86 F.3d at 861.

MTM argues that in order to eliminate the likelihood of confusion, Amazon must change its search results page so that it explains to customers that it does not offer MTM watches for sale before suggesting alternative watches to the customer. We disagree. The search results page makes clear to anyone who can read English that Amazon carries only the brands that are clearly and explicitly listed on the web page. The search results page is unambiguous — not unlike when someone walks into a diner, asks for a Coke, and is told "No Coke. Pepsi." *See Multi Time Mach., Inc. v. Amazon.com, Inc.,* 792 F.3d 1070, 1080-81 (9th Cir.2015) (Silverman, J., dissenting).

In light of the clear labeling Amazon uses on its search results page, no reasonable trier of fact could conclude that Amazon's search results page would likely confuse a reasonably prudent consumer accustomed to shopping online as to the source of the goods being offered. *Cf. Playboy,* 354 F.3d at 1030 n. 44 (Clear labeling "might eliminate the likelihood of
939 *939 initial interest confusion that exists in this case."); *Network Automation,* 638 F.3d at 1154 (same). As Judge Berzon put it, "I do not think it is reasonable to find initial interest confusion when a consumer is never confused as to source or affiliation, but instead knows, or should know, from the outset that a product or web link is not related to that of the trademark holder because the list produced by the search engine so informs him." *Playboy,* 354 F.3d at 1034-35 (9th Cir.2004) (Berzon, J., concurring).

MTM attempts to argue that summary judgment of its claims is inappropriate because there are numerous factual disputes related to Amazon's search results page. But, to the extent there are factual disputes between the parties, none is material to the analysis. MTM cannot dispute the fact that the watches at issue sell for hundreds of dollars. Therefore, as a matter of law, the relevant consumer would be a reasonably prudent consumer accustomed to shopping online. *See Tabari,* 610 F.3d at 1176; *Network Automation,* 638 F.3d at 1152-53. Further, MTM cannot dispute the contents of the web page at issue. A review of Amazon's web page shows that each product listed for sale is clearly labeled with the product's name and manufacturer and a photograph, and no product is labeled with MTM's mark. Thus, the undisputed facts show that it is highly unlikely that a reasonably prudent consumer accustomed to shopping online would be confused as to the source of the goods offered for sale on Amazon's web page.

The likelihood of confusion is often a question of fact, but not always. In a case such as this, where a court can conclude that the consumer confusion alleged by the trademark holder is highly unlikely by simply reviewing the product listing/advertisement at issue, summary judgment is appropriate. *Cf. M2 Software,* 421 F.3d at 1085 (explaining that summary judgment of a trademark claim is appropriate where the plaintiff has failed to present "sufficient evidence to permit a rational trier of fact to find that confusion is `probable,' not merely `possible'"). Indeed, in the similar context of evaluating claims of consumer deception when dealing with false advertising claims, we have at least twice concluded — after a review of the label or advertisement at issue — that there was no likelihood of consumer deception as a matter of law because no reasonable consumer could have been deceived by the label/advertisement at issue in the manner alleged by the plaintiff. *See, e.g., Davis v. HSBC Bank,* 691 F.3d 1152, 1162 (9th Cir.2012); *Freeman v. Time, Inc.,* 68 F.3d 285, 289-90 (9th Cir.1995).

Further, we are able to conclude that summary judgment is appropriate in the present case without delving into any factors other than: (1) the type of goods and the degree of care likely to be exercised by the purchaser; and (2) the labeling and appearance of the products for sale and the surrounding context on the screen displaying the results page. *Cf. Brookfield,* 174 F.3d at 1054 ("[I]t is often possible to reach a conclusion with respect to likelihood of confusion after considering only a subset of the factors"). However, if we were to evaluate each of the remaining *Sleekcraft factors,* those factors would not change our conclusion, here, because those factors are either neutral or unimportant.

"Actual confusion" — We have held that "[a] showing of actual confusion among significant numbers of consumers provides strong support for the likelihood of confusion." *Playboy,* 354 F.3d at 1026 (noting that a strong showing by the plaintiff in
940 regard to this factor alone can reverse a grant of summary judgment). However, *940 here, there is no evidence of actual confusion. The only "evidence" MTM presented to the district court of actual confusion is the deposition testimony of MTM's president stating that someone named Eric told him, in reference to Amazon's web page, "it's confusing." Hearsay problems aside, this testimony is too speculative to show actual confusion because there is no evidence showing that Eric was a potential consumer. Indeed, at oral argument, MTM conceded that it does not have evidence of actual consumer confusion. Therefore, this factor does not weigh in MTM's favor.

"Defendant's Intent" — We have also held that "[a] defendant's intent to confuse constitutes probative evidence of likely confusion: Courts assume that the defendant's intentions were carried out successfully." *Playboy,* 354 F.3d at 1028 (footnote omitted). MTM argues that the design of Amazon's search results page is evidence of its intent to cause confusion. The design, however, indisputably produces results that are clearly labeled as to the type of product and brand. Amazon has designed its results page to alleviate any possible confusion about the source of the products by clearly labeling each of its products with the product's name and manufacturer. Therefore, this factor also does not weigh in MTM's favor.

"Strength of the Mark" — MTM argues that it has presented sufficient evidence below from which a jury could properly conclude that its trademark is both conceptually strong and commercially strong. However, we find that this factor is unimportant under the circumstances of this case. Even assuming MTM's mark is one of the strongest in the world — on the same level as Apple, Coke, Disney, or McDonald's — there is still no likelihood of confusion because Amazon clearly labels the source of the products it offers for sale.

Further, as we previously found in *Network Automation,* the remaining *Sleekcraft* factors are unimportant in a case, such as this, involving Internet search terms where the competing products are clearly labeled and the relevant consumer would exercise a high degree of care. *See* *Network Automation,* 638 F.3d at 1150-53 (finding "proximity of goods," "similarity of marks," "marketing channels," and "likelihood of expansion" to be unimportant in a trademark case involving Internet search terms where the advertisements are clearly labeled and the relevant consumers would exercise a high degree of care).

IV. Conclusion

In light of Amazon's clear labeling of the products it carries, by brand name and model, accompanied by a photograph of the item, no rational trier of fact could find that a reasonably prudent consumer accustomed to shopping online would likely be confused by the Amazon search results. Accordingly, we affirm the district court's grant of summary judgment in favor of Amazon.

AFFIRMED.

BEA, Circuit Judge, dissenting:

Today the panel holds that when it comes to internet commerce, judges, not jurors, decide what labeling may confuse shoppers. In so doing, the court departs from our own trademark precedent and from our summary judgment jurisprudence. Because I believe that an Amazon shopper seeking an MTM watch might well initially think that the watches Amazon offers for sale when he searches "MTM Special Ops" are affiliated with MTM, I must dissent.

941 *941 If her brother mentioned MTM Special Ops watches, a frequent internet shopper might try to purchase one for him through her usual internet retail sites, perhaps Overstock.com, Buy.com, and Amazon.com.[1] At Overstock's site, if she typed "MTM special ops," the site would respond "Sorry, your search: `mtm special ops' returned no results." Similarly, at Buy.com, she would be informed "0 results found. Sorry. Your search for mtm special ops did not return an exact match. Please try your search again."

Things are a little different over at "Earth's most customer-centric company," as Amazon styles itself. There, if she were to enter "MTM Special Ops" as her search request on the Amazon website, Amazon would respond with its page showing (1) MTM Special Ops in the search field (2) "MTM Specials Ops" again — in quotation marks — immediately below the search field and (3) yet again in the phrase "Related Searches: *MTM special ops watch,*" (emphasis in original) all before stating "Showing 10 Results." What the website's response will not state is the truth recognized by its competitors: that Amazon does not carry MTM products any more than do Overstock.com or Buy.com. Rather, below the search field, and below the second and third mentions of "MTM Special Ops" noted above, the site will display aesthetically similar, multi-function watches manufactured by MTM's competitors. The shopper will see that Luminox and Chase-Durer watches are offered for sale, in response to her MTM query.[2]

MTM asserts the shopper might be confused into thinking a relationship exists between Luminox and MTM; she may think that MTM was acquired by Luminox, or that MTM manufactures component parts of Luminox watches, for instance. As a result of this initial confusion, MTM asserts, she might look into buying a Luminox watch, rather than junk the quest altogether and seek to buy an MTM watch elsewhere. MTM asserts that Amazon's use of MTM's trademarked name is likely to confuse buyers, who may ultimately buy a competitor's goods.

MTM may be mistaken. But whether MTM is mistaken is a question that requires a factual determination, one this court does not have authority to make.

By usurping the jury function, the majority today makes new trademark law. When we allow a jury to determine whether there is a likelihood of confusion, as I would, we do not *make* trademark law, because we announce no new principle by which to adjudicate trademark disputes. Today's brief majority opinion accomplishes a great deal: the majority announces a new rule of law, resolves whether "clear labeling" favors Amazon using its own judgment, and, sub silentio, overrules this court's "initial interest confusion" doctrine.

942 Capturing initial consumer attention has been recognized by our court to be a *942 grounds for finding of infringement of the Lanham Act since 1997. *Dr. Seuss Enterprises, L.P. v. Penguin Books USA, Inc.,* 109 F.3d 1394, 1405 (9th Cir.1997) (identifying "initial consumer attention" as a basis for infringement). In 1999, citing *Dr. Seuss,* we expressly adopted the initial interest confusion doctrine in the internet context, and never repudiated it. *Brookfield Communications, Inc. v. West Coast Entertainment Corp.,* 174 F.3d 1036, 1062 (9th Cir.1999). It may not apply where the competing goods or services are "clearly labeled" such that they cause only mere diversion, but whether such goods or services are clearly labeled so as to prevent a prudent internet shopper's initial confusion depends on the overall function and presentation of the web page. The issue is whether a prudent internet shopper who made the search request and saw the Amazon result — top to bottom — would more likely than not be affected by that "initial interest confusion." That is, an impression — when first shown the results of the requested MTM Special Ops search — that Amazon carries watches that have some connection to MTM, and that those watches are sold under the name Luminox or Chase-Durer. Whether there is likelihood of such initial interest confusion, I submit, is a jury question. Intimations in our case law that initial interest confusion is bad doctrine notwithstanding, it is the law of our circuit, and, I submit, the most fair reading of the Lanham Act.

Tellingly, the majority does not cite to the statutory text, which provides that the nonconsensual use of a registered trademark will infringe where "such use is likely to cause confusion, or cause mistake, or deceive." 15 U.S.C. § 1114(1)(a). The majority reads the statute to contain language that it does not, essentially reading the clause "at point of sale" into the end of § 1114(1)(a). Similarly, the majority reads 15 U.S.C. § 1125 to apply only at point of sale — the majority writes that it is unreasonable to suppose that a reasonably prudent consumer accustomed to shopping online would be confused about the source of the goods where Luminox and Chase-Durer watches are labeled as such, but does not address the possibility that a reasonably prudent consumer might initially assume that those brands enjoyed some affiliation with MTM which, in turn, could cause such a shopper to investigate brands which otherwise would not have been of interest to her.[3]

To reach its conclusion, the majority purports to apply this court's precedent in *Network Automation, Inc. v. Advanced Systems Concepts, Inc.,* 638 F.3d 1137, 1145 (9th Cir.2011). In so doing, the majority ignores the procedural posture of that case. There, plaintiff Network Automation and defendant Advanced Systems Concepts both sold job scheduling and management software. *Id.* at 1142. Network Automation advertised its product by purchasing certain keywords — including registered trademarks belonging to Advanced Systems — which, when typed into various search engines, included Network Automation's website "www.Network Automation.com" as a labeled, sponsored link among the search results. *Id.* Advanced Systems alleged violation of the Lanham Act and moved for a preliminary injunction. *Id.* at 1143. The district court granted a
943 preliminary injunction to Advanced Systems, and Network Automation *943 appealed. *Id.* On appeal, this court reversed and vacated the preliminary injunction.

To do so, this court did *not* find that there was no genuine issue of fact as to likelihood of confusion. Instead, this court properly considered whether the facts, as the court understood them, favored Advanced Systems in *Network Automation* because a preliminary injunction requires "the moving party [there, the plaintiff alleging infringement] demonstrate a fair chance of success on the merits or questions serious enough to require litigation." *Arc of California v. Douglas,* 757 F.3d 975, 993 (9th Cir.2014). Therefore, the *Network Automation* court properly considered the weight of the evidence to decide whether Advanced Systems had a fair chance of success on the merits. Here, we are not tasked to determine whether MTM is likely to succeed, nor to consider the weight of the evidence. As this is an appeal from a summary judgment, we must decide whether the non-moving party (MTM) tendered a genuine issue of fact. *Network Automation* did not announce a rule that clear labeling is per se a question of law, nor that a judge's determination that products are clearly labeled precludes a triable issue of fact as to trademark infringement.

Indeed, even if *Network Automation* were not so readily distinguishable by its procedural posture, it is factually distinguishable. In *Network Automation,* the "diversionary" goods were clearly labeled on the response page as "Sponsored Links," showing that the producers of those products were the ones advertising for themselves, not for the firm named in the search request. *Network Automation,* 638 F.3d at 1144. Unlike the sponsored links at issue in *Network Automation,* and unlike its competitors Buy.com and Overstock.com, Amazon does not forestall any confusion by informing customers who are searching "MTM Special Ops" that Amazon does not carry any such products. Amazon does just the opposite. It responds by twice naming MTM, and once specifically naming watches.

On this record, a jury could infer that users who are confused by the search results are confused as to why MTM products are not listed. There is a question of fact whether users who are confused by the search result will wonder whether a competitor has acquired MTM or is otherwise affiliated with or approved by MTM. *See* *Brookfield Communications,* 174 F.3d at 1057. This is especially true as to a brand like MTM, as many luxury brands with distinct marks are produced by manufacturers of lower-priced, better-known brands — just as Honda manufactures Acura automobiles but sells Acura automobiles under a distinct mark that is marketed to wealthier purchasers, and Timex manufactures watches for luxury fashion houses Versace and Salvatore Ferragamo. Like MTM, Luminox manufactures luxury watches, and a customer might think that MTM and Luminox are manufactured by the same parent company. The possibility of initial interest confusion here is likely much higher than if, for instance, a customer using an online grocery website typed "Coke" and only Pepsi products were returned as results. No shopper would think that Pepsi was simply a higher end version of Coke, or that Pepsi had acquired Coke's secret recipe and started selling it under the Pepsi mark.

In any event, even as to expensive goods — for instance, pianos sold under a mark very similar to the famous Steinway and Sons brand's mark — the issue is not that a buyer might buy a piano manufactured by someone other than Steinway
944 thinking that it was a Steinway. The issue is that the defendant's use of the mark *944 would cause initial interest confusion by attracting potential customers' attention to buy the infringing goods because of the trademark holder's hard-won reputation. *Brookfield,* 174 F.3d at 1063 (citing *Grotrian, Helfferich, Schulz, Th. Steinweg Nachf v. Steinway & Sons,* 523 F.2d 1331, 1341-42 (2d Cir.1975)).

A jury could infer that the labeling of the search results, and Amazon's failure to notify customers that it does not have results that match MTM's mark, give rise to initial interest confusion. If so, a jury could find that Amazon customers searching for MTM products are subject to more than mere diversion, since MTM is not required to show that customers are likely to be confused at the point of sale. *Playboy Enterprises, Inc. v. Netscape Communications Corp.,* 354 F.3d 1020, 1025 (9th Cir.2004).

Assuming arguendo that the majority properly found that Amazon's search results are clearly labeled, the majority extends its factual determinations further by determining that in this case, clear labeling outweighs the other eight factors considered in trademark suits, factors that remain the law of this circuit: (1) strength of the mark(s); (2) proximity or relatedness of the goods; (3) similarity of the marks; (4) evidence of actual confusion; (5) marketing channels; (6) degree of consumer care; (7) the defendants' intent; and (8) likelihood of expansion. *Network Automation,* 638 F.3d at 1145 (citing *AMF v. Sleekcraft Boats,* 599 F.2d 341, 348-49 (9th Cir.1979)). To be sure, courts must be flexible in their application of the factors, as some may not apply in every case. *Playboy,* 354 F.3d at 1026. Here, for instance, the likelihood of expansion does not apply because both MTM and Amazon already sell luxury watches, so whether either is likely to expand its sales into the luxury watch market is not a question. However, where the *Sleekcraft* factors could tip in either direction, there is a jury question. *Fortune Dynamic, Inc. v. Victoria's Secret Stores Brand Management, Inc.,* 618 F.3d 1025, 1039 (9th Cir.2010). Simply stating that the *Sleekcraft* factors do not favor the plaintiff, or don't bear on the clarity of the labeling, does not resolve the underlying factual question.

Having exercised its own judgment to determine that this presentation is not confusing, the majority purports to consider the *Sleekcraft* factors, though the opinion essentially states that some of the factors are *per se* irrelevant — for instance, as to the *Sleekcraft* factor, "strength of the mark," the majority assert that "under the circumstances of this case," the factor is unimportant because "Amazon clearly labels the source of the products it offers for sale." op. at 940. By reiterating the conclusion at which it had already arrived, the majority ignores the factor and the fact-intensive analysis it entails. A mark's strength is a measure of how uniquely identified it is with a product or service, and therefore how deserving of trademark protection. *Fortune Dynamic,* 618 F.3d at 1032. "A mark's conceptual strength depends largely on the obviousness of its connection to the good or service to which it refers. The less obvious the connection, the stronger the mark, and vice versa." *Id.* at 1032. Conceptual strength is considered along a continuum, and in this circuit, marks may be classified as falling into one of five categories, from conceptually weak to conceptually strong: generic, descriptive, suggestive, arbitrary, or fanciful. *Fortune Dynamic,* 618 F.3d at 1033. Whether a mark is descriptive or suggestive is a question of fact. *Id.* at 1034. In an infringement suit, "the distinction [between a descriptive and suggestive mark] is important because if the mark is
945 suggestive, there is a stronger likelihood that the `strength of the mark' factor favors the *945 [plaintiff]." *Id.* Here, the phrase "MTM Special Ops" requires "a mental leap from the mark to the product," because the phrase does not expressly refer to watches. *Fortune Dynamic,* 618 F.3d at 1033. Indeed, by evoking elite military forces ("Special Ops"), the goods suggested

by the phrase are as likely to be protective gear, binoculars, weapons, or boots as they are watches. A jury could find that the mark is suggestive and conceptually strong because it does not obviously refer to watches, or that it is merely descriptive because the watches are made in a military style. Either way, the weight of the evidence is a question of fact, and there is a genuine issue of fact as to the conceptual strength of the mark. As in *Fortune Dynamic,* "a jury should assess the conceptual strength of [plaintiff's] mark in the first instance." 618 F.3d at 1033. However, the majority simply brushes off the question as irrelevant "under the circumstances." The circumstances surrounding the case are questions of fact, not law, and should be given to a jury to determine.

Similarly, the majority finds that Amazon's intent weighs in favor of Amazon. A defendant's intent is relevant because a "defendant's intent to confuse constitutes probative evidence of likely confusion." *Playboy,* 354 F.3d at 1029. MTM submitted evidence that Amazon vendors and customers had complained to Amazon because they did not understand why they received certain non-responsive search results when they searched for products that are not carried by Amazon. The evidence showed that Amazon employees did not take action to address the complaints by explaining to the public how its search function works.[4] One Amazon employee noted that explaining BBS to the public might draw customers' and vendors' unwanted scrutiny to the matter. Amazon did not disclose to shoppers that its search function responds to customer behavior.

As in *Playboy,* this evidence suggests, "at a minimum, that defendants do nothing to alleviate confusion ... Although not definitive, this factor provides some evidence of an intent to confuse on the part of defendants." *Playboy,* 354 F.3d at 1029. From evidence that "Earth's most customer-centric company" took no action on these complaints, a jury could infer that Amazon intended to confuse its customers.

The majority ignores this evidence on the basis of its conclusion that Amazon created a page with clearly labeled wares, and further concludes that Amazon must not have intended to confuse customers, or its page would not be clearly labeled. op. at 939-40. However, to conclude that there is no triable issue of fact, the majority may not overlook or ignore evidence to the contrary in the record, or assume that a jury would weigh evidence the same way that the panel does.

946 Finally, the majority repeatedly states that not only does Amazon clearly label its *946 products, but there is no evidence of actual confusion. Assuming arguendo that there is no evidence from which a jury could infer actual confusion,[5] the absence of actual confusion is not dispositive of whether there is a genuine issue of fact. Where evidence of actual confusion is submitted, it is "strong support for the likelihood of confusion." *Network Automation,* 638 F.3d at 1151. But actual confusion "is not necessary to a finding of likelihood of confusion under the Lanham Act. Indeed, proving actual confusion is difficult and the courts have often discounted such evidence because it was unclear or insubstantial." *Id.* A plaintiff need not show actual confusion to prevail.

Through its cursory review of the *Sleekcraft* factors and conclusory statements about clear labeling, the majority purports to apply this circuit's trademark law, and ignores the doctrine of initial interest confusion. In so doing, the majority today writes new trademark law and blurs the line between innovation and infringement.

More troubling, the majority ignores the role of the jury. Summary judgment law is an aid to judicial economy, but it can be so only to the extent that it comports with the Seventh Amendment. Were we to reverse and remand, MTM might well lose. The likelihood of that outcome is irrelevant to the question whether there is a genuine issue of fact. I respectfully dissent.

[*] The Honorable Gordon J. Quist, Senior District Judge for the U.S. District Court for the Western District of Michigan, sitting by designation.

[1] The eight factors enumerated in *Sleekcraft* are as follows: "1. strength of the mark; 2. proximity of the goods; 3. similarity of the marks; 4. evidence of actual confusion; 5. marketing channels used; 6. type of goods and the degree of care likely to be exercised by the purchaser; 7. defendant's intent in selecting the mark; and 8. likelihood of expansion of the product lines." 599 F.2d at 348-49.

[2] "Initial interest confusion is customer confusion that creates initial interest in a competitor's product. Although dispelled before an actual sale occurs, initial interest confusion impermissibly capitalizes on the goodwill associated with a mark and is therefore actionable trademark infringement." *Playboy Enters. v. Netscape Commc'ns Corp.,* 354 F.3d 1020, 1025 (9th Cir.2004).

Following the issuance of the original opinion in this action, several amici filed briefs questioning the validity of the doctrine of initial interest confusion in the context of the Internet. However, in the present appeal, the parties did not dispute the application of the doctrine of initial interest confusion, and we as a three-judge panel are bound by the precedent of our court. *See* *Miller v. Gammie,* 335 F.3d 889, 899 (9th Cir.2003) ("[A] three-judge panel may not overrule a prior decision of the court.").

[1] MTM sells its products only through its own approved distributors.

[2] As of June 17, 2015, the shopper might be subject to even more confusion if she began her search of Amazon's wares through Google. If she searched Google for "Amazon MTM special ops watch," one of the search results would be a static page on Amazon's website. Amazon's static webpage stated that "At Amazon.com, we not only have a large collection of mtm special ops watch products [which, of course, is flatly untrue], but also a comprehensive set of reviews from our customers. Below we've selected a subset of mtm special ops watch products [a repetition of the untruth] and the corresponding reviews to help you do better research, and choose the product that best suits your needs." Amazon, http://www.amazon.com/gp/feature.html?ie=UTF8&docId=XXXXXXXXXX. Amazon has since removed the page.

[3] Any person who "uses in commerce any word, term, name, symbol, or device ... which is likely to cause confusion ... as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services of commercial activities" is also subject to injunction and liable for damages to one likely to be damaged. 15 U.S.C. § 1125(a)(1).

[4] Amazon's search algorithm responds to its customers' behavior using a Behavior Based Search ("BBS") technology, which uses data about what customers view and purchase after searching certain terms. Amazon does not program the terms; the function responds solely to customer behavior. If enough customers search for a certain keyword, "X," and then look at or purchase another product "Y," even if X and Y are not obviously related, future customers who search for X may receive search results including Y. But the BBS function is not solely responsible for the search results. The results list also includes matches based on a search of terms on Amazon's pages — for instance, streaming video of a show called Special Ops Mission may be called up. Whether a particular result appears because of BBS or a traditional search of matching terms is not evident from the matches, and the relevant products (which are based on search terms) and recommended products (based on BBS) are mingled together.

[5] Amazon submitted evidence that purports to show that no customers were confused, because customers who searched for "Luminox" were 21 times as likely to purchase a Luminox watch as were customers who searched for "MTM Special Ops." It isn't surprising that customers who search for an item (Luminox watches) are more likely to buy that item than customers who did not search for it but searched for another product (MTM watches). However, a jury might view this purported evidence of no actual confusion as flawed because a user researching watches might initially be confused about the availability of MTM watches online and so not purchase a Luminox the same day. Further, some users did search for "MTM Special Ops" and purchase a competitor's watch the same day, which a jury could find probative of some confusion.

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SHARED BRANDING: ASSOCIATED USE OF TRADEMARKS AND TRADE DRESS THROUGH SHARED RETAIL SPACE[*] [**]

By Lanning Bryer,[***] Scott Lebson,[****] and Francesca Montalvo[*****]

I. INTRODUCTION

In the context of today's logo-obsessed consumer culture, "branding"[1] is an important marketing strategy that allows companies to build consumer confidence and loyalty.[2] One increasingly popular branding strategy involves the association of two or more unrelated companies' trademarks and trade dress to promote distinctly branded goods and services in a shared retail space.[3] In the early 1990s, consumers began to see their favorite fast-food restaurants operating in one location, usually owned by

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** On February 26, 2015, a New York state appeals court reinstated Macy's claims that J.C. Penny ("JCP") breached confidentiality provisions of Macy's contract with Martha Stewart Living Omnigroup and that JCP's actions amounted to unfair competition, finding that the lower court dismissed these claims erroneously. The court also upheld the validity of Macy's tortious interference claim against JCP but denied Macy's request for punitive damages (Macy's Inc. v. Martha Stewart Living Omnimedia, Inc*.,* 2015 N.Y. slip op. 01728).

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1. "Branding is in essence a marketing concept that has traditionally been identified with product manufacturers. These manufacturers devote significant time, effort, and funds to establish brand identities for their products so that consumers can distinguish such products from those of competing manufacturers." Ann Hurwitz, *A Symposium on Trademark Law: Co-Branding: Managing Franchise Brand Associations*, 20 Okla. City U. L. Rev. 373, 374 (1995).

2. *See id.* at 377.

3. "A single restaurant facility might offer both KFC chicken products and Taco Bell Mexican food, be identified by both trademarks, and feature elements of both systems' trade dress. The two brands and images might be blended together or kept discrete." Andrew C. Selden & R. Scott Toop, *Multibranding*, 24 Franchise L.J. 181, 181 (2005). This concept has also been referred to as "site sharing" or "multibranding." *Id.* ("Food courts in shopping malls, nesting one brand in a captive location, and site sharing (e.g., a TGI Friday's restaurant adjacent to a franchised hotel) reflect different aspects of multibranding.").

the same parent company.[4] More recently, we have begun to see unrelated entities jointly offering services at a single retail facility; for example, consumers can find two or more of their favorite unrelated food franchises operating in one location,[5] or stop at gas stations that also serve their favorite hamburger or sandwich chains.[6] Today, Starbucks aficionados do not need to grab their Caramel Macchiato at a freestanding Starbucks before shopping at certain Target stores; rather, they can simply wheel their cart over to the Starbucks "retail shop" located inside the store.[7] Similar arrangements have been trending in the fashion and retail industry,[8] as more and more luxury brand owners are collaborating with department stores to build "in-store boutiques" operated and controlled by the brand owner.[9] This article explores the increasingly popular marketing strategy of two or more unrelated companies offering their separate and distinct mono-branded goods and services in a shared commercial space—herein referred to as "shared branding."

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4. YUM! Brands, parent company of Taco Bell, Pizza Hut, and KFC, combined its franchises in single restaurant facilities beginning in 1992. Jason Daley, *New Franchises Team Up and Make Co-branding Work* (Mar. 23, 2012), http://www.entrepreneur.com/article/223144#; *see also Yum! Brands 2003 Annual Customer Mania Report*, 1, 25 (2003), http://yum.com/investors/annualreport/03annualreport/pdf/yum_annualreport03.pdf.

5. *Cold Stone Creamery Co-Branding*, COLD STONE ICE CREAM, http://www.coldstonecreamery.com/aboutus/specialtylocations (last visited Apr. 11, 2014) (Cold Stone Creamery and Tim Hortons locations); *see also Tim Hortons and Cold Stone: Co-Branding Strategies*, Bloomberg Businessweek (July 10, 2009), http://www.businessweek.com/smallbiz/content/jul2009/sb20090710_574574.htm ("Tim Hortons (THI) and Cold Stone Creamery have co-branded nearly fifty restaurant locations in the U.S. and Canada this year and are continuing to expand the partnership . . . .").

6. *See* Julie Jargon, *Quiznos Carves Out Broader Niche*, WSJ.com (Mar. 1, 2010, 12:01 AM), http://online.wsj.com/article/SB10001424052748704089904575093520021777354.html ("McDonald's Corp. . . . and rival sandwich chain Subway, among others, have been aligning with filling stations for many years.").

7. *Target, Starbucks Agree to Add Coffee Shops to New Target Stores*, Louisville Business First (Oct. 11, 2002, 2:04 PM), http://www.bizjournals.com/louisville/stories/2002/10/07/daily45.html; Kerry Busheikin, "Questions About Licensed Stores," *Starbucks Blog* (June 2, 2009), http://blogs.starbucks.com/blogs/customer/archive/2009/06/02/questions-about-licensed-stores.aspx.

8. Retail giants including Walmart, Target, Sears, and Kroger are experimenting with new ways to leverage their space and generate more revenue. They're partnering with specialized retailers and manufacturers that can drive traffic and help them fill holes in their offering. How? By either leasing space or co-branding shops within their stores (shop in shops). Jim Jaeger, *Trends in Retail Environments*, KDM Pop Solutions Group (June 4, 2013), http://www.kdmpop.com/2013/06/Trends-in-Retail-Environments.cfm#.UyuzhyhDxZ4.

9. Rachel Dodes & Christina Passariello, *Luxury Brands Stake Out New Department Store Turf*, wsj.com (May 4, 2011, 12:01 AM), http://www.wsj.com/articles/SB10001424052748704740604576301113906906234.

II. STRATEGIC BRANDING ALLIANCES: CO-BRANDING AND SHARED BRANDING

A brand[10] can serve various functions.[11] It can perform the traditional trademark function as a source identifier for goods and services and distinguish them from those sold by competitors' products.[12] Brands can also serve to "enhance the overall corporate image as the company pursues a full range of business goals."[13] Also, when a company launches a new product or enters into an entirely new market, a brand can offer consumers assurance of high quality.[14] Consumers may also find value in a brand by using it as an "expression[] of individuality and identity."[15] Recognizing the value of a brand, companies consider shared branding an efficient and profitable way to leverage the consumer confidence and loyalty that each brand has developed over time.[16] Such branding alliances can serve "as an inexpensive means of increasing name recognition, market penetration, and sales."[17]

A. Co-branding

Co-branding—the collaborative use of two distinct trademarks for a particular marketing purpose—is not a new commercial phenomenon,[18] but has seen renewed interest in various

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10. While sometimes the terms "brands" and "trademarks" are used as synonymously, this article will refer to a trademark as the specific intellectual property right that identifies the source of goods or services, and the brand will refer to "a combination of tangible and intangible elements, such as a trademark, design, logo and trade dress, and the concept, image and reputation which those elements transmit with respect to specified products and/or services." Helen Lom, *Branding: How to Use Intellectual Property to Create Value for Your Business?*, World Intellectual Property Organization, http://www.wipo.int/sme/en/documents/branding_fulltext.html (last visited Oct. 20, 2013); *see also* J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 4:18 (4th ed. 2014).

11. Deven R. Desai, *From Trademarks to Brands*, 64 Fla. L. Rev. 981, 988 (2012).

12. McCarthy, *supra* note 10, § 3:4.

13. Desai, *supra* note 11, at 989.

14. *Id.* at 995.

15. *Id.* at 989.

16. Hurwitz, *supra* note 1, at 377. *But see* Daley, *supra* note 4 ("While co-branding does have some benefits, . . . the 'something for everyone' model has not proved its worth.").

17. Donald R. Kirk, *Franchise Dual-Branding: The Irony of Association*, 10 DePaul Bus. L.J. 1, 3 (1997).

18. "Co-branding between restaurants and hotels has existed in one form or another for many years, starting with Trader Vic's in the 1930s." Juliette M. Boone, *Hotel-restaurant Co-branding - A Preliminary Study,* Cornell Hotel & Restaurant Administration Quarterly, (Oct. 1, 1997), *available at* http://business.highbeam.com/4074/article-1G1-20126719/hotelrestaurant-cobranding-preliminary-study.

commercial contexts, such as franchising[19] and retail.[20] The term "co-branding" has been referred to as "a planned association of two or more distinct and differently branded goods, services or business concepts."[21] It has also been defined more narrowly to describe "the combination of two brands to create a single, unique product."[22] Various other terms have been used to describe the concept of co-branding: "multibranding," "piggy-back franchising," "brand alliance," and "composite branding" have all been used to describe the general concept of pairing of two or more brands to market goods or services.[23]

In certain contexts, co-branding may help a company meet its particular business goals. For example, a company may wish to associate with an unrelated, but reputable brand to launch a new product, or to revive a struggling product line.[24] In general, co-branding offers unrelated brands the ability to leverage each other's goodwill and brand equity[25] to expand their presence in the market.[26] While co-branding has been a popular business model used by parent or holding companies to combine their affiliated brands,[27] this article will focus on the strategic alliances between unrelated entities to associate in reasonably close proximity each

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19. "[M]ulti-brand franchising can be very lucrative and has become a growing trend in the industry." Terry Powell, *Multi-Brand Franchising: An Empire Building Strategy*, AllBusiness, http://www.allbusiness.com/company-activities-management/company-structures-ownership/13422262-1.html (last visited Oct. 19, 2013).

20. *See* Jaeger, *supra* note 8, and accompanying text.

21. Selden & Toop, *supra* note 3, at 181 (citing Kirk, *supra* note 17, at 11). However, Kirk refers to the concept not as "multibranding," but as "dual branding." Kirk, *supra* note 17, at 11.

22. Lance Leuthesser et al., *2 + 2 = 5? A framework for using co-branding to leverage a brand*, 2 J. Brand Mgmt. 35, 36 (2003), http://www.brandframe.no/files/Fagartiler51_100/2cobranding.pdf.

23. Leuthesser, *supra* note 22, at 36 ("brand alliance," and "composite branding"); Daley, *supra* note 4 ("multibranding" and "piggy-back franchising").

24. Hurwitz, *supra* note 1, at 374.

25. "Goodwill is the advantage of reputation in connection with a business." Lanning Bryer & Matthew Asbell, *Combining Trademarks In A Jointly Owned IP Holding Company*, 98 TMR 834, 845 (2008). Brand equity is a consumer's "collective impression made by these perceptions and associations, including [the consumer's] awareness of the product (brand awareness) and its perceived quality." Steve Hartman, *Brand Equity Impairment—the Meaning of Dilution*, 87 TMR 418, 419 (1997).

26. *See* Hurwitz, *supra* note 1, at 377 ("Generally speaking, the added value that co-branding offers franchise companies is leverage—that is, the ability of the partners in the co-branding alliance to rely on each other's image, products, services, and locations to increase their own market penetration and market share.").

27. *See* Selden & Toop, *supra* note 3, at 181 (Yum! Brands Inc.'s multibranded locations and Dunkin' Donuts–Baskin-Robbins locations).

other's trademarks, trade names, trade dress, designs, logos, and other related marks.[28]

Co-branding arrangements can be structured in various ways. One common co-branding arrangement involves two distinct company trademarks placed on one product within either or both of their product categories, often referred to as "collaborations."[29] Collaborations are common in the fashion industry, illustrated by popular collaborations involving celebrity publicity rights or trademark rights, such as Stella McCartney and Adidas, Karl Lagerfeld and Macy's, and Lanvin and H&M.[30] Outside the fashion realm, popular collaborations include Nike and Apple, Lexus and Coach, and Adidas and Porsche.[31] Another co-branding relationship can take the form of a joint venture, when two or more businesses join forces to co-market new goods or services under a new trademark.[32] A more recent phenomenon and distinct arrangement has become popular in various commercial industries, where unrelated companies enter into agreements to share commercial space to independently offer their distinct mono-branded[33] goods and services in relative close proximity; such "shared branding" arrangements should be considered unique and distinct from "co-branding."

B. Shared Branding

Shared branding can be described as a strategic alliance[34] between two or more unrelated entities to offer their trademarked

28. Unrelated companies, Tim Hortons and Cold Stone, entered into a strategic alliance to offer shared branded shops after their CEOs fortuitously met in 2008. *See* Bloomberg Businessweek, *supra* note 5.

29. *See* Douglas Hand, *When Licensing and Branding Meet*, Aspatore: Navigating Fashion L.: Leading Law on Exploring the Trends, Cases and Strategies of Fashion L., 2012 WL 167356, *8 ("Collaborations or co-branding deals have increased in popularity and typically involve two brands putting their respective trademarks on a product within one or both of their respective product categories.").

30. *Id.*

31. *Id.*

32. Trademark Practice Throughout the World, Squyres and Norton, § 20:11.10. For an example of a co-joint venture agreement, see Christopher Norman Chocolates, Ltd. v. Schokinag Chocolates North America, Inc., 270 F. Supp. 2d 432 (S.D.N.Y. 2003) (dispute between two chocolate manufacturers over their co-joint venture agreement to produce co-branded chocolate products).

33. This article will refer to a mono-branded company as one that maintains its trademarks and trade dress separate and distinct from that of another brand.

34. A strategic alliance can be defined as:

> an agreement between firms to do business together in ways that go beyond normal company-to-company dealings, but fall short of a merger or a full partnership." These alliances range from the informal "handshake" agreements to formal agreements with lengthy contracts in which the parties may also exchange equity, or contribute capital to form a joint venture corporation.

goods and services separately within a shared retail space. The combination of two or more affiliated brands in a single location became popular as early as the late 1980s.[35] The trend was common among parent companies to offer their owned franchises in a single location service, illustrated by Dunkin' Brands' Dunkin' Donuts–Baskin-Robbins "combo shops"[36] and the single facilities that offered YUM! Brands' franchises—Taco Bell, Pizza Hut, and KFC.[37] More recently shared branding has become a trend among unrelated entities. Non-affiliated businesses are entering into strategic alliances to offer their unrelated goods or services under one roof as a way to leverage costs and efficiencies.[38] By placing their trademarks and trade dress in close proximity in a single commercial space, each shared branding partner can benefit from the association and goodwill of the other.[39] In this sense, shared branding resembles co-branding, in that they both offer partners the ability "to rely on each other's image, products, services and locations to increase their own market penetration and market

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Dean Elmuti & Yunus Kathawala, *An overview of strategic alliances*, 39 Mgmt. Decision 205, 218 (2001), *available for purchase at* http://www.emeraldinsight.com/doi/abs/10.1108/EUM0000000005452 (citations omitted) (last visited Oct. 22, 2013).

35. The U.S. Department of Commerce observed in its 1987 report on Franchising in the Economy that "[m]any franchisors are currently involved in testing a new form of franchising comprised of different products under the same roof…" and referred to this trend as "combination franchising." Hurwitz, *supra* note 1, at 375 (citing U.S. Dep't of Commerce, Franchising in the Economy 1985-1987, at 5 (1987)).

36. Dunkin' Brands, owner of the sister companies Dunkin' Donuts and Baskin-Robbins, offers "combo" stores which combine both the franchises in one location. Dunkin' Donuts, Inc. v. Tejany & Tejany, Inc. No 05 C 4770, 2006 U.S. Dist. LEXIS 2041, at 4 (N.D. Ill. Jan. 18, 2006); *see also Dunkin' Brands Announces Plans For Nine New Restaurants In Houston, Texas, With Existing Franchise Group New York Donuts Group, Inc*., The Bus. J. (June 12, 2013) http://www.bizjournals.com/prnewswire/press_releases/2013/06/12/NY30789.

37. Daley, *supra* note 4 (If you flip through annual reports from Yum! Brands, you'll notice an increasing frenzy starting in 1992 around "multibranding." A decade later, Yum!—the holding company that owns and operates Taco Bell, KFC, Pizza Hut . . . hailed the concept as "potentially the biggest sales and profit driver for the restaurant industry since the advent of the drive-thru window.").

38. One example is the strategic alliance between the unrelated entities, Tim Hortons and Cold Stone Creamery. *See* Bloomberg Businessweek, *supra* note 5.

39. When Cold Stone's president, Dan Beem, was asked in an interview with Bloomberg BusinessWeek what sort of opportunities Cold Stone was trying to address by partnering with Tim Hortons to open shared branded restaurants, he responded,

> [t]he co-branding initiative will leverage complementary dayparts [breakfast, lunch, and dinner in restaurant parlance] and seasonality to provide a quality experience for customers, a profitable scenario for franchisees, and to take advantage of prime real estate with little additional capital needed. Cold Stone Creamery drives significant customer traffic and sales in the evening market while Tim Hortons creates a substantial portion of its traffic and sales in the morning and lunch dayparts. Each brand has global reach with strengths in different markets that can be leveraged by the other brand.

Id.

share."[40] However, it is unique in that shared branding often involves two or more unrelated entities operating in a single location while ensuring each partner's trademarks and trade dress remain separate and distinct. Today, shared branding is an increasingly common business model proliferating in various commercial contexts, particularly within the franchising community[41] and the retailing industry.[42]

1. Shared Branding in the Franchising Industry

One recent trend is the combination of fast-food franchises and gas stations.[43] Another is the operation of two or more distinctly branded franchises in a single commercial space.[44] Such shared branding arrangements can be facilitated through a lease agreement or through a licensing agreement. A franchise can lease certain space on land owned by an unrelated business, a model adopted by Back Yard Burgers, the Memphis-based restaurant chain.[45] The burger chain leases space from unrelated gas station convenience stores.[46] This arrangement helps the company retain control over operations while simultaneously reducing costs.[47] A shared branding lease arrangement can also benefit the primary lessor; according to Jamie Callahan, part owner of B&V Oil Co. LLC, franchise restaurants that lease on their land help improve traffic at convenience stores, and that "[additionally] it's just good to collect that rent check every month."[48]

A shared branding agreement can also take the form of a license.[49] A company can license its intellectual property rights to a primary retailer, who will then set up licensed retail locations

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40. *See* Hurwitz, *supra* note 1, at 377.

41. "No matter how you describe it, [co-branding is] a strategy that has really taken off in franchising during the past few years." Kerry Pipes, *Co-Branding Offers the Best of Both Worlds*, Franchising.com, http://www.franchising.com/howtofranchiseguide/cobranding_offers_the_best_of_both_worlds.html (last visited Oct. 19, 2013).

42. *See* Dodes & Passariello, *supra* note 9.

43. "McDonald's Corp., . . . Yum Brands Inc.'s Taco Bell and rival sandwich chain Subway, among others, have been aligning with filling stations for many years." Jargon, *supra* note 6.

44. *See* Bloomberg Businessweek, *supra* note 5 (Tim Hortons-Cold Stone shared branded restaurants).

45. Tara Milligan, *Fast Food Joints, Gas Stations: Profitable Partnership?*, Memphis Bus. J. (Oct. 14, 2001, 11:00 PM CDT), http://www.bizjournals.com/memphis/stories/2001/10/15/story7.html?page=all.

46. *Id.*

47. *Id.* "We're strictly leasing the space, but we're operating the restaurant . . . . So it lowers the cost of getting it open." *Id.*

48. *Id.*

49. *See* Ranjay Gulati, et al., *The Barista Principle—Starbucks and the Rise of Relational Capital*, STRATEGY+BUSINESS (Jul. 17, 2002), *available at* http://www.strategy-business.com/article/20534?gko=582b3.

operated from within the primary retailer's location.[50] License agreements are similar to franchise agreements in that an outside entity is the distributor of the brand's goods or services.[51] However, a licensing agreement may provide a business "with more control of . . . [its] brand because the licensee does not own the store, as a franchisee would; rather, licensees are 'renting' the brand for a fee."[52] Such a licensing model is utilized by international coffeehouse chain Starbucks.[53] Starbucks is not primarily a franchise; however, it does offer franchising opportunities on a limited basis.[54] Starbucks has offered licensed retail locations in places such as Target, grocery stores, airports, hospitals, airports, and college campuses.[55] Such licensed, shared branded locations help "to develop the brand outside the company's retail stores in order to reach customers through multiple points of contact."[56] Starbucks' licensing arrangement is structured so that "Starbucks charges a royalty on gross sales and a licensing fee to start up the business."[57] Also, Starbucks may charge more for the goods it manufactures itself.[58]

Through such licensing agreements, a company can increase its customers' access to products and to the trusted brand name, while also enhancing a company's profits.[59] However, licensing a brand name inevitably carries the risk of compromised quality.[60] As CEO Howard Schultz of Starbucks noted, there exists an "'inherent contradiction' between the company's close control of the Starbucks retail store experience and the licensing of the brand."[61]

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50. *Id.*

51. *Id.*

52. *Id.*

53. Busheikin, *supra* note 7.

> A Starbucks licensed store is owned and operated by an approved licensee. Each licensee is closely evaluated to ensure they meet our stringent requirements in order to operate the Starbucks brand. These retail locations are staffed by the licensee's employees and they follow Starbucks training guidelines including beverage quality, store cleanliness, and creating the Starbucks Experience for our customers.

Id.

54. "Starbucks franchises on a very limited basis." *Investor FAQ*, Starbucks.com, http://investor.starbucks.com/phoenix.zhtml?c=99518&p=irol-faq#26956.

55. Busheikin, *supra* note 7 ("A Starbucks licensed store is owned and operated by an approved licensee.").

56. Gulati, et al., *supra* note 49.

57. *Id.*

58. *Id.*

59. "Through these locations, we are able to significantly increase customer accessibility to our products and brand, which, from a shareholder perspective, is also valuable because of the profit it contributes to the organization." Busheikin, *supra* note 7 (quoting Kerry Busheikin, Starbucks Vice President of Operations for Licensed Stores East).

60. Gulati, et al., *supra* note 49.

61. *Id.*

To minimize such risk, "[t]he company's solution is to carefully select partners based on their reputation and commitment to quality, and to gauge their willingness to train their employees the Starbucks way. The principles are the same as those underlying supplier relationships."[62]

2. Shared Branding in the Fashion and Retail Industry

The dynamic nature of the retail industry and the growth of technology require retailers to develop innovative marketing and multi-channeling strategies.[63] Shared branding arrangements and strategic alliances have become hallmarks of the retail industry.[64] In particular, shared branding has become a desirable retail model among department stores and fashion retailers alike.[65] These relationships are attractive as the combination of trademarks and trade dress allows companies to leverage each other's brand equity to connect with customers and distinguish one's store from its competitors.[66] While collaborations are popular in the fashion and retail industry, more department stores and retailers are entering into strategic alliances[67] known as "shop-in-shops," "in-store boutiques," or "concessions."[68] These associations are typically

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62. *Id.*

63. *See* Adrianne Pasquarelli, *Department Stores Fill their Floors with Shop-In-Shops*, Crain's New York Business (Jan. 29, 2012, 12:01 AM), http://www.crainsnewyork.com/article/20120129/SUB/301299977 ("[T]he partnership model is becoming increasingly common as stores struggle for fresh ways to lure customers. With the advance of e-commerce, and the rise of specialty shops, department stores have been hit particularly hard."); *see also Retail 3.0, The Evolution Of Multi-Channel Retail Distribution*, Jones Lang LaSalle (May 2012), *available at* http://www.us.jll.com/united-states/en-us/research/3564/retail-evolution-white-paper/.

64. *See* David Peress & Stephen G. Miller, *Co-Branding, Strategic Alliances and Multi-Channeling: 1+1 = 3*, 23-APR Am. Bankr. Inst. J. 48 (2004).

65. Dodes & Passariello, *supra* note 9.

> As the luxury market rebounds, powerful global brands including Gucci, Prada and Dior are starting to press for more control over the way their products are presented and sold in U.S. department stores. The goal is to chip away at the old sales model used for decades by American department stores and instead operate a store-within-a-store, known as a "concession."

Id.

66. Peress & Miller, *supra* note 64, at 48.

67. Dodes & Passariello, *supra* note 9. "U.S. chains have been 'understandably reluctant' to go along with the shift, given the economics of concession deals and a sense that they better understand how goods sell, says Arnold Aronson, managing director of retail strategies at retail consultancy Kurt Salmon Associates." *Id.*

68. *See Luxury Brands Push for the Shop-in-Shop*, http://www.thefashionlaw.com/?p=14964 (last visited Oct. 20, 2013) (using the terms "shop-in-shop," "store-in-a store concept," "concession shops," and "concessions agreements" to describe the push for luxury brand to set up shops inside of department stores); *see also Stella McCartney Open In-Store Boutique at Harrods*, Stella McCartney, http://www.stellamccartney.com/experience/us/pres

between two arm's length retail companies and structured so that the "in-store retailer" would offer its goods directly to consumers from a designated area within the "primary retailer's" retail space.[69]

In-store boutique arrangements may differ significantly from wholesale distribution agreements. Traditionally, department stores purchase products from brand owners at wholesale prices, and thereafter resell those goods to the ultimate consumer at the retail level.[70] Once the department store purchases the goods at wholesale, it decides how to sell and display the goods in its store.[71] The concession or license shop-in-shop model—where the in-store boutique is owned and operated by the in-store retailer, or where the in-store brand retains the full sales and the department store either receives a percentage of the sales or a rental fee—is an alternative to the traditional wholesale agreement.[72] However, a department store may structure its purchased, wholesale goods in a manner that would resemble a shop-in-shop by building a department entirely dedicated to a particular brand composed of the wholesale goods. A consumer could mistake such arrangements for an in-store boutique that is completely controlled by the in-store brand owner.[73] But in actuality, the department store may own and operate the department, hold title to the goods, and retain the full sale price, as if it were a mini retail shop. Should a department set up in such a way be considered a "shop-in-shop?" Or should the term be used only to describe a designated area that is actually controlled to a certain extent by the in-store boutique?

Retail stores can either be brick-and-mortar shops, or online "e-stores."[74] The Internet has transformed the retail industry and spawned e-commerce shops; where "e-tailers" can sell goods through online portals directly to the consumer.[75] The shop-in-shop concept has also been extended outside of brick-and-mortar in-store boutiques; businesses can use an "e-shop-in-shop" for their

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s-room/stella-mccartney-open-in-store-boutique-at-harrods-2/ (Stella McCartney refers to its store inside of Harrods as an "in-store boutique.").

69. For the purposes of this article, the term "primary retailer" will refer to the larger store (or department store) that hosts the in-store boutique.

70. Dodes & Passariello, *supra* note 9.

71. "A retailer's job is to determine the right product assortment for its customers . . . and therefore the retailer[]always has the final say in what appears on its shelves." Post Trial Mem. from Macy's at 24 (May 31, 2013) (on file with author) (citations omitted).

72. *See* Pasquarelli, *supra* note 63.

73. *See* Pasquarelli, *supra* note 63.

74. *See Prada E-store*, Prada, http://www.prada.com/en/e-store.html (last visited Apr. 11, 2014).

75. Natasha Singer, *E-Tailer Customization: Convenient or Creepy*?, N.Y.Times.com (June 23, 2012), http://www.nytimes.com/2012/06/24/technology/e-tailer-customization-whats-convenient-and-whats-just-plain-creepy.html?pagewanted=all&_r=0.

e-commerce websites.[76] Online retail stalwart Amazon.com has adopted an "e-shop-in-shop" concept.[77] Amazon launched its first fashion e-shop-in-shop for Derek Lam's 10 Crosby Spring, 2013 line.[78] The e-store has its own landing page,[79] but is accessed through the Amazon.com website. According to some, this arrangement would likely constitute an e-shop-in-shop.[80] The portal in a portal concept aims to offer consumers fashionable goods in an innovative and appealing way.[81]

The term "shop-in-shop" has been used loosely to refer to branded goods being offered directly to consumers from inside another unrelated branded store.[82] However, a "shop-in-shop" can refer to various legal and business arrangements. An in-store retailer can chose to lease the space of a primary store for a fee.[83] This arrangement may resemble a "freestanding" shop, where a brand leases retail space from a landlord or other non-branded entity. The "shop-in-shop" concept has also been referred to as a "concession."[84] A concession can be a specific license agreement whereby the primary store licenses its space to an in-store retailer to operate a retail store in exchange for a licensing fee or a percentage of sales.[85] Such concession agreements still permit the brand to operate the in-store boutique "relatively independently."[86] However, some fashion retailers may choose to structure their "shop-in-shops" as wholesale agreements and thereafter execute a "shop-in-shop" agreement in a Letter Agreement ("Shop-in-Shop LOA"). In the Shop-in-Shop LOA, the department store agrees to construct a mini-department designated as the fashion retailer's

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76. Kenzie Bryant, *Amazon Launches Online Shop-in-Shops With 10 Crosby,* Racked.com (Mar. 7, 2013), http://racked.com/archives/2013/03/07/amazon.php.

77. *Id.*

78. *Id.*

79. "A landing page is a web page to which people are directed from some off-site source, such as an online advertisement or email. A site's home page is usually one of many landing pages." *Definition of Landing Page,* Web1 Mktg., http://www.web1marketing.com/glossary.php?term=landing+page (last visited Oct. 20, 2013).

80. Bryant, *supra* note 76.

81. *Id.*

> Amazon's [president] Cathy Beaudoin is feeling confident about the new set-up, saying, "It's so ripe for innovation, and if we can give customers a beautiful, branded 10 Crosby experience—and couple it with the ease of shopping on Amazon and all the service that our customer relies on—it's a genius combination."

Id.

82. *See* Pasquarelli, *supra* note 63.

83. *Id.*

84. *See* Dodes & Passariello, *supra* note 9.

85. *Id.* ("The amount brands pay for concession space varies, but it is typically around 20% to 30% of sales, according to two people familiar with the matter.").

86. *Id.*

in-store shop, where it sells exclusively the fashion retailer's goods. Both the in-store retailer and the department store have shared ownership of the shop-in-shop, the fashion retailer provides rules and regulations over the shop in writing, but the department store maintains the shop and is responsible for keeping the area clean and obtaining insurance that covers the area. The Shop-in-Shop LOA grants the department store limited permission to use the in-store retailer's trademarks to designate the area as the fashion retailer's "shop-in-shop," but the in-store retailer maintains ownership of its marks and related intellectual property.

Furthermore, each "shop-in-shop" agreement may vary in terms of the level of control retained or transferred by the transacting parties. For more control, a brand owner may hire its own employees, or alternatively, train employees designated by the primary store.[87] It may also set restrictions on the primary store's use of the in-stores trademarks and trade name.[88] The in-store boutique may negotiate to maintain control and ownership of the merchandise and determine markdowns.[89] While an in-store boutique "assume[s] more of the risk if products don't sell," such an arrangement "promises [the in-store brand] a bigger cut of sales."[90]

III. SHARED BRANDING AS AN ATTRACTIVE BUSINESS MODEL

Shared branding is an attractive business model as it promotes: (1) expansion into new product lines without the costs and risks associated with internal new product development, (2) increased consumer traffic, (3) expansion into new market areas and locations, (4) customer appeal and convenience, (5) leveraging of trademark goodwill, (6) control over trademarks and trade dress, and (7) control over the goods or services.[91]

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87. *Id.*; Capgemini, *Moving Downstream: Selling Direct to Consumers—Why Consumer Products Manufacturers Sell Direct—and How to Make It Work* (2009), *available at* http://www.capgemini.com/sites/default/files/resource/pdf/tl_Moving_Downstream__Selling_Direct_to_Consumers.pdf ("[Consumer Product Manufacturers] in this case have increased control over fixtures, assortment and pricing and any staff is generally trained by them.").

88. This concept is similar to a retail lease clause that prohibits the landlord from using the tenant's trade name or related trademarks without the tenant's authorization. *See infra* note 145.

89. Dodes & Passariello, *supra* note 9.

90. *Id.*

91. Dan Beem, president of Cold Stone Creamery, describes the commercial attractiveness of shared branding relationships: "[c]o-branding a physical location with a complementary brand maximizes this existing asset, with the potential to reduce costs and increase customer traffic. Leveraging efficiencies in real estate and operations, co-branded locations of chains with similar business philosophies encourages joint patronage of analogous customers." Dan Beem, *The Case for Co-Branding*, Forbes.com (Mar. 16, 2010, 5:49PM), http://www.forbes.com/2010/03/16/cold-stone-creamery-dan-beem-rocky-mountain-chocolate-cmo-network-co-branding.html.

Shared branding offers companies the opportunity to align with established brands outside of its traditional product lines and services "without incurring the expense and some of the risks associated with the internal development of new products, services, or outlets."[92] For example, a franchise that sells primarily donuts and coffee may want to align itself with an ice cream franchise to offer its customers new products that the donut franchise does not offer.[93] Such an arrangement allows both partners to offer their customers new product lines without having to incur the expense or risk involved in internal new product development.[94] Additionally, if a company's customers are not responding well to the new products introduced by its shared branding partner, the company can cease doing business with the other partner as opposed to absorbing the loss if it had invested in new product production.

A shop-in-shop has an added value compared with a freestanding store in that it may help increase consumer traffic.[95] An in-store boutique may want to partner with a department store that has a similar customer profile to leverage each partner's customer base.[96] Or, a brand may partner with a department with which it already has a wholesale distribution agreement in order to create more convenient points of sale for its current customers. "Bringing varying merchants together in one place gives them access to consumers who may not otherwise patronize their businesses."[97] Thus, a shopper who enters a department store to buy a particular product may also be attracted to a brand's in-store boutique that the shopper would not have visited but for the convenient location.

Shared branding may also help franchises expand into new markets and different locations. For example, the Denver-based sandwich company, Quiznos, began opening mini-restaurants inside gas stations and convenience stores of BP, Chevron, and Circle K in 2009.[98] Quiznos's Chief Executive commented that adding Quiznos to convenience stores expanded the company to

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92. *See* Hurwitz, *supra* note 1, at 377.

93. *See Tim Hortons and Cold Stone: Co-Branding Strategies*, *supra* note 5.

94. Such arrangements offer similar benefits to parties in a licensing agreement. "[Licensing] [g]enerates greater revenue without the start up costs associated with brand development and promotion." *Benefits of Licensing to Both the Licensor and Licensee*, The Mobius License Management Group, LLC, http://mobiuslicensing.com/Benefits_of_Licensing.html (last visited Apr. 11, 2014).

95. *See supra* note 91 and accompanying text.

96. "And co-branding gave us the opportunity to leverage our similar customer profiles." *Tim Hortons and Cold Stone: Co-Branding Strategies*, *supra* note 5 (quoting David Clanachan, Tim Hortons' chief operations officer).

97. Hurwitz, *supra* note 1.

98. Jargon, *supra* note 6.

"places that normally wouldn't support a traditional Quiznos, like service plazas, truck stops and urban areas."[99] Similarly, Starbucks set up franchises in places such as Target to serve customers in locations that Starbucks could not access otherwise.[100]

Shop-in-shop arrangements are convenient and appealing to customers.[101] An in-store boutique displays various products under a particular brand in one location.[102] In contrast, the traditional department store is divided into different merchandise departments; for example, a customer may find a particular brand of shoes at one department, but must go to another department to find a purse by that same brand. Also, shop-in-shops facilitate the shopping experience, because a customer need only travel to one location to have the convenience of shopping at various in-stores located inside the primary store.[103] Furthermore, an in-store boutique offers shoppers an edited and curated merchandise selection as opposed to an overabundant display of merchandise.[104] With the rise of e-commerce and specialty shops, department stores are increasingly viewing the shop-in-shop model as a way to lure new customers.[105]

The association of two or more brands and their respective trademarks and trade dress allows two companies to share each other's goodwill and reputation in the marketplace.[106] Through shared branding, companies can leverage their individual brands by "giv[ing] each partner immediate access to the consumer trust, confidence, and acceptance that the other has developed over time."[107] In the franchising industry, the association of a popular brand name may help attract more customers,[108] as evinced by many successful shared branded gas stations and convenience

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99. *Id.*

100. Busheikin, *supra* note 7 ("A licensed store provides Starbucks access to many locations that we would not have otherwise . . . . Through these locations, we are able to significantly increase customer accessibility to our products and brand . . . .").

101. *See* Pasquarelli, *supra* note 63 ("They present their own labels and partner with outside brands in strategy to lure new customers.").

102. *See id.*

103. *See id.*

104. "Customers like to buy in edited, curated assortments." *Id.* (quoting former J.C. Penney CEO, Ron Johnson).

105. *See generally id.*

106. Hurwitz, *supra* note 1, at 377.

107. *Id.*

108. "A franchise . . . offers the franchisee with the ability to capitalise on the know-how and systems that have been proven to be successful. The quality of the product or service provided is therefore in many ways guaranteed." *Franchising & Licensing - What Are They? And How Can You Benefit from Them?*, PIPERS, http://www.wipo.int/export/sites/www/sme/en/documents/pdf/franchising.pdf (last visited Oct. 20, 2013).

stores.[109] An owner of an Exxon gas station in Pennsylvania who opened a Quiznos shop in his convenience store was quoted as saying his food-service sales had almost quadrupled, admitting that "[he] previously had [his] own deli, but it's a name-brand world and people want to know what to expect when they walk in the door."[110] From the franchisor's perspective, opening a franchise at a convenience store is a profitable way to extend one's consumer base by utilizing the land and services offered by the primary location.[111] Similarly, a new or struggling company's shared branding association with a strongly established brand can help increase sales or "create synergies."[112]

In the fashion and retail industry, an association of brand names from one shared retail location may help bring life to a struggling brand.[113] For example, consumer electronics retailer Best Buy entered into an agreement with electronic company Samsung Electronics where Best Buy would offer "Samsung Experience Shops" within all U.S. Best Buy locations for three years.[114] Best Buy's partnership with Samsung shows consumers that "a very high-profile consumer electronics vendor [values] Best Buy [as] a relevant distribution outlet."[115] Similarly, a floundering department store may wish to enter into associations with successful and well-branded companies to build in-store boutiques in its struggling department store locations.[116] J.C. Penney ("JCP") is a prime example. Under former management, JCP sought to reinvent the traditional department store model by implementing a "shop-in-shop" concept where it would divide JCP locations into individual brand spaces.[117] According to Stephen Hoch, a professor of marketing at the University of Pennsylvania Wharton School of Business, through its in-store boutique business model, "J.C. Penney [was] trying to borrow some equity from brands."[118] JCP's

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109. *See* Hurwitz, *supra* note 1, at 374, 377–78.

110. Jargon, *supra* note 6.

111. *See* Hurwitz, *supra* note 1, at 376.

112. *Id.* at 374.

113. *Id.*; Alice Hines, *J.C. Penney Carves Stores into Mini-Boutique Shops*, Huffington Post (July 25, 2012 10:32 AM), http://www.huffingtonpost.com/2012/07/23/jcpenney-shops-mini-boutiques_n_1695630.html.

114. Brad Tuttle, *Can the Boutique 'Store-Within-a-Store' Concept Save Big Box Retailers from Extinction?*, Time Magazine (Apr. 8, 2013), http://business.time.com/2013/04/08/can-the-boutique-store-within-a-store-concept-save-big-box-retailers-from-extinction/; *see also* Shara Tibken, *Samsung, Best Buy to Operate Mini Shops for Three Years*, CNET (Apr. 24, 2013 12:22 PM PDT), http://news.cnet.com/8301-1035_3-57581199-94/samsung-best-buy-to-operate-mini-shops-for-three-years/.

115. Tuttle, *supra* note 114 (quoting Morningstar analyst R.J. Hottovy).

116. *See* Pasquarelli, *supra* note 63.

117. Hines, *supra* note 113.

118. *Id.*

strategic alliance with Martha Stewart to offer Martha Stewart shop-in-shops in its stores turned out to be a risky rebranding strategy and led to massive losses and expensive litigation.[119]

Shared branding allows parties to leverage the goodwill and brand equity designated by each other's trademarks while still retaining a level of control over their goods,[120] trademarks, trade names, designs, logos, and trade dress, since the trademarks are only associated in relatively close proximity as opposed to being completely blended on a product or for a particular service. Because "[b]rands today are generally recognized as a key asset for creating value for a business,"[121] protection and control over a company's trademarks and trade dress is critical.[122] Maintaining the distinctiveness of a mark is fundamental to trademark law, as a trademark acquires legal rights only if it is either inherently distinctive or has acquired distinctiveness through secondary meaning.[123] A company can maintain and enhance the distinctiveness of its trademarks and trade dress by maintaining control over the mark and policing third-party use of the mark.[124] Distinctiveness helps ensure that consumers easily associate the marks and trade dress with the company.[125]

A primary function of a trademark is "[t]o identify one seller's goods and distinguish them from goods sold by others."[126]

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119. Alexandra Steigrad, *MSLO's New CEO Daniel Dienst Hits Reset*, Women's Wear Daily (Feb. 26, 2014), http://www.wwd.com/media-news/fashion-memopad/hitting-reset-7511222?src=search_links. Macy's sued JCP for its arrangement with Martha Stewart's company to Martha Stewart in-store boutiques in JCP locations. *Id.* The litigation "frayed [Martha Stewart's] partnership with Macy's and burned through between $7 million and $8 million in legal costs in the process." *Id.*; Anne D'Innocenzio, *J.C. Penney's Ron Johnson Out As CEO, Mike Ullman Rehired*, Huffington Post (Apr. 8, 2013 11:54 PM EDT), http://www.huffingtonpost.com/2013/04/08/jc-penney-ron-johnson-ceo-out_n_3039934.html; Plaintiffs' Combined Opposition to Defendants' Motion in Limine to Strike The Expert Testimony of Plaintiffs' Expert Witness, Glenn C. Sheets, and the Exclude The Harris Survey and Testimony of Regina A. Corso, Macy's Inc. v. Martha Stewart Living Omnimedia Inc., (2013) (No. 650197/2012), 2013 WL 657896; Plaintiffs' Memorandum of Law in Support of their Motion to Remove the Confidentiality Designations from Certain Discovery Produced by J.C. Penney; Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. v. J.C. Penney Corp. (2012) (No. 652861/2012), 2012 WL 9390715.

120. Dodes & Passariello, *supra* note 9.

121. Lom, *supra* note 10.

122. *See generally*, Kirk, *supra* note 17.

123. McCarthy, *supra* note 10, § 11:2.

124. "If many third parties subsequently begin using the same or a similar trademark in commerce in connection with goods and/or services similar to the trademark owner's after the trademark owner has already begun use, and the owner does little or nothing to police its trademark, the trademark is likely to lose some or all of its value as a source identifier in the marketplace. As a result, the trademark will become weaker, and in some cases it may lose its distinctiveness entirely." *Fact Sheets Protecting a Trademark*, Inta.org (last visited Apr. 18, 2014), http://www.inta.org/TrademarkBasics/FactSheets/Pages/LossofTrademarkRightsFactSheet.aspx.

125. *Id.*

126. McCarthy, *supra* note 10, § 3:2.

Therefore, the combination of two or more trademarks on one product or service—co-branding—may seem counterproductive in light of the principles of basic trademark law; a trademark's primary function is as a source identifier to distinguish one's goods from other brands.[127] But because co-branding associations involve the combination of each company's trademarks and trade dress, such associations can "blur the consumers' perception of where a product or service that they are buying originates."[128] This potential for blurring may be more common in co-branding agreements (where the trademarks and trade dress are combined or placed together on a single product or service) than shared branding arrangements (where the marks remain separate and distinct). But the possibility of trademark blurring still exists with shared branding associations; even though the trademarks and trade dress of the shared branding partners remain separate, a consumer still associates the shared brands as they are united in a single facility, especially if such shared branded locations are prevalent.

The Dunkin' Donuts–Baskin-Robbins shops are an example within the franchise context of how two brands can maintain their distinctive trademarks and trade dress while operating in a single facility. Dunkin' Donuts and Baskin-Robbins pursue joint development of retail locations where both of their products are sold in separate sections—which have been referred to as "combo" shops.[129] Although they are both sister companies and owned by the same entity, Dunkin' Brands Inc., their registered trademarks, trade names, designs logos, service marks and related marks are owned by separate entities: DD IP Holder LLC and BR IP Holder LLC, respectively.[130] Does the average consumer know that Dunkin' Donuts and Baskin-Robbins are owned by the same company? A consumer may think, "I am buying Dunkin' Donuts from one producer, and Baskin-Robbins from another." Yet, if Dunkin' Donuts were to sell Baskin-Robbins ice-cream cones with labels flaunting its trademarks and brown, orange, and purple trade dress, would the consumer think the same? Or, in the alternative, a consumer may become so familiar with the association prevalent Dunkin' Donuts–Baskin-Robbins "combo" shops, that the consumer may think the two brands are owned by the same company (which is the case here). In the latter scenario,

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127. Kirk, *supra* note 17, at 19.

128. *Id.* at 3. Kirk goes so far as to say that co-branding "promises" to blur consumer's perception of the good's source. *Id.* at 2.

129. Dunkin' Donuts, Inc. v. Tejany & Tejany, Inc., No. 05 C 4770, 2006 WL 163019 (N.D. Ill. Jan. 18, 2006).

130. See the language after the copyright notice at *Investor Relations*, Dunkin' Brands, http://investor.dunkinbrands.com (last visited Mar. 28, 2014).

the shared branding association promotes the traditional trademark function to point to a single producer—Dunkin' Brands.

Interestingly, some Dunkin' Donuts/Baskin-Robbins combo shops have popped up in Manhattan with an added unrelated partner—sandwich company Subway (see Figure 1).[131] Subway, unlike the sister companies, is not owned by Dunkin' Brands.[132] The related and unrelated companies still maintain separate trademarks and trade dress while operating in the same facility.[133] This begs the question: would a consumer differentiate between the related and unrelated brands, or would a consumer mistakenly believe that one company owns and operates them all? Thus, a shared branding arrangement like the Dunkin' Donuts–Baskin-Robbins–Subway combo shop has the potential to confuse consumers as to the source of the goods.

Figure 1. Dunkin' Donuts, Baskin-Robbins, and Subway share branded location at 302 5th Avenue, New York, NY 10001.

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131. *DUNKIN' DONUTS, BASKIN ROBBINS, SUBWAY, 302 5 AVENUE, NY - Restaurant Inspection Findings and Violations,* CITY-DATA, http://www.city-data.com/ny-restaurants/DUNKIN-DONUTS-BASKIN-ROBBINS-SUBWAY.html (last visited Oct. 20, 2013); *see also* Erin Rigik, *Gilligan Oil Pushes a Multi Brand Foodservice Strategy*, Convenience Store Decisions (May 26, 2011), http://www.csdecisions.com/2011/05/26/gilligan-oil-pushes-a-multi-brand-foodservice-strategy/.

132. *About Us*, Dunkin' Brands, http://news.dunkinbrands.com/About/About-Us-6e.aspx (last visited May 20, 2014) (Dunkin' Donuts and Baskin-Robbins are owned by Dunkin' Brands Group, Inc., whereas Subway is owned by Doctor's Associates Inc.); *Company Overview of Doctor's Associates, Inc*. (Apr. 18, 2014, 2:53 PM), http://investing.businessweek.com/research/stocks/private/snapshot.asp?privcapId=246718.

133. *See supra* note 130.

Certain clauses in the shared branding agreement can help a partner retain control over its trademarks and trade dress.[134] An in-store retailer can protect its trademarks through a clause that states that the primary store must obtain the in-store's permission to use the in-store company's trademarks and trade name for promotion of the primary store.[135] As for trade dress protection, an in-store retailer could require that it select the construction materials, structures, decorations, and the designs within the in-store boutique. An in-store boutique's construction and overall appearance—including its decor, color scheme, and worker's uniforms—may be sufficient to constitute protectable trade dress.[136] In-store retailers can build distinct stores with their own distinctive trade dress in certain shared branding arrangements, thus promoting control over their trademarks and trade dress.[137]

A store's décor, color schemes, and other indicia of its trade dress may be a critical aspect of promoting a brand's image. A brand owner may prefer to construct its own in-store boutique (using its own materials, supplies, designs and contractors) to replicate its other stores and to ensure that its trademarks are displayed in a consistent manner. Some agreements may also provide for a construction allowance, similar to a "tenant allowance" found in lease agreements, where the department store gives the in-store retailer a certain amount of money to construct the in-store boutique.[138] The parties can also decide which contractors will be used, and the primary store can negotiate for approval rights of all designs. While certain clauses that grant more control to a brand over the premises seem appealing, in-store retailers must be wary of broad restoration and removal clauses that require an in-store boutique to restore the premises to the

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134. *See infra* notes 135–136 and accompanying text.

135. This is similar to clauses in luxury brand retail lease agreements with mall landlords; although the luxury brand is located at the mall, the brand can negotiate that the landlord cannot use its luxury brand tenant's trademarks to advertise for the mall's promotional or other events without the luxury company's written consent. *See infra* note 145.

136. *See* Two Pesos, Inc., v. Taco Cabana, Inc., 505 U.S. 763, 787 n.1 (1992) ("[T]rade dress' is the total image of the business" and "may include the shape and general appearance of the exterior of the restaurant, the identifying sign, the interior kitchen floor plan, the decor, the menu, the equipment used to serve food, the servers' uniforms and other features reflecting on the total image of the restaurant." (citations omitted)).

137. *See id.*

138. Emily Lambert, *Leasing Retail Space: Temp to Perm*, Specialty Retail Report (Spring 2006), http://specialtyretail.com/issue/2006/04/running-a-cart-or-kiosk/money-management/leasing_retail_space/#sthash.80YV08cI.x43Jxt7A.dpuf (last visited Oct. 20, 2013) ("The mall often provides a sum of money to help offset the cost of build-out, paid usually after construction is complete."). Such a sum is often known as a "tenant allowance." *Id.*

original condition before construction.[139] After an in-store retailer invests hundreds of thousands of dollars constructing the space (installing light fixtures, staircases, elevators, walls, or merchandise displays), if it failed to negotiate for a narrow restoration clause, it may be stuck paying hundreds of thousands more just to remove the improvements.[140] If the primary store requires a removal and restoration clause in the shared branding agreement, the in-store brand should negotiate that it will only be responsible for removal of "movable" property and "non-structural" items.

A department store can mitigate risk and maintain control by requiring that the in-store boutique follow its standard policies and procedures. This serves to harmonize customer policies among the various shop-in-shops located within a single department store to maintain an efficient shopping and returning experience for the department store's customers. However, in-store boutiques should be aware of the risks when agreeing to comply with the policies of a department store. For example, if a luxury brand has a very strict return policy and opens an in-store boutique in Bloomingdale's (known for its lenient return policies),[141] the luxury brand may find itself obligated to accept returns against its more rigid policy.

A principal concern in shared branding arrangements is the prevention of harm to the goodwill and reputation of the trademark.[142] Because consumers rely on trademarks and trade

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139. The following is a sample retail lease "restoration and removal" clause: "When the Tenant vacates, the Landlord has an option: 1) keep the premises intact, or 2) remove and restore the premises to their original condition." Brian Madigan, "Removal and Restoration Clause in Commercial Leases," *Active Rain*, http://activerain.com/blogsview/1478193/removal-and-restoration-clause-in-commercial-leases#sthash.bSGY9o1r.dpuf (last visited Oct. 20, 2013).

140. *Id.* (see material under the sample restoration and removal clause).

> The Tenant is obligated to remove everything that was installed, both by the Tenant, and previous Tenants at its own expense. The obligation is to strip the premises right down to the bare walls. This means, rip out the marble floor, and rip out the upgraded plumbing fixtures. This requirement to remove leasehold improvements and restore premises on lease expiry could indeed be a very expensive provision. It is designed to offer some compensation to a Landlord faced with a departing tenant. And, it's the Landlord's choice.

Id.

141. *See Return Policy for California Store Purchases—A Word About Returns*, Bloomingdales.com, https://customerservice.bloomingdales.com/app/answers/detail/a_id/672 (last visited Oct. 20, 2013) ("We want you to be happy with your purchase. If you need to bring it back, we will gladly refund the purchase price in the original form of payment (as shown on your receipt). No receipt? We'll credit your Bloomingdale's account. No Bloomingdale's account? We will issue a merchandise credit. If you do not have a receipt and did not use your Bloomingdale's card, you will receive the lowest selling price in the last 180 days. . . . We require you to provide your name and address when you return merchandise, unless we already have it on file. . . . Thank you for shopping at Bloomingdale's.").

142. *See generally* Kirk, *supra* note 17.

dress to designate source and quality,[143] a company must manage its trademarks, trade dress, and goods in ways that do not tarnish the brand's reputation for quality. Just as a licensor of trademarks maintains quality control over its products related to its trademarks, trade dress, and related marks,[144] shared branding partners should maintain quality control in shared branding associations. Retailers, particularly luxury brands, are meticulous about how their logos and trademarks are used, and do not want them associated with inferior products.[145] Shared branding arrangements can be structured so that each partner agrees to retain a certain level of control over the operations, distributions, and display of their respective products or services.[146] A company can set up the shared branding arrangement so that it hires its employees to supervise the in-store boutique, dictates the merchandise supply, adopts its own mono-branded trade dress and uniforms, and also has its own separate storage space.[147] The in-store retailer could also determine the percentage and timing of markdowns.[148] Therefore, shared branding can provide in-store retailers the right to sell their goods within department stores while still retaining relatively independent control over their goods.[149]

As discussed above, a shop-in-shop agreement can be structured in a variety of ways, but in general, the shop-in-shop appeals to retailers as a means to retain control of a brand's trademarks, trade dress, and over the products themselves. A company can maintain more control over the presentation and sale of its products in a shop-in-shop.[150] The shop-in-shop modifies the

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143. *See* McCarthy, *supra* note 10, at § 3:2 ("In general, trademarks perform four functions that are deserving of protection in the courts: (1) To identify one seller's goods and distinguish them from goods sold by others; (2) To signify that all goods bearing the trademark come from or are controlled by a single, albeit anonymous, source; (3) To signify that all goods bearing the trademark are of an equal level of quality; and (4) As a prime instrument in advertising and selling the goods.").

144. Bryer & Asbell, *supra* note 25, at 838 (citations omitted) ("Quality control is a critical component of the licensing aspect of a co-branding arrangement. Failure to exercise sufficient quality control may result in significant risks to trademark rights, including cancellation of or inability to enforce a trademark right against third parties.").

145. For a standard retail lease agreement provision that prohibits the landlord from using the tenant's trademarks, see The Commercial Lease Formbook: Expert Tools for Drafting and Negotiation 333 (Ira Meislik & Dennis Horn eds., 2010).

146. Dodes & Passariello, *supra* note 9.

147. *Luxury Brands Push for the Shop-in-Shop*, *supra* note 68 ("Rather than simply selling their goods to the retailer, and essentially losing control at that point over merchandizing, pricing and sales, the big luxury houses are opting for leases of floor space within department stores. This allows brands to hire their own staff and price their items, which is critical in terms of discounts and sales.").

148. Dodes & Passariello, *supra* note 9.

149. *See id.*

150. *Id.*

traditional business model used by American department stores by allowing domestic and international fashion companies to operate their own in-store boutiques within these department stores.[151] Under the traditional model, a designer or brand owner sells its goods to a retailer that then resells the goods to consumers pursuant to its own policies and procedures.[152] Through a shop-in-shop arrangement, fashion houses can rent or license an area within a larger department store and operate their in-store boutique with relative independence.[153]

IV. RISKS ASSOCIATED WITH SHARED BRANDING

While offering various economic benefits as discussed above, arm's length shared branding arrangements can expose partners to certain liabilities and risks, including: (1) encroachment concerns, (2) the blurring of each party's respective trademarks and trade dress, (3) adverse association with a brand, and (4) unrelated partners acting in bad faith.

While market penetration is a key objective of shared branding relationships, excessive expansion could harm a business.[154] "Satellite" franchising can lead to a proliferation of chains operating in relatively close proximity of one another and thus competing with one another, a problem known as "encroachment."[155] Although shared branded franchise locations may be convenient for consumers, such arrangements can harm the business of other franchisees that operate under the same franchised brand in a close proximity by reducing customer sales.[156] Cold Stone Creamery's shared branding association with Tim Horton illustrates the encroachment problem.[157] Cold Stone's shared branding experiment with Tim Horton in Rhode Island was so successful that it launched one hundred shared branded locations nationwide.[158] However, such expansion harmed one Cold

151. *Id.*

152. "Rather than simply sell their products to retailers, which then resell them to shoppers, more design houses want to rent space in the department store and operate relatively independently." *Id.*

153. *Id.*

154. *See generally*, Michael H. Seid, *Encroachment – The Issues and Solutions, Point – Counterpoint: David Kaufmann and Robert Zarco*, MSA Worldwide, http://www.msaworldwide.com/franchising-resources/articles/encroachment_the_issues_and_solutions (last visited Oct. 20, 2013).

155. *Id.* "Franchisees view encroachment as any activity by the franchisor that may reduce their ability to earn profit from their locations," including "[p]lacing a competing unit operated by the franchisor or another franchisee in close proximity to an existing unit." *Id.*

156. Kirk, *supra* note 17, at 315.

157. Sean Kelly, *COLD STONE CREAMERY Franchise Encroachment?*, Franchise Publicity (Oct. 19, 2009), http://www.franchisepublicity.com/cold-stone-creamery-franchise-encroachment/.

158. *Id.*

Stone franchisee who alleged that the opening of a joint Tim Hortons–Cold Stone location nearby put her out of business.[159] Kristina Gedutis, the Cold Stone franchisee who shut down her shop, commented, "[w]hen we first opened, business was great—we definitely had our following . . . . There wasn't another Cold Stone in Providence, so we got most of the area's business."[160] But once a Tim Hortons–Cold Stone location opened nearby, she saw a drop in revenue that she attributed to the presence of her shared branding competitor.[161] Gedutis expressed, "I am bitter toward that . . . . It wasn't really fair."[162]

While shared branding associations allow companies to keep their marks distinct and separate, the association of the marks and trade dress in close proximity (or located in one facility) can still confuse consumers as to the source.[163] As discussed above, in order to effectively prevent blurring and weakening of a mark's distinctiveness, companies must retain control over of their trademarks and trade dress.[164] In particular, trade dress protection is vital to the operations of a franchise, since it is the brand that helps unify all the franchised shops.[165] If a company with weak trade dress opens a store in the same retail space as another company with stronger trade dress, a consumer may wrongly believe that the brand with the stronger trade dress sources the goods of the company with the weaker trade dress.[166]

The risk of trademark and trade dress blurring may not be as much of a concern for sister companies since their brands still designate one parent company. For example, KFC, Taco Bell, and Pizza Hut are distinct brands but are all owned by parent company Yum! Brands.[167] In order to mitigate consumer confusion, a company may acquire a company and its intangible assets—its trademarks and trade dress—as an alternative to strategic alliances or licensing agreements. Such a decision was made by Dunkin' Brands to acquire Togo's Eateries Inc.; but eventually, Dunkin' Brands sold Togo's after realizing the sandwich chain did

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159. *Id.*

160. Lauren Fedor, *Like It, Love It – Can't Have It*, Brown Daily Herald (Oct. 6, 2009), http://www.browndailyherald.com/2009/10/06/like-it-love-it-cant-have-it/.

161. *Id.*

162. *Id.*

163. Kirk, *supra* note 17, at 3.

164. *See supra* Part II.

165. Kirk, *supra* note 17, at 4.

166. *Id.* at 19 ("The potential for sour misperception is especially pronounced if one of the trade dresses in a dual-brand partnership is weak.").

167. *About Yum! Brands – Building the Defining Global Company that Feeds the World*, Yum! Brands, http://yum.com/company/ (last visited Oct. 20, 2013) ("[Yum! Brands Inc.'s] restaurant brands—KFC, Pizza Hut and Taco Bell—are the global leaders of the chicken, pizza and Mexican-style food categories.").

not have as big a national footprint as Dunkin' Donuts and Baskin-Robbins.[168]

While shared branding arrangements can benefit a company when there exists a positive association with a reputable brand, such arrangements can also expose companies to adverse association.[169] A company with a reputable brand may willingly enter into a shared branding agreement with a struggling company with the hope that the association with its reputable brand could revamp the struggling company's image.[170] Such shared branding agreements present potentially lucrative business opportunities, but also come with a certain degree of risk.[171] While a strategic alliance may help a struggling brand, if its image remains negative during the partnership, it could potentially tarnish the image of the reputable brand.[172] Negative association can result from events beyond a shared branding partner's control after the execution of an agreement.[173] For example, KFC and Taco Bell had a large-scale lettuce recall after the public discovered the lettuce was contaminated with e-coli.[174] Even though it was determined that a common supplier sourced the contaminated lettuce, such negative public association reflected upon the shared branding partners.[175]

As with any arm's length business agreement, shared branding associations require a certain level of good faith between the partnered companies.[176] Before entering into a shared branding agreement, the partners must be confident that each partner will act within the scope of the operation, and during the shared branding agreement, the partners must be careful to protect their trade secrets.[177] The dispute between GB Foods Inc. and CKE Restaurants illustrates the risk of one partner stepping

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168. Christine Idzelis, *Dunkin' Brands Sells Togo's to Mainsail Partners*, Trinity Capital LLC, (Dec. 5, 2007), http://www.trinitycapitalllc.com/pr-dunkin1.

169. *See* Hurwitz, *supra* note 1, at 379.

170. *Id.* at 374.

171. *See generally* Kirk, *supra* note 17.

172. Daley, *supra* note 4 ("Many well-established brands have difficulty bending their strict operations rules to accommodate a partner, and they may run the risk of diluting their image if they sticker over their core concept with less-trusted brands. For example, Yum [Brands] found that the limited menus at A&W and Long John Silver's were perceived as old-fashioned and boring, especially when paired with those at [Yum Brands'] Taco Bell and KFC. Adding those smaller brands to an existing unit achieved little except to pull the focus from the more popular brand.").

173. Kirk, *supra* note 17, at 16.

174. Angela Ayles, *Lettuce Recalled for E. Coli, KFC and Taco Bell Not Responsible for Outbreak*, Food Beat (Jan. 14, 2013, 1:51 PM), http://www.foodbeat.com/food-news/lettuce-recalled-for-e-coli-kfc-and-taco-bell-not-responsible-for-outbreak/.

175. *Id.*

176. Kirk, *supra* note 17, at 17.

177. *Id.*

outside the scope of the shared branding operation to misappropriate an unrelated partner's trade secrets by imitating its trade dress and business concept.[178] CKE Restaurants Inc., owner of Carl's Jr. fast-food restaurants, entered into a shared branding arrangement with GB Foods Inc.'s Green Burrito fast-food chain to offer Green Burrito products at Carl's Jr. restaurants.[179] CKE entered into the agreement in the hope that an association with the reputable Green Burrito chain would help its struggling Carl's Jr. restaurant.[180] Soon after, CKE launched "Picante Grill" at Carl's Jr. restaurants.[181] GB Foods believed Picante Grill was too similar to its Green Burrito's Grill concept,[182] and thereafter filed suit against CKE, alleging that CKE's Picante Grill constituted "misappropriation of trade secrets, a breach of contract, trade dress infringement, and a breach of the implied covenant of good faith and fair dealing."[183] GB Foods further claimed, "CKE used the joint-operation experiment to copy Green Burrito's ideas and use them to start Picante Grill."[184] The CKE-GB Foods dispute illustrates the risk involved when entering into shared branding arrangements with unrelated entities and the importance of choosing a trustworthy shared branding partner.[185]

V. SHARED BRANDING TRIBULATIONS: THE MACY'S–MARTHA STEWART–J.C. PENNY CONTROVERSY

The high-profile dispute among three of the biggest brand names in home goods retail, Martha Stewart Living Omnigroup ("Martha Stewart" or "MSLO"),[186] Macy's Inc. ("Macy's"), and J.C.

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178. *Id.*

179. Chris Woodyard, *Green Burrito Parent Sues Carl's Jr. Chain: Restaurants: Suit Alleges Misappropriation of Trade Secrets and Breach of Contract Against Dual-Product Partner*, LA Times (Jan. 6, 1995), *available at* http://articles.latimes.com/1995-01-06/business/fi-17015_1_green-burrito.

180. Kirk, *supra* note 17, at 17.

181. Woodyard, *supra* note 179 ("The first Green Burrito-Carl's Jr. test restaurant opened in October and the most recent opened Dec. 12, only 10 days before CKE launched the Picante Grill test, according to the lawsuit.").

182. *Id.*

183. Kirk, *supra* note 17, at 17.

184. Woodyard, *supra* note 179. After $2.9 million in litigation costs, GB Foods Corp. settled for 400,000 shares of CKE common stock that would be held in escrow for the plaintiffs, but received no cash payment. *Green Burrito Franchisees Settle Suit With Newport's GB Foods*, L.A. Times (Feb. 25, 1995), http://articles.latimes.com/1995-02-25/business/fi-35887_1_green-burrito.

185. "Although the dispute between CKE and GB Foods has been settled, the suit illustrates the potential for bad faith dealings between dual-branded partners." Kirk, *supra* note 17, at 18.

186. MSLO "does not itself manufacture or sell any Martha Stewart-branded products. Rather, it is a media and merchandising company, founded by Martha Stewart, that

Penny ("JCP"), illustrates the risks that can arise in arm's length strategic alliances and shared branding arrangements. In 2006, Macy's entered into a licensing and promotional agreement with Martha Stewart (the "Macy's Agreement"), whereby Macy's manufactured and sold Martha Stewart–branded products in certain exclusive product categories.[187] The Macy's Agreement included a non-compete provision, which prohibited Martha Stewart from entering into future agreements with other department stores that promote Martha Stewart–branded goods in the exclusive product categories.[188] However, in a carve-out provision under section 18(b)(iii) of the Macy's Agreement, the non-compete restrictions did not apply to agreements relating to marketing of the exclusive product categories through any "MLSO Store or the activities of MLSO or its Affiliate."[189] In other words, Martha Stewart could still sell the Macy's exclusive goods through any MSLO store or through its affiliates' stores.

After years of doing business with Macy's, in December 2011, JCP and Martha Stewart announced that they had entered into a "strategic alliance," whereby JCP invested $38.5 million in MSLO to become its "affiliate."[190] Under the alliance, JCP would build "distinct Martha Stewart retail stores inside the majority of [JCP] department stores."[191] Martha Stewart took the position that its strategic alliance with JCP did not breach its duties under the Macy's Agreement, as the arrangement with JCP was permitted under the Macy's Agreement's section 18(b)(iii) carve-out provision.[192] Macy's, believing otherwise, promptly sued Martha Stewart, alleging that the strategic alliance with JCP to build Martha Stewart shops inside of JCP stores breached the Macy's Agreement and that Martha Stewart illegally revealed Macy's confidential information to JCP.[193]

As to Macy's confidentiality claim, the judge held that Martha Stewart did not illegally share Macy's confidential information

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handles the licensing of the 'Martha Stewart' brand and assists in the design and development of Martha Stewart products." Complaint, Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012).

187. *See* Complaint Exhibit 1, Macy's v. Martha Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012) [hereinafter Macy's Agreement].

188. *Id.*

189. *Id.* § 18(b)(iii).

190. *J. C. Penney Company, Inc. and Martha Stewart Living Omnimedia, Inc. Announce Strategic Alliance*, J. C. Penney (Dec. 7, 2011), http://www.jcpmediaroom.com/posts/47/J.-C.-PENNEY-COMPANY,-INC.-AND-MARTHA-STEWART-LIVING-OMNIMEDIA,-INC.-ANNOUNCE-STRATEGIC-ALLIANCE, [hereinafter MSLO-JCP Press Release].

191. *Id.*

192. Pre Trial Mem. from MSLO, Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) No. 650197/2012) (NYSCEF Doc. No. 194).

193. Transcript of Record, Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) No. 650197/2012) (NYSCEF Doc. No. 282).

with JCP, because Martha Stewart had a legal obligation under SEC regulations to disclose the Macy's Agreement pursuant to the $38.5 million investment JCP made in Martha Stewart's company.[194] The strategic alliance between JCP and Martha Stewart illustrates the risk that an unrelated partner could reveal important confidential information to third parties, including competitors, about its company and the terms of the share branded arrangement. Even though the strategic alliance was not expressly prohibited under the Macy's Agreement, Martha Stewart's decision to align with Macy's competitors to build shop-in-shops appeared to circumvent what Macy's argued it paid Martha Stewart for in their agreement—that is, to have the exclusive right to sell certain Martha Stewart–branded goods, not its competitors.[195]

Shared branding partners should be wary of potential neglect by another partner. Arm's length brand alliances require good faith and trust between the partners.[196] A shared branding partner should act in its own best interest while also acting in the partner's best interest. Such duties could lead to business conflicts, particularly over "sales priority and secondary attention to the business operations of one [partner] by the other . . . ."[197] One solution is to include a "forecasts" clause in the shared branding agreement, which requires a partner to use commercially reasonable efforts to maximize net sales. The Macy's Agreement included such a clause: "the Parties agree to use their respective commercially reasonable effort in performing hereunder so as to maximize Net Sales."[198] As an affirmative defense, Martha Stewart argued that Macy's had materially breached the agreement by failing to fulfill the contractual obligation to maximize Martha Stewart products net sales.[199] Martha Stewart asserted:

> Far from featuring Martha Stewart as the "face of the Macy's Home Store" or the "iconic representative or Macy's in the home products arena," as plaintiffs allege in their Complaint,

194. Chris Dolmetsch, *Martha Stewart Gets One Claim Tossed in Macy's Lawsuit* Bloomberg.com (Apr. 10, 2013, 5:29 PM), http://www.bloomberg.com/news/2013-04-10/martha-stewart-living-gets-one-claim-dismissed-in-macy-s-case.html.

195. *See* Associated Press, *Macy's, Martha Stewart Settle Contract Dispute*, USA Today (Jan. 2, 2014, 3:44 PM), http://www.usatoday.com/story/money/business/2014/01/02/macys-jc-penney-martha-stewart/4292611/ ("Macy's has had an exclusive merchandising contract with Martha Stewart since 2006, including items like bedding and bath products. Stewart's company and Penney signed a merchandising deal in December 2011 to develop mini Martha Stewart shops. That prompted Macy's to sue both companies for violating its exclusive agreement with Martha Stewart.").

196. Kirk, *supra* note 17, at 17.

197. *Id.*

198. Macy's Agreement, *supra* note 187, at § 18(b).

199. Amended Answer to Second Amended Complaint at 16–17, Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012).

> plaintiffs have used the Martha Stewart Collection as a classic loss leader. They have used Martha Stewart Collection products to draw customers into Macy's Home Store, where its own private-label brands take center stage and, of course, generate higher profits for Macy's without the burden of paying royalties to a licensor like MSLO. In addition, Macy's has stocked and priced Martha Stewart Collection products in a manner that favors Macy's own private-label brands at the expense of Net Sales of Martha Stewart Collection products . . . . Plaintiffs' failure to use commercially reasonable efforts as required by the Agreement is vividly demonstrated by Macy's uncanny success in consistently matching just the minimum level of Net Sales necessary to fund payment to MSLO of the contractual minimum royalties and nothing more.[200]

Whether or not the defense was a pretext to be released from its contractual commitments to Macy's, it illustrates the possibility that one partner may fail to devote significant attention to promote its unrelated shared branding partner. Shared branding partners should be wary of potential neglect, especially if another shared branding partner sells competing goods under its own brand, or if that partner is under a duty to promote other competitor brands.

A shared branding agreement should clearly define the appropriate channels through which an in-store partner can sell its goods outside of the primary store, and clearly define what constitutes a "store" for purposes of the agreement. A major issue in the Macy's–Martha Stewart–JCP controversy involved the parties' disagreement over the term "retail store," and whether a non-freestanding Martha Stewart shop inside of a JCP shop could constitute a "retail" "MSLO Store" for the purposes of the Macy's Agreement.[201] Martha Stewart and JCP contended that their arrangement to build Martha Stewart stores inside of JCP stores was permissible under the Macy's Agreement, based on the carve-out provision in the non-competition clause, which allowed "MLSO Stores" or MSLO "Affiliates" to sell Martha Stewart–branded goods in the Macy's exclusive product categories.[202] The term "MSLO Stores" was defined in the agreement as "any retail store branded with Martha Stewart Marks or Stewart Property that is

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200. *Id.*

201. "I go back to the store within a store concept because it is such a big part of this case whether or not a store within a store can be set up [without breaching the Macy's Agreement]." Transcript of Record at 35, Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) No. 650197/2012). (NYSCEF Doc. No. 282). *See also* Macy's Agreement, *supra* note 187, at § 1.

202. Amended Answer to Second Amended Complaint at 4–5, Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012); *see also* Macy's Agreement, *supra* note 187, at § 18(b).

owned or operated by MSLO or an Affiliate of MSLO or that otherwise prominently features Martha Stewart Marks or Stewart Property."[203] However, the term "retail store" was not further defined,[204] and the term "freestanding" was not included in the definition of "MSLO Store."[205] Martha Stewart argued that the "shop-in-shops" at JCP were retail stores that fell within the unambiguous definition of "MSLO Stores."[206] Macy's, however, argued that the contract permitted only *freestanding* Martha Stewart retail stores, not a designated floor space within a JCP store marked by a Martha Stewart sign.[207]

In the context of today's evolving retail industry[208] and illustrated by the Macy's–Martha Stewart–JCP dispute, future transacting between unrelated companies should clearly define what constitutes a "store" or a "retail store" in any shared branding agreements. If Macy's had added the term "freestanding" to the definition of an "MSLO Store," the issue might have been amicably resolved. The addition of clarifying language might have saved both companies from burdensome litigation costs. Transacting parties in shared branding arrangements should take the Macy's–Martha Stewart–JCP litigation as a lesson to protect themselves from unrelated entities by drafting agreements that clearly define where the unrelated party can and cannot set up "retail stores," what a "retail store" means for the purposes of the agreement, and critically, if the store is limited to freestanding stores only.

The issue of whether or not the presence of Martha Stewart shops inside of JCP shops constituted a "MSLO Store" for purposes of the Macy's Agreement is an issue that does not appear to have

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203. *See* Macy's Agreement, *supra* note 187, at § 1 (emphasis added).

204. *See id.* (providing no definition of "retail store"); "[T]he term "retail store" is not contractually defined . . . ." Post Trial Mem. from JCP, Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012) (NYSCEF Doc. No. 350).

205. Pre Trial Mem. from MSLO, Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012).(NYSCEF Doc. No. 224).

206. Amended Answer to Second Amended Complaint at 4–5, Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012).

207. Amy Merrick, *J. C. Penney's Martha Stewart Mistake*, New Yorker (Aug. 12, 2013), http://www.newyorker.com/online/blogs/newsdesk/2013/08/jc-penneys-martha-stewart-mistake.html.

208. *Retail 3.0, The evolution of multi-channel retail distribution*, *supra* note 63, at 2.

> As the technological revolution accelerates, consumers have completely changed how they shop, how they make purchasing decisions and what they expect from retailers. Differentiation between purchasing channels—from mobile to online to in a store—is quickly fading. Coupled with this phenomenon are the innovations being made within the logistics and distribution sector, which provide new opportunities for retailers and suppliers to bring product 'to the table' in an increasingly competitive global environment.

Id.

been addressed by recent case law.[209] In its post-trial brief, JCP relied on legal dictionaries to interpret the plain language and industry customs and practice illustrated by witnesses and expert testimony.[210] To assert its case, Macy's compared JCP's other "shop-in-shops" agreements to its arrangement with Martha Stewart.[211] Before its strategic alliance with Martha Stewart, JCP had a shared branding agreement with Sephora to set up Sephora "Beauty Installations" inside of JCP.[212] The Sephora–JCP contract distinguished those "Beauty Installations" from freestanding Sephora "retail stores."[213] Under the Sephora–JCP shared branding arrangement, Sephora sources the goods sold within its "Beauty Installations" and shares with JCP the profits and losses from sales of Sephora products.[214] In contrast, the Martha Stewart "shops" inside JCP would be constructed and owned by JCP, operated by JCP employees, and the proceeds of its sales would go to JCP, not Martha Stewart, and Martha Stewart would receive payment by a commission on sales made by JCP.[215] "MSLO does not own or rent retail space from JCP; JCP, not MSLO, sources the goods . . . . JCP prices the goods; JCP decides when products will go on sale; and JCP bears all risk of loss."[216]

Furthermore, because JCP and Macy's are not suppliers or manufactures, they use outside suppliers and manufacturers to produce the Martha Stewart goods. JCP discovered Macy's allegedly non-confidential suppliers,[217] as "it just happened

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209. Neither JCP, nor MSLO, nor Macy's cited to any case law regarding the definition of a shop-in-shop versus a freestanding store or retail store. *See* Pre Trial Mem. from MSLO, Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012) (NYSCEF Doc. No. 224); *see* Pre Trial Mem. from Macy's, Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012). (NYSCEF Doc. No. 194); *see* Post Trial Mem. from Macy's, Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012).(NYSCEF Doc. No. 346); *see* Post Trial Mem. from MSLO, Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012) (NYSCEF Doc. No. 353);

210. Post Trial Mem. from JCP at 16–20, Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012).(NYSCEF Doc. No. 350).

211. Post Trial Mem. from Macy's at 30, Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012).(NYSCEF Doc. No. 346);

212. *Id.*

213. *Id.*

214. At any rate, even if the Sephora Beauty Installations were retail stores, the Martha Stewart areas in JCP are a far cry even from the Sephora Beauty Installations. For example, Sephora (not JCP) sources the products and is responsible for fulfilling online orders. Sephora, moreover, shares with JCP the profits and losses from sales of Sephora products. None of those things are true with respect to MSLO and JCP's store-within-a-store scheme. *Id.* at 60 n.10 (citations omitted).

215. *See* Memorandum of Law in Support of Plaintiff's Application for a Preliminary Injunction, Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012).

216. Post Trial Mem. from Macy's at 59–60 (Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012) (NYSCEF Doc. No. 346);

217. Transcript of Record at 38, Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012) (NYSCEF Doc. No. 282) ("The suppliers and the manufacturers

coincidentally that the manufacturer [JCP] came up with is the same manufacturer that Macy's has" through JCP's internal procedure and protocol.[218] If JCP's Martha Stewart–branded goods were made by the same supplier that Macy's used for its Martha Stewart goods, her marks would technically point to the same manufacturer, regardless of whether sold at JCP or Macy's. Such an arrangement could confuse a consumer as to the source of the goods.

Just as e-commerce sites have been analogized to be online "retail stores" and a direct-to-consumer channel, a company should legitimately be able to say its "shop-in-shop" constitutes a "retail store" for purposes of certain agreements that do not define "retail store" as a "freestanding" store. "Retail" can be defined as "the sale of goods or commodities to ultimate consumers, as opposed to the sale for further distribution or processing."[219] It is distinct from "wholesale" in that wholesale is defined as "[t]he sale of goods or commodities usu[ally] to a retailer for resale, and not to the ultimate consumer."[220] A shop-in-shop arrangement, where an in-store maintains most of the risk, keeps the sales, and maintains significant control over the products and operations, and critically, owns the goods and sells them directly to the consumer, arguably could constitute what is considered a typical "retail store."

As illustrated above, a shop-in-shop arrangement can be structured in various ways that give more or less control to an in-store brand; an in-store retailer can operate an in-store boutique relatively independently, hire its own employees or train the in-store employees, designate its sources and market the in-stores goods, assume the risk of the goods, and keep the sales and offer the primary store a percentage of the sales or another form of compensation.[221] For purposes of a shared branding agreement, factors to determine whether an area is considered a "retail store," as opposed to an area designated by a wholesale agreement, might include (1) who carries most of the risk, (2) who receives the profits from the sale, (3) who owns the goods, (4) whether the goods are sold directly to consumers, and (5) who supplies and sources the goods. If the Martha Stewart shop-in-shops at issue in the Macy's–Martha Stewart–JCP litigation were analyzed under the above factors, the arrangement should not meet the definition of a "retail store" for the purposes of the Macy's Agreement. Under this view, the shop-in-shop arrangement between JCP and Martha Stewart

are in business to make money. They are going to advertise themselves to every one [sic] who their clients are, that information is out there. It's not proprietary. It's not in a sense that nobody else knows about it.").

218. *Id.*

219. Black's Law Dictionary 1430 (9th ed. 2009).

220. *Id.* at 1734.

221. Dodes & Passariello, *supra* note 9.

allowed JCP to retain so much control, carry the risk, hire its own employees, market and source the goods, and keep the profits of the MSLO-JCP "retail stores" that the arrangement should not be found to constitute MSLO retail stores for the purposes of the Macy's Agreement.[222]

In October 2013, JCP revised its partnership agreement with Martha Stewart, returning 11 million common shares that it acquired through its 2011 strategic alliance and agreeing to no longer sell the disputed goods designed by Martha Stewart.[223] However, Martha Stewart continues to design for JCP some products that were not covered under the Macy's exclusivity agreement.[224] The issue as to whether the Martha Stewart shop-in-shops constituted a retail store for the purposes of the Macy's Agreement remains unanswered, as Macy's announced on January 2, 2014, that it reached a confidential settlement agreement with Martha Stewart to resolve its breach-of-contract lawsuit.[225]

Despite Macy's settlement with Martha Stewart, Macy's and JCP failed to settle the tortious interference claim against JCP.[226] On June 16, 2014, Judge Oing ruled that JCP tortiously interfered with the Macy's–Martha Stewart agreement, and referred to JCP's acts as "adolescent behavior in the worst form."[227] The court

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222. Such a view would support Macy's argument in its pre-trial memorandum: "Even were the Court to reach that next question, the evidence is that the 'Martha Stewart stores' would not actually be 'retail stores,' the necessary element of an MSLO Store under the Macy's Agreement." Pre Trial Mem. from Macy's at 31, Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012); (NYSCEF Doc. No. 194).

223. Evan Clark, *Macy's Settles With Martha Stewart*, Women's Wear Daily (Jan. 2, 2014), http://www.wwd.com/business-news/legal/macys-settles-with-martha-stewart-7329000?src=search_links. Specifically:

> MSLO and Penney's revised their partnership agreement in October, essentially reversing the bulk of the original deal they signed. There's also now a more focused range of product categories over a shorter period of time, through June 30, 2017, versus the original term that would have expired in 2021. And the product categories that were never in dispute, and are now Penney's domain, are in window treatments and hardware, lighting, rugs and holiday and celebrations. MSLO will receive design fees and guaranteed minimum royalties.

Id.; *see also* Hilary Stout, *Ruling Near, J.C. Penney Capitulates to Macy's*, N.Y. Times (Oct. 21, 2013), http://www.nytimes.com/2013/10/22/business/ruling-near-jc-penney-capitulates-to-macys.html?adxnnl=1&ref=marthastewart&adxnnlx=1382529955-WkOoxq/lvZRlBP42RUxWMw; Maria Halkias, "Macy's vs. J.C. Penney Over Martha Stewart Isn't Over Yet," *Dallas News* (Feb. 20, 2014), http://bizbeatblog.dallasnews.com/2014/02/macys-vs-j-c-penney-over-martha-stewart-isnt-over-yet.html/.

224. Halkias, *supra* note 223.

225. Macy's thereafter announced, "We can now return our focus to what we do best—bringing beautifully designed, high-quality, affordable products to consumers nationwide. We look forward to a continued, successful partnership together." Clark, *supra* note 223.

226. Hilary Stout, *Ruling Against J.C. Penney in Dispute With Macy's Over Martha Stewart Products*, N.Y. Times (June 16, 2014), http://www.nytimes.com/2014/06/17/business/ruling-against-jc-penney-in-dispute-with-macys-over-martha-stewart-products.html.

227. *Id.*

declined to award Macy's punitive damages, and the issue of damages will be decided by a Judicial Hearing Officer or Special Referee. Although no claims are left pending in the prolonged battle involving three of the biggest names in retail, the battle may not be over, as both parties have filed appeals.[228]

The competitive nature of the retail industry and the technology advancements available to it have prompted retailers to develop creative direct-to-consumer channels and points of sale.[229] With so many avenues available to retailers to sell directly to consumers, "differentiation between purchasing channels . . . is quickly fading."[230] With the lack of differentiation between different direct-to-consumer channels, certain "shop-in-shop" arrangements can be considered "retail stores" for the purposes of shared branding agreements, so long as the shop-in-shop brand retains a significant amount of control of the in-store's operations, goods, and its trademarks and trade dress. While the in-store boutique and the mono-branded freestanding retail store have similar business goals and both offer goods directly to the consumer, critical differences between the two models exist relating to the risks and benefits between, of which future-transacting business partners should be aware.

VI. CONCLUSION

While shared branding is an attractive business arrangement in that it allows companies to retain control over their products and trademarks while leveraging the goodwill and brand equity through association with unrelated reputable brands, there are various legal and economic risks associated with such arrangements. Companies interested in entering into arm's length shared branding arrangements should be cognizant of the potential for blurring of the distinctiveness of trademarks and trade dress, potential disclosure of trade secrets, and untrustworthy partners. Even between sophisticated parties, as illustrated by the Macy's–Martha Stewart–JCP controversy, shared branding partnerships can turn litigious. While shared branding has become increasingly popular, companies should exercise diligence and carefully assess the benefits and the risks and ask whether two or more brands in a single commercial space are really better than one.

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228. JCP appealed the finding of liability and Macy's cross appealed on the denial of putative damages. *See* J.C. Penney Corporation, Inc. Notice of Appeal, June 30, 2014, NYSCEF No. 408; Macy's, Inc. and Macy's Merchandising Group, Inc. Notice of Cross-Appeal, July 17, 2014, NYSCEF No. 420.

229. *Retail 3.0*, *supra* note 63.

230. *Id.* at 2.