Fordham Intellectual Property, Media and Entertainment Law Journal

Volume 8 *Volume VIII*
Number 1 *Volume VIII Book 1*

Article 10

1997

Keep It Real: A Call For a Broader Quality Control Requirement in Trademark Law

Noah D. Genel
J.D. Candidate, 1998, Fordham University School of Law

Keep It Real: A Call For a Broader Quality Control Requirement in Trademark Law

Cover Page Footnote

The author gratefully acknowledges the insight, support, and friendship of Professor Hugh C. Hansen, Fordham University School of Law, in the preparation of this Note. This Note is lovingly dedicated to my parents, Jeffrey and Regina, who inspire me to reach for my goals.

NOTE

Keep It Real: A Call For a Broader Quality Control Requirement in Trademark Law

Noah D. Genel*

INTRODUCTION

Jim rolls out of bed, stumbles into the bathroom, applies shaving cream to his face, and picks up his new ShaveCorp brand Smooth-Glide razor—the one that is advertised for its ability to make shaving the smoothest part of your morning. But the first razor stroke across Jim's face produces a sharp stinging sensation and draws blood. With the blood streaming down his cheek, Jim thinks this shave is just too close for comfort!

ShaveCorp responds to Jim's subsequent complaint by referring him to the Canadian licensee that manufactures the blades under ShaveCorp's Smooth-Glide trademark. But ShaveCorp cannot shrug off responsibility so easily; the company risks the loss of trademark protection for failing to adequately police the quality of its licensed Smooth-Glide razor blades.[1] Ironically, ShaveCorp

* J.D. Candidate, 1998, Fordham University School of Law. The author gratefully acknowledges the insight, support, and friendship of Professor Hugh C. Hansen, Fordham University School of Law, in the preparation of this Note. This Note is lovingly dedicated to my parents, Jeffrey and Regina, who inspire me to reach for my goals.

1. *See* BEVERLY PATTISHALL, ET AL., TRADEMARKS AND UNFAIR COMPETITION § 4.05 (2d ed. 1994) [hereinafter PATTISHALL, TRADEMARKS] ("In the absence of real and effective control by the licensor the trademark will no longer symbolize a particular source [of goods] and the licensor may no longer have a protectable interest in the trademark."); *see also* Dawn Donut Co. v. Hart's Food Stores, Inc. 267 F.2d 358, 366 (2d Cir. 1959) ("[T]he Lanham Act places an affirmative duty upon a licensor of a registered trademark to detect and prevent misleading uses of his mark by his licensees or suffer cancellation of his federal registration) (citing Trademark Act of 1946 ("Lanham Act"), ch. 540, 60 Stat. 427 (codified as amended at 15 U.S.C.A. §§ 1051-1127 (West 1997))); *see, e.g.*, C.B. Fleet

would not have risked the same type of trademark damage had it manufactured and sold dull razor blades on its own.[2] There lies the strange dichotomy in the doctrine of trademark quality control.

The quality control requirement is a well-established doctrine of trademark assignment and licensing.[3] The quality control rule stems from the notion that brands are more than mere indicators of source, as they were originally viewed.[4] Modern courts and commentators recognize that trademarks identify both the source and the quality of the products or services to which they are affixed.[5]

Co. v. Complete Packaging Corp., 739 F.Supp. 393, 395-96 (N.D. Ill. 1990) (illustrating a comprehensive set of quality control procedures established by the licensor of a trademark); *see also infra* Parts I.D.1, I.D.2 (setting forth the rules against assignment in gross and naked licensing of trademarks).

2. *See* PATTISHALL, TRADEMARKS, *supra* note 1, § 4.05, at 164-69 (explaining that the quality control requirement eases the deceptive consequences of trademark licensing). Because trademark licensing, in effect, misleads the public as to the source of goods, the quality control requirement insures that such de facto deception does not work a harmful effect on the public. *See id.*; *see also* Helene Curtis v. National Wholesale Liquidators, Inc., 890 F. Supp. 152, 157 (E.D.N.Y. 1995) (noting that goods must meet the trademark owner's quality control standards to be considered genuine goods, otherwise "their sale will constitute trademark infringement") (quoting Polymer Tech. Corp. v. Mimran, 37 F.3d 74, 78 (2d Cir 1994)); *see also, e.g.*, *C.B. Fleet Co.* 739 F.Supp. at 398-99 (enjoining further use of a licensed trademark following product contamination because consumers would buy the licensed products in the erroneous belief that they had been manufactured under the control of the trademark owner); *cf.* Burger King Corp. v. Stephens, T.L.C.S., Inc., No. CIV-A 89-7691, 1989 WL 147557 (E.D. Pa. Dec. 6, 1989) (recognizing the risk of physical harm to consumers in a case involving subversion of quality standards in a fast-food franchise).

3. *See* Warner-Lambert Co. v. Northside Dev. Corp., 86 F.3d 3, 6 (2d Cir. 1996) (discussing how fluctuation of the quality of a product can result in tarnishment of the trademark under which the product is marketed); Shell Oil Co. v. Commercial Petroleum, Inc., 928 F.2d 104, 107 (4th Cir. 1991) (affirming District Court's finding that quality control standards are an "integral part" of a trademark); El Greco Leather Prods. Co. v. Shoe World, Inc., 806 F.2d 392, 395-96 (2d Cir. 1986) (holding that goods marketed under a trademark but not produced under the trademark holder's quality controls were not "genuine" goods for purposes of trademark law).

4. *See* Ethan Horwitz & Benjamin Levi, *Fifty Years of the Lanham Act: A Retrospective of Section 43(a)*, 7 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 59, 60-61 & nn.4, 5 (1996) (noting trademark's origins in the common-law tort of deceit and the law of unfair competition); Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813, 813-19 (1927) (discussing the evolution of the modern trademark).

5. *See* Schechter, *supra* note 4; *see also Polymer Tech.*, 37 F.3d at 78 (explaining that "trademark law . . . serves to guarantee the quality of the trademarked product") (quoting Original Appalachian Artworks, Inc. v. Granada Elecs., Inc., 816 F.2d 68, 75 (2d Cir. 1987) (Cardamone, J., concurring)).

Accordingly, trademark law imposes a requirement on trademark licensors and assignors to control the quality of the products produced under their brand names by licensees and assignees.[6] This rule guarantees that licensed products are genuine[7] and that they maintain their integrity.[8]

Ensuring that only genuine products reach the market perpetuates goodwill.[9] Without a quality control requirement, a trademark license might divorce the mark from its goodwill because the products produced by the unsupervised licensee would likely fall below the brand owner's quality controls.[10] Thus, consumers who purchase non-genuine goods, relying on the mark's goodwill, would be deceived.[11]

Today, courts apply the quality control requirement not to all

6. *See* TMT North Am., Inc. v. Magic Touch GmbH, 124 F.3d 876, 885 (7th Cir. 1997) (stating that "[i]f a trademark owner allows licensees to depart from its quality standards, the public will be misled, and the trademark will cease to have utility as an informational device"); Taco Cabana Int'l, Inc. v. Two Pesos, Inc., 932 F.2d 1113 (5th Cir. 1991) (explaining that "[t]he purpose of the quality control requirement is to prevent the public deception that would ensue from variant quality standards under the same mark or dress"), *cert. granted in part*, 502 U.S. 1071, *aff'd*, 505 U.S. 1071 (1992).

7. Genuine goods are products made and distributed under the trademark owner's quality controls. *See Polymer Tech.*, 37 F.3d at 78 (stating that "[g]oods . . . that do not meet the trademark owner's quality control standards will not be considered genuine goods, and their sale will constitute trademark infringement").

8. *See* 2 J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 18:55 (4th ed. 1996) (stating that "customers are entitled to assume that the nature and quality of goods and services sold under the mark at all licensed outlets will be consistent and predictable").

9. Goodwill is defined as "[p]roperty of an intangible nature, commonly defined as the expectation of continued patronage." BLACK'S LAW DICTIONARY 694 (6th ed. 1990); *see also* 1 MCCARTHY, *supra* note 8, § 2:17 (stating that goodwill "is a business value that reflects the basic human propensity to continue doing business with a seller who has offered goods and services that the customer likes and has found adequate to fulfill his needs").

Although this Note spells the term "goodwill" as one word, several of the authorities quoted herein use the term as two words: "good will."

10. *See* 2 MCCARTHY, *supra* note 8, § 18:2 (explaining that "[g]oodwill and its trademark symbol are as inseparable as Siamese Twins who cannot be separated without death to both").

11. *See id.* § 18:3 (stating that "[u]se of a mark . . . in connection with a different goodwill and different product may result in a fraud on the purchasing public, who reasonably assume that the mark signifies the same nature and quality of goods or services").

trademark owners, but only to those who either assign or license their marks.[12] Nevertheless, courts are slowly broadening the doctrine in the recognition that consumers use brands to tell them exactly what products they are about to purchase, rather than to indicate merely the source and quality of those goods.[13]

Although the law is expanding in this area, the quality control requirement remains an under-used doctrine.[14] Its critics argue that it serves no important purpose and should be discarded.[15] Its proponents, however, argue that the requirement protects the essence of the trademark itself.[16] The scope of the quality control requirement thus remains an open issue.[17]

This Note asserts that the quality control requirement should apply to all trademark owners, regardless of whether or not they assign or license their marks. Part I recounts the history of the quality control requirement. Part II discusses the differing views regarding the utility of the doctrine and analyzes cases in which courts have and have not enforced the requirement. Part III argues that the quality control requirement would effectively preserve public trust in the trademark system if it were expanded to apply to all trademark owners. This Note concludes that courts should apply the quality control doctrine equally to every trademark holder.

12. *See supra* note 3 and accompanying text (discussing how courts currently apply the quality control requirement).

13. *See* Warner-Lambert Co. v. Northside Dev. Corp., 86 F.3d 3, 6-8 (2d Cir. 1996) (applying the quality control requirement to wholesalers of trademarked goods); Shell Oil Co. v. Commercial Petroleum, Inc., 928 F.2d 104, 107-08 (4th Cir. 1991) (same); *see also infra* Parts II.A.1, II.A.2 (analyzing *Warner-Lambert* and *Shell Oil*).

14. *See infra* Part II (discussing the conflict over the proper application of the quality control requirement).

15. *See* Kevin Parks, *"Naked" Is Not a Four Letter Word: Debunking the Myth of the "Quality Control Requirement" in Trademark Licensing*, 82 TRADEMARK REP. 531, 568-69 (1992).

16. *See* Elmer William Hanak, III, *The Quality Assurance Function of Trademarks*, 43 FORDHAM L. REV. 363, 363-64 (1974) (stating that "one can make the argument that in the world of modern marketing the primary function of a trademark is to indicate degree of quality").

17. *See infra* Part II (setting forth the debate over the proper application of the quality control requirement).

I. HISTORY OF THE QUALITY CONTROL REQUIREMENT

The Trademark Act of 1946 ("Lanham Act")[18] defines a trademark as "any word, name, symbol, or device, or any combination thereof [used or intended to be used by a person] in commerce . . . to identify and distinguish his or her goods . . . from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown."[19] This definition is consonant with the traditional view of trademarks as indicators of source.[20]

The definition has sparked great debate in its application as trademark theorists argue over whether brands serve merely as source indicators or whether they also represent a level of product quality that a consumer can expect to receive upon purchasing an item.[21] This part examines the history and purposes of the quality control requirement in trademark law and explains how a trademark owner's neglect of quality control can cause an abandonment of the mark.

A. *The Trademark as an Indicator of Source*

Courts and commentators always have viewed trademarks as indicators of source.[22] The modern trademark is rooted in the "regulatory production mark," which manufacturers were required by law to affix to their products in order to allow consumers to trace defective craftsmanship back to its source.[23]

The ancestor of the modern trademark protected consumers by enabling them to police the marketplace and by giving them a

18. Trademark Act of 1946 ("Lanham Act"), ch. 540, 60 Stat. 427 (codified as amended at 15 U.S.C.A. §§ 1051-1127 (West 1997)).

19. 15 U.S.C.A. § 1127 (West 1997).

20. *See infra* note 22 and accompanying text (explaining the traditional view of the function of trademarks).

21. *Compare* Parks, *supra* note 15, at 531-36 (arguing that trademarks do not "guarantee" the quality of the goods to which they are affixed), *with* Hanak, *supra* note 16, at 363 (stating that "[t]oday virtually every writer on trademark law accepts the quality assurance function").

22. *See* Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 412 (1916) (finding that a mark's purpose is "to identify the origin or ownership of the goods to which it is affixed").

23. Schechter, *supra* note 4, at 814.

means of seeking redress if they purchased a sub-quality product.[24] Source identifiers not only allow purchasers to quickly identify goods, they also insure that manufacturers are accountable to consumers for any substandard products.[25] The desire for manufacturer accountability led to the emergence of the quality-indicator function of trademarks.[26]

B. *The Trademark as an Indicator of Quality*

Almost all trademark theorists define trademarks as indicators of a product's source and as guarantors of its quality.[27] In this manner, brands enable owners to create goodwill.[28] Goodwill provides consumers with the ability to easily relocate and repurchase a certain product based on its brand name.[29] Requiring brand owners to maintain consistent product quality strengthens goodwill and builds consumer trust in the entire trademark system.[30] Consequently, the quality control requirement allows consumers to rely on trademarks as indicators of exactly what they are about to purchase, instead of merely who produced it.[31]

24. *See id.*

25. *See id.*

26. *See id.* at 819 (stating that "today the trademark is not merely the symbol of goodwill, but often the most effective agent for the creation of goodwill imprinting upon the public mind an anonymous and impersonal guarantee of satisfaction"). The mark can only guarantee satisfaction with a product if it accurately conveys the nature of the product to the consumer; the quality of the item is an integral aspect of the product. *See* Hanak, *supra* note 16, at 364 (stating that consumers rarely know or care about the exact source of the products they buy).

27. *See id.* at 363 (asserting that "virtually every writer on trademark law accepts the quality assurance function"); *see also* Schechter, *supra* note 4, at 818 (stating that "[t]he true functions of the trademark are . . . to identify a product as satisfactory and thereby to stimulate further purchases by the consuming public"). Professor Schechter's theory shows that trademarks are symbols of goodwill. *See* discussion *supra* note 9 (defining "goodwill"). *But see* Parks, *supra* note 15, at 532 (arguing that trademarks do not serve to guarantee the quality of a product).

28. *See* Schechter, *supra* note 4, at 818 ("To describe a trademark merely as a symbol of goodwill, without recognizing in it an agency for the actual creation and perpetuation of goodwill, ignores the most potent aspect of the nature of a trademark and that phase most in need of protection.").

29. *See supra* note 9 and accompanying text (defining "goodwill").

30. *See* Schechter, *supra* note 4, at 819 (stating that trademarks are the "most effective agent[s] for the creation of goodwill").

31. *See* Hanak, *supra* note 16, at 364. According to Hanak, consumers are con-

C. *Neglect of Quality Control Is Abandonment*

Section 45 of the Lanham Act states that a trademark will be deemed to be abandoned if the owner (1) discontinues using the mark with the intent never to resume using it, (2) causes its mark to become the generic name for the item to which the mark is affixed, or (3) causes its mark to lose its significance as a trademark.[32] In interpreting this definition, courts have ruled that trademark assignors and licensors abandon their marks when they fail to establish and monitor quality controls to which their assignees or licensees must adhere.[33]

Failure to supervise the manufacturing process of a product causes its quality to fluctuate, thus consumers cannot rely on its trademark to indicate exactly what they are buying.[34] As a result, the brand loses its significance in the marketplace, and the mark holder violates the third principle of the definition of abandonment in the Lanham Act.[35]

1. The Rule Against Assignment in Gross

The owner of a trademark may assign the right to use the mark to a third party.[36] The law requires, however, that any assignment also include the goodwill in the mark.[37] Trademarks enable sellers

cerned about their ability to use trademarks as a personal measure of quality. *Id.* ("In short, a consumer wishes to match a trademark with what he likes and dislikes. If the origin of a product is of concern to a consumer, it is only because the manufacturer's products have come to be associated with a certain level of quality.").

32. *See* 15 U.S.C.A. § 1127 (West 1997).

33. *See infra* Parts I.C.1, I.C.2 (setting forth the rules against assignment in gross and naked licensing).

34. *See* 2 MCCARTHY, *supra* note 8, § 18:55 (describing the requirement for consistent quality in trademarked goods).

35. *See* 15 U.S.C.A. § 1127.

36. See Clark & Freeman Corp. v. Heartland Co., 811 F. Supp. 137, 139 (S.D.N.Y. 1993) ("Generally, an assignment of a trademark and its accompanying goodwill will entitle the assignee to step into the shoes of the assignor.") (internal quotations omitted).

37. *Id.* (quoting Marshak v. Green, 746 F.2d 927, 929 (2d Cir. 1984)). According to the *Marshak* court, the "[u]se of the mark by the assignee in connection with a different goodwill and different product would result in a fraud on the purchasing public who reasonably assume that the mark signifies the same thing, whether used by one person or another." *Marshak*, 746 F.2d at 929.

to market their goods by affixing names to them.[38] Consumers sample a product and, if they like it, they can quickly find it again through recognition of the trademark.[39] As consumers repeatedly purchase the item, its mark gains goodwill and, in the language of trademarks, grows in strength.[40] Thus, strong marks reduce consumer search costs by immediately identifying what products buyers will receive when they rely on the goodwill in those brands.[41] When a trademark owner separates its mark from the goodwill in that mark, for example by assigning the right to use the brand name without establishing provisions for the simultaneous transfer of the mark's goodwill, search costs rise because the brand no longer necessarily represents the true nature of the items sold under that name.[42]

Section 10 of the Lanham Act states that "[a] registered mark or a mark for which application to register has been filed shall be assignable with the goodwill of the business in which the mark is used."[43] The reason behind this limitation, according to Professor McCarthy, is that "a trademark is merely a symbol of goodwill."[44]

---

38. *See* 1 MCCARTHY, *supra* note 8, § 3:2. Professor McCarthy explains that trademarks perform four basic functions:

> 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.

Id.

39. *See id.* ("Without the identification function performed by trademarks, buyers would have no way of returning to buy products that they have used and liked.").

40. *See id.* ("If this consumer satisfaction and preference is labeled 'goodwill,' then a trademark is the symbol by which the world can identify that goodwill.").

41. *See* William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective,* 30 J.L. & ECON. 265, 268-70 (1987) (arguing that trademarks perform an "economizing function" by making goods easily identifiable using unique names attached to each item). Professor Landes and Judge Posner write that "[t]he value of a trademark is the saving in [consumer] search costs made possible by the information or reputation that the trademark conveys or embodies about the brand." *Id.* at 270.

42. *See id.*

43. 15 U.S.C.A. § 1060 (West 1997).

44. 2 MCCARTHY, *supra* note 8, § 18:2.

If the mark loses that goodwill, it is worthless.[45] After an assignment in gross, "the assignee obtains the symbol, but not the reality."[46] Trademark law, therefore, forbids a brand owner from assigning its mark to another party without simultaneously conveying its goodwill.[47] Such an assignment would deceive consumers who rely on the brand's goodwill because the purchased items would differ from what they expected to receive, due to the original brand owner's lack of input in the manufacturing process.[48]

Consistency of product quality effectively promotes repeat purchasing and strengthens goodwill[49]—even where products are of a lesser, rather than higher caliber.[50] Consumers become repeat buyers after enjoying a favorable experience with a product, and they expect the product's quality to remain consistent.[51] In this manner, repeat purchasing indicates consumer satisfaction with the quality of the product.[52] The rule against assignment in gross protects consumers by requiring a trademark assignor to monitor its assignee, insuring that the products the assignee produces retain their pre-assignment quality level.[53] The consumer can thus be

45. *See* DuPont Cellophane Co. v. Waxed Prods. Co., 85 F.2d 75, 82 (2d Cir. 1936) (holding that the word "cellophane" has become generic to most people, hence signifies only the product, not the source or quality of that product).

46. 2 MCCARTHY, *supra* note 8, § 18:3.

47. *See* discussion *supra* note 37 (describing the connection between trademarks and goodwill).

48. *See* Marshak v. Green, 746 F.2d 927, 929 (2d Cir. 1984).

49. *See* Landes & Posner, *supra* note 41, at 270. Professor Landes and Judge Posner assert that "[o]nce the reputation [of a brand] is created, the [owner of the mark] will obtain greater profits because repeat purchases and word-of-mouth references will generate higher sales and because consumers will be willing to pay higher prices for lower search costs and greater assurance of consistent quality." *Id.*

50. *See* 1 MCCARTHY, *supra* note 8, § 3:10 (explaining that "the quality function of marks does not mean that marks always signify 'high' quality goods or services -– merely that the quality level, whatever it is, will remain consistent and predictable among all goods or services supplied under the mark").

51. *See id.*

52. *See* Landes & Posner, *supra* note 41, at 270 ("Creating . . . a reputation requires expenditures on product quality.").

53. *See* 1 MCCARTHY, *supra* note 8, § 3:11 (stating that "it is clear that trademark law permits the licensing of a mark under any circumstances where the licensor exercises quality control over goods and services that reach the customer under the licensed mark").

confident that what he buys will meet his expectations.[54]

Professor McCarthy explains that "[t]he situation sought to be avoided [by outlawing assignments in gross] is customer deception resulting from abrupt and radical changes in the nature and quality of the goods or services after assignment of the mark."[55] Assignment in gross is a fraud on the public.[56] The only way to avoid this consumer deception is to force the assignor to transfer the goodwill in the trademark to its assignee, including the level of product quality.[57]

2. The Rule Against Naked Licensing

Section 5 of the Lanham Act, entitled "Use by Related Companies," authorizes trademark owners to license their marks to other companies in the same field of business.[58] The provision contains three restrictions, (1) that the licensee be a "related company," (2) that the mark not be used in a manner that will deceive the public, and (3) that the owner monitor its licensee with respect to the "nature and quality" of the goods or services that the licensee produces.[59] This rule, permitting the licensing of trademarks, reflects a change from the law's original treatment of trademarks.[60]

As the law first developed, courts viewed trademarks as representing only the actual physical source of the product to which they were affixed.[61] This outlook is now known as the "source

54. *See id.* § 3:10 (indicating that trademarks send a message to consumers that they can expect to receive goods of consistent quality).

55. *Id.* § 18:10.

56. *See id.* § 18:3 ("Use of the mark by the assignee in connection with a different goodwill and different product may result in a fraud on the purchasing public.").

57. *See id.*

58. 15 U.S.C.A. § 1055 (West 1997); *see also* Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358, 367 (2d Cir. 1959) (finding that the "Lanham Act clearly carries forward the view . . . that controlled licensing does not work an abandonment of the licensor's registration, while a system of naked licensing does").

59. 15 U.S.C.A. § 1055.

60. *See Dawn Donut*, 267 F.2d at 366 (recounting that "[p]rior to the passage of the Lanham Act, many courts took the position that the licensing of a trademark separately from the business in connection with which it had been used worked an abandonment," regardless of whether or not the license contained provisions by which the licensor could control the quality of the licensee's product).

61. *See* 2 MCCARTHY, *supra* note 8, § 18:39.

theory" because it treats trademarks as nothing more than indicators of source.[62] In the 1930s, however, theorists developed the "quality theory" of trademarks,[63] in which brands serve the dual role of indicating both the source and quality of products and services.[64] Professor McCarthy states that "the consumer assumes that products sold under the same trademark will be of equal quality regardless of the actual physical source or producer of the goods."[65]

Professor McCarthy highlights the fact that the source theory does not adequately account for the way consumers use trademarks.[66] The average shopper wants to know what product he is purchasing, not the exact identity of the manufacturer.[67] Section 5 of the Lanham Act[68] recognizes this reality by authorizing a trademark owner to license its mark subject to the condition that the licensor maintain control of both the nature and quality of the products marketed under that trademark.[69]

Because a brand's goodwill sends a message to the consumer that he will have the same experience with the product today as he had in the past,[70] the brand's message is false if its owner does not retain control over the quality of the products sold under the mark. Such goods are not genuine.[71] The effects of a trademark owner's

62. *See supra* Part I.A (discussing how trademarks act as indicators of source).

63. *See* 2 MCCARTHY, *supra* note 8, § 18:40.

64. *See supra* Part I.B (discussing the quality indicator function of trademarks).

65. 2 MCCARTHY, *supra* note 8, § 18:40.

66. *See* 1 MCCARTHY, *supra* note 8, § 3:10 (indicating that trademarks simultaneously indicate both the source and quality of a product or service).

67. *See id.* § 3:9 (stating that the "source function was gradually softened by the courts to mean that the consumer expected all goods with the same mark to come from a single, but anonymous or indistinguishable, source").

68. 15 U.S.C.A. 1055 (West 1997).

69. *See id.* §§ 1055, 1127.

70. *See supra* notes 9, 28-30 and accompanying text (defining goodwill and discussing its utility); *see also* 1 MCCARTHY, *supra* note 8, § 3:10 (asserting that trademarks indicate consistency in quality).

71. *See* 1 MCCARTHY, *supra* note 8, § 18:42 (stating that a product is "genuine" only if it has been "manufactured and distributed under controls established by the manufacturer"); *see also* Shell Oil Co. v. Commercial Petroleum, Inc., 928 F.2d 104 (4th Cir. 1991) ("[I]n order to maintain the genuineness of the bulk oil, the quality control standards must be controlled by [the brand's owner]."); El Greco Leather Prods. Co. v. Shoe World, Inc., 806 F.2d 392, 395-96 (2d Cir. 1987) (ruling that the shoes manufactured by

lack of control over the quality of the goods sold under his brand name, therefore, are potentially devastating to the entire system of trademarks.[72]

3. The Introduction of the Quality Control Requirement to Trademark Law

In *Dawn Donut Co. v. Hart's Food Stores, Inc.*,[73] the Second Circuit Court of Appeals became the first court to apply the quality control requirement. In *Dawn Donut*, the court held that the Lanham Act permits a trademark owner to license its mark as long as that owner retains control over the quality of the goods its licensee sends into the market.[74] If the owner fails to exercise such control, it will be deemed to have abandoned its mark.[75]

The theory behind the rule in *Dawn Donut* is that naked licensing "create[s] the danger that products bearing the same trademark might be of diverse qualities."[76] Consumers are deceived when they purchase a product believing it to be of one quality, and it turns out to be different.[77] Although the market eventually may punish naked licensors through decreased sales of their products, consumers will be misled repeatedly during the period of market adjustment.[78] Congress, therefore, sought to prevent consumer deception entirely by promulgating the Lanham Act.[79] Courts use

the defendant were not genuine because the trademark owner was not given an opportunity to inspect them prior to distribution). "The mere act of ordering a product to be labeled with a trademark does not deprive its holder of the right to control the product and the trademark." *Id.* at 395-96.

72. *See* 1 MCCARTHY, *supra* note 8, § 3:10 (asserting that "few harms are more corrosive in the marketplace than the inability of a trademark holder to control the quality of bogus articles thought (erroneously) to derive from it") (quoting Hypertherm, Inc. v. Precision Prods., Inc., 832 F.2d 697, 700 (1st Cir. 1987)).

73. 267 F.2d 358 (2d Cir. 1959).

74. *See id.* at 367.

75. *See id.*

76. *Id.* (citing American Broadcasting Co. v. Wahl Co., 121 F.2d 412, 413 (2d Cir. 1941); Everett O. Fisk & Co. v. First Teachers' Agency, Inc., 3 F.2d 7, 9 (8th Cir. 1924)).

77. *See id.* ("If the licensor is not compelled to take some reasonable steps to prevent misuses of his trademark in the hands of others, the public will be deprived of its most effective protection against misleading uses of a trademark.").

78. *See id.*

79. *See* S. REP. NO. 79-1333, at 1-2 (1946) (stating that the Lanham Act "has as its

that legislation to strip naked licensors of all protection for their marks.[80] They rule that any licensed trademark that does not perform its function as a quality indicator has been abandoned by its owner, the licensor.[81]

II. THE DEBATE OVER THE PROPER APPLICATION OF THE QUALITY CONTROL REQUIREMENT

The proper application of the quality control requirement is an issue that has sparked great debate.[82] Kevin Parks, a critic of the quality control requirement, argues that the quality assurance theory of trademark law is useless.[83] He hypothesizes that "[n]ever would so significant a 'change' in the law of trademarks come so quietly into being as when the quality theory of trademarks was recognized for what it is—an anachronism."[84] This view is in stark contrast to that of proponents of the quality control requirement, who believe that quality assurance is the primary purpose of trademarks.[85] Although trademark theorists have made strong arguments on both sides of this issue, neither Congress nor the courts have definitively resolved the question of how broad the quality control requirement should be or whether it should exist at all.

This part sets forth the conflict over the correct application of the quality control requirement—analyzing the manner in which the debate is fueled by the divergent approaches of courts, some of

objective the protection of trademarks, securing to the owner the goodwill of his business and protecting the public against spurious and falsely marketed goods").

80. *See* Stanfield v. Osborne Indus., Inc., 52 F.3d 867, 871 (10th Cir. 1995) (holding that naked licensing is "inherently deceptive and constitutes abandonment of any rights to the trademark by the licensor"); Kentucky Fried Chicken Corp. v. Diversified Packaging Corp., 549 F.2d 368, 387 (5th Cir. 1977) (holding that a trademark owner loses the right to use the mark when he allows the mark to lose its utility as an informational device for consumers through uncontrolled licensing).

81. *See* SIEGRUN D. KANE, TRADEMARK LAW: A PRACTITIONER'S GUIDE 153, 156 (2d ed. 1991) (arguing that abandonment is an "affirmative defense" which will preclude a plaintiff's recovery).

82. *See generally* Parks, *supra* note 15, at 531-68 (challenging the validity of the quality control requirement).

83. *Id.* at 569.

84. *Id.*

85. *See* Hanak, *supra* note 16, at 363-64 (contending that "one can readily make the argument that in the world of modern marketing the primary function of a trademark is to indicate degree of quality, and only secondarily to indicate origin or source").

which expand the reach of the quality control requirement while others refuse to enforce the doctrine. The varying approaches represent a serious conflict in trademark law.

A. *Many Courts Now Recognize A Broader Rule*

The quality control requirement undeniably applies to cases of assignment in gross and naked licensing.[86] In addition, courts are now slowly expanding its application to other factual situations.[87] Most significantly, federal courts have held within the last ten years that wholesalers of a trademarked product must comply with the trademark owner's quality controls.[88] When wholesalers violate this rule, courts protect brand owners who sought to protect themselves by attempting to monitor the quality of the goods marketed under their brands.[89] *Shell Oil Co. v. Commercial Petroleum, Inc.*[90] and *Warner-Lambert Co. v. Northside Development Corp.*[91] are two recent cases that illustrate this new trend.

1. The *Shell Oil* Case

Shell Oil Co. ("Shell"), a major producer of oil used in trucks, routinely licensed its trademarks "Rotella" and "Shell Rotella T" to distributors and imposed stringent quality control procedures on those licensees.[92] Commercial Petroleum, Inc. ("Commercial"), the defendant, is an oil wholesaler who sold "Shell Rotella T" oil regularly, employing independent quality control methods.[93] Commercial's controls were lax in comparison to Shell's rigorous

86. *See supra* Parts I.A, I.B (setting forth the source and quality control rationales of trademark).

87. *See infra* Parts II.A.1, II.A.2 (demonstrating how courts are expanding the reach of the quality control requirement).

88. *See generally* Warner-Lambert Co. v. Northside Dev. Corp., 86 F.3d 3 (2d Cir. 1996) (holding that the manufacturer was entitled to a preliminary injunction forbidding the sale of its product after expiration of the freshness date); Shell Oil Co. v. Commercial Petroleum, Inc., 928 F.2d 104 (4th Cir. 1991) (affirming a preliminary injunction against a wholesaler's unauthorized trademark use).

89. *See Warner-Lambert*, 86 F.3d at 7; *Shell Oil*, 928 F.2d at 107.

90. 928 F.2d 104 (4th Cir. 1991).

91. 86 F.3d 3 (2d Cir. 1996).

92. *See Shell Oil*, 928 F.2d at 106.

93. *See id.*

requirements.[94] In addition, Commercial did not have Shell's permission to disregard Shell's high standards.[95] Shell, therefore, brought an action in federal court, based on trademark infringement and unfair competition law, claiming that Commercial's actions caused a likelihood of confusion among consumers of "Shell Rotella T" oil.[96]

The Court of Appeals for the Fourth Circuit began its analysis by stating that trademark law does not "apply to the sale of genuine goods bearing a true mark, even if the sale is without the mark owner's consent."[97] The court found, however, that trademark law did apply in this case because Commercial was selling non-genuine oil under Shell's brand name.[98] Moreover, Shell's quality control requirements were a part of the product.[99] According to the court, in order to be considered a genuine product, the oil had to pass through Shell's stringent quality controls.[100]

Having found that Commercial was marketing a non-genuine product, the court proceeded to address Shell's claims of trademark infringement and unfair competition.[101] It ruled that "[t]he use of the Shell marks implies that the product has been delivered according to all quality control guidelines enforced by the manufacturer."[102] Commercial's use of the Shell brand on a non-genuine item could lead prospective buyers to believe that they were purchasing a genuine product, and those consumers might believe that the oil had passed through Shell's rigorous quality control standards when, in fact, it had not.[103] The court found that Commercial had violated Shell's right to control the quality of the goods manufactured and sold under its mark.[104]

94. *See id.*
95. *See id.*
96. *See id.* at 106-07.
97. *Id.* at 107.
98. *See id.* ("Without Shell's enforcement of its quality controls, the bulk oil sold by Commercial was not truly 'genuine.'").
99. *See id.*
100. *See id.*
101. *See id.* at 107-08.
102. *Id.* at 108.
103. *See id.* at 107.
104. *See id.* at 108.

Shell Oil reaffirmed the holding of *El Greco Leather Products Co. v. Shoe World, Inc.*,[105] in which the court ruled that quality control standards are actually a part of the product.[106] In *Shell Oil*, the Fourth Circuit recognized that consumers rely on trademarks as quality guarantors.[107] No matter who is ultimately responsible for putting the product into stores, if the good has not passed through the brand owner's quality controls, that product is not genuine.[108] Selling it as if it were genuine is deceitful to consumers.[109] Courts use the quality control requirement to protect consumers against this form of deceit.[110]

2. The Warner-Lambert Case

In *Warner-Lambert*, the Second Circuit adopted a rationale similar to that used in *Shell Oil*. Warner-Lambert Co. ("Warner-Lambert") sued Quality King, a wholesaler of health and beauty aids, to enjoin the sale of Warner-Lambert cough drops sold under the brand name "HALLS."[111] Warner-Lambert employed strict quality control measures to insure that consumers of "HALLS" would not ingest stale cough drops.[112] According to Warner-Lambert, its cough drops became stale thirty months after they were produced, and consumers generally consumed a package of cough drops within six months after purchase.[113] Warner-Lambert, therefore, sought to insure that its cough drops would be sold to consumers within twenty-four months of production.[114]

The Second Circuit identified six ways in which Warner-Lambert attempted to control the quality of its product, including

105. 806 F.2d 392 (2d Cir. 1986).

106. *See Shell Oil*, 928 F.2d at 107 (citing El Greco Leather Prods. Co. v. Shoe World, Inc., 806 F.2d 392, 395 (2d Cir. 1986)).

107. *See id.* at 108 (holding that consumers rely on Shell marks as symbols of Shell quality).

108. *See El Greco*, 806 F.2d at 395-96 (holding that a product is not genuine unless it has been through the original manufacturer's quality controls).

109. *See Shell Oil*, 928 F.2d at 108 (holding that the defendant's use of Shell's mark without adhering to Shell's quality control standards was deceptive).

110. *See id.* (stating that consumers rely on trademarks as symbols of quality).

111. *Id.* at 5.

112. *See id.*

113. *See id.*

114. *See id.*

shipping the cough drops within eighteen months of production and packaging in cases bearing labels stating the expiration dates.[115] Quality King, however, had subverted Warner-Lambert's attempts at controlling its own product by removing the packages of "HALLS" from their original cases and selling them after the twenty-four month limit had expired.[116] Warner-Lambert sued Quality King to enjoin that practice.[117]

Quality King, nevertheless, argued that Warner-Lambert failed to employ adequate quality control procedures.[118] The court found that Quality King's contention could not be sustained because Warner-Lambert had the right to make a legitimate business judgment as to the amount of quality control required.[119] In addition, the court noted that a trademark holder will receive an amount of protection for its mark in proportion to the amount of effort it expends to protect itself.[120] The court held that Warner-Lambert had demonstrated sufficient effort in protecting itself and that Quality King's actions had devalued Warner-Lambert's mark.[121] Accordingly, the court protected Warner-Lambert's mark by enjoining "HALLS" distribution by Quality King.[122]

B. *Courts Protect Owners Who Protect Themselves*

Shell Oil and *Warner-Lambert* demonstrate that courts are beginning to protect trademark owners against wholesalers who subvert or ignore the owners' quality control standards, as long as those owners show a substantial interest in protecting both themselves and consumers from the effects of naked licensing and as-

115. *See id.*

116. *See id.*

117. *See id.* at 5-6.

118. *See id.* at 6.

119. *Id.* at 7 (holding that "[a] trademark holder is entitled, without losing its right to protect what value the mark has, to make a business judgment that additional quality control measures would add less value to the mark than their cost").

120. *See id.* (holding that the effectiveness of an owner's controls is relevant to a court's decision whether to grant protection against a company's selling non-genuine goods under the owner's mark). "A company that avails itself of wholly effective procedures will generally be entitled to relief against any measurable sales of non-conforming goods." *Id.*

121. *See id.* at 7-8.

122. *See id.* at 8.

signments in gross.[123] Conversely, *Polymer Technology Corp. v. Mimran*[124] reflects the lack of protection accorded to owners who fail to evince a requisite amount of concern for the quality of their own products and for the public's right to rely on the information conveyed by trademarks.[125]

Polymer Technology Corp. ("Polymer") manufactured contact lens cleaning solution, which it sold under the trademark "BOSTON."[126] Polymer employed two different types of packaging, one for retail markets, the other for exclusive distribution to eye-care professionals.[127] Polymer never sold the professional packages to retail stores because those packages did not include a list of ingredients, expiration dates, and other information of which the general consuming public should be aware.[128] Nevertheless, Polymer's contracts with the eye-care professionals did not expressly prohibit the resale of non-retail packaged "BOSTON" solution to retail stores.[129]

Although defendant Mimran owned a number of stores that sold eye-care products, Mimram was not an eye-care professional or an authorized dealer of Polymer's professional packages.[130] Nevertheless, Mimran obtained Polymer's professional packages and resold them to retail stores.[131] When Polymer sought to enjoin Mimran's actions, the Second Circuit found that Mimran had not violated Polymer's quality control standards.[132]

To prevail on its claim, Polymer would have been required to actually have and follow a definite set of quality control requirements.[133] Thus, the *Polymer Technology* decision demonstrates

123. *See* discussion *supra* Parts II.A.1, II.A.2 (analyzing *Shell Oil* and *Warner-Lambert*).

124. 37 F.3d 74 (2d Cir. 1994).

125. *See id.*

126. *See id.* at 77.

127. *See id.*

128. *See id.* Polymer sold the professional packages only through authorized dealers. *See id.*

129. *See id.*

130. *See id.*

131. *See id.*

132. *See id.* at 78.

133. *See id.* at 79 ("Because Polymer essentially admits that it did not carefully police any procedures it may have had in place to ensure that the necessary information ap-

that courts will not protect owners who do not exhibit adequate interest in shielding themselves from loss of goodwill. More importantly, *Polymer Technology* shows that courts will refuse to rule in favor of owners who disregard the safety of consumers by adopting procedures that result in inadequate labeling.[134]

C. *Some Courts Do Not Strenuously Enforce the Quality Control Requirement*

The holdings in *Shell Oil*, *Warner-Lambert*, and *Polymer Technology* demonstrate a trend toward a stronger, broader quality control requirement in trademark law.[135] Some courts, however, do not enforce the rule, and, in fact, find ways to circumvent it.[136] One commentator in particular maintains that the quality control requirement is useless for this reason, hence should be eliminated as a doctrine in trademark law.[137]

One commentator in particular, Kevin Parks, challenges the utility of both the quality control requirement and the more general quality assurance theory of trademark law.[138] Parks argues that its elimination "would not require wholesale changes in existing law," partly because courts rarely enforce it.[139] Although no court has actually denounced the quality control requirement, some courts have reduced its effectiveness by imposing a heavy burden of proof on parties seeking to show that a trademark owner has not met the requirement.[140]

---

peared on Polymer's packaging, we do not find Mimran's retail distribution of the professional kits . . . a violation of Polymer's own quality control standards.").

134. *See id.*

135. *See supra* Parts II.A.1-2, II.B (analyzing the *Shell Oil*, *Warner-Lambert*, and *Polymer Tech.* decisions).

136. *See* Moore Bus. Forms, Inc. v. Ryu, 960 F.2d 486 (5th Cir. 1992).

137. *See infra* text accompanying notes 138-139 (outlining Parks' arguments).

138. *See* Parks, *supra* note 15, at 535.

139. *See id.* at 568.

140. *See id.* at 541 (arguing that courts place a "nearly insurmountable" burden on parties seeking to show abandonment through lack of adequate quality controls); *see also* Embedded Moments, Inc. v. International Silver Co., 648 F. Supp. 187 (E.D.N.Y. 1986) (finding that a trademark license agreement need not include an explicit provision for quality control as long as the licensor retains actual control, and holding the licensor to a minimal standard of proof in showing such control).

A typical example is *Moore Business Forms, Inc. v. Ryu*,[141] in which Moore Business Forms ("Moore") registered the name "Compurite" as a trademark for its business.[142] Approximately ten years later, Ryu began to use the name "CompuRite" in the Houston market.[143] When Moore sued for trademark infringement, Ryu argued in defense that Moore had abandoned its mark by licensing "Compurite" to another company without providing for quality controls.[144] But the Fifth Circuit held that Moore had not issued a naked license.[145] The court found that "[b]ecause a finding of insufficient control essentially signals involuntary trademark abandonment and works a forfeiture . . . the proponent of a naked license theory 'faces a stringent standard' of proof."[146] Consequently, the court held that "there need not be formal quality control where 'the particular circumstances of the licensing arrangement [indicate] that the public will not be deceived.'"[147]

Moore Business Forms and similar cases dilute the strength of the quality control requirement, making the analysis appear purely *ad hoc*.[148] For this reason, Parks and other critics call into question the efficacy of the entire doctrine.[149] With the existence of such disparate holdings as *Shell Oil* and *Moore Business Forms*, courts must re-define the quality control requirement to ensure consistency and predictability within the law.[150] The main question is whether the policy behind the Lanham Act supports either the expansion or the elimination of the entire doctrine.[151]

---

141. 960 F.2d 486, 489 (5th Cir. 1992) (applying a "stringent standard of proof" on the party seeking a judicial finding of abandonment (citing Taco Cabana Int'l, Inc. v. Two Pesos, Inc. 932 F.2d 1113, 1121 (5th Cir. 1991), *cert. granted in part*, 502 U.S. 1071, *aff'd*, 505 U.S. 1071 (1992))).

142. *See id.* at 488.

143. *See id.*

144. *See id.* at 489.

145. *See id.*

146. *Id.* (quoting *Taco Cabana*, 932 F.2d at 1121).

147. *Id.* (quoting *Taco Cabana*, 932 F.2d at 1121).

148. *See* Parks, *supra* note 15, at 540 (stating that the quality control requirement is elusive and maintaining that an "objective standard of quality control is futile").

149. *See id.*

150. *See supra* notes 88-110, 141-147 and accompanying text (setting forth the holdings in *Shell Oil* and *Moore*).

151. *See infra* note 222 and accompanying text (setting forth the purpose of the Lanham Act).

III. THE QUALITY CONTROL REQUIREMENT SHOULD APPLY TO ALL TRADEMARK OWNERS

In enforcing the quality control requirement, there is no sound reason for courts to distinguish between trademark owners who assign or license their marks and those who do not. Consumers will suffer equivalent injuries whenever they buy goods that fluctuate in quality, regardless of whether they purchase them directly from the trademark owner or from the owner's licensee. Accordingly, this part argues that the quality control requirement should be applied to *all* trademark holders because quality control is essential to trademark law and serves the same basic principles as the trademark system as a whole.

A. *The "Dual Role" Is Actually A Single Function*

The traditional view of trademarks as indicators of both product source and quality misconstrues the true value of the trademark system and fails to recognize how consumers utilize brands.[152] A brand name really carries only one message: The buyer will receive exactly what he has been led expect by way of advertisements, past experiences, and word of mouth.[153] That message is known as the brand's goodwill.[154]

Trademarks undoubtedly act as indicators of source.[155] Although modern consumers do not have personal relationships with the manufacturers of the goods they buy, they rely on trademarks as general indicators of what entities made certain items.[156] Once consumers discover a product that they like, they become repeat buyers, using the trademark information as an assurance that they will receive exactly the same item each time they purchase the

152. *See* Hanak, *supra* note 16, at 363 (asserting that trademarks serve the dual purpose of identifying both the source and quality of the goods to which they are affixed).

153. *See id.* at 363-64.

154. *See supra* note 9 and accompanying text (defining the term "goodwill").

155. *See* Schechter, *supra* note 4, at 813-14.

156. *See* 15 U.S.C.A. § 1127 (West 1997) (defining the term "trademark" as "any word, name, symbol, or device" that identifies or distinguishes the goods to which it is affixed from those goods sold by others and to "indicate the source of the goods, even if that source is unknown").

goods marketed under the familiar brand name.[157] Manufacturers achieve consistency in the quality of their products through uniformity in the production process, and the monitoring of the that manufacturing system is known as quality control.[158] Thus, the quality control requirement must apply to all trademark owners to avoid fluctuation in product quality because absent such a broad doctrine. the source information that trademarks provide will not guarantee consumers that they will receive genuine products.

Courts and most trademark theorists agree that, in addition to acting as source indicators, trademarks also signify the quality of a product.[159] The specific quality level of an item is immaterial, as long as it remains consistent.[160] Consumers do not always want the highest quality products; they merely seek consistency and predictability.[161] For this reason, unfair competition law contains provisions protecting against false representations.[162] Trademarks employed in advertising may not misrepresent the products which they identify.[163] Fluctuation in product quality is analogous to misrepresentation because the mark will tell consumers that they will receive one thing when, in reality, they are likely to receive something of a lesser quality.

Consumers do not think in terms of trademarks acting as "indicator of source" and "indicator of quality," they only want to know

157. *See* Hanak, *supra* note 16, at 364 (explaining that consumers do not care about the exact source of the products they buy). Hanak writes that "a consumer wishes to match a trademark with what he likes and dislikes. If the origin of a product is of concern to a consumer, it is only because the manufacturer's products have come to be associated with a certain level of quality." *Id.*

158. *See* By-Rite Distrib., Inc. v. Coca-Cola Co., 577 F. Supp. 530, 536 (D. Utah 1983) ("The quality control standards adopted . . . are designed to maintain the consistent quality of bottled soft drinks and are therefore essential in protecting the goodwill and trademarks").

159. *See* Hanak, *supra* note 16, at 363 (stating that "[t]oday virtually every writer on trademark law accepts the quality assurance function").

160. *See* El Greco Leather Prods. Co. v. Shoe World, Inc., 806 F.2d 392, 395 (2d Cir. 1986) (indicating that the "actual quality of the goods is irrelevant; it is the control of quality that a trademark holder is entitled to maintain").

161. *See supra* note 50 (quoting Professor McCarthy).

162. *See* 15 U.S.C.A. § 1125(a)(1)(B) (West 1997) (prohibiting use of language in commercial advertising that misrepresents the goods or services in connection with the purposes for which the goods or services are used).

163. *See id.*

what they are buying.[164] A mark with little or no goodwill is useless to consumers.[165] A strong brand, by contrast, immediately indicates both the source and the quality of the product.[166] This information reduces consumer search costs, which is why strong marks deserve heightened protection. It is also why a mark that no longer serves its purpose should be deemed to be abandoned under the terms of the Lanham Act. Courts ought to find that the owners have abandoned their marks in those cases, regardless of whether or not any licensing agreements or assignments exist.

B. *The Quality Control Requirement Is Consistent with the Purposes of Trademark Law*

Trademark law is generally designed to serve three basic purposes.[167] The driving force behind every court's decision regarding trademarks is an implicit desire to serve at least one of three policies: (1) the protection of goodwill, (2) the avoidance of consumer confusion, and (3) the preservation and/or creation of interbrand competition.[168] Courts can support each of these trademark policies and bolster the entire system of unfair competition law by perpetuating a stronger quality control requirement that applies to all trademark owners.

1. The Protection of Goodwill

Professor Hansen's first policy of trademark law is the protection of goodwill.[169] Courts and the Lanham Act treat the use of a

164. *See Hanak*, *supra* note 16, at 364 (asserting that consumers rarely know or care about the exact source of the products they buy); *see also supra* Parts I.B, I.C (discussing the terms "indicator of source" and "indicator of quality").

165. *See supra* note 10 (stating that a trademark cannot be separated from its goodwill without destroying the utility of the trademark).

166. *See supra* note 41 and accompanying text (explaining how trademarks perform an "economizing function" by reducing consumer search costs).

167. *See* interview with Hugh C. Hansen, Professor, Fordham University School of Law, in New York, N.Y. (Apr. 3, 1998) [hereinafter Hansen interview] (on file with the *Fordham Intellectual Property, Media & Entertainment Law Journal*).

168. *See id.*

169. *See id.*; *accord* 135 CONG. REC. H1207, H1215 (daily ed., April 13, 1989) [hereinafter Kastenmeier statement] (statement of Rep. Kastenmeier) ("For businesses, trademarks are a kind of badge of honor, and it is important that their investments in those marks be protected.").

trademark as creating property and concomitant rights.[170] Such a perspective is similar to John Locke's labor theory,[171] which states essentially that whatever a person creates with his own labor is rightfully his.[172] Courts, in the same way, provide greater protection to trademark owners who expend substantial effort in advertising and other forms of consumer education, to generate goodwill for their brands.[173]

Goodwill, nevertheless, is not static property which, once developed, remains perpetually; trademark owners must actively maintain their brands' goodwill or risk losing protection for their marks.[174] Thus, the owner must maintain the quality of the product which the brand represents.[175]

---

170. *See* Kastenmeier statement, *supra* note 169.

171. *See* JOHN LOCKE, THE SECOND TREATISE OF GOVERNMENT 18-19 (C.B. MacPherson ed., Hackett Publishing 1980) (1690).

172. *See id.* at 19. According to Locke:

> Though the earth, and all inferior creatures, be common to all men, yet every man has a *property* in his own *person:* this no body has any right to but himself. The *labour* of his body, and the *work* of his hands, we may say, are properly his. Whatsoever then he removes out of the state that nature hath provided, and left it in, he hath mixed his *labour* with, and joined to it something that is his own, and thereby makes it his *property*. It being by him removed from the common state nature hath placed it in, it hath by this *labour* something annexed to it, that excludes the common right of other men: for this *labour* being the unquestionable property of the labourer, no man but he can have a right to what that is once joined to, at least where there is enough, and as good, left in common for others.

Id.

173. *See* Vitarroz Corp. v. Borden, Inc., 644 F.2d 960 (2d Cir. 1981) (affirming the district court's dismissal of the plaintiff's suit for trademark infringement where Vitarroz was the senior user of BRAVO'S and Borden began to sell similar products under the name BRAVOS). In reaching its decision, the court focused on the fact that Borden had spent "in excess of $1.3 million in developing goodwill for its BRAVOS chips," while the senior user's "expenses in introducing [BRAVO'S] were approximately $13,000." *Id.* at 962; *see also* Quality Inns Int'l, Inc. v. McDonald's Corp., 695 F. Supp. 198 (D. Md. 1988) (holding that Quality Inns deliberately attempted to benefit by the goodwill and reputation of McDonald's, whose family of marks rank among the strongest). In its analysis, the court found that "McDonald's spends almost a billion dollars each year on marketing and advertising." *Id.* at 212.

174. *See supra* Part I.C (defining abandonment in trademark law).

175. *See supra* note 28 and accompanying text (explaining that maintenance of product quality promotes goodwill for the brand that represents the particular item and for the trademark system as a whole).

If a consumer repeatedly buys a product based on past favorable experiences with it and receives merchandise of the expected character and quality each time, the goodwill of the mark increases.[176] In addition, the consumer is likely to continue this purchasing pattern.[177] When a brand's owner allows the quality of its product to fluctuate, however, that owner loses the goodwill in the mark.[178] Consumers will wind up buying non-genuine goods.[179] Moreover, consumers' needs will likely go unsatisfied because the quality of the non-genuine items is not of the expected level.[180]

Selling non-genuine goods in a manner that makes them appear to be genuine is deceptive and drains the goodwill from a mark.[181] Should the fluctuation in quality persist to the extent that consumers cannot rely on the brand to represent what they will receive upon purchase, courts must find that the trademark has been abandoned under the Lanham Act.[182] This rule would force all trademark owners to police the quality of their products or risk losing protection for the property they worked to create.[183]

Although critics may assert that the market will correct the

176. *See supra* text accompanying note 40 (describing how a trademark grows in strength).

177. *See supra* text accompanying note 39 (explaining how trademarks effect the purchasing patterns of consumers).

178. *See* Warner-Lambert Co. v. Northside Dev. Corp., 86 F.3d 3, 8 (2d Cir. 1996) ("Bad experiences by concentrations of consumers can lead to communications that mutually reinforce negative impressions about a mark and cause substantial numbers of consumers and chains to cease purchasing products using the mark.").

179. *See supra* note 71 and accompanying text (discussing genuine and non-genuine goods).

180. *See Warner-Lambert*, 86 F.2d at 6 (indicating that the distribution of a sub-par product under a trademark may tarnish the image of that mark); *cf.* JANE C. GINSBURG ET AL., TRADEMARK AND UNFAIR COMPETITION LAW 760-61 (2d ed., Michie 1996) (noting that tarnishment is the reduction in a trademark's "goodwill through its association with unsavory unrelated goods or services").

181. *See Warner-Lambert*, 86 F.3d at 6 (holding that the distribution of non-genuine goods constitutes trademark infringement).

182. *See supra* text accompanying notes 73-75 (examining the holding in *Dawn Donut* that a trademark owner's failure to control the quality of the products marketed under its brand by a licensee will result in a court finding that the trademark holder has abandoned its mark).

183. *See supra* note 80 and accompanying text (illustrating how courts already use the Lanham Act as a means of punishing naked licensors, who, by definition, do not police the quality of their products).

problems that arise from a manufacturer's indifference to quality control, that contention ignores the fact that the market, at best, will be slow to respond to this occurrence.[184] There is a significant lag time between the point at which the quality of the owner's goods begins to fluctuate and the point at which enough consumers would cease purchasing the goods.[185] During that time lag, consumers are deceived again and again, while the careless trademark owner continues to profit at their expense.[186]

2. The Avoidance of Consumer Confusion

From an economic perspective, the greatest benefit of trademarks is their ability to reduce consumer search costs.[187] Trademarks allow the consumer to simply ask for the desired product by name, rather than having to describe it in an effort to set it apart from similar products made by other companies.[188] Brand names allow the consumer to instantly identify the item he is searching for, instead of hoping that, through the inefficient process of trial and error, he will stumble upon the item he wants.[189] Consumers employing the trial and error method risk obtaining unsatisfactory products made by competitors.[190]

A trademark effectively reduces consumer search costs only if it accurately represents the item the consumer expects to receive when purchasing the good based on its name.[191] Thus, a brand name will be ineffective in reducing consumer search costs if, because of lack of quality control, it inaccurately represents the item

184. *See supra* text accompanying note 78 (stating that consumers will be deceived repeatedly before the market can adjust to the harm caused by the non-genuine products sent into the market by naked licensors and their licensees).

185. *See supra* text accompanying note 78 (maintaining that consumers will be harmed during the period of market adjustment).

186. *See supra* note 77 (discussing the effect of naked licensing on the public and the need to prevent misuses of trademarks).

187. *See* Landes & Posner, *supra* note 41, at 268-70 (stating that brand names serve an economizing role, allowing the consumer to quickly identify the desired product and allowing the seller to convey information through the brand name).

188. *See id.* (citing John F. Coverdale, *Trademarks and Generic Words: An Effect-On-Competition Test*, 51 U. CHI. L. REV. 868 (1984)).

189. *See id.*

190. *See id.*

191. *See id.*

that the consumer is buying.[192] The trademark system relies on consumer trust; consumers must be able to depend on a name as the indicator of what product they will receive.[193] Once the public can no longer trust brands to indicate product quality, trademarks become useless.[194]

3. The Preservation of Interbrand Competition

Critics of the quality control requirement may contend that the doctrine interferes with interbrand competition by setting a product quality standard that small manufacturers will be unable to satisfy.[195] As a result, courts that insist on the maintenance of consistent quality will exclude smaller companies from competing in the market.[196] This argument, however, misconceives what the quality control requirement actually is and, therefore, does not make an effective case against the preservation and broadening of the rule.[197]

The quality control requirement does not purport to impose a minimum standard on a product's quality; its only function is to assure consumers that today's experience with the trademarked product today will be comparable to their past experience with the product, or to the reports they heard about that product from fellow consumers.[198] As long as purchasers can rely on the brand in this fashion, the trademark system is serving its purpose.[199] Quality control promotes that purpose by enhancing consumers' ability to

192. *See supra* note 42 and accompanying text (explaining that consumer search costs rise when a brand name does not accurately represent the true nature of the items sold under that name).

193. *See supra* note 30 and accompanying text (stating that the quality control requirement builds consumer trust in the entire trademark system).

194. *See supra* note 41 (quoting Professor Landes and Judge Posner, who stated that the true value of trademarks is in their ability to reduce consumer search costs, which is not possible if consumers do not have faith in the system.).

195. *See generally* Parks, *supra* note 15, at 531-68 (setting forth various arguments in favor of the abolition of the quality control requirement).

196. *See id.*

197. *See id.*

198. *See* Landes & Posner, *supra* note 41, at 269 ("[A] trademark conveys information that allows the consumer to say . . . 'I need not investigate the attributes of the brand I am about to purchase because the trademark is a shorthand way of telling me that the attributes are the same as that of the brand I enjoyed earlier.'").

199. *See supra* notes 4-5 and accompanying text (declaring the general purposes that trademarks serve).

accurately predict what product they will receive in return for their money.[200]

C. *Courts Must Require All Trademark Owners To Maintain Consistent Product Quality*

Dawn Donut Co. v. Hart's Food Stores, Inc.[201] and other such cases address issues of quality control only where a trademark has been licensed or assigned, rather than in all trademark cases.[202] Although trademark owners who do not license or assign their marks *should* be subject to the same standards of quality control as those who do,[203] courts have drawn an arbitrary bright line on this issue.[204] Under this bright-line test, the legal analysis turns on whether or not a trademark owner has licensed or assigned its mark to a third party, rather than whether that owner has sought to maintain consistency in the quality of its products.[205]

A leading commentator asserts that the arbitrary nature of the distinction between trademark licensors and non-licensors "exposes a basic flaw in the control requirement that has never been adequately addressed."[206] That assertion is an understatement: The unreasonable disparity is more than a "basic" flaw in the quality control requirement; it is the central flaw. If the goal of quality control is to protect consumers from being deceived when they purchase a product, the focus of the quality control doctrine should

200. *See supra* notes 7-8 and accompanying text (stating that the quality control requirement insures that products put into the market by licensees have been manufactured according to the licensor's guidelines and that the quality of those items is, therefore, predictable).

201. 267 F.2d 358 (2d Cir. 1959). *See* discussion *supra* Part I.C.3 (describing the *Dawn Donut* decision).

202. *See Dawn Donut*, 267 F.2d at 367 ("Clearly the only effective way to protect the public where a trademark is used by licensees is to place on the licensor the affirmative duty of policing in a reasonable manner the activities of his licensees.").

203. *See* Parks, *supra* note 15, at 536 (stating that "the fundamental problem with the quality control requirement is that it forces inconsistent treatment of licensing and non-licensing trademark owners").

204. *See id.*

205. *See supra* text accompanying note 3 (identifying the quality control requirement as a doctrine specific to the law of trademark assignment and licensing, not a rule of trademark law in general).

206. *See* Parks, *supra* note 15, at 536.

be on the final product that a company places in the market—not on whether the factory that made the product belonged to the actual trademark owner or a licensee.[207] The licensed or non-licensed status of a trademarked product is immaterial because the end result is the same: consumer deception, increased search costs, and the public's loss of faith in the trademark system.[208]

One proposed solution to the arbitrary license/non-license distinction is to eliminate the entire quality control requirement and allow the market to guide a trademark owner's decisions concerning maintenance of product quality.[209] That proposal ignores the probability that the market will be slow to correct itself.[210] During that time lag, consumers would continue to purchase products, consistently receive non-genuine goods, and, subsequently, lose faith in the system.[211]

Fortunately, courts are unlikely to abruptly discard an entire legal doctrine in the way that Parks suggests.[212] The problem of disparate treatment in the area of quality control could be resolved in a much less drastic manner by simply broadening the requirement to apply uniformly to all trademark owners.[213] The proper focus is on consumer protection; courts cannot allow trademark owners to market non-genuine goods under their brands and, at the same time, provide protection for those trademark owners against infringement from competitors.[214] Consumer deception is unac-

207. *See id.*

208. *See id.*

209. *See* Parks, *supra* note 15, at 537-38 ("[T]here is no legitimate reason for imposing additional quality control obligations on licensors, or for exposing a licensed mark to the risk of 'abandonment' if the quality levels of licensed goods are inconsistent or consistently poor.").

210. *See supra* text accompanying note 78 (stating that consumers will be deceived repeatedly during the time it takes for the market to correct itself).

211. *See supra* note 30 and accompanying text (explaining that quality control builds consumer trust in the system and that a lack of quality control will reduce that collective faith.).

212. *See generally* United States v. Shaughnessy, 234 F.2d 715, 719 (2d Cir. 1955) (discussing the effect of stare decisis in deciding subsequent cases).

213. Kevin Parks hypothesized a solution that is diametrically opposed to this theory: The complete abolition of the quality control doctrine. *See supra* notes 83-84 and accompanying text (calling for the elimination of the quality control requirement).

214. *See supra* notes 23-25 and accompanying text (tracing the history of trademarks as providing the purchasing public with a means of redress against the manufac-

ceptable, and courts may not promote it.[215] All trademark owners must be held to the same standard: Produce goods of consistent quality or lose protection for their marks.[216]

Clearly defining the function of trademarks is a critical priority. Courts have thus far declared only that trademark holders have the *right* to control the quality of the goods sold under their marks,[217] but that formulation of the law is not strong enough. Trademark licensors should have an *obligation* to consumers to insure that their products are genuine.[218] The quality of a good is undisputedly an integral feature of the product.[219] For example, a Honda Civic that buyers would consider a "lemon" due to faulty assembly obviously is not the same product as a Honda Civic that operates properly. No consumer would consider such a dangerous machine to be the genuine car he intended to purchase.[220] That buyer did not purchase the name; he bought the automobile because of the goodwill in the name.[221]

A broader application of the requirement would be consistent

turer of a certain product in the event those consumers purchase defective goods).

215. *See supra* notes 55-56 and accompanying text (illustrating a rule devised to prevent the harm caused by consumer deception).

216. *See supra* note 206 and accompanying text (arguing that the fact that the quality control requirement, as applied by courts, treats trademark licensors differently than trademark owners that do not license their marks is a flaw in the doctrine).

217. *See* El Greco Leather Prods. Co. v. Shoe World, Inc., 806 F.2d 392, 395 ("One of the most valuable and important protections afforded by the Lanham Act is the right to control the quality of the goods manufactured and sold under the holder's trademark.").

218. *See* Denison Mattress Factory v. Spring-Air Co., 308 F.2d 403, 409 (5th Cir. 1962) (holding that the licensor "had an affirmative duty to itself and to the public to invoke some kind of control and restraint upon its various licensees to prevent losing its property rights thereunder"); Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358, 367 (2d Cir. 1959) ("Clearly the only effective way to protect the public where a trademark is used by licensees is to place on the licensor the affirmative duty of policing in a reasonable manner the activities of his licensees."); 2 MCCARTHY, *supra* note 8, § 18:50 ("The licensor owes an affirmative duty to the public to assure that in the hands of his licensee the trademark continues to represent that which it purports to represent.").

219. *See* Shell Oil Co. v. Commercial Petroleum, Inc., 928 F.2d 104, 107 (4th Cir. 1991) (holding that the "quality control standards were an integral part of the . . . product identified by the marks").

220. *See supra* note 7 (defining the term "genuine" as applied to trademarked goods).

221. *See supra* note 10 (stating that a brand name is inseparable from that brand's goodwil).

with the public's use of trademarks.[222] Professor Schechter theorized that "the trademark is not merely a symbol of goodwill but often the most effective agent for the creation of goodwill, imprinting upon the public's mind an anonymous and impersonal guaranty of satisfaction, creating a desire for further satisfactions."[223] A court's finding of abandonment, therefore, is proper whenever any trademark owner allows the quality of its products to fluctuate.[224] By allowing product quality to lapse, that owner reneges on its guaranty of satisfaction.[225]

A problem with any trademark abandonment ruling is that the brand's goodwill remains in the market for anyone to exploit without fear of judicial interference, thereby opening the door to future consumer deception.[226] Although critics of a strong quality control requirement argue that this mandates an alternate solution,[227] the fear of this sort of rampant consumer confusion is not realistic. The same problem could arise in assignment in gross and naked licensing cases, where courts already apply the quality control rule.[228]

There is no reason for the disparate treatment of licensing and non-licensing trademark owners; a quality control violation carries such a draconian punishment—loss of trademark protection—that few trademark owners would risk violating the rule.[229] The stronger the brand, the greater the potential injury to a brand owner

222. *See* Weil Ceramics & Glass, Inc. v. Dash, 878 F.2d 659, 672 (3d Cir. 1989) (analyzing the purposes of the Lanham Act, one of which is the protection of consumers who purchase products based on their trademarks).

223. Schechter, *supra* note 4, at 819.

224. *See supra* notes 34-35 (explaining how a trademark owner's failure to supervise the manufacturing process of a product can cause a court to rule that the trademark owner has abandoned the brand under which he markets that particular product).

225. *See supra* notes 26-31 and accompanying text (discussing how trademarks act as guarantors of satisfaction).

226. *See supra* note 32 and accompanying text (setting forth the rules for trademark abandonment under § 45 of the Lanham Act).

227. *See, e.g.*, Parks, *supra* note 15, at 531-68 (arguing for the abolition of the quality control requirement).

228. *See supra* Parts I.C.1, I.C.2 (setting forth the rules against assignment in gross and naked licensing).

229. *See supra* notes 32-33 and accompanying text (establishing the punishment for quality control violations).

upon a finding of abandonment. A trademark holder who cares about his business will be certain to meet the quality control requirement once courts apply it to all owners.[230] The risk of massive amounts of unprotected goodwill floating in the marketplace is, therefore, *de minimis*.

CONCLUSION

The trademark system is based on trust between the public and trademark holders. A mark gains goodwill as that trust develops through consumers' repeat-buying of genuine items produced and distributed under the quality control of the brand owner. Consumers are deceived when a non-genuine good appears in the market under a brand name. Shoppers become frustrated. Some even suffer serious injuries from products that were expected to work properly but turned out to have dangerous defects. If consumers repeatedly receive non-genuine goods, they will lose faith in the system, and the entire trademark system will crumble because it will no longer reduce consumer search costs.

Based on this analysis, courts must continue to protect and strengthen the quality control requirement by applying it to all trademark owners, regardless of whether or not they assign or license their marks to third parties. The courts *must* employ the quality control requirement as a tool to punish trademark owners who injure the public by allowing the quality of their goods to fluctuate. Absent such judicial action, the trademark system will fail to serve one of its purposes, namely, reducing consumer search costs by using brands to represent consistent levels of product quality.

230. *See id.*