Innovating Trademark Theory

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Date : November 20, 2020

Dev Saif Gangjee, *Trade Marks and Innovation?*, *in* **Trademark Law and Theory II: Reform of Trademark Law** (Edward Elgar), (forthcoming), available at SSRN.

In his soon-to-be-published chapter *Trade Marks and Innovation?*, Dev Gangjee brings needed critical analysis to a growing body of recent research that focuses on the relationship between trademarks and innovation. As Gangjee notes, the claims of this research challenge traditional understandings about trademark law. The "stable consensus," Gangjee describes, has been that "trade mark law had nothing to do with innovation, the 'ordinary trade mark [having] no necessary relation to invention or discovery.'" But what if it does?

Trademark law has "nothing to do with innovation" in the sense that eligibility for trademark protection doesn't consider the mark's relation to innovation. Marks are eligible for trademark protection, as the Supreme Court held in 1879, because of their source-indicating capacities, not because of any "novelty, invention, discovery, or any work of the brain."[1] Indeed, the fact that trademark law protects *only* source indication traditionally has been used as justification for the potentially perpetual rights that a trademark bestows.

In contrast, the patent term is limited precisely because patent law, unlike trademark law, offers protection to "real" innovation that we need others (eventually) to build upon. In recognition of this difference, trademark doctrine has long been hostile to attempts to use trademark or unfair competition as a substitute for patent.

Recently, however, a good deal of scholarship and policy advocacy, particularly in Europe, claims that trademarks do promote innovation. This research is clearly meant to support "stronger" or "more" trademark protection. It is useful to disentangle the conceptual and empirical dimensions underlying these claims.

Some early empirical work focused on trademark registrations. It emphasized that "innovative firms" (usually using number of patent applications filed or R&D expenditures as the measure of innovative activity) apply to register more trademarks. But the fact that trademark applicants also file a lot of patent applications tells us nothing about whether trademarks promote innovation. It probably only indicates that innovative firms are sophisticated IP claimants that create new products and file trademark applications for the names of those new products.

More recent research on trademarks and innovation, however, claims to demonstrate a *causal* relationship. This research is founded on a pair of conceptual claims about the role of trademarks in the innovation process. One is that branding increases market share and profitability, which allows parties to recoup their investments in innovation (presumably creating additional incentives to make those investments). The premise here is obviously questionable: at best it is true that certain *winning* brands have greater market share and profitability—at other brands' expense. Even for the winning brands, however, this is not strong evidence that trademarks promote innovation, only that some trademarks help firms' profitability, which *enables but does not require* them to engage in innovative activity.

The second conceptual claim is exemplified by the European Commission's explanatory memorandum to the draft of the Trade Marks Directive in 2015. There, the EC claimed that "in order to retain [the customers] the 'mark works … as an engine of innovation: the necessity to keep it relevant promotes investments' in R&D, which leads in turn to a continuous process of product improvement and development."[2]

That claim bears some resemblance to standard-fare law and economics justifications of trademark protection in the

US—namely that trademark protection, by fixing credit and blame, promotes consistent quality. But the EC's claim is importantly different: traditional economic arguments focus on promotion of *consistent* quality, not necessarily high quality. Denny's marks are perfectly good marks because we always know what a Moons Over My Hammy (a scrambled egg sandwich) will be like. Trademark law is indifferent to the fact that it will, by most accounts, be consistently bad. The more robust claim, exemplified in the EC memo, is that trademarks help attract customers, and to keep those customers, firms *must* innovate.

One striking aspect of this new conceptual framing is its frank admission that brands drive demand. Starting with Ralph Brown, trademark scholars have long been concerned that trademarks "sell the goods" by promoting (or reflecting) more product differentiation than a competitive market would otherwise supply, and that excess product differentiation is often inefficient. To that charge, law and economics scholars (and, overwhelmingly, courts) have responded that trademarks merely provide information about the source of goods, and that consumers value the goods for reasons intrinsic to the goods. The new research turns Brown's concern upside down and promotes it as the mechanism through which trademarks promote innovation.

Gangjee's primary attack on this new approach exposes the emptiness of its concept of "innovation." For one thing, it's unclear whether these accounts use "innovation" in the same way as patent law. As Gangjee reminds us, branding might promote certain kinds of innovation not captured by the patent system, and that innovation might actually substitute for other forms of innovation by signaling something new *when all that is new is the messaging*.

Gangjee also doubts the empirics, persuasively arguing that much of the evidence presented for the "trademarks are engines of innovation" claim is ambiguous at best. Proponents of that theory point to trademark filings for marks for new products as evidence of innovation. But new filings don't necessarily reflect meaningfully new products. In some (many?) cases, new trademark filings might just reflect rebranding efforts. Or they might be the result of increasingly layered branding (multiple marks applied to the same goods). They might simply reflect extension of an existing brand into somewhat new product markets. In those cases, while the goods or services might be new to the brand, there's no strong reason to believe they are new to the market.

> From case studies, we know firms sometimes apply for new trade marks in cases of meaningless or nil differentiation, for exchange reasons …, to prolong other Intellectual Property Rights (IPRs) … to leverage brand equity … to [pre-emptively] avoid trade mark squatting … to pack product spaces …, to control franchisees .. to support low risk entry in foreign markets … to enable ingredient marketing … to protect slogans, or for advertising purposes …[3]

Gangjee helpfully reminds us that it is always in the trademark owner's self-interest to invest in quality in the context of a competitive market, and that no rule of trademark law (nor any proposed rule) requires mark owners to improve product quality. Proponents of the "trademarks promote innovation" thesis offer no means of evaluating the nature of innovation supposedly reflected in trademark applications.

Importantly, if this evidence *did* suggest that trademarks promoted meaningful innovation, surely we would want to consider that fact in designing the patent system. Perhaps we have overstated the importance of patent law in providing incentives and understated the role of trademarks in enabling firms to capture that value. Or perhaps the incentives here are substitutionary–by enabling firms to capture the benefits of the types of innovation promoted by the trademark system, which may be cheaper and faster to develop, firms substitute their innovation dollars away from the types of innovation for which patent protection would be most natural.

These are all hypotheses, of course. But as Gangjee so well demonstrates, that is the state of the evidence. And that is clearly insufficient to displace the traditional understanding.

1. Trade Mark Cases, 100 U.S. 82, 93-94 (1879).
2. Proposal for a Directive of the European Parliament and of the Council to Approximate the Laws of the Member States Relating to Trade Marks COM (2013) 162 Final, [1.1].
3. M. Flikkema, C Castaldi, A. de Man & M. Seip, *Trademarks' Relatedness to Product and Service Innovation: A Branding Strategy Approach*, 48 **Research Policy** 1340, 1341 (2019), as quoted in Gangjee.

Cite as: Mark McKenna, *Innovating Trademark Theory*, JOTWELL (November 20, 2020) (reviewing Dev Saif Gangjee, *Trade Marks and Innovation?*, *in* **Trademark Law and Theory II: Reform of Trademark Law** (Edward Elgar), (forthcoming), available at SSRN), https://ip.jotwell.com/innovating-trademark-theory/.