



---

**PROGRAM MATERIALS**

**Program #32120**

**June 9, 2022**

## **Protecting Your Brand from Unauthorized Sales of Authentic Products on E-Commerce Sites**

**Copyright ©2022 by**

- **Sandra J. Wunderlich, Esq.-Tucker Ellis LLP**

**All Rights Reserved.  
Licensed to Celesq®, Inc.**

---

**Celesq® AttorneysEd Center**  
**[www.celesq.com](http://www.celesq.com)**

**5301 North Federal Highway, Suite 150, Boca Raton, FL 33487**  
**Phone 561-241-1919**



Sandra J. Wunderlich  
Tucker Ellis LLP

A decorative header at the top of the slide featuring a blue geometric pattern of overlapping triangles and squares. The pattern transitions from a lighter blue on the left to a darker blue on the right.

# Protecting Your Brand from Unauthorized Sales of Authentic Products on E-Commerce Sites

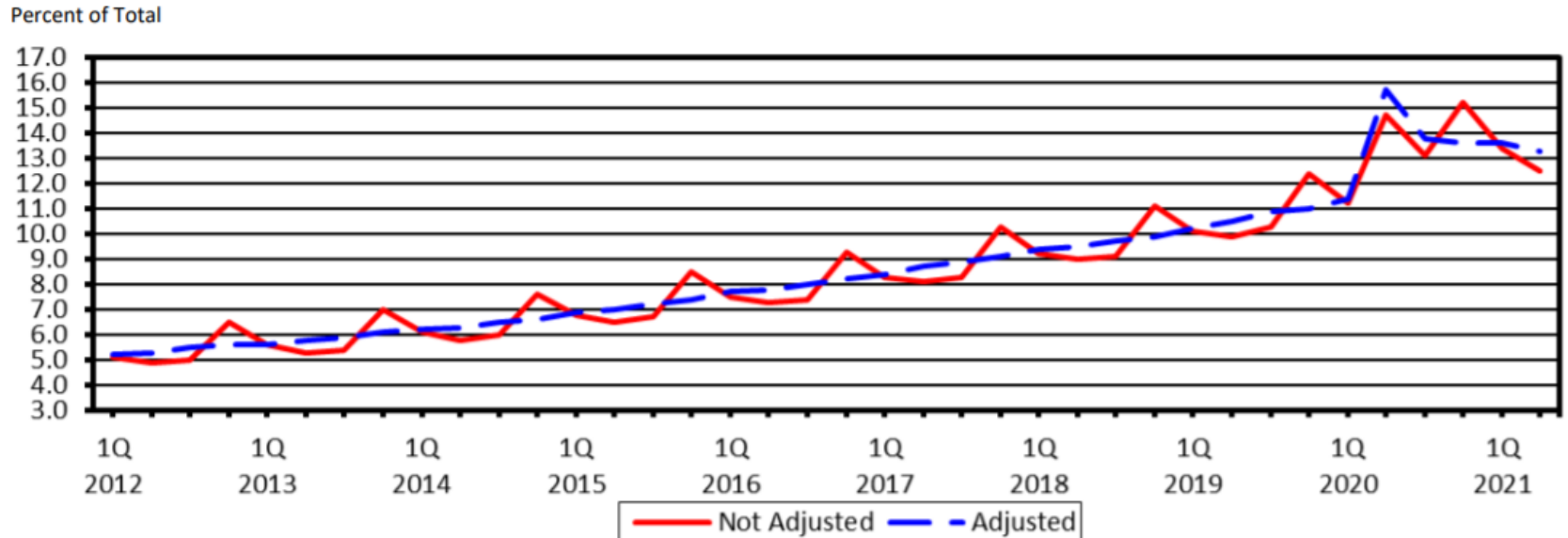
A decorative footer at the bottom of the slide, mirroring the header's blue geometric pattern of overlapping triangles and squares, transitioning from light blue to dark blue.

## Widespread Growth of E-Commerce Sites

- E-commerce sales peaked at an all-time high in Q1 2020 due to the global pandemic
  - Shut down businesses and restaurants
  - Forced Customers to Overcome Hesitations
  - Proved Effective and Efficient
  - Consumers continued to buy online

# Growth of U.S. Retail E-Commerce Sales

**Estimated Quarterly U.S. Retail E-commerce Sales as a Percent of Total Quarterly Retail Sales:  
1<sup>st</sup> Quarter 2012 – 2<sup>nd</sup> Quarter 2021**



# Projected Growth of E-Commerce Sales

- E-Commerce Sales increased 14.2% from 2020 to 2021
- This figure is forecasted to grow by 50% over the next 4 years
- In 2021, e-commerce sales totaled \$4.9 trillion U.S. dollars worldwide
- Expected to reach \$7.4 trillion dollars by 2025
- Even as businesses reopen, consumers continue buying online

(Source: Statista.com 2022)

## E-Commerce Sales-% of Retail Sales

- E-Commerce represents **11.8%** of retail sales if you compare online sales with total retail sales.
- If you exclude restaurant sales from this figure, e-commerce represents **13.2%** of the total retail sales.
- Finally, if you exclude cars and car parts, that figure jumps to **17.2%** of total retail sales.

(Source: U.S. Census Bureau, 2021)

## US Amazon Retail Ecommerce Sales, by Product Category, 2021

*billions, % change, % of retail ecommerce sales, and % of total retail sales*

	Ecommerce sales (billions)	% change	% of total retail ecommerce sales	% of total retail
Computer & consumer electronics	\$97.82	15.2%	50.2%	26.7%
Apparel & accessories	\$58.75	21.4%	32.0%	12.1%
Books, music & video	\$44.80	14.4%	83.2%	57.5%
Furniture & home furnishings	\$36.28	16.3%	34.2%	10.7%
Toys & hobby	\$29.78	16.5%	46.0%	20.9%
Health, personal care & beauty	\$27.91	19.2%	32.6%	4.9%
Food & beverage	\$13.59	24.7%	25.4%	1.2%
Auto & parts	\$8.63	13.4%	13.8%	0.7%
Office equipment & supplies	\$8.45	11.4%	45.6%	18.2%
Other	\$41.20	3.8%	48.2%	2.9%
<b>Total</b>	<b>\$367.19</b>	<b>15.3%</b>	<b>40.4%</b>	<b>6.3%</b>

*Note: represents the gross value of products or services sold on Amazon.com (browser or app), regardless of the method of payment or fulfillment; excludes travel and event tickets, Amazon Web Services (AWS) sales, advertising services, and credit card agreements*

*Source: eMarketer, Feb 2021*



# Great Opportunities for Growth

- E-commerce sites allow businesses to reach a worldwide market
- Connects a willing buyer with a willing seller instantaneously through algorithms rather than expensive marketing
- Allows smaller companies to compete with larger companies
  - Brick and mortar store not required
  - Lower overhead
  - Manage inventory to meet demand



# Greater Challenges for Brands

- Counterfeit Goods
- Fake Reviews
- Manipulation of the algorithm by dishonest sellers
- Storefronts with no regard for IP rights
- Storefronts that are difficult to hold accountable
- **Unauthorized Sales of Authentic Goods**



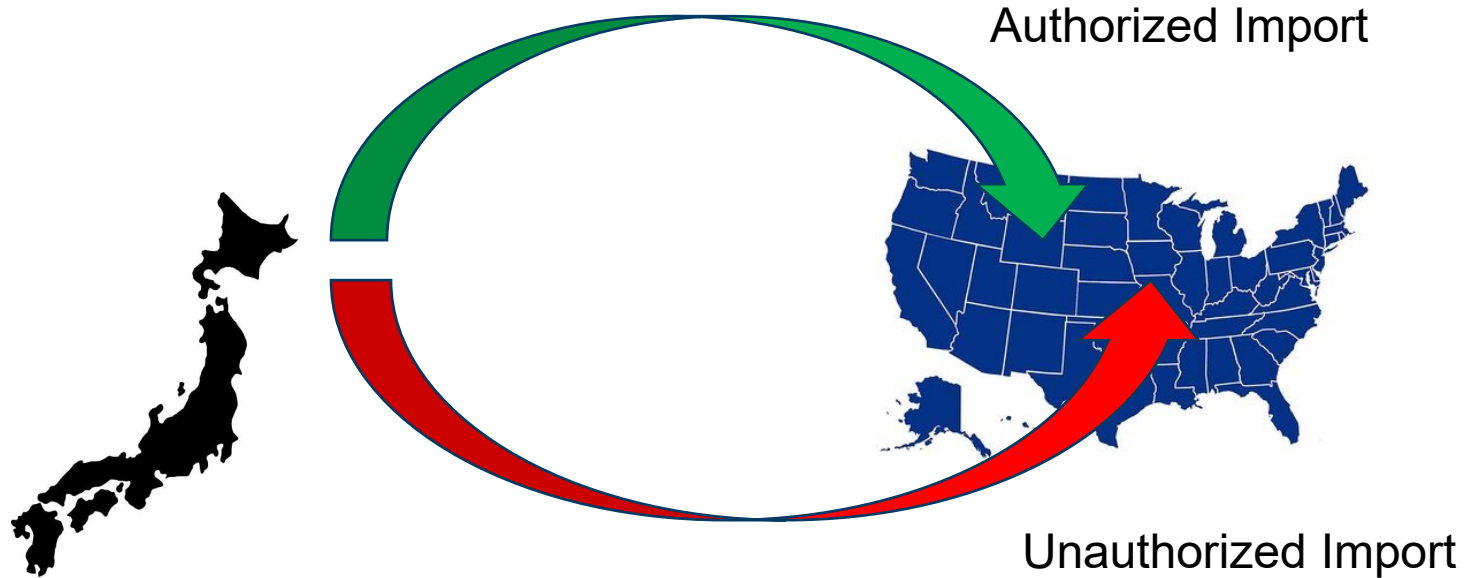
# Protecting Your Brand from Unauthorized Sales on E- Commerce Sites:

*Authentic Goods*

# Grey Market Goods

- Sometimes referred to as a “parallel market” good
- Sales occur through unofficial or unauthorized distribution channels
- Goods that are authentic (unlike counterfeit goods) sold in a trade channel in which it was not authorized to be sold
  - Could be imported by a party other than the exclusive US importer of the goods
  - Could be sold in US when not authorized for sale in US

# Parallel Imports of “Authentic Goods”: The Grey Market



# Unauthorized Sales of Authentic Goods:

- Not properly labeled
- Different Performance than Expected
- Changed Packaging
- Outdated products
- Damaged or defective goods
- Missing parts
- Out of warranty

## The Results

- Rejection of Warranty Claims
- Price Gouging
- Lower Prices than Authorized Sellers
- Angry Customers
- Negative Reviews
- Harm to Relationship with Authorized Sellers
- Lost Sales


Adds up to . . .




DAMAGE  
to  
BRAND  
and  
BRAND OWNER



## Two Objectives of the Lanham Act



Protect the goodwill  
of the mark's owner



Protect consumers  
by preventing  
confusion as to the  
source of the goods

# Elements of Trademark Infringement

- Ownership of a valid mark
- Defendant used the mark in commerce without the owner's consent
- *Defendant's use creates a likelihood of consumer confusion*

Most Commonly Raised Defense:

**First Sale Doctrine:** It is not trademark infringement to resell a trademarked item *after* it has been sold by the trademark owner in an authorized sale, even if the resale is without the trademark owner's consent

# Theory:

Brand owners' right to control distribution of its product does not extend beyond the first sale of the product.

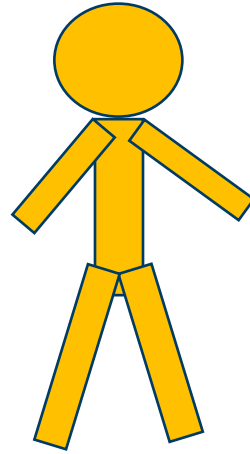
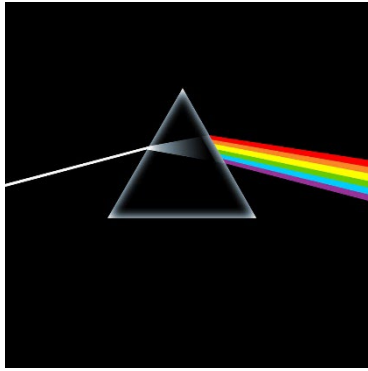
# Theory:

Consumers are not confused when they buy authentic goods bearing an authentic trademark

## Case Law:

A purchaser who does no more than stock, display, or resell a producer's product under the product's trademark violates no rights conferred upon the owner by the Lanham Act

Example: Sell used album to neighbor at garage sale  
is not trademark infringement.



# Hallmark Licensing LLC v. Dickens, Inc. (2020)

- Hallmark closed one of its processing centers and decided to liquidate the cards in inventory;
- Hallmark sold 20 tractor-trailers of greeting cards to a pulp and paper company for recycling
- Rather than recycle the cards, the recycler sold them to a third party, which began selling the cards for a reduced price on an e-commerce site
- Hallmark sued to prevent the sale of the cards, and Dickens claimed first sale doctrine prevented Hallmark from obtaining an injunction
- Court rejected the first sale doctrine as a defense;
- Court found that Hallmark did not sell the cards for resale, but to be recycled and thus, the first sale doctrine did not apply to the liquidation of the cards



## Two important exceptions to overcome First Sale Doctrine as a defense:

- Products sold by unauthorized sellers that are **MATERIALLY DIFFERENT** from the Company's Authorized Products
- Products sold by unauthorized sellers that have **DIFFERENT PRODUCT QUALITY CONTROLS**

## Theory:

*A materially different product* is NOT genuine


- Material differences are likely to cause confusion of the consumer, and
- Interfere with TM owner's ability to control the quality of the goods sold under its TM

## Similar Rules in the Context of Grey Market Goods


**MATERIALLY DIFFERENT** from products  
designated for sale in other countries

Products are subjected to **DIFFERENT  
PRODUCT QUALITY CONTROLS** or **PRICING**

## Two Objectives of the Lanham Act



Protect the goodwill  
of the mark's owner



Protect consumers  
by preventing  
confusion as to the  
source of the goods

# What is Materially Different

To overcome First Sale Doctrine:

Whether a consumer would consider it relevant when purchasing the product



## Materially Different in context of Gray Market Goods:

The existence of **any difference** between the products authorized for sale in that country, and the allegedly infringing grey market good **that consumers would likely consider to be relevant when purchasing a product** creates a rebuttable presumption of consumer confusion sufficient to support a Lanham Act claim.

# Standard for Establishing a Material Difference

- Interpreted broadly
- Very low bar
- Case by case basis
- Need not be a physical difference

# Examples of Material Differences for Unauthorized Goods:

- Warranties
- Money back guarantees
- Promotional items included
- Customer Service or Support
- Software updates
- Package Instructions
- Notice of Recalls
- Differences in packaging



# Beltronic v. Midwest Inventory Distribution (2009)

- TM owner was an electronic equipment manufacturer
- Defendant purchased authentic products from TM owner's authorized distributors and changed serial numbers on the products before resale on eBay
- TM owner learned of the issue when consumers contacted TM owner for warranty claims;
- TM owner did not recognize serial numbers so rejected warranty claims
- Defendant relied upon the First Sale Doctrine as its defense because the products were authentic
- The court granted an injunction against the distributor, finding that the first sale doctrine did not apply because the goods sold were "materially different" without the warranty and with different serial numbers

# Energizer Brands, LLC v. My Battery Supplier, LLC (2021)

- Defendant moved to dismiss claims of TM infringement by brand owner based upon the first sale doctrine
- Energizer alleged that there were differences in the physical packaging of the goods including sale of loose batteries in plain white boxes, or clear baggies rather than a blister pack
- Including “Not for Retail Trade” on the package
- Omitting safety information and other warnings
- Selling poor quality batteries
- Showed consumer dissatisfaction and confusion because of these differences
- Court rejected application of first sale doctrine as a defense to claim

## Non-Material Difference: Different Channel



## Paul Mitchell case

Plaintiff argued:

- Unauthorized trade channels
  - Retail rather than professional hair salons
  - Products not different
- 
- Court found different trade channels are not material differences sufficient to overcome First Sale Doctrine

# Examples of Material Differences for Grey Market Goods

- Different ingredients
- Different language on package
- Different performance expectations
- Shorter shelf life
- Limited varieties
- Different packaging
- Sold at different price points
- Insurance codes
- Different names for same product
- Lack of US certification (even if not required)

# Lever Brothers Co. v. US

- TM owner sought injunction to prevent importation of SHIELD soap produced for the British market
- TM owner sued US Customs Service for allowing the goods to be imported in the US simply because they were “authentic” goods
- TM owner argued that the goods contained different ingredients for British markets versus US markets
- TM owner claimed that the British SHEILD soap was designed to lather less quickly due to British preference for baths over showers
- Lost in the lower court but the appellate court reversed finding the goods were physically different goods



# Lever Brothers v. US

- TM owner sought injunction to prevent importation of SUNLIGHT dishwashing detergent produced for the UK
- TM owner sued US Customs Service for allowing the goods to be imported in the US because they were “authentic” goods
- TM owner argued that the goods contained different ingredients for UK users versus US consumers
- TM owner argued that SUNLIGHT dishwashing detergent was made to perform better in hard water typical of the UK household rather than soft water generally found in US households
- Lost in the lower court but the appellate court reversed finding the goods were physically different goods



# Societe Des Produits Nestle, SA v. Casa Helvetia, Inc.

- TM Owner sought an injunction to prevent unauthorized importation into Puerto Rico of PERUGINA chocolates
- TM Owner terminated its local distributor of Italian-made chocolates
- Distributor began importing authentic PERUGINA chocolates made in Venezuela under a license from TM Owner
- TM owner objected citing material differences in Italian-made versus chocolate made in Venezuela
  - Presentation (less elegant packaging)
  - Variety (limited variety of shapes)
  - Composition (shorter shelf life)
- Lost in the lower court, but it was reversed by the First Circuit





## Two important exceptions:

- Products sold by unauthorized sellers that are **MATERIALLY DIFFERENT** from the Company's Authorized Products
- Products sold by unauthorized sellers that have **DIFFERENT PRODUCT QUALITY CONTROLS**

# Examples of Quality Controls:

- Standards for sales conditions (ex: adherence to cleaning requirements)
- Quality control inspections (ex: shoes not subjected to same inspection, no matter how minor, not the same as authentic goods)
- Specific storage or distribution protocol (ex: rules related to temperature controls, or exposure to light can be sufficient)
- Pricing Standards (ex: limits on discounts or other pricing restrictions can be an important distinguishing factor)
- Package differences (ex: changes that could lead consumers to believe product had been tampered with is sufficient)

# Warner-Lambert Company v. Northside Development Corporation(1996)

- Distributor of HALLS cough drops was selling expired cough drops
- TM Owner sought an injunction to prevent the sale of expired cough drops
- Defendant argued first sale doctrine *and* that the products were not materially different because TM Owner sometimes sold stale product
- The Court rejected the notion that the TM Owner must abide by “stringent measures of insuring freshness” to be entitled to relief
- Court found that TM Owner had established legitimate quality control procedures and that it generally abided by those procedures so that expired product sold by a distributor was materially different

## Grey Market Goods

- TM Owner sought an injunction to prevent unauthorized importation into Puerto Rico of PERUGINA chocolates
- Court recognized:
  - Different quality control procedures
  - Different Price points



# Elements to establish Material Differences

- TM Owner's Authentic Goods Include material additions
  - Warranties
  - Software updates
  - Customer Support
- TM Owner actually provides these additions to consumers
- The Unauthorized Seller is not providing or unable to provide these additions
- Sales of the non-conforming products will harm the value of the trademark and create a likelihood of consumer confusion (dual purpose of the Lanham Act)

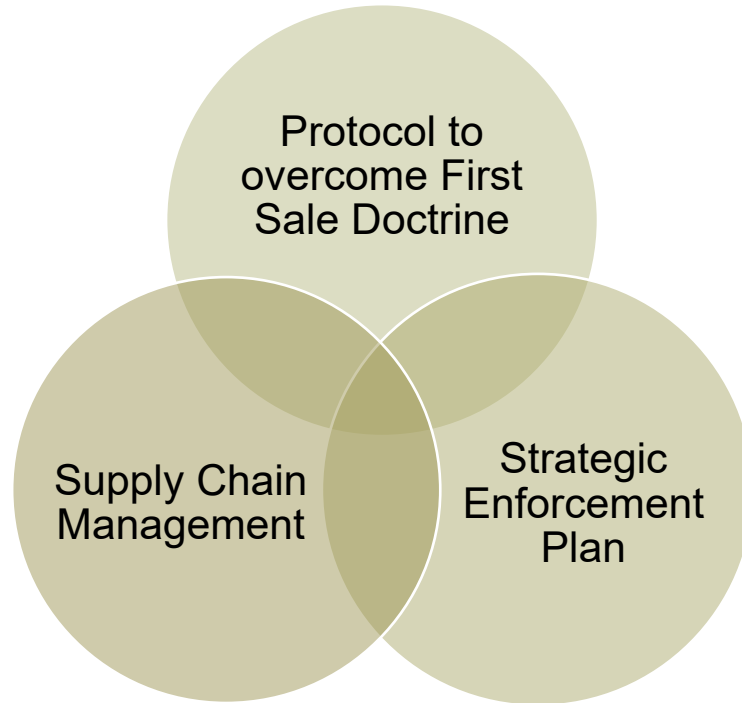
# Elements to establish Quality Controls

- The TM Owner has established, legitimate quality control procedures
- The TM Owner abides by these control procedures
- The Unauthorized Seller is not abiding by these procedures
- Sales of the non-conforming products will harm the value of the trademark and create a likelihood of consumer confusion

# A word about disclaimers

- Some unauthorized sellers will use disclaimers to notify consumers that goods are not subject to warranty or direct returns to the seller and not the brand owner
- Question as to whether these will work to avoid liability for TM infringement are whether the disclaimers are effective
- If the brand owner can show consumer confusion and/or harm to the brand owner, the disclaimer will not be a defense
  - Consumer contacts the brand owner to make a warranty claim
  - Consumer complains to brand owner about the quality of the product in spite of disclaimer
  - If disclaimer is prominent, and the consumers are seeing it, and understanding it, then maybe

# Three Pillars of Proactive Business Strategies to Combat Unauthorized Sales of Goods





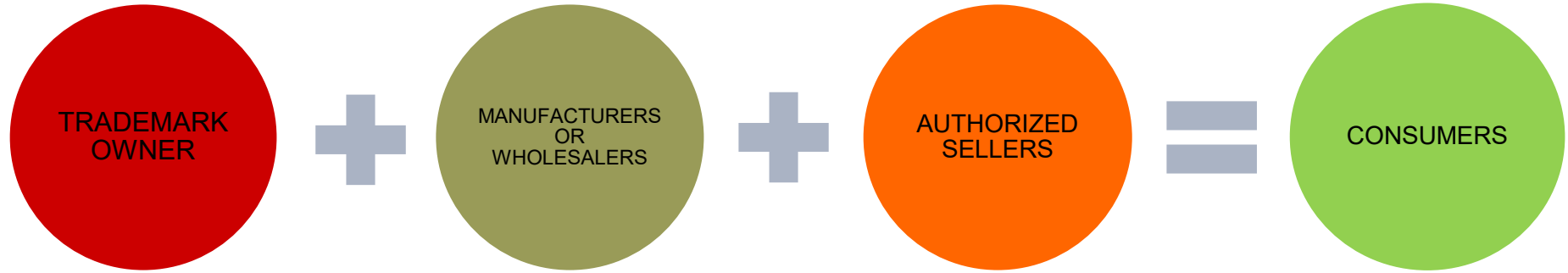
# Create Material Differences

- Limit or Exclude Warranties for Unauthorized Sales
- Offer Money back guarantees for Authorized Sales
- Include Promotional Items
- Offer Customer Service
- Have customers register products
  - Send software updates
  - Notice of Recalls
- Include Instructions with product
- Unique packaging

## Implement quality control procedures and follow them

- Written standards for particular sales conditions (legitimate and substantial)
- Create plan for quality control inspections
- System for consumer complaints
- Establish unique storage or distribution protocol, product presentations, etc.

# Supply chain management



# Authorized Resellers

- Written standards for particular sales conditions
- Carefully vet the retailers that are authorized to sell your products
- Impose limitations on pricing, presentation, and sale of products
- Preclude liquidation or disposal that creates problem in the first place
- Provide support and benefits to authorized resellers
- Written agreement establishing the rules
- First step in controlling supply chain leaks
- Multi-factor approach is best-quality control and material differences

# Understand Flow of Products

- How does your product reach the end user?
- Where is the unauthorized product being acquired?
  - Theft at your facility
  - Theft at distribution
  - Theft at retailers
  - Liquidation of inventory
- Accountability by Authorized Resellers
  - Efforts to identify source of product and how it reached unauthorized seller
  - Notice prior to liquidation
- For higher priced items, can serialize to improve traceability
  - Too expensive for smaller items

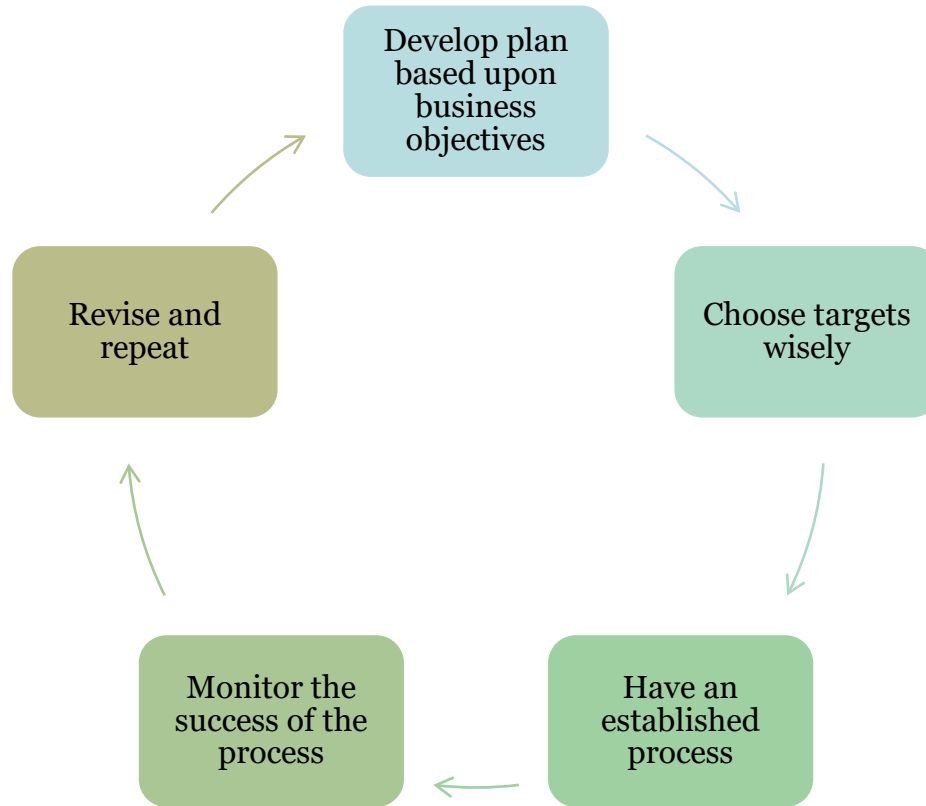
## As a practical matter . . .

- Difficulty enforcing terms of Authorized Seller Agreements if authorized seller has the leverage
- Difficulty preventing Authorized Seller from liquidating product through sales or back door to liquidators to make room for new inventory
- Difficulty turning customers away by refusing warranty claims when goods are authentic and would be within warranty if sold by authorized seller

# Amazon Brand Registry “Gating” Program

- Register brands subject to a “gate”
- Amazon reaches out to attorney of record for TM owner to authorize implementation of “gate” and authorized sellers
- This allows only authorized sellers to sell products as “new”
- Attempting to list a gated product by an unauthorized seller sends the warning “You need approval to list in this brand” with a process to obtain approval from the brand owner
- Avoids typical downward price spiral to win the “Buy it now” window
- Proactive rather than reactive
- Allows brand owner to revoke permission of an authorized seller

# Strategic Litigation Enforcement





# Strategic Plan based upon business objectives

Goals Might Include Any of the Following:

- Protect authorized sellers
- Protect Brand
- Protect the price point for authorized sellers
- Stop the sales altogether
- Stop the diversion of unauthorized goods for resale
- Limit the trade channels or expand trade channels
- Drive traffic to your website or brick and mortar stores

## Choosing Targets Wisely

- What kind of an impact are they having on your business
- How important is the product at issue?
- What is the volume?
- What is the profit margin on the goods?
- Small sellers or large, professional sellers?
- What is the impact on your brand?

## Establish a Process: Efficiency is Critical to Success

- Contact unauthorized reseller with notice of your rights and request that they stop
- Escalate to stronger letter with allegations of TM infringement
- File Suit (form letters and pleadings)
- Choose jurisdiction carefully

# Monitor the Success of the Program

- Cost-benefit analysis
- Is it working?
- Why or why not?
- Leverage favorable outcomes to bring compliance
- Is process efficient?
- Compare goals to outcomes
- Revise and repeat as necessary

# Three Pillars of Proactive Business Strategies

