

Case Study of a Coffee War:

Using the *Starbucks v. Charbucks* Dispute to Teach Trademark Dilution, Business Ethics, and the Value of Legal Acumen

By

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Abstract

This case and teaching note explore the legal, ethical, and managerial issues related to an extended trademark dispute battle between a Main Street business and a multinational corporation. Just months after Black Bear Micro Roastery, a two-person family owned business in New England, sold their first bag of their newly created dark-roasted blend of coffee beans, called Charbucks, they became embroiled in a legal dispute with corporate giant Starbucks that landed in federal court several years later. This multi-issue case is designed to engage students in learning trademark law, business ethics, and the value of legal acumen in a relevant context.

Topical areas

Trademark law

Trademark Dilution Act of 2006

Business Ethics and Legal Proceedings

Value of Legal Acumen to the Firm

Case Introduction

Two years after opening their family-owned coffee bean roastery, Tim and Annie Clark had become accustomed to long work weeks and bootstrap financing. By 1997, their Black Bear Micro Roastery (“Black Bear”) was finally growing and the Clarks were hopeful that their new specialty blend, Charbucks, would give their uniquely dark roasted coffee bean a catchy name to remember. But on a steamy New England summer day in 1997, Annie Clark received a phone call from an insistent in-house lawyer from coffee giant Starbucks that threatened the very existence of their company. Starbucks claimed that the Charbucks name and label infringed on their trademark and demanded that they cease the use of the name Charbucks and any existing products with that name be removed from supermarket shelves. But the Clarks insisted that they had been careful to design the label with Black Bear Micro Roastery logos and that the name was tied to the dark roasting process and not to anything related to the name Starbucks. Despite their beliefs that no infringement had taken place, the Clarks entered into settlement negotiations to avoid the legal costs associated with defending a trademark lawsuit. After settlement negotiations failed, Starbucks sued Black Bear Roastery and the stage was set for a coffee war that pitted a multinational powerhouse against a Main Street merchant.

The Black Bear Micro Roastery

Jim and Annie Clark were native New Englanders who shared a passion for coffee and an entrepreneurial spirit. After three years of research, they launched The Black Bear Micro Roastery in 1995 with a mission of creating a unique methodology for roasting gourmet coffee beans through use of advanced technology and “traditional Yankee work ethic.” The company was situated in the lakes region of New Hampshire and targeted connoisseur coffee drinkers, primarily in the New England area, who appreciated the micro-roastery approach of

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producing small, high-quality batches of coffee beans. The beans were sold via mail order, from the Black Bear Web site, and through New England specialty stores and supermarkets. Eventually, Black Bear also sold its products through their own retail outlet and cafe in Portsmouth, New Hampshire.

True to their belief in the micro-roastery concept and their entrepreneurial courage, the Clarks went all in. In order to start the business, the couple sold many of their assets and refinanced the mortgage on their home for extra cash. They enlisted their teen-aged daughters as their labor force and committed to seven day work weeks. The family business was the centerpiece of their family's livelihood.

As with many start-ups, business for Black Bear was slow and rocky at first. The price of green coffee beans had fluctuated unexpectedly and the 1997 Teamsters strike at United Parcel Service had eaten into profit margins. Undeterred, Jim and Annie Clark kept the company going until it began to grow ever so slowly. In order to develop a niche in the gourmet coffee market, Black Bear began to develop unique blends with catch names that were easy to remember. This included blends such as "Country French", "Kenya Safari" and "Mocha Java."

Charbucks

By April 1997, Black Bear had developed a loyal following from which they often solicited feedback and suggestions for new products. One common theme from customers was a desire for a blend with a darker roasted bean that yielded a richer taste. Responding to that customer demand, Black Bear developed a darker roasted blend and named it "Charbucks Blend." The "Char" being a reference to the new, darker roasted coffee bean blend.

The Charbucks Blend was sold in packaging that showed a picture of a black bear above the large font print "Black Bear Micro Roastery." The label also informed consumers that the coffee was roasted and "Air Quenched" in New Hampshire and contained a catch phrase "You wanted it dark... You've got it dark!" There was no similarity between the Starbucks famous logo, a circular shape with the graphic of a mermaid-like siren encompassed by the phrase "Starbuck Coffee", and the Charbucks label except for the partial word "bucks."

A Call from Goliath

It didn't take long for Starbucks to get wind of the Charbucks Blend. Just four months after making their first sale of their new blend, the Clarks received a call from Starbucks's in-house counsel. In what Annie Clark, who received the initial call, described as unmistakably threatening, Starbucks' counsel insisted that the Charbucks Blend was a violation of their trademark rights and demanded that Black Bear cease the use of the name and take steps to completely remove Charbucks from the market place. Starbucks followed up with a formal demand to cease and desist and alleged that Black Bear's use of Charbucks was disparaging, diluted Starbucks's mark and violated federal trademark law.

The Clarks held a family meeting to discuss the matter. While they agreed that they had done nothing wrong, they decided that a trademark battle with Starbucks could bankrupt their family business even if they eventually prevailed in court. The risk was too high to fight Starbucks, so they decided to pursue negotiations for settlement. They hired an attorney who sent Starbucks a letter on behalf of Black Bear denying any liability for trademark infringement, but also offering to engage in settlement negotiations given the limited time and financial resources that the Clarks had at their disposal. Starbucks hired outside counsel to negotiate a settlement agreement. In the event that settlement negotiations failed, Starbucks made it clear to Black Bear that they intended to file suit for trademark infringement. The negotiations dragged on for three years and Black Bear's legal bills were soaring. Starbucks offered to compensate Black Bear for some of its legal expenses and costs of compliance (e.g., changing advertising, removal of the products), but the parties could not agree on the amount nor on a mutually acceptable public statement. On July 2, 2001, nearly four years after the first phone call about the dispute, Starbucks filed suit

against Black Bear in the U.S. District Court, Southern District of New York alleging trademark dilution, trademark infringement, and violation of Section 43(a) of the Lanham Act (the federal trademark law) requesting damages and injunctive relief.

Starbucks Strategy

The Clarks breathed a sigh of relief after learning that Zurich, the insurance carrier that issued Black Bear's general commercial liability insurance policy, determined that their company was covered under the policy for this particular lawsuit and that coverage for their legal defense against Starbucks would be provided. This allowed them the opportunity to have their day in court without the fear that Starbucks would use the litigation process to drive Black Bear out of business. Both sides were ordered to mediation, but little progress was made and the case looked headed for the courtroom.

However, soon after the mediation attempts failed, Starbucks employed a more aggressive litigation strategy. Their outside counsel notified Black Bear's counsel that unless the case was resolved they would move to amend their lawsuit to drop a claim for certain damages listed in the original complaint. The impact of this amendment was that Zurich would now opt to withdraw coverage for Black Bear's defense on the basis that the remaining claims in the lawsuit were exempt from Black Bear's policy. Still, the Clarks would not settle the claim. Three months later, Starbucks followed through on its promise to amend the complaint and Zurich soon notified the Clarks of their decision to terminate coverage for defense of the Starbucks case once the amendment was approved by the court. Nonetheless, ultimately the court denied Starbucks attempt to amend the complaint finding that the amendment was designed primarily for affecting settlement negotiation leverage. Zurich was therefore compelled to continue covering the costs of Black Bear's defense.

In March 2005, a two-day trial was held in the matter of ***Starbucks Corp. v. Wolfe's Borough Coffee, Inc., dba Black Bear Micro Roastery*** in the U.S. District Court for the Southern District of New York. Starbucks relied primarily on the testimony of its expert, Warren Mitofsky, a scientist who had conducted a consumer survey and concluded that the number one association of the nature of the name 'Charbucks' in the mind of the consumers is with the brand 'Starbucks.' However, Dr. Mitofsky also conceded that his survey had been conducted entirely by telephone and that any measurement of reaction to the familiarity with other visual cues, such as the Charbucks Blend label, could not be accomplished through a telephone survey. The trial court issued an opinion and order ruling in favor of Black Bear and dismissed all of the counts of the Starbucks' complaint. The court held that Starbucks did not meet their burden of proving that *actual dilution* had taken place and that Starbucks could not prevail on the trademark infringement claim because there was no likelihood that consumers would confuse the Charbucks mark with the Starbucks mark.

For the time being, David had battled back Goliath—but the giant continued the fight in the appellate courts.

Second Bite at the Apple

In January, 2006, Starbucks filed an appeal of the trial court's decision. While the appeal was pending, Congress amended the trademark laws by passing the Trademark Dilution Revision Act of 2006 (TDRA). The TDRA was passed primarily in response to the U.S. Supreme Court's decision in ***Moseley v. V Secret Catalogue, Inc.***, in which the Court established the burden of proof for trademark holders by requiring evidence of *actual dilution*. Starbucks now argued that under the TDRA, the test for dilution is substantially easier to meet because the statute rejects actual dilution in favor of a more relaxed *likelihood of dilution* standard. In their appeal, Starbucks contended that the TDRA definition of dilution by blurring and/or tarnishment were directly related to their claims against Black Bear and that case should now be evaluated in light of changes made by the TDRA.

The appellate wheels of justice were grinding slowly in this case. The appellate court ordered a re-hearing by the trial court in light of the TDRA. The trial court again entered a judgment in favor of Black Bear for substantially the same reasons detailed in the first trial. Not surprisingly, Starbucks appealed.

In a December 2009 opinion, the U.S. Court of Appeals for the Second Circuit handed down their decision and affirmed much of trial court's ruling. Specifically:

- Although the appellate court agreed with the trial court's conclusion that Charbucks package design was significantly different in imagery, color, and format from Starbucks' logo and signage, they also held that the trial court had used the incorrect analytical framework for dilution by blurring as set out in the TDRA. Therefore, the appellate court remanded this one issue back to the trial court.
- The appellate court affirmed the trial court's ruling that Starbucks did not provide sufficient evidence that dilution had occurred through tarnishment because Black Bear's intent was clearly to promote a positive image for its brand of coffee rather than referring to it as a way to harm the reputation of Starbucks' coffees.
- The appellate court also affirmed the trial court's ruling that no infringement had occurred under the federal trademark statute and agreed with Black Bear's argument that the co-existence of the Starbucks mark and the Charbucks Blend for eleven years with no report of a single customer becoming confused is a powerful indication that there is no confusion or likelihood of confusion.

Discussion Questions

Trademark law

1. The TDRA defines blurring as an "association arising from the similarity between a mark and a famous mark that impairs the distinctiveness of the famous mark." How should the trial court rule on the issue of dilution by blurring given the new language in the TDRA?
2. Should the court have given more weight to the testimony of Starbucks' expert? Although the survey was conducted by telephone, shouldn't consumer confusion in the similar sounds (Charbucks versus Starbucks) be sufficient to show blurring?
3. What legal issues must a famous mark holder consider in preserving their trademark?

Business Ethics

1. Consider Starbucks' litigation strategy. When they used legal maneuvering to attempt to get Zurich to withdraw, was that ethical? Was it a legitimate hard-nosed business practice or did Starbucks use their resources in an attempt to force Black Bear into settlement?
2. Starbucks invests substantial resources into their theme of being a responsible company. On its Web site, the company announces that "We've always believed that businesses can- and should-have a positive impact on the communities they serve." How does that statement square with their strategy in the Charbucks litigation? Is there

any ethical conflict between a company's stated objectives to be a good corporate neighbor and its obligation to its stakeholders to protect its intellectual property?

3. Even if Black Bear was legally entitled to use Charbucks, is it ethical to use a name that sounds so close to someone else's famous coffee trademark?

Adding Value through Legal Acumen

1. What lessons can managers learn from this case in terms avoiding trademark liability and in decision-making when enforcing a trademark?

2. Think of several names and a mark that Black Bear could have used for their dark roasted coffee beans instead of Charbucks. Conduct a preliminary search on the USPTO's web site (www.uspto.gov) and on a commercial domain name Web site such as www.register.com to see if it is available. Use your knowledge of dilution law to be sure that your trademark is viable and protectable.

3. Consider the Charbucks dispute from a cost-benefit perspective. What was the return on Starbucks' investment to pursue Black Bear for trademark infringement? Even if Black Bear's defense was covered by insurance, did the investment of time by the Clarks yield a sufficient return? At what point, if any, does the cost-benefit analysis suggest that a settlement agreement would have yielded the most return for each party?

CASE STUDY OF A COFFEE WAR:

USING THE *STARBUCKS v. CHARBUCKS* DISPUTE TO TEACH TRADEMARK DILUTION, BUSINESS ETHICS, AND THE VALUE OF LEGAL ACUMEN

TEACHING NOTE

A. Introduction to the Case

The use of a Harvard Business School-style teaching case¹ to teach law and ethics to business students is a powerful pedagogical tool because it combines a traditional business case study with a Socratic-style dialogue² and legal analysis from a managerial perspective. This teaching note includes suggestions for alternate formats with the objective of engaging students while recognizing classroom realities. "Pedagogical experts contend that students learn best when they are actively involved" in the course work and material.³ The best case studies provide students with current and interesting contexts which the student can readily relate and help the student bridge the gap between theory and practice.⁴

The Charbucks case is an ideal context for college-aged students because they are typically interested in both the subject matter and the parties in the dispute. It is a classic David vs. Goliath pitting of famous multinational company Starbucks against family-owned Main Street small business over a coffee trademark. With the increased popularity of coffee among college-aged students, the Starbucks trademark is a familiar site on or near many college campuses.⁵

B. Learning Objectives

Students who have fully mastered the materials in this case will be able to:

1. Explain the fundamentals of trademark law protections and infringement.
2. Articulate the difference between blurring and tarnishment as forms of trademark dilution.
3. Demonstrate analytical skills by comparing and contrasting various dilution standards.
4. Identify and resolve ethical dilemmas in business disputes.
5. Draw conclusions from the legal and ethical aspects of the case and demonstrate how they add value by informing managerial decision making and limiting risk.

C. Alternate Case Study Formats

While cases are a powerful teaching method, sometimes classroom realities (e.g., high enrollment per class or very short time periods) can impede even the most conscientious instructor. This case is designed to be scalable and flexible for a variety of uses and has been used at both the undergraduate and graduate level in a variety of classroom circumstances. Although this topic is traditionally covered in Business Law and/or Legal Environment of Business courses, it could also be used as a stand-alone module in Marketing Law, Principles of Management, Corporate Strategy or Entrepreneurship. In the absence of sufficient coverage in the course textbook, students may be directed to www.bitlaw.com/trademark/ and to the USPTO's primer at www.uspto.gov/trademarks/basics/index.jsp.

In class discussion

Perhaps the most straight-forward method for use of the case study is through a classroom discussion. In this format, students are assigned relevant background reading (textbook or Web site), then after some brief time in class on the basics of trademark law, students are assigned to read the case and prepare answers to the questions prior to the class meeting where the case was to be discussed. Some instructors find the use of electronic recording devices (such as iClickers) helpful to assess students understanding of the material before moving onto the case study.

Writing assignment

In cases where the instructor desires to engage students through a writing exercise, students are assigned relevant background reading (textbook or Web site), then after some brief time in class on the basics of trademark law, students are assigned to read the case and discussion questions. Students are then assigned to spot as many legal and ethical issues as possible, and then write a 5-7-page memorandum that advocates a particular side of the dispute (typically the sides are assigned randomly, but it is always interesting to give students a choice on which side to advocate). A rubric for this assignment is attached to this Teaching Note as "Appendix A."

Advocacy exercise

Depending on time constraints, instructors may also wish to use the case as the centerpiece of a mock arbitration of a mock trial/appellate argument. In this format, students are assigned relevant background reading (textbook or Web site), then after some brief time in class on the basics of trademark law, students are assigned to

read the case and prepare answers to the questions. The parties then prepare to participate in a private arbitration with the issue narrowed down to whether Black Bear is liable for dilution by blurring in light of the TDRA. The instructor (or teaching assistant) acts as the arbitrator/judge by asking the parties questions about their theories of the case and assessing: 1) their knowledge of the application of statutory and case law, 2) their ability to cite specific points of law and case facts, 3) their explanation of how the cases support their arguments or are distinguishable, 4) their ability to articulate an argument and respond to questions about their arguments, 5) their overall engagement level in the exercise.

D. Case Synopsis

Two years after opening their family-owned coffee bean roastery, Tim and Annie Clark had become accustomed to long work weeks and bootstrap financing. By 1997, their Black Bear Micro Roastery (“Black Bear”) was finally growing and the Clarks were hopeful that their new specialty blend, Charbucks, would give their uniquely dark roasted coffee bean a catchy name to remember. But on a steamy New England summer day in 1997, Annie Clark received a phone call from an insistent in-house lawyer from coffee giant Starbucks that threatened the very existence of their company. Starbucks claimed that the Charbucks Brand name and label diluted and infringed on their trademark and demanded that they cease the use of the name Charbucks and that any existing products with that name be removed from supermarket shelves. But the Clarks insisted that they had been careful to design the label with Black Bear Micro Roastery logos and that the name was tied to the dark roasting process and not to anything related to the name Starbucks. Despite their beliefs that no infringement had taken place, the Clarks entered into settlement negotiations to avoid the legal costs associated with defending a trademark lawsuit⁶. After settlement negotiations failed, Starbucks sued Black Bear and the stage was set for a coffee war that pitted a multinational powerhouse against a Main Street merchant.

After Black Bear refused to comply with their cease and desist request, Starbucks filed suit for trademark infringement and trademark dilution.⁷ The trial court ruled in favor of Black Bear and dismissed Starbucks’ case concluding that there was no dilution or likelihood of confusion under federal trademark law.⁸ Starbucks appealed, and, while the appeal was pending, Congress passed the Trademark Dilution Revision Act of 2006 (TDRA)⁹ and gave Starbucks’ had another bite at the apple. Starbucks argued that that new federal law made it easier for famous mark holders to prove infringement through dilution. After a re-hearing by the trial court in light of the TDRA, Black Bear still prevailed and Starbucks appealed to the Second Circuit Court of Appeals. Ultimately the appellate court affirmed the lower court’s decision that 1) no dilution existed through blurring, 2) no infringement existed because there was no evidence of actual or likelihood of confusion. However the Second Circuit vacated and remanded¹⁰ on the issue of dilution by blurring because they determined that the lower court had used the wrong analytical model as set out in the TDRA.¹¹

E. Trademark Law

A trademark is a nonfunctional, distinctive word, name, shape, symbol, phrase, or some combination of words and symbols, that helps consumers to distinguish one product from another.¹² The Lanham Act¹³ is the federal statute that protects an owner’s registered trademark from use without the mark holder’s permission. Some examples of famous marks are Nike’s “swoosh” symbol, McDonald’s famous golden arches, and Coca-Cola’s script and color combination. Apple was successful in obtaining trademark protection for the three-dimensional shape of its iPod player.¹⁴ The key requirement to a protectable trade mark is *distinctiveness*.¹⁵ One court put it concisely:

Generally speaking, a [trademark is a] distinctive mark of authenticity, through which the products of particular manufacturers or ...commodities of particular merchants may be distinguished from those of others.¹⁶

Infringement

In order for a mark holder to prevail on a claim of trademark infringement under the Lanham Act, in addition to demonstrating that the plaintiff's mark is protected, the holder also has the burden of proving that the infringement would likely cause *confusion* among reasonable consumers (called the "likelihood of confusion" standard).¹⁷ In determining whether a likelihood of confusion exists, courts apply an eight factor balancing test set out by the Second Circuit in the *Polaroid* case¹⁸. The eight factors are: 1) strength of the mark (how famous is it?), 2) similarity between marks, 3) proximity of the products and their competitiveness with each other, 4) evidence that the mark holder may be preparing to launch a product for sale in the market of the alleged infringer's product (known in trademark law as "bridging the gap"), 5) evidence of actual consumer confusion, 6) evidence of bad faith by the infringer, 7) respective quality of the products, and 8) sophistication of consumers in the relevant market. The application of the Polaroid test is not "mechanical, but rather, focuses on the ultimate question of whether, looking at the products in their totality, consumers are likely to be confused."¹⁹

Dilution

Dilution of a trademark is the legal centerpiece of this case study. Therefore, it is suggested that the instructor provide students with both the substance and a brief history of trademark dilution law so that they can fully comprehend the issues presented in the case.

In addition to an infringement claim under the Lanham Act, holders of famous marks may also enforce their rights via the Federal Trademark Dilution Act of 1995²⁰ as amended by the Federal Trademark Dilution Revision Act of 2006 (TDRA)²¹. This is a powerful tool for trademark holders because evidence of consumer confusion is not necessary in order for the mark holder to prevail in a dilution claim. Dilution occurs either through blurring or tarnishment²². Blurring dilutes the distinctive quality of the mark through its identification with goods which are not alike. Dilution by blurring may be found regardless of the presence or absence of actual or likely confusion, of competition, or of actual injury.²³ For example, consider the hypothetical products of Kodak brand pianos or Buick brand tennis shoes. Consumers would not necessarily be confused about the origin, but each dilutes the distinctive quality of a famous mark. Dilution by tarnishment occurs when an association arising from the similarity between a mark or trade name and a famous mark harms the reputation of the famous mark with something that a consumer might find objectionable or unflattering²⁴ (e.g., Apple brand cigarettes).

In 2003, the U.S. Supreme Court imposed a higher bar on mark holders who brought action for dilution in *Moseley v. V Secret Catalog, Inc.*²⁵ In *Moseley*, the Court held that the mark holders must prove "actual dilution" in order to establish a dilution claim. This was a difficult hurdle for mark holders to clear.²⁶ Largely in response to *Moseley*, Congress passed the TDRA in 2006 which provided the owner of a famous mark injunctive relief against the use of the mark that is "likely" to cause dilution of the famous mark.²⁷ The likelihood of dilution standard is a more relaxed standard than the *Mosley* Court's actual dilution standard.

The TDRA specifies six non-exhaustive factors for courts to consider in determining whether there is dilution by blurring²⁸:

- The degree of similarity²⁹ between the mark and the famous mark.
- The degree of inherent or acquired distinctiveness of the mark.
- The extent which the owner of the famous mark is engaging in substantially exclusive use of the mark.
- The degree of recognition (fame) of the mark.
- Whether use of the mark by the alleged infringer was intended to create an association with the famous mark.
- Any actual association between the mark and the famous mark.

In addition to setting out statutory blurring standards, the TDRA also requires the mark holder to prove that their mark is famous by offering evidence that it is “widely recognized by the general consuming public of the United States.”³⁰

Policing the Mark

One important aspect of trademark law is that mark holders have an obligation to protect their rights by “policing” their mark.³¹ Famous mark holders will often employ watch services and other methods to identify potential infringers of their marks and will typically have a system set up of sending a cease and desist letter and, if necessary, litigation in support of their policing efforts. In order to be protected, a trademark must be in use and stay distinctly tied to a product in the consuming public’s mind. If a word becomes too generic to the point where it has lost its distinctiveness, the rights are lost through genericity (the most famous case being Bayer’s loss of the right to protect the mark “aspirin”).³²

F. Ethical-Decision Making

The breadth and depth of coverage of ethical decision-making and corporate social responsibility in business curricula varies widely from institution to institution, and from classroom to classroom.³³ Some instructors take the approach of comparing duty-based ethics and the categorical imperative from outcome-based ethics and utilitarianism.³⁴ Others use the models created by various business ethicists such as Laura Nash.³⁵

One concise test that could be applied to the case study which can be easily remembered by students is the well-known 3-step ethics check articulated by Peale and Blanchard in their famous book *The Power of Ethical Management*. First, is it legal? Second, is it balanced? Third, how does it make me feel?³⁶

G. Legal Acumen as Value Added to the Firm

Recent trends in business law/legal studies pedagogy and scholarship have embraced a more managerially focused approach to the subject matter. Scholars have postulated that legal knowledge should be bridged with managerial knowledge in order to add value to the firm as a source of sustainable competitive advantage.³⁷

There is an identifiable shift towards teaching business students that law cannot be the sole factor when a business manager or owner faces a legal challenge.³⁸ Rather, business decisions must be made in “the shadow of the law.”³⁹ This case study presents an excellent mechanism for exploring issues related to using legal knowledge as a source of strategic value and allows for an evaluation of the decision-making in a legal dispute from a managerial, cost-benefit, and return on investment perspective.

H. Sample Answers to Discussion Questions

Trademark law

1. *The TDRA defines blurring as an “association arising from the similarity between a mark and a famous mark that impairs the distinctiveness of the famous mark.” How should the trial court rule on the issue of dilution by blurring given the new language in the TDRA?*

Despite the trial court’s rulings against Starbucks on their dilution claim, there are some factors that weigh in Starbucks’ favor given the TDRA’s language. The appellate court in the Charbucks case pointed out that “it is significant that the federal dilution statute does not use the words ‘very’ or ‘substantial’ in connection with the similarity factor to be considered in examining a federal dilution claim.”⁴⁰ This is a subtle distinction and sometimes students have trouble grappling with it, but it could well be that this subtlety decides the issue. Thanks to the TDRA, on remand Starbucks need only to prove that the infringing mark is similar to the famous mark instead of having to prove substantial similarity. Other blurring factors to consider:

- *The degree of inherent or acquired distinctiveness of the mark;* Starbucks’ marks are distinctive and have been registered and used in commerce continuously since 1985.⁴¹
- *The extent which the owner of the famous mark is engaging in substantially exclusive use of the mark;* Starbucks has a regular practice of policing its mark to be sure that they are in substantially exclusive use.⁴²
- *The degree of recognition (fame) of the mark;* Starbucks has one of the most well-known trademarks and trade names in the world. From fiscal years 2000-2003, Starbucks spent over \$136 million on advertising, promotions, and marketing activities. Starbucks has over 8,700 retail locations in the U.S., Canada, and 34 foreign countries.⁴³
- *Whether use of the mark by the alleged infringer was intended to create an association with the famous mark;* Although the Clarks deny that they intended to get a free ride from Starbucks’ name, a court may find that the similarity between “char” and “star” in combination with the word “bucks” on a coffee product is sufficient to trigger liability for Black Bear under the TDRA.
- *Any actual association between the mark and the famous mark;* None.

2. *Should the court have given more weight to the testimony of Starbucks’ expert? Although the survey was conducted by telephone, shouldn’t consumer confusion in the similar sounds (Charbucks versus Starbucks) be sufficient to show blurring? Didn’t his research prove that tarnishing occurred too?*

Under the pre-TDRA standard of “substantially similar” it is easier to conclude, as the district court did, that they were not substantially similar. However, given the TDRA’s relaxed standards for proving dilution, the expert testimony may become more important. Despite the telephone research methodology, Mitofsky’s study for Starbucks concluded that the name “Charbucks” creates many negative associations in the mind of the consumer. Starbucks’ claim under the TDRA may very well be satisfied with the help of Mitofsky’s testimony. This is also a prime opportunity for a teaching moment on the use of expert witnesses in general and the weight of expert testimony in a trademark dispute.

3. *What legal issues must a famous mark holder consider in preserving their trademark?*

In order to preserve their trademark protections, a famous mark holder (such as Starbucks) must implement a policing system to detect and investigate any alleged use or dilution of their marks. (e.g., employ watch services and other methods to identify potential infringers of their marks and have a system set up of sending a cease and desist letter and, if necessary, litigation in support of their policing efforts). In order to be protected, a trademark must be in use and stay distinctly tied to a product in the consuming public’s mind. If a word becomes too generic to the point where it has lost its distinctiveness, the rights are lost through genericity.

Business Ethics

1. Consider Starbucks' litigation strategy. When they used legal maneuvering to attempt to get Zurich to withdraw, was that ethical? Was it a legitimate hard-nosed business practice or did Starbucks use their resources in an attempt to force Black Bear into settlement?

This is one of the classic ethical dilemmas in business ethics: if it's legal is it also ethical? In short, no. This dilemma could be analyzed using the Peale-Blanchard test:

First: Is it legal? Yes. Under the *Rules of Civil Procedure*, Starbucks was free to file a motion with the court to amend their complaint during the lawsuit.

Second: Is it balanced? This is where the questions becomes thornier. From Starbucks perspective, they are simply following their existing trademark policing policy. But was it balanced to invest all of their resources into a litigation battle and then to use a legal mechanism to cut off Black Bear's legal air supply (their insurance carrier's coverage of legal defense costs).

Third: How does it make me feel? It is always fascinating to hear or read students subjective notions as to how a business transaction makes them "feel." It can also be fodder for stimulating classroom debate about the notion of ethics generally and the roots of an individual's ethical decision-making model. This is also a convenient springboard for a discussion of whether business ethics can be taught in the business curriculum.

2. Starbucks invests substantial resources into their theme of being a responsible company. On its Web site, the company announces that "We've always believed that businesses can- and should-have a positive impact on the communities they serve." How does that statement square with their strategy in the Charbucks dispute? Is there any ethical conflict between a company's stated objectives to be a good corporate neighbor and its obligation to its stakeholders to protect its intellectual property?

This question is intended to focus students on the difficult dilemmas between the duties of corporate officers to carry out the best interests of their company versus a corporation's commitment to its communities. Can a corporation do both? Business ethicists such as Nash, Peale, and Blanchard believe so. Still, Starbucks may not have acted as the best "corporate neighbor" here. Is it possible that this matter was so small that it escaped any business ethics or corporate social responsibility analysis? This question drives home the point that a corporation must systematize its sense of values and the ethical decision-making models throughout its company including third party contractors (such as outside counsel).

3. Even if Black Bear was legally entitled to use Charbucks, is it ethical to use a name that sounds so close to someone else's famous coffee trademark?

The shines the spotlight of business ethics on the Clarks. Although they denied any intent of getting a free ride from the Starbucks trademarks, it almost stretches the bounds of credibility to conclude that the Clarks had no idea of the connection between Charbucks and Starbucks. From the small business owner's perspective, shouldn't they have found a name that, at the very least, wasn't close to a trademark of another coffee-related company? Using the Peale-Blanchard model, the first question (legality) may be settled, but the second and third questions are more problematic.

Adding Value through Legal Acumen

1. What lessons can managers learn from this case in terms of avoiding trademark liability and in decision-making when enforcing a trademark?

While it would be safe to say that one lesson learned is that holders of famous trademarks are very aggressive about policing their marks, infringement is still a difficult claim to make out because even if the new company picks a product name that initially appears similar to a famous trademark, if the owner carefully limits the use of the mark and ties the mark clearly to the business or service provided, then the famous mark holder faces a substantial hurdle when trying to prove likelihood of confusion. The greatest chance for potential liability for a business is through the dilution statutes. Since the TDRA made it easier for mark holders to prove dilution through blurring or tarnishment, any use of a trademark that is, in any way, similar to a famous mark should be avoided entirely. From a trademark holder's perspective, business owners and managers can learn from Starbucks' policing system used to protect the distinctiveness of the mark with a gradual enforcement mechanism that ultimately leads to litigation. It may also be a case of a policing system gone awry.

2. Think of several names and a mark that Black Bear could have used for their dark roasted coffee beans instead of Charbucks. Conduct a preliminary search on the USPTO's web site (www.uspto.gov) and on a commercial domain name Web site such as www.register.com to see if it is available. Use your knowledge of dilution law to be sure that your trademark is viable and protectable.

Students benefit from a brief demonstration using the USPTO website:

-Go to www.uspto.gov.

-From the main "Trademarks" menu, choose the "Search Marks" tab.

-First, choose the "Basic Word Search" and enter Starbucks.

-Note the many marks that are registered for Starbucks and their products (and the "Starbucks barista") and services (Starbucks Entertainment), but that some "dead" marks are also listed. A particularly fascinating one is "NO! Starbucks Coffee" which was used by groups opposing the building of a Starbucks in a particular neighborhood.

-Finally, ask students for names of local businesses that they think may have a protected trademark and run a search with their suggestion.

This exercise gives students a chance to engage in thinking about business strategy alternatives in the context of trademark law.

3. Consider the Charbucks dispute from a cost-benefit perspective. What was the return on Starbucks' investment to pursue Black Bear for trademark infringement? Even if Black Bear's defense was covered by insurance, did the investment of time by the Clarks yield a sufficient return? At what point, if any, does the cost-benefit analysis suggest that a settlement agreement would have yielded the most return for each party?

This question provides students with the opportunity to balance competing business interests: costs of litigation versus benefits of policing the trademark. Starbucks spent an extraordinary amount of money to litigate against Black Bear. In addition to paying legal fees to law firms in Los Angeles and New York to prosecute the trademark claim against Black Bear, they also paid \$30,000 for their expert's survey plus \$400 per hour for expert testimony.⁴⁴ Although they lost the case, would it have been worth it even if they had won? Were the benefits worth the costs? Aren't the damages caused by any of Black Bear's actions basically inconsequential to a company like Starbucks?

Other than court ordered mediation, the parties never attempted to use lower cost options to resolve the dispute (Alternative Dispute Resolution). Although Black Bear's defense was covered under the policy, they were

still out of pocket for legal costs from before the lawsuit was filed. More importantly to small business owners, the Clarks expended extraordinary amounts of time in the matter. A cost benefit analysis would suggest that both parties used non-business factors that prevented settlement. Black Bear's sense of justice and irritation were clearly driving their decisions. Starbucks followed the policing policy to the extreme.

I. Recommended Web sites

www.starbucks.com

Starbucks Corporate Web site which includes logo, factual information about the company's origins.

www.starbucks.com/responsibility

Starbucks Web page on their commitment to the community and environment.

www.blackbearcoffee.com

Black bear's Web site with logo. The site includes a special link created by the Clarks to chronicle their feud with Starbucks including commentary and background information. As of May 31, 2011, one could still order a bag of Charbucks Blend from its Web site menu. It also includes links to many of the documents related to the case including the original complaint filed against Black Bear by Starbucks at www.blackbearcoffee.com/Starbucks/Complaint/Enter%20Complaint.htm

www.uspto.gov/trademarks/basics/index.jsp.

Provides an overview and video that introduces the fundamentals of trademark law.

¹ The term "Harvard Business School-style teaching case" generally refers to case studies and exercises related to a certain aspect of particular business's dilemma, conflict, or transaction. The name is derived from Harvard Business School which uses the case study as a central component of their curriculum. *Inside the Case Method*, Harvard Business School, www.hbs.edu/learning/case.html (last visited May 31, 2011).

² For a detailed explanation and persuasive defense of the Socratic method, see Richard Garliko, *The Socratic Method: Teaching by Asking Instead of Telling*, www.garlikov.com/soc_meth.html (last visited May 31, 2011); *See also*, Jordan H. Liebman, *In Defense of the Legal Case Method and Use of Integrative Multi-Issue Cases in Graduate Business Course*, 12 J. LEGAL STUD. EDUC. 171 (1994) (providing evidence that integrative cases promote learning and cognitive skills).

³ Lucille M. Ponte, *The Case Study of the Unhappy Sports Fan: Embracing Student-Centered Learning and Promoting Upper-Level Cognitive Skills Through an Online Dispute Resolution Simulation*, 23 J. LEGAL STUD. EDUC. 169, 169-170 (2006).

⁴ *See* Lamar Odom and Analco Gonzalez, *Kelo v. City of New London: An Ideal Case to Teach Ethical and Legal Principles*, 25 J. Legal Stud. Educ. 343, 347 (2008).

⁵ National Coffee Association, *Report on National Coffee Drinking Trends*, www.ncausa.org/i4a/pages/index.cfm?pageid=201; *See also*, Kevin Hilgers, *Jumpin Java: College Campuses Seeing Coffee Explosion*, THE TELESCOPE, March 6, 2006, at 2, available at media.www.the-telescope.com/media/storage/paper749/news/2006/03/13/BeyondCampus/Jumpin.Java.College.Campuses.Seeing.Coffee.Explosion-1713366.shtml(describing the popularity and success of college coffee shops in the last decade including four different coffee shops on the campus at American University).

⁶ Black Bear Micro Roastery, www.blackbearcoffee.com/Starbucks/History_of_Events.htm (last visited May 31, 2011).

⁷ For the sake of accuracy, it should be noted that Starbucks also filed claims of unfair competition under New York state law. However, the court dismissed these claims in the first trial and Starbucks did not contest the dismissal. The claim is omitted from this case stud for clarity reasons.

⁸ Starbucks Corp. v. Wolfe's Borough Coffee, Inc. dba Black Bear Micro Roastery, 559 F. Supp. 2d 472 (S.D.N.Y. 2008).

⁹ Pub. L. No. 109-312, 120 Stat. 1730 (effective Oct. 6, 2006) (codified as amended at 15 U.S.C.A. § 1125).

¹⁰ As of May 31, 2011, the case has not yet been considered by the trial court on remand.

¹¹ Starbucks Corp. v. Wolfe's Borough Coffee, Inc. dba Black Bear Micro Roastery, 588 F.3d 97, 109, 111, 119 (2d Cir. 2009).

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- ¹² 15 U.S.C.A § 1127 (2005).
- ¹³ 15 U.S.C.A. § 1052 (2008).
- ¹⁴ See generally David Orozco & James Conley, *Shape of Things to Come*, The Wall Street Journal (in conjunction with MIT SLOAN MANAGEMENT REVIEW), May 12, 2008, A18, available at <http://sloanreview.mit.edu/wsj/insight/innovation/2008/05/12/?display=print>.
- ¹⁵ See 4 J. Thomas McCarthy, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 24:96 (4th ed. 2009).
- ¹⁶ *Koppers Co., Inc. v. Krupp-Koppers*, 517 F. Supp. 836, 840 (W.D.Pa. 1981).
- ¹⁷ See *Savin Corp. v. Savin Group*, 391 F.3d 439, 456 (“The crucial issue in an action for trademark infringement...is whether there is any likelihood that an appreciable number of ordinarily prudent purchases are likely to be misled, or indeed simply confused, as to the source of the goods in question.”).
- ¹⁸ *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492 (2d Cir. 1961).
- ¹⁹ *Gruner + Jahr USA Publ’g v. Meredith Corp.*, 991 F.2d 1072, 1077 (2d Cir. 1993).
- ²⁰ Pub. L. No. 104-98, 109 Stat. 985 (1996) (current version at 15 U.S.C. A. § 1125).
- ²¹ Pub. L. No. 109-312, 120 Stat. 1730 (codified as amended at 15 U.S.C. A. § 1125).
- ²² McCarthy, *supra* note 14, § 24:67 (“A weakening or reduction in the ability of a mark to clearly distinguish only one source [i.e., dilution] can occur in two different dimensions: ‘blurring’ and ‘tarnishment.’”)
- ²³ 15 U.S.C.A. § 1125(c)(2)(B).
- ²⁴ 15 U.S.C.A. § 1125(c)(2)(C).
- ²⁵ 537 U.S. 418 (2003)
- ²⁶ See Clarisa Long, *Dilution*, 106 COLUM.L.REV. 1029, 1042 (2006) (Analyzing data on the success of trademark claims before and after the Mosely decision, Prof. Long concluded that “[t]he results show that the rate at which trademark holders have been able to get injunctive relief on their dilution claims in [federal] district court has been dropping over time from an initial success rate of 54% in 1996 to 12% for the first half of 2005.”)
- ²⁷ 15 U.S.C.A § 1125(c)(1)
- ²⁸ 15 U.S.C.A § 1125(c)(2)(B)(i)-(vi)
- ²⁹ Note that TDRA does not use the words “very” or “substantial” in connection with the similarity factor.
- ³⁰ 15 U.S.C.A § 1125(c)(2)(A)
- ³¹ McCarthy, *supra* note 14, § 28:12
- ³² *Id.*
- ³³ For a comparison of different approaches to teaching business ethics, See Jeffrey Gandz & Nadine Hayes, *Teaching Business Ethics*, 7 J. BUS. ETHICS 9, 657 (1988)
- ³⁴ See Kenneth Clarkson, ET AL, BUSINESS LAW: TEXT AND CASES, 103-104 (11th ed. 2010).
- ³⁵ See Marianne Jennings, BUSINESS: ITS LEGAL, ETHICAL, AND GLOBAL ENVIRONMENT, 42-43 (8th ed. 2008).
- ³⁶ See generally Norman Vincent Peale & Kenneth Blanchard, THE POWER OF ETHICAL MANAGEMENT (2000).
- ³⁷ See Constance Bagley, *Winning Legally: The Value of Legal Astuteness*, 33 ACAD. MGMT. REV. 378 (2008); Robert C. Bird, *The Many Futures of Legal Strategy*, 47 AM. BUS. L.J. 575 (2010).
- ³⁸ The AMERICAN BUSINESS LAW JOURNAL recently devoted an entire issue to the topic. See Daniel R. Cohoy, *Editor’s Corner: Assembling a Special Issue on Law as a Source of Strategic Advantage*, 47 AM. BUS. L.J. v (2010).
- ³⁹ See John W. Collins, *Learning to Make Business Decisions in the Shadow of the Law*, 17 J. LEGAL STUD. EDU. 117 (1999) (“...the law is only an influencing factor that needs to be considered when selecting among decision alternatives.”)
- ⁴⁰ *Starbucks Corp. v. Wolfe’s Borough Coffee, Inc. dba Black Bear Micro Roastery*, 588 F.3d 97, 108 (2d. Cir. 2009)
- ⁴¹ *Id.* at 103
- ⁴² *Id.*
- ⁴³ *Id.* at 102
- ⁴⁴ The survey(including a statement on experts’ compensation) may be found at www.blackbearcoffee.com/Starbucks/ExpertTestimony_and_Surveys/Mitofsky-4-8-02-SurveyResults.htm .

APPENDIX A

Writing Assignment Evaluation Rubric

Possible	Score	
		Facts
5		Relevant summary of facts used throughout analysis
		Analysis
10		Demonstrated understanding of trademark law, distinctiveness requirement, and dilution.
10		Demonstrated understanding of ethical issues presented.
5		Demonstrated understanding of the impact of the TDRA on the dispute
5		Used case law and statutes to support points
		Writing style
10		Sentences were direct, clear and concise with appropriate syntax and legal expression

5		Paper format and appearance
		Comments:
		Total
50		