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Franchising and the Metaverse

Vincent Frantz
Partner, Cheng Cohen LLC
Chicago, Illinois

Xheneta Ademi
Trademark Attorney, Quarles
Washington, D.C.

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Introduction

Imagine, four close friends have settled in the four corners of the United States, proving time together is difficult. What if there was a platform that allowed those four friends to enjoy a meal together in Times Square, in real time, from the comfort of their own home?

The idea of the “metaverse” could enable this to happen. Each friend could acquire certain augmented or virtual reality equipment and log into a virtual platform, as if the friend was logging into a similar social media account. However, upon logging in, the friend is transformed into a virtual character, known as an “avatar,” which would allow the friend to “walk” in a virtual world and meet the other three friends at the virtual restaurant. That restaurant, while in a virtual setting, may have a brick-and-mortar presence in the physical world, that each of the friends had dined at before. Each friend looks at the menu and orders their favorite dish. The restaurant, which has partnerships with other physical restaurants or ghost kitchens in each of the friend’s cities, sends their orders to the respective kitchens. Those kitchens prepare the orders and coordinate with third-party delivery platforms to deliver the physical food to each friend, thousands of miles from each other. The friends enjoy their meal of physical food while connecting socially in the virtual environment. Sure, the friends could each jump on Zoom or Microsoft Teams, as many people have done since March 2020, but those friends would not be transcended into the virtual restaurant and be able to interact with each other as if together in person.

That’s where the metaverse model, particularly in the food and restaurant industry, could come into play for franchising. While this is a non-limiting example, as many industries may be impacted by (or might explore) the metaverse, franchising could be set up for a faster implementation, especially for larger franchise systems. If a brand already has a nationwide system of franchised locations, it could leverage that network to make the above example a reality.

The idea of the metaverse, however, evolves every day. Moreover, the corresponding legal aspects are traversing uncharted waters. However, this paper attempts to help franchise brands become familiar with the metaverse opportunity by explaining certain terminology and underlying technologies. The paper then examines how certain types of intellectual property may be impacted while analyzing whether franchise brands should take an inventory of their existing intellectual property assets. Then, the paper provides an overview of the leading cases relating to certain aspects of the metaverse that legal practitioners should keep an eye on. After that, the paper discusses the impact the metaverse opportunity may have on franchisors’ Franchise Disclosure Documents and franchise agreements. Lastly, it provides a potential action plan that franchisors can utilize when evaluating whether the metaverse might be plausible for their franchise programs.

I. What Is the Metaverse?

The definition of the metaverse is not a fixed one; it evolves as much as the technology behind it does. While the concept is at its infancy, the metaverse is currently understood as an immersive virtual environment built on blockchain technology that allows users to interact with each other and with the digital world. It can be accessed through virtual reality (“VR”) or augmented reality (“AR”) hardware, such as glasses or smartphones.

The original concept for the “metaverse” was introduced in science-fiction in the early 1990s.¹ Since, various technological developments, including virtual worlds² or multiplayer online games, have incorporated aspects of the metaverse, such as social interaction, three-dimensional virtual reality, and avatars. But to most, the term “metaverse” was first introduced in 2021 when the social networking company formerly known as Facebook announced its name change to Meta as a sign of its ambitions to develop the concept for the metaverse.³

The ultimate vision for the metaverse promises an interoperable three-dimensional world that will change social interaction and e-commerce. This hypothetical version of the metaverse will enable users to interact with each other, to buy and sell digital and physical assets, including assets that are authenticated by non-fungible tokens (“NFTs”), to transact with cryptocurrency, and to jump from one virtual world to another seamlessly—all in real time and from the comfort of their own home. It will alter the way users interact with the Internet, with each other, and most certainly, with brands. To a business model centered on brand marketing, the metaverse can serve as a vessel for expansion.

Currently, however, a decentralized interoperable or unified metaverse does not exist. Instead, some companies have created individual and centralized metaverse experiences that are created, hosted, and supported by certain platforms. These are known as “multiverses.”⁴ Both the current and the hypothetical concepts for the metaverse incorporate a digital ecosystem enabled by old and new forms of technology, from blockchain, Web3, cryptocurrency, and NFTs.

¹ See Neal Stephenson, *Snow Crash* (1992).

² “Second Life” is an online virtual world that was introduced in 2003. It allows users to create their avatars and customize their online world, such as by buying virtual property using virtual currency and interacting with 3D versions of others, things, and places. See: <https://secondlife.com/>.

³ Salvador Rodriguez, *Facebook changes company name to Meta*, CNBC (October 28, 2021), available at: <https://www.cnbc.com/2021/10/28/facebook-changes-company-name-to-meta.html#:~:text=The%20new%20name%20reflects%20the,playing%20in%20a%20virtual%20world.>

⁴ Ayushi Abrol, *Metaverse Vs. Multiverse – What’s The Difference?*, Blockchain Council (September 15, 2022), available at: <https://www.blockchain-council.org/metaverse/metaverse-vs-multiverse/>.

To better comprehend the metaverse, it's important to dissect and understand the terminology used to describe the underlying technology. For example, the following terminology is helpful in facilitating an informed metaverse discussion:

A. Web 3.0 or Web3: The New World Wide Web

The earliest version of the Internet is known as Web 1.0 or Web1, which was largely centered around allowing users to access information by reading, but it did not allow for much interaction or collaboration. The original MySpace,⁵ which enabled users to create profiles with photos and express interests but did not allow for interaction, is a Web1 instance. Most current online activities, however, are defined by the more evolved Web 2.0 or Web2 version of the Internet, which is centered around user community participation and collaboration. Common examples of Web2 are Facebook⁶ and other social media outlets.

The latest form, Web 3.0 or Web3, is the more advanced and open version of the Internet. It aims to expand user autonomy and provide additional tools for a more customized experience when interacting with the online world. The main characteristics of Web3 are that it is built on blockchain architecture, it is decentralized, it employs artificial intelligence and machine learning tools, and it enables the digital exchange of goods and services, and payment thereof, by way of digital currency. Web3 is intended to be the primary version of the Internet that will support most metaverse operations.

B. Blockchain Technology: The Architecture of the Metaverse

Blockchain is the technology foundation of the overarching architecture upon which the metaverse is built and by which metaverse transactions are supported. Blockchain is a decentralized and immutable ledger where the data related to a transaction is maintained and verified by a peer-to-peer network.⁷ Essentially, the data is shared in a transparent way, can be verified by any member of the peer network from anywhere around the world, and, once verified, it is stored in blocks, which are linked to one other in a chain. Once a block is formed, it cannot be changed or manipulated. There is no centralized government or private entity that controls blockchain operations.

Most cryptocurrency transactions are supported by the blockchain infrastructure. For example, one of the main functions of the Ethereum⁸ blockchain platform, which is run by community members, is to support transactions made with the ether

⁵ For a helpful comparison of Web 1.0, Web. 2.0, and Web 3.0, please see: <https://www.gymaesthetics.com/blogs/wellness-metaverse/evolution-of-web#:~:text=One%20of%20the%20best%20examples.presence%20as%20today's%20sites%20do.&text=Web%202.0%2C%20known%20as%20the.%2C%20participative%2C%20and%20dynamic%20web.>

⁶ *Id.*

⁷ For a helpful comprehensive review of blockchain technology, please see: Joyce Mazero, Dan McAvoy, and Richard Smith, *What is Blockchain and Why is it Critical to the Future of Your Domestic and International Business?*, International Franchise Association Legal Symposium, (May 5-7, 2019), available at: <https://www.franchise.org/sites/default/files/2019-05/WhatIsBlockchainandWhyisitCritical.pdf>.

⁸ For access to the Ethereum platform, see: <https://ethereum.org/en/>.

cryptocurrency (“ETH”), in addition to serving as a software development platform for building other decentralized applications (“DApps”).

C. Cryptocurrency: The Tokens for Metaverse Transactions

A digital economy inevitably calls for digital currency. Cryptocurrency is the name for the non-tangible coins that are used for blockchain transactions. It is common for virtual platforms to have their own unique digital token that users can transact with in the exchange of assets. The most known crypto tokens are Bitcoin, Ethereum, and Litecoin.⁹

D. Non-Fungible Tokens (NFTs): The Digital Receipt for Virtual Assets

Within the metaverse or the larger Web3, assets authenticated by non-fungible tokens can be sold or traded. An NFT is a digital certificate of authenticity or proof of ownership—a digital receipt—stored on a blockchain ledger that is linked to an underlying asset. The NFT refers to the receipt of purchase or ownership, not to the asset itself. Each NFT has a unique value and is not interchangeable, as opposed to conventional currency or cryptocurrency.

The assets associated with NFTs can be in digital format, such as photos, videos, audio, and artwork, or in physical format, from shoes to cars, or a combination thereof.¹⁰ NFTs serve as another vessel for users to purchase collectibles and to participate in the metaverse and the larger digital economy. NFT transactions are enabled by the overarching blockchain infrastructure and specific smart contracts, which are sets of digital code that serve as an agreement between anonymous parties to transact with one another. NFTs are typically bought by using cryptocurrencies.

II. Brands Entering the Metaverse

The opportunities for brand engagement in the metaverse are inestimable and they are industry-specific. Immersive experiences that allow users to explore a virtual world that emulates physical locations, games that users can play with friends, virtual stores where users can shop for virtual and physical products, and virtual restaurants where users can gather for a meal, are some instances of how brands can actively participate in the metaverse and engage with their consumers. Providing real-world rewards for virtual play is another example.

In the fashion and entertainment space, fashion brands like Tommy Hilfiger have organized entirely virtual fashion shows on the Decentraland virtual world platform where

⁹ For a helpful comprehensive review of cryptocurrencies, please see: <https://www.nerdwallet.com/article/investing/cryptocurrency>.

¹⁰ Examples of NFTs include the Bored Ape Yacht Club collection and the CryptoPunk collection, as well as the Merge, which sold for over \$ 91 million. For additional pricing on NFTs, please see: https://www.sothebys.com/en/search?query=Bored%20Ape%20Yacht%20Club&tab=objects&cmp=pse7000003057&s_kwcid=AL%2113028%213%21630464555726%21p%21%21g%21%21bored%20ape%20yacht%20club%20nft&gclid=Cj0KCQiAjbagBhD3ARIsANRrQEtvDBrTxEAtSoqq6hUSz72Lzb9EAMBI6DufFt7jUqJzUTD3Z7qp8MsaAqBuEALw_wcB; see also: <https://opensea.io/>.

users could purchase NFTs in the virtual shop and later redeem them for physical items from the designer's Spring 2022 collection.¹¹ Famous singers, like Ariana Grande and Travis Scott, have performed entirely virtual concerts on the gaming platform Fortnite.¹² Ultimately, the form of activity for each brand will be industry and brand dependent, but brands and artists are exploring novel ways to engage with their consumers and followers.

A. Certain Examples of Brands Using the Metaverse

Many brands, including from the franchise industry, have recognized the opportunity and have begun establishing a presence in the metaverse. Below are some examples of brands that have received publicity for their metaverse efforts.

1. Wendyverse

The food franchise industry's footprint in the metaverse has largely been shaped by Wendy's. In 2022, Wendy's partnered with Meta's Horizon Worlds to create its virtual world called Wendyverse.¹³ In this three-dimensional world, Wendy's customers can interact with each other, as well as with Wendy's brands and products.

The same four friends mentioned in the introduction of this paper can reminisce on their high school adventures by simply throwing on a VR headset and heading to Wendyverse. By way of customized avatars, the friends can meet up by the Fanta fountain at Wendy's town square. After they greet each other, they can then head to the virtual restaurant or Frosty Village and enjoy a virtual meal together. And if they weren't lucky enough to participate in the teenage fast-food labor force, they can now explore behind the counter and see what they missed out on.

Once they finish their meals, the four pals can challenge one another at different games: they can shuffle a burger on a board or dunk a virtual Baconator through a basketball hoop at the Buck BiscuitDome.¹⁴ Through all this, not only do they get to catch up with old friends from the comfort of their own home, but they also earn rewards that they can later redeem for a real-life products, like the Baconator.

The metaverse, however, is not Wendy's first rodeo in the digital space. Wendy's is known for its witty social media reputation. Back in 2018, the popular game Fortnite took to social media to poll players on whether they preferred a fictional burger joint over

¹¹ Stephanie Hirschmiller, *Why Tommy Hilfiger's CEO Believes Metaverse Fashion Week Added Value To The Business*, Forbes (March 31, 2022), available at:

<https://www.forbes.com/sites/stephaniehirschmiller/2022/03/31/metaverse-fashion-week-with-tommy-hilfiger/>.

¹² Andrew Webster, *Ariana Grande's Fortnite tour was a moment years in the making*, The Verge (August 9, 2021), available at: <https://www.theverge.com/2021/8/9/22616664/ariana-grande-fortnite-rift-tour-worldbuilding-storytelling>.

¹³ For access to Wendyverse, see: <https://wendyverse.com/> and <https://www.oculus.com/vr/5792357507446155/>.

¹⁴ *Id.*

a pizza joint featured in the game.¹⁵ By way of this poll, Wendy's spotted a marketing opportunity and took a strong stance by claiming that it preferred the pizza joint because the burger joint sold frozen beef burgers. Not only did Wendy's further instill its message that it did not "clown around with frozen beef"¹⁶ but it declared a digital war on frozen beef in the name of its tagline "fresh, never frozen." So, it partnered with the game maker and set forth on a mission to publicly destroy the fictional burger joint. And it allowed Wendy's followers to watch in real time as it did so. Its distinctly customized avatar—a mix of the character featured in its logo and red-riding hood—lashed its distaste for the burger joint, with most of the action taking place in the vicinity of the fictional freezer. By doing this, not only did Wendy's catch the attention of the Internet, but it spearheaded an effective advertising campaign.

2. McDonald's

Another restaurant franchisor at the forefront of the technology frontier is McDonald's. One of its next digital adventures includes a sizeable footprint in the metaverse.¹⁷ In addition to plans of creating digital experiences that include virtual meet ups, ordering real food, skins for avatars, and digital twins of its locations, McDonald's has already created NFTs for some of its iconic products. For instance, to commemorate the 40th anniversary of the McRib, it created a limited edition collectible NFT. Likewise, in celebration of the Lunar New Year, it exhibited the McDonald's Hall of Zodiac where users could listen to their horoscopes based on their Chinese zodiac signs.

3. Other Non-Franchised Brands

- Coca-Cola – in April 2022, Coca-Cola launched the Coca-Cola Zero Sugar Byte, its first "Coca-Cola flavor born in the metaverse."¹⁸ The project included a limited release of a physical retail product that provided entries for Fortnite players to participate in certain virtually-branded games in the metaverse.¹⁹

¹⁵ Brittany Vincent, *Wendy's joins Team Pizza, drops into Fortnite to attack Durr Burger's frozen beef patties*, Shacknews (November 30, 2018), available at: [Wendy's joins Team Pizza, drops into Fortnite to attack Durr Burger's frozen beef patties | Shacknews](https://www.shacknews.com/industry-news/wendys-joins-team-pizza-drops-into-fortnite-to-attack-durr-burgers-frozen-beef-patties).

¹⁶ For access to Wendy's Tweet, see: [https://twitter.com/Wendys/status/1068206871146889218?ref_src=twsrc%5Etfw%7Ctwcamp%5Etweteembed%7Ctwterm%5E1068206871146889218%7Ctwgr%5E3b563a54d2f530ed1426f8f86efa3c4ff6db8012%7Ctwcon%5Es1 &ref_url=https%3A%2F%2Fcdn.embedly.com%2Fwidgets%2Fmedia.html%3Ftype%3Dtext2Fhtmlkey%3Da19fcc184b9711e1b4764040d3dc5c07schema%3Dtwitterurl%3Dhttps3A%2F%2Ftwitter.com%2Fwendys%2Fstatus%2F1068206871146889218image%3Dhttps3A%2F%2Fi.embed.ly%2F1%2Fimage3Furl3Dhttps253A252F252Fpbs.twimg.com252Fprofile_images252F1019447050595897344252FBJa8z7Sd_400x400.jpg26key3Da19fcc184b9711e1b4764040d3dc5c07](https://twitter.com/Wendys/status/1068206871146889218?ref_src=twsrc%5Etfw%7Ctwcamp%5Etweteembed%7Ctwterm%5E1068206871146889218%7Ctwgr%5E3b563a54d2f530ed1426f8f86efa3c4ff6db8012%7Ctwcon%5Es1&ref_url=https%3A%2F%2Fcdn.embedly.com%2Fwidgets%2Fmedia.html%3Ftype%3Dtext2Fhtmlkey%3Da19fcc184b9711e1b4764040d3dc5c07schema%3Dtwitterurl%3Dhttps3A%2F%2Ftwitter.com%2Fwendys%2Fstatus%2F1068206871146889218image%3Dhttps3A%2F%2Fi.embed.ly%2F1%2Fimage3Furl3Dhttps253A252F252Fpbs.twimg.com252Fprofile_images252F1019447050595897344252FBJa8z7Sd_400x400.jpg26key3Da19fcc184b9711e1b4764040d3dc5c07).

¹⁷ Mary Vinnedge, *Innovation Ahead: McDonald's in the Metaverse*, (August 30, 2022), FranchiseWire, available at: <https://www.franchisewire.com/innovation-ahead-mcdonalds-in-the-metaverse/>.

¹⁸ See: <https://www.coca-colacompany.com/news/coca-cola-creations-zero-sugar-byte-launch>

¹⁹ See: <https://us.coca-cola.com/products/coke-creations/zero-sugar-byte>.

- Nike – in the Roblox multiverse, Nike launched its virtual “NIKELAND,” which was one of the first branded-applications in metaverse technology.²⁰ It provides a virtual avenue for Nike followers to view retail products and participate in branded activities. Since launching in 2021, the NIKELAND store has received over 21 million visitors.²¹
- JPMorgan Chase – over a year ago, JPMorgan Chase was the first leading bank to launch a virtual presence in the metaverse when it created its Onyx lounge in the Decentraland.²²
- Luxury Fashion Brands – several luxury brands, such as Gucci, Dolce & Gabbana, Ralph Lauren, and Balenciaga, have launched digital clothing lines, avatar character skins, and virtual fashion shows throughout the metaverse.²³

III. Intellectual Property (IP) Considerations for the Metaverse

A. How Different Types of IP are Affected by the Metaverse Model

The development of the metaverse will alter the way in which various intellectual property rights are obtained, enforced, and licensed. As outlined in the brief overview below, each form of intellectual property right may face unique challenges.

1. Trademarks

A trademark is a word, phrase, symbol, design, or a combination thereof, whose main function is to identify the source of products or services of a party from another’s. It’s the symbol by which consumers recognize a product or service provider in the marketplace and distinguish that provider from competitors. As trademarks are critical to successful franchise programs, this paper focuses on an in-depth analysis of trademarks as they relate to the metaverse in Section III.B below.

2. Trade Dress

Trade dress protects the look and feel of a product or its packaging and can serve to identify and distinguish the source of a product of party from another’s. Examples of trade dress include the shape of a product (such as, the Coca-Cola bottle or Converse’s

²⁰ See: <https://www.roblox.com/games/7462526249/NIKELAND>.

²¹ Chris Sutcliffe, *21m people have now visited Nike’s Roblox store. Here’s how to do metaverse commerce right*, The Drum (September 22, 2022), available at: <https://www.thedrum.com/news/2022/09/22/21m-people-have-now-visited-nike-s-roblox-store-here-s-how-do-metaverse-commerce>.

²² Kate Birch, *JP Morgan is first leading bank to launch in the metaverse*, FinTech Magazine (February 17, 2022), available at: <https://fintechmagazine.com/banking/jp-morgan-becomes-the-first-bank-to-launch-in-the-metaverse>.

²³ Oscar Holland, *Luxury fashion houses are funneling millions into the metaverse. But to what end?*, CNN (September 8, 2022), available at: <https://www.cnn.com/style/article/fashion-metaverse-millions-september-issues/index.html>.

Chuck Taylor All-Star shoes), the color of a product (such as, Louboutin’s red sole shoes), and the interior or exterior design of a building.

Obtaining trade dress protection for physical goods is a difficult task, as it requires a showing that the product or packaging appearance is distinctive, non-functional, and that after long standing use, it has come to be recognized by the consuming public as a source indicator for the provider. This process is time consuming and costly. To prove that certain trade dress is distinctive, not functional, and that it has gained secondary meaning for virtual goods would be even more challenging.²⁴

In the franchise industry, franchisors may also claim that a particular layout or appearance of physical locations are protected by trade dress.²⁵ For example, Kentucky Fried Chicken registered the exterior appearance of its restaurant.²⁶ In the metaverse, it’s imperative that franchise brands monitor the use of their products, services, and appearance in virtual environments, like in Fortnite and Roblox, to ensure that third parties are not unlawfully using their trade dress virtually. We have yet to see an example of this in action, but, if a third party opened a virtual restaurant that resembled the appearance of a franchisor’s registered restaurant appearance, such as Kentucky Fried Chicken, the franchisor should expend efforts to stop it.

3. Patents

A patent protects inventions, such as hardware like virtual reality glasses, chemical compositions like pharmaceutical drugs, and mechanical processes like complex machinery or machine designs, that are new, unique, and usable in some type of industry. To be eligible for patent protection, an invention must solve a problem; it cannot be a mere abstract idea. Much of the technology behind the metaverse involves patented hardware inventions, including but not limited to the AR and VR headsets and related accessories, software inventions like cryptocurrencies, and decentralized applications using blockchain technology and artificial intelligence.

The challenges related to patents center around obtaining patent rights for inventions applicable to the virtual realm, as the patent eligibility question can often turn to whether the invention solves a problem or whether the patent is a mere abstract idea, or whether the patent was created by artificial intelligence or a human.²⁷ Another difficulty that patent owners may face in the rise of the metaverse is finding an effective way to

²⁴ Jaci McDole, Juan Londoño, and Daniel Castro, *IP and the Metaverse: The Challenges of Protecting Trade Dress and Design Patent Rights in the Metaverse*, ITIF Information Technology and Innovation Foundation (December 1, 2022), available at: <https://itif.org/publications/2022/12/01/ip-and-the-metaverse-the-challenges-of-protecting-trade-dress-and-design-patent-rights-in-the-metaverse/>.

²⁵ For further reading, see: Christopher P. Bussert, *Trademark Law and Franchising: Five of the Most Significant Developments*, Franchise Law Journal, Volume 40, No. 1 (Summer 2020).

²⁶ *Id.*; see also: U.S. Reg. No. 5,590,676.

²⁷ For further reading, see: Jacob S. Zodieru and Craig Gelfound, *Patent Considerations and the Metaverse*, National Law Review, Volume XII, Number 304, (October 31, 2022), available at: <https://www.natlawreview.com/article/patent-considerations-and-metaverse>.

monitor potential infringement of patented inventions on virtual platforms. Thus, for any franchisors that have patent rights for inventions applicable to the physical world, it's important to monitor whether those rights are being infringed in the virtual realm and assess whether those inventions can be extended to applications in the virtual world.

4. Copyrights

A copyright protects original artistic, literary, or intellectually created works, including books, music, movies, software code, and paintings that are fixed in a tangible medium, such as paper, digital format, film, or canvas. Like other forms of intellectual property, copyrights have implications in the digital space, especially in connection with assets associated with NFTs, such as artwork. It's important to note that the purchase of an NFT does not automatically grant the buyer the rights associated with any copyrighted work in the asset linked to the NFT. Most NFT smart contracts explicitly state that no associated intellectual property rights are being granted. Copyrights don't come up often as a matter of contention in the franchise industry, as intellectual property disputes typically involve trademarks, trade secrets, and trade dress. However, it's possible that franchisors may encounter the unauthorized use of their copyrighted content in third party NFTs. Thus, franchisors should extend the monitoring of their copyrights for potential infringement to platforms geared to virtual goods and activities.

5. Trade Secrets

A trade secret is confidential commercial information, including a formula, pattern, compilation, program, device, or method, which affords the owner independent economic benefit and competitive advantage, and is treated by the owner as a trade secret. In the franchise industry, trade secrets are typical—think, the “secret sauce.” Often, franchisors find themselves enforcing trade secrets rights against former franchisees who continue to use such proprietary and confidential information after the underlying franchise agreement expires or is terminated. This same issue can arise in the virtual realm. Franchisors must be mindful of whether certain trade secret information may be shared in the metaverse and should take precautions to avoid illegally sharing trade secrets.

B. Trademarks in Depth

Unlike in most jurisdictions around the world, in the U.S., trademark rights can arise in common law and commence with “use,” rather than just by filing a trademark application. However, the most efficient way to secure nationwide exclusivity to a particular trademark is by filing a federal trademark application with the U.S. Patent and Trademark Office (USPTO). Franchise brands continuously file federal trademark applications to protect their principal and ancillary marks in connection with their goods and services.

The United States trademark system is designed to prevent monopolies. Trademark rights are tied to the use of the mark in connection with particular goods and services; they are not all encompassing. Thus, each federal trademark application must designate at least one International Class and define with sufficient specificity the goods

or services that the mark is currently used in connection with or is intended to be used in connection with. It's possible that two identical or highly similar marks could potentially be registered if they are used in connection with sufficiently unrelated goods and services. For example, Mars, Incorporated, the famous chocolate and candy company, has registered DOVE in International Class 30 covering "chocolate" (U.S. Registration No. 2012056), while Conopco, Inc. (i.e., Unilever) has registered DOVE in International Class 3 covering "toilet bar soap" (U.S. Registration No. 2052770). Given that trademark registration does not award monopolies, even for big brands, several staple franchise brands, such as McDonald's and Wendy's, have filed supplemental federal trademark applications in early 2022 to protect the use of their marks in connection with certain goods and services that might be relevant in the metaverse.²⁸ Each filed on an intent-to-use basis and proof of use has not yet been submitted to the USPTO. For a visual, here are a few of the recent applications that McDonald's and Wendy's have filed with the USPTO:

McDonald's

Word Mark	MCDONALD'S
Goods and Services	IC 043. US 100 101. G & S: Operating a virtual restaurant featuring actual and virtual goods, operating a virtual restaurant online featuring home delivery
Standard Characters Claimed	
Mark Drawing Code	(4) STANDARD CHARACTER MARK
Serial Number	97253179
Filing Date	February 4, 2022
Current Basis	1B
Original Filing Basis	1B
Owner	(APPLICANT) MCDONALD'S CORPORATION CORPORATION DELAWARE 110 N. CARPENTER STREET Chicago ILLINOIS 60607

²⁸ See: Wendy's federal application (U.S. Trademark Application Serial No. 97348970); McDonald's federal applications (U.S. Trademark Application Serial Nos. 97253179, 97253198, 97253170, and 97253159); Sonic federal applications (U.S. Trademark Application Serial Nos. 97325719 and 97325722); Taco Bell federal application (U.S. Trademark Application Serial No. 97330037); Firehouse Subs federal application (U.S. Trademark Application Serial No. 97341962); KFC federal application (U.S. Trademark Application Serial Nos. 97330034 and 97330030); Jersey Mike's federal application (U.S. Trademark Application Serial No. 97520800)

McDonald's

Word Mark MCDONALD'S
Goods and Services IC 009. US 021 023 026 036 038. G & S: Virtual food and beverage products. Downloadable multimedia files containing artwork, text, audio and video files and non-fungible tokens
Standard Characters Claimed
Mark Drawing Code (4) STANDARD CHARACTER MARK
Serial Number 97253159
Filing Date February 4, 2022
Current Basis 1B
Original Filing Basis 1B
Owner (APPLICANT) MCDONALD'S CORPORATION CORPORATION DELAWARE 110 N. CARPENTER STREET CHICAGO ILLINOIS 60607

WENDYVERSE

Word Mark WENDYVERSE
Goods and Services IC 009. US 021 023 026 036 038. G & S: Downloadable virtual goods, namely, computer programs featuring virtual food and drink; digital media, namely, video content and gaming content featuring digital collectibles, digital tokens, nonfungible tokens, and digital art; magnetically encoded debit and credit cards that may be redeemed for or used towards the purchase of food, drink, and restaurant services in the virtual and real world; downloadable mobile application for ordering food and drink, viewing menus and facilitating payment for food and drink; downloadable software which facilitates the ability of users to use digital currency; and downloadable mobile applications for ordering and managing customer accounts
IC 035. US 100 101 102. G & S: Online retail services featuring virtual goods, namely, food and beverage items for use in online virtual worlds; arranging and conducting incentive reward programs to promote the sale of food and beverage items; computerized online ordering services in the field of restaurant take-out and delivery; administration of a customer loyalty program which provides registered customers with free and discounted menu items; administration of a rewards program featuring virtual rewards that can be redeemed in the real or virtual world; customer loyalty services and customer club services for commercial, promotional and/or advertising purposes in the field of food and beverage sales and service
IC 041. US 100 101 107. G & S: Virtual reality game services provided on-line from a computer network featuring restaurants, food, and drink
IC 042. US 100 101. G & S: Creating an on-line community for on-line gaming community and on-line social community; providing temporary use of on-line non-downloadable software and applications featuring consumer product information in the fields of food and beverage, restaurants and food services

But the metaverse is not just for the big brands. Many smaller entertainment providers, like amusement parks and interactive experience providers, have begun exploring with the metaverse. For instance, the following trademark application²⁹ was filed at the USPTO for hotel services featuring physical, virtual, and augmented iterations of entertainment:

²⁹ Two Bit Circus, Inc. federal application (REVELERS RESORT, U.S. Trademark Application Serial Nos. 97505830 and 97505827).

REVELERS RESORT

Word Mark	REVELERS RESORT
Goods and Services	IC 043. US 100 101. G & S: Hotel accommodation services; Resort hotel accommodation services; Hotel accommodation services at facilities for interactive, virtual, and augmented attractions and games; Providing physical hotel accommodation services at facilities for interactive, physical, virtual, and augmented amusement attractions and games
Standard Characters Claimed	
Mark Drawing Code	(4) STANDARD CHARACTER MARK
Serial Number	97505830
Filing Date	July 15, 2022
Current Basis	1B
Original Filing Basis	1B
Published for Opposition	December 13, 2022
Owner	(APPLICANT) Two Bit Circus, Inc. CORPORATION DELAWARE 634 Mateo St. Los Angeles CALIFORNIA 90021

Intellectual Property Offices around the world, including the USPTO, are facing a rising number of trademark application filings related to virtual goods and services provided in relation to the metaverse. Yet, they are struggling to find the proper language to legally describe these goods and services. As is usually the case, the law lags behind the technology. While some IP agencies have provided guidance, there is a demand for ongoing guidance that matches the speed and depth of the technology behind the metaverse.³⁰

For now, the proposed language below may serve as a sufficient starting point in drafting identifications for virtual goods and services for trademark applications related to the franchise industry.

³⁰ For further information on official guidance from different IP Agencies, please see: <https://www.uspto.gov/about-us/events/registering-trademarks-newer-technologies-nfts-blockchain-cryptocurrency>; https://www.wipo.int/edocs/mdocs/cws/en/cws_10/cws_10_item_9b_inta.pdf; https://euipo.europa.eu/ohimportal/en/news-newsflash/-/asset_publisher/JLOyNNwVxGDF/content/pt-virtual-goods-non-fungible-tokens-and-the-metaverse.

Class	Description of Goods/Services
Class 9	Virtual food and beverage products; downloadable virtual goods, namely, food items and beverages for use in virtual worlds; downloadable multimedia files containing artwork, text, audio, and video files and non-fungible tokens (NFTs); downloadable loyalty and reward cards which can be redeemed for menu items; downloadable computer software, namely, non-fungible tokens (NFTs) for facilitating commercial transactions; downloadable software that allows users to access restaurant menus, locate restaurants, place food and beverage orders, pay for orders, and collect rewards; downloadable multimedia file containing video and audio relating to {indicate field or subject matter of file} authenticated by non-fungible tokens (NFTs)
Class 35	Online retail services featuring virtual goods, food, and beverages; digital retail store services featuring downloadable and non-downloadable virtual goods in the nature of food items and beverages; retail store services featuring virtual goods, namely, access tokens for use in online virtual worlds; conducting an incentive program whereby individuals can earn real world and virtual rewards; administration of a rewards program featuring virtual rewards that can be redeemed in the real or virtual world
Class 41	Entertainment services, namely, providing online virtual restaurants in virtual environments; entertainment services, namely, providing online, non-downloadable virtual food items and beverages for use in virtual environments; entertainment services, namely, providing an online virtual restaurant wherein users can earn reward points and virtual currency which may be used to purchase food and beverages; entertainment services, namely, providing online, non-downloadable virtual gifts and rewards for use in virtual environments created for entertainment purposes; entertainment services, namely, providing online actual and virtual concerts and other virtual events
Class 42	Providing temporary use of non-downloadable software that gives users the ability to upload, modify and share virtual reality content, augmented reality content, mixed reality content, information, experiences and data; providing temporary use of non-downloadable software offering virtual food and beverage products; non-downloadable multimedia files containing artwork, text, audio, and video files and non-fungible tokens (NFTs); non-downloadable computer software, namely, non-fungible tokens (NFTs) for facilitating commercial transactions; providing temporary use of non-downloadable software that allows users to access restaurant menus, locate restaurants, place food and beverage orders, pay for orders, and collect rewards

Class	Description of Goods/Services
Class 43	Preparation and provision of food and beverages; food preparation services for delivery or pick-up; restaurants featuring home delivery; virtual restaurant offering delivery of food and beverage products; operating a virtual restaurant featuring actual and virtual goods; operating a virtual restaurant featuring virtual goods

Any brand contemplating a new trademark application to protect its trademarks in the metaverse should keep in mind that the language to describe virtual goods and services changes frequently and should be on the lookout for updated official guidance. While new trademark application filings are encouraged for brand protection in the metaverse, brand owners should be aware that the new application filing must always be based on at least a bona fide intent to use the mark in commerce; the filing cannot be a mere effort to keep others from using the brand in the virtual realm.³¹ Brand owners, however, will have at least a few years to submit proof of use with the USPTO while they develop and implement their metaverse strategies.

As discussed in more detail below in Section III.D of this paper, a recent decision in *Hermes v. Rothschild* indicates that courts might be willing to extend a helpful degree of protection to trademarks for physical goods and services to stop third parties from offering similar virtual goods and services in connection with confusingly similar marks. Given the uncertainty of the legal landscape, however, brand owners are encouraged to pursue additional trademark protection for virtual goods and services, as appropriate.

C. Domain Name Acquisitions

Separate and apart from the other intellectual property rights above, brands also know the importance of domain names to their webpages play in commerce. Blockchain e-commerce is no different; as it presents new opportunities for transactions and commerce interaction. It also presents new opportunities for bad faith actors to take advantage of brand names and apply them to new domain extensions. Any brand contemplating whether to participate in the metaverse should consider whether acquiring Web3 domain extensions, such as “.eth” or “.metaverse” that support blockchain transactions, falls within the realm of their metaverse strategy.³²

³¹ The Lanham Act §1(b)(1), 15 U.S. Code § 1051(b)(1), provides that “[a] person who has a bona fide intention, under circumstances showing the good faith of such person, to use a trademark in commerce may request registration of its trademark on the principal register hereby established by paying the prescribed fee and filing in the Patent and Trademark Office an application and a verified statement, in such form as may be prescribed by the Director.” See also: § 19:14. *Intention to use—What is a bona fide intention to use?—Objective test of bona fide/good faith*, 3 McCarthy on Trademarks and Unfair Competition § 19:14 (5th ed.).

³² To determine whether an “.eth” extension is available, please visit : <https://app.ens.domains/>.

D. Leading Cases

1. *Hermès v. Rothschild*

Around December 2021, an individual named Mason Rothschild began selling NFTs that he called “MetaBirkin NFTs” which resembled virtual fashion bags ranging several different colors and textures.³³ Rothschild created original digital image files and authenticated them by selling NFTs of the digital images. Fashion experts were quick to realize however, the “MetaBirkin” bag closely resembled the iconic “Birkin” bag, designed and sold by Hermès International.³⁴ Here is an example of the two below:

Hermès: Birkin Bag³⁵



Rothschild: MetaBirkin³⁶



In January 2022, Hermès sued Rothschild for trademark infringement, false advertising, trademark dilution, and cybersquatting.³⁷ Rothschild filed a motion to dismiss, arguing that, under the Second Circuit’s *Rogers Test*, the MetaBirkin NFTs were original art and protected under the First Amendment.³⁸ Under the *Rogers Test*, a third party may use another’s trademark if (a) there is sufficient artistic relevance, where the artist is not using the popularity or goodwill of the mark owner to help propel the artist’s work (i.e., the “Artistic Relevance” prong), or (b) if there is artistic relevance, the user is

³³ Cassell Ferere, *Digital Artist Mason Rothschild Drops 100 ‘MetaBirkins’ NFTs Through Basic.Space*, *Forbes* (December 13, 2021), available at: <https://www.forbes.com/sites/cassellferere/2021/12/13/digital-artist-mason-rothschild-drops-100-metabirkins-nfts-through-basicspace/?sh=668483f92000>.

³⁴ See: <https://www.hermes.com/us/en/story/106191-birkin/>.

³⁵ See: <https://www.hermes.com/us/en/birkin/>

³⁶ See: <https://www.purseblog.com/hermes/the-case-of-hermes-vs-metabirkins-nfts-part-i/>.

³⁷ Complaint, *Hermès International and Hermès of Paris, Inc. v. Rothschild*, No. 1:22-cv-00384-JSR (S.D.N.Y. filed January 14, 2022).

³⁸ Mot. to Dismiss, *Hermès Int’l v. Rothschild*, No. 1:22-cv-00384-JSR (S.D.N.Y. filed March 21, 2022).

not explicitly misleading consumers regarding the source or content of the work (i.e., the “Explicit Misleadingness” prong).³⁹

While the court agreed that the *Rogers Test* applied, it was not persuaded that Rothschild fulfilled the test to be afforded protection. First, the court explained that Hermès sufficiently alleged that “Rothschild entirely intended to associate the ‘MetaBirkins’ mark with the popularity and goodwill of Hermes’s Birkin mark, rather than intending an artistic association.”⁴⁰ And second, the court ruled that, even if “MetaBirkins” satisfied the Artistic Relevance prong, Hermès sufficiently alleged that the public was misled as to whether the MetaBirkin digital good was legitimately connected to Hermès.⁴¹

The case ultimately went to a six-day jury trial, and on February 8, 2023, the jury found Rothschild liable for trademark infringement, trademark dilution, and cybersquatting, and ordered the payment of \$133,000.⁴² This outcome provides trademark lawyers and their clients valuable insight on how courts might determine whether brands of physical goods can stop third-parties from offering confusingly similar virtual goods. However, the case appears far from over, as Rothschild filed a post-verdict Motion for Judgment as a Matter of Law in which Rothschild is arguing that the court failed to implement the *Rogers Test* when instructing the jury.⁴³ The motion remains pending as of April 11, 2023.

2. *Nike v. StockX*

In another closely-watched case, Nike has sued shoe and collectible marketplace, StockX, on similar grounds.⁴⁴ StockX is a platform in which buyers and sellers of sought-after footwear, clothing and other collectibles can transact.⁴⁵ StockX has figured out though, that certain buyers and sellers on the platform do not actually wear or use their purchases, but rather, they purchase and sell products with the hope that the asset appreciates in the future. To help save on shipping costs and to lessen the impact on the environment, StockX launched a “Vault NFT” product, in which the NFT would serve as a digital receipt to track ownership of physical shoes that were stored by StockX in a storage facility (i.e., a “vault”).⁴⁶

³⁹ See: § 31:144.50. The Rogers two step balancing test for accommodating free speech, 6 McCarthy on Trademarks and Unfair Competition § 31:144.50 (5th ed.).

⁴⁰ *Hermès Int’l v. Rothschild*, 603 F. Supp. 3d 98, 105 (S.D.N.Y. 2022).

⁴¹ *Id.*

⁴² Order, *Hermès Int’l v. Rothschild*, No. 1:22-cv-00384-JSR (S.D.N.Y, issued February 14, 2023)

⁴³ Mot. for Judgment as a Matter of Law, *Hermès Int’l v. Rothschild*, No. 1:22-cv-00384-JSR (S.D.N.Y, filed March 14, 2023)

⁴⁴ Complaint, *Nike, Inc. v. StockX LLC*, No. 1:22-cv-00983-VEC-SN (S.D.N.Y, filed February 3, 2022).

⁴⁵ See: <https://stockx.com/>.

⁴⁶ See: *StockX CEO Scott Cutler on legal battle with Nike: ‘This claim lacks merit’*, CNBC (uploaded June 6, 2022), available at: <https://www.cnbc.com/video/2022/06/06/stockx-ceo-scott-cutler-on-legal-battle-with-nike-this-claim-lacks-merit.html>.

Here is an example found at StockX's website:

StockX Vault NFT Nike Dunk Low Retro White Black - US M 10

A StockX token representing ownership of a physical pair.



● NFT StockX Verified Edition of 100



Place Bid Buy for \$216

Buy Now Starting at \$21/mo with . Prequalify Now

Sell for \$184 or Ask for More →

Last Sale:

\$184

▼ -\$32 (-15%)

View Asks

View Bids

View Sales



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Nike took issue with this, because StockX was using the Nike trademarks to sell the Vault NFTs on its platform and sued StockX for trademark infringement, false advertising, and trademark dilution.⁴⁸ StockX, however, has refuted these allegations by explaining that Nike is disregarding settled doctrines of trademark law, such as the first sale doctrine and nominative fair use, and explained that the Vault NFTs are not “virtual products” or digital sneakers, but rather, they are “claim tickets” to physical goods.^{49,50} As of April 11, 2023, the case remains in discovery and will be closely watched by the legal community.

IV. Franchising Considerations for the Metaverse

Franchise brands have continued to innovate and evolve to adapt to new technologies, such as third-party delivery for restaurants, third-party booking aggregators for hotels, and on demand instruction for fitness studios. There’s a business and practical adjustment that franchisors incur for adapting to these new technologies; however, their franchise lawyers have needed to adjust their counsel as well.

To that end, there are important legal considerations for franchisors adapting to the metaverse environment: (1) whether it will offer franchises in the metaverse; (2) how

⁴⁷ See: <https://stockx.com/retro-black-and-white-dunk-vault-nft>.

⁴⁸ Complaint, *Nike, Inc. v. StockX LLC*, No. 1:22-cv-00983-VEC-SN (S.D.N.Y, filed February 3, 2022).

⁴⁹ See: Answer to Complaint, *Nike, Inc. v. StockX LLC*, No. 1:22-cv-00983-VEC-SN at pg. 2 (S.D.N.Y, filed June 6, 2022) (“StockX’s recent introduction of nonfungible tokens (“NFTs”) to track ownership of, and essentially serve as a claim ticket for, frequently traded physical products, is transforming the trading experience on its platform by increasing efficiencies and decreasing transaction costs for buyers and sellers.”)

⁵⁰ See *id.*

the franchisor might change its existing franchise program for the metaverse; (3) how to comply and mitigate risk in connection with new and evolving regulatory concerns; and (4) whether the franchisor needs to revise its FDD and franchise agreement to account for use in the metaverse.

A. Franchise Program Structure

There are at least two potential business models that franchisors may consider in leveraging the metaverse for new franchise opportunities. First, franchisors might consider offering franchises for franchisees to operate a virtual franchised business within the metaverse in which the franchisee would offer and sell virtual products or services. For example, a fitness franchise brand might consider offering a third-party the right to operate a virtual fitness business within a platform, such as Fortnite, where metaverse users could visit, pay for, and participate in fitness activities at a branded virtual site. We refer to this type of opportunity as a “Metaverse Franchise.” The other business model aligns better with the initial example in the opening of this paper – a franchisor could incorporate a metaverse application to pair virtual marketing and ordering with its physical franchisee network to provide metaverse users with physical products and services. We refer to this opportunity as a “Metaverse Application.”

1. Metaverse Franchise

If a franchisor would like to offer Metaverse Franchises as part of its franchise offering, the most logical approach would be to treat it like some franchisors offer “non-traditional” franchises as a subset of their standard franchise offering. “Non-traditional” franchises will typically take the form of a modified footprint as compared to a franchisor’s standard model. For example, in the restaurant industry, a “traditional” franchise may consist of a typical brick-and-mortar location with standard square footage, while a “non-traditional” franchise may comprise a restaurant located within a shopping mall, an airport, or a college campus. Or, as of more recent, at a ghost kitchen. These non-traditional franchises will typically have different terms than a standard offering, such as smaller or no geographic boundaries, modified system standards, and a less expensive initial investment.

2. Metaverse Application

Separate from Metaverse Franchises, franchisors may instead consider operating (or engaging a third-party service provider to operate) a virtual service or location on designated metaverse platforms and require existing and new franchisees to help facilitate the Metaverse Application in the physical world. Using the earlier example, if a restaurant franchisor wants to provide a virtual location in the metaverse to allow participants to order physical goods to be delivered to their physical home, a franchisor could use its network of existing franchisees to fulfill and deliver those orders to the participants’ physical homes. This could act similar to a franchisor requiring franchisees to fulfill orders placed by a franchisor’s mobile application.

B. Legal Concepts to Consider

Depending on how franchisors determine whether to offer Metaverse Franchises and/or provide Metaverse Applications, there are at least several initial legal aspects worth evaluating, as the metaverse technology segment continues to evolve and grow.

1. Territorial Protections/Bounds

Franchisors considering a metaverse segment in their franchise programs will need to review the territorial rights granted in their franchise agreements. At the onset, franchisors that grant any kind of territorial rights under their franchise agreement (and area development agreement) should revisit their reservation of rights. In connection with such, there are at least two relevant considerations commonly found in franchise agreements: (1) alternative channels of distribution, and (2) non-traditional locations.

First, franchisors will typically reserve the right to use alternative channels of distribution, such as the use of grocery stores, kiosks, and Internet sales, when granting territorial rights to franchisees. This allows a franchisor to sell certain products and services to customers that might otherwise be located in a previously granted territory. Second, franchisors may also carve out non-traditional locations, such as universities/campuses, airports, and shopping malls, from any territorial rights granted in their franchise agreement.

If a franchisor is offering Metaverse Franchises, it's uncertain as to "where" that virtual business will be located. For example, if a franchisor grants an individual the right to operate a virtual franchised business within Fortnite, it will need to determine whether (a) that grant doesn't otherwise infringe any previously granted territorial rights to brick-and-mortar franchised businesses, and (b) whether it will reserve the right to sell similar virtual businesses within other multiverses, like Roblox, or even within the same multiverse.

If a franchisor is implementing a Metaverse Application into its existing franchise system, the need for public-facing locations in the physical world may become less relevant.⁵¹ For example, a restaurant franchisor may want to sell pre-packaged frozen food items to customers in the metaverse rather than relying on physical grocery stores or third-party online retail platforms. While the typical reservation of "Internet sales" may qualify for this model, franchisors should re-read those provisions of their franchise agreement to determine whether "metaverse" is covered.⁵²

⁵¹ The restaurant franchise industry has seen this in response to the rise of third-party delivery platforms and ghost kitchens.

⁵² Those responsible for drafting and modifying the franchise agreement may also consider whether to define "metaverse" or not in the agreement. Merriam-Webster currently defines "metaverse" as a "persistent virtual environment that allows access to and interoperability of multiple individual virtual realities." See: <https://www.merriam-webster.com/dictionary/metaverse>. With the complexities of that definition, it's uncertain whether the franchisor and franchisee will have a meeting of the minds as to the scope of that definition in the context of a franchise agreement.

To provide franchisors with the most flexibility when contemplating the metaverse as a business segment, franchise agreement drafters might consider the following:

- Expanding the definition of “non-traditional locations” to include those that operate within the metaverse, or more broadly, within virtual environments.
- Drafting the territorial protection provision to address whether the franchisor wants to reserve the right to offer similar virtual businesses in other multiverses.
- Determining whether it may be prudent to specifically list the multiverse as an alternative channel of distribution.

2. Cryptocurrencies and Methods of Payment

Between the collapse of, and fraud allegations against, the FTX digital currency platform, and the recent decline in value of the most known cryptocurrency, Bitcoin, the topic of digital currencies has certainly been a roller coaster for its followers. That said, the global cryptocurrency market cap hovers around \$1 trillion, depending on the day.⁵³ The cryptocurrency market certainly comes with plentiful critics and uncertainty; however, hundreds of thousands of cryptocurrency transactions occur each day,⁵⁴ and certain franchisors may consider whether to permit cryptocurrency as a form of payment throughout their franchise system.

For example, franchisors might consider accepting initial franchise fees and development fees in Bitcoin, or other digital currencies. Franchisees may be permitted to accept digital currencies as a form of payment, rather than cash or credit cards, the point of sale with customers. And even some franchisors may require that royalties be paid in the form of digital currencies.

While those concepts might seem farfetched, franchisors should ensure that their franchise agreements allow them to control the method of payment that (a) franchisees pay the franchisor, and (b) customers pay the franchisee. This way, franchisors can restrict franchisees from paying with, or accepting from customers, digital currencies, while leaving the door open for franchisors to implement the concept if cryptocurrencies become more relevant.

That said, if a franchisor does want to accept initial franchise fees and royalties in Bitcoin, for example, that franchisor will need to make sure the franchise agreement is set up appropriately. For example, the definition of Gross Sales will need to contemplate the timing in which the digital currency is valued, due to the increased daily volatility of digital currencies.

⁵³ As of April 13, 2023, the global market cap of all cryptocurrencies is estimated to be \$1.25 trillion. See: <https://coinmarketcap.com/>. For comparative purposes, that is approximately 20% more than Amazon’s market cap as of the same date. See: <https://companiesmarketcap.com/amazon/marketcap/>.

⁵⁴ See: <https://www.blockchain.com/explorer/charts/n-transactions>.

3. Data Privacy and Security

As the franchise industry continues to evolve and adapt to new digital and virtual technologies, more and more data is generated, collected, stored, and used. Franchisors already must be mindful of their data privacy and security practices, such as truing up their privacy policies, in light of various state privacy laws that provide consumers with additional protection.⁵⁵ Expanding to the metaverse is no different. Franchisors will need to examine their existing privacy policies and terms of use to determine whether they contemplate a virtual environment in the metaverse. Moreover, franchisors should review and analyze the privacy policies of their chosen platform to determine how data is stored, used, or monetized.⁵⁶

4. System Standards

Before a franchise system is considering whether to implement a metaverse segment of its business, it will carefully need to evaluate whether it has the resources to install and maintain the necessary system standards. For example, if a franchisor is considering whether to offer Metaverse Franchises, it must figure out whether it has the technical expertise and support to carry out the digital operation. For franchisors new to the space, it's likely that franchisors can engage third-party developers to help implement such segments.⁵⁷

Similarly, if a franchisor would like to offer the right to operate a virtual franchised business, it's likely that the franchisor will need to train the franchisee how to operate the business.⁵⁸ However, if the franchisor doesn't already have that expertise or program built, it will need to invest significant resources to build a program that will allow the franchisee to open and operate the virtual business that maintains the goodwill of the underlying brand.

5. Using the Metaverse to Sell Franchises

Another aspect for franchisors to consider is that, in the physical world, franchisors must either register their FDDs or file business opportunity exemptions in 20 states.⁵⁹ A

⁵⁵ For a detailed state-by-state comparison of the enacted laws and active bills related to consumer privacy, please see: https://iapp.org/media/pdf/resource_center/State_Comp_Privacy_Law_Chart.pdf

⁵⁶ For example, Epic Games (the maker of Fortnite) privacy policy can be found at: <https://www.epicgames.com/site/en-US/privacypolicy#:~:text=EPIC%20GAMES%20PRIVACY%20POLICY%201%201.%20WHAT%20ARE,C%20NTROLS%20...%207%207.%20OUR%20GLOBAL%20OPERATIONS%20>; and Roblox's privacy policy can be found at: <https://en.help.roblox.com/hc/en-us/articles/115004630823-Roblox-Privacy-and-Cookie-Policy>.

⁵⁷ Here is at least one resource to help find metaverse development companies: <https://www.mobileappdaily.com/metaverse-development/companies>.

⁵⁸ Most franchisors will conduct an initial training program for typical franchise offerings.

⁵⁹ Franchisors must register their FDDs with California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin, and they must file business opportunity exemptions in at least Connecticut, Florida, Kentucky, Nebraska,

franchisor may choose to use the metaverse to offer and sell franchises within the metaverse, and as such, franchisors need to consider the geographical limitations of whether they can do so. Unfortunately, it's uncertain how states and courts might determine "where" the offer and sale of the franchise take places if it's conducted in the metaverse. However, like the use of the Internet in franchise sales, franchisors should verify the physical location of the person before offering and selling a franchise to ensure that the franchisor is registered in the particular state, if applicable.

C. Franchise Disclosure Document Considerations

As most franchisors know, there are certain aspects of its Franchise Disclosure Document that are impacted when offering "non-traditional" franchises as part of its overall franchise offering.⁶⁰ The same would be true for franchisors offering Metaverse Franchises:

- Item 1 – franchisors will need to disclose how the Metaverse Franchise is different than its traditional offering. Further, franchisors will likely need to describe, not only the general market and applicable industry regulations related to the underlying franchise, but also, how such might be different in a metaverse enforcement.
- Item 5 & 6 – franchisors may charge different fees, such as initial franchise fee and royalties, for Metaverse Franchises rather than its standard franchise offering.
- Item 7 – similar to non-traditional offerings, franchisors will need to include a separate "initial investment" chart for purposes of showing the start-up expenses of a franchisee purchasing a Metaverse Franchise.
- Item 8 – franchisors will likely need to designate a provider of the metaverse itself for allowing franchisees to operate the Metaverse Franchise. Further, a Metaverse Franchise may likely require different, and potentially more comprehensive, insurance policies.
- Item 11 – franchisors will have a lot to consider in Item 11, such as how they will advertise their brands in virtual settings, how the training programs might change in a virtual setting (and franchisors will need the support staff to conduct such training), and the computer system requirements will likely need to be significantly modified.
- Item 12 – as discussed above, franchisors will need to address the territorial protection it grants (or doesn't grant) to franchisees that either acquire Metaverse Franchises and/or franchisee that interact with Metaverse Applications.

Texas, and Utah (assuming the franchisor has a federally registered trademark) before offering and selling franchises in these states.

⁶⁰ Franchisors are typically allowed to include both traditional and non-traditional offerings in the same Franchise Disclosure Document.

- Item 13 – as also discussed above, franchisors will need to reevaluate their trademark portfolios to determine if they are adequately protected in a virtual commercial environment.
- Item 14 – franchisors will likely need to acquire or license certain patented technologies to implement such business segments in the metaverse.
- Item 20 – accounting for those that acquire Metaverse Franchises will likely affect how franchisors will prepare and finalize outlet counts in the Item 20 tables.

V. How Franchise Brands Should Approach the Metaverse Opportunity

Any time new technology enters a market, there is risk and there is opportunity. However, due to the constant evolving technology, the risks and opportunities related to the metaverse are nothing short of uncertain.

A. Is the Metaverse Right for All Businesses?

Probably not. Each business model is unique: it is shaped by different needs and goals. Those needs and goals should guide whether a conversation about the metaverse is necessary and whether participation in the metaverse makes sense. While some franchises may be able and ready to appoint individuals to take on the task, others should have their business, marketing, and legal teams discuss the possibility.

If this paper conveys a message, it's intended to convey that the metaverse is an unknown space under constant construction. And that any opportunities or challenges that it may bring—in any social, cultural, financial, legal, or privacy aspect—are just as uncertain. But what is certain, is that consumers around the globe are already spending considerable time and money interacting with virtual environments, whether by playing multi-player games or by building their “second lives.” This trend is projected to grow substantially in the coming decades. Experts estimate that the global metaverse market will be worth at least \$1.5 trillion.⁶¹

While franchises need not immediately construct entire virtual worlds, they should consider whether to have a relationship with the metaverse and strategically guide the contours of that relationship based on their business needs and goals. As the below discussion demonstrates, participation in the metaverse comes with advantages and with disadvantages; thus, franchises should work with their internal and external teams to closely examine and determine what risks they can afford to take.

B. Advantages and Disadvantages of Participating in the Metaverse

The benefits of establishing a metaverse presence are not as difficult to predict. Among key benefits are digital marketing, digital real estate, consumer interaction, increased channels of trade, increased product or service lines, and increased revenue.

⁶¹ See: <https://www.fortunebusinessinsights.com/metaverse-market-106574>.

For instance, as does physical real estate, digital real estate⁶²—which can include any digital asset from digital billboards to digital buildings or land—will provide an additional channel for businesses to engage with consumers. In metaverse platforms, members are able to buy, sell, and trade the virtual real estate of their choice and do as they wish with it, whether it be by utilizing it for their own purposes or leasing it to others. Thus, if a business is hesitant to buy its own virtual real estate, as in the real world, it may lease it from others and use that space for advertising or for temporarily running virtual operations.

Most franchise brands focus their attention on strengthening rapport with existing customers. But they should also be focused on creating the next generation customer base. The metaverse can be an outlet where franchises provide opportunities for immersive customer experiences involving virtual worlds that emulate physical experiences, games that customers can play with friends who may not yet be customers, virtual stores where customers can shop for virtual and physical goods, or virtual restaurants that allow customers to share virtual or physical meals. Each of these experiences provides additional channels for social interaction and participation in the digital economy.

However, as is the case with most emerging technology, the metaverse presents issues that are unique and difficult to solve. The law always plays catch up and serious challenges often arise before regulators take action. As outlined above, user data privacy, user safety, content moderation, intellectual property infringement, and lack of jurisdiction, are just some of the types of issues that may arise on the journey to the virtual realm. A sound metaverse strategy should involve preemptive approaches to potentially solve such issues, should they arise.

C. Do Franchise Brands Need to File Additional Trademark Applications?

As discussed earlier, many well-recognized franchise brands filed supplemental trademark applications in 2022 to help capture additional products and services related to the metaverse. However, these were filed on an intent-to-use basis, and such proof of use remains to be seen. And, with the result in *Hermes v. Rothschild* summarized above, franchise brands might consider whether it makes sense to rely on existing and longstanding trademark rights related to physical products and services to stop those from using the marks in a virtual environment. Ultimately, due to the uncertainty, there isn't a bright-line approach for determining whether brands need to file additional federal applications. If a brand has the resources and bona fide intent to use the mark in connection with such virtual goods and services, then it probably makes sense to file additional trademark applications; however, for those brands that do not have the resources or desire to file additional applications, there are other, more established recourses available for preventing third parties from using the marks in a virtual environment.

⁶² For more information about digital real estate, see the Decentraland marketplace: <https://market.decentraland.org/>.

D. Things Brands Should Consider When Contemplating the Metaverse

To make a proper determination about metaverse participation, business teams, marketing teams, and legal teams must closely coordinate. While the process may look different for each business, the following general considerations can be helpful when establishing business-specific best practices related to the metaverse:

1. Determine business mission and needs
 - Does the metaverse support and expand that mission and needs?
2. Evaluate current IP portfolio and lines of goods and services
 - What existing products or services is the trademark used in connection with?
 - Do the existing products or services easily translate to the virtual realm?
 - If not, how can existing product and service lines be expanded to fit into the metaverse model?
3. Identify the target consumer base
 - Who is the target consumer for existing goods and services?
 - Does the same consumer base have an interest in virtual goods and services?
 - Who is the next generation of consumers and how to best connect with them?
4. Develop a marketing and advertising strategy
 - How to best reach the target consumer?
 - Should brand marketing/advertising take place directly or indirectly through the platforms of others? Is collaboration with other brands possible?
5. Select type of metaverse presence and proximity to target consumers
 - Should the business offer the products and services directly to customers, such as by building own virtual platforms (virtual shops, virtual restaurants, etc.)?
 - If not, what existing hosting platforms are available to indirectly reach target consumers (Roblox, Meta Horizon Worlds, Decentraland, etc.)?
6. Assess legal protections for brand
 - Do new trademark applications need to be filed? If so, for which brands and for which goods and services?
 - Do new patent applications need to be filed for related technologies?
 - Do existing trademark watch services need to be altered to monitor potential infringing uses in additional classes?
 - Is the acquisition of new domain extensions necessary?
 - In what jurisdictions around the world do the new intellectual property filings need to take place?

- Can existing intellectual property rights be enforced against third party actions in the virtual space?

While not determinative, the above considerations can serve as a starting point for businesses contemplating the metaverse. Ultimately, even if a business decides that metaverse participation is or is not right at the moment, this should be an ongoing evaluation as the concept for the metaverse continues to develop.

Conclusion

Current trends are signaling to the metaverse as the next big tool in shaping social interaction. A significant metaverse impact on social interaction has the potential to expand the way franchise brands connect with their customers and to participate in the expanding digital economy more effectively. Accordingly, franchise brands should at least familiarize themselves with the metaverse to determine whether such an opportunity might become plausible for their franchise program.