

Take action against unauthorised resellers

With consumers strapped for cash, many retailers and distributors have taken to reselling products outside of approved distribution channels. **Andrea Anderson** and **Annie Haselfeld** suggest ways to avoid the problem

Many brand owners place a real premium on selling their products only through an exclusive network of hand-picked dealers who maintain brand integrity by honouring the manufacturer's suggested retail price. However, the economic climate has led some dealers to resell (or transship) products outside authorised distribution channels to off-price brick and mortar and internet-based sellers. While the most straightforward way to address a transshipment problem is directly with the authorised distributor or retailer who is transshipping products in violation of the brand owner's policies, for a host of reasons, this can be tricky. Some retailers and distributors have become very savvy about covering their tracks, going so far as removing serial numbers or other identifying information from products so they cannot be traced or otherwise linked with the dealer. In addition, brand owners may face internal political or business-related obstacles to dealing directly with non-compliant distributors. For example, what if a brand owner's biggest distributor occasionally sells a few products to unauthorised dealers? Is it worth jeopardising this important relationship over a few units of unauthorised product sales?

Tackling the problem

If it's tricky to address the transshipment problem from within the authorised distribution chain, it's even trickier to address it by attacking unauthorised retailers. This is because the legal doctrine of exhaustion generally shields resellers of genuine branded products from trade mark infringement liability. *Davidoff & CIE, SA v PLD Int'l Corp* (11th Cir 2001). According to the rationale of the exhaustion doctrine, when consumers purchase a genuine branded product from unauthorised dealers, in most cases, they are still receiving all the qualities and attributes that they expect from the brand. Therefore, they are not likely to be confused or deceived by the unauthorised dealer's sale of branded products. And of course, without a likelihood of confusion, there can be no liability for trade mark infringement.

The exhaustion doctrine is sometimes called the first sale rule, since, under the doctrine, "the right of a producer to control distribution of its trademarked product does not extend beyond the first sale of the product". *Australian Gold, Inc v Hatfield* (10th Cir 2006). But like any good rule, the first sale rule has its exceptions. For example, where a branded product sold by an unauthorised dealer differs materially from the branded product sold by authorised dealers, courts have deemed the materially different product infringing. Courts reason that, when consumers buy a branded product, they believe they are receiving, and are entitled to receive, the exact product as produced or authorised by the brand owner. Therefore, when a product bearing a trade mark has been altered or is somehow different from authorised products, consumer deception and confusion will likely follow. It is this likelihood of confusion or deception that creates liability for trade mark infringement.

A material distinction

In determining whether a difference between two products bearing the same trade mark is material, courts will consider whether the difference is likely to cause consumer confusion and harm the brand owner's goodwill. Although a difference must be material to render a genuine branded product infringing, even subtle differences can be material,

One-minute read



Brand owners understand that few things sully brand image faster than rampant discounting and sales of products through off-price resellers and internet bargain or auction sites. Moreover, maintaining a strict resale price regime leads to a happier dealer base, and allows brand owners to carefully select sophisticated retailers who will support their brand with an appropriate level of service and expertise. Unfortunately, these tough economic times have created significant temptation for otherwise loyal and supportive retailers and distributors to resell or transship products outside authorised distribution channels to off-price brick and mortar and internet-based sellers. And of course, this upsets the loyal dealer base and places significant pressure on brand owners to take action against the unauthorised discounters. However, brand owners can avoid transshipment troubles by following several straightforward steps when crafting their post-sale service and support policies.

Four steps to avoiding transshipment troubles

Implementing the following measures can help brand owners to reduce transshipment problems

1 Develop a written post-sale service and support policy. This is the obvious first step. Brand owners must make a commitment to provide certain post-sale services that would be material to a consumer – warranties, repairs, help lines, product recalls, and product updates are a few examples. A warranty is probably the most material post-sale service to a consumer. However, by offering other post-sale services, a brand owner may be able to defeat an unauthorised retailer's claim that its disclosure of "No manufacturer's warranty" is sufficient to avoid confusion. These services should be available only through authorised dealers, and there must be a mechanism for tracing each product to an authorised retailer. While product serial and tracking numbers may be the most reliable means of tracing a product, even a requirement that a consumer provide a receipt or at least identify the retailer from whom a product was purchased should be sufficient.

2 Apply the policy consistently. All products purchased through autho-

rised retailers should be eligible to receive the post-sale services. Otherwise, a brand owner could run into the *SKF* problem (see article) and find itself accused of exacerbating confusion regarding post-sale services. On the flip side, brand owners should consistently decline to provide post-sale service or warranties to products purchased from unauthorised retailers. Under the reasoning of *SKF*, where a brand owner provides post-sale services to customers of unauthorised dealers, it is contributing to the likelihood of confusion and will not likely find sympathy with a court.

3 Publicise the policy. Brand owners should promote and publicise their post-sale services as much as practicable: on their websites, through education of their dealer base, and in advertisements. Evidence of widespread promotion of the service policy will support the argument that consumers expect the branded goods to come with certain post-sale services. It follows that the absence of these services from goods sold by unautho-

rised retailers will confuse consumers and harm the brand's goodwill. These measures should have the added benefit of steering consumers toward the brand owner's authorised dealers.

4 Track warranty requests from customers of unauthorised retailers.

Brand owners should carefully document every request for service or warranty repair from consumers who purchased outside the authorised distribution chain. Ideally, a report would include the date of the call or request, the consumer's name and address, the identity of the retailer, and the nature of the service requested. Customer service representatives should make detailed notes of their interactions with consumers, thoroughly documenting the customer's mistaken belief that they are entitled to receive post-sale service. This consumer confusion evidence could be invaluable in a case against unauthorised retailers, as it could rebut any argument that the retailer's disclosures regarding the lack of warranty coverage are sufficient to avoid confusion.

since consumers rely on brands to deliver numerous quality-related attributes, including performance, appearance, and packaging.

These material differences are most prevalent in cases involving parallel imports – products that are produced by a manufacturer specifically for a geographic market other than the US but that are nevertheless diverted to the US for sale. For example, in a seminal case involving the iconic Cabbage Patch dolls, the court found that genuine dolls produced by the brand owner for sale in Spain and genuine dolls produced for the US market differed materially. *Original Appalachian Artworks, Inc v Granada Elecs, Inc* (2d Cir 1987). This is because adoption papers packaged with dolls intended for sale in Spain were written solely in Spanish, whereas dolls intended for sale in the

Applying the principle

Relying on this and similar decisions involving parallel imports, several courts have pointed to such physical differences to find transshipped goods infringing. But recently, several courts have begun to address the issue of whether nonphysical material differences in products, usually those related to post-sale service and support, can render transshipped goods infringing. For example, the First Circuit has opined in dicta that "the appropriate test [for materiality] should not be strictly limited to physical differences, but should include other differences such as warranty protection or service commitments [that] may well render products non-identical in the relevant Lanham Act Trademark sense". *Societe Des Produits Nestle SA v Casa Helvetia, Inc* (1st Cir 1992).

SKF USA relied upon this dicta to argue to the US Court of Appeals for the Federal Circuit that parallel import SKF-branded ball bearings infringed its trademark rights. *SKF USA Inc v Int'l Trade Comm'n* (Fed Cir 2005).

SKF argued that it provided a full panoply of post-sale services in connection with the vast majority of bearings it sold. These services included warranty/repair services as well as technical and engineering assistance related to installation, trouble-shooting, and end-user training offered both on site and through a telephone hotline. Sellers of the parallel import bearings offered no such support services to their customers. The Federal Circuit held that such nonphysical differences could constitute a material difference sufficient to render a grey good infringing. The court reasoned that "trademarked goods originated from the

Courts will consider whether the difference is likely to cause consumer confusion and harm the brand owner's goodwill

US contained English language papers. When the Spanish dolls with Spanish-only adoption papers were transshipped and sold on the US market, many American consumers could neither read the adoption papers nor register the so-called adoption of their doll. Because US consumers were not receiving the full bundle of attributes that the Cabbage Patch mark conveyed (including adoption papers), they were likely to be confused or deceived. Therefore, the court found the parallel import Spanish dolls infringing and enjoined their sale in the US.

trademark owner may have nonphysical characteristics associated with them, including services, such that similar goods lacking those associated characteristics may be believed by consumers to have originated from the trademark owners, and, lacking such traits may mislead the consumer and damage the owner's goodwill".

Notwithstanding this conclusion, the Court rejected SKF's infringement claim because SKF sold approximately 13% of its products through "alternate" channels of distribution, including the surplus market, and it offered no warranties or post-sale services to end users of bearings purchased through these channels. The Federal Circuit observed that the SKF bearings sold through alternate channels were no different than the accused parallel import bearings, since neither carried a warranty or the guarantee of technical service and support. Therefore, there was no material difference between these products that could trigger consumer confusion and infringement liability. The Federal Circuit reasoned that "to permit recovery by a trademark owner when less than 'substantially all' of its goods bear the material difference from the parallel import would allow the owner itself to contribute to confusion by consumers that it accuses grey marketers of creating". Therefore SKF's lack of consistency in offering post-sale support and services to all end users purchasing through authorised channels defeated its claim of infringement.

Warranty your wares

More recently, the US Court of Appeals for the Tenth Circuit applied the Federal Circuit's reasoning in *SKF* to a case involving domestic transshipment of products. In *Beltronics USA, Inc v Midwest Inventory Distribution* (10th Cir. 2009), Beltronics, a radar detector manufacturer, brought a claim for trade mark infringement against Midwest, an unauthorised retailer selling Beltronics-branded radar detectors on Ebay. Midwest purchased its inventory of Beltronics radar detectors from authorised dealers who made these sales in violation of their distribution agreement with Beltronics. To conceal their violations, the authorised retailers either replaced the radar detector's original serial numbers with a phony number or removed the serial numbers altogether. Without accurate serial numbers, Beltronics was unable to trace the products to discover which of its distributors was selling to Midwest in violation of their distributorship agreements.

As a matter of policy, Beltronics provided post-sale services, such as software upgrades, rebates, product use information, service assistance, warranties, and recalls to end users who provided the original serial numbers from their radar detectors. On the other hand, Beltronics refused to provide these services to end users who could not provide original serial numbers, including customers who purchased from Midwest. In recognition of this fact, Midwest placed a disclaimer on its Ebay listings that stated: "The [manufacturer] will not honor the warranty if purchased off Ebay. Since we honor the warranty, the serial number has been removed and retained

by us." Notwithstanding Midwest's disclaimer, Beltronics received numerous warranty claims from customers who had purchased radar detectors from Midwest.

Beltronics brought an action for trade mark infringement against Midwest arguing that the lack of post-sale service was a material difference which rendered the otherwise genuine radar detectors sold by Midwest infringing, since consumers were confused and clearly expected the products to carry a manufacturer's warranty.

Concurring that the absence of post-sale services could mis-

A post-sale service policy can position brand owners to take action against unauthorised retailers of transshipped goods

lead consumers and damage the brand owner's goodwill, the Tenth Circuit held that an absence of a warranty and other post-sale service commitments could constitute material differences sufficient to render products sold by unauthorised retailers infringing. Surveying the case law from other jurisdictions, the Tenth Circuit noted that no federal court had reached a contradictory conclusion. The court was careful to note, however, that merely because the material difference created by the lack of a warranty and post-sale support could support a finding of infringement in some cases, it does not always. The court pointed out that the purpose of the material difference test is to determine whether the allegedly infringing products are likely to cause confusion in the marketplace. In instances where resellers of the materially different goods adequately disclose the differences, confusion may be avoided, the Court said.

In this case, however, the court found that Midwest's disclaimer on its Ebay auction listings was inadequate since it disclosed only a lack of warranty, and not the absence of software upgrades, rebates, product use information, service assistance, and recalls. Moreover, even the disclaimer of the manufacturer's warranty must have been inadequate, the court reasoned, since numerous consumers purchasing through Midwest nevertheless returned their radar detectors to Beltronics for service.

The *Beltronics/SKF* line of cases regarding the materiality of product warranties and post-sale support provides brand owners with a real opportunity to strengthen their authorised dealer network and take action against unauthorised off-price sellers. Implementing and vigorously enforcing a warranty and post-sale service policy can position brand owners to take action against unauthorised retailers of transshipped goods. However, as the Federal Circuit's decision in *SKF* makes clear, consistent application of the policy is crucial.

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 Distributor's trade mark registration overturned (May 2009)
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Andrea Anderson



Annie Haselfeld

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 Andrea Anderson is a partner and Annie Haselfeld is an associate in the Trademark Practice Group of Holland & Hart LLP