

1

Brand Value, Brand Equity and Brand Damage

Brand value

= Estimation of a brand's tangible and intangible assets to determine its monetary worth

Valuation methodologies (by HBS)



Cost-based valuation:

Bases brand value on costs required to recreate the brand from scratch or a brand of equivalent market strength

Used for acquisitions of new brands (e.g. purchase of startup)



Market-based valuation:

Determines brand value by comparing it to equivalent brands recently sold in public transactions

Used for acquisitions of established brands

Related to: **Comparables approach** for licensing



Income-based valuation:

Calculates what a company would pay to license its own brand, estimating future revenue attributable to the brand, price premiums and saved costs

Used in normal business practice outside of acquisition situations; **Interbrand** (ISO 10668)

Related to: **Economic benefits approach** for licensing

Brand equity

= total of customers' thoughts, feelings, and attitudes about a brand affecting their willingness to pay



**Brand
Loyalty**

Customer preference of a
specific brand over
competitors

▶ **Stable revenue**



**Brand
Awareness**

Extent to which customers
recognise or recall a brand as
belonging to a particular source

▶ **Market reach**



**Perceived
Quality**

Customer's subjective
judgment of the overall
excellence of a brand
and its products

▶ **Premium pricing**



**Brand
Association**

Mental connections
customers make with a
brand

▶ **Differentiation**



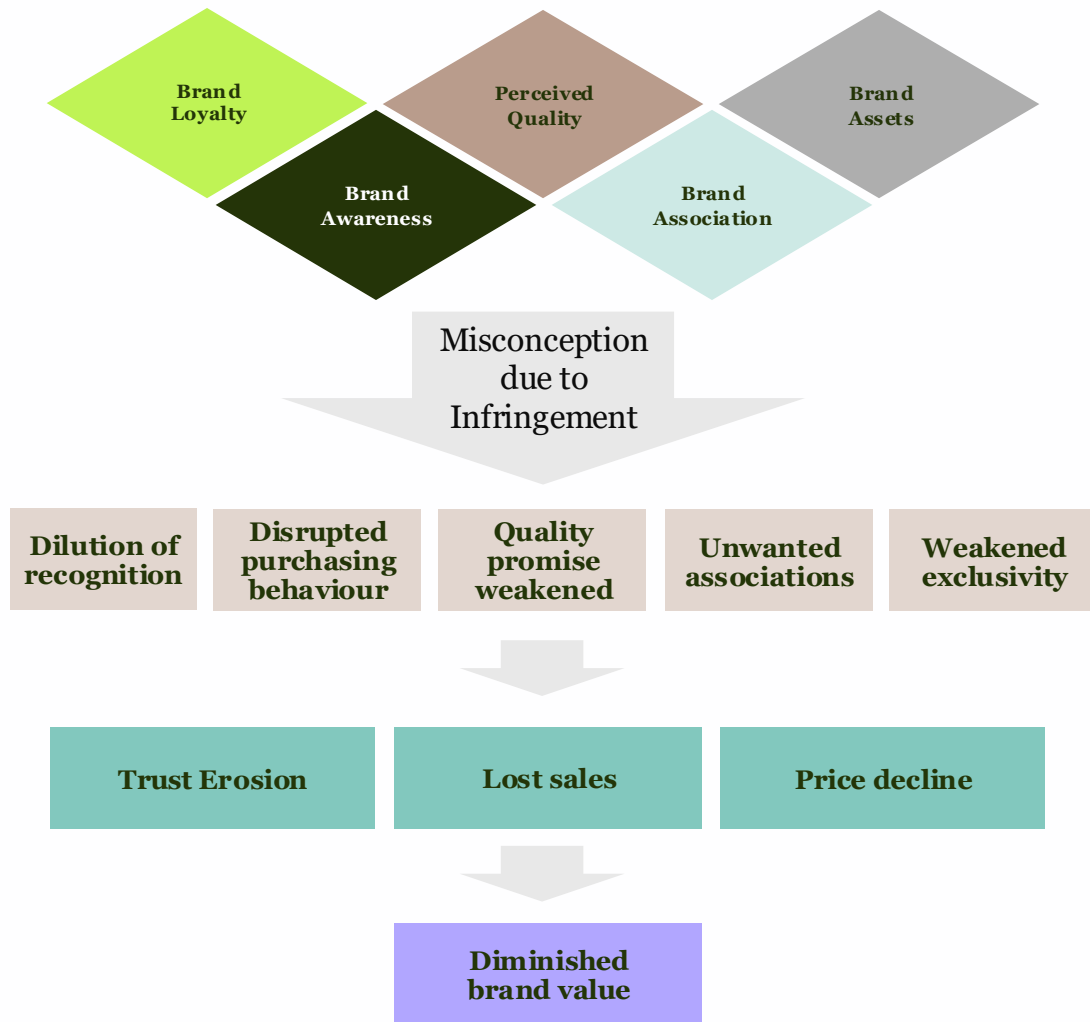
**Brand
Assets**

All legally protectable
elements that support
and reinforce the brand

▶ **Exclusivity**

Brand damage

- **Erosion of brand equity**
- Destruction of the economic and legal advantages built into a trademark over time
- Especially dilution and loss of reputation caused by the misconception in the market
- Negatively affects past, present and future



2

Compensating brand damage in Germany



Compensation in Germany (in practice)

Harmonized through Art. 13 Enforcement Directive



Actual damage suffered

■ Calculation of the **actual loss suffered** by the right owner due to the infringement

■ Typical items include:

- Lost sales
- Loss of market share
- Advertising and reinvestment costs



License analogy

■ Damages are calculated based on the **hypothetical licence fee** the infringer would have paid

■ Criteria:

- Degree of brand reputation
- Similarity of signs and goods/services
- Extent, duration and intensity of the infringement
- Type of use

■ Usually 1 - 5% of infringer net turnover



Infringer's profits

■ Damages are calculated based on the **profit made by the infringer** ("unjust enrichment")

■ Calculation typically involves three steps:

- Determining the turnover generated by the infringement
- Deduction of production costs (no overheads)
- Determining the profit share attributable to the trademark infringement



Compensation for "market confusion"

■ "**Market confusion damage**" can be claimed due to:

- Inferior quality of infringing goods
- Devaluation of the trademark
- False impression regarding the origin of the goods

■ Necessary expenses incurred to eliminate market confusion are reimbursable

■ Typically considered for license analogy (if at all)



License analogy in German case-law

Relevant criteria



Right owner's established licensing practice and fee schedules

Otherwise: Standard market rates



Scope, duration and intensity of the infringements



Reputation and goodwill of the infringed trademark



Tolerated use / infringements by third parties



Level of danger of confusion



Return on sales

Irrelevant criteria



Right owner's ability or willingness to grant a license to the infringer



Subsequent licenses



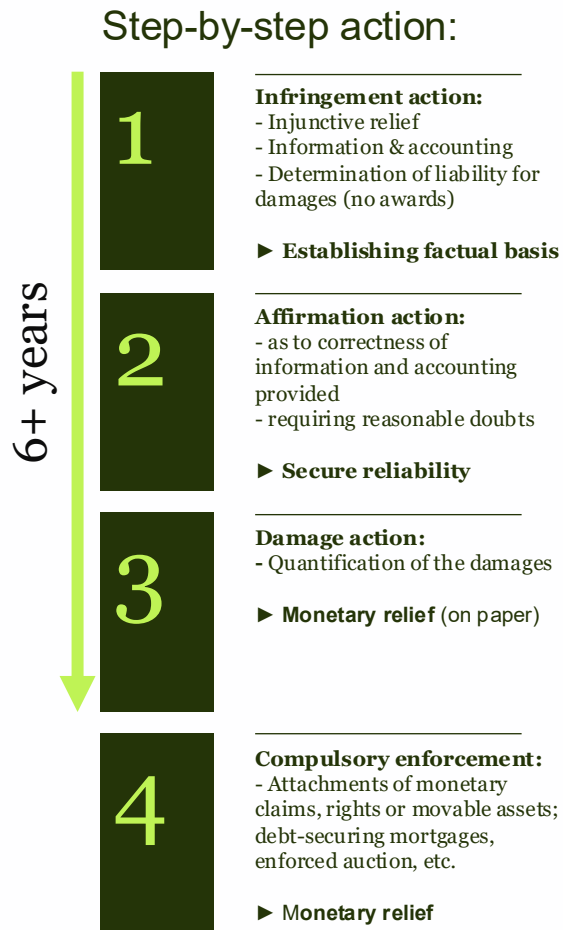
Compensation paid by infringer to customers



Punitive considerations – No overcompensation for right owners

Further Procedural Challenges

- No US-style discovery = Information Gap:
Damage calculation is impossible without information and data from the infringer
- Multiple proceedings needed
 - Two consecutive actions, or
 - Step-by-step action (*Stufenklage*, rare)
 - Losing party may appeal at least once in each action/step
- Very lengthy and costly, especially in complex cases and when defendant is uncooperative
- Shortcuts are very limited but available
- Damage awards are very rare; settlements preferable



Case-law Example

Hamburg Regional Court, judgment of 14 March 2019, 327 O 289/17
- *Converse v Metro*



Facts & Arguments

- Metro sold “Converse”-branded shoes which Converse believed to be counterfeit
- Preliminary injunction proceedings in 2008, main action proceedings started in 2009 (no *Stufenklage*)
- Sales information provided by Metro only in 2015
- Damage proceedings started in 2017
 - Primarily based on license analogy, alternatively on infringer profits
 - Claimed: 4 million € plus 12% interest (37% license fee)

Outcome

- **2,1 million €** awarded (= 24% fee), plus 12% interest
 - Largely based on Converse’s own licensing practice
 - Evidenced through contracts, invoices, witness statements and auditor confirmations
 - Court considered plaintiff’s exclusive license and hypothetical consent to further license (+10 percentage points)
 - Net turnover of 9 million €
- 10 years in court
- Virtually no comp. for costs of damage proceedings

Enforcement Costs

Low statutory caps

Scenario 1:

Plaintiff sues for 1,000,000 € and fully succeeds in second instance upon defendant's appeal
(= **100% win**)

- Court fees: **fully borne by defendant**
- Reimbursed attorney fees: **only +29,000 € (net)**
- Real costs: 250,000+ €

Scenario 2:

Plaintiff sues for 2,000,000 €, but is only awarded 1,000,000 € upon appeal by both parties
(= **50% win**)

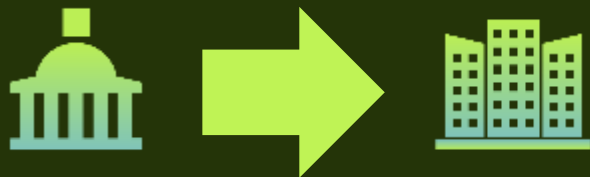
- Court fees: each party pays half = **- 36,000 €**
- Reimbursed attorney fees: **none (offset)**

Scenario 3:

Plaintiff sues for 5,000,000 €, but is only awarded 1,000,000 € upon appeal by both parties
(= **20% win**)

- Court fees: plaintiff pays 80% = **- 129,000 €**
- Reimbursed attorney fees: **- 62,000 € owed to defendant**

Similar issues in Austria, Poland, Portugal, Greece; better in Spain, NL, Ireland and Nordics



Art. 14 Enforcement Directive:

*“Member States shall ensure that **reasonable and proportionate legal costs** and other expenses incurred by the successful party shall, as a general rule, be borne by the unsuccessful party, unless equity does not allow this.”*

“We want our money back”

CJEU referral C-573/25 - A shift in IP Cost Recovery?

- Request for a preliminary ruling from RC Düsseldorf
- Dispute concerns the legal fees incurred in defending against a preliminary injunction but has general significance for the allocation of costs in IP law
- Standard Rates vs. Market Reality
 - Are hourly charged fees for legal counsel “legal costs” under Article 14 Enforcement Directive?
 - Does Article 14 Enforcement Directive preclude national legislation that limits recovery to “standard rates” if these rates are regularly exceeded by hourly rates in specialised fields such as trademark law?
- Cuts both ways: Defendant may prevail, too!

3

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International Overview



Compensation in Italy

Harmonized through Art. 13 Enforcement Directive



Actual negative consequences

- Art. 125 CPI requires courts to take into account:
 - Negative economic consequences, e.g. lost profits (*lucro cessante*), loss suffered (*danno emergente*)
 - Profits realised and unfair advantages obtained by infringer
 - Reputational harm, **dilution and damage to brand image** (particularly relevant for well-known or luxury brands)
- Equitable assessment where quantification is difficult



Reasonable royalty

- Damages are calculated based on the **hypothetical licence fee** the infringer would have paid
- Frequently used where lost profits are difficult to prove or accounting evidence is incomplete
- Criteria:
 - Brand strength!
 - Existing license agreements
 - Extent and intensity of the infringement
- Usually 2-5% of net turnover, higher rates reserved for strong and reputed brands



Infringer's profits

- Damages are calculated based on the **profit made by the infringer**
- Alternative to recovery of lost profits (*lucro cessante*) or when profits exceed compensatory damages
- Increasingly practical relevant in recent case-law and practice



Evidentiary mechanisms

- Right of information (Art. 121-bis CPI)
- **Court-appointed expert** (“CTU”, frequent in quantum /accounting disputes)
- **Court-ordered production / exhibition of documents** (targeted; no broad discovery)
- **Precautionary measures** (*misure cautelari*), including search order and seizures of infringing goods and documents



Compensation in Italy

Procedural Hurdles

- Workload and “procedural culture” vary between the courts (e.g. Milan/Rome/Turin); can affect speed of interim measures and the handling of technical evidence
- Burden of proof:
 - IT courts traditionally require concrete documentary evidence and accounting data
 - Increased by limited disclosure
 - Without early access to infringer’s books, courts tend to stay conservative
 - Equitable assessment (*liquidazione equitativa*) is not a substitute for a thin record
- But: Damages typically addressed in the same judgment as liability (**no bifurcation**)

Practical takeaways

- Plead damages “in the alternative” from the outset (lost profits / reasonable royalty / restitution of the infringer’s profits) to preserve flexibility as the evidentiary phase develops
- Reasonable royalty approach often most pragmatic
- Seek appointment of a court expert (CTU) on quantum: CTUs frequently drive the methodology and are decisive in complex damages assessments
- Strategic use of precautionary measures (search/seizure, targeted document capture) can materially strengthen the subsequent damages phase
- Check solvency and assets early; sometimes the “best damages strategy” is securing fast injunctions/seizures and a workable settlement structure



Compensation in France

Harmonized through Art. 13 Enforcement Directive



Actual negative consequences (incl. infringer's profits)



- Article L.716-4-10 CPI requires courts to take into account:
 - Negative economic consequences, e.g. lost profits (*manque à gagner*), loss suffered (*perte subie*)
 - Profits made by infringer
 - Reputational harm, **dilution** and **damage to brand image** (*préjudice morale*; particularly relevant for luxury brands)
- Court may consider:
 - turnover from infringing goods
 - gross margin realised by infringer
 - Marketing advantage
 - Cost savings
- Compensation for actual damage suffered while still preventing the counterfeiter from profiting from the infringement
- No punitive damages



Lump sum (royalty)

- Damages are calculated based on the **hypothetical licence fee** the infringer would have paid
- Often used where precise financial data is unavailable or accounting evidence is incomplete
- Available even if right owner does not exploit the infringed right
- Usually 1-3% of net turnover, higher rates reserved for strong brands with clear licensing practice and large-scale exploitation



Evidentiary mechanisms

- Right of information
- Judicial accounting measures
- Privileged seizure procedure (**saisie-contrefaçon**)
 - Powerful ex parte evidentiary tool
 - Enables collection of sales data, accounting records and samples
 - Frequently decisive in damages phase
- Expert appointment possible



Compensation in France

Procedural Hurdles

- Burden of proof:
 - Courts increasingly demand concrete financial evidence, market analysis and turnover comparisons
 - Moral prejudice must be substantiated; not purely symbolic
- Courts have discretionary power in assessing damages; risk of conservative judicial estimation
- But: Damages typically addressed in the same judgment as liability (**no bifurcation**)
- 18-24 months to obtain first instance decision

Practical takeaways

- Saisie-contrefaçon is often the cornerstone of a successful damage claim
- Evidence preparation before filing is critical
- Damages assessed against both the economic damages of the claimant and the infringer's profit
- Moral prejudice can materially increase awards, especially for reputation-driven trademarks



Compensation in the UK

Art. 13 Enforcement Directive implemented in UK, Continues to apply post-Brexit



Calculation methods / remedies

- Actual damage from:
 - Lost sales
 - Lost royalty (if claimant business model is licensing)
 - Costs of eliminating market
 - **Hypothetical royalty/lump sum**
- Disgorgement of infringer's profit
 - Only profits properly attributable to the infringing use
 - Only actual profits made, not hypothetical profits
 - Direct costs deductible (burden of proof on infringer)
 - Fact-heavy and expensive
 - ▶ Rare in practice
- EWHC in 2025:
 - Damages based on notional license fee
 - Economic benefits approach over comparables approach
 - Adjustment for inflation



Procedural aspects

- Proceedings have two phases:
 - (1) Liability phase/trial
 - (2) Quantum phase
- Quantum phase: Inquiry as to claimant's damages or account of infringer's profits
- Infringer must provide:
 - **limited disclosure** to allow claimant to decide which option to pursue,
 - and then **full disclosure** in relation to that option after choice has been made
- Legal costs of the Quantum phase are recoverable by the successful party (in that phase)



Compensation in the UK

Practical takeaways

- Think about damages strategy from day one, but don't commit too early
 - Conventional to plead damages or an account of infringers' profits in the alternative from the outset to preserve flexibility after liability trial
- Treat liability judgment as a lever, not a finish line
 - As financial remedies are infrequently determined by the courts: parties usually settle on the financial remedies after the liability trial
 - Costs risk in the Quantum phase encourages settlement
- Reasonable royalty (“user principle”) damages:
 - Often the most efficient outcome
 - Be prepared to build a credible, market-realistic royalty case
 - Precision over aggression
- Burden of proof is on claimant, but damages are assessed liberally

4

Conclusions

Conclusions

- Trademark damage goes beyond lost business; it is the **holistic, structural erosion of brand equity**
- The actual harm done is hardly considered in practice – compensation available in practice is mostly built other parameters
- Road to compensation is long and bumpy, settlements often preferable (for both parties)
- Information gap and burden of proof form a challenge for the plaintiff in all jurisdictions; procedural solutions differ significantly
- Considerable practical differences between jurisdiction despite partial harmonisation, both substantively and procedurally
- Damages should be considered from the outset while maintaining flexibility
- Hypothetical royalties / license analogy most common and usually easiest calculation method
- Disgorgement of infringer's profits rare, but can be attractive against counterfeiters
- Costs and their (limited) recoverability can be a significant if not decisive factor in the overall strategy – for both plaintiff and defendant

HL Team & Contributors

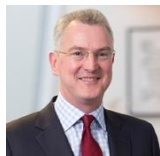
Anthonia Ghalamkarizadeh



Partner, Hamburg
T +49 40 41993 0
anthonia.ghalamkarizadeh@hoganlovells.com



Alastair Shaw



Counsel, London
T +44 20 7296 2000
alastair.shaw@hoganlovells.com



Maria Luce Piattelli



Counsel, Milan
T +39 02 720252 1
marialuce.piattelli@hoganlovells.com



Andreas Renck



Partner, Alicante
T +34 96 513 83 00
andreas.renck@hoganlovells.com



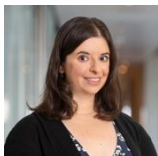
Florian Richter



Counsel, Hamburg
T +49 40 41993 0
florian.richter@hoganlovells.com



Andrea Constantine



Associate, London
T +44 20 7296 2000
andrea.constantine@hoganlovells.com



Andrea Schettino



Senior Associate, Milan
T +39 02 720252 1
andrea.schettino@hoganlovells.com



Imogen Fowler



Partner, Alicante
T +34 96 513 83 00
imogen.fowler@hoganlovells.com



Marie-Aimée de Dampierre



Partner / Chair, Paris
T +33 1 53 67 47 47
marieaimee.dedampierre@hoganlovells.com



Etienne Barjol



Senior Associate, Paris
T +33 1 53 67 47 47
etienne.barjol@hoganlovells.com



Inmaculada Lorenzo



Partner, Madrid
T +34 91 349 82 00
inmaculada.lorenzo@hoganlovells.com



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