The IP risks of throwing out the brand

Starbucks is opening a series of individually branded neighbourhood cafes that barely reference the internationally famous Starbucks brand. **Jennifer Miremadi** assesses the IP implications

One-minute read

Most companies spend time, effort and plenty of money on creating, nurturing and protecting their trade marks and brands. But for companies who want to develop a new brand promise, diversifying into a no-brand strategy may find it offers new opportunities to win business and expand market share.

The approach can be particularly useful for companies who find that their trade mark has become tired or tarnished, or who want to capitalise on consumer-led buy-local trends.

Jennifer Miremadi explains how Starbucks (ranked in the top 100 global brands by Interbrand earlier this year) is setting up non-branded neighbourhood coffee shops and considers some of the commercial benefits – and IP downsides – of this no-brand strategy.

Starbucks is the world's most famous chain of coffee shops with more than 11,000 outlets in the US alone. Internationally, Starbucks has more than 5,000 outlets in 50 different countries. It also has global alliances with companies such as Barnes & Noble, Borders, Hilton, Hyatt Hotels, Kraft Food, PepsiCo, Starwood Hotels, Target, T-Mobile, Hershey's and United Airlines.

The company has achieved international brand recognition using a business model focused on expanding and protecting its trade mark rights while simultaneously promoting its marks in its worldwide stores and though its company alliances. For example, Barnes & Noble serves Starbucks coffee in more than 650 bookstores across the US and United Airlines serves Starbucks coffee on all of its domestic and international flights. In addition to promoting its marks though its coffee business, Starbucks has ventured into selling other products branded with the Starbucks mark. For instance, Starbucks sells a wide array of products in grocery stores such as bottled Starbucks Frappuccino drinks, Tazo teas, Starbucks ice cream and Starbucks Doubleshot Energy + Coffee drinks. It also has an entertainment line that sells music, film and books. Starbucks is such a powerful brand that according to Barbara Lippert of *AdWeek Magazine*, Starbucks is "the number one brand name in the social media space. Meaning it's the most tweeted, it's the most talked about on Facebook, etc".

The role of trade marks

Starbucks could not have achieved such fame without focusing its efforts on developing strong trade mark rights. The company has a large trade mark portfolio consisting of many internationally famous marks, including Starbucks, Starbucks coffee and the Starbucks logo. As noted by the Court in *Starbucks v Lundberg*, the Starbucks trade mark "is the subject of more than 60 trade mark registrations issued by the USPTO, and has been registered in more than 130 foreign countries".

To protect its marks, Starbucks has aggressively pursued trade mark infringement actions all over the world. By excluding others from using the Starbucks brand, it has been able to expand its business throughout the world. In 2006, Starbucks won a trade mark infringement lawsuit in China against Shanghai Xingbake coffee shop. The Chinese company used a circular green and white logo that looked similar to the Starbucks green and white logo and used the name "xingbake" in its mark, which referenced Starbucks because in Chinese the word *xing* means star and the syllables *ba ke*, when pronounced, sound similar to bucks. Starbucks has also pursued companies in the US that it believes have infringed its marks. In *Starbucks Corp v Lundberg*, Starbucks prevailed against Sambuck's Coffeehouse owner Samantha Lundberg in the United States District Court, District of Oregon under claims of likelihood of confusion, dilution and unfair competition. In *Starbucks US Brands, LLC et al v Ruben*, Starbucks prevailed in an opposition filed with the Trademark Trial and Appeal Board (TTAB) against registration of the mark Lessbucks coffee. The TTAB sustained Starbucks' opposition and refused to register the mark. By using trade mark litigation to protect its brand from infringement, Starbucks has deterred potential infringers and strengthened the value and power of its marks.

Given Starbucks' investment in the Starbucks brand, one would think that the company would focus its efforts on continuing to expand its brand by building and protecting its trade mark rights and creating more Starbucks stores and products. However, Starbucks is now pursuing an approach that is a complete reversal of the one that made it famous.

The 15th Avenue approach

Starbucks is expanding its business by creating independent boutique coffee shops unique to each locale. The first of these, 15th Avenue Coffee and Tea, opened in July in Seattle. The café is very different from the Starbucks coffee stores. Unlike Starbucks coffee stores, which all look uniform and prominently display the famous Starbucks marks, the company's new coffee shop has a local coffee shop feel and is named after its street location. Other than a sign above the door and on its website that says "inspired by Starbucks", the company's marks are not otherwise used. The café also sells Starbucks coffee and Tazo brand tea, but the products bear the 15th Avenue Coffee and Tea logo and the shop sells many selections not generally available in regular Starbucks coffee shops. The independent coffee house also differs from other Starbucks stores in that it sells pastries from a local business (the Essential Baking Company) and it serves beer and wine. The store also offers daily coffee and tea tastings, live music and poetry readings.

Starbucks is reportedly planning to open two more independent coffee shops in Seattle in the near future which will also be named after the neighbourhoods in which they are situated. Tim Pfeiffer, Starbucks' senior vice-president of global design, told the *Seattle Times* that the purpose of the names is to provide the new shops with "a community personality". If the stores are successful, they are likely to expand. However, the metrics Starbucks will use to measure success of these new coffee shops is unclear.

The no-brand promise

Starbucks probably hopes that its new stores will attract a clientele that do not patronise Starbucks coffee shops. Individuals that prefer local, independent shops to chain stores may be more inclined to visit one of Starbucks' unique, local coffee shops. These same individuals may also be attracted by the fact that the new stores hire other local businesses. Local Seattle residents who ascribe to the buy local mentality may come to 15th Ave Coffee and Tea because it supports local Seattle businesses, including local artists. In addition to hiring a local artist to create a 20-foot mural and the metalwork for the store, the store has live music and poetry readings, which provide performance opportunities for many local musicians and poets. And, given that the independent stores serve beer and wine at night, they may attract a different crowd than a regular Starbucks. The new concept stores may also lure customers who are interested to see the alternative coffee shop model that completely departs from the exsisting Starbucks' model. The media buzz surrounding the new stores may also lead curious potential customers to check out the new stores.

The trade mark downsides

However, despite the possible benefits that Starbucks may derive from its experiment, abandoning the business model that made Starbucks successful in the first place seems to set the company up for a whole host of problems. First, Starbucks will have difficulty protecting and enforcing any trade mark rights it attempts to create in its independent coffee shops. To date, Starbucks has not filed a trade mark application for 15th Ave Coffee and Tea. This is not surprising because to obtain a federal trade mark registration, the Trademark Act requires an applicant to use a mark in interstate commerce. Given that Starbucks intends to create independent coffee shops tailored to each locale, the company will probably only use the marks associated with each individual coffee shop in intrastate commerce. Therefore, even if 15th Avenue Coffee and Tea becomes very successful, anyone in a neighbouring state could copy the marks and Starbucks would have no recourse under federal trade mark law.

Alternative routes

Additionally, Starbucks' new no-brand approach raises questions because it is contrary to the successful efforts of other businesses with famous brands that have undergone efforts to change, revamp or create new brands. Generally, companies with well-known brands have either rebranded the same goods and services, or branded different goods and services and expanded the new business by capitalising on the consumer goodwill associated with the new brand. For example, parent company InterContinental Hotels Group rebranded the Holiday Inn and Holiday Inn Express hotel chains by making upgrades and renovations to existing hotels within the chain while simultaneously changing the Holiday Inn and Holiday Inn Express trade marks for the first time since Holiday Inn's founding date in 1952. In an interview with *Brandweek*, Holiday Inn's worldwide brand manager Mark Snyder said: "Brands are just like people: dynamic and changing all the time." He added: "The change we're making is a relaunch of one of the world's best-known brands. There are several different things we took a position on based on a consumer survey we did last year with 18,000 customers worldwide. They told us style and format matters to them. It's not just about having great service. Things have to look good as well. That starts with the imagery of the brand. Brand identity is what drives the look and feel and the impression you want to make on consumers."

The Holiday Inn chains rebranded themselves to present a different image to consumers in an effort to attract more consumers and increase profitability.

In addition to rebranding the same goods to improve sales, companies have also branded new goods and services that are different from the goods and services sold under an existing brand to expand business into a different sector of the market. For example, Gap owns five separate brands: Gap, Banana Republic, Old Navy, Piperlime and Athleta. On its website, Gap Inc describes its brands: Gap is the company's original clothing brand that features casual apparel with "iconic American style." Banana Republic is an "accessible luxury" clothing brand. Old Navy offers "great fashion at great prices" while Athleta is an athletic apparel line for women. Piperlime is an online shop selling shoes and handbags from more than 200 different brands that "feature the hottest styles and designers." Gap focuses each of its brands on a different type of clothing to increase the number of consumers it reaches. Even though Gap Inc has created distinct marks for each of its brands and profited from the goodwill of consumers who have come to know each brand, the parent company also cross-promotes its brands by creating links to each brand on each Gap Inc brand website. This strategy increases consumer access to the goods of each of the Gap Inc brands and allows consumers familiar with the company's better-known brands to become more familiar with its newer brands. It also allows the goodwill from Gap Inc's better-known brands to spill over into its new brands.

A winning formula?

Unlike Holiday Inn and Gap Inc, Starbucks is not rebranding itself, developing a new brand or cross-promoting brands. Starbucks is not creating any brand. Starbucks is establishing a new type of coffee shop tailored to the locale in which it is situated. Because each shop is completely different, Starbucks is not building any brand and will not be able to capitalise on the goodwill created in each new store. Because the goodwill of one independent store will not extend to the other independent stores, Starbucks is limiting its ability to monetise this goodwill beyond the patronage of each individual store. The company has no way to take advantage of a successful operation other than by continuing to run that particular business profitably because it does not plan to build a brand out of successful stores or duplicate successful stores in other locations.

Even if Starbucks expands its new model of individual coffee stores throughout the US and internationally, because these stores have no common brand, none of them will ever be more than a successful local shop. Starbucks grew into an empire by developing strong trade mark rights. Rather than abandoning its winning strategy, Starbucks might want to consider creating a new brand out of its local coffee shop concept. Such an approach would allow Starbucks to reap the potential benefits of a new customer base, while creating a foundation for Starbucks to grow its new chain into its own coffee kingdom.

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