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Brands In the Metaverse: Opportunities, Risks and Strategies

By Brandon Leahy and Chloe Delehanty

From the dot-com era, to social media and mobile, forward-looking brands have sought to stay ahead of the curve and equip themselves for success in the next Internet age. Today, that means readying for the "metaverse" — a still largely undefined virtual environment where users (and brands) can interact with each other across immersive platforms and move seamlessly from one activity to another. Well-known brand owners are taking strikingly different approaches to this new environment — some jumping in and acquiring virtual real estate or partnering with avant-garde creators and platforms; some participating tepidly with limited releases; and others not participating at all. While it is still unknown how the metaverse will take shape lawyers advising brands should familiarize themselves with the opportunities it presents, the risks involved, and strategies to consider for enhancing and protecting a client's brand

Brandon Leahy (Of Counsel) and **Chloe Delehanty** (Associate) are attorneys in the Trademarks & Advertising Group of Wilson Sonsini Goodrich & Rosati.

Opportunities for Brand Awareness and Expansion

The metaverse presents brands with an opportunity to reach a new audience, particularly in the realm of gaming — currently the most developed incarnation of virtual worlds. Tens of millions of (mostly young) active users engage regularly on platforms such as Roblox, Decentraland and Fortnite, spending countless hours in online environments that feature limitless opportunities for brand penetration beyond traditional gameplay. These platforms include concerts, fashion shows, e-sports events, and other social and entertainment experiences. As with billboards and real-world event sponsorship, brands can reach new consumers and enhance their relevance among a younger demographic by purchasing valuable real estate and lending their names to these events or even creating their own.

Luxury designer and apparel brands have been especially ahead of the curve. Louis Vuitton, for example, introduced an interactive game involving limited edition virtual products where users can customize their avatars with digital Louis Vuitton branding as they learn more about the designer's history by collecting memorabilia. The benefit of this foray into the metaverse is indirect; while the game is free to download, Louis Vuitton can reach a younger audience in a space more familiar to them then high-end shopping districts. More closely meshing the real-world to virtual experience, Gucci hosted an experience called "Gucci Garden," where users could enter Gucci themed rooms and purchase exclusive Gucci virtual goods. Gucci described the value of the experience this way: "*While fashion and art may feel out of reach, the metaverse is bringing them closer and making them accessible for millions of people, building on Gucci's quest to empower individuals and expanding self-awareness to new virtual territories.*" Put otherwise, the accessibility and lower price of entry of virtual goods allows Gucci to reach a new audience, while consumers get the experience of owning a product (albeit a virtual one) from an iconic high-end brand. Nike has also been especially proactive. In addition to hosting a branded environment (dubbed Nikeland) where users can outfit their avatars with virtual Nike products, play games in their new virtual apparel, and even watch digital concerts, Nike has acquired a company called RTFKT that creates virtual sneakers and collectibles for the metaverse, positioning itself to expand its virtual offerings.

Brands today are also experimenting with collaborations that push the boundaries of conventional notions of brand consistency. Gap, for example, has collaborated with Kanye West's Yeezy label to create a mashup of its signature navy blue and white logo with the letters "YZY" in the usual place of "GAP," even going so far as to file joint ownership trademark applications for the mark. Such collaborations could be particularly well suited to the metaverse, where consumer expectations are less well formed and inventive use of brand imagery is the norm rather than the exception.

Thanks to blockchain technology, these new branding opportunities can even crossover to the real world to provide additional fan engagement. Non-fungible tokens (NFTs) in particular allow brands to bridge the gap between the digital and real world. Brands can expand their line of NFT-based digital branded products to include tangible merchandise. For example, luxury designer Dolce & Gabana released a line of NFT-based items that also give consumers access to the physical item at a real-life exhibition. As more brands engage with the metaverse, NFTs could take on a key role by helping turn virtual fans into real-world consumers.

Legal Challenges and Risks

Entering the metaverse is not risk free. By its nature, brand presentation in the metaverse will diverge in some respects from traditional contexts. Well-known brands in particular might struggle with presenting an image in the metaverse that is consistent with deeply ingrained expectations among consumers in the real world. This could, at least in theory, weaken brand distinctiveness.

By purposefully engaging in the metaverse through, for example, branded experiences and collections of digital apparel or other virtual goods, brands open themselves to association with the virtual actors around them and the unforeseen consequences that could result. For example, when a brand has chosen to lend their name to a virtual event and permitted wide use of branded virtual goods, virtual attendees may become unwitting brand ambassadors, reflecting an image of the brand unlike in the real world. This carries the potential for reputational harm to the brand.

Reputational harm can also arise from unauthorized uses of a brand. It is not unusual in virtual environments, for example, for users to generate digital items or imagery that resemble or are inspired by well-known brands. Unauthorized third-party use of a confusingly similar trademark risks consumer confusion and harm to the trademark owner's brand and reputation in virtual worlds just as it does otherwise. But as in analogous cases involving earlier generation video games and virtual shows, proving likelihood-of-confusion and overcoming a fair-use defense can be more challenging in virtual settings. In the 2008 Ninth Circuit case *E.S.S. Entertainment 2000, Inc. v. Rock Star Videos*, Inc., for example, the owner of a real-world strip club featured in a video game sued the company behind the game. The court ruled against the strip club owner, reasoning that the rendition in the game was protected by fair use because it was artistic expression under the First Amendment. More recently, a saxophonist who went viral for his dancing alleged trademark and right of publicity claims against the developer of Fortnite. *Leo Pellegrino v. Epic Games, Inc.*, No. 19-1806 (E.D. Pa. 2020). The musician claimed that Fortnite violated his rights by featuring an avatar that played the saxophone and replicated his dance moves, but the court dismissed his claims in part due to fair use. As before in these analogous situations, brands should anticipate that questions of fair use will predominate in enforcement actions relating to the metaverse.

Brands who choose to sit out of the metaverse will also not be immune to risks. Hermès, known for its high-end Birkin handbag, recently filed suit for trademark infringement against digital artist Mason Rothschild for selling NFTs called "MetaBirkins": digital works of Birkin look-a-like bags of varying colors and a fur-like texture which Rothschild described as a "fanciful interpretation" of the real Birkin bag that are "also a commentary on fashion's history of animal cruelty." Importantly, Rothschild's digital works are commercial in nature; Rothschild sold his first "MetaBirkin" in December 2021 for $42,000 — approximately the same retail price of the real-world version. The commercial values of the MetaBirkins also presumably depend on their association with the real Hermès' products; the digital bags themselves make up the entirety of the works. Notably, however, Hermès' has apparently not offered virtual goods or proactively introduced its brand into the metaverse, raising the question whether its rights with handbags and other products extend sufficiently to build a winning case of infringement. In declining to join its peers in introducing its brand in virtual spaces, Hermès' may find itself in a less advantageous enforcement position.

Delaying in filing trademark applications with virtual goods could also create headaches. In the United States, brands may be able to leverage earlier use-based rights to overcome third-party trademark filings for similar marks covering virtual goods. In the first-to-file systems prevailing in most other parts of the world, however, brands may find it more challenging to navigate around earlier third-party filings for virtual goods. This is particularly true in China and other countries where trademark squatting is prevalent.

Strategies for Brand Expansion and Protection

While there is certainly no one size fits all approach, well-established brands in particular will benefit from thinking proactively about how to leverage these new virtual spaces for brand growth and develop brand protection strategies.

As discussed, there is wide opportunity to extend brand awareness to a new and discerning audience in contexts that are all at once familiar and natural to the consumer and fresh and unconventional for the brand. By engaging with the metaverse, brands themselves can prove more expansive. By entering the metaverse — whether with games, concerts, NFTs, or other virtual experiences — a brand known largely for physical goods, such as apparel, could create a broader recognition of their brand in the minds of consumers across various fields of use and, by consequence, strengthen the brand itself and widen its scope of protection. In our view, these opportunities will in many cases offset the risks of unintended third-party uses, which may be present regardless.

It is also advisable to consider filing proactive trademark applications to expressly cover use in the metaverse, such as with "virtual goods" equivalents of a brand's primary physical goods and related "virtual store services." Nike, Abercrombie, McDonald's, Walmart, and other famous brands have already filed trademark applications targeting the metaverse. Brands should not let uncertainty about their plans for the metaverse stand in the way. In the U.S., brands can take advantage of the intent-to-use filing option for trademark applications, conferring a long runway until a showing of use is required to obtain a registration. Outside the U.S., the lack of a requirement to show use before registration and multi-year windows where registrations cannot be challenged for non-use similarly incentive filing early. The trend of brands filing to protect use in the metaverse is warranted and likely to escalate. Copyright registration is an additional, low-cost enforcement tool to protect designs and other original works of expression that, unlike with trademarks, are not tied to use with particular goods or services (virtual or otherwise). Brand owners should consider these and other brand protection measures in anticipation of entering or enforcing rights in the metaverse.

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