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Shared Branding: Associated Use of Trademarks and Trade Dress Through Shared Retail Space

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SHARED BRANDING: ASSOCIATED USE OF TRADEMARKS AND TRADE DRESS THROUGH SHARED RETAIL SPACE

LANNING BRYER, SCOTT LEBSON, AND FRANCESCA MONTALVO*

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I. INTRODUCTION

In the context of today’s logo-obsessed consumer culture, “branding”¹ is an important marketing strategy that allows companies to build consumer confidence and loyalty.² One increasingly popular branding strategy involves the association of two or more unrelated companies’ trademarks and trade dress to

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¹ “Branding is in essence a marketing concept that has traditionally been identified with product manufacturers. These manufacturers devote significant time, effort, and funds to establish brand identities for their products so that consumers can distinguish such products from those of competing manufacturers.” Ann Hurwitz, *Co-Branding: Managing Franchise Brand Associations*, 20 OKLA. CITY U. L. REV. 373, 374.

² See *id.* at 377.

promote distinctly branded goods and services in a shared retail space.³ In the early 1990s, consumers began to see their favorite fast-food restaurants operating in one location, usually owned by the same parent company.⁴ More recently, we have begun to see unrelated entities jointly offering services at a single retail facility; for example, consumers can find two or more of their favorite unrelated food franchises operating in one location,⁵ or stop at gas stations that also serve their favorite hamburger or sandwich chains.⁶ Today, Starbucks aficionados do not need to grab their Caramel Macchiato at a freestanding Starbucks before shopping at certain Target stores; rather, they can simply wheel their cart over to the Starbucks “retail shop” located inside the store.⁷ Similar arrangements have been trending in the fashion and retail industry,⁸ as more and more luxury brand owners are collaborating

³ “A single restaurant facility might offer both KFC chicken products and Taco Bell Mexican food, be identified by both trademarks, and feature elements of both systems’ trade dress. The two brands and images might be blended together or kept discrete.” Andrew C. Selden & R. Scott Toop, *Multibranding*, 24 Franchise L.J. 181, 181 (2005). This concept has also been referred to as “site sharing” or “multibranding.” *Id.* (“Food courts in shopping malls, nesting one brand in a captive location, and site sharing (e.g., a TGI Friday’s restaurant adjacent to a franchised hotel) reflect different aspects of multibranding.”).

⁴ YUM! Brands, parent company of Taco Bell, Pizza Hut, and KFC, combined its franchises in single restaurant facilities beginning in 1992. Jason Daley, *New Franchises Team Up and Make Co-branding Work* (Mar. 23, 2012), <http://www.entrepreneur.com/article/223144#>; see also *Yum! Brands 2003 Annual Customer Mania Report*, 1, 25 (2003), http://yum.com/investors/annualreport/03annualreport/pdf/yum_annualreport03.pdf.

⁵ *Cold Stone Creamery Co-Branding*, COLD STONE ICE CREAM, <http://www.coldstonecreamery.com/aboutus/specialtylocations> (last visited April 11, 2014) (Cold Stone Creamery and Tim Hortons locations); see also *Tim Hortons and Cold Stone: Co-Branding Strategies*, BLOOMBERG BUSINESSWEEK (July 10, 2009), http://www.businessweek.com/smallbiz/content/jul2009/sb20090710_574574.htm (“Tim Hortons (THI) and Cold Stone Creamery have co-branded nearly fifty restaurant locations in the U.S. and Canada this year and are continuing to expand the partnership . . .”).

⁶ See Julie Jargon, *Quiznos Carves Out Broader Niche*, WSJ.COM (Mar. 1, 2010, 12:01 AM), <http://online.wsj.com/article/SB10001424052748704089904575093520021777354.html> (“McDonald’s Corp. . . . and rival sandwich chain Subway, among others, have been aligning with filling stations for many years.”).

⁷ *Target, Starbucks Agree to Add Coffee Shops to New Target Stores*, LOUISVILLE BUSINESS FIRST (Oct. 11, 2002, 2:04 PM), <http://www.bizjournals.com/louisville/stories/2002/10/07/daily45.html>; Kerry Busheikin, *Questions About Licensed Stores*, STARBUCKS BLOG (June 2, 2009), <http://blogs.starbucks.com/blogs/customer/archive/2009/06/02/questions-about-licensed-stores.aspx>.

⁸ Retail giants including Walmart, Target, Sears, and Kroger are experimenting with new ways to leverage their space and generate more revenue. They’re partnering with specialized retailers and manufacturers that can drive traffic and help them fill holes in their offering. How? By either leasing space or co-branding shops within their stores (shop in shops). Jim Jaeger, *Trends in Retail Environments*, KDM POP SOLUTIONS GROUP (June 4, 2013),

with department stores to build “in-store boutiques” operated and controlled by the brand owner.⁹ This Article explores the increasingly popular marketing strategy of two or more unrelated companies offering their separate and distinct mono-branded goods and services in a shared commercial space—herein referred to as “shared branding.”

II. STRATEGIC BRANDING ALLIANCES: CO-BRANDING AND SHARED BRANDING

A brand¹⁰ can serve various functions.¹¹ It can perform the traditional trademark function as a source identifier for goods and services and distinguish them from those sold by competitors’ products.¹² Brands can also serve to “enhance the overall corporate image as the company pursues a full range of business goals.”¹³ Also, when a company launches a new product or enters into an entirely new market, a brand can offer consumers assurance of high quality.¹⁴ Consumers may also find value in a brand by using it as an “expression[] of individuality and identity.”¹⁵ Recognizing the value of a brand, companies consider shared branding an efficient and profitable way to leverage the consumer confidence and loyalty that each brand has developed over time.¹⁶ Such branding alliances can serve “as an inexpensive means of

<http://www.kdmpop.com/2013/06/Trends-in-Retail-Environments.cfm#UyuzhyhDxZ4>.

⁹ Rachel Dodes & Christina Passariello, *Luxury Brands Stake Out New Department Store Turf*, WSJ.COM (May 4, 2011 12:01 AM), <http://online.wsj.com/article/SB10001424052748704740604576301113906906234.html>.

¹⁰ While sometimes the terms “brands” and “trademarks” are used synonymously, this Article will refer to a trademark as the specific intellectual property right that identifies the source of goods or services, and the brand will refer to “a combination of tangible and intangible elements, such as a trademark, design, logo and trade dress, and the concept, image and reputation which those elements transmit with respect to specified products and/or services.” Helen Lom, *Branding: How to Use Intellectual Property to Create Value for Your Business?*, WORLD INTELLECTUAL PROPERTY ORGANIZATION, http://www.wipo.int/sme/en/documents/branding_fulltext.html (last visited Oct. 20, 2013); see also J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 4:18 (4th ed. 2014) [hereinafter, MCCARTHY ON TRADEMARKS].

¹¹ Deven R. Desai, *From Trademarks to Brands*, 64 FLA. L. REV. 981, 988 (2012).

¹² MCCARTHY ON TRADEMARKS, *supra* note 10, § 3:4.

¹³ Desai, *supra* note 11, at 989.

¹⁴ *Id.* at 995.

¹⁵ *Id.* at 989.

¹⁶ Hurwitz, *supra* note 1, at 377. *But see* Daley, *supra* note 4 (“While co-branding does have some benefits, . . . the ‘something for everyone’ model has not proved its worth.”).

increasing name recognition, market penetration, and sales.”¹⁷

A. Co-branding

Co-branding—the collaborative use of two distinct trademarks for a particular marketing purpose—is not a new commercial phenomenon,¹⁸ but has seen renewed interest in various commercial contexts, such as franchising¹⁹ and retail.²⁰ The term co-branding has been referred to as “a planned association of two or more distinct and differently branded goods, services or business concepts.”²¹ It has also been defined more narrowly to describe “the combination of two brands to create a single, unique product.”²² Various other terms have been used to describe the concept co-branding: “multibranding,” “piggy-back franchising,” “brand alliance,” and “composite branding” have all been used to describe the general concept of pairing of two or more brands to market goods or services.²³

In certain contexts, co-branding may help a company meet its particular business goals. For example, a company may wish to associate with an unrelated, but reputable brand to launch a new product, or to revive a struggling product line.²⁴ In general, co-branding offers unrelated brands the ability to leverage each other’s goodwill and brand equity²⁵ to expand their presence in the

¹⁷ Donald R. Kirk, *Franchise Dual-Branding: The Irony Of Association*, 10 DEPAUL BUS. L.J. 1, 3 (1997).

¹⁸ “Co-branding between restaurants and hotels has existed in one form or another for many years, starting with Trader Vic’s in the 1930s.” Juliette M. Boone, *Hotel-restaurant Co-branding - A Preliminary Study*, CORNELL HOTEL & RESTAURANT ADMINISTRATION QUARTERLY, (Oct. 1, 1997), available at <http://business.highbeam.com/4074/article-1G1-20126719/hotelrestaurant-cobranding-preliminary-study>.

¹⁹ “[M]ulti-brand franchising can be very lucrative and has become a growing trend in the industry.” Terry Powell, *Multi-Brand Franchising: An Empire Building Strategy*, ALLBUSINESS, <http://www.allbusiness.com/company-activities-management/company-structures-ownership/13422262-1.html> (last visited Oct. 19, 2013).

²⁰ See Jaeger, *supra* note 8, and accompanying text.

²¹ Selden & Toop, *supra* note 3, at 181 (citing Kirk, *supra* note 17, at 11). However, Kirk refers to the concept not as “multibranding,” but as “dual branding.” Kirk, *supra* note 17, at 11.

²² Lance Leuthesser et al., *2 + 2 = 5? A framework for using co-branding to leverage a brand*, 2 J. BRAND MGMT. 35, 36 (2003), <http://www.brandchannel.com/images/papers/cobranding.pdf>.

²³ Leuthesser, *supra* note 22, at 36 (“brand alliance,” and “composite branding”); Daley, *supra* note 4 (“multibranding” and “piggy-back franchising”).

²⁴ Hurwitz, *supra* note 1, at 374.

²⁵ “Goodwill is the advantage of reputation in connection with a business.” Lanning Bryer & Matthew Asbell, *Combining Trademarks In A Jointly Owned IP Holding Company*, 98 TRADEMARK

market.²⁶ While co-branding has been a popular business model used by parent or holding companies to combine their affiliated brands,²⁷ this Article will focus on the strategic alliances between unrelated entities to associate in reasonably close proximity each other's trademarks, trade names, trade dress, designs, logos, and other related marks.²⁸

Co-branding arrangements can be structured in various ways. One common co-branding arrangement involves two distinct company trademarks placed on one product within either or both of their product categories, often referred to as "collaborations."²⁹ Collaborations are common in the fashion industry, illustrated by popular collaborations involving celebrity publicity rights or trademark rights, such as Stella McCartney and Adidas, Karl Lagerfeld and Macy's, and Lanvin and H&M.³⁰ Outside the fashion realm, popular collaborations include Nike and Apple, Lexus and Coach, and Adidas and Porsche.³¹ Another co-branding relationship can take the form of a joint venture, when two or more businesses join forces to co-market new goods or services under a new trademark.³² A more recent phenomenon and distinct arrangement has become popular in various commercial industries, where unrelated companies enter into agreements to share

REP. 834, 845 (2008). Brand equity is a consumer's "collective impression made by these perceptions and associations, including [the consumer's] awareness of the product (brand awareness) and its perceived quality." Steve Hartman, *Brand Equity Impairment - the Meaning of Dilution*, 87 TRADEMARK REP. 418, 419 (1997).

²⁶ See Hurwitz, *supra* note 1, at 377 ("Generally speaking, the added value that co-branding offers franchise companies is leverage—that is, the ability of the partners in the co-branding alliance to rely on each other's image, products, services, and locations to increase their own market penetration and market share.").

²⁷ See Selden & Toop, *supra* note 3, at 181 (Yum! Brands Inc.'s multibranded locations and Dunkin' Donuts-Baskin-Robbins locations).

²⁸ Unrelated companies, Tim Hortons and Cold Stone, entered into a strategic alliance to offer shared branded shops after their CEOs fortuitously met in 2008. See BLOOMBERG BUSINESSWEEK, *supra* note 5.

²⁹ See Douglas Hand, *When Licensing and Branding Meet*, ASPATORE: NAVIGATING FASHION L.: LEADING LAW ON EXPLORING THE TRENDS, CASES AND STRATEGIES OF FASHION L., 2012 WL 167356, *8 ("Collaborations or co-branding deals have increased in popularity and typically involve two brands putting their respective trademarks on a product within one or both of their respective product categories.").

³⁰ *Id.*

³¹ *Id.*

³² Trademark Practice Throughout the World, Squyres and Norton, §20:11.10. For an example of a co-joint venture agreement, see Christopher Norman Chocolates, Ltd. v. Schokinag Chocolates North America, Inc., 270 F.Supp.2d 432 (S.D.N.Y. 2003) (dispute between two chocolate manufacturers over their co-joint venture agreement to produce co-branded chocolate products).

commercial space to independently offer their distinct mono-branded³³ goods and services in relative close proximity; such “shared branding” arrangements should be considered unique and distinct from “co-branding.”

B. Shared Branding

Shared branding can be described as a strategic alliance³⁴ between two or more unrelated entities to offer their trademarked goods and services separately within a shared retail space. The combination of two or more affiliated brands in a single location became popular as early as the late 1980s.³⁵ The trend was common among parent companies to offer their owned franchises in a single location service, illustrated by Dunkin’ Brands’ Dunkin’ Donuts-Baskin Robbins “combo shops”³⁶ and the single facilities that offered YUM! Brands’ franchises—Taco Bell, Pizza Hut, and KFC.³⁷ More recently has shared branding become a trend among unrelated entities. Non-affiliated businesses are entering into

³³ This Article will refer to a mono-branded company as one that maintains its trademarks and trade dress separate and distinct from that of another brand.

³⁴ A strategic alliance can be defined as:

an agreement between firms to do business together in ways that go beyond normal company-to-company dealings, but fall short of a merger or a full partnership.” These alliances range from the informal “handshake” agreements to formal agreements with lengthy contracts in which the parties may also exchange equity, or contribute capital to form a joint venture corporation.

Dean Elmuti & Yunus Kathawala, *An Overview of Strategic Alliances*, available at <http://www.ux1.eiu.edu/~cfyak/Articles/An%20overview%20of%20strategic%20alliances.pdf> (citations omitted) (last visited Oct. 22, 2013).

³⁵ The U.S. Department of Commerce observed in its 1987 report on Franchising in the Economy that “[m]any franchisors are currently involved in testing a new form of franchising comprised of different products under the same roof...” and referred to this trend as “combination franchising.” Hurwitz, *supra* note 1, at 375 (citing U.S. Dep’t Of Commerce, *Franchising In The Economy 1985-1987*, at 5 (1987)).

³⁶ Dunkin’ Brands, owner of the sister companies Dunkin’ Donuts and Baskin-Robbins, offers “combo” stores which combine both the franchises in one location. *Dunkin’ Donuts, Inc. v. Tejanya & Tejanya, Inc.* No 05 C 4770, 2006 U.S. Dist. LEXIS 2041, at 4 (N.D. Ill. Jan. 18, 2006); *see also Dunkin’ Brands Announces Plans For Nine New Restaurants In Houston, Texas, With Existing Franchise Group New York Donuts Group, Inc.*, THE BUS. J., (June 12, 2013) http://www.bizjournals.com/prnewswire/press_releases/2013/06/12/NY30789.

³⁷ Daley, *supra* note 4 (If you flip through annual reports from Yum Brands, you’ll notice an increasing frenzy starting in 1992 around “multibranding.” A decade later, Yum—the holding company that owns and operates Taco Bell, KFC, Pizza Hut . . . hailed the concept as “potentially the biggest sales and profit driver for the restaurant industry since the advent of the drive-thru window.”).

strategic alliances to offer their unrelated goods or services under one roof as a way to leverage costs and efficiencies.³⁸ By placing their trademarks and trade dress in close proximity in a single commercial space, each shared branding partner can benefit from the association and goodwill of the other.³⁹ In this sense, shared branding resembles co-branding, in that they both offer partners the ability “to rely on each other’s image, products, services and locations to increase their own market penetration and market share.”⁴⁰ However, it is unique in that shared branding often involves two or more unrelated entities operating in a single location while ensuring each partner’s trademarks and trade dress remain separate and distinct. Today, shared branding is an increasingly common business model and proliferating in various commercial contexts, particularly within the franchising community⁴¹ and the retailing industry.⁴²

1. Shared Branding in the Franchising Industry

One recent trend is the combination of fast-food franchises and gas stations.⁴³ Another is the operation of two or more distinctly branded franchises in a single commercial space.⁴⁴ Such

³⁸ One example is the strategic alliance between the unrelated entities, Tim Hortons and Cold Stone Creamery. See BLOOMBERG BUSINESSWEEK, *supra* note 5.

³⁹ When Cold Stone’s president, Dan Beem, was asked in an interview with Bloomberg BusinessWeek what sort of opportunities Cold Stone was trying to address by partnering with Tim Hortons to open shared branded restaurants, he responded,

[t]he co-branding initiative will leverage complementary dayparts [breakfast, lunch, and dinner in restaurant parlance] and seasonality to provide a quality experience for customers, a profitable scenario for franchisees, and to take advantage of prime real estate with little additional capital needed. Cold Stone Creamery drives significant customer traffic and sales in the evening market while Tim Hortons creates a substantial portion of its traffic and sales in the morning and lunch dayparts. Each brand has global reach with strengths in different markets that can be leveraged by the other brand.

Id.

⁴⁰ See Hurwitz, *supra* note 1, at 377.

⁴¹ “No matter how you describe it, [co-branding is] a strategy that has really taken off in franchising during the past few years.” Kerry Pipes, *Co-Branding Offers the Best of Both Worlds*, FRANCHISING.COM, http://www.franchising.com/howtofranchiseguide/cobranding_offers_the_best_of_both_worlds.html (last visited Oct. 19, 2013).

⁴² See Dodes & Passariello, *supra* note 9.

⁴³ “McDonald’s Corp., . . . Yum Brands Inc.’s Taco Bell and rival sandwich chain Subway, among others, have been aligning with filling stations for many years.” Jargon, *supra* note 6.

⁴⁴ See BLOOMBERG BUSINESSWEEK, *supra* note 5 (Tim Hortons-Cold Stone shared branded restaurants).

shared branding arrangements can be enacted through a lease agreement or through a licensing agreement. A franchise can lease certain space on land owned by an unrelated business, a model adopted by Back Yard Burgers, the Memphis-based restaurant chain.⁴⁵ The burger chain leases space from unrelated gas station convenience stores.⁴⁶ This arrangement helps the company retain control over operations while simultaneously reducing costs.⁴⁷ A shared branding lease arrangement can also benefit the primary lessor; according to Jamie Callahan, part owner of B&V Oil Co. LLC, franchise restaurants that lease on their land help improve traffic at convenience stores, and that “[additionally] it’s just good to collect that rent check every month.”⁴⁸

A shared branding agreement can also take the form of a license.⁴⁹ A company can license its intellectual property rights to a primary retailer, who will then set up licensed retail locations operated from within the primary retailer’s location.⁵⁰ License agreements are similar to franchise agreements in that an outside entity is the distributor of the brand’s goods or services.⁵¹ However, a licensing agreement may provide a business “with more control of . . . [its] brand because the licensee does not own the store, as a franchisee would; rather, licensees are ‘renting’ the brand for a fee.”⁵² Such a licensing model is utilized by international coffeehouse chain Starbucks.⁵³ Starbucks is not

⁴⁵ Tara Milligan, *Fast Food Joints, Gas Stations: Profitable Partnership?*, MEMPHIS BUS. J. (Oct. 14, 2001, 11:00 PM CDT), <http://www.bizjournals.com/memphis/stories/2001/10/15/story7.html?page=all>.

⁴⁶ *Id.*

⁴⁷ *Id.* “We’re strictly leasing the space, but we’re operating the restaurant So it lowers the cost of getting it open.” *Id.*

⁴⁸ *Id.*

⁴⁹ See Ranjay Gulati, et al., *The Barista Principle — Starbucks and the Rise of Relational Capital*, STRATEGY+BUSINESS (Jul. 17, 2002), available at <http://www.strategy-business.com/article/20534?gko=582b3>.

⁵⁰ *Id.*

⁵¹ *Id.*

⁵² *Id.*

⁵³ Busheikin, *supra* note 7.

A Starbucks licensed store is owned and operated by an approved licensee. Each licensee is closely evaluated to ensure they meet our stringent requirements in order to operate the Starbucks brand. These retail locations are staffed by the licensee’s employees and they follow Starbucks training guidelines including beverage quality, store cleanliness, and creating the Starbucks Experience for our customers.

primarily a franchise; however it does offer franchising opportunities on a limited basis.⁵⁴ Starbucks has offered licensed retail locations in places such as Target, grocery stores, airports, hospitals, airports, and college campuses.⁵⁵ Such licensed, shared branded locations help “to develop the brand outside the company’s retail stores in order to reach customers through multiple points of contact.”⁵⁶ Starbucks’ licensing arrangement is structured so that “Starbucks charges a royalty on gross sales and a licensing fee to start up the business.”⁵⁷ Also, Starbucks may charge more for the goods it manufactures itself.⁵⁸

Through such licensing agreements, a company can increase its customers’ access to products and to the trusted brand name, while also enhancing a company’s profits.⁵⁹ However, licensing a brand name inevitably carries the risk of compromised quality.⁶⁰ As CEO Howard Schultz of Starbucks noted, there exists an “inherent contradiction’ between the company’s close control of the Starbucks retail store experience and the licensing of the brand.”⁶¹ To minimize such risk, “[t]he company’s solution is to carefully select partners based on their reputation and commitment to quality, and to gauge their willingness to train their employees the Starbucks way. The principles are the same as those underlying supplier relationships.”⁶²

2. Shared Branding in the Fashion and Retail Industry

The dynamic nature of the retail industry and the growth of technology require retailers to develop innovative marketing and

Id.

⁵⁴ “Starbucks franchises on a very limited basis.” *Investor FAQ*, STARBUCKS.COM, <http://investor.starbucks.com/phoenix.zhtml?c=99518&p=irol-faq#26956>.

⁵⁵ Busheikin, *supra* note 7 (“A Starbucks licensed store is owned and operated by an approved licensee.”).

⁵⁶ Gulati, et al., *supra* note 49.

⁵⁷ *Id.*

⁵⁸ *Id.*

⁵⁹ “Through these locations, we are able to significantly increase customer accessibility to our products and brand, which, from a shareholder perspective, is also valuable because of the profit it contributes to the organization.” Busheikin, *supra* note 7 (quoting Kerry Busheikin, Starbucks Vice President of Operations for Licensed Stores East).

⁶⁰ Gulati, et al., *supra* note 49.

⁶¹ *Id.*

⁶² *Id.*

multi-channeling strategies.⁶³ Shared branding arrangements and strategic alliances have become hallmarks of the retail industry.⁶⁴ In particular, shared branding has become a desirable retail model among department stores and fashion retailers alike.⁶⁵ These relationships are attractive as the combination of trademarks and trade dress allows companies to leverage each other's brand equity to connect with customers and distinguish one's store from its competitors.⁶⁶ While collaborations are popular in the fashion and retail industry, more department stores and retailers are entering into strategic alliances⁶⁷ known as "shop-in-shops," "in-store boutiques," or "concessions."⁶⁸ These associations are typically between two arm's length retail companies and structured so that the "in-store retailer" would offer its goods directly to consumers from a designated area within the "primary retailer's" retail space.⁶⁹

In-store boutique arrangements may differ significantly from

⁶³ See Adrienne Pasquarelli, *Department Stores Fill their Floors with Shop-In-Shops*, CRAIN'S NEW YORK BUSINESS (Jan. 29, 2012, 12:01 AM), <http://www.crainsnewyork.com/article/20120129/SUB/301299977> ("[T]he partnership model is becoming increasingly common as stores struggle for fresh ways to lure customers. With the advance of e-commerce, and the rise of specialty shops, department stores have been hit particularly hard."); see also *Retail 3.0, The Evolution Of Multi-Channel Retail Distribution*, JONES LANG LASALLE (May 2012), available at http://www.us.am.joneslanglasalle.com/ResearchLevel1/Retail%203.0_WhitePaper.pdf.

⁶⁴ See David Peress & Stephen G. Miller, *Co-Branding, Strategic Alliances and Multi-Channeling: 1+1 = 3*, 23-APR AM. BANKR. INST. J. 48 (2004).

⁶⁵ Dodes & Passariello, *supra* note 9.

As the luxury market rebounds, powerful global brands including Gucci, Prada and Dior are starting to press for more control over the way their products are presented and sold in U.S. department stores. The goal is to chip away at the old sales model used for decades by American department stores and instead operate a store-within-a-store, known as a "concession."

Id.

⁶⁶ Peress & Miller, *supra* note 64, at 48.

⁶⁷ Dodes & Passariello, *supra* note 9. "U.S. chains have been 'understandably reluctant' to go along with the shift, given the economics of concession deals and a sense that they better understand how goods sell, says Arnold Aronson, managing director of retail strategies at retail consultancy Kurt Salmon Associates." *Id.*

⁶⁸ See *Luxury Brands Push for the Shop-in-Shop*, <http://www.thefashionlaw.com/?p=14964> (last visited Oct. 20, 2013) (using the terms "shop-in-shop," "store-in-a store concept," "concession shops," and "concessions agreements" to describe the push for luxury brand to set up shops inside of department stores); see also *Stella McCartney Open In-Store Boutique at Harrods*, STELLA MCCARTNEY, <http://www.stellamccartney.com/experience/us/press-room/stella-mccartney-open-in-store-boutique-at-harrods-2/> (Stella McCartney refers to its store inside of Harrods as an "in-store boutique.").

⁶⁹ For the purposes of this Article, the term "primary retailer" will refer to the larger store (or department store) that hosts the in-store boutique.

wholesale distribution agreements. Traditionally, department stores purchase products from brand owners at wholesale prices, and thereafter resell those goods to the ultimate consumer at the retail level.⁷⁰ Once the department store purchases the goods at wholesale, it decides how to sell and display the goods in its store.⁷¹ The concession or license shop-in-shop model—where the in-store boutique is owned and operated by the in-store retailer, or where the in-store brand retains the full sales and the department store either receives a percentage of the sales or a rental fee—is an alternative to the traditional wholesale agreement.⁷² However, a department store may structure its purchased, wholesale goods in a manner that would resemble a shop-in-shop by building a department entirely dedicated to a particular brand comprised of the wholesale goods. A consumer could mistake such arrangements for an in-store boutique that is completely controlled by the in-store brand owner.⁷³ But in actuality, the department store may own and operate the department, hold title to the goods, and retain the full sale price, as if it were a mini retail shop. Should such a set up department be considered a “shop-in-shop?” Or should the term be used only to describe a designated area that is actually controlled to a certain extent by the in-store boutique?

Retail stores can either be brick and mortar shops, or online “e-stores.”⁷⁴ The Internet has transformed the retail industry and spawned e-commerce shops; where “e-tailers” can sell goods through online portals directly to the consumer.⁷⁵ The shop-in-shop concept has also been extended outside of brick and mortar in-store boutiques; businesses can use an “e-shop-in-shop” for their e-commerce websites.⁷⁶ Online retail stalwart Amazon.com has

⁷⁰ Dodes & Passariello, *supra* note 9.

⁷¹ “A retailer’s job is to determine the right product assortment for its customers . . . and therefore the retailer[always has the final say in what appears on its shelves.” Post Trial Mem. from Macy’s at 24 (May 31, 2013) (on file with author) (citations omitted).

⁷² See Pasquarelli, *supra* note 63.

⁷³ See Pasquarelli, *supra* note 63.

⁷⁴ See *Prada E-store*, PRADA, <http://www.prada.com/en/estore> (last visited April 11, 2014).

⁷⁵ Natasha Singer, *E-Tailer Customization: Convenient or Creepy?*, N.Y.TIMES.COM (June 23, 2012), http://www.nytimes.com/2012/06/24/technology/e-tailer-customization-whats-convenient-and-whats-just-plain-creepy.html?pagewanted=all&_r=0.

⁷⁶ Kenzie Bryant, *Amazon Launches Online Shop-in-Shops With 10 Crosby*, RACKED.COM (Mar. 7, 2013), <http://racked.com/archives/2013/03/07/amazon.php>.

adopted an “e-shop-in-shop” concept.⁷⁷ Amazon launched its first fashion e-shop-in-shop for Derek Lam’s 10 Crosby Spring, 2013 line.⁷⁸ The e-store has its own landing page,⁷⁹ but is accessed through the Amazon.com website. According to some, this arrangement would likely constitute an e-shop-in-shop.⁸⁰ The portal in a portal concept aims to offer consumers fashionable goods in an innovative and appealing way.⁸¹

The term “shop-in-shop” has been used loosely to refer to branded goods being offered directly to consumers from inside another unrelated branded store.⁸² However, a “shop-in-shop” can refer to various legal and business arrangements. An in-store retailer can choose to lease the space of a primary store for a fee.⁸³ This arrangement may resemble a “freestanding” shop, where a brand leases retail space from a landlord or other non-branded entity. The “shop-in-shop” concept has also been referred to as a “concession.”⁸⁴ A concession can be a specific license agreement whereby the primary store licenses its space to an in-store retailer to operate a retail store in exchange for a licensing fee or a percentage of sales.⁸⁵ Such concession agreements still permit the brand to operate the in-store boutique “relatively independently.”⁸⁶ However, some fashion retailers may choose to structure their “shop-in-shops” as wholesale agreements and thereafter execute a “shop-in-shop” agreement in a Letter Agreement (“Shop-in-Shop

⁷⁷ *Id.*

⁷⁸ *Id.*

⁷⁹ “A landing page is a web page to which people are directed from some off-site source, such as an online advertisement or email. A site’s home page is usually one of many landing pages.” *Definition of Landing Page*, WEB1 MKTG., <http://www.web1marketing.com/glossary.php?term=landing+page> (last visited Oct. 20, 2013).

⁸⁰ Bryant, *supra* note 76.

⁸¹ *Id.*

Amazon’s [president] Cathy Beaudoin is feeling confident about the new set-up, saying, “It’s so ripe for innovation, and if we can give customers a beautiful, branded 10 Crosby experience—and couple it with the ease of shopping on Amazon and all the service that our customer relies on—it’s a genius combination.”

Id.

⁸² See Pasquarelli, *supra* note 63.

⁸³ *Id.*

⁸⁴ See Dodes & Passariello, *supra* note 9.

⁸⁵ *Id.* (“The amount brands pay for concession space varies, but it is typically around 20% to 30% of sales, according to two people familiar with the matter.”).

⁸⁶ *Id.*

LOA”). In the Shop-in-Shop LOA, the department store agrees to construct a mini-department designated as the fashion retailer’s in-store shop, where it sells exclusively the fashion retailer’s goods. Both the in-store retailer and the department store have shared ownership of the shop-in-shop, the fashion retailer provides rules and regulations over the shop in writing, but the department store maintains the shop and is responsible for keeping the area clean and obtaining insurance that covers the area. The Shop-in-Shop LOA grants the department store limited permission to use the in-store retailer’s trademarks to designate the area as the fashion retailer’s “shop-in-shop,” but the in-store retailer maintains ownership of its marks and related intellectual property.

Furthermore, each “shop-in-shop” agreement may vary in terms of the level of control retained or transferred by the transacting parties. For more control, a brand owner may hire its own employees, or alternatively, train employees designated by the primary store.⁸⁷ It may also set restrictions on the primary store’s use of the in-stores trademarks and trade name.⁸⁸ The in-store boutique may negotiate to maintain control and ownership of the merchandise and determine markdowns.⁸⁹ While an in-store boutique “assume[s] more of the risk if products don’t sell,” such an arrangement, however, “promises [the in-store brand] a bigger cut of sales.”⁹⁰

III. SHARED BRANDING AS AN ATTRACTIVE BUSINESS MODEL

Shared branding is an attractive business model as it promotes: (1) expansion into new product lines without the costs and risks associated with internal new product development, (2) increased consumer traffic, (3) expansion into new market areas and locations, (4) customer appeal and convenience, (5) leveraging of trademark goodwill, (6) control over trademarks and trade dress,

⁸⁷ *Id.*; CAPGEMINI, *Moving Downstream: Selling Direct to Consumers—Why Consumer Products Manufacturers Sell Direct—and How to Make It Work* (2009), available at http://www.capgemini.com/sites/default/files/resource/pdf/tl_Moving_Downstream_Selling_Direct_to_Consumers.pdf (“[Consumer Product Manufacturers] in this case have increased control over fixtures, assortment and pricing and any staff is generally trained by them.”).

⁸⁸ This concept is similar to a retail lease clause that prohibits the landlord from using the tenant’s trade name or related trademarks without the tenant’s authorization. *See infra* note 145.

⁸⁹ Dodes & Passariello, *supra* note 9.

⁹⁰ *Id.*

and (7) control over the goods or services.⁹¹

Shared branding offers companies the opportunity to align with established brands outside of its traditional product lines and services “without incurring the expense and some of the risks associated with the internal development of new products, services, or outlets.”⁹² For example, a franchise that sells primarily donuts and coffee may want to align itself with an ice cream franchise to offer its customers new products that the donut franchise does not offer.⁹³ Such an arrangement allows both partners to offer their customers new product lines without having to incur the expense or risk involved in internal new product development.⁹⁴ Additionally, if a company’s customers are not responding well to the new products introduced by its shared branding partner, the company can cease doing business with the other partner as opposed to absorbing the loss if it had invested in new product production.

A shop-in-shop has an added value compared to a freestanding store in that it may help increase consumer traffic.⁹⁵ An in-store boutique may want to partner with a department store that has a similar customer profile to leverage each partner’s customer base.⁹⁶ Or, a brand may partner with a department store that it already has a wholesale distribution agreement with in order to create more convenient points of sale for its current customers. “Bringing varying merchants together in one place gives them access to consumers who may not otherwise patronize their

⁹¹ Dan Beem, president of Cold Stone Creamery, describes the commercial attractiveness of shared branding relationships: “[c]o-branding a physical location with a complementary brand maximizes this existing asset, with the potential to reduce costs and increase customer traffic. Leveraging efficiencies in real estate and operations, co-branded locations of chains with similar business philosophies encourages joint patronage of analogous customers.” Dan Beem, *The Case For Co-Branding*, FORBES.COM (Mar. 16, 2010, 5:49PM), <http://www.forbes.com/2010/03/16/cold-stone-creamery-dan-beem-rocky-mountain-chocolate-cmo-network-co-branding.html>.

⁹² See Hurwitz, *supra* note 1, at 377.

⁹³ See *Tim Hortons and Cold Stone: Co-Branding Strategies*, *supra* note 5.

⁹⁴ Such arrangements offer similar benefits to parties in a licensing agreement. “[Licensing] [g]enerates greater revenue without the start up costs associated with brand development and promotion.” *Benefits of Licensing to Both the Licensor and Licensee*, THE MOBIUS LICENSE MANAGEMENT GROUP, LLC, http://mobiusslicensing.com/Benefits_of_Licensing.html (last visited April 11, 2014).

⁹⁵ See *supra* note 91 and accompanying text.

⁹⁶ “And co-branding gave us the opportunity to leverage our similar customer profiles.” *Tim Hortons and Cold Stone: Co-Branding Strategies*, *supra* note 5 (quoting David Clanachan, Tim Hortons’ chief operations officer).

businesses.”⁹⁷ Thus, a shopper that enters a department store to buy a particular product may also be attracted to a brand’s in-store boutique where the shopper would not have stopped at, but for the convenient location.

Shared branding may also help franchises expand into new markets and different locations. For example, the Denver-based sandwich company, Quiznos, began opening mini-restaurants inside gas stations and convenience stores of BP, Chevron, and Circle K in 2009.⁹⁸ Quiznos’s Chief Executive commented that adding Quiznos to convenience stores expanded the company to “places that normally wouldn’t support a traditional Quiznos, like service plazas, truck stops and urban areas.”⁹⁹ Similarly, Starbucks set up franchises in places such as Target to serve customers in locations that Starbucks could not access otherwise.¹⁰⁰

Shop-in-shop arrangements are convenient and appealing to customers.¹⁰¹ An in-store boutique displays various products under a particular brand in one location.¹⁰² In contrast, the traditional department store is divided into different merchandise departments; for example, a customer may find a particular brand of shoes at one department, but must go to another department to find a purse by that same brand. Also, shop-in-shops facilitate the shopping experience, because a customer need only travel to one location to have the convenience of shopping at various in-stores located inside the primary store.¹⁰³ Furthermore, an in-store boutique offers shoppers an edited and curated merchandise selection as opposed to an overabundant display of merchandise.¹⁰⁴ With the rise of e-commerce and specialty shops, department stores are increasingly viewing the shop-in-shop model as a way to lure new customers.¹⁰⁵

⁹⁷ Hurwitz, *supra* note 1.

⁹⁸ Jargon, *supra* note 6.

⁹⁹ *Id.*

¹⁰⁰ Busheikin, *supra* note 7 (“A licensed store provides Starbucks access to many locations that we would not have otherwise Through these locations, we are able to significantly increase customer accessibility to our products and brand . . .”).

¹⁰¹ See Pasquarelli, *supra* note 63 (“They present their own labels and partner with outside brands in strategy to lure new customers.”).

¹⁰² *See id.*

¹⁰³ *See id.*

¹⁰⁴ “Customers like to buy in edited, curated assortments.” *Id.* (quoting former J.C. Penney CEO, Ron Johnson).

¹⁰⁵ *See generally id.*

The association of two or more brands and their respective trademarks and trade dress allows two companies to share each other's goodwill and reputation in the market place.¹⁰⁶ Through shared branding, companies can leverage their individual brands by "giv[ing] each partner immediate access to the consumer trust, confidence, and acceptance that the other has developed over time."¹⁰⁷ In the franchising industry, the association of a popular brand name may help attract more customers,¹⁰⁸ as evinced by many successful shared branded gas stations and convenience stores.¹⁰⁹ An owner of an Exxon gas station in Pennsylvania who opened a Quiznos shop in his convenience store was quoted saying his food-service sales had almost quadrupled, admitting that "[he] previously had [his] own deli, but it's a name-brand world and people want to know what to expect when they walk in the door."¹¹⁰ From the franchisor's perspective, opening a franchise at a convenience store is a profitable way to extend one's consumer base by utilizing the land and services offered by the primary location.¹¹¹ Similarly, a new or struggling company's shared branding association with a strongly established brand can help increase sales or "create synergies."¹¹²

In the fashion and retail industry, an association of brand names from one shared retail location may help bring life to a struggling brand.¹¹³ For example, consumer electronics retailer Best Buy entered into an agreement with electronic company Samsung Electronics where Best Buy would offer "Samsung Experience Shops" within all U.S. Best Buy locations for three years.¹¹⁴ Best Buy's partnership with Samsung shows consumers

¹⁰⁶ Hurwitz, *supra* note 1, at 377.

¹⁰⁷ *Id.*

¹⁰⁸ "A franchise . . . offers the franchisee with the ability to capitalise on the know-how and systems that have been proven to be successful. The quality of the product or service provided is therefore in many ways guaranteed." *Franchising & Licensing - What Are They? And How Can You Bare they? and How Can You Benefit from Them?*, PIPERS, <http://www.wipo.int/export/sites/www/sme/en/documents/pdf/franchising.pdf> (last visited Oct. 20, 2013).

¹⁰⁹ See Hurwitz, *supra* note 1, at 374, 377-78.

¹¹⁰ Jargon, *supra* note 6.

¹¹¹ See Hurwitz, *supra* note 1, at 376.

¹¹² *Id.* at 374.

¹¹³ *Id.*; Alice Hines, *J.C. Penney Carves Stores Into Mini-Boutique Shops*, HUFFINGTON POST (July 25, 2012 10:32 AM), http://www.huffingtonpost.com/2012/07/23/jcpenney-shops-mini-boutiques_n_1695630.html.

¹¹⁴ Brad Tuttle, *Can the Boutique 'Store-Within-a-Store' Concept Save Big Box Retailers from*

that “a very high-profile consumer electronics vendor [values] Best Buy a relevant distribution outlet.”¹¹⁵ Similarly, a floundering department store may wish to enter into associations with successful and well-branded companies to build in-store boutiques in its struggling department store locations.¹¹⁶ J.C. Penney (“JCP”) is a prime example. Under former management, JCP sought to reinvent the traditional department store model by implementing a “shop-in-shop” concept where it would divide JCP locations into individual brand spaces.¹¹⁷ According to Stephen Hoch, a professor of marketing at the University of Pennsylvania Wharton School of Business, through its in-store boutique business model, “J.C. Penney [was] trying to borrow some equity from brands.”¹¹⁸ JCP’s strategic alliance with Martha Stewart to offer Martha Stewart shop-in-shops in its stores turned out to be a risky rebranding strategy and led to massive losses and expensive litigation.¹¹⁹

Shared branding allows parties to leverage the goodwill and brand equity designated by each other’s trademarks while still retaining a level of control over their goods,¹²⁰ trademarks, trade names, designs, logos, and trade dress, since the trademarks are

Extinction?, TIME MAGAZINE (Apr. 8, 2013), <http://business.time.com/2013/04/08/can-the-boutique-store-within-a-store-concept-save-big-box-retailers-from-extinction/>; see also Shara Tibken, *Samsung, Best Buy to Operate Mini Shops for Three Years*, CNET (Apr. 24, 2013 12:22 PM PDT), http://news.cnet.com/8301-1035_3-57581199-94/samsung-best-buy-to-operate-mini-shops-for-three-years/.

¹¹⁵ Tuttle, *supra* note 114 (quoting Morningstar analyst R.J. Hottovy).

¹¹⁶ See Pasquarelli, *supra* note 63.

¹¹⁷ Hines, *supra* note 113.

¹¹⁸ *Id.*

¹¹⁹ Alexandra Steigrad, *MSLO’s New CEO Daniel Dienst Hits Reset*, WOMEN’S WEAR DAILY (Feb. 26, 2014), http://www.wwd.com/media-news/fashion-memopad/hitting-reset-7511222?src=search_links. Macy’s sued JCP for its arrangement with Martha Stewart’s company to Martha Stewart in-store boutiques in JCP locations. *Id.* The litigation “frayed [Martha Stewart’s] partnership with Macy’s and burned through between \$7 million and \$8 million in legal costs in the process.” *Id.*; Anne D’Innocenzio, *J.C. Penney’s Ron Johnson Out As CEO, Mike Ullman Rehired*, HUFFINGTON POST (Apr. 8, 2013 11:54 pm EDT), http://www.huffingtonpost.com/2013/04/08/jc-penney-ron-johnson-ceo-out_n_3039934.html; Plaintiffs’ Combined Opposition to Defendants’ Motion in Limine to Strike The Expert Testimony of Plaintiffs’ Expert Witness, Glenn C. Sheets, and the Exclude The Harris Survey and Testimony of Regina A. Corso, *Macy’s Inc. v. Martha Stewart Living Omnimedia Inc.*, (2013) (No. 650197/2012), 2013 WL 657896; Plaintiffs’ Memorandum of Law in Support of their Motion to Remove the Confidentiality Designations from Certain Discovery Produced by J.C. Penney; *Macy’s Inc. v. Martha Stewart Living Omnimedia, Inc. v. J.C. Penney Corp.*, (2012) (No. 652861/2012), 2012 WL 9390715.

¹²⁰ Dodes & Passariello, *supra* note 9.

only associated in relatively close proximity as opposed to being completely blended on a product or for a particular service. Because “[b]rands today are generally recognized as a key asset for creating value for a business,”¹²¹ protection and control over a company’s trademarks and trade dress is critical.¹²² Maintaining the distinctiveness of a mark is fundamental to trademark law, as a trademark acquires legal rights only if it is either inherently distinctive or has acquired distinctiveness through secondary meaning.¹²³ A company can maintain and enhance the distinctiveness of its trademarks and trade dress by maintaining control over the mark and policing third-party use of the mark.¹²⁴ Distinctiveness helps ensure that consumers easily associate the marks and trade dress with the company.¹²⁵

A primary function of a trademark is “[t]o identify one seller’s goods and distinguish them from goods sold by others.”¹²⁶ Therefore, the combination of two or more trademarks on one product or service—co-branding—may seem counterproductive in light of the principles of basic trademark law; a trademark’s primary function is as a source identifier to distinguish one’s goods from other brands.¹²⁷ But because co-branding associations involve the combination of each company’s trademarks and trade dress, such associations can “blur the consumers’ perception of where a product or service that they are buying originates.”¹²⁸ This potential for blurring may be more common in co-branding agreements (where the trademarks and trade dress are combined or placed together on a single product or service) than shared branding arrangements (where the marks remain separate and

¹²¹ Lom, *supra* note 10.

¹²² *See generally*, Kirk, *supra* note 17.

¹²³ MCCARTHY ON TRADEMARKS, *supra* note 10, § 11:2.

¹²⁴ “If many third parties subsequently begin using the same or a similar trademark in commerce in connection with goods and/or services similar to the trademark owner’s after the trademark owner has already begun use, and the owner does little or nothing to police its trademark, the trademark is likely to lose some or all of its value as a source identifier in the marketplace. As a result, the trademark will become weaker, and in some cases it may lose its distinctiveness entirely.” *Fact Sheets Protecting a Trademark*, Inta.org, (last visited Apr. 18, 2014.) <http://www.inta.org/TrademarkBasics/FactSheets/Pages/LossofTrademarkRightsFactSheet.aspx>.

¹²⁵ *Id.*

¹²⁶ MCCARTHY ON TRADEMARKS, *supra* note 10, § 3:2.

¹²⁷ Kirk, *supra* note 17, at 19.

¹²⁸ *Id.* at 3. Kirk goes so far as to say that co-branding “promises” to blur consumer’s perception of the good’s source. *Id.* at 2.

distinct). But the possibility of trademark blurring still exists with shared branding associations; even though the trademarks and trade dress of the shared branding partners remain separate, a consumer still associates the shared brands as they are united in a single facility, especially if such shared branded locations are prevalent.

The Dunkin' Donuts-Baskin Robbins shops are an example within the franchise context of how two brands can maintain their distinctive trademarks and trade dress while operating in a single facility. Dunkin' Donuts and Baskin Robbins pursue joint development of retail locations where both of their products are sold in separate sections—which have been referred to as “combo” shops.¹²⁹ Although they are both sister companies and owned by the same entity, Dunkin' Brands Inc., their registered trademarks, trade names, designs logos, service marks and related marks are owned by separate entities: DD IP Holder LLC and BR IP Holder LLC, respectively.¹³⁰ Does the average consumer know that Dunkin' Donuts and Baskin Robbins are owned by the same company? A consumer may think, “I am buying Dunkin' Donuts from one producer, and Baskin Robbins from another.” Yet, if Dunkin' Donuts were to sell Baskin Robbins ice-cream cones with labels flaunting its trademarks and brown, orange, and purple trade dress, would the consumer think the same? Or, in the alternative, a consumer may become so familiar with the association prevalent Dunkin' Donuts-Baskin-Robbins “combo” shops, that the consumer may think the two brands are owned by the same company (which is the case here)? In the latter scenario, the shared branding association promotes the traditional trademark function to point to a single producer—Dunkin' Brands.

Interestingly, some Dunkin' Donuts/Baskin-Robbins combo shops have popped up in Manhattan with an added unrelated partner—sandwich company Subway (see Figure 1).¹³¹ Subway,

¹²⁹ *Dunkin' Donuts, Inc. v. Tejanya & Tejanya, Inc.*, No 05 C 4770, 2006 WL 163019 (N.D. Ill. Jan. 18, 2006).

¹³⁰ See the language after the copyright notice at *Investor Relations*, DUNKIN' BRANDS, <http://investor.dunkinbrands.com> (last visited March 28, 2014).

¹³¹ *DUNKIN' DONUTS, BASKIN ROBBINS, SUBWAY, 302 5 AVENUE, NY - Restaurant Inspection Findings and Violations*, CITY-DATA, <http://www.city-data.com/ny-restaurants/DUNKIN-DONUTS-BASKIN-ROBBINS-SUBWAY.html> (last visited Oct. 20, 2013); see also Erin Rigik, *Gilligan Oil Pushes a Multi Brand Foodservice Strategy*, CONVENIENCE STORE DECISIONS (May 26, 2011), <http://www.csdecisions.com/2011/05/26/gilligan-oil-pushes-a-multi-brand-foodservice-strategy/>.

unlike the sister companies, is not owned by Dunkin' Brands.¹³² The related and unrelated companies still maintain separate trademarks and trade dress while operating in the same facility.¹³³ This begs the question: would a consumer differentiate between the related and unrelated brands, or would a consumer mistakenly believe that one company owns and operates them all? Thus, a shared branding arrangement like the Dunkin' Donuts-Baskin-Robbins-Subway combo shop has the potential to confuse consumers as to the source of the goods.



Figure 1 Dunkin' Donuts, Baskin-Robbins, and Subway share branded location at 302 5th Avenue, New York, NY 10001.

Certain clauses in the shared branding agreement can help a partner retain control over its trademarks and trade dress.¹³⁴ An in-store retailer can protect its trademarks through a clause that states that the primary store must obtain the in-store's permission to use

¹³² *About Us*, DUNKIN' BRANDS, <http://news.dunkinbrands.com/About/About-Us-6e.aspx> (last visited May 20, 2014) (Dunkin' Donuts and Baskin-Robbins are owned by Dunkin' Brands Group, Inc., whereas Subway is owned by Doctor's Associates Inc.); *Company Overview of Doctor's Associates, Inc.* (Apr. 18, 2014, 2:53 PM), <http://investing.businessweek.com/research/stocks/private/snapshot.asp?privcapId=246718>.

¹³³ See *supra* note 130.

¹³⁴ See *infra* notes 135–136 and accompanying text.

the in-store company's trademarks and trade name for promotion of the primary store.¹³⁵ As for trade dress protection, an in-store could require that it select the construction materials, structures, decorations, and the designs within the in-store boutique. An in-store boutique's construction and overall appearance—including its decor, color scheme, and worker's uniforms—may be sufficient to constitute protectable trade dress.¹³⁶ In-store retailers can build distinct stores with their own distinctive trade dress in certain shared branding arrangements, thus promoting control over their trademarks and trade dress.¹³⁷

A store's décor, color schemes, and other indicia of its trade dress may be a critical aspect of promoting a brand's image. A brand owner may prefer to construct its own in-store boutique (using its own materials, supplies, designs and contractors) to replicate its other stores and to ensure that its trademarks are displayed in a consistent manner. Some agreements may also provide for a construction allowance, similar to a "tenant allowance" found in lease agreements, where the department store gives the in-store retailer a certain amount of money to construct the in-store boutique.¹³⁸ The parties can also decide which contractors will be used, and the primary store can negotiate for approval rights of all designs. While certain clauses that grant more control to a brand over the premises seem appealing, in-store retailers must beware of broad restoration and removal clauses that require an in-store boutique to restore the premises to the manner in which they were upon entering, before construction.¹³⁹ After an

¹³⁵ This is similar to clauses in luxury brand retail lease agreements with mall landlords; although the luxury brand is located at the mall, the brand can negotiate that the landlord cannot use its luxury brand tenant's trademarks to advertise for the mall's promotional or other events without the luxury company's written consent. *See infra* note 145.

¹³⁶ *See* *Two Pesos, Inc., v. Taco Cabana, Inc.*, 505 U.S. 763, 787 n.1 (1992) ("['T]rade dress' is the total image of the business" and "may include the shape and general appearance of the exterior of the restaurant, the identifying sign, the interior kitchen floor plan, the decor, the menu, the equipment used to serve food, the servers' uniforms and other features reflecting on the total image of the restaurant." (citations omitted)).

¹³⁷ *See id.*

¹³⁸ Emily Lambert, *Leasing Retail Space: Temp to Perm*, SPECIALTY RETAIL REPORT (Spring 2006), http://specialtyretail.com/issue/2006/04/running-a-cart-or-kiosk/money-management/leasing_retail_space/#sthash.80YV08cl.x43Jxt7A.dpuf (last visited Oct. 20, 2013) ("The mall often provides a sum of money to help offset the cost of build-out, paid usually after construction is complete."). Such a sum is often known as a "tenant allowance." *Id.*

¹³⁹ The following is a sample retail lease "restoration and removal" clause: "When the Tenant vacates, the Landlord has an option: 1) keep the premises intact, or 2) remove and restore the premises to their original condition." Brian Madigan, *Removal and Restoration Clause in*

in-store retailer invests hundreds of thousands of dollars constructing the space (installing light fixtures, staircases, elevators, walls, or merchandise displays), if it failed to negotiate for a narrow restoration clause, it may be stuck paying hundreds of thousands more just to remove the improvements.¹⁴⁰ If the primary store requires a removal and restoration clause in the shared branding agreement, the in-store brand should negotiate that it will only be responsible for removal of “movable” property and “non-structural” items.

A department store can mitigate risk and maintain control by requiring that the in-store boutique follow its standard policies and procedures. This serves to harmonize customer policies amongst the various shop-in-shops located within a single department store to maintain an efficient shopping and returning experience for the department store’s customers. However, in-store boutiques should be aware of the risks when agreeing to comply with the policies of a department store. For example, if a luxury brand has a very strict return policy and opens an in-store boutique in Bloomingdale’s (known for its lenient return policies),¹⁴¹ the luxury brand may find itself obligated to accept returns against its more rigid policy.

A principal concern in shared branding arrangements is the prevention of harm to the goodwill and reputation of the trademark.¹⁴² Because consumers rely on trademarks and trade

Commercial Leases, ACTIVE RAIN, <http://activerain.com/blogsvieview/1478193/removal-and-restoration-clause-in-commercial-leases#sthash.bSGY9o1r.dpuf> (last visited Oct. 20, 2013).

¹⁴⁰ *Id.* (see material under the sample restoration and removal clause).

The Tenant is obligated to remove everything that was installed, both by the Tenant, and previous Tenants at its own expense. The obligation is to strip the premises right down to the bare walls. This means, rip out the marble floor, and rip out the upgraded plumbing fixtures. This requirement to remove leasehold improvements and restore premises on lease expiry could indeed be a very expensive provision. It is designed to offer some compensation to a Landlord faced with a departing tenant. And, it’s the Landlord’s choice.

Id.

¹⁴¹ See *Return Policy for California Store Purchases-A Word About Returns*, BLOOMINGDALES.COM, https://customerservice.bloomingdales.com/app/answers/detail/a_id/672 (last visited Oct. 20, 2013) (“We want you to be happy with your purchase. If you need to bring it back, we will gladly refund the purchase price in the original form of payment (as shown on your receipt). No receipt? We’ll credit your Bloomingdale’s account. No Bloomingdale’s account? We will issue a merchandise credit. If you do not have a receipt and did not use your Bloomingdale’s card, you will receive the lowest selling price in the last 180 days. . . . We require you to provide your name and address when you return merchandise, unless we already have it on file. . . . Thank you for shopping at Bloomingdale’s.”).

¹⁴² See generally Kirk, *supra* note 17.

dress to designate source and quality,¹⁴³ a company must manage its trademarks, trade dress, and goods in ways that do not tarnish the brand's reputation for quality. Just as a licensor of trademarks maintains quality control over its products related to its trademarks, trade dress, and related marks,¹⁴⁴ shared branding partners should maintain quality control in shared branding associations. Retailers, particularly luxury brands, are meticulous about how their logos and trademarks are used, and do not want them associated with inferior products.¹⁴⁵ Shared branding arrangements can be structured so that each partner agrees to retain a certain level of control over the operations, distributions, and display of their respective products or services.¹⁴⁶ A company can set up the shared branding arrangement so that it hires its employees to supervise the in-store boutique, dictates the merchandise supply, adopts its own mono-branded trade dress and uniforms, and also has its own separate storage space.¹⁴⁷ The in-store retailer could also determine the percentage and timing of markdowns.¹⁴⁸ Therefore, shared branding can provide in-store retailers the right to sell their goods within department stores while still retaining relatively independent control over their goods.¹⁴⁹

As discussed above, a shop-in-shop agreement can be structured in a variety of ways, but in general, the shop-in-shop appeals to retailers as means to retain control of a brand's

¹⁴³ See MCCARTHY ON TRADEMARKS, *supra* note 10, at § 3:2 (“In general, trademarks perform four functions that are deserving of protection in the courts: (1) To identify one seller's goods and distinguish them from goods sold by others; (2) To signify that all goods bearing the trademark come from or are controlled by a single, albeit anonymous, source; (3) To signify that all goods bearing the trademark are of an equal level of quality; and (4) As a prime instrument in advertising and selling the goods.”).

¹⁴⁴ Bryer & Asbell, *supra* note 25, at 838 (citations omitted) (“Quality control is a critical component of the licensing aspect of a co-branding arrangement. Failure to exercise sufficient quality control may result in significant risks to trademark rights, including cancellation of or inability to enforce a trademark right against third parties.”).

¹⁴⁵ For a standard retail lease agreement provision that prohibits the landlord from using the tenant's trademarks, see THE COMMERCIAL LEASE FORMBOOK: EXPERT TOOLS FOR DRAFTING AND NEGOTIATION 333 (Ira Meislik & Dennis Horn eds., 2010).

¹⁴⁶ Dodes & Passariello, *supra* note 9.

¹⁴⁷ *Luxury Brands Push for the Shop-in-Shop*, *supra* note 68 (“Rather than simply selling their goods to the retailer, and essentially losing control at that point over merchandizing, pricing and sales, the big luxury houses are opting for leases of floor space within department stores. This allows brands to hire their own staff and price their items, which is critical in terms of discounts and sales.”).

¹⁴⁸ Dodes & Passariello, *supra* note 9.

¹⁴⁹ *See id.*

trademarks, trade dress, and over the products themselves. A company can maintain more control over the presentation and sale of its products in a shop-in-shop.¹⁵⁰ The shop-in-shop modifies the traditional business model used by American department stores by allowing domestic and international fashion companies to operate their own in-store boutiques within these department stores.¹⁵¹ Under the traditional model, a designer or brand owner sells its goods to a retailer that then resells the goods to consumers pursuant to its own policies and procedures.¹⁵² Through a shop-in-shop arrangement, fashion houses can rent or license an area within a larger department store and operate their in-store boutique with relative independence.¹⁵³

IV. RISKS ASSOCIATED WITH SHARED BRANDING

While offering various economic benefits as discussed above, arm's length shared branding arrangements can expose partners to certain liabilities and risks, including: (1) encroachment concerns, (2) the blurring of each party's respective trademarks and trade dress, (3) adverse association with a brand, and (4) unrelated partners acting in bad faith.

While market penetration is a key objective of shared branding relationships, excessive expansion could harm a business.¹⁵⁴ "Satellite" franchising can lead to a proliferation of chains operating in relatively close proximity of one another and thus competing with one another, a problem known as "encroachment."¹⁵⁵ Although shared branded franchise locations may be convenient for consumers, such arrangements can harm the business of other franchisees that operate under the same franchised brand in a close proximity by reducing customer

¹⁵⁰ *Id.*

¹⁵¹ *Id.*

¹⁵² "Rather than simply sell their products to retailers, which then resell them to shoppers, more design houses want to rent space in the department store and operate relatively independently." *Id.*

¹⁵³ *Id.*

¹⁵⁴ See generally, Michael H. Seid, *Encroachment – The Issues And Solutions, Point – Counterpoint: David Kaufmann and Robert Zarco*, MSA WORLDWIDE, http://www.msaworldwide.com/franchising-resources/articles/encroachment_the_issues_and_solutions (last visited Oct. 20, 2013).

¹⁵⁵ *Id.* "Franchisees view encroachment as any activity by the franchisor that may reduce their ability to earn profit from their locations," including "[p]lacing a competing unit operated by the franchisor or another franchisee in close proximity to an existing unit." *Id.*

sales.¹⁵⁶ Cold Stone Creamery's shared branding association with Tim Horton's illustrates the encroachment problem.¹⁵⁷ Cold Stone's shared branding experiment with Tim Horton's in Rhode Island was so successful that it launched one hundred shared branded locations nationwide.¹⁵⁸ However, such expansion harmed one Cold Stone franchisee that alleged that the opening of a joint Tim Hortons-Cold Stone location nearby put her out of business.¹⁵⁹ Kristina Gedutis, the Cold Stone franchisee who shut down her shop commented, "[w]hen we first opened, business was great—we definitely had our following There wasn't another Cold Stone in Providence, so we got most of the area's business."¹⁶⁰ But once a Tim Hortons-Cold Stone location opened nearby, she saw a drop in revenue that she attributed to the presence of her shared branding competitor.¹⁶¹ Gedutis expressed, "I am bitter toward that It wasn't really fair."¹⁶²

While shared branding associations allow companies to keep their marks distinct and separate, the association of the marks and trade dress in close proximity (or located in one facility) can still confuse consumers as to the source.¹⁶³ As discussed above, in order to effectively prevent blurring and weakening of a mark's distinctiveness, companies must retain control over of their trademarks and trade dress.¹⁶⁴ In particular, trade dress protection is vital to the operations of a franchise, since it is the brand that helps unify all the franchised shops.¹⁶⁵ If a company with weak trade dress opens a store in the same retail space as another company with stronger trade dress, a consumer may wrongly believe that the brand with the stronger trade dress sources the goods of the company with the weaker trade dress.¹⁶⁶

¹⁵⁶ Kirk, *supra* note 17, at 315.

¹⁵⁷ Sean Kelly, *COLD STONE CREAMERY Franchise Encroachment?*, FRANCHISE PUBLICITY (Oct. 19, 2009), <http://www.franchisepublicity.com/cold-stone-creamery-franchise-encroachment/>.

¹⁵⁸ *Id.*

¹⁵⁹ *Id.*

¹⁶⁰ Lauren Fedor, *Like It, Love It – Can't Have It*, BROWN DAILY HERALD (Oct. 6, 2009), <http://www.browndailyherald.com/2009/10/06/like-it-love-it-cant-have-it/>.

¹⁶¹ *Id.*

¹⁶² *Id.*

¹⁶³ Kirk, *supra* note 17, at 3.

¹⁶⁴ *See supra* Part II.

¹⁶⁵ Kirk, *supra* note 17, at 4.

¹⁶⁶ *Id.* at 19 ("The potential for sour misperception is especially pronounced if one of the trade dresses in a dual-brand partnership is weak.").

The risk of trademark and trade dress blurring may not be as much of a concern for sister companies since their brands still designate one parent company. For example, KFC, Taco Bell, and Pizza Hut are distinct brands but are all owned by parent company Yum Brands.¹⁶⁷ In order to mitigate consumer confusion, a company may acquire a company and its intangible assets—its trademarks and trade dress—as an alternative to strategic alliances or licensing agreements. Such a decision was made by Dunkin' Brands to acquire Togo's Eateries Inc.; but eventually, Dunkin' Brands sold Togo's after realizing the sandwich chain did not have as big of a national footprint as Dunkin' Donuts and Baskin-Robbins.¹⁶⁸

While shared branding arrangements can benefit a company when there exists a positive association with a reputable brand, such arrangements can also expose companies to adverse association.¹⁶⁹ A company with a reputable brand may willingly enter into a shared branding agreement with a struggling company with the hope that the association with its reputable brand could revamp the struggling company's image.¹⁷⁰ Such shared branding agreements present potentially lucrative business opportunities, but also come with a certain degree of risk.¹⁷¹ While a strategic alliance may help a struggling brand, if its image remains negative during the partnership, it could potentially tarnish the image of the reputable brand.¹⁷² Negative association can result from events beyond a shared branding partner's control after the execution of an agreement.¹⁷³ For example, KFC and Taco Bell had a large-scale lettuce recall after the public discovered the lettuce was

¹⁶⁷ *About Yum! Brands – Defining Global Company that Feeds the World*, YUM! BRANDS, <http://yum.com/company/> (last visited Oct. 20 2013) (“[Yum! Brands Inc.’s] restaurant brands—KFC, Pizza Hut and Taco Bell—are the global leaders of the chicken, pizza and Mexican-style food categories.”).

¹⁶⁸ Christine Idzelis, *Dunkin' Brands Sells Togo's to Mainsail Partners*, TRINITY CAPITAL LLC, (Dec. 5, 2007), <http://www.trinitycapitalllc.com/pr-dunkin1>.

¹⁶⁹ See Hurwitz, *supra* note 1, at 379.

¹⁷⁰ *Id.* at 374.

¹⁷¹ See generally Kirk, *supra* note 17.

¹⁷² Daley, *supra* note 4 (“Many well-established brands have difficulty bending their strict operations rules to accommodate a partner, and they may run the risk of diluting their image if they sticker over their core concept with less-trusted brands. For example, Yum [Brands] found that the limited menus at A&W and Long John Silver's were perceived as old-fashioned and boring, especially when paired with those at [Yum Brands'] Taco Bell and KFC. Adding those smaller brands to an existing unit achieved little except to pull the focus from the more popular brand.”).

¹⁷³ Kirk, *supra* note 17, at 16.

contaminated with e-coli.¹⁷⁴ Even though it was determined that a common supplier sourced the contaminated lettuce, such negative public association reflected upon the shared branding partners.¹⁷⁵

As with any arm's length business agreement, shared branding associations require a certain level of good faith between the partnered companies.¹⁷⁶ Before entering into a shared branding agreement, the partners must be confident that each partner will act within the scope of the operation, and during the shared branding agreement, the partners must be careful to protect their trade secrets.¹⁷⁷ The dispute between GB Foods Inc. and CKE Restaurants illustrates the risk of one partner stepping outside the scope of the shared branding operation to misappropriate an unrelated partner's trade secrets by imitating its trade dress and business concept.¹⁷⁸ CKE Restaurants Inc., owner of Carl's Jr. fast-food restaurants, entered into a shared branding arrangement with GB Foods Inc.'s Green Burrito fast-food chain to offer Green Burrito products at Carl's Jr. restaurants.¹⁷⁹ CKE entered into the agreement in the hope that an association with the reputable Green Burrito chain would help its struggling Carl's Jr. restaurant.¹⁸⁰ Soon after, CKE launched "Picante Grill" at Carl's Jr. restaurants.¹⁸¹ GB Foods believed Picante Grill was too similar to its Green Burrito's Grill concept,¹⁸² and thereafter filed suit against CKE, alleging that CKE's Picante Grill constituted "misappropriation of trade secrets, a breach of contract, trade dress infringement, and a breach of the implied covenant of good faith and fair dealing."¹⁸³ GB Foods further claimed, "CKE used the

¹⁷⁴ Angela Ayles, *Lettuce Recalled for E.Coli, KFC and Taco Bell Not Responsible for Outbreak*, FOOD BEAT (Jan. 14, 2013, 1:51 PM), <http://www.foodbeat.com/food-news/lettuce-recalled-for-e-coli-kfc-and-taco-bell-not-responsible-for-outbreak/>.

¹⁷⁵ *Id.*

¹⁷⁶ Kirk, *supra* note 17, at 17.

¹⁷⁷ *Id.*

¹⁷⁸ *Id.*

¹⁷⁹ Chris Woodyard, *Green Burrito Parent Sues Carl's Jr. Chain : Restaurants: Suit Alleges Misappropriation of Trade Secrets and Breach of Contract Against Dual-Product Partner*, LA TIMES (Jan. 6, 1995), available at http://articles.latimes.com/1995-01-06/business/fi-17015_1_green-burrito.

¹⁸⁰ Kirk, *supra* note 17, at 17.

¹⁸¹ Woodyard, *supra* note 179 ("The first Green Burrito-Carl's Jr. test restaurant opened in October and the most recent opened Dec. 12, only 10 days before CKE launched the Picante Grill test, according to the lawsuit.").

¹⁸² *Id.*

¹⁸³ Kirk, *supra* note 17, at 17.

joint-operation experiment to copy Green Burrito's ideas and use them to start Picante Grill."¹⁸⁴ The CKE-GB Foods dispute illustrates the risk involved when entering into shared branding arrangements with unrelated entities and the importance of choosing a trustworthy shared branding partner.¹⁸⁵

V. SHARED BRANDING TRIBULATIONS: THE MACY'S-MARTHA STEWART-J.C. PENNY CONTROVERSY

The high-profile dispute between three of the biggest brand names in home goods retail, Martha Stewart Living Omnigroup ("Martha Stewart" or "MSLO"),¹⁸⁶ Macy's Inc. ("Macy's"), and J.C. Penny ("JCP"), illustrates the risks that can arise in arm's length strategic alliances and shared branding arrangements. In 2006, Macy's entered into a licensing and promotional agreement with Martha Stewart (the "Macy's Agreement"), whereby Macy's manufactured and sold Martha Stewart-branded products in certain exclusive product categories.¹⁸⁷ The Macy's Agreement included a non-compete provision, which prohibited Martha Stewart from entering into future agreements with other department stores that promote Martha Stewart-branded goods in the exclusive product categories.¹⁸⁸ However, in a carve-out provision under section 18(b)(iii) of the Macy's Agreement, the non-compete restrictions did not apply to agreements relating to marketing of the exclusive product categories through any "MSLO Store or the activities of MSLO or its Affiliate."¹⁸⁹ In other words, Martha Stewart could still sell the Macy's exclusive goods through any MSLO store or through its Affiliates' stores.

After years of doing business with Macy's, in December

¹⁸⁴ Woodyard, *supra* note 179. After \$2.9 million in litigation costs, GB Foods Corp. settled for 400,000 shares of CKE common stock that would be held in escrow for the plaintiffs, but received no cash payment. *Green Burrito Franchisees Settle Suit With Newport's GB Foods*, L.A. TIMES (Feb. 25, 1995), http://articles.latimes.com/1995-02-25/business/fi-35887_1_green-burrito.

¹⁸⁵ "Although the dispute between CKE and GB Foods has been settled, the suit illustrates the potential for bad faith dealings between dual-branded partners." Kirk, *supra* note 17, at 18.

¹⁸⁶ MSLO "does not itself manufacture or sell any Martha Stewart-branded products. Rather, it is a media and merchandising company, founded by Martha Stewart, that handles the licensing of the 'Martha Stewart' brand and assists in the design and development of Martha Stewart products." Complaint, *Macy's Inc. v. Martha Stewart Living Omnimedia, Inc.* (2012) (No. 650197/2012).

¹⁸⁷ See Complaint Exhibit 1, *Macy's v. Martha Stewart Living Omnimedia, Inc.* (2012) (No. 650197/2012) [hereinafter *Macy's Agreement*].

¹⁸⁸ *Id.*

¹⁸⁹ *Id.* at § 18(b)(iii).

2011, JCP and Martha Stewart announced that they had entered into a “strategic alliance,” whereby JCP invested \$38.5 million in MSLO to become its “affiliate.”¹⁹⁰ Under the alliance, JCP would build “distinct Martha Stewart retail stores inside the majority of [JCP] department stores.”¹⁹¹ Martha Stewart took the position that its strategic alliance with JCP did not breach its duties under the Macy’s Agreement, as the arrangement with JCP was permitted under the Macy’s Agreement’s section 18(b)(iii) carve-out provision.¹⁹² Macy’s, believing otherwise, promptly sued Martha Stewart, alleging that the strategic alliance with JCP to build Martha Stewart shops inside of JCP stores breached the Macy’s Agreement and that Martha Stewart illegally revealed Macy’s confidential information to JCP.¹⁹³

As to Macy’s confidentiality claim, the judge held that Martha Stewart did not illegally share Macy’s confidential information with JCP, because Martha Stewart had a legal obligation under SEC regulations to disclose the Macy’s Agreement pursuant to the \$38.5 million investment JCP made in Martha Stewart’s company.¹⁹⁴ The strategic alliance between JCP and Martha Stewart illustrates the risk that an unrelated partner could reveal important confidential information to third parties, including competitors, about its company and the terms of the share branded arrangement. Even though the strategic alliance was not expressly prohibited under the Macy’s Agreement, Martha Stewart’s decision to align with Macy’s competitors to build shop-in-shops appeared to circumvent what Macy’s argued it paid Martha Stewart for in their agreement—that is, to have the exclusive right to sell certain Martha Stewart branded-goods, not its competitors.¹⁹⁵

¹⁹⁰ *J. C. Penney Company, Inc. and Martha Stewart Living Omnimedia, Inc. Announce Strategic Alliance*, J. C. PENNEY (Dec. 7, 2011), <http://www.jcpmediaroom.com/posts/47/J.-C.-PENNEY-COMPANY,-INC.-AND-MARTHA-STEWART-LIVING-OMNIMEDIA,-INC.-ANNOUNCE-STRATEGIC-ALLIANCE>, [hereinafter MSLO-JCP Press Release].

¹⁹¹ *Id.*

¹⁹² Pre Trial Mem. from MSLO, *Macy’s Inc. v. Martha Stewart Living Omnimedia, Inc.* (2012) No. 650197/2012) (NYSCEF Doc. No. 194),

¹⁹³ Transcript of Record, *Macy’s Inc. v. Martha Stewart Living Omnimedia, Inc.* (2012) No. 650197/2012).(NYSCEF Doc. No. 282).

¹⁹⁴ Chris Dolmetsch, *Martha Stewart Gets One Claim Tossed in Macy’s Lawsuit* BLOOMBERG.COM, (Apr. 10, 2013, 5:29 PM), <http://www.bloomberg.com/news/2013-04-10/martha-stewart-living-gets-one-claim-dismissed-in-macy-s-case.html>

¹⁹⁵ See Associated Press, *Macy’s, Martha Stewart Settle Contract Dispute*, USA TODAY (Jan. 2,

Shared branding partners should beware of potential neglect by another partner. Arm's length brand alliances require good faith and trust between the partners.¹⁹⁶ A shared branding partner should act in its own best interest while also acting in the partner's best interest. Such duties could lead to business conflicts, particularly over "sales priority and secondary attention to the business operations of one [partner] by the other"¹⁹⁷ One solution is to include a "forecasts" clause in the shared branding agreement, which requires a partner to use commercially reasonable efforts to maximize net sales. The Macy's Agreement included such a clause: "the Parties agree to use their respective commercially reasonable effort in performing hereunder so as to maximize Net Sales."¹⁹⁸ As an affirmative defense, Martha Stewart argued that Macy's had materially breached the agreement by failing to fulfill the contractual obligation to maximize Martha Stewart products net sales.¹⁹⁹ Martha Stewart asserted:

"Far from featuring Martha Stewart as the 'face of the Macy's Home Store' or the 'iconic representative or Macy's in the home products arena,' as plaintiffs allege in their Complaint, plaintiffs have used the Martha Stewart Collection as a classic loss leader. They have used Martha Stewart Collection products to draw customers into Macy's Home Store, where its own private-label brands take center stage and, of course, generate higher profits for Macy's without the burden of paying royalties to a licensor like MSLO. In addition, Macy's has stocked and priced Martha Stewart Collection products in a manner that favors Macy's own private-label brands at the expense of Net Sales of Martha Stewart Collection products Plaintiffs' failure to use commercially reasonable efforts as required by the Agreement is vividly demonstrated by Macy's uncanny success in consistently matching just the minimum level of Net Sales necessary to fund payment to MSLO of the contractual minimum royalties and nothing more."²⁰⁰

2014, 3:44 PM), <http://www.usatoday.com/story/money/business/2014/01/02/macys-jc-penney-martha-stewart/4292611/> ("Macy's has had an exclusive merchandising contract with Martha Stewart since 2006, including items like bedding and bath products. Stewart's company and Penney signed a merchandising deal in December 2011 to develop mini Martha Stewart shops. That prompted Macy's to sue both companies for violating its exclusive agreement with Martha Stewart.").

¹⁹⁶ Kirk, *supra* note 17, at 17.

¹⁹⁷ *Id.*

¹⁹⁸ Macy's Agreement, *supra* note 187, at § 18(b).

¹⁹⁹ Amended Answer to Second Amended Complaint at 16–17, *Macy's Inc. v. Martha Stewart Living Omnimedia, Inc.* (2012) (No. 650197/2012).

²⁰⁰ *Id.*

Whether or not the defense was a pretext to be released from its contractual commitments to Macy's, it illustrates the possibility that one partner may fail to devote significant attention to promote its unrelated shared branding partner. Shared branding partners should beware of potential neglect, especially if another shared branding partner sells competing goods under its own brand, or if that partner is under a duty to promote other competitor brands.

A shared branding agreement should clearly define the appropriate channels through which an in-store partner can sell its goods outside of the primary store, and clearly define what constitutes a "store" for purposes of the agreement. A major issue in the Macy's-Martha Stewart-JCP controversy involved the parties' disagreement over the term "retail store," and whether a non-freestanding Martha Stewart shop inside of a JCP shop could constitute a "retail" "MSLO Store" for the purposes of the Macy's Agreement.²⁰¹ Martha Stewart and JCP contended that their arrangement to build Martha Stewart stores inside of JCP stores was permissible under the Macy's Agreement, based on the carve-out provision in the non-competition clause, which allowed "MSLO Stores" or MSLO "Affiliates" to sell Martha Stewart-branded goods in the Macy's exclusive product categories.²⁰² The term "MSLO Stores" was defined in the agreement as "any retail store branded with Martha Stewart Marks or Stewart Property that is owned or operated by MSLO or an Affiliate of MSLO or that otherwise prominently features Martha Stewart Marks or Stewart Property."²⁰³ However, the term "retail store" was not further defined,²⁰⁴ and the term "freestanding" was not included in the definition of "MSLO Store."²⁰⁵ Martha Stewart argued that the

²⁰¹ "I go back to the store within a store concept because it is such a big part of this case whether or not a store within a store can be set up [without breaching the Macy's Agreement]." Transcript of Record at 35, *Macy's Inc. v. Martha Stewart Living Omnimedia, Inc.* (2012) No. 650197/2012). (NYSCEF Doc. No. 282), *See also* Macy's Agreement, *supra* note 187, at § 1

²⁰² Amended Answer to Second Amended Complaint at 4–5, *Macy's Inc. v. Martha Stewart Living Omnimedia, Inc.* (2012) (No. 650197/2012); *see also* Macy's Agreement, *supra* note 187, at § 18(b).

²⁰³ *See* Macy's Agreement, *supra* note 187, at § 1 (emphasis added).

²⁰⁴ *See id.* (providing no definition of "retail store"); "[T]he term "retail store" is not contractually defined . . ." Post Trial Mem. from JCP, *Macy's Inc. v. Martha Stewart Living Omnimedia, Inc.* (2012) (No. 650197/2012) (NYSCEF Doc. No. 350).

²⁰⁵ Pre Trial Mem. from MSLO, *Macy's Inc. v. Martha Stewart Living Omnimedia, Inc.* (2012) (No. 650197/2012). (NYSCEF Doc. No. 224).

“shop-in-shops” at JCP were retail stores that fell within the unambiguous definition of “MSLO Stores.”²⁰⁶ Macy’s, however, argued that the contract only permitted *freestanding* Martha Stewart retail stores, not a designated floor space within a JCP store marked by a Martha Stewart sign.²⁰⁷

In the context of today’s evolving retail industry²⁰⁸ and illustrated by the Macy’s-Martha Stewart-JCP dispute, future transacting between unrelated companies should clearly define what constitutes a “store” or a “retail store” in any shared branding agreements. If Macy’s had added the term “freestanding” to the definition of an “MSLO Store,” the issue might have been amicably resolved. The addition of clarifying language might have saved both companies from burdensome litigation costs. Transacting parties in shared branding arrangements should take the Macy’s-Martha Stewart-JCP litigation as a lesson to protect themselves from unrelated entities by drafting agreements that clearly define where the unrelated party can and cannot set up “retail stores,” what a “retail store” means for the purposes of the agreement, and critically, if the store is limited to freestanding stores only.

The issue of whether or not the presence of Martha Stewart shops inside of JCP shops constituted a “MSLO Store” for purposes of the Macy’s Agreement is an issue that does not appear to have been addressed by recent case law.²⁰⁹ In its post-trial brief,

²⁰⁶ Amended Answer to Second Amended Complaint at 4–5, *Macy’s Inc. v. Martha Stewart Living Omnimedia, Inc.* (2012) (No. 650197/2012).

²⁰⁷ Amy Merrick, *J. C. Penney’s Martha Stewart Mistake*, NEW YORKER, (Aug. 12, 2013), <http://www.newyorker.com/online/blogs/newsdesk/2013/08/jc-penneys-martha-stewart-mistake.html>.

²⁰⁸ RETAIL 3.0, THE EVOLUTION OF MULTI-CHANNEL RETAIL DISTRIBUTION, *supra* note 63, at 2.

As the technological revolution accelerates, consumers have completely changed how they shop, how they make purchasing decisions and what they expect from retailers. Differentiation between purchasing channels—from mobile to online to in a store—is quickly fading. Coupled with this phenomenon are the innovations being made within the logistics and distribution sector, which provide new opportunities for retailers and suppliers to bring product ‘to the table’ in an increasingly competitive global environment.

Id.

²⁰⁹ JCP, MSLO, nor Macy’s cited to any case law regarding the definition of a shop-in-shop versus a freestanding store or retail store. *See* Pre Trial Mem. from MSLO, *Macy’s Inc. v. Martha Stewart Living Omnimedia, Inc.* (2012) (No. 650197/2012).(NYSCEF Doc. No. 224); *see* Pre Trial Mem. from Macy’s, *Macy’s Inc. v. Martha Stewart Living Omnimedia, Inc.* (2012) (No. 650197/2012).(NYSCEF Doc. No. 194); *see* Post Trial Mem. from Macy’s, *Macy’s Inc. v. Martha*

JCP relied on legal dictionaries to interpret the plain language and industry customs and practice illustrated by witnesses and expert testimony.²¹⁰ To assert its case, Macy's compared JCP's other "shop-in-shops" agreements to its arrangement with Martha Stewart.²¹¹ Before its strategic alliance with Martha Stewart, JCP had a shared branding agreement with Sephora to set up Sephora "Beauty Installations" inside of JCP.²¹² The Sephora-JCP contract distinguished those "Beauty Installations" from freestanding Sephora "retail stores."²¹³ Under the Sephora-JCP shared branding arrangement, Sephora sources the goods sold within its "Beauty Installations" and shares with JCP the profits and losses from sales of Sephora products.²¹⁴ In contrast, the Martha Stewart "shops" inside JCP would be constructed and owned by JCP, operated by JCP employees, and the proceeds of its sales would go to JCP, not Martha Stewart, and Martha Stewart would receive payment by a commission on sales made by JCP.²¹⁵ "MSLO does not own or rent retail space from JCP; JCP, not MSLO, sources the goods JCP prices the goods; JCP decides when products will go on sale; and JCP bears all risk of loss."²¹⁶

Furthermore, because JCP and Macy's are not suppliers or manufactures, they use outside suppliers and manufacturers to produce the Martha Stewart goods. JCP discovered Macy's allegedly non-confidential suppliers,²¹⁷ as "it just happened

Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012), (NYSCEF Doc. No. 346); *see* Post Trial Mem. from MSLO, Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012), (NYSCEF Doc. No. 353);

²¹⁰ Post Trial Mem. from JCP at 16–20, Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012), (NYSCEF Doc. No. 350).

²¹¹ Post Trial Mem. from Macy's at 30, Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012), (NYSCEF Doc. No. 346);

²¹² *Id.*

²¹³ *Id.*

²¹⁴ At any rate, even if the Sephora Beauty Installations were retail stores, the Martha Stewart areas in JCP are a far cry even from the Sephora Beauty Installations. For example, Sephora (not JCP) sources the products and is responsible for fulfilling online orders. Sephora, moreover, shares with JCP the profits and losses from sales of Sephora products. None of those things are true with respect to MSLO and JCP's store-within-a-store scheme. *Id.* at 60 n.10 (citations omitted).

²¹⁵ *See* Memorandum of Law in Support of Plaintiff's Application for a Preliminary Injunction, Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012).

²¹⁶ Post Trial Mem. from Macy's at 59–60 (Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012) (NYSCEF Doc. No. 346);

²¹⁷ Transcript of Record at 38, Macy's Inc. v. Martha Stewart Living Omnimedia, Inc. (2012) (No. 650197/2012) (NYSCEF Doc. No. 282) ("The suppliers and the manufacturers are in business to make money. They are going to advertise themselves to every one [sic] who their clients are, that

coincidentally that the manufacturer [JCP] came up with is the same manufacturer that Macy's has" through JCP's internal procedure and protocol.²¹⁸ If JCP's Martha Stewart-branded goods were made by the same supplier that Macy's used for its Martha Stewart goods, her marks would technically point to the same manufacturer, regardless of whether sold at JPC or Macy's. Such an arrangement could confuse a consumer as to the source of the goods.

Just as e-commerce sites have been analogized to be online "retail stores" and a direct-to-consumer channel, it should be legitimate for a company to say its "shop-in-shop" constitutes a "retail store" for purposes of certain agreements that do not define "retail store" as a "freestanding" store. "Retail" can be defined as "the sale of goods or commodities to ultimate consumers, as opposed to the sale for further distribution or processing."²¹⁹ It is distinct from "wholesale" in that wholesale is defined as "[t]he sale of goods or commodities usu[ally] to a retailer for resale, and not to the ultimate consumer."²²⁰ A shop-in-shop arrangement, where an in-store maintains most of the risk, keeps the sales, and maintains significant control over the products and operations, and critically, owns the goods and sells them directly to the consumer, arguably could constitute what is considered a typical "retail store."

As illustrated above, a shop-in-shop arrangement can be structured in various ways that give more or less control to an in-store brand; an in-store retailer can operate an in-store boutique relatively independently, hire its own employees or train the in-store employees, designate its sources and market the in-stores goods, assume the risk of the goods, and keep the sales and offer the primary store a percentage of the sales or another form of compensation.²²¹ For purposes of a shared branding agreement, factors to determine whether an area is considered a "retail store," as opposed to an area designated by a wholesale agreement, might include (1) who carries most of the risk, (2) who receives the profits from the sale, (3) who owns the goods, (4) whether the

information is out there. It's not proprietary. It's not in a sense that nobody else knows about it.").

²¹⁸ *Id.*

²¹⁹ BLACK'S LAW DICTIONARY 1430 (9th ed. 2009).

²²⁰ *Id.* at 1734.

²²¹ Dodes & Passariello, *supra* note 9.

goods are sold directly to consumers, and (5) who supplies and sources the goods. If the Martha Stewart shop-in-shops at issue in the Macy's-Martha Stewart-JCP litigation were analyzed under the above factors, the arrangement should not meet the definition of a "retail store" for the purposes of the Macy's Agreement. Under this view, the shop-in-shop arrangement between JCP and Martha Stewart allowed JCP to retain so much control, carry the risk, hire its own employees, market and source the goods, and keep the profits of the MSLO-JCP "retail stores" that the arrangement should not be found to constitute MSLO retail stores for the purposes of the Macy's Agreement.²²²

In October 2013, JCP revised its partnership agreement with Martha Stewart, returning 11 million common shares that it acquired through its 2011 strategic alliance and agreeing to no longer sell the disputed goods designed by Martha Stewart.²²³ However, Martha Stewart continues to design for JCP some products that were not covered under the Macy's exclusivity agreement.²²⁴ The issue as to whether the Martha Stewart shop-in-shops constituted a retail store for the purposes of the Macy's Agreement remains unanswered, as Macy's announced on January 2, 2014 it reached a confidential settlement agreement with Martha

²²² Such a view would support Macy's argument in its pre-trial memorandum: "Even were the Court to reach that next question, the evidence is that the 'Martha Stewart stores' would not actually be 'retail stores,' the necessary element of an MSLO Store under the Macy's Agreement." Pre Trial Mem. from Macy's at 31, *Macy's Inc. v. Martha Stewart Living Omnimedia, Inc.* (2012) (No. 650197/2012); (NYSCEF Doc. No. 194).

²²³ Evan Clark, *Macy's Settles With Martha Stewart*, WOMEN'S WEAR DAILY (Jan. 2, 2014), http://www.wwd.com/business-news/legal/macys-settles-with-martha-stewart-7329000?src=search_links. Specifically:

MSLO and Penney's revised their partnership agreement in October, essentially reversing the bulk of the original deal they signed. There's also now a more focused range of product categories over a shorter period of time, through June 30, 2017, versus the original term that would have expired in 2021. And the product categories that were never in dispute, and are now Penney's domain, are in window treatments and hardware, lighting, rugs and holiday and celebrations. MSLO will receive design fees and guaranteed minimum royalties.

Id.; see also Hilary Stout, *Ruling Near, J.C. Penney Capitulates to Macy's*, N.Y. TIMES, (Oct. 21, 2013), [http://www.nytimes.com/2013/10/22/business/ruling-near-jc-penney-capitulates-to-macys.html?](http://www.nytimes.com/2013/10/22/business/ruling-near-jc-penney-capitulates-to-macys.html?adxnml=1&ref=marthastewart&adxnmlx=1382529955-WkOoxq/lvZRIBP42RUxWMw;)

<http://www.nytimes.com/2013/10/22/business/ruling-near-jc-penney-capitulates-to-macys.html?adxnml=1&ref=marthastewart&adxnmlx=1382529955-WkOoxq/lvZRIBP42RUxWMw>; Maria Halkias *Macy's vs. J.C. Penney Over Martha Stewart Isn't Over Yet*, DALLAS NEWS (Feb. 20, 2014), <http://bizbeatblog.dallasnews.com/2014/02/macys-vs-j-c-penney-over-martha-stewart-isnt-over-yet.html/>.

²²⁴ Halkias, *supra* note 223.

Stewart to resolve its breach-of-contract lawsuit.²²⁵

Despite Macy's settlement with Martha Stewart, Macy's and JCP failed to settle the tortious interference claim against JCP.²²⁶ On June 16, 2014, Judge Oing ruled that JCP tortiously interfered with the Macy's-Martha Stewart agreement, and referred to JCP's acts as "adolescent behavior in the worst form."²²⁷ The court declined to award Macy's punitive damages, and the issue of damages will be decided by a Judicial Hearing Officer or Special Referee. Although no claims are left pending in the prolonged battled between three of the biggest names in retail, the battle may not be over as both parties have filed appeals.²²⁸

The competitive nature of the retail industry and the technology advancements available to it have prompted retailers to develop creative direct-to-consumer channels and points of sale.²²⁹ With so many avenues available to retailers to sell directly to consumers, "differentiation between purchasing channels . . . is quickly fading."²³⁰ With the lack of differentiation between different direct to consumer channels, certain "shop-in-shop" arrangements can be considered "retail stores" for the purposes of shared branding agreements, so long as the shop-in-shop brand retains a significant amount of control of the in-store's operations, goods, and its trademarks and trade dress. While the in-store boutique and the mono-branded freestanding retail store have similar business goals and both offer goods directly to the consumer, critical differences between the two models exist relating to the risks and benefits between, of which future-transacting business partners should be aware.

²²⁵ Macy's thereafter announced, "We can now return our focus to what we do best—bringing beautifully designed, high-quality, affordable products to consumers nationwide. We look forward to a continued, successful partnership together." Clark, *supra* note 223.

²²⁶ Hilary Stout, *Ruling Against J.C. Penney in Dispute With Macy's Over Martha Stewart Products*, N.Y. TIMES, (June 16, 2014), <http://www.nytimes.com/2014/06/17/business/ruling-against-jc-penney-in-dispute-with-macys-over-martha-stewart-products.html>.

²²⁷ *Id.*

²²⁸ JCP appealed the finding of liability and Macy's cross-appealed on the denial of putative damages. See J.C. Penney Corporation, Inc. Notice of Appeal, June 30, 2014, NYSCEF No. 408; Macy's, Inc. and Macy's Merchandising Group, Inc. Notice of Cross-Appeal, July 17, 2014, NYSCEF No. 420.

²²⁹ RETAIL 3.0, *supra* note 63.

²³⁰ *Id.* at 2.

VI. CONCLUSION

While shared branding is an attractive business arrangement in that it allows companies to retain control over their products and trademarks while leveraging the goodwill and brand equity through association with unrelated reputable brands, there are various legal and economic risks associated with such arrangements. Companies interested in entering into arm's length, shared branding arrangements should be cognizant of the potential for blurring of the distinctiveness of trademarks and trade dress, potential disclosure of trade secrets, and untrustworthy partners. Even between sophisticated parties, as illustrated by the Macy's-Martha Stewart-J.C. Penny controversy, shared branding partnerships can turn litigious. While shared branding has become increasingly popular, companies should exercise diligence and carefully assess the benefits and the risks and ask whether two or more brands in a single commercial space are really better than one.