

It's Our Name - Live With It

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The Famous Trademark Clauses.

A networking distributor cannot help but being blurry-eyed as he or she reads through the dense language of the policies and procedures and contractual agreements of a network marketing company. Such agreements are a close second behind insurance policies and hollow rental agreements for other detailed language. A close reading, however, will indicate that there is probably a good reason for everything, because the company is trying to set uniform standards for its representatives with respect to the sale of its products. Most of those standards are ethical standards.

And, inevitably, a good chunk of the fine print language revolves around the protection of the "trademarks" of the network marketing company. Why is this? The fact is that, apart from the actual distributor agreement, the most powerful leverage that a networking company has to enforce ethical standards of its distributors with respect to such issues as audit claims or earnings claims, is the ownership and when questioned total control of the use of its registered trademarks with respect to distributors who are promoting the business opportunity or selling the products and services of the network marketing company. If distributors are engaged in an unauthorized use of a company's trademarks, the company may www.mlmlegal.com charge into court and obtain an immediate injunction.

This is a heavy club that should be used wisely in the hands of a network marketing company. But, at the same time, it is the legal reward for a company that has invested a fortune in building the public stature of its trademark names.

"The ... most powerful leverage that a networking company has to enforce ethical standards of its distributors ... is the ownership and ... total control of the use of its registered trademarks ..."

Advertising: Who is in Control?

What's in a name? Ask Marlboro, Nestle or Coca-Cola. Those names are worth billions of dollars. And, so it is also with brand names in the direct selling industry like Amway, Tupperware and Mary Kay.

At the beginning of an MLM company's history, its trademark is perhaps its least valuable asset. Its most valuable assets are its inventory, equipment, formulas and other tangible items. Something happens, however, to an MLM company as it grows more and more successful and is recognized in the public marketplace. After achieving a level of success and acceptance, its name, trademark and good will become its most valuable assets. Nobody will dispute that names

such as Amway, Mary Kay or Fuller Brush have become some of the most prized possessions of those companies.

It is understandable that attaching such names to any merchandise whether it be product, sales aids or sales tools will add real value to those items. No one disputes that distributors may distribute company merchandise carrying company trademarks and disseminate authorized company literature. A growing phenomenon in recent years, however, particularly with the advent of desktop publishing and low cost printing, has been the creation of sales aids and sales tools by distributors and third parties which carry company trademarks. In fact, the sales tools business has become a very lucrative business as armies of distributors devour printed literature, videotapes and audio cassettes which may help in both recruitment and sales.

Many companies have adopted formal language in their distributor agreements which prohibits the unauthorized use of their name in literature and other materials not produced by the company. Some companies control this issue and others do not. With the explosion occurring in the MLM market for both product advertising www.mlmlegal.com and sales tools, more and more disputes will be observed. How far can companies go in prohibiting the use of their name or trademark in noncompany-produced materials? Can companies only prohibit the use of their trademark when it is accompanied by fraudulent representations? Millions of dollars and reputations are at stake on this issue.

As a starting point, it is settled that a distributor who resells trademarked goods without change is not an infringer and needs no trademark license. One authority has noted: "It would be absurd to hold that a manufacturer could sell a branded product to a distributor without restriction and then tell the distributor that it could not resell the branded goods without either paying for a trademark license or removing the trademark."

An independent dealer of a manufacturer's trademarked goods may also use the mark in advertising their availability. However, the independent dealer cannot use the manufacturer's trademarks in a manner which falsely suggests that the independent dealer is part of the manufacturer's authorized dealer network.

The test is: have the defendants used the mark in a manner that is likely to cause confusion, mistake, or deception, as to the source of defendant's products?

It is also possible for anyone to use a trademark in a collateral or nontrademark sense. For example, one is allowed to use the word McDonald's in an article referring to the successful hamburger franchise. A person may even write a book on the successful operation of a McDonald's franchise. What is not permissible is, as mentioned above, leaving the consumer with the impression that the publisher is authorized by or somehow connected with the trademark owner.

The test is: have the defendants used the mark in a manner that is likely to cause confusion, mistake, or deception, as to the source of defendant's products? A likelihood of confusion also exists where a consumer could be expected to assume there was some association or affiliation

between the providers of goods or services or when a consumer would be likely to purchase goods from one source mistakenly believing them to originate from another.

Amway Goes to Court.

A famous case involving Amway illustrates this point. In the case, Amway Corporation sued individuals for trademark infringement and unfair competition based upon their publication and distribution of literature concerning Amway products and marketing plan. The publication contained numerous reproductions of Amway trademarks.

The court stated that defendants did not use the marks as labels for their goods as trademarks are generally used to identify source. Nevertheless, the use in textual material constituted an infringement where the idea was conveyed that the literature originated with Amway or that use of the mark was authorized by the company. The court reasoned that while distributors who ordered the literature from defendants knew where the material was coming from, there was no guarantee that this knowledge would be passed on to www.mlmlegal.com distributors further along the line. It also did not matter to the court that some of the literature identified defendant as the source, as this disclaimer did not negate the idea that an unsophisticated distributor or consumer would believe the material was being disseminated by Amway or with its acquiescence.

The court also held that regardless of whether or not there was confusion as to source, Amway was entitled to relief based upon the possibility of dilution of their mark and unfair competition. As to dilution, defendant's publication would create the impression that Amway marks were in the public domain and could be used by anyone. Defendants were unfairly competing by selling the literature for profit, thereby cashing in on Amway's good will and undermining Amway's sales of its own company literature. The court held that Amway was entitled to a permanent injunction to prevent the possibility of defendants causing substantial harm through the publications. Due to the nature of some of Amway's chemical products, the company needed strict control over its product literature. The court also found that Amway needed to control the dissemination of literature concerning its marketing plan:

"... While Amway denies emphatically that it is engaged in unethical or unlawful pyramid selling, it is obvious that its sales program possesses some features of that kind of selling although it may have adequate off-setting safeguards.

In such circumstances the court feels that Amway's apprehensions...are fully justified."

Not a "Trivial Pursuit."

In another case, the owners of the trademark for the game "Trivial Pursuit" enjoined the distribution and sale of a book entitled In Further Pursuit of Trivial Pursuit. The book was termed a reference book for the game, and all six thousand questions and answers of the original Trivial Pursuit game were reproduced in the book. In addition, publishers of the book copied plaintiff's trade dress for the book's cover. The court held that consumers were likely to be confused as to the source of the book and its sale would be enjoined.

The court also held that defendant's fine print disclaimer on the book's cover disclaiming rights to plaintiff's trademark or any relationship with plaintiff provided no defense. The court felt that with the small print of the disclaimer and the similarity of the goods, consumers were still likely to be confused.

The court in the Trivial Pursuit case implied that it was acceptable for one to publish a book on how to excel at playing Trivial Pursuit. However, it is www.mlmlegal.com trademark infringement to appropriate the trade dress and "take the guts of the game and make it possible for people to, in effect, play it without using the game itself."

A trademark is the life blood of a network marketing company and major tool for enforcing its mission statement and ethical standards.

Although an independent or authorized dealer needs no trademark license in order to inform the public that the dealer has the trademark owner's goods available, the owner can place restrictions on the nature of the use of the marks. Use of the marks in a manner that exceeds the rights belonging to a dealer constitutes trademark infringement and breach of contract.

Therefore, a company cannot prevent the use of its trademarks in a nontrademark sense, as in the publication of an informative article concerning the company. It is only where the use of the trademarks leaves the impression that the product is associated with, or authorized by the company or where a threat of trademark dilution exists, that such a use would constitute trademark infringement or unfair competition.

Trademarks: Pay Attention.

Trademarks are serious business. A trademark is the life blood of a network marketing company and major tool for enforcing its mission statement and ethical standards. Although distributors sometimes may disagree with a company's policies, enforcement of the trademark is often as much for the benefit of protecting the livelihoods of millions of distributors as it is for protecting the company itself.

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- [Who Controls Marketing Materials?](#)
- [It's Our Name - Live With It](#)
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On any given day you can catch Jeffrey Babener, editor of www.mlmlegal.com, lecturing on Network Marketing at the University of Texas or the University of Illinois, addressing thousands

of distributors in Los Angeles, Bangkok, Tokyo and Russia, or writing a new book on Network Marketing, an article for Entrepreneur Magazine or a chapter for a University textbook. Over two decades he has served as marketing and legal advisor to some of the world's largest direct selling companies, the likes of Avon, Nikken, Shaklee, Tupperware, Prepaid Legal, Longaberger, Melaleuca, Discovery Toys, Usana, Amazon Herb, NuSkin, Cell Tech, Sunrider.... and he has provided counsel to the most successful telecom network marketing companies...Excel, ACN, World Connect, ITI, Acceris, AOL Select and Network 2000. An active spokesperson for the industry, he has assisted in new legislation and served on the Lawyer's Council, Government Relations Committee and Internet Task Force of the Direct Selling Association (DSA) as well as serving as General Counsel for the Multilevel Marketing International Association. He is an MLM attorney supplier member of the DSA and has served as legal counsel and MLM consultant on MLM law issues for many DSA companies. He is author of multiple books, including, Network Marketing: What You Should Know, Network Marketer's Guide To Success, Tax Guide for MLM/Direct Sellers, Starting and Running the Successful MLM Company, The MLM Corporate Handbook and Window of Opportunity. He is author of countless articles on network marketing, many of which can be found at www.mlmlegal.com where he is the editor. You will see his articles and interviews in such publications as Money, Atlantic Monthly, Success, Entrepreneur, Business Startups, Home Office Computing, Inc., Money Makers Monthly, etc. He has been chairman of numerous industry conference series, including, Starting and Running the Successful MLM Company, The MLM Entrepreneur Series and The MLM Masters series. He has served as the close advisor to scores of MLM Companies and their distributors, comprising millions of distributors and billions of dollars in sales. Mr. Babener is a graduate of the University of Southern California Law School, where he served as editor of the USC Law Review. After an appointment to be an advisor law clerk to a U.S. Federal Judge, he went on to become a member of the California and Oregon State Bar, where he has also served as chairman of the Oregon State Bar Committee on Judicial Administration. He has exclusively practiced in the area of direct selling for over 20 years. A Regulatory Update for MLM, Direct Selling, Network Marketing, Direct Sales, Party Plan Independent Distributors and Companies.