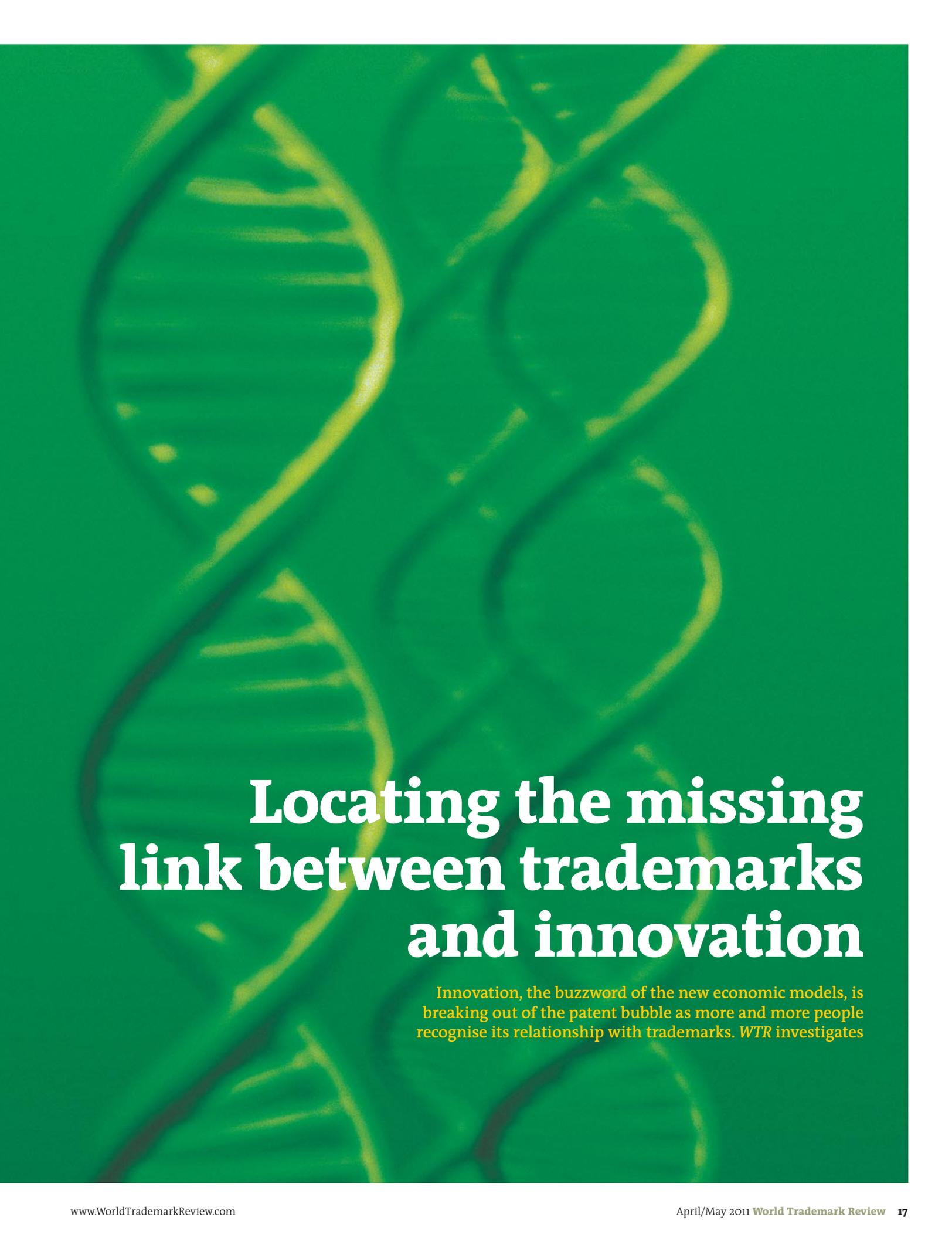


Feature
By Adam Smith



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Locating the missing link between trademarks and innovation

Innovation, the buzzword of the new economic models, is breaking out of the patent bubble as more and more people recognise its relationship with trademarks. *WTR* investigates

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nnovation is much more than a spark that occurs at the workbench; rather it runs right from invention all the way to commercialisation of a product. While patents protect an invention and trademarks bring it to market, they are each aspects of the same overarching process that is innovation.

The interplay between trademarks and innovation sometimes provokes controversy among ‘patent huggers’ because little empirical evidence exists to support it. But broad-minded IP attorneys tend to agree intuitively that innovation extends far beyond a eureka moment: it is entwined with the trademarks that represent the invention.

“A direct link between innovation and trademarks could be argued,” suggests Jacob Eisenberg, director of IP creation at TomTom, the European market leader for satellite navigation devices. His reluctance to commit further leaves him in good company: many trademark counsel around the world are scratching their heads over the extent to which the rights they manage can spur the development of new and existing products, and novel ways to commercialise them. Like physicists searching for a mysterious theoretical particle, IP experts feel the presence of the bond between trademarks and innovation, but they cannot see it.

What is apparent, by contrast, is that the nature of innovation varies. “Innovation is very broad – it can mean lots of things,” elaborates Donal O’Connell, who founded Nokia’s research and development plant and then became head of intellectual property for the \$29 billion brand.

The breadth of innovation was studied over a decade ago, when European brands association AIM commissioned research from two market consultancies. The resulting report, “A virtuous cycle: innovation, consumer value and communication”, surveyed 35 European companies and concluded: “Innovation covers a broad spectrum of activities – ranging from incremental moves that offer marginal gains or additional choices to existing users, all the way through to radical steps that change the way consumers perceive and use products.”

The latest research shows how this expansive view of innovation is underpinned with IP rights. “A broader framework of IP protection, encompassing trademarks and copyright protection as well as patents, is equally important for innovation,” reads the 2011 Annual Innovation Report from the UK National Endowment for Science, Technology and the Arts. “Trademarks, while not tied to specific innovative products, reflect businesses’ valuable assets often generated by the marketing and branding of intangible investments that firms find worth protecting.”

Such research builds upon an understanding that innovation occurs in inventions, business models, processes, software and designs – innovation traditionally captured in patents. That patents cover the novel elements behind a business can lead to a misapprehension that they require more attention than any other form of intellectual property. But if innovation were shown to interact with trademarks, then finally those rights could win the same level of respect afforded to patents. Smart companies have already grasped the correlation: TomTom, for example, has tied its innovativeness to its brand name and trademark terms from day one.

“We strive to innovate so as to create a quality product,” notes Eisenberg. “We then look to associate the quality product with our brand, for which we register trademarks. If we get it right, consumers then associate a product’s particular quality level with our trademark and brand. This association then benefits all of our products, because a consumer who seeks our level of quality would gravitate towards our brand.”



It will be some time before every company makes this connection, but governments may be realising that a broader view of innovation could constitute a cornerstone of post-recession growth agendas. It is significant that in 2010, for the first time, the US Patent and Trademark Office (USPTO) and the UK Intellectual Property Office (UK IPO) appointed chief economists. They are expected to conduct some analysis into this missing link.

Early signs

These appointments mean that the true relationship between trademarks and innovation may finally be examined in a public forum and by the right people. The UK IPO role went to Tony Clayton, who co-authored the AIM study and several others flirting with this topic. Across the Atlantic, the USPTO appointed Stuart Graham as its first chief economist.

Graham has studied the economics of patent systems, IP strategies, IP transactions and the commercialisation of new technologies, and has a background in advising the government. He believes that patents are relevant not only at the ideation stage of a product, but also later on, when advertisers are working out how to promote the product’s uniqueness; and that trademarks are not just marketers’ tools, but also influential earlier on in the process. “Trademarks play a full role,” Graham told *WTR*.

But nobody knows exactly at which stage trademarks enter the innovative process. The opportunities afforded by a trademark at commercialisation are well understood by brand builders and

[[Innovation is much more than a spark that occurs at the workbench: rather it runs right from invention all the way to commercialisation of a product]]

consumers. However, it is an open question whether they have any relevance in the early stages of product development. Graham asks: “Would an inventor put in as much effort or have as many incentives to go into the process if they didn’t believe that they could capture the public’s eyes later on?”

According to the anecdotal evidence, many people would wager that trademarks have an effect in the early stages – especially in young companies, where the brand name and trademarks are often produced by the same innovator behind the unique product or solution.

The same innovative spirit that goes into product development can be poured into the creation of the trademark, says Nir Kossovsky, an authority on risk, reputation and enterprise value and chief executive and director of consultancy Steel City Re. “To the extent that the trademark’s mission is to convey distinctiveness, where the innovator is engaged it contains some of the intangible spirit that gave rise to the product or service itself,” he explains.

Kossovsky cites the Google brand name as one such example. Arguably, this creative name and the distinctive brand around it could never have been created by a large, established company such as IBM. “In a start-up company with a great innovation, the innovator’s passion is encapsulated in the brand,” Kossovsky says.

Moving through the marketplace

From the moment of its creation, a brand must be nurtured and allowed to evolve along with its market. Clayton’s report also points out that, “as every experienced brand-builder knows only too well, a highly innovative product is far from commercial success unless its greater differentiated values are fully understood by potential consumers”. This is where some commentators argue that the link between trademarks and innovation is already evident in the marketplace.

“The commercial environment applies pressure on companies to maintain the reputations they build behind their trademarks,” observes John Noble, director of the British Brands Group. “And that is a very powerful catalyst in certain markets for continued innovation.” The marketplace is filled with examples of companies that excel in their responses to this pressure. Procter & Gamble’s Gillette razor brand, identified by Interbrand as the 13th most valuable in the world, is famous for persistent product adaption. The pledge that its razors are “The best a man can get” – a registered trademark – drives Gillette’s product developers to continue innovating.

In isolation, a mere brand promise does not oblige the brand owner to fulfil it. But the stronger the message, and the wider its distribution, the greater the brand owner’s failure if it is not delivered. “If you’ve risen to the top, then you have further to fall,” warns Kossovsky.

Of course, an even greater incentive for a company is revenue. It is a given that branded goods are more likely to become repeat purchases than non-branded goods. Furthermore, Eisenberg is convinced that the power of the brand benefits company employees across the board. “Our innovative folks receive encouragement from the brand to go out and innovate further, knowing that the brand will give them and their innovations recognition in the market,” he told *WTR*. “The brand gives them the confidence and security to pursue innovative paths they otherwise wouldn’t.”

But continued innovation is no use to the company if it is not communicated to consumers. James Amos of strategic consultancy organisation PIMS has written that the “ability to connect with end users improves the chances of turning development ideas into successful products that meet the needs and expectations of consumers”.

This is backed up by Amos’ research into the fast-moving consumer goods sector. He adds: “The evidence certainly suggests a complementary relationship between research and development investment and branding in creating additional returns on each unit of investment.”

Trademarks in the cloud

The research in this field is very limited and more than a decade old. No one interviewed by *WTR* was aware of more recent data, although tentative efforts are underway by academics and industry to explore the topic in greater depth. The timing could not be better, as existing research largely pre-dates the dawn of the digital age. And a further technological revolution is now on the cards: cloud computing is on the cusp of transforming how data is accessed and managed – the very building blocks of business. Microsoft has some fascinating predictions in this regard.

Horacio Gutierrez, the company’s corporate vice president and deputy general counsel in charge of the worldwide IP and licensing group, told the UK Intellectual Property Institute last autumn that trademarks will become more important than patents in the cloud. “Even a small diminution in the efficacy of patent protection could result in a significant strategic shift away from reliance on patents in the cloud,” he said. “While there are some issues surrounding the detectability and enforceability of patents, other forms of protection that perhaps haven’t been so highly valued in recent years are going to be more prized in the future.”

Gutierrez’s statement shines a light on Microsoft’s strategy (for more on this, see the box opposite). It seems to acknowledge that if the company invents or innovates with a cloud-based product, the



only way that consumers will connect this to Microsoft is via the trademark. As Eisenberg states: “Trademarks perform the same function in the cloud as they do in the real world – to identify the quality of the brand to the consumer.”

Therefore, while revenue may be the carrot providing the incentive to innovate, the trademark is the rod from which it dangles. This link was acknowledged by the software companies studied by Graham and others in the 2008 Berkeley Patent Survey. Published in the *Berkeley Technology Law Journal*, the research found that trademarks are already more important than patents in a software company’s ability to capture competitive advantage. “Venture-backed software firms rank ‘patents’ on average the lowest in importance,” the report revealed.

A call for research

Further to Graham’s research, comparative economic analyses of the roles played by trademarks and patents are underway – behind closed doors. At the Patent Statistics for Decision Makers conference in Vienna last November, Jean-Yves Legendre, the licensing and business development manager for L’Oréal’s research and innovation department, outlined how his company was performing a competitive analysis of its products based on patent data. When asked whether this could be done for trademarks, a source told *WTR*, Legendre replied that he saw a lot of value in performing a competitive analysis with trademark data. Legendre did not respond to *WTR*’s request for further comment.

L’Oréal is famous for innovating and bringing to market new chemicals with new properties. The cosmetics giant incorporates these fresh products into its valuable brand portfolio – protected vigorously in such high-profile litigations as those against smell-alike perfumer Bellure and counterfeit conduit eBay. That Legendre recognises the need for further economic investigation into the role played by trademarks is significant.

“This field is so underdeveloped,” laments Graham. “We need to focus the academy and industry better on what’s going on. From a policy and a business strategy standpoint, the well-developed knowledge we have on patents has been so important. Companies have created a business model in better understanding industry and development based on patent data.” It would appear that Legendre spies the potential to channel new revenue streams using this kind of data on trademarks.

While trademarks are undoubtedly significant in themselves, Graham’s research has found that they can be used to best effect in combination with non-legal advantages such as secrecy and lead time. “We’re starting to realise that there are what we as economists call ‘complementary benefits,’” he notes. “They create more value used together than individually.”

Graham’s office at the USPTO was founded only last year. Although his research is still in the preliminary stages, he reveals: “I’ve seen enough evidence in the early running that trademarks are incredibly important in the innovative process.” He cannot hope to predict what his studies will find, but knows that it will be

“ This interplay between trademarks and innovation sometimes provokes controversy among ‘patent huggers’ ”

A virtuous cycle: innovation and trademarks at Microsoft

An interview with Microsoft's Horacio Gutierrez, corporate vice president and deputy general counsel for intellectual property and licensing, and Russell Pangborn, associate general counsel – trademarks.

Do you perceive a link between trademarks and innovation?

HG: There is absolutely a link, and it is going to become more apparent in the software space as there is a transition from a tangible product mentality into the idea of software as a service.

What's the shift?

HG: The dawn of a new paradigm that is cloud computing – we're already starting to see many products offered more as a service than a tangible product. When was the last time you bought packaged software from a store? Probably five years ago.

Now you have broadband and the ability to download new products online. And you've benefited from services like Hotmail, Windows LIVE and Xbox LIVE. Windows Update is perhaps the biggest cloud service out there today.

As we transition into a services model, we believe that there is going to be a relative readjustment of the significance of different types of IP protection, and in that readjustment trademarks will become even more important.

Will this mean that the link between trademarks and innovation will become clearer?

HG: Yes. In the cloud, essentially the software and hardware products are running behind a wall, somewhere in the physical world. It may be down the street or an ocean away, but it's still not where you are. So it's going to become harder to detect

patent infringement, because we'll lose the ability to get our hands on a product and tear it apart in order to determine whether our patent has been infringed.

Trademarks, on the other hand, are more visible because of the way that a cloud service presents itself through a user interface – the user interacts with the product through the cloud.

And, like in olden days, competition among cloud service providers is all going to be based on the reputation of the provider and the user experience associated with it. The user will expect to go from a mobile device to a laptop to a television at home and to a games console. Since all of those things are going to be important, the innovation that connects them is associated with the brand.

Hence, trademarks have an impact on the innovative process?

HG: Exactly – because of reputation. You only have to go back a little bit in history to think of a world where patents weren't as important as they are today, when it was the reputation of the merchant or provider that made people want to buy its products. This led to a virtuous cycle of innovation: a product is developed; it generates revenue, which is reinvested into researching, improving and developing existing or new product lines; and then the cycle starts over again.

So in the coming years, what will be the practical implications on an in-house trademark team?

RP: Increased job security! Lots of things will change – even the basic things, such as classifications of goods and

services. We have to educate the trademark office on where technology is taking things and try to create descriptions to get the right kind of protection in place.

Horacio talked about user interface – we've been conducting ongoing research into the best ways to protect this from a trademark and trade dress perspective. The levels of familiarity with the ways people interact online will become more important. Restaurants have tried to protect their interior designs with trademarks;

Microsoft's user interface is our restaurant design – for example, when you're using Windows or working in Outlook every day.

HG: What's needed fundamentally is a process during which we expand into the virtual experience the principles and doctrines that have applied in the physical world. In the process, they may need to be broadened in some significant ways in order to make them fulfil their purpose in the other, virtual world.

Is it possible to track the impact of trademarks on the innovative process?

RP: Yes, throughout Horacio's 'virtuous cycle' model. Research and development will create a new product or service; then we'll work with the marketing group to name it, ensuring that the name is meaningful to what it is; then marketing will go out to advertise and promote it, and start to build a reputation into it; then research and development will return to it and add new features and new extensions. Look at Windows, which has become Windows Server, Windows LIVE, Windows Phone 7.

HG: I don't know that you could

break the cycle up by looking at where the different IP rights come into play.

But it's not uncommon for practitioners in the field of intellectual property – probably because of the nature of the field – to tend to have a deep understanding of only one of these disciplines.

Do we need more research into this field, and if so, where should it come from?

HG: I think it's really important that more research be done, because unfortunately, even though it might seem obvious and self-evident to those in the field, the connection between intellectual property and innovation is questioned by many people.

And those people tend to be very vocal and tend to dominate at least the public discourse on these issues.

RP: I think the research could come from both government and industry, but I don't think it has to be around the same table. For example, multiple surveys could be done separately with different criteria and then we could all compare and improve. This is the type of research that the McCarthy Institute at the University of San Francisco could consider pursuing.

HG: This type of research might prove to be complex, because while we live in a world in which IP rights exist, a researcher actually has to ask the question: what would the world look like in the absence of IP rights?

“Would inventors put in as much effort or have as many incentives to go into the process if they didn’t believe that they could capture the public’s eyes later on?”

significant. “A better understanding of how the trademark system works in the innovative process more generally would be extremely useful for policymakers inside both government and business,” Graham says.

A helping hand

That this clarion cry comes from one of the world’s biggest trademark offices is music to the ears of the lobbyists – including Noble, who campaigns vigorously on behalf of British brands in a political climate that is not always friendly to them. For years, he has called for an analysis, produced through collaboration between government, academics and industry, on which policy can be based. “They should be led by the UK IPO,” Noble says – mostly because the Department for Business, Innovation and Skills (BIS), of which the IPO is an executive agency, appears cold to the idea. “I would have hoped that BIS would be supporting and pressing the IPO to supply the data and knowledge that they need in order to understand the role of intellectual property in the growth agenda. I’m not seeing that leadership coming from BIS at the moment.”

WTR experienced the same reticence when seeking an interview at BIS. David Griffiths-Johnson, the head of innovation, said: “I am afraid I am unable to help.”

BIS may not be interested, but its counterparts in the United States certainly are. Graham and others recognise that solid research will help industry – and specifically, trademark managers. Understanding how innovation is linked to trademarks could help to bridge the gap between the trademarks team and, say, the patents team. As O’Connell knows from his time as the head of IP at Nokia, “IP managers must articulate to senior management how they add value. If they can’t say that, then they’re in trouble.”

This is driving IP managers to become more sophisticated. O’Connell, now owner and director of consultancy Chawton Innovation Services, observes: “IP managers are enhancing their careers by looking at papers, getting involved in benchmarking and reaching out to universities conducting research. They’re safer if they are equipped with research that shows how they add value and innovate using different IP rights.”

This sort of research is useful in the judiciary too. Trademark-owning companies look to key court decisions for guidance and clarity on the law, but the courts are only just being given the opportunity to consider the link between innovation and trademarks. Last year, Lego lost a long-running argument for EU trademark protection for its three-dimensional brick shape. The case overlapped the function of a trademark with the brick’s

innovative elements, conventionally viewed as the preserve of patents or industrial designs.

“Courts sometimes seek guidance from the industry in applying the law,” says Eisenberg. “The more understanding there is about the relationship between trademarks and innovation, the more the courts may be guided in cases when innovations and trademarks overlap.” Graham backs him up: “Understanding the impact of trademarks in the innovative process is critical – we have far too little understanding at present.”

The growth agenda

The drive for research in this area will only increase. Post-recession, developed economies around the world have been searching for new ways to boost their industries. “Now is not a time for concentrating on the niceties,” says Noble. “It’s the time to look for all the catalysts of growth and innovation. We therefore need to look at the whole picture – companies must not only create the new invention or idea; it must also be effectively commercialised.”

This is something that any one tranche of research – or even an in-house legal department – can easily forget. An innovation will generate revenue only if it is brought to market with the right fanfare. As O’Connell says, “The general population is excited not by the technology, but what they can do with it.”

Although communicating the uses of innovation has long been the job of marketing teams, trademark managers must shoulder some responsibility too. Their involvement in the process can raise their own profile, and that of their team, across the company, helping to foster an appreciation of the advantages afforded by trademark protection.

Backed up by evidence, they could even make a stronger case for increased budget. Astute trademark counsel know just how valuable their portfolio is; linking their marks to innovation could help them to prove it. [WTR](#)

Adam Smith, *World Trademark Review*