



What's in a name?

"If this business were to split up, I would be glad to take the brands, trade marks and goodwill and you could have all the bricks and mortar - and I would fare better than you."

John Stuart, former Chairman of Quaker Oats Ltd.

What is it worth?

The brands, trade marks and goodwill of a company can be an incredibly valuable asset. One of the most famous examples of this was Nestlé's purchase of the Rowntree business in 1988 for the princely sum of £2.55 billion, even though Rowntree's tangible net assets were only worth about £300 million. What Nestlé were paying for was the potential earnings from Rowntree's brands which at that time included Kit Kat, Polo and After Eight Mints.

Nevertheless, when you are a new company going through endless rounds of funding and having been trading for only a few months, it is not always clear how brand protection is relevant to your own business.

It is therefore worth going back to basics and looking at what a brand or a trade mark actually is, how it functions and what registering a trade mark can do for your company. It is also important to be aware of the potential consequences of non-registration.

What is a brand?

Brands and trade marks are in effect the outward face of your company. They are how customers recognise and distinguish your products/services from those of your competitors. Customers usually rely on the name of your company and the names of its products/services, but they may also recognise a distinctive logo or slogan which you use in your marketing. All of these signs enable customers to make a repeat purchase if they are impressed by your products/services (or, of course, avoid a repeat purchase if they are rather less impressed).

As customers continue to make these repeat purchases and recommend your products/services to other people, so trust in your products/services grows and, in time, so does your reputation. Conversely, if your products/services are found wanting, then as your customers tell others about their bad experiences, so you will acquire a negative reputation.

Your brands, and how you communicate through them to the outside world, are therefore crucial in establishing your company's reputation.

Why is it valuable?

Customer loyalty to brands should never be underestimated. A survey commissioned by the CBI¹ has shown that well over half of customers are willing to pay a premium for a product if it comes from a company they consider to have a particularly good reputation, even if they can buy the same product or service cheaper elsewhere. This is why sales of Heinz baked beans continue to outstrip supermarkets' own-brand beans, even though the taste is arguably the same or at least very similar and the price is certainly lower.

Interestingly, customers do not always know which company is behind a particular brand. However, this is not crucial for a trade mark to fulfil its function; all that matters is that the customer can recognise the brand itself, even if not the company which actually offers that product or service. For example, how many people know (or still less care) when purchasing a bottle of Lucozade that it is made by GlaxoSmithKline?

Your company should therefore seek to develop a brand which is easily recognisable and is clearly distinguishable from the brands of your competitors. You can then build up your business and its reputation based on these brands and the trust that they generate.

¹ Survey conducted by YouGov Plc., published by the CBI on 19 November 2007.



Why bother to register your trade marks?

Despite the obvious value that a successful brand can have, as trade mark attorneys we are often faced with the question “why should I bother to register my trade marks?”

When a company is very new or is still trying to secure funding, there are many calls on the budget and we often find that registering trade marks is very low down on a company’s list – if it even appears on the list. Often, a start-up company will tell us that it is thinking about registering its trade marks but that it plans to do so only once it has secured the next round of funding.

However, our experience of working with both start-ups and investors has shown that registering your trade marks at the outset is a very prudent investment and can often save money in the long run.

For a web-based company whose business plan relies heavily on viral marketing to build the business, trade mark protection is even more important. In this case, the brand is likely to be vital to a successful exit strategy since there will be inherent value in the brand itself. It follows that the selection of a strong brand name from the very beginning is crucial and steps must be taken to secure control of the brand through trade mark registration.

Consider the following scenario:

Imagine you are a new software company. You came up with the company name Dallow as a combination of the names of the directors and you registered your company name, Dallow Limited, at Companies House in May 2008. Since then you have paid a designer to come up with a distinctive logo featuring the name Dallow, have registered the domain name dallow.co.uk and have set up your website. You have also produced all your stationery including letter heads, packaging and business cards. You have now secured funding and taken some orders and the first batch of Dallow software will be shipped in a month’s time. The product in its “Dallow” packaging looks good and you are optimistic about your company’s future prospects.

Out of the blue, you receive a letter from the legal advisers of a company called Dallow Blue Limited. They too are a software company and they have a registered trade mark in the UK for the mark DALLOW BLUE, filed in July 2008. They have become aware of your activities under the mark Dallow and say you are infringing their trade mark. If you do not cease all use of Dallow within the next two weeks, they will sue you.

This scenario highlights a number of common misconceptions about trade marks and illustrates why new companies should give serious consideration to trade mark protection:

Registering trade marks prevents other companies stealing or copying your brands

In this case, Dallow Limited would be forced to change their branding or face being sued as explained further below. However, if Dallow had registered DALLOW as a trade mark at the same time as they registered their company name at Companies House, the roles would have been entirely reversed; they would then have been the company forcing Dallow Blue Limited to rebrand and they could also have prevented Dallow Blue from registering a trade mark which was confusingly similar to their own.

Of course, Dallow Blue may not even have been aware of Dallow Limited when they filed their trade mark application; they may have come up with a similar name completely independently. However, the consequences of Dallow’s failure to register their trade mark are the same whether Dallow Blue intended to steal Dallow Limited’s name, or whether the selection of the name DALLOW BLUE was entirely innocent.

Registering a company name at Companies House does not give you rights in the name

The registration of a company name at Companies House is a purely administrative exercise and does not give rise to any enforceable trade mark rights. All it does is prevent another company registering an identical company name at Companies House. Therefore, Dallow Limited would not be helped by the fact that they had registered their company name two months before Dallow Blue applied to register their trade mark.



Start-ups are often too young to have acquired “passing off” rights

The only ways you can acquire enforceable rights in the UK are a) through extensive use of your name, which gives rise to unregistered or “passing off” rights, or b) by registering your name as a trade mark.

However, to prove you have acquired “passing off” rights, you must first have made considerable use of your trade mark in the UK, such that you can demonstrate goodwill and reputation in your business as represented by your trade mark. To support your claim, you will need to show impressive sales figures, advertising expenditure, publicity materials etc., preferably over a number of years.

In the early stages, start-ups will rarely if ever have made sufficient use of their trade marks to be able to rely on “passing off” rights to stop other companies using company or product names which are confusingly similar to their own. In the above example, Dallow’s limited use of their name between May and July 2006 certainly would not be sufficient to refute Dallow Blue’s claim to earlier rights.

Early trade mark registration can avoid unnecessary expenditure

An enforced rebrand will necessarily entail significant financial outlay. In the above case, Dallow would have to change their company name at Companies House, have a new logo designed, change their website and domain name, have new stationery designed and produced, change their packaging and so on. All of these are costs which a new company simply cannot afford and it is not unknown for a company to go under if it is forced to rebrand in this way.

For the same reason, it is important to conduct clearance searches for your chosen trade mark as early as possible and in all your key markets, not just in the UK. These searches will identify other companies’ existing trade marks which could be an obstacle not only to your use of your chosen trade mark, but also your registration of that mark. It is too late to find out that your trade mark infringes a competitor’s mark when you have already spent a considerable amount on branding and when your product is due to be shipped the following day.

Rebranding can also have serious implications for your relationship with your new customers. They may be confused by the change in name and you may end up losing customers who lose track of you, not being aware of the change. The change can also be embarrassing if the circumstances surrounding the name change become known.

“Passing off” rights are difficult and expensive to enforce

Even once a company has been trading for a few years and is therefore in a better position to be able to demonstrate “passing off” rights, it can be very difficult and time-consuming to gather the kind of evidence described above. It can also be extremely expensive to enforce “passing off” rights as your evidence will often be disputed by the other side and you may be forced to go to court.

It is much easier and cheaper if all you have to do is produce a certificate confirming that your trade mark is registered, as this avoids having to prove “passing off” rights altogether.

Impressing the investors

The challenge of persuading an investor to part with his hard-earned cash should not be under-estimated, particularly in the current economic climate. In this increasingly competitive arena, investors are not only looking for a good product/service in which to invest, but they are also looking at the start-up company itself and whether the claims it makes are credible. They want to invest in a company which offers the greatest possible returns with the lowest possible risks.

If you are pitching to an investor and you have conducted availability searches to check that your chosen trade mark does not conflict with those of other companies and you have filed trade mark applications in your key



markets, the investor will see this as a sign of “good housekeeping”. The investor is clearly dealing with a company which knows how to run a business and how to manage and minimise risk.

Conversely, it sends out all the wrong signals if you are pitching to an investor and placing great emphasis on your company or product name, only to have to admit when asked that you do not know whether your chosen trade mark conflicts with that of a competitor in your field, whether there is a risk that you may be infringing someone else’s registered trade mark and whether you may have to rebrand. Not only is the investor going to be unimpressed that you have not done your homework, but he is also going to be wondering whether the investment he was planning to make may end up being spent on an entirely avoidable rebranding exercise or on paying damages to another company, rather than on building the product and company itself.

You could also come unstuck if it transpires that you have conducted clearance searches and perhaps registered your trade mark in the UK, but not in any of your other key markets. If your business plan clearly identifies the US as your key market, for example, it will be of no use for you to have registered your trade mark in the UK, only to find that a competitor has already registered a conflicting trade mark in the US, thereby preventing you from expanding into your most important market.

In this way, your failure to manage risk may result in an investor deciding not to invest in your company after all, or at the very least it may force down the value of your business, such that any investment you do secure is considerably lower than you had anticipated.

Can you afford not to register your trade mark?

The trade marks and brands of your company are how your customers recognise your products/services. If they like what you do, they will use your trade marks and brands to keep coming back for more. As your business grows, so your reputation will grow and your trade marks and brands will become increasingly valuable commodities in their own right. Indeed, it may be that your brand is the key asset you intend to sell when it comes to your exit strategy.

Your trade marks and brands are therefore worth protecting at the very outset and the only way for a young company to do this is to register them. Rely on Companies House registration and “passing off” rights at your peril.

Background

Rowena Powell is a British and European Trade Mark Attorney and a Partner in the London-based firm of Gill Jennings & Every LLP. She works primarily with start-ups and SMEs across a wide range of sectors, advising on trade mark selection, clearance, protection and enforcement.

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