

This article is slated for publication in the September 30, 2010 edition of the Ontario Bar Association's *Focus on Franchising* Newsletter.

Trade-mark Truisms: Best Practices for Acquiring and Managing Trade-marks

Lorraine M. Fleck*

Trade-marks are fundamental to franchising. Given their importance, it is critical that a franchise system's marks are properly used and managed. There are a number of basic principles for using, acquiring and managing trade-marks in Canada that are simply explained by common turns of phrase. This article reviews those principles and their application to trade-mark use, acquisition and management in the franchising context.

1. "The early bird gets the worm"

Generally, the person who uses a trade-mark first in Canada acquires trade-mark rights in the area where the mark was used or acquired a reputation. This means that if two franchise concepts in the same industry are using the same or confusingly similar trade-marks in the same city, the concept that used the mark first has prior rights. Therefore, franchisors should use their marks as soon as possible.

In the trade-mark application context, Canadian trade-mark applications are examined on a first to file basis. This means that if the Canadian Trade-marks Office considers two applications confusing, the application with the earlier filing date or priority date is considered the application entitled to registration. Claims of use in Canada are irrelevant. If the later filed application claims use in Canada that predates the filing date of the earlier filed application, the owner of the later filed application is left with two potentially expensive options: opposing the application or purchasing the mark. Thus, franchisors should apply for Canadian trade-mark registrations as soon as possible to avoid losing the opportunity to register their trade-marks in Canada, as well as minimize expenses associated with opposition proceedings and trade-mark acquisitions.

2. “Use it or lose it”

Trade-mark rights in Canada are acquired and maintained through use, as defined in the *Trade-marks Act*, R.S.C. 1985, c.T-13. Not only is use critical to acquiring unregistered and registered trade-mark rights in Canada, but a trade-mark must be continually used in order to maintain any unregistered or registered rights. If a mark is not used, whatever rights a franchisor may have acquired in the mark may be deemed abandoned. This may occur where the trade-mark has been altered. Even what some may consider minor changes to a mark can result in a loss of trade-mark rights.

In the trade-mark registration context, if a registered trade-mark is not used in Canada with the wares and/or services claimed in the registration for three (3) years and there are no justifications for non-use, the registration may be vulnerable to cancellation in administrative proceedings. Such proceedings may be initiated at the request of a competing franchisor that is aware the registered mark is not being used, and wants to register the same or a confusingly similar mark. Accordingly, franchisors should continuously use their marks without alteration, and file trade-mark applications for any updated versions of older marks in the event that any registrations associated with the older marks are cancelled for non-use.

When a franchisor applies for a trade-mark registration, the use claims made in the application and any resulting registration must be accurate. Material inaccuracies in use claims may expose a Canadian trade-mark application to opposition proceedings initiated to prevent an application from registering. Such proceedings may be successful, depending on the facts and evidence filed. Similarly, material inaccuracies in use claims may make a trade-mark registration susceptible to cancellation if the registration is challenged. Therefore, franchisors and their trade-mark agents must ensure that trade-mark application use claims are accurate. Otherwise, the franchisor risks owning a piece of paper instead of registered rights which can be successfully asserted in legal proceedings.

3. “An ounce of prevention is worth a pound of cure”

Franchisors and franchisees can take a number of proactive steps to address potential trade-mark issues and potentially prevent or minimize legal disputes and associated costs.

For a franchisor, one of those steps is to obtain a trade-mark agent or lawyer's opinion on a trade-mark's availability before using and applying for a trade-mark. The opinion should be based on searches of registered and unregistered trade-marks. Such searching and opinion may allow a franchisor to avoid investing time and money in a trade-mark that is unavailable for use. Failure to seek an availability opinion can be costly, as the franchisor may incur legal fees if it is forced to defend against an opposition or trade-mark infringement lawsuit due to its use of an unavailable trade-mark. Further, a franchisor may be forced to change and rebrand its signage, websites and marketing materials, all at considerable cost to the franchisor and its franchisees.

Another trade-mark management strategy is the proactive registration of domain names and social media usernames that incorporate the franchise's trade-marks. Such registrations can reduce cybersquatting (often defined as registering a domain name consisting of a business' trade-mark or trade-name in order to sell the domain name back to the legitimate owner or disrupt the legitimate owner's business). While a franchisor may be able to successfully use legal remedies to obtain domain names and social media usernames that incorporate the franchisor's marks without authorization, the costs of such remedies can be significant and considerably exceed the costs of proactive registration. For example, a .com domain name dispute brought before the World Intellectual Property Organization costs several thousand dollars – the arbitration fee alone can run as high as \$4000 U.S. In contrast, some domain name registrars charge \$12.00 Canadian/year plus taxes for a .com domain name registration, making proactive registration considerably more cost effective. Proactive domain name and social media username registrations also mean that domain names and usernames incorporating the franchisor's marks are available if and when the franchisor decides to incorporate those domain names and social media accounts into its marketing campaigns. Further, controlling such domain names and user names reduces the likelihood that the franchisor's trade-marks will be associated with controversial, salacious, defamatory and other potentially illegal content that can tarnish a franchise's brand.

From both a franchisor and franchisee's perspective, franchise agreements, as well as operation manuals, should address whether a franchisee has permission to use the franchise's marks on the Internet (e.g. in domain names, social media and key word advertising). Doing so may increase certainty as to how the franchisee can and cannot use the franchise's marks. If a franchisor permits its franchisees to use the franchise's marks on the Internet, the appropriate licensing arrangements with requisite control should be established prior to such use to ensure that such trade-mark use is attributed to the franchisor in accordance with the licensing provisions of the *Trade-marks Act*.

4. “You don’t know what you’ve got ‘til it’s gone”

Franchisors should maintain their marks by documenting trade-mark use, ensuring there are quality control mechanisms in place for licensed trade-marks and monitoring the marketing place for unauthorized use.

Documenting trade-mark use is critical in the event a franchisor needs to assert or defend its trade-mark rights. Keeping an ongoing file of representative trade-mark use documentation can be useful if a franchisor is involved in trade-mark proceedings before the Trade-marks Office or the courts. When retaining such documentation, the franchisor should be mindful of the definitions of use in the *Trade-marks Act*. Such documentation can also be useful for trade-mark due diligence if the business is sold.

A franchisor also needs to ensure that it has direct or indirect control over the quality or character of the wares and services offered under its trade-marks, pursuant to the *Trade-marks Act*’s licensing provisions, to ensure that trade-mark use is attributed to its businesses. While such quality control is a hallmark of the typical franchisor-franchisee relationship, it is imperative that quality control mechanisms are not just written in an agreement, but are actually implemented. A franchisor who fails to implement such quality control mechanisms runs the risk that the relevant marks may be deemed not used under the *Trade-marks Act* licensing provisions, making any relevant trade-mark registrations potentially susceptible to cancellation proceedings.

Finally, policing the franchise’s marks – i.e. monitoring the marketplace for unauthorized or improper uses of a mark, and pursuing enforcement of one’s rights accordingly – is important to maintain the marks’ distinctiveness. Such monitoring activities may also help to prevent consumer confusion and lost revenue. While the franchisor may take the lead in such monitoring activities, franchisees should also report unauthorized or improper use of the franchisor’s marks to the franchisor in an attempt to preserve the marks’ distinctiveness and assist in protecting the franchisee’s investment.

Conclusion

Trade-mark acquisition and management requires more than simply placing the TM or registered trade-mark symbol after a trade-mark. Use, documentation – in the form of trade-mark use documentation and agreements governing trade-mark use with franchisees – as well as proactive measures such as obtaining an availability opinion before using and applying for a trade-mark, are key to acquiring and maintaining the trade-mark rights that are integral to building a distinctive franchise brand.

*Lorraine M. Fleck, Hoffer Adler LLP