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News & Types: Commercial, Competition & Trade Update

Protecting "Cracker Barrel" Trademark: Kraft Foods Has Good Week, Starbucks and Cracker Barrel Do Not

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As was widely reported, on November 12, Kraft Foods won a $2.23 billion arbitration award against Starbucks arising from Starbucks' early termination of a bagged coffee grocery deal between the two companies. But the good news for Kraft Foods kept barreling along when, two days later, Judge Posner of the 7th Circuit Court of Appeals supported Kraft Foods' efforts to prevent Cracker Barrel from using Kraft's "Cracker Barrel" trademark for food products in certain distribution channels. (Kraft Foods Group Brands LLC v. Cracker Barrel Old Country Store, Inc. et. al., 7th Circuit Court of Appeals, No. 13-2559, November 14, 2013)

Kraft Foods is a well-known manufacturer and seller of food products sold in grocery stores. Among its products are a variety of package cheeses sold under the "Cracker Barrel" label. These cheeses have been sold under the "Cracker Barrel" label for more than 50 years. Kraft does not sell any non-cheese products under the "Cracker Barrel" label.

Cracker Barrel Old Country Store (CBOCS) is a chain of what Judge Posner called "low-price restaurants", largely located off major highways. In addition to its restaurants, CBOCS also sells products, including food products in its adjacent "country stores" and from its website. Obviously it sells these under the Cracker Barrel name.

CBOCS wanted to expand its market by selling its food products (but not cheese products) in grocery stores under the logo "Cracker Barrel Old Country Store." But CBOCS knew it was taking a risk and was not surprised when Kraft filed suit seeking a preliminary injunction to prevent CBOCS from selling its food products in grocery stores. The trial court granted the preliminary injunction. Judge Posner and his colleagues on the 7th Circuit agreed and affirmed..

Judge Posner first noted, and Kraft acknowledged, that the owner of a trademark cannot prevent all other uses of similar or even identical marks. So Judge Posner noted what Kraft was not trying to prevent. Kraft was not questioning CBOCS's right to sell food products under the Cracker Barrel name in CBOCS's own restaurants, in CBOCS's small "country stores" that adjoin the restaurants, or by mail order or on the web. It was only objecting to the sale by CBOCS of products in grocery stores, where they could be sold in proximity to Kraft's own "Cracker Barrel" cheeses.

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Judge Posner inserted pictures of the parties' trademarks in the decision itself, noting that they look different. "Yet even if a [Kraft] Cracker Barrel cheese and a CBOCS ham (or other food products) were displayed side by side in a grocery store, which would make a shopper likely to notice the difference between the labels, the words "Cracker Barrel" on both labels – and in much larger type than "Old Country Store" on CBOCS's label – might lead the shopper to think them both Kraft products." So even if CBOCS sold no cheese products labeled "Cracker Barrel", consumers might confuse the two. "It's not the fact that the parties' trade names are so similar that is decisive, nor even the fact that the products are similar (low-cost packaged food items). It is those similarities coupled with the fact that, if CBOCS prevails in this suit, similar products with confusingly similar trade names will be sold through the same distribution channel – grocery stores, and often the same grocery stores – and advertised together."

Judge Posner then gave a cogent explanation of the importance of a trademark.

> "A trademark's value is the saving in search costs made possible by the information that the trademark conveys about the quality of the trademark owner's brand. The brand's reputation for quality depends on the owner's expenditures on product quality and quality control, service, advertising, and so on. Once the reputation is created, the firm will obtain greater profits because repeat purchases and word-of-mouth endorsements will add to sales and because consumers will be willing to pay a higher price in exchange for a savings in search costs and an assurance of consistent quality. These benefits depend on the firm's ability to maintain that consistent quality. When a brand's quality is inconsistent, consumers learn that the trademark does not enable them to predict their future consumption experiences from their past ones. The trademark does not then reduce their search costs. They become unwilling to pay more for the branded than for the unbranded good, and so the firm no longer earns a sufficient return on its expenditures on promoting the trademark to justify them."

So Kraft's risk is that CBOCS's products could be inferior to what the consumer expects from Kraft and blames Kraft. A consumer that is disappointed in a CBOCS Cracker Barrel ham could decide that Cracker Barrel cheeses made by Kraft could be just as bad.

But there is an opposite consideration – consumer choice. CBOCS wanted to offer grocery shoppers products it sells in its restaurants. Without reference to Kraft's victory over Starbucks referenced above and without a trace of irony, Judge Posner cited Starbucks as a comparable company that used its success in coffee shops to expand its market to grocery stores. So Judge Posner acknowledged that competition will be harmed if Kraft is granted its preliminary injunction.

So the balance to strike is this harm to competition compared to the likelihood that Kraft would prevail in a full trial and which of the parties is likely to be harmed more by a ruling. " . . . .[T]he more likely it is the plaintiff will succeed on the merits, the less the balance of irreparable harms need weigh toward its side; the less likely it is the plaintiff will succeed, the more the balance need weight towards its side" (citing Abbott Laboratories v. Mead Johnson & Co., 971 F.2d 6, 12 (7th Cir. 1992). Here, said Judge Posner, "The likelihood of confusion seems substantial and the risk to Kraft of the loss of valuable goodwill and control therefore palpable." So the

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7th Circuit affirmed the preliminary injunction against CBOCS selling its Cracker Barrel food products in grocery stores.

The case illustrates the value of a trademark, the importance of defending a trademark and also the need to confirm possible competing trademarks when launching a new product or, in this case, launching an existing product into a new distribution channel. As noted by the court, CBOCS anticipated the litigation but apparently felt it could eventually prevail (and may still feel it will prevail at a full trial) and had the wherewithal to test its confidence that it would succeed. So the lesson is to select a trademark carefully to avoid claims of infringement.

But CBOCS may have had different considerations. Perhaps when it opened its successful Cracker Barrel restaurant chain, it did not anticipate that it might one day want to sell Cracker Barrel foods in grocery stores. So, at the time, it was not concerned about Kraft's "Cracker Barrel" cheeses. So Cracker Barrel was faced with either abandoning its market expansion into grocery stores or taking the risk that Kraft would challenge it. So far the risk-taking has not paid off. CBOCS cannot now, and may never be able to, sell its Cracker Barrel food products in grocery stores. So the lesson is not just to carefully select a trademark to avoid immediate infringement, but also to anticipate future use of the trademark with other products, markets and distribution channels to protect valuable future opportunities.

For more information about this article, contact Stephen M. Proctor, Chair of the Distribution and Sales Group, at 847.734.8811 or via e-mail at sproctor@masudafunai.com.

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