

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

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E-commerce sites are widely used to expand the reach of brands into broader markets. According to U.S. Census data, e-commerce sales peaked in the first quarter of 2020, likely due to the global pandemic that shut down businesses and required quarantining at home. While the pandemic forced consumers to overcome their hesitations of buying certain goods online like groceries, even after businesses reopened, consumers continued to buy online in record numbers. A review of the statistics released by Amazon shows there was an overall 15.3% increase of online sales from 2020 to 2021.

This explosive growth creates opportunities as well as challenges for brand owners. The expanding markets and growth in sales have benefited brand owners, but they have also brought unprecedented challenges, including increased sales of counterfeit goods, fake reviews, manipulation of algorithms affecting product placement and prominence, and the unauthorized sales of *authentic* goods, which is the focus of this article.

At first blush, it may seem unusual for a company to complain about sales of authentic goods. But, companies face multiple challenges to protecting their brand when authentic goods are sold by unauthorized sellers. These unauthorized sellers may sell products that are outdated, defective, damaged, missing parts, or out of warranty. The consumers who purchase these goods identify the brand owner as the source of these goods, and when they are not satisfied with their purchase from these unauthorized sellers, they blame the brand owner. These consumers take their complaints to social media with negative reviews, which can result in significant damage to goodwill of the brand. More often the problems relate to the quality of the goods, or the warranty that comes with the goods, but sometimes it is the price at which the goods are offered. If the prices are significantly below the retail price at which authorized sellers can sell the products, this creates tension with the brand's authorized sellers. During the pandemic, brand owners had to prevent higher prices for desperately needed products like masks and sanitizers, and consumers attributed the price gouging to the brand owner. Stopping sales of authentic products can be just as challenging as stopping counterfeit goods, even though they are no less damaging to a brand.

## First Sale Doctrine

The Lanham Act, 15 U.S.C. Section 1051, et seq. protects trademarks through two primary objectives: protecting the goodwill of the mark's owner; and protecting consumers by preventing confusion as to the source of the goods. When trying to stop sales of authentic goods, brand owners run head on into the "the first sale doctrine." The first sale doctrine holds that a trademark owner

cannot prevent someone who has lawfully purchased a trademarked item from selling, loaning or giving the product to someone else. Courts have found this doctrine to be implied from the terms of the Lanham Act and the public policy behind it—a consumer cannot be confused when they buy authentic goods bearing an authentic trademark, and a brand owner’s exclusive right to control distribution of goods bearing the trademark does not extend beyond the first sale of the product. A common example would be goods sold at a garage sale—the seller of the trademarked goods is not guilty of trademark infringement when it sells the goods to another.

But, the first sale doctrine is not an absolute defense to claims of trademark infringement. There are two noteworthy exceptions that courts have carved out to protect the goodwill of the brand owner. If the goods sold are materially different from goods sold by authorized sellers, or if the goods are not subject to the same product quality controls as the authentic goods, the first sale doctrine will not protect the seller from an infringement claim. The theory behind these exceptions is that a materially different product, or a product that is not subject to the same product quality controls, is not a genuine product. In other words, the consumer is not receiving what it bargained for when it purchased the trademarked goods, resulting in consumer confusion, and harm to the goodwill of the trademark owner. These are the two harms that the Lanham Act aims to prevent.

### **What Constitutes a Material Difference?**

Although courts must make the determination on a case-by-case basis, the cases where the first sale doctrine was rejected based upon a “material difference” in the goods reveal that it is a low bar for finding a material difference. To be material, the difference must merely be something that a consumer would consider relevant when purchasing the product. The following are differences that consumers find relevant to their purchase:

- Warranties or lack thereof.
- Differences in remedies.
- Customer service and support.
- Software updates.
- Instructions.
- Notices of recalls.
- Packaging different from the genuine product.

### **What Constitutes Different Product Quality Controls?**

Different product quality controls sufficient to overcome the first sale doctrine, require a showing that the brand owner has established quality control procedures that are legitimate, substantial, and nonpretextual; the brand owner abides by the quality control procedures itself; the unauthorized seller is not abiding by these quality control procedures; and the sales of these nonconforming products will harm the value of the trademark and create a likelihood of consumer confusion. Virtually any legitimate control procedures that are designed to ensure the quality of the product will meet this standard. This includes periodic quality control inspections; particular storage requirements, specific packaging that prevents tampering with the goods, etc.

## **A Word About Disclaimers**

Some unauthorized sellers attempt to use disclaimers to bolster their first sale doctrine defense, in an effort to avoid liability for infringement. The effectiveness of the disclaimer hinges on whether the consumer is confused. Oftentimes, brand owners learn of the unauthorized sales when a consumer complains about a product that was sold out of warranty, or without sufficient quality controls, providing compelling evidence that the disclaimer was ineffective.

## **Proactive Strategies**

What can a brand owner do to prevent brand damage from online sales? The foremost thing a brand owner can do is establish material differences in the sale of its products through authorized channels, and establish quality control procedures through an authorized network of sellers. Material differences a brand owner can implement could include the following:

- Limiting or excluding warranties for products sold outside of the authorized network.
- Establishing different remedies for authorized sales such as money back guarantees.
- Including promotional items included with the genuine product.
- Offering customer service and support.
- Registration with the brand owner so the consumer can receive software updates, notices of recall or promotions for upgrades or accessories.
- Create unique packaging.
- Include instructions or helpful resources with the goods.

Quality controls are most effective when established in a written plan and enforced through an authorized seller network. But, they must be followed by the brand owner too. Examples of effective quality controls includes periodic inspections of the goods, a system for receiving and processing consumer complaints, and unique storage or distribution methods.

## **Prevention of Unauthorized Sales**

Development of an authorized seller network is one of the most effective methods for supply chain management. This allows the owner to impose some level of accountability and control over the distribution of their products, and helps limit the product that reaches unauthorized sellers. When the brand owner discovers unauthorized sale on the market, it must evaluate its supply chain to uncover how the products are reaching unauthorized sellers, whether by theft, liquidation, or otherwise. This reduces the cost of enforcement, and helps cut off the problem at its source.

Even if the owner cannot pinpoint the source of the goods sold through unauthorized channels, it can stop the sales through an effective enforcement plan. For cost-effective enforcement, the brand owner must make decisions about which unauthorized sellers to target based upon the impact on the brand owner's business. A consistent enforcement plan will result in greater efficiencies through the development of forms rather than bespoke letters and pleadings, and leveraging success in one suit to bring success in others. Otherwise, enforcement can be expensive and of limited value in creating the deterrent effect the enforcement plan is intended to create.

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