Manchester United versus China: 
a counterfeiting and trademark match

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In increasingly competitive and globalized business environments, companies are aware of the necessity of expanding and operating their businesses in other world markets. Sports clubs have been entering into different world markets to increase their fan base and become international clubs. Entering into a foreign market has many merits but not without any problems. This paper reflects on some common problems that sports clubs are facing in operating their businesses in developing countries, using a single case study based on the authors’ interviews with the Manchester United Football Club’s trademark managers. Specifically, this article examines two major intellectual property problems that Manchester United (MU) Plc. has encountered in establishing its ‘Red Devils’ trademark licensing in China: trademark registrations and trademark counterfeiting. The causes of these problems are analysed and a number of possible solutions are suggested.

INTRODUCTION

The game of football is not only growing as a popular sport but also as a lucrative business field around the world. This is evident in the number of viewers attracted in major football tournaments such as the World Cup, European Cup, Asia Cup, etc. Such popularity brings its own fortune and creates an environment for business opportunities related to football. Football clubs have been quick to explore such business opportunities and get involved in business activities off the pitch to further strengthen their financial capabilities to survive and become one of the best. The business activities include selling of club merchandise, finding sponsors, collaborating with other businesses such as telecommunications and banking (e.g., credit card), establishing own media tools (e.g., TV, radio, magazines) and so on. Without a doubt, such a wide range of profitable business activities attract both domestic and international attention as well as creating problems. This paper investigates two major problems in the football business, namely counterfeiting and trademark registration, exploring a single case study of Manchester United Football Club’s experience in China.

Whenever Manchester United (MU) is mentioned, people probably immediately think about the team manager, Sir Alex Ferguson, and a list of internationally famous footballers—Ryan Giggs, Roy Keane, Ruud van Nistelrooy, Wayne Rooney to name a few at the time of publication. This is not only the case in Britain, but also in many other parts of the world, such as China, where MU has a major fan base. The ‘treble’ trophies that the team won in 1999 fascinated many Chinese football lovers, accentuated by the team’s style of play during its tour to Shanghai in 1999, which attracted 80,000 fans to the stadium and a
television audience of millions (*The Times*, 1999). While MU is one of the highest ranked football clubs, both in financial and sporting terms, in the world and a prestigious member of G14 Clubs (a pressure group formed by the most powerful European football clubs), it has used its success on the pitch to develop an internationally known brand name in wholesale, retail and mail ordering (Manchester United Annual Report, 1997). MU has its MU branded products produced and packaged in developing countries such as Turkey, Thailand and China, due to low production costs. While a certain amount of products are brought back to the British market, the rest has been distributed and marketed to other international markets as well as the local market. The question here is whether MU is reaping the full benefits of the support it gets from the international fans especially amongst the Chinese population of 1,300 million when promoting its associated products. The answer is ‘not really’.

This article aims to examine the business and intellectual property problems that MU has encountered with its ‘Red Devils’ trademark in China, analysing the reasons and attempting to provide some possible solutions. The evidence for the article has been constructed from information collected by personal interviews, questionnaire surveys, e-mail exchanges, telephone discussions, documents provided by MU and an on-line search of related data. Specifically, three personal interviews were conducted in the Trademark Department of MU between 1999 and 2003 allowing authors to assess the problems and observe the actions taken to overcome these problems.

This paper’s structure continues with a background to MU and its business in China. This is followed by a summary of the theories on the merits and drawbacks of international licensing of trademarks. Next, an overall view of the trademark protection activities in China is provided. After that, the case of Manchester United Plc is examined. The paper ends with a section of concluding remarks and implications.

**BACKGROUND**

The MU football club, established in 1878, adopted its current name in 1902 and was formed into a limited company in 1906. Now, MU Merchandising Limited is a wholly owned subsidiary of MU PLC. It has been listed on the London Stock Exchange since 1991 and is a FTSE 250 company with over 37,000 shareholders. By 1999, the annual turnover exceeded £110 million and it reached a remarkable £173 million in 2003, an increase of 18% over 2002. Meanwhile, MU licensed products are being distributed and sold through 150 MU Mega Stores in more than 40 countries, including MUTV, the MU website and the MU magazines (Official website of Manchester United).

MU as a brand consists of two badges—MU and the MU Football Club (MUFC). They were first registered in the UK in 1970 and 1988 respectively. The current MUFC badge has been subsequently changed in style and is known now as the MU crest registered in
1997 (Figures 1 and 2). The MU ‘Red Devils’ symbolizes one of the most successful football clubs while it signifies a business brand name and a well-known trademark in the world.

Since 1993, MU has been doing business in China mainly in the form of licensing to authorize Chinese companies to manufacture a wide range of MU branded products. According to the then trademark manager, Mr O’Donovan, MU has the products manufactured in China, because ‘the material is excellent, the quality is wonderful, the cost is low and the price is competitive, Chinese textile workers are also very skilful and efficient’ (Interview, 27 October, 1999). This suggests that MU’s extensive business activities in China appear to be based upon sound economic reasons. Although it has no foreign-invested operations like most multinational enterprises (MNEs), MU has very close links with different Chinese domestic enterprises, which undertake design and manufacturing activities. It has licensed its trademarks in China in order to export the associated products to different MU Mega Stores around the world. There are Mega Stores in developing countries such as Thailand, Singapore and Malaysia. Building an MU Mega Store in China is also being considered.

**THEORIES: MERITS AND DRAWBACKS OF TRADEMARK LICENSING**

Summarizing the early studies, the merits and drawbacks of licensing related to MU trademark activities in China can be seen as follows (Czinkota *et al.*, 1996; Daniels and Radebaugh, 1998; Griffin and Pustay, 2001; Hill, 2001; Mottner and Johnson, 2000; Wild *et al.*, 1999). ‘Licensing has intuitive appeal to many would-be international managers’ (Czinkota *et al.*, 1996, p. 420). It is an attractive form of entry for a firm to ‘go international’ for three reasons. It does not need capital investment and a high degree of management commitment. It can also be very popular when firms want to focus on their core business, but would like to leverage the ownership of their Intellectual Property (IP) into market value by licensing. For example, football clubs authorize companies to manufacture club-branded products (for example: http://www.manutd.com; http://www.arsenal.com). Moreover, firms are very likely to reduce the scale of counterfeiting when they market the licensed products locally (Wild *et al.*, 2001). This is because, if authentic products are available in the market, consumers may have a chance to identify the quality differences between the original and counterfeit products.

While licensing has undeniable attractions for firms in international business, it is also ‘…the most limited form of foreign market participation’ (Czinkota *et al.*, 1996, p. 420). Particularly, international licensing is itself open to various problems, such as ‘payment risk’ (which arises from under-reporting of earnings and currency differences) and ‘valuation risk’ (the uncertainties in valuing the licensed trademark) (Mottner and Johnson, 2000). Additionally, the signing of exclusive licensing deals for both licensors
and licensees can make it difficult to expand. It is also difficult to maintain control on quality, production levels and the trademark protection. Given that IP forms a crucial element in a firm’s competitive advantage, there is a possibility that this will be eroded or lost through licensing (Hill, 2001). Moreover, licensing can be dangerous in cases where it helps to create competitors. As the licensees become known to work with a well-known trademark owner’s new techniques, this tends to strengthen the licensees’ reputation, their production techniques and efficiency (op cit). Finally, contract enforcement is risky and problematic because firms have limited financial support or expertise for contract enforcement (Mottner and Johnson, 2000). Particularly in emerging economies, this occurs against an imperfect legal infrastructure, which may act as a substantial barrier to the effective interpretation and enforcement of a licensing contract (op cit).

TRADEMARK PROTECTION ACTIVITIES IN CHINA

Since 1979, China has endeavoured to build up a modern IP system. This can be seen from two areas where it has been heavily involved (Bosworth and Yang, 2001). Internationally, China has ratified a series of world IP treaties and conventions. It became a member of the World Intellectual Property Organization (WIPO) in 1980 and of the World Trade Organization (WTO) in 2001. Domestically, China has sped up the formation of the IP system. This formation included the establishment of the Trademark Office in 1982, the restructuring of judicial organs for IP protection, including the establishment of the Special Peoples’ Court in 1992 to legally handle IP related disputes to guarantee unified enforcement (State Council, 1994, p. 13). The formation also encompassed the promulgation of the Trademark Law 1983 (amended in 1993 and 2000), and the Trademark Implementation Law 1993.

The data analysis below shows the changes in trademark flows, and more importantly, demonstrates the positive effects that the trademark system has brought in the last two decades.

Trademark shows a very high activity level (Figures 3 and 4). This can be explained mainly by the applications to register the existing trademarks from local Chinese when the trademark system was made effective. A significant increase occurs from 1992. This coincides with the amendment of the

Fig. 3. Trademark applications in China. Source: Compiled based on the WIPO statistics
Trademark Law and activities to join international organizations. Foreign applications have been a very small proportion of the total although there has been a large increase from 1992. However, this increase is very insignificant compared to that of local applicants. There is little difference in the ratio of registrations to applications between residents and non-residents. In 2000, for example, the Trademark Office in China received 223,177 applications, of which foreign applications accounted for only 11%, while trademark grants reached 167,307. By 2000, there were 1,249,803 trademarks in force in China (http://www.sipo.gov.cn).

Figure 5 shows the distribution of foreign trademarks in China broken down by country of origin. The major players are the Triad powers. The major developed countries’ dominating position is closely linked to the establishment of the trademark system. When trademark owners register a trademark in a foreign country, it enables them to launch their product(s) in a new market. Without appropriate protection, they would not produce their products in or export them to a foreign country.

In a survey of the IP activities of 51 MNEs in China, Bosworth and Yang (2001) found that 69% of the companies had encountered problems with government organizations relating to the treatment of IP applications and registrations, insufficient administrative protection and ineffective judicial enforcement. Almost half of the responding companies revealed that they had experienced some problems with Chinese partners. Additionally, over half of the companies had been the victim of extensive counterfeiting and infringement. The MU case study in the remainder of the paper has reflected some of the commonest problems that many MNEs have encountered in their trademark flows into China.

Fig. 4. Trademark registrations in China. Source: Compiled based on the WIPO statistics

Fig. 5. Trademark flows by foreign countries. Source: Based on Bosworth and Yang (2000)
THE CASE OF MANCHESTER UNITED

Problems with trademark registrations

One of the difficulties MU encountered in China is the frustration caused by the inconsistency of the Trademark Office in its trademark registration. Since 1993, MU has applied for trademark registrations eight times in different product ranges. Seven of the applications for the MUFC badge have been approved and one is still pending. The inconsistency of the Trademark Office is reflected in the results of the approval process with respect to the MUFC badge.

Table 1 shows that three of the seven applications were approved with only ‘United’ at the right corner of the badge (Figure 6). The word ‘Manchester’ was erased from the mark on the grounds that there were also Leeds United, Sheffield United, West Ham United, and Newcastle United. In the worst case, in two of the approved applications, the words ‘MUFC’ were eliminated entirely from the badge (Figure 7). The reason given by the Trademark Office was that the phrase ‘MUFC’ should not be limited to the sole use of MU. In particular, Manchester is a city, which should not be used as part of a football club’s name. It is ironic that the results of the approval process by the Trademark Office were so different across product categories, particularly when a number of the applications were made almost at the same time.

Difficulties in handling counterfeiting

Counterfeiting is a very common issue especially in developing countries, and is raised here for two purposes. Firstly, it provides a fairly complete picture of the complexities of counterfeiting itself, as three types of counterfeiting have all taken place in the MU case—‘slavish copying’, ‘licensing speculation’ and ‘forgery’ (private communication, Professor D. Vaver of St. Peter’s College, University of Oxford, 17 May, 2001). Secondly, and more importantly, the MU case reflects a number of common trademark problems in China, which could assist other companies engaged in trademark activities to take appropriate, preventative measures to avoid similar problems.

Slavish copying

Slavish copying or ‘slavish imitation’ or ‘literal copying’ refers to producing the same products by imitating the designs, colours and badges from the original products and marks (op cit). It is the commonest form of counterfeiting found throughout the world. In the MU case, at least six Chinese factories have been involved in producing

<table>
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<th>Goods</th>
<th>Number</th>
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<tbody>
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<td>1</td>
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<td>18</td>
<td>Sports and travelling bags</td>
<td>791335</td>
<td>14/01/95</td>
</tr>
<tr>
<td>2</td>
<td>Application</td>
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<td>1240536</td>
<td>21/01/99</td>
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<td>28/10/95</td>
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<td>1243372</td>
<td>28/01/99</td>
</tr>
<tr>
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<td>9</td>
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<td>07/04/99</td>
</tr>
<tr>
<td>6</td>
<td>was omitted</td>
<td>24</td>
<td>Curtains, towels, banners, flags, valances</td>
<td>1263245</td>
<td>14/04/99</td>
</tr>
<tr>
<td>7</td>
<td></td>
<td>21</td>
<td>Sponges (not for surgical use)</td>
<td>1265610</td>
<td>21/04/99</td>
</tr>
</tbody>
</table>

Source: Compiled by authors based on the MU’s trademark registrations in China.
counterfeit products of this type. Most of the output from them has been sold in China because of the popularity of the football club, and the availability and price of the official products.

During the interviews, the trademark manager of MU showed authors the difference between the real and the fake products. Take the ‘home kit’ for example. There are seven obvious distinctions (see Figures 8, 9):

1. the colour is wrong;
2. the fabric used is different from that of a genuine (the fake feels very rough and the real one feels very smooth on the surface);
3. the embroidery of the Club Crest and the welding of the ‘Umbro’ and ‘Sharp’ are poorly replicated, using threads on the surface of the T-shirt;
4. the zip on a genuine shirt is made from rubberized plastic to avoid injuries, whereas it is made from metal on a counterfeit shirt;
5. the Vapa-Tech label on the outside seam and the swing ticket containing a bar code are omitted on a fake shirt;
6. the overall quality of a counterfeit product is poor; and
7. the size-label on the neck of the garment is also missing.
Licensing speculation

MU has also encountered problems with its licensees in China. So far, it has signed six contracts with the Chinese manufacturers. Based on the contracts, MU authorizes the Chinese licensees to manufacture a certain amount of each product, say, 5000 t-shirts. Instead of 5,000, however, the licensee could use the technique and design from MU and manufacture 10,000 or more. While the 5,000 are exported to the UK in fulfilment of the licence agreement, the remaining 5,000 or more can then be unofficially distributed in the Chinese and/or other international markets at a lower price than the official MU garments sold abroad. The licensees are confident in finding a market in China because of the number of MU fans and the fact that they can undercut the official price with the same quality garment.

Compared to slavish copying, licensing speculation is much more sophisticated, as the counterfeit goods are in effect identical to the real products. It is possible that consumers would buy the products without knowing whether they were genuine. Here, the victim is the licensor, MU.

Forgery

This type of counterfeiting completely changes the style of the original product, replacing it with a new design, colour or material and other details, but retaining the original trademark. Forgeries can be found of various MU products, such as phone cards, magazines, souvenirs, etc. MU issues a monthly magazine entitled *Manchester United: the Official Magazine of the World’s Biggest Football Club* (Figure 10). When other countries and regions are authorized to distribute this magazine in English or another language, the distributor is required to follow the official publication without adding or amending the contents. The Hong Kong version of the *MU magazine* for the same month (August 1998) had a completely different cover (Figure 11) and, yet, at the bottom-right of the cover, it says in Chinese...
that this magazine was ‘officially authorized by MU’. The MU badge is right below these words. In addition, the contents of the forged magazine were also extensively different from the original (Figures 12, 13). The comparison shows that the fake magazine used the MU trademark in order to attract readers.

Economic and welfare effects
It is clear that the counterfeiting involves passing-off of illegal goods in place of the original or official products, in the case of slavish copying and forgery. In both cases, the consumer may be harmed insofar as they do not realize they are purchasing counterfeit goods of lower quality than the original, and the legitimate producer is harmed because, at the margin, such sales deflect demand from their own products and this effect is accentuated by the fact that the lower quality counterfeit can undermine the reputation of their goods. While ‘licensing speculation’ at first sight does not seem to undermine the reputation of MU, as the goods are of equal quality, this may not be the case in practice. For example, sales of such goods may not be accompanied by the same guarantees as the real products.
bought from a MU Mega Store. Additionally, the effects on MU itself may be greater because their products are competing with a product that, on the face of it, is identical to their own, but which sells at a lower price.

Counterfeiters involved in slavish copying and speculative licensing dominate the Chinese market by providing counterfeit products to MU fans with lower prices. They also export some of their output to the UK and other countries. For obvious reasons, this has caused a great concern within MU. The Trademark Manager believes that the infringement of these types must be stopped because MU has ‘... to endure an estimated loss of £3 million a year from China, Thailand, and other developing countries’.

Identifying the causes

Registration problem

When applications for different products, but with the same mark—the MUFC badge—were sent to the Trademark Office, they were directed to different departments according to the trademark classification of the products. As a result, one department approved the original trademark, while another department did not, at least, not in its original form. This inconsistency appears to have been the result of a lack of knowledge and communication between the different departments within the Trademark Office. The fact that MUFC is a well-known trademark may not have been well-known in China, at least to some of the officials dealing with the applications. To some extent, this is understandable, not only in China but also in other economies in which the adoption and application of IP laws is a more recent event. This is accentuated by the fact that the MU mark is not like Coca-Cola or Pepsi in this respect because cola drinks attract a diversity of consumers, but the MU products may only attract football fans. While the Trademark Office personnel are likely to have possessed a broad knowledge of trademark law and their associated administrative responsibilities, they are less likely to have been aware about the established international standing of MU as a football club. Additionally, it seems to indicate a lack of research by some of the trademark departments into the treatment of the MU trademark in other parts of the world, and any issues or discussions that surrounded applications for protection in other countries. In mitigation, however, some problems of this type seem inevitable given the relatively new administrative and legal framework for IP in China where currently the difficulties of learning are exacerbated by complexities and inconsistencies between different departments and government organizations as well as the competency and experience levels of the staff.

On the other hand, there is some basis for the wariness of the Trademark Office to recognize ‘MUFC’ in full as a trademark. There are other examples in the UK and USA, where lively discussions have taken place as to whether marks on sport clothes functioned as marks or were merely considered as ornaments. Recent examples of such cases include Arsenal Football Club vs. Mr. Reed and the Tottenham Hotspur Football Club (The Court Service-Chancery Judgement Case No: HC 1999-0038). The decision on the Arsenal trademark in the UK was referred to the European Court of Justice after the claims of passing-off by the club failed in the High Court of Justice in London (op cit). The European Court of Justice made a judgement in favour of the Arsenal football club stating that the selling of ‘unofficial’ merchandize by Mr. Reed (a devout Arsenal fan, who has been selling products associated with Arsenal since the 1960s) was a violation of the Arsenal trademark and therefore was considered confusing. The final verdict was highly applauded by trademark owners, as it asserted their proprietary rights against piracy and
counterfeiting. However, the outcome was not supported by all the companies. Wil- 
loughby & Partners, for example, believed 
that the verdict is a ‘retrograde step’ and likely to lead to a ‘grave injustice’. They 
asserted this because Mr. Reed had been 
selling Arsenal memorabilia long before 
Arsenal acquired the ownership of the trade-
mark (Yang and Sonmez, 2005). Conse-
quently, while many football clubs have 
used trademark rights to derive profit from 
selling club branded products, they have 
not always had a straightforward conclusion 
when they have contested a case of counter-
feiting. For the MU case, however, one view 
might be that the Trademark Office should not physically eliminate ‘MUFC’ completely 
or partially from the original mark.

Counterfeiting problem

The current empirical study of MU’s experi-
ence in China suggests that there are at 
least six major reasons for counterfeiting.

Population of MU products. Football is not 
only a sport, but also is the basis for a huge 
industry involving the production and mar-
keting of a wide range of memorabilia and 
related artefacts. Since MU won the treble 
of trophies in 1999, its popularity around 
the world has further increased. It is not sur-
prising, therefore, to see the associated 
business in MU-related products booming, 
as their fans like to feel a part of and signify 
their allegiance to the club. This builds up 
a demand for MU-related products that may 
not be satisfied either because MU do not 
physically market their goods in a particular 
country or, as in the case of China, the price 
is set at a level out of the reach of the major-
ity of the potential buyers. An average 
annual income in China of less than £1000 
is a clear indication that the majority of 
Chinese fans will not be able to indulge 
their interest in the club through the 
purchase of official merchandize.

‘Small men’ speculation. Even though 
purchasing power is relatively low, the 
demand for branded products is both high 
and rising in an increasingly consumer-
oriented society like China. As the value of 
the MU’s IP through its brand name drives 
a wedge between the price and cost of produ-
cing the good, this offers an incentive for 
counterfeiters to satisfy this latent demand. 
Such counterfeiters do not have the costs 
of developing and maintaining the brand 
name. Thus, they are able to undercut the 
official price and take a part of the market 
at the margin taking some proportion of the 
customers from MU itself and part from the 
group who would not have been able to 
afford the official merchandize. This is why 
there is massive counterfeiting of famous 
brands such as Pierre Cardin, Levi’s, 
Crocodile, etc. Thus, the ‘small men’, as the 
trademark manager, Mr O’Donovan, names 
counterfeiters, find opportunities to specu-
late on the MU business, exploiting MU’s 
potential market by manufacturing fake pro-
ducts or selling the real item by breaching 
their licensing contracts.

Distance exerts impact on effective 
management control. Distance has created 
major problems for MU’s business in China 
in the context of both the geographical size 
of China and the distance between the UK 
and China. Both dimensions of distance 
affection the ability of MU to exercise effective 
control ofcounterfeiting activities in China. 
MU has facilitated its production in China 
by licensing. While this form of relationship 
has a number of advantages as outlined 
above, it has meant that nobody from MU 
has been directly involved in the manage-
ment of this business from within China. 
Indeed, the link with the UK is made more 
‘arms’ length’ by the fact that the MU has 
hired a trademark agent from Hong Kong 
responsible for checking if the Chinese 
factories working for MU have fulfilled 
their licence obligations. The mechanism
adopted implies that, in the main, MU can only react to problems and not be proactive in avoiding them. The effective distance between the two countries is accentuated by the problems posed for close surveillance by the sheer size of China—while counterfeiting can be prevented in one area, this does not prevent new infringement breaking out elsewhere.

_Inadequate enforcement._ The effectiveness of licensing agreements depends crucially on the interpretation of the law as well as the willingness and ability of the Chinese government to enforce the law. Although China promulgated the _Trademark Law_, its _Implementation Law_ and other related regulations, the laws are more oriented towards national rather than international interests. In this context, Mr O’Donovan argued that ‘The law in China is very local’. This suggests that Chinese trademark law or, at least the interpretation and implementation of the law, should be reoriented towards international interests in order to secure the benefits of future economic development. Moreover, the Chinese government is not very active in dealing with the issue of counterfeiting. While they will take action if an aggrieved party provides evidence of infringement, they are not proactive in seeking out infringement. Consequently, it is not generally in MU’s interests to bring the infringers to court. If the Chinese government remains unwilling to be more proactive in ending counterfeiting and MU avoids taking sufficiently robust action, it seems inevitable that infringement will continue unabated.

_Unspecific licensing contracts on punishment of infringement._ Previous research has compared the different views of Sino-Western partners about the nature of licensing and other joint venture contracts (Bosworth and Yang, 2001). The research carried out by Bosworth and Yang (2001) suggested that all the Western companies that reported issues with Chinese partners regarding IP flows, pointed to the loose and flexible nature of the contractual agreement as an important source of these problems. Breach of an IP contract is frequent amongst Chinese partners and, when this occurs, there is a danger that the associated know-how will be leaked or in the case of trademarks, counterfeit products will appear on the market with the effect that the commercial value of the associated IP is undermined. This is clearly MU’s experience in China. The contracts that MU signed with Chinese manufacturers were not specific enough to guide and safeguard the MU trademark flows because the contract was not designed sufficiently closely to stop or even curtail infringement. More specifically, the contracts do not appear to be specific enough in establishing what action MU would take if licensees exceeded agreed official production levels. In a broad sense, contracts should be used as a deterrent and to ensure partners abide by the rules and consider the consequences of breaching the agreement.

The principal source of this problem appears to be important cultural differences in the preferred nature of contracts (Yang, _op cit_). In the main, Chinese businesses prefer ‘loose contracts’, which do not spell out specific stipulations that cover particular contingencies. This is contrary to the preferred Western approach, which generally believes that a contract should be as specific as possible to avoid any future conflicts and wrongdoings. The Chinese preference appears to be based upon the belief that a general contract facilitates negotiations in the future allowing items in the contract to be changed based on negotiations as and when the situation changes. In practice, however, a partner might well disobey the rules of a contract even before a new agreement is negotiated and signed. Such practices have been all too common amongst Chinese partners and companies,
and a source of considerable frustration amongst foreign partners.

**Inadequacy of penalties for counterfeiting.** The penalties for counterfeiting are relatively light and administrative in nature, such as warnings, public apologies and various fines and compensation. Inadequate penalties appear to lead to ever increasing and destructive counterfeiting. The relevant IP agencies, such as the State Administration for Industry and Commerce, are certainly important for the enforcement of trademark law. However, while fines, confiscation, compensation, revocation of business licenses and criminal charges can be used by the authorities to combat infringement, it is clear that the existing penalties are too lenient to prevent counterfeiting. The fines, which are normally between one and three times of the illegal income, are too low to punish the counterfeiters. This problem is exacerbated by the fact that the concept of ‘illegal income’ leaves too much latitude for interpretation—it is often difficult to find evidence about the true extent of the counterfeiting activities and, thus, identified illegal income is often very low compared to the true scale of the offence. Confiscation implies that the counterfeit products are generally returned to the IP owners (or their licensed manufacturers). Consequently, counterfeiters are not punished in a way that would prevent them from infringing again, when the IP owners or their licensees have to seek redress via the same costly and unpredictable administrative route or through legal proceedings.

There is also little explanation in the IP laws as to what actions should result in a criminal charge. In the MU case, the trademark agent has raided a number of illegal manufacturers in China. In one case, the agent entered a factory producing MU sports bags, and compared the trademark certificate with the actual production. As expected, many counterfeit bags were found. These products were confiscated and the factory was ordered to cease production. In the same raid, the agent also found illegal production of T-shirts and wanted to confiscate them. The counterfeiters then asked the agent to present the trademark certificate for the t-shirts, which was different from the one for sports bags. The agent had to leave the factory to ask for the certificate to be faxed from Hong Kong and, when revisited the factory in the next day, the counterfeiters insisted that they had never manufactured t-shirts using the MUFC mark and had left no physical evidence of their illegal activities.

**Possible solutions**

**Trademark registration**

**MU’s strategy.** The inconsistency of the registration from the Trademark Office can only be resolved by re-registration, although this is costly. MU has reapplied for trademark protection in China for those product categories where the unmodified mark has not been approved. On the positive side, the company applied the strategy to reapply the Class 25 products and had this class re-registered in China. The company has also planned to have the other existing marks reregistered. The MU attorneys have made a number of trips to China to lobby the Trademark Office. Such action is also in line with China’s new Trademark Law (2001) to allow for corrections of incorrectly registered marks, which indicates great progress of the Chinese government to create a more positive protection environment.

If we still can not have our application properly approved, we will appeal in court, which is very expensive. If the result is still unsatisfactory, we will have no choice, but withdraw the related business from China. We do not want some counterfeit products to swallow us. (personal communication with Mr O’Donovan)
This indicates that MU has formed a view of the importance of trademark protection in China as well as a strategic response if their reapplication is unsuccessful.

**Tactics.** On re-application, MU should demonstrate very convincingly the following reasons that prove the validity of their case to the Trademark Office on the grounds that the MU trademarks are well-known globally.

**Inconsistency.** MU should substantiate the inconsistency regarding the decisions taken by the Trademark Office in approving the MU trademark. Comparison of the trademark registration certificates could demonstrate the contradiction as well as the necessity of re-registration.

**Trade names and marks are inseparable.** The ‘MUFC’ trademark was registered in different forms by officials at the Trademark Office (i.e. in its entirety, with no wordings or only ‘United’ left—Figures 1, 2, 6, 7. The case needs to be argued that MUFC is a name, in which the words Manchester-United-Football-Club are inseparable, and if their link to the brand (i.e., their original significance and meaning) is to be maintained, MUFC should not be partially or wholly removed from the badge.

**Well-known trademarks.** ‘MU’ and ‘MUFC’ are two well-known trademarks. This is because the two names originated from the club having over 100 years of history and nobody else ever used them before. The two badges representing the company have been registered in the UK for many years. In more recent years, MU has registered its trademarks in more than 40 countries. Hence, MU and MUFC are not only the image of what is often argued to be the world’s ‘biggest’ football club, but also are globally well-known brands of club-related businesses.

MU’s attorneys and Chinese Trademark Agents are working together to convince the Trademark Office about the incorrect registrations of the MU marks. They are hoping that all the incorrectly registered marks will be corrected in due course although at the time of writing only the mark for class 25 products was reregistered. During the re-registration process, MU’s agent in Hong Kong should explain and clarify issues to the Trademark Office when they arise. On the basis of previous studies, this offers a potentially viable way to resolve inconsistencies in the approval process.

**Counterfeiting**

There are two major barriers to finding a solution to the counterfeiting problem. First, over-runs and the sale of ‘unofficial’ goods are almost a fact of life wherever MU is likely to locate its production activities. MU has encountered similar problems in Thailand, Malaysia and Turkey. While all of these countries offer the attraction of lower production costs than in Western regions, they are all likely to be characterized by greater problems in protecting MU’s trademark. Moreover, low production costs imply that incomes are also low (at least in this relatively high-labour intensive area of production) and the associated population are less likely to be able to afford the official MU products giving an incentive to the sale of counterfeit goods. In essence, the company is trading off the extent of the trademark problems it faces, and the costs associated with this against the benefits of lower unit costs of output and access to the higher income bracket segment of these markets. However, it will face these problems, to some degree, in all economies.

Second, the problem can be partially solved only because legal remedies, including litigation or the ‘threat’ of litigation, are limited in their reach. MU can prevent fake products from being sold in MU-affiliated
stores across the world. However, it cannot eliminate the illegal manufacture of fake products or the sale of such products by unaffiliated stores in other countries because of the costs of policing, which increase with distance. From an economic perspective, at any given point in time, the marginal costs of policing will increase as the degree of direct management control falls, while the marginal benefits of policing are likely to decline. As a result, the extent of the market for 'official' goods is narrowed down. In a simple and static world, MU would set the marginal costs of policing equal to the marginal benefits. Accepting this allows some degree of counterfeiting to take place. Certainly, MU also has to bear in mind the long-term effects of the counterfeit goods on its potential future market (and so it would look at the discounted sum of future costs and benefits), but this would still allow some degree of counterfeiting to occur.

Prevention techniques

Product control. MU has taken some technological measures to prevent counterfeit products from being sold, e.g., it uses an ample light test to differentiate the fake from the genuine products and to prevent counterfeits from entering its franchised stores. Ample light tests reveal differences between fake and genuine products because the latter have expensive, ultraviolet sensitive signs that the counterfeiters cannot afford to replicate. MU has also used a 'secret blockade' on the MU products in order to achieve the same purpose. Additionally, the company has applied stringent controls on the supply of the trademark badges to the Chinese manufacturers and, when the products are imported into the UK, they are inspected to prevent fakes from entering. All of these measures represent an increased, but, in the light of the counterfeiting activity, necessary burden on MU in terms of additional manpower and costs. However, these ex post types of control only have a mild preventative effect and, unless action is taken in the countries in which they are manufactured, counterfeit goods will continue to damage the rights holders' interests.

Licensing control. Licensing speculation leaves MU feeling alone and unaided in dealing with the issue. The difficulty arises because only those inside the company know the extent of this counterfeiting problem, as it is not reflected in detectable physical differences in the products themselves only in the volume of goods produced (which is the subject of a private contract between MU and the manufacturer). While MU feels that there is little it can do to prevent licensing speculation, there are two steps that can be explored. Firstly, MU should stipulate very specific punishments to licensees on breach of contracts. This will help to overcome the problem referred to earlier concerning the fact that Chinese IP laws continue to be open to interpretation and that penalties for counterfeiters may not be sufficiently punitive. Secondly, MU should increase inspection and supervision of the production and marketing of its products at least by assigning a special agent in China to do so. MU is currently reliant on its agent in Hong Kong to deal with such problems and the time that they have available to prevent counterfeiting is likely to be very limited. Moreover, an agent's skills are on the administrative and judicial side rather than in production control and product quality inspection. Likewise, trademark agents are authorized entities dealing with trademark application and examination, while their time and ability to inspect specific infringements are very limited unless the client facing infringement can provide sufficient evidence. These problems would be reduced if MU took a more 'hands-on' approach to its business activities in China.
Active IP enforcement. The purpose of exercising vigilance over the Chinese market is to find out if Chinese manufacturers are licensed, and if products sold in China are legally based on licensed trademarks. The recommendation here focuses on the need for active trademark enforcement of the company. In many instances, it is not in the interest of companies to deal with counterfeiting problems by taking infringers to court due to cost and time, and more importantly, because financial punishment and public apologies may be better ways to deal with the problem and to educate infringers in China although the extent of these penalties are limited.

There is a case for more active IP enforcement through the courts if necessary to act as a ‘threat’ to would-be counterfeiters. The fake magazine described earlier is clearly a case of passing-off, and MU could have pursued a copyright infringement strategy under the Hong Kong Law in parallel to trademark protection. While there do not appear to be any barriers in using the law to deal with this, the problem appears to be that the MU trademark agent in Hong Kong did not actively take action in pursuing copyright protection.

Brand protection communication. Another useful strategy has been for MU to establish communication with a network of ‘brand name’ companies operating in China. The trademark managers in MU meet regularly with their counterparts, such as Levi’s, Puma, etc., to discuss their experiences of counterfeiting in China, including the problems they have encountered and the measures necessary to solve these problems. This alliance assists these companies in learning from one another and planning joint actions to counter counterfeiting. In the final interview, the trademark manager confirmed that the official sponsor and supplier, Nike, is pursuing the counterfeiting problems in China.

Government support. It can be argued that the Trademark Office in China has not been proactive enough in investigating specific misdemeanours. Currently, they have allocated limited manpower to this matter, which generally precludes becoming involved in specific cases. However, it appears that, where sufficient evidence is available, the Trademark Office can be very co-operative in taking action to punish those involved in infringement. It is important therefore that, before seeking government help against infringement, MU should provide sufficient evidence to motivate the Trademark Office to take action. Equally, the government should recognize the IP worries of international companies, and take a proactive stance that would encourage their entry into China.

Operational and sale involvement. MU has been involved in loose contractual business relationships based on licensing with Chinese firms for about 10 years. It is probably time for MU to consider a more direct involvement in production and sale in China. Inspectors are needed to supervise production and marketing activities. These people can only be assigned from the licensing companies and must be dedicated to this one task, otherwise, it is very difficult to prevent, stop or even curtail infringement. This policing strategy seems to work well in China in countering infringement, especially in preventing intentional infringing activities. Therefore, it is very clear that, in order to curb infringing activities, MU needs to work closely with the manufacturers and the Chinese government, as well as educating consumers not to buy fake products.

CONCLUSIONS AND IMPLICATIONS

This case study has detected two major problems in the MU’s trademark flows into China—the inconsistencies in the trademark registration procedures and counterfeiting.
The former problem is partly the result of lack of coordination in the Trademark Office in China in handling the applications. However, it may have been exacerbated by the debate over whether a sports club’s marks on sport-clothes are marks or mere ornaments. The latter problem, counterfeiting, is not new and is a common occurrence across the world. The MU case study has provided a relatively complete picture of the reasons for this illegal business and the effects on business firms. Additionally, the discussion has highlighted some key causes of counterfeiting. They are the popularity of the brand in the face of inadequate purchasing power leading to counterfeiters’ speculation, the problems of maintaining management control due to the distance and policing costs, and the failure to discourage or prevent counterfeiting resulting from loose licensing contracts, passive Chinese government support and inadequate penalties.

The paper discusses a number of ways in which MU’s problems might be resolved. With regard to the inconsistent outcomes of the registration process, re-application appears to be the best strategy to gaining full protection for MU’s marks providing persuasive, specific and convincing evidence about the inconsistency in the treatment of the company’s trademark applications. Whilst noting the universal predicament that companies face in eradicating counterfeiting, there are a number of actions that might be taken at least to partially solve the problem. These steps involve product and licensing control, proactive and aggressive IP enforcement, intensified communications between branded companies, direct operational involvement, and seeking government support. However, counterfeiting is an inevitable challenge for firms. This is because, apart from the cost-benefit approach mentioned above, some deeply ingrained issues, such as attitudes towards IP and contracts, will take some time to evolve.

Existing case studies of IP in China have focused on judicial cases (Luo, 1998; Wang, 1996; Zheng et al., 1995) with little or no discussion of issues relating to the corporate management of IP. The MU case has provided a broader perspective of the role of trademark in international business. However, this study has its limitations. Firstly, it is a single case, which indicates the necessity of further studies of other companies. Secondly, as officials from the Trademark Office refused to be interviewed, it is impossible to build a picture of both sides of the story and the sources of the bureaucratic inconsistencies in the registration process. Nevertheless, the results enable a couple of conclusions to be drawn. Firstly, given the lack of precision in Chinese IP laws (and their interpretation and enforcement), which is not unique to China, the case implies the need to nail down every point more clearly if relatively inexperienced and uninformed officials interpret the laws. Secondly, there is a need for greater clarity and objectivity in the law to provide more specific guidance for businesses and IP owners.

This case study has provided implications to three parties—MNEs, Chinese domestic firms and the Chinese government. With regard to MNEs, it is important to establish an effective management of trademarks at a corporate level to prevent or avoid problems arising in the process of trademark flows. In relation to Chinese firms, this case may provide a good understanding of Sino-foreign co-operation in dealing with trademark flows. Such an understanding is necessary to engender better communications amongst partners to improve cooperative foundations. The results of this case study may also give Chinese managers some insights in the practical need to encourage trademark protection in business. In rapidly developing countries like China, in a narrow sense, it may be very crucial to increase trademark knowledge amongst
government officials and to intensify organizational coordination in trademark registrations. In a broad sense, it has become apparent and fundamental to further tighten the trademark administration and protection, reinforce the judicial power and clarify the trademark legislation aiming at changing the image of the IP situation in China. The ‘match’ between MU and China is not yet over, although it appears that counterfeiters are still benefiting. Therefore, the result is as yet unknown.

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