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Preventing unauthorized resale of trademarked products online

By: Thomas McNulty July 16, 2021

Over the past decade, the proliferation of online marketplaces such as Amazon, eBay and Alibaba have made ensuring the integrity of authentically branded products, or trademarks, more important — and more difficult.

Trademark law provides clear protection against the sale of counterfeit goods; however, preventing the unauthorized sale of authentically branded goods is not so straightforward.

Generally, so long as a product is made by (or with the authorization of) the trademark holder, a third party can use the trademark to advertise the product under the “First Sale” doctrine, which provides that a trademark owner cannot control sales of a trademarked product after the initial sale of the product.

However, the First Sale doctrine does not apply where the goods being sold differ in some material way from those of the trademark owner, and because these “material differences” may be physical or non-physical differences, trademark owners often turn to warranties, lists of authorized resellers, and other non-physical differences to protect their authentic products.



Unauthorized resellers may obtain authentic products in a variety of ways: through purchase overseas (so-called “grey market” goods), at clearance, as returns, through liquidation sales, or from distributors that are not authorized to make such sales but do so nevertheless.

Unauthorized resellers put the authentic brand at risk by mistreating the products or providing subpar customer service to consumers who may believe the reseller to be an extension of the authentic brand’s legitimate business operation.

Unauthorized resellers may, for example, undercut the authentic brand on price, offer poor service, or fail to handle, store and ship the products with the degree of care demanded of authorized sellers to protect the brand’s reputation in the marketplace.

It is generally easier for businesses to ensure non-physical differences exist between authorized resales and unauthorized sales by creating a set of authorized distributors and sellers and set up service or warranty features that are available solely through those authorized dealers.

Courts have routinely held that differences in the availability of warranties, service plans and the like are sufficient to establish material differences between authorized and unauthorized sales and take unauthorized products out of the First Sale doctrine.



Successfully bringing a trademark claim can help shut down unauthorized resellers even when the actual reseller is difficult to identify.

It is recommended that manufacturers establish written agreements with authorized sellers that restrict sales to end-users only, prohibiting sales to other resellers, such that unauthorized resellers have no legitimate way of obtaining any significant amount of product. Warranties, returns, service repairs and the like should be limited to products that were purchased from authorized resellers.

Further, courts recognize that one of the most valuable and important protections afforded by the Lanham Act (the federal statute that governs trademarks) is the right to control the quality of the goods manufactured and sold under the holder's trademark, and that distribution of a product that does not meet the trademark holder's quality control standards may result in the devaluation of the mark by tarnishing its image.

Accordingly, specifying quality control standards in distribution agreements may also suffice to establish a material difference from an unauthorized reseller's offerings that were not subject to such standards, particularly when a product is storage and handling-sensitive or has a limited shelf life.

Successfully bringing a trademark claim can help shut down unauthorized resellers even when the actual reseller is difficult to identify. Many sites permit entities to sell without identifying themselves, and while Amazon has required third-party sellers to display their names and addresses since 2020, they and other online retail entities such as eBay and Etsy continue to fight against proposed laws that would force them to verify third-party sellers' identities. As a result, many trademark infringement complaints against unauthorized resellers end with default judgments and injunctions against anonymous parties.

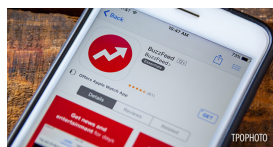
These judgments can, however, be used to have the online platform take down the offending offers. Amazon, for example, will typically not block sales of goods that were actually manufactured by the trademark holder where no court decision has been rendered, but is much more likely to take action with a judgment and injunction in place.

With the proper procedures in place, trademark holders will be much more likely to protect their hard-earned reputations in the online marketplaces.

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