

Safeguarding the Special Sauce: Protecting Brand Equity & Innovation In The Food Industry

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A FREEBORN & PETERS FOOD INDUSTRY TEAM WHITE PAPER

ABOUT THIS WHITE PAPER:

Too many food companies fail to protect their intellectual property. This white paper explains why proper attention to important assets, such as trademarks and trade secrets, is critical, and what straightforward steps they can take to ensure proper safeguards are in place.

“Not only can competitors undermine brand equity and steal key innovations without the proper legal safeguards, but it is far more expensive, if not impossible, to regain intellectual property rights once they have been lost.”

Companies in the food industry recognize the importance of protecting their physical assets, like factories, processing equipment, warehouses and inventories. But too often, these same companies overlook or otherwise fail to take the steps necessary to manage and protect their intellectual property (IP) associated with their brand equity and innovations because:

- They do not fully appreciate the legal tools available to them for protecting their IP.
- They perceive the costs associated with IP management and protection as too high.
- They prioritize other activities because threats to their IP are not readily apparent.

These companies are putting a large proportion of their organization's value at risk, and potentially jeopardizing their entire enterprise.

Not only can competitors undermine brand equity and steal key innovations without the proper legal safeguards, but it is far more expensive, if not impossible, to regain IP rights once they have been lost.

This guide provides food company executives with an overview of the legal principles and tools for protecting their intellectual property assets. They provide a cost-effective mechanism for reducing risks, building value and strengthening market position.



“The gross margin of a product ‘indicates how much more than the actual costs of the product itself the consumer is willing to spend’ and thus measures ‘the intangible value of a product and of a brand.”

— Don Mulligan, CFO,
General Mills



Protecting Intellectual Property Is An Essential Task

Managing and protecting IP is not merely the province of companies like Facebook and Microsoft, whose assets are almost entirely intangible. Food processors and related companies can achieve a competitive advantage by developing and protecting the intangible assets that are intertwined with their physical goods.

Achieving this goal requires an understanding of the basic IP relating to these assets, including:

- Trademarks and trade dress, which protect brand identity, reputation and corporate goodwill
- Trade secrets and patents, which protect technological know-how, innovations, customer lists, formulae and manufacturing procedures

Protecting Brand Identity and Goodwill: Trademark and Trade Dress Law

Food companies must vigorously nurture and protect their brand identities in order to maintain and increase gross margins.

Brand identity reflects the overall commercial impression created by the brand name, the corporate name, related marketing efforts, and the nature and appearance of the product itself. As a whole, these elements embody the goodwill and reputation of a product in the market place and serve to distinguish a company's product from its competitors.

A Coca-Cola bottle is the most iconic example of a successful brand identity. It creates an instant commercial impression of tremendous value through the name on the bottle, the shape of the bottle, and the product's associated history and marketing.

For food companies, maintaining customer trust and goodwill is especially important. If an inferior product is confused with your product, there is significant harm to your reputation.

TRADEMARKS

A trademark is a combination of words, symbols or designs (like a logo) that identifies the source or origin of a product and distinguishes it from those of another.

Accordingly, trademark protection may apply to slogans, such as GOT MILK?®, BETCHA CAN'T EAT JUST ONE®, WHAT GREAT TASTE IS ALL ABOUT® (Land O' Frost), and EATING MADE EASY® (Grubhub.com).

Likewise, a corporate name can function as a trademark when used to identify the source or origin of goods, rather than simply identifying the company.

Because many food products are named in a descriptive fashion, food companies often rely on their corporate name (like Quaker® Chewy Granola Bars) as a “house mark” that consistently appears on all or a major portion of the products.

TRADE DRESS

Like a trademark, trade dress identifies the source of a product. Trade dress refers to the total image or overall design of a product or its packaging. To be subject to legal protection, however, the trade dress must be distinctive and it cannot be “functional.”

The shape and design of a Coca-Cola bottle is the classic example of product itself having trademark significance separate and apart from any logo or word mark.

That Logo Looks Familiar

On behalf of Trimark USA, Inc., a distributor of foodservice equipment and supplies, Freeborn & Peters obtained a preliminary injunction in Boston federal court against Performance Food Group Co. (“PFG”), also a foodservice distributor.

The injunction required PFG to cease use of a new design for its corporate logo in light of TriMark’s pre-existing logo that was registered with the U.S. Patent and Trademark Office.

TRIMARK LOGO



INFRINGEMENT PFG LOGO



Chocolate + Peanut Butter = Orange

The Hershey Co. filed suit against Mars, Inc. claiming the orange packaging used by Mars for its new Dove brand peanut butter and chocolate bars “so closely mimics[s]” a registered trademark held by Reese’s in the orange color of its packaging and the overall trade dress of Reese’s products, that consumers, purchasers and others would likely be confused or mistaken about the association between the products.

The case was ultimately settled and Mars changed the color of its packaging.

REESE'S PACKAGING



DOVE PACKAGING



Every food company has some form of innovation or proprietary information that plays an important role in the success and growth of its business. This may include specialty-made machinery, production processes, formulae or customer lists.

These ingredients for success are often taken for granted, with food companies only realizing their importance after a competitor obtains the same innovation or information and no legal remedy is available because steps were not taken to protect their rights. Only then does it become obvious that they have something valuable to protect, but it is too late and a significant competitive advantage is lost. A company that is well-informed on the legal protections afforded under trade secret and patent law, however, is not likely to make the same mistakes.



TRADE SECRETS

The subject matter of trade secrets is defined in general and broad terms and can include a technique, formula, manufacturing process or compilation of information (such as a customer list) that gives a company a competitive advantage.¹

Most importantly, to acquire trade secret status, the information must have commercial value and be kept secret from persons outside the corporation. If that is accomplished, then the unauthorized use of such information by another company is regarded as a violation of the law. The most famous trade secret in the food industry is the formula for Coca-Cola.

Unlike patents, trade secrets are protected without registration and, accordingly, can be protected for an unlimited period of time.

For these reasons, protecting innovations as trade secrets may be particularly attractive in the food industry.

For example, if a food processor develops a manufacturing process that allows it to produce goods in a more cost-effective manner with a specific taste and appearance, such a process provides the enterprise a competitive edge over its competitors.

The company should therefore protect this key business asset as a trade secret after first determining whether the secret is patentable and, if so, whether it would not be better protected by a patent.

PATENTS

The U.S. patent laws provide inventors or their assignees with a set of exclusive rights for a limited period of time in exchange for public disclosure of an invention.

The owner of a patent receives the right to exclude others from making, using, selling, offering for sale or importing the invention for a period of approximately 20 years.

To be eligible for a patent, the invention must relate to subject matter covered by the patent laws (i.e., compositions of matter, processes or methods, machines and articles of manufacture) and also be novel, useful and non-obvious.

Obtaining a patent can be a lengthy process but the resulting legal rights provide a relatively strong guarantee of protection against market competitors as compared to trade secrets, which can be reverse engineered or subject to accidental disclosure.

¹ Trade secrets are technically a sub-set of “confidential information” but the distinction is of little difference for purposes of this guide.

Protecting Innovation: Case Examples

FROZEN SAUSAGES

After years of research, C&F Packing Co. developed a process for making and freezing precooked sausage for pizza toppings, which had the appearance and taste of freshly cooked sausage. C&F obtained two patents in this regard, one for specially designed equipment to make the sausage and one for the process itself. C&F also continued to improve its process and maintained its new developments as trade secrets.

Pursuant to a written confidentiality agreement, C&F agreed to a deal with Pizza Hut under which this process was disclosed to other suppliers, so that, ostensibly, back-up suppliers would be available. After the other suppliers learned how to duplicate C&F's results, however, the relationship between C&F and Pizza Hut deteriorated and the other suppliers began producing sausages for Pizza Hut.

After many twists and turns, a jury ultimately awarded C&F \$10.9 million in damages relating to a third-party supplier's misappropriation of C&F's trade secrets and its resulting unjust enrichment.



NOOKS & CRANNIES

Thomas' English Muffins account for some \$500 million in annual sales and were first created by Englishman Samuel Bath Thomas, whose 19th century recipe – which bakes in “nooks and crannies” – remains a trade secret.

Only seven executives were entrusted with the complete recipe, including details on the quantity of dough and baking methods, and all of them were compelled to protect it through a confidentiality agreement.

When one of them attempted to move to rival Hostess, a suit was filed, and he was ultimately barred from his new employment in light of the confidentiality agreement and certain “suspicious conduct.”



IP Management and Protection

With an understanding of the IP toolkit, food companies can implement basic guidelines for managing and protecting their brand identities and innovations. This is not an “all or nothing” process and a little bit of medicine goes a long way.

At a minimum, key business decisions regarding products and their associated brand identity should be made with an awareness of basic principles of trademark and trade dress law. These decisions start with the selection of a brand name, which should not only be appealing to customers, but should be distinctive and capable of registration with the U.S. Patent & Trademark Office.

In addition, food companies need to consider that:

- Terms such as “light,” “low fat” or “fresh” need to be substantiated and may implicate FDA labeling rules or USDA requirements, as well as false advertising rules. They should therefore be avoided as part of any trademark unless the relevant legal criteria are unquestionably satisfied.
- Terms that are geographic designations should be scrutinized to avoid a claim that the mark is misdescriptive to consumers, such as “Napa Harvest” for a wine that is actually imported from Argentina.

Similarly, when products and new packaging are designed, thought should be given to colors, designs and appearances that might potentially give rise to trade dress protection.

For innovation and proprietary information, the most important task is to identify and document these intangible assets, a task that is usually more difficult than it sounds.

For new technologies and processes, it should also be determined whether patent protection is appropriate.

If not, then reasonable steps should be taken to treat them as trade secrets to the full extent possible, even if they had not previously been treated as such by the company.



These steps include:

- Making sure that a limited number of people know the secret and that all those who do are aware that it is confidential information.
- Using confidentiality provisions in employee contracts.
- Using non-disclosure agreements for business partners if the confidential information is being disclosed.

Ultimately, for companies in the food industry, a robust IP management and protection program should include procedures to ensure that relevant departments within the company are communicating with each other and, where appropriate, with the legal department, to develop new innovations and products based on customer needs, review innovative activities of competitors, explore new market potential, strengthen and expand the company's brands, and develop and implement legal protections for the company's brands and innovations.

This would include the following:

- **Research and Innovation:** Develop new innovations as determined by business goals, market research and current IP portfolio.
- **Identify and Secure Ownership of IP:** For new innovations, register for patents and/or implement mechanisms for protecting trade secrets. File registrations for trademarks and put into place brand-identity protections in the product itself, its packaging and associated marketing materials.
- **Promote and Commercialize the Company's IP:** Effective IP management means more than just protecting the company's IP; it also includes marketing the company's brands, licensing corporate know-how, and exploring joint ventures and other agreements involving the company's IP.
- **Monitor and Protect the Company's IP:** Like any asset, IP can be lost, stolen or damaged. Consistent vigilance is needed with regard to relevant competitors and the company's own program for IP management and protection.

By effectively managing and protecting their IP assets, food companies can build value, reduce risk and enhance their position in the marketplace.

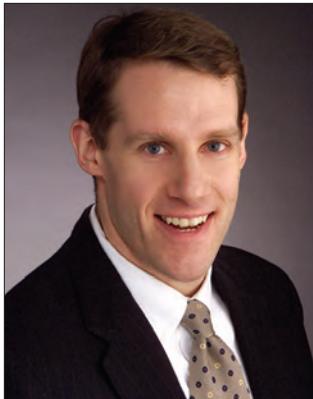
Conclusion

In sum, by effectively managing and protecting their IP assets, food companies can build value, reduce risk and enhance their position in the marketplace by:

- Protecting and enhancing their gross margins through a trademark and branding strategy;
- Preventing competitors from copying or closely imitating their products and/or brand names;
- Preventing competitors from utilizing innovations and technologies that provide them with a competitive advantage;
- Avoiding potential infringement of other companies' IP rights;
- Avoiding wasteful investments in R&D and marketing; and
- Generating revenue streams through licensing and other IP-based contractual agreements.

The minimal expenditure of time and effort to achieve these objectives is a prudent and cost-effective investment.

- i The Grocery Manufacturers Association and PricewaterhouseCoopers LLP, 2010 *Food, Beverage, and Consumer Products Financial Performance Report: Forging Ahead In the New Economy*, at p. 16.
- ii *TriMark USA, Inc. v. Performance Food Group Co.*, No. 09-cv-11222 (M.D. Mass. 2009).
- iii *The Hershey Co. v. Mars, Inc.*, No. 10-cv-02417 (M.D. Penn. 2010) and No. 10-cv. 01325 (E.D. Va. 2010).
- iv *C&F Packaging v. IBP, Inc.*, 224 F.3d 1296 (Fed. Cir. 2000).
- v *Bimbo Bakeries USA, Inc. v. Botticello*, No. 10-1510, 2010 U.S. App. LEXIS 15314 (3rd Cir. July 27, 2010)



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David L. Ter Molen is a Partner in the Litigation Practice Group and a member of Freeborn's Food Industry Team. His areas of focus include Intellectual Property Litigation and Complex Disputes. David has extensive litigation experience and has achieved favorable results for plaintiffs and defendants in trademark and unfair competition, patent and copyright infringement, and Internet and media-related disputes, along with general commercial litigation matters. David has represented clients in a wide array of technical areas and has substantial trial and appellate experience.

Freeborn & Peters offers clients the unique combination of business insight and legal acumen to address the complex challenges facing the food industry.

The Freeborn & Peters Food Industry Team

America's food industry faces many challenges: a rapidly modernizing food safety regime; a complex network of suppliers and buyers with many risks and potential liabilities; stagnant domestic demand and intense price competition.

Our Food Industry Team helps food companies address these challenges. It also guides them as they build towards a better future: protecting investments in brands, innovation and facilities; structuring profitable ventures and M&A transactions; securing new financing; and taking advantage of foreign market opportunities.

The Team's partners bring many years of experience, gained at multiple points in the industry and across different legal disciplines, including regulation, litigation, corporate law and government affairs.

We combine legal know-how with business insight derived from careful attention to clients' needs and an ongoing focus on the food industry's specific opportunities and challenges.

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