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The Franchise Lawyer

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Message from the Chair

By Ron Coleman, Parker, Hudson, Rainer & Dobbs, LLP

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I am excited to start my term as Forum Chair and to have the opportunity to write this regular message to update our membership on the great things that are happening in the Forum on Franchising. Let me start, however, by giving a public thanks to our Immediate Past Chair, Will Woods. Will has made invaluable contributions to the Forum for many years starting with his service as YLD Liaison (sometime way back when), through numerous writing and speaking positions, during his two terms serving on the Governing Committee, and culminating with his term as Chair from 2019–2021. Will deserves particular credit for his steady leadership through the unprecedented challenges of the COVID pandemic. As you may know, the Immediate Past Chair continues to serve on the Governing Committee during the term of the next Chair, and this continuity provides great benefits to the new Chair and to the Forum generally. I very much look forward to working with Will during the next two years.

As I write this, we have just concluded our 2021 Annual Meeting, and it was great that so many of us were able to get together in person in Atlanta. I'm very pleased to report that we had a total of 730 attendees, including more than half who attended in person! We were glad to be able to provide a virtual option for those who were not comfortable traveling or being in large groups due to COVID concerns. The programs and papers upheld our Forum's tradition of substantive excellence, and I offer the speakers sincere thanks on behalf of our members for their efforts. I'm also glad that we were able to include 11 first-time speakers, 16 percent of this year's total. Co-chairs Beata Krakus and Rob Lauer deserve our thanks for a year of hard work and planning, and kudos for organizing and putting on such a terrific program.

One of the exciting things the Chair gets to do at the Annual Meeting is recognize the valuable contributions of our members by giving several Forum awards.

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A Franchising Conundrum: The Disconnect Between Recognizing, Claiming, and Enforcing Trade Dress Rights

By Christopher P. Bussert, Kilpatrick Townsend & Stockton LLP

It has been more than 25 years since the Supreme Court decided *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763 (1992). Therein, the Court found trade dress consisting of the following to be protectable and infringed:

> A festive eating atmosphere having interior dining and patio areas decorated with artifacts, bright colors, paintings and murals. The patio includes interior and exterior areas with the interior patio capable of being sealed off from the outside patio by overhead garage doors. The stepped exterior of the building is a festive and vivid color scheme using top border paint and neon stripes. Bright awnings and umbrellas continue the theme.

Id. at 765.

In so holding, the Court held that a claim of trade dress infringement requires proof of three elements: (1) the trade dress is primarily nonfunctional; (2) the trade dress is inherently distinctive or has acquired a secondary meaning; and (3) the alleged infringement creates a likelihood of confusion. It also noted that protection of trade dress is no different than protection of any other source indicating designation.

Although many in the franchising community enthusiastically received the *Two Pesos* decision, and many franchisors have since sought to claim trade dress protection in elements of their systems, many have been unsuccessful, particularly when they seek to enforce rights in that trade dress. What is the reason for that lack of success? Often, it is because franchisors have taken inadequate steps to protect or develop protection in their trade dress. Other times, franchisors attempt to claim elements that are deemed to be unprotectable or they are unable to demonstrate a likelihood of confusion. In order to maximize success in protecting a franchise system's trade dress, franchisors should consider the following recommendations.

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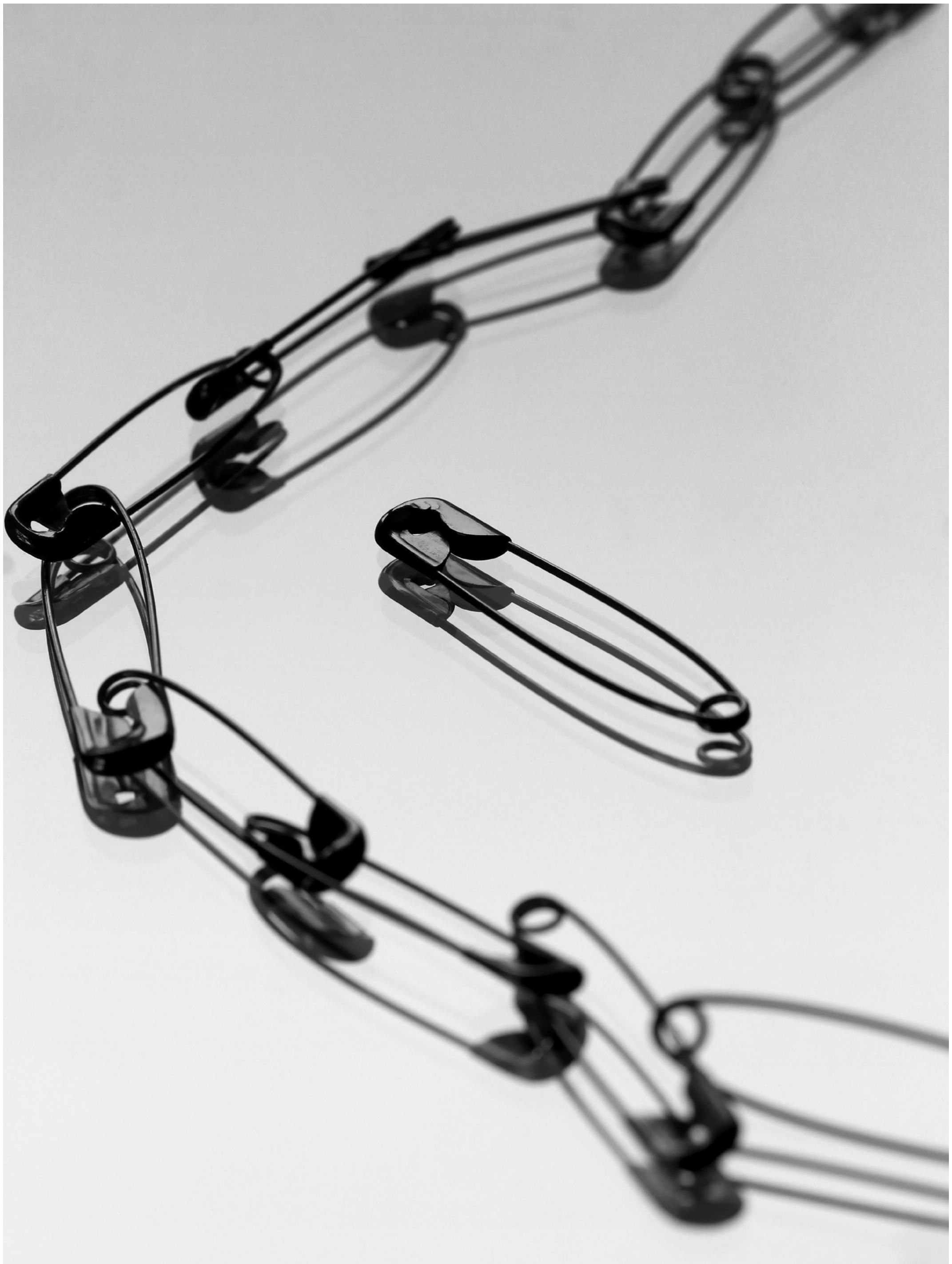
Recommendation No. 1: Take care to select trade dress elements that are capable of being protected.

A number of franchisors have failed in their trade dress protection efforts because courts deemed the elements of that trade dress to be generic. *See, e.g.*, *Ale House Mgmt., Inc. v. Raleigh Ale House, Inc.*, 205 F.3d 137, 142 (4th Cir. 2000) ("As with generic trade names, the trademark laws do not protect a generic trade dress"); *Happy's Pizza Franchise LLC v. Papa's Pizza, Inc.*, 108 U.S.P.Q.2d 1239, 1243 (E.D. Mich. 2013) (pizzeria interior design consisting solely of generic elements not protectable). Others have failed because courts deemed some or all of the elements comprising their trade dress to be functional. *See, e.g.*, *Fantastic Sams Franchise Corp. v. Mosley*, No. CV H-16-2318, 2016 WL 7426403 (S.D. Tex. Dec. 23, 2016).

Franchisors need to keep in mind that their success in protecting trade dress will depend in part on whether the elements comprising that trade dress even qualify at the outset for protection. Franchisors should avoid trade dress elements that are common in the franchisor's field, are primarily functional, or otherwise have no source designating significance. *See, e.g.*, *DP Dough Franchising LLC v. Southworth*, No. 2:15cv2635, 2017 WL 4315013, at *13 (S.D. Ohio Sept. 26, 2017) (plaintiff denied relief on its trade dress claim in part because its red and black color scheme was common in Italian restaurants); *Western Sizzlin Corp. v. Pinnacle Bus. Partners, LLC*, 103 U.S.P.Q. 2d 1148, 1151 (M.D. Fla. 2012) (trade dress protection denied in part because competitors also used red, green, and white color scheme); *Fantastic Sams*, at *7 (court denied plaintiff's trade dress claim in part because several of the elements, such as the chairs and the salon layout, served a primarily



functional purpose). Instead, franchisors should strive to adopt combinations of trade dress elements that are distinctive, ornamental, and unique in nature and which serve to distinguish their systems from those of competitors. Stated another way, franchisors should show the same care in selecting and adopting trade dress elements as in their important trademarks.

Recommendation No. 2: Use the trade dress in a consistent and uniform manner in all franchise locations.

A hallmark of the protection of trademarks (as well as trade dress) is uniform and consistent usage. Franchisors rarely encounter significant problems making consistent use of their principal marks at franchised locations. No educated franchisor is going to use randomly different principal trademarks in connection with each of its locations (i.e., Burger King, Burger Kings, King Burger, Burger Kingdom). Rather, the franchised locations will operate under a single principal trademark. Unfortunately, many franchisors have not made the same connection of the importance of using uniform trade dress elements in their system's locations. In that regard, many courts have refused the efforts of franchisors to enforce rights in claimed trade dress where there is a lack of uniformity in use from location to location. *See, e.g., Cava Grp., Inc. v. MezehAnnapolis, LLC*, No. GJH14355, 2016 WL 3632689, at *12 (D. Md. July 7, 2016) (trade dress protection denied in part because not all of the plaintiff's locations used all elements of the claimed trade dress); *Rib City Franchising, LLC v Bowen*, No. 2:15cv00636, 2015 WL 6695723, at *7 (D. Utah Nov. 2, 2015) (trade dress protection denied in part because plaintiff's stores have different color and décor from each other); *Happy's Pizza*, 108 U.S.P.Q.2d at 1243 (plaintiff failed to provide evidence that each of its restaurants uses a specific uniform theme).

Adopting and maintaining consistent, uniform trade dress elements also serves another important purpose in trade dress enforcement actions. As noted above, one of the elements franchisors must establish in a trade dress infringement action is a likelihood of confusion. A franchisor can only show a likelihood of confusion if it has sufficiently conditioned the consuming public to recognize the claimed trade dress as designating a single source (a particular franchise system's goods and services). If a franchisor is not diligent in ensuring that franchisees throughout its system use their trade dress in a uniform and consistent manner, it will likely face long odds showing a likelihood of confusion.

Recommendation No. 3: Actively promote the connection between trade dress and the goods and services of the system.

Even assuming a franchisor has adopted trade dress elements that it is capable of protecting, this alone will not guarantee a successful enforcement effort. Unless the trade dress is inherently distinctive, a court will require a franchisor to demonstrate that the trade dress has achieved secondary meaning (i.e., that the relevant consuming public recognizes it as a "brand," designating the franchisor as the single source of goods and services). And where the trade dress at issue consists primarily of a color scheme, this demonstration is essential as the Supreme Court has made clear since *Two Pesos* that businesses can protect color schemes *only* upon a showing of secondary meaning. *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205, 216 (2000).

How does a franchisor go about establishing secondary meaning? Among the factors that go into the secondary meaning analysis are how long the franchise system has used the trade dress; how prominent that usage has been; what efforts the franchisor and its franchisees have made to associate the trade dress with the system; amounts the franchisor and its franchisees have spent promoting the trade dress; gross revenues of the system since the adoption of the trade dress; examples of how the system uses the trade dress; the extent of third-party use of the elements of the trade dress; the existence of the independent press, consumer testimonials, or consumer surveys showing a link between that trade dress and the goods and services provided by the franchise system; and the extent to which the franchisor instructs franchisees about the importance of the trade dress. *See generally* 3 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 15:30 (5th ed. 2019); *CiCi Enter., LP v. Four Word Motion, LLC*, No. 6:16cv1679Orl4KRS, 2016 WL 9244626, at *3 (M.D. Fla. Oct. 17, 2016).

Where a court deems a competitor or former franchisee's copying of a franchisor's claimed trade dress "intentional and direct," some courts have found that this constitutes a *prima facie* case of secondary meaning. *See, e.g., Maaco Franchising, LLC* v. *Boensch*, No. 3:16cv155GCM, 2016 WL 4746215, at *9 (W.D.N.C. Sept. 12, 2016). There is no requirement that the franchisor submit evidence on all of the factors to be successful, and the foregoing list is not exhaustive. *See* 1 McCarthy, *supra* § 8:8.50 ("[T]he traditional methods of proving validity through the acquisition of secondary meaning in noninherently distinctive wordmarks are also used to prove secondary meaning for trade dress"). Any evidence demonstrating that consumers recognize a connection between the trade dress and the goods and services of a particular franchise system is relevant.

Because a franchisor will likely not know for sure whether a court will consider its trade dress inherently distinctive until the franchisor fully litigates that issue, a smart franchisor should develop a strong case of secondary meaning as a fallback position. And, as indicated above, creating a strong connection in the minds of the relevant consuming public between the goods and services of the franchise system and its trade dress also serves the dual purpose of making the trade dress sufficiently memorable so that it is easier to establish a likelihood of confusion in the event of litigation.

Recommendation No. 4: Don't forget to address trade dress in your franchise documents.

Although many franchise system trade dress cases involve infringement by competitors, some involve disputes between franchisors and departing or departed franchisees. Under cases involving the latter scenario, the system's franchise documents are a place where a franchisor can do itself a lot of good in terms of trade dress enforcement. Often franchisors seek to enforce aggressively trade dress rights against former franchisees upon expiration or termination of a franchise agreement and, in doing so, rely on provisions of the Franchise Agreement generally outlining a former franchisee's obligation to "debrand" its location. But will that effort be successful if the franchisor does not mention trade dress anywhere in the Franchise Agreement or Franchise Disclosure Document? A judge who is considering the issue of whether debranding includes the franchisor's trade dress could pose the question: "Counsel: If trade dress protection is so important to your client, why is trade dress not mentioned anywhere in its franchise documents?" *See TWTB, Inc. v. Rampick*, 152 F. Supp. 3d 549, 572 (E.D. La. 2016) (franchisor failed to establish that the License Agreement included trade dress or that the parties intended to include it in the License Agreement). Although there are legitimate responses to that question, and the franchisor ultimately may still have a remedy to address the trade dress issue, it is obviously preferable not to have to field this inquiry. *See id.* at 574–76 (holding that, despite the defects in the License Agreement, the franchisor had demonstrated trade dress infringement).

Franchisors *should* make explicit mention of trade dress in their franchise documents. At a minimum, franchisors should discuss trade dress in the Franchise Disclosure Document as one of the elements comprising the franchise system and in the Franchise Agreement sections that discuss the proprietary marks as well as the franchisee's debranding obligations upon expiration or termination of the Franchise Agreement. Doing so is further evidence that trade dress protection is important to the franchisor and gives the franchisor an additional argument that a former franchisee cannot challenge the validity of the franchisor's trade dress in a subsequent enforcement action under the doctrine of licensee estoppel. *See id.* at 572.

Where departing or departed franchisees are required to defend trade dress claims, savvy franchisee counsel should examine the franchisor's franchise documents for references to trade dress. If none exist, they may argue that the franchisor has not adequately prioritized protection of its trade dress in the past. And, of course, arguments that are available to competitors questioning the underlying protectability of the trade dress at issue or lack of a likelihood of confusion may be available to departing or departed franchisees as well.

Final Recommendation: Developing protectable trade dress rights takes careful planning and execution.

By now you should see a theme emerging. Trade dress is in reality just another species of trademark protection that requires more care. Adopting and implementing trade dress and ultimately protecting it is a process and does not happen overnight. By taking steps at the outset to adopt protectable trade dress elements, uniform use of trade dress among a franchise system's locations, and otherwise nurturing that trade dress over time to develop a strong connection in the minds of consumers with the goods and services of a particular franchise system, the franchisor may build very potent intellectual property rights. ■