***Goodwill* and Trademark Law and Policy**

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**“Mark X for Product Y”**

The most elementary yet most fundamental expression of trademark rights, interests, and practice is “Mark X for Product [or Service] Y.”

That phrase captures a traditional and still essential trademark proposition: A trademark is a symbol or sign (“X”) that has no legal existence other than in connection with its use with a product or service offered by a business, organization, entity, or other group (“Y”).

That critical X-for-Y relationship is embodied in the word “*goodwill,*” which is a staple of trademark law, practice, policy, and theory.

Sometimes the idea of “*goodwill*” is invoked in trademark arguments but then ignored as a matter of substance, so that “goodwill” operates a kind of benign talisman. You can trace the changing link between idea (or form) and substance over time. If we look back at trademark history, in the 19th century and early 20th century, *goodwill* was really what trademark law was all about. Companies used trademarks to create goodwill, meaning economic value associated with customer demand for their products and services. They enforced trademarks in order to protect that goodwill from competitors who copied their marks. Over the course of the 20th century, the mark itself became much more important on its own, partly as a symbol of goodwill and in some respects as an intangible “thing,” with *goodwill* lurking somewhere in the background. Today, trademarks are as a valuable in their own right as the lines of business that they symbolize.

Regardless of those historical twists and turns, today, better practice looks at *goodwill* as a substantive principle and something that distinguishes trademark in important ways from its intellectual property cousins, copyright and patent.

Here's what that means. Unlike a copyright or a patent, a trademark has no legal existence as an abstract “thing.” It’s not “property,” like a tangible object (your car) or a parcel of real estate (an acre of land) or an issued patent for a novel invention. A trademark doesn’t need to be creative or inventive or new; it becomes legally valid when it signifies *goodwill*, which is commonly defined as the meaning of the mark in the minds of relevant consumers by virtue of its use in connection with a specific product or service. If that *goodwill* exists, then the law says that the mark is “distinctive as to source.”

Take McDonald’s restaurants, and consider the “Golden Arches” trademark (the yellow M against a red background), which is one of McDonald’s many trademarks. When you see that trademark, as a consumer, in your mind you likely do two things.

McDonald's (@McDonalds) | TwitterOne, you think to yourself “ *means McDonald’s*.”

Two, you think to yourself “*McDonald’s means inexpensive hamburgers, fries, and other fast food that looks, smells, and tastes a specific way, and is served via a standard system in a typical red-white-and-yellow restaurant no matter which location I visit.”*

McDonald's (@McDonalds) | TwitterThat two-step sequence is *goodwill* in action: *your* associations between the trademark and the service (restaurant services, in this case), which *you* have built up over *your* years of experience with McDonald’s advertising and (possibly) eating McDonald’s food. Those associations, collected across all of McDonald’s actual customers and potential customers, represent an important stream of revenue for McDonald’s, which of course is something that McDonald’s feels very strongly about protecting.

McDonald's (@McDonalds) | TwitterMcDonald's (@McDonalds) | TwitterMcDonald’s *business* goal is linked to the structure of McDonald’s *legal* interests under trademark law. The existence of *goodwill* (customer associations with the McDonald’s mark) is both legally and practically essential to the legal validity of the *McDonald’s* trademark, owned by *McDonald’s.* Trademark law declares that the mark is “distinctive” because that goodwill exists, or is presumed to exist. McDonald’s owns the trademark. There’s a “virtuous circle” at work. The existence of the trademark allows McDonald’s both to recognize its past successes with customers, embodied in the trademark, and to look ahead. Trademark law enables McDonald’s to create and protect the goodwill that’s bundled in *your* associations with *McDonald’s* services. Not coincidentally, trademark law and policy assumes that what’s good for McDonald’s is also good for consumers. Authentic use of the mark by McDonald’s means that consumers can get the hamburgers that they want. Infringing (unauthorized) use of the mark means that consumers might be confused. They might expect a Big Mac but get something else, instead.

What does the idea of *goodwill* have to do with trademark law in practice?

McDonald's (@McDonalds) | TwitterHere’s the key principle. If the connection between the trademark and the product or service is severed, for any reason, then the trademark may lose its legal status. That can happen in one of several ways, which are listed below. But the implications and consequences can be severe: The mark would return to the public, available for development as a new mark by a new or different user or for use as a symbolic or communicative word, phrase, or other device in any other setting. If McDonald’s stops maintaining the goodwill associated with the mark then some other company could pick up that same trademark and start using it without McDonald’s permission, because McDonald’s would have no more trademark rights in that mark.

This is pretty rare in practice, and there are some exceptions and limitations to this general rule, but the fact that the rule exists is pretty important to how trademark lawyers think and act and advise clients.

Links between a trademark and the goodwill that it represents can be broken in four ways:

Three of these are collected in a general principle: *failure by the trademark owner to maintain that goodwill in connection with the mark.* If this happens, then the trademark owner is said to have “abandoned” the mark.Abandonment can happen in one or more of three ways: One is “naked licensing.” A second is “assignments in gross.” A third is “failure to use the mark.”

For example, mark owners may want to sell or license their mark to business partners or franchisees as part of manufacturing or retail systems, for example. (McDonald’s does this a lot; many McDonald’s restaurants are not owned or operated by the corporation called McDonald’s.) As business assets, trademarks may be sold and purchased; the legal term of art for such a transaction is an “assignment.” Or, a trademark owner may give permission to use the trademark to some other organization, in a transaction called a “license.” The business of trademark licensing – retaining ownership but granting permission to use the mark to one or more firms – is worth billions of dollars annually to trademark owners.

A valid trademark assignment and a valid license must include a transfer of *goodwill* together with ownership or permission to use the *mark*. An attempt to transfer a trademark or rights in a trademark without also transferring goodwill results in an “assignment in gross” (where the mark owner sells or transfers 100% of the mark) or a “naked” license (where the mark owner retains ownership but grants permission to someone else to use the mark). The legal implication of an “assignment in gross” or a “naked” license is abandonment of the mark.

McDonald's (@McDonalds) | TwitterHow do mark owners ensure that “goodwill” is transferred along with rights in the trademark itself? The mark owner has to take practical and/or contractual steps to ensure that when the mark is being used in commerce – in the business – then consumers continue to experience the same “One” “Two” mental steps that *goodwill* signifies (see above!). On the ground and in the store, that means *quality control.* When consumers see the mark with hamburgers, fries, and milkshakes, they may not expect that the actual McDonald’s company (the global corporate parent) made the food, but they expect that the actual McDonald’s had something to do with ensuring that the food tastes like McDonald’s food, with corresponding cost (cheap) and quality (safe).

So,when McDonald’s licenses its trademarks to a local franchisee, the company and the franchisee sign a series of contracts. Some of those identify and transfer certain rights in McDonald’s trademarks (so that the franchisee can use them, with the permission of McDonald’s as trademark owner). Others specify all of the various things that the franchisee has to do to ensure that its local restaurant meets McDonald’s *quality control* standards: where to buy food and other supplies, how to cook and prepare the food, how to maintain the cleanliness of the restaurant, how to train and supervise employees, how to advertise the restaurant, and so on. By contract, McDonald’s will have the right to send inspectors to the restaurant to make sure that the local franchisee is holding up its end of the bargains. The sum total of those contractual duties and the steps that McDonald’s and its franchisees take to fulfill them equals the *goodwill* that trademark law insists on as a condition of McDonald’s preserving its valid trademarks. Plus, all of that is (we assume) good for consumers.

McDonald’s may be an unusually large-scale and unusually successful example of trademark and goodwill management, and its combination of contract and in-person quality control techniques is not the only way that a company can maintain its trademark portfolio and make money selling things.

*This is an area where business people and business lawyers (who focus on how the client makes money by growing the business) need to work closely and creatively with trademark lawyers (how do we protect our trademark rights as key assets of the business?). This “transactional” side of trademark law practice can have a significant impact on the bottom line. Note that it’s not only the company that wins if this “virtuous circle” is handled properly. In* McDonald's (@McDonalds) | Twitter*theory, consumers win, too, because they can appropriately rely on the* goodwill *that’s embodied in the mark. When a family sees a sign by the highway, they should have confidence in the quality(ies) of the restaurant and the food that they’ll find there.*

Here's another example of *failure by the mark owner to maintain the goodwill connected with the mark.* Trademark owners must continue to *use* the mark in connection with relevant goods or services (so-called “commercial use”) in order to maintain the validity of the mark. Commercial use preserves the *goodwill* associated with the mark, because it keeps that “One” “Two” equation active in the minds of consumers.

McDonald's (@McDonalds) | Twitter(Yes, trademark owners maintaining the symbolic meaning of their trademarks in the minds of consumers means *advertising*, and advertising can be – and is often intended to be – creepy and manipulative. Yes, trademark assumes that consumers like and use trademarks, but trademark also encourages trademark owners to manipulate how consumers think so that when consumers see , they always think: McDonald’s. Welcome to trademark law!)

Commercial use might mean advertising and marketing; it might be labelling products and product packaging and signage in certain trademark-relevant ways. Consumers must experience the mark when they search for, shop for, buy, and/or use the products and services.

If use of the mark stops and there is no evidence that the mark owner intends to resume its use, then the link between the mark and goodwill may be severed and a court may declare that mark has been abandonedbecause of non-use*.* The trademark owner loses all rights in the mark, and the mark may be appropriated by another user. This problem comes up when companies stop selling products that have been identified for a long time by a specific brand name. It also comes up when sports franchises relocate from one city to another and re-brand themselves, with new colors and/or nicknames, and when sports franchises fold and go out of business altogether. The Indianapolis Colts NFL franchise was once the Baltimore Colts. When the team moved to Indiana, it contested the fact that a new *Canadian* Football League team opened in Baltimore and called itself the “Baltimore Colts.”

*This is an area where creative trademark lawyers can be asked to find ways to preserve the “use” of the trademark – possibly by creating ongoing merchandising campaigns, such as jerseys for the “former” team – even when the “primary” or “original” use of the mark has ended.*

That summarizes three ways in which trademark rights may be “abandoned” by the trademark owner by virtue of the mark owner’s failure to maintain the *goodwill* associated with the mark*.* These are all areas where the trademark owner (and the relevant lawyers!) have a lot of influence over what happens to their trademark rights. Good legal counsel and wise business judgment can avoid almost all of these problems in practice. “Naked licensing,” “assignments in gross,” and abandonment through non-use are all rare, in practice. This is one reason why cases describing those legal rules often appear at the very end of trademark law casebooks and courses!

There’s a fourth scenario in which trademark rights can be lost by virtue of a dis-connection between the mark and its *goodwill*. This scenario is often far less within the control of the mark owner.

The trademark may lose its distinctiveness as a source identifier relative to a specific product or service – that is, it may become invalid as a mark – because it becomes “generic,” so that it refers to a type or class of product (“light beer”) rather than to a specific company’s version (“Bud Light,” “Miller Lite,” “IC Light”). Sometimes this happens because the trademark owner isn’t careful enough about using the trademark *as a trademark* (using mark X to refer to its own product Y). Sometimes this happens because consumers in the public at large simply start using the word (or phrase, or other symbol) in a generic way, rather than in a product-specific way (heroin, aspirin, and elevator each were once valid trademarks). Regardless of how this process takes place, marks of this sort are said to suffer *genericide*.

Trademark owners sometimes like to believe that they can control how people talk. But they can’t, neither as a matter of law nor as a matter of social life and free expression. Nevertheless, companies with widely-known trademarks sometimes conduct advertising campaigns intended to “teach” consumers to use their products’ names *as trademarks* (that is, only to refer to specific products from those companies) rather than as generic words or phrases. If the trademark’s validity is challenged in court, those campaigns may be offered as evidence that the company has continued to use the mark *as a mark*, so that it has not become generic – even if consumers have behaved otherwise.

No one is required to follow a trademark owner’s demand that they use so-called “trademarked” words or phrases in a certain way, so long as the usage isn’t commercial (related to advertising or marketing) and isn’t likely to cause consumer confusion. Every year, the “Association of Motion Picture Arts and Sciences,” or AMPAS, which runs the “Oscars” awards program, sends messages to media around the world demanding that the media put the ® sign [meaning: “registered trademark”] next to every reference to “Oscar,” because AMPAS owns a federal trademark registration for “OSCAR” in connection with entertainment and awards programs. Legally speaking, the media are safe in ignoring AMPAS. As I would be too, if AMPAS cared to send me a similar note!

Examples of companies in this category of “maybe generic in use, but not (yet) generic legally,” partly because of corporate advertising campaigns about trademark usage, include Xerox, Kleenex, Lego, and Google.

Last but by no means least – and maybe the single most important takeaway from this whole summary – the idea of *goodwill* is translated in practice into the way that trademark lawyers (and judges!) speak and write. To return to the starting point for this article, “Mark X for Product Y” is the basic syntax of trademark law. It’s the standard introduction to a trademark law analysis, the first step in any trademark law problem or issue, the first problem to be solved, the lingua franca of trademark lawyers on social media and at cocktail parties, and so on. Mark X for Product Y means that the trademark in question relates to a specific product or service, and it means that the relationship adds up to the kind of goodwill that trademark law insists on. Mastering that syntax – knowing what it is, why it is, and how, when, and where to use it – is a critical first step, and a massive first step, toward becoming a competent trademark lawyer.

**Say it aloud: “Mark X for Product Y”**