



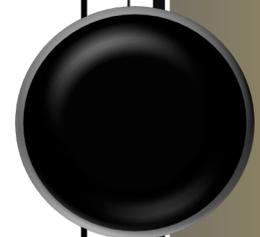
## THE AMAZON IMPACT:

*Your company's pre-litigation trademark protection analyses must include a material differences strategy.*

With the explosion of E-Commerce over the past decade, many manufacturers are plagued with unauthorized sellers peddling their products in online marketplaces. The principle legal remedy available to these manufacturers is a trademark infringement action. Typically, however, illicit sellers raise the “First Sale Doctrine” as a defense to those actions. This paper explains why a pre-litigation material differences strategy is critical to prevailing in later Federal trademark actions.

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# The Amazon Impact:

***Your company's pre-litigation trademark protection analyses must include a material differences strategy.***

Just as E-Commerce has grown exponentially over the past decade, so too have crimes and frauds involving online sales. Given that the world's largest online marketplaces – Amazon, Walmart, eBay – each complete a sizable percentage of sales through independent, third-party retailers, it is not surprising that unauthorized sales proliferate in those venues.

As various scams have developed, law enforcement professionals and attorneys have had to create legal strategies and tactics to halt unscrupulous activities. From a civil law perspective, manufacturers and their legal teams have relied heavily on trademark infringement actions.

As discussed in greater detail below, however, a proper litigation strategy for an infringement case should be devised long before a company is even considering a lawsuit. In particular, manufacturers would be wise to work on “material differences” even as their products are first being released in online marketplaces.

## DEFINING THE UNAUTHORIZED SELLER PROBLEM

Much has been written about the epidemic of unauthorized sellers in online marketplaces such as Amazon or eBay. Unauthorized sellers come in many forms:

- ***Counterfeiters:*** these are the retailers who sell cheap knock-off products that are typically far inferior to the original. The gravamen of a counterfeiter is that they sell products likely to confuse consumers as to the origin or source of those products.
- ***Unauthorized Sellers:*** these are the retailers who have not bothered (or are not qualified) to be a part of the manufacturer's authorized retailer network. They cannot be relied on to source, ship, or store products correctly.

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Many times, they also refuse to honor the manufacturer's warranties or provide customer service.

- **Sub-MAP Sellers:** this group may consist of unauthorized *or* authorized retailers. Their distinguishing conduct, however, is that they advertise products for sale below the manufacturer's Minimum Advertised Price ("MAP"). Sub-MAP sales cause a host of problems for the manufacturer, such as brand deterioration and fractured relationships with authorized retailers who honor MAP, as well as consumers who may have paid full price somewhere else.

Fortunately, a good E-Commerce Enforcement team can typically shut down these illicit sellers without resorting to costly litigation. In the event a lawsuit does become necessary, however, the manufacturer's principle legal theory will sound in trademark infringement.

Perhaps surprisingly, the manufacturer's chances for success in a trademark infringement action may be more dependent on pre-litigation strategy than on anything that happens within the context of the lawsuit.

To understand this point, let's first take a look at general trademark principles and the First Sale Doctrine, which is the typical defense employed by illicit sellers facing a trademark infringement claim. After that, we'll discuss how a well-planned material differences strategy can be used to overcome that defense.

## TRADEMARK PROTECTION FOR MANUFACTURERS

According to the United States Patent & Trademark Office ("USPTO"), "[a] trademark is a word, phrase, symbol and/or design that identifies and distinguishes the source of the goods of one party from those of others." While most states provide some level of trademark protection, trademarks are largely a function of Federal statutory law.

Specifically, trademark protection arises under the Federal Lanham Act, 15 U.S.C. §§ 1051, *et. seq.* Among other things, the Lanham Act allows manufacturers to apply for and register trademarks that are unique to their products. Additionally, because trademark registrations are granted and administered by a Federal agency, the USPTO, trademark infringement actions are typically brought in Federal District Court.

To prevail in a trademark infringement action, a manufacturer must establish three critical facts: (1) that it has a valid, registered trademark entitled to protection; (2) that without the manufacturer's consent, the defendant used the same or a similar mark in commerce in connection with the sale or advertising of goods and services; and (3) that the defendant's use of the mark is likely to cause confusion as to the affiliation, connection, or association of the defendant with the manufacturer.

Analyzed in light of the unauthorized seller problem, it is easy to see why trademark infringement is popular claim made by manufacturers. So long as they have valid registered trademarks, manufacturers need only prove that the illicit sellers were peddling their goods without consent, and that they were selling the products in a manner likely to cause consumer confusion.

Unfortunately, these cases are rarely a slam dunk, thanks to a common-law defense known as the First Sale Doctrine.

## UNDERSTANDING THE FIRST SALE DOCTRINE

As manufacturers face more and more unauthorized sellers in online marketplaces, they will find that the most sophisticated sellers will respond to nearly every cease & desist attempt by invoking the “First Sale Doctrine.”

At its core, the First Sale Doctrine has two co-extensive premises. First is that the trademark owner (for our purposes, the manufacturer), generally loses its right to enforce a trademark after it has made the “first sale” – *i.e.*, after the manufacturer places the product into the stream of commerce by selling it to someone else.

Importantly, that “first sale” does not have to be a direct sale to a consumer. It can

also be a sale to a distributor or retailer.

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Secondly, the First Sale Doctrine generally holds that whoever purchases the branded, trademarked product has the right to resell the product without input or

control from the manufacturer, so long as the product is in the same condition as when it was purchased.

Translating those concepts to the unauthorized seller arena, it is just as easy to see why the First Sale Doctrine is both a popular and successful defense. So long as the manufacturer placed a product into the stream of commerce and a retailer later obtained it and sells it in new condition, the manufacturer has no recourse, right?

Not necessarily. Importantly, the answer to that question lies completely within the material differences analysis.

## UNDERSTANDING MATERIAL DIFFERENCES

The material differences concept stems from that portion of the Lanham Act prohibiting sales or advertisements “likely to cause confusion, or to cause mistake,

or to deceive.” (15 U.S.C. §1114(a)-(b).) Through the years, as courts have had to determine whether allegedly infringing products were likely to cause confusion in the marketplace, they have focused on material differences between the original product, and the product being sold by the defendant. The greater those material differences, the more likely consumers are to be confused, and the stronger the case is for trademark infringement.

As explained by one court, “the sale of materially different merchandise violates [the] Lanham Trademark Act ... because a difference in products bearing the same name confuses consumers and impinges on the ... trademark holder’s goodwill. (*Iberia Foods v Romeo*, 150 F.3d, 298, 303 (3<sup>rd</sup> Cir. 1998).).

It is easy to see how this concept could be applied in the counterfeiting context. If a defendant was selling products bearing a manufacturer’s logo, but made of entirely inferior parts and pieces, consumers would likely be confused and the manufacturer’s goodwill could be harmed by sales of the inferior product bearing its mark.

Importantly, however, courts have held that material differences do not have to be physical differences. As explained by one court some 25 years ago, “the appropriate test [for materiality] should not be strictly limited to physical differences.” Instead, the court decided the test should include other differences such as “warranty protection or service commitments [that] may well render products non-identical in the relevant Lanham Trademark Act sense.” (*Nestle v. Casa Helvetia*, 982 F.2d 633, 639 (1<sup>st</sup> Cir. 1992).) This critical distinction affords trademark protection against sellers who may not be counterfeiting, but are making unauthorized sales nonetheless.

Accordingly, these non-physical, material differences can (and should) be part of a trademark protection strategy well before litigation is even being considered. Indeed, material differences can (and should) be something the manufacturer’s legal team considers from the time products are first sent to market.

## ESTABLISHING MATERIAL DIFFERENCES

Of course, this means the manufacturer must try to pre-establish material differences long before a trademark infringer has even been identified. How is this possible?

Well, a good starting point is looking at what we know about unauthorized sellers generally. For example:

- The vast majority of the time, they are not part of the manufacturer’s authorized retail network.

- They typically ignore shipping and storing specifications put out by the manufacturer (*e.g.*, temperature parameters, expiration dates, etc.).
- They do not honor the manufacturer’s warranties or money-back guarantees.
- They do not provide customer service to consumers.

Armed with this information, a manufacturer can devise material differences from product inception by taking the following steps:

1. ***Obtain valid, registered trademarks.*** Generally speaking, without a valid trademark, there can be no infringement action and the material differences standard is useless.
2. ***Determine Sales Policies.*** Since courts recognize that non-physical differences can be material, manufacturers should work to establish non-physical, defining characteristics for their products before those products ever hit the market. These include things like warranties, money-back guarantees, storing and shipping specifications, customer service standards, and MAP (collectively, the “Sales Policies”).
3. ***Set up an authorized retailer network.*** To do this, manufacturers contract with retailers of their choice. In exchange for the semi-exclusive right to retail the manufacturer’s goods, retailers agree to the manufacturer’s Sales Policies.
4. ***Publish Sales Policies.*** In order to effectuate the manufacturer’s Sales Policies, those policies need to be published to consumers and authorized retailers alike.
  - a. ***For consumers:*** It is important that manufacturers alert consumers with respect to its Sales Policies. That way, consumers know what to expect when buying the manufacturer’s products. The simplest way to do this is to publish Sales Policies on the company website. It is also advisable to publish a list of authorized retailers. This may help consumers avoid illicit sellers all together.
  - b. ***For retailers.*** If manufacturers truly want to establish differences between products sold by authorized and unauthorized retailers, they also must clearly communicate Sales Policies and related expectations to all retailers in the network. This can be done in Authorized Retailer Network contracts, as well as via webpages accessible only by network resellers.
5. ***Enforce Sales Policies against authorized retailers.*** In order to render a product “materially different” from one sold by an unauthorized reseller, the Sales Policies must be put into practice. For example, if an authorized retailer fails to execute on the policies, they should be warned that their non-conforming conduct violates the manufacturer’s trademark rights. If they do not then start implementing the policies, they should be kicked out of the

authorized network. This consistency in application can only serve to enhance the materiality of these distinguishing, non-physical characteristics should a lawsuit ever become necessary.

In today's global, fast-paced world of E-Commerce, manufacturers need to be more vigilant about trademark protection methods than ever before. A well-planned and executed material differences strategy is critical to enforcement efforts, should they become necessary. Fortunately, these simple steps can be implemented quickly and should go a long way toward protecting your company's valuable trademarks.

*If you have questions about establishing material differences, or would like additional information, contact the E-Enforce™ team at [sales@e-enforce.com](mailto:sales@e-enforce.com), or call us at (800) 892-0450. You can follow us at [e-enforceCIS@twitter.com](https://twitter.com/e-enforceCIS), Ecommerce Enforcement Group on LinkedIn and [E-Enforcement.com/services](http://E-Enforcement.com/services).*