PART II. Trademark Control Under Collaboration

> ***"Franchisors and network marketing companies use agreements to establish themselves as the sole owners of their trademarks, and provide detailed and carefully enumerated guidelines on their associated use."***

There are established businesses that already maintain trademark control, despite outsourced ownership and marketing or advertising. These parallels can be found in the business models of franchising, and of network or multilevel marketing sales. In franchising, a company licenses a third party to conduct business under their marks, which provides the operator with an established brand, business system, and support. Franchisees often pay large fees to their franchisors to establish this relationship. In network or multilevel marketing, independent non-salaried participants become "consultants," "distributors," or "independent business owners," who then distribute the goods or services of a company. These consultants then are compensated from their own sales of the company's products, as well as a commission on the sales of those consultants who they recruit to the company (their "downline").

Companies such as Amway or Herbalife are well known for encouraging their associates to look towards personal relationships as a prime source of new business.[16] Some companies are under close Federal Trade Commission scrutiny for their multilevel marketing sales practices.[17] Despite such controversies, network and multilevel marketing has flourished and these trademark-centric business practices have essentially left enormous marketing and advertising decisions in the hands of their independent, voluntary, commission-based consultants. With the proliferation of social media as an avenue to generate sales and leads, network

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[16] *See, e.g.*, **PAUL A. HERBIG**, **HANDBOOK OF CROSS-CULTURAL MARKETING** 178 (1998).

[17] *Herbalife Will Restructure Its Multilevel Marketing Operations and Pay $200 Million for Consumer Redress to Settle FTC Charges*, **FED. TRADE COMMISSION** (July 15, 2016), https://www.ftc.gov/news-events/press-releases/2016/07/herbalife-will-restructure-its-multi-level-marketing-operations [https://perma.cc/26PH-RNUQ].

marketing consultants have flooded their profiles with postings and promotions of brands which rely on a multilevel platform.[18] Sales are then commissioned through personalized websites and in-home "parties," both readily displaying the brand's marks and promotional materials, rather than brick-and-mortar stores.

There is a similar **potential disconnect** between brand ownership and those ultimately using the brand's valuable trademarks, in both the franchising and network marketing environments. Brands must maintain control, which is done through the use of Franchise Disclosure Documents and Agreements or, in network marketing, distributor or consultant agreements. Franchisors and network marketing companies use these agreements to establish themselves as the sole owners of their trademarks, and provide detailed and carefully enumerated guidelines on their associated use. In

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[18] John Chmela, *Social Media is the Best Tool Ever for Multi-Level Marketing*, **LINKEDIN** (April 3, 2015), https://www.linkedin.com/pulse/social-media-best-tool-ever-multi-level-marketing-john-chmela [https://perma.cc/Z3Q7-JHF3].

addition, these agreements typically grant the franchisees and independent consultants a limited license to use their marks to promote their brands.

"The former consultant's activities were found further to have adversely impacted . . . the public interest in protecting trademark property rights."

Companies have at times been required to pursue action for trademark infringement against former consultants. For example, in a 2011 action in the District of South Carolina, the Mary Kay cosmetics company stated claims for "trademark infringement and unfair competition under the Lanham Act" against its former independent sales consultant, alleging that it owned the various trademarks used to promote its products and that defendant had displayed materials containing those marks after she was no longer an independent sales consultant.[19] Defendant was also alleged to have sold products beyond their three-year shelf life.[20] Mary Kay further charged that the type of sales in

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[19] Mary Kay Inc. v. Ayres, 827 F. Supp. 2d 584, 590 (D.S.C. 2011).

[20] *Id.* at 590.

which former consultant engaged would cause confusion for customers who relied on its products to be of a certain quality.[21] A permanent injunction was imposed in *Mary Kay* against the former independent beauty consultant.[22] The injunction prohibited the former consultant's further infringement of company trademarks, finding that the continued advertisement by the former consultant caused irreparable harm to the company, and that the consultant’s sale of products infringed the company’s protected marks. The former consultant's activities were found further to have adversely impacted company's interest, in providing customers with high quality products, and adversely impacted the public interest in protecting trademark property rights.[23] These interests were greater than any interest in permitting the former consultant to

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[21] *Id.* at 591.

[22] *Id.* at 597.

[23] *Id.* at 596.

> ***"Naked licensing must still be avoided, since allowing others to use their marks indiscriminately causes a brand owner to lose its rights."***

continue to use the Mary Kay marks.[24]Thus, the **traditional standard still remains**, even in this commercial framework: use of a trademark must be under a license.[25] To prevent abandonment of marks, a trademark holder must include express quality control measures in these license agreements. Naked licensing must still be avoided, since allowing others to use their marks indiscriminately causes a brand owner to lose its rights. These principles hold true in the new economy as well. A demonstrative case on naked licensing involved "freecycling," the collaborative sharing practice of giving away unwanted items rather than disposing of them ("free"-cycle vs. "re"-cycle).[26] In a 2010 case in California, a local Freecycle chapter sought a declaratory judgment

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[24] *Id.* at 596.

[25] Welinder & LaPorte, *supra* note 20, at 418.

[26] *See generally* FreecycleSunnyvale v. The Freecycle Network, 626 F.3d 509 (9th Cir. 2010).

against the national organization, seeking a declaration of non-infringement of the umbrella organization's trademarks, including the primary FREECYCLE trademark.[27] In the Ninth Circuit's decision, it was held that the umbrella organization "(1) did not retain express contractual control over [the local chapter's] quality control measures, (2) did not have actual control over [the local chapter's] quality control measures, and (3) was unreasonable in relying on [the local chapter's] quality control measures" regarding use of the umbrella organization's trademarks.[28] The court concluded that the umbrella organization had "engaged in naked licensing[,] and consequently[, had] abandoned their trademarks."[29]

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[27] *Id.* at 512–13.

[28] *Id.* at 520.

[29] *Id.*

> ***"Ride-sharing startup LYFT has registered YOUR FRIEND WITH A CAR and applied for RIDING IS THE NEW DRIVING"***

This illustrates again that, despite the new mindset and economic methods in the sharing economy, we still see that conventional and established brand protection concepts remain relevant best practices. Licensing and quality control will always remain paramount in order to retain trademark rights. Trademark protection, registration, and maintenance are still valuable parts of any brand owner's arsenal. In fact, successful sharing economy startups continue to embrace traditional trademark concepts through registration of their marks with the United States Patent and Trademark Office ("USPTO"). Despite the exclusive ownership, which resides in a single entity trademark, the marks still convey the very spirit of this new collaborative mindset. Ride-sharing startup Lyft has registered YOUR FRIEND WITH A CAR and applied for RIDING IS THE NEW DRIVING, with competitor Uber the owner of EVERYONE'S PRIVATE DRIVER. HomeAway holds registrations for WHY HOTEL WHEN YOU CAN HOMEAWAY and LET'S STAY TOGETHER. Airbnb has filed for the mark ONE LESS STRANGER. Other examples include Rent the Runway's pending applications for I HAVE ~~NOTHING~~ EVERYTHING TO WEAR and UNLIMITED CLOSET and ZipCar's registration of WHEELS WHEN YOU WANT THEM. Through this use of the established trademark system, brands are showing that while their business models have shifted (as conveyed in the very marks they are registering), they still maintain traditional ownership and procedures with regard to their trademarks.