Achieving Brand Control
and Stopping Unauthorized Sales Online

VORYS eCONTROL

Online marketplaces provide superior convenience, access to a vast array of products, and the ability to comparison shop with ease. Having been fully embraced by consumers, online marketplaces are growing rapidly—and are projected to keep growing at an exponential rate. According to a Forrester Research Study, an estimated 68% of all B2C e-commerce around the world will happen through marketplaces (both first- and third-party sales) in 2023. Additionally, half of the brand decision-makers surveyed in the Forrester 2023 Global State Of Brand Manufacturers Survey said that sales on marketplaces were growing faster than sales through traditional wholesale.

The online marketplace explosion has brought many new challenges for manufacturers and brands. Until recently, companies normally distributed their products as widely as possible without imposing any restrictions on where their products could be resold. That was not particularly troublesome because, until recently, the advertised price for a company's product in San Francisco meant nothing to a person buying the same product in New York.

However, with the rise of open online marketplaces, globally transparent and dynamic advertised pricing has become the new reality in virtually every product vertical. A whole industry has rapidly emerged in which unauthorized resellers obtain products from brands' distribution networks in myriad ways and list them online—typically at discounted prices given that they have had to make no investments themselves to bring the products to market. Once these discounted products are listed online, they begin to disrupt marketplace pricing algorithms, which, in turn, disrupt prices across other channels, and a downward spiral ensues. The end result is thwarted eCommerce sales growth, massive channel conflict and impaired brand value, which, left unchecked, will get only worse.

Companies today are struggling to adapt to this new environment. How effectively companies can respond will determine whether they win or lose in this new reality. On one hand, there will be companies that fail to appropriately evolve to establish the heightened level of brand control now needed to succeed. These companies will likely experience channel conflict, degradation of brand value, and negative product reviews. Ultimately, these companies will be significantly handicapped in their efforts to protect and grow their brands.

On the other hand, there will be companies that realize the critical nature of retaking control of their online sales and will take the steps necessary to do so. These companies will be able to maximize growth of existing and emerging online channels, execute viable minimum advertised price (MAP) or other pricing programs, prevent channel conflict, and protect their brand value in the long term.

Like it or not, your products will appear on online marketplaces. The question is whether your company can assert the control over your online sales necessary—particularly on marketplaces—to win in this dynamic market environment.

Read on to learn more about these challenges—and what your company can do to be positioned to win.

A Customized, End-to-End Strategy is Critical to controlling Online Sales and Protecting Brand Value

Many companies understand that they need to do *something* to achieve better control over their online sales, but there is great confusion about exactly what to do. Companies are repeatedly pitched by vendors purporting to provide "one-size-fits-all" technology tools that, in reality, are only half-measures.

Other vendors tout unauthorized seller "removal" tactics, yet cannot provide the legal analysis or foundation needed for success. Companies using these tactics often spend a great deal of time and money but never actually solve their business problems. Making matters worse, they also end up undermining their enforcement credibility and exposing themselves to unnecessary legal risk.

The reality is that, to control sales in the age of eCommerce, companies need to implement a customized, end-to-end solution that includes the legal foundation necessary to support both online sales control and enforcement, and then build upon that foundation with an efficient and effective enforcement process.

The Importance of Customization

Achieving control in the eCommerce age is not a "one-size-fits-all" proposition. There are many different buttons that can be pushed—success lies in selecting the proper buttons for your company and determining how hard to push them. The best solution for your company's online sales challenges will vary based on a number of factors, including those discussed below:

Your Pain Points

What is the biggest issue facing your business? A company facing major brand devaluation caused by a large number of MAP violations will require a different strategy than one in which the eCommerce director is simply focused on growing sales as quickly as possible. Similarly, a company being disrupted by numerous unauthorized online sellers will require a different strategy than one that is caught in a battle between warring online retailers.

Your Current Distribution Strategy

What are all the ways in which your products reach end users? A company that sells products through distributors will require different tools than one that sells directly to retailers. The leverage wielded by powerful distributors can also require a company to adopt particular tactics that may be unnecessary where distributors are not business-critical. Online, a company that sells directly to marketplaces will typically need a different strategy than one that sells through its own storefront or an exclusive reseller.

The Number & Type of Unauthorized Sellers at Issue

A company with 100 unauthorized sellers will often require a different strategy than a company facing only a handful. A company with a number of low-volume, hobby sellers will require a different strategy than one grappling with several high volume, professional unauthorized sellers.

The Applicable Laws & Regulations in the Relevant Geography

Because eCommerce is borderless, companies need to implement global brand control strategies. These strategies will be informed by the relevant competition, distribution, and intellectual property laws in each country and region in which the company is doing business, as well as the features of each relevant online marketplace. For example, a strategy that is viable in the US may not be equally viable in the EU. Thus, companies must tailor their policies, agreements, and enforcement tactics to achieve the maximum amount of control possible in each jurisdiction, while making sure they are compliant with the local laws governing their conduct.

The Importance of Comprehensive, End-to-End Solutions

Many companies attempting to obtain greater control take half-measures that ultimately fail to solve their business problems.

For example, companies may use a vendor to send waves of cease and desist letters to unauthorized third-party sellers without having a true legal basis to do so. Sometimes these vendors will also take the additional step of filing "tickets" with marketplace administrators asserting that the products at issue must be counterfeit because the seller is unrecognized by the brand. While these tactics may remove a percentage of unauthorized sellers, the majority of those removed will typically be low-volume players that were never significant business threats. Companies that rely on "scare tactics" like these rather than a true legal foundation cannot successfully use the escalated enforcement techniques necessary to permanently remove high-volume, disruptive sellers. Worse yet, tactics like these can upset marketplace administrators—who may take retaliatory action against the brand. And, the displaced seller may retain counsel and pursue claims against the company for interfering with her business.

Other companies may have turned to MAP policies and a monitoring vendor. They quickly find themselves receiving regular "reports" that list numerous sellers engaging in MAP violations.

In the typical scenario, the company does not know the identity of many violators and likewise has no idea how they are getting the product at issue. Making matters worse, good customers will quickly complain about any efforts to impose MAP when so many rogue sellers are selling in violation of the policy. As a result, companies relying on MAP as a standalone strategy often are forced to scrap their programs as fast as they started them.

These examples highlight the need for companies to develop customized and comprehensive strategies—including the right legal foundation—if they wish to obtain control over online sales and meet their business goals. Based on Vorys' years of experience in working with more than 1,000 major manufacturers and brands, we have developed a three-phased approach to design, implement, and execute an online sales control strategy that will support your company's desired business results:

PHASE 1 Analysis, Strategy Development, & Alignment

PHASE 2 Implement Policies & Procedures For Control & Enforcement

PHASE 3 Data/Monitoring, Investigation, & Enforcement

Step 1: Fact Gathering & Preparation

The first step is to identify and interview key stakeholders (typically internal leaders in eCommerce, sales, and legal functions, as well as any other relevant executives) to achieve a comprehensive understanding of the following business issues:

- ⊘ **What are your current pain points— e.g., unauthorized sellers, MAP, lack of growth, distribution issues?**

- ⊘ **What metrics are most meaningful to the business—e.g., increasing sales, increasing MAP compliant sales, reducing channel conflict, removing unauthorized sellers?**

- ⊘ **What is your current distribution strategy and channel map?**

- ⊘ **What are the nature and extent of any existing policies or procedures governing the resale of your products?**

- ⊘ **What are the number and nature of unauthorized sellers facing the company and have there been any past efforts to remove them?**

- ⊘ **What are your budget realities?**

- ⊘ **How should ROI be measured—e.g., increased sales, increased MAP compliance, permanent removal of unauthorized sellers?**

Step 2: Analysis & Initial Strategy Development

The next step is to analyze all available options and develop a customized, comprehensive strategy for solving your company's unique issues. Our team will analyze the nature of your company's challenges and goals and formulate detailed recommendations regarding the policies and procedures required to achieve the desired level of online sales control, as well as to provide a foundation for effective enforcement. Careful thought will be given to the nature of the products at issue, current distribution methods, and other business realities.

Step 3: Key Stakeholder Meeting — Achieving Alignment & Setting a Path Forward

We next hold an in-person meeting with our client's key stakeholders—typically leaders from sales, eCommerce, internal legal departments, and any other relevant executives. During the meeting, we present the overall recommended strategy and explain each element in detail, including a detailed critical path for implementation. Based on feedback received, we refine the strategy if needed, obtain internal alignment, and develop a plan for moving forward as quickly as possible.

Educating stakeholders and achieving internal alignment is one of the most important outcomes of these meetings. Any confusion over the best way forward can be avoided, and a clear path toward implementation will emerge.

Common Mistakes Companies Make

Mistake #1: Relying on MAP Policies to Stop Brand Erosion

When faced with brand erosion and channel conflict, companies often turn first to MAP policies. Here is a typical scenario:

- An employee is designated to "fix" the problem and begins to search online for solutions, quickly finding vendors that provide monitoring software to track violations and send MAP violation letters.

- The employee may also go to the company's traditional law firm and ask it to prepare a MAP policy.

- The employee sends the MAP policy to the company's retailers and starts informing non-compliant retailers that they will be disciplined if violations continue.

- The retailers quickly point to numerous anonymous marketplace sellers listing far below MAP and ask why they should be held to MAP when these sellers are not.

- No one at the company knows who the unauthorized marketplace sellers are or how they are getting the products at issue.

- The employee tries to send violation notices through marketplace messaging systems, but the sellers don't respond. In reality, the sellers don't care about the brand's threats because they know that they are under no legal obligation to follow MAP.

The company is now faced with having to decide whether to enforce its MAP policy against authorized sellers when doing so will be poorly received and harm those relationships. Some companies make the ill-advised decision to enforce MAP against some retailers but look the other way with respect to others, which can lead to further customer dissatisfaction. And others simply retract their MAP policies, which can create future credibility issues.

Mistake #2: Sending Cease-and-Desist Letters to Unauthorized Sellers without Viable Legal Claims

Certain non-legal vendors will convince brands that their unauthorized seller problems can be solved using threatening cease-and-desist letters —often sent without any legal basis. What these vendors often fail to disclose is that most high-volume, disruptive sellers have received many such cease-and-desist letters before. They are well-versed in the "first-sale doctrine," which, broadly speaking, allows for products to be bought and resold without repercussions from the brand owner. Thus, these sellers often refuse to comply with—or even acknowledge—these cease-and-desist letters. Occasionally, they retain lawyers who strongly warn brands to stop harassing their clients and may even assert that the vendors at issue are engaged in the unauthorized practice of law.

When a company is unable to take further action against these sellers—*i.e.*, by filing a lawsuit—the sellers may become emboldened. They know that the company has no legal basis to stop them and won't be able to do anything other than continue to send more ineffective letters.

Vendors may proudly tout the numbers of letters sent and sellers "removed," but they gloss over the fact that the removed sellers are likely small players that were never disruptive in the first place, or that their "targets" simply changed their storefronts or moved to another marketplace.

The reality is that the problems many businesses face are caused by large, sophisticated resellers that are actually interfering with sales and disrupting brand value. Simply stated, companies need to do more than send scary letters to effectively deal with these unauthorized sellers.

Mistake #3: Submitting Marketplace Counterfeit Tickets to Remove Unauthorized Sellers

Some vendors take it a step further— representing to marketplace administrators that unauthorized sellers are selling counterfeit or otherwise infringing products when they actually are not. A common tactic is to message the sellers, asserting that they are not recognized. If the sellers don't respond and yield to the vendor's demands, the vendor will file a counterfeit or other infringement ticket without having an enforceable legal basis to do so. Tactics like these have gotten brands into trouble with the marketplaces— some vendors have even had their brands suspended. Moreover, the suspended sellers may seek lawyers to represent them against the brand and vendor for disrupting their businesses without cause.

Even if the products are truly counterfeit, this approach often results in the proverbial game of "whack-a-mole". Brands may get a listing removed here or there, but they never solve the larger problem, and the sellers eventually return.

Importantly, marketplaces typically won't get involved in determining whether sellers are offering infringing products and won't take active steps to remove unauthorized sellers. Thus, brands need to take the steps necessary to resolve these issues themselves, and not look to marketplaces to do it for them.

Mistake #4: Measuring the Wrong Data

When brands make the above mistakes, they often end up focused on data that has no bearing on business success. For example, brands may be incorrectly focused on the number of sellers "removed" or the number of MAP violations sent. These are vanity metrics that have no meaningful business impact. The metrics that matter for most businesses are the percentage increase in sales made by authorized sellers and the percentage increase in overall pricing policy compliance. If these metrics are not improving, then your company should reevaluate its strategy.

Many companies currently have no policies in place to control who is selling their products on online marketplaces, nor do they have an enforceable legal basis to shut down unauthorized sellers, many of which will be violating their pricing policies and eroding their brands. To address these issues, companies must take several key steps:

1 **Implement a Marketplace Distribution Strategy to Support Success**

Open, uncontrolled distribution was the norm for ages. As a result, many companies now have multiple distributors and retailers reselling their products online—often anonymously. In today's marketplace-driven, eCommerce world, this creates several issues:

Lack of Motivation to Grow Brand & Control Content

When many sellers are listing a company's products online, no one seller is motivated to invest in the content, search engine optimization, and advertising necessary to increase listing traffic and drive sales growth.

Poor Customer Experience

Consumers researching your brands online will see numerous sellers offering numerous products with wildly varying review ratings, advertised pricing and, potentially, brand content.

This leads to a significant amount of confusion on the part of consumers and the risk of their selecting a competing brand with better control over the online experience.

Intra-Brand Competition That Erodes Brand Value

With a slew of unmotivated sellers, not only will companies miss out on growth opportunities and risk a poor consumer experience, but their brands will become greatly devalued when these sellers do the only easy thing they can do to generate sales—slash their advertised prices. This touches off significant intra-brand competition and will lead to material erosion of brand equity over time.

Given these dynamics, companies need to be thoughtful in implementing an online marketplace distribution strategy that will enhance—rather than harm—their ability to protect and grow their brands. There are many different factors that must be weighed in determining the best approach on each marketplace. However, one widely applicable best practice is to limit each marketplace to one authorized seller, or if necessary, a small number of sellers that will be appropriately motivated to protect and grow the brand in the channel. Other approaches—e.g., allowing large numbers of marketplace resellers—often thwart sales growth, and are dilutive to both brand image and value.

2   Authorized Reseller Policies

The next step in retaking control is for companies to clearly inform their other authorized sellers where and how their products may be sold in an authorized manner. Unless prohibited from doing so, a brand's authorized resellers will open marketplace accounts, fueling significant intra-brand competition and driving down brand value. Brands must implement policies or agreements with their authorized sellers at each sales channel level (for example, in two-step distribution, distributors will themselves receive an appropriate policy and also pass the necessary policies along to their customers).

While the nature and scope of authorized reseller policies will vary from company to company, one of their core aspects involves restricting online and marketplace sales. Some companies prohibit resellers from selling anywhere online without first receiving their written permission. Others allow resellers to sell on their own proprietary sites but prohibit third-party marketplace sales.

In sum, authorized reseller policies are necessary to post the appropriate guardrails around authorized channels that clarify where and how products can be sold in an authorized fashion.

3   Authorized Product Differentiation

A critical—yet often overlooked—necessity for achieving control over online sales is establishing a legal foundation for claims against grey market or other unauthorized resellers.

It is imperative for companies to understand that, as a general matter, it is legal to buy and resell legitimate products without repercussion. This is the so-called "first-sale doctrine," and it is the primary defense raised by unauthorized sellers once targeted with enforcement.

Importantly, however, there are well-established exceptions to the first-sale doctrine upon which brands can rely in asserting legal claims against unauthorized sellers:

Exception #1: Products Sold by Unauthorized Sellers are "Materially Different" than the Company's Authorized Products

Under the law, companies can assert trademark infringement claims against unauthorized sellers whose products are "materially different" than those sold by authorized sellers—*i.e.*, where unauthorized products do not come with the same features or benefits as products sold in authorized channels. Notably, these differences can be quite subtle and need not be physical. Even a single material difference can provide a brand with a robust legal claim against unauthorized sellers.

The applicable legal standard turns, in part, on whether the features or benefits that establish the "material difference" would be relevant to purchasing consumers. Thus, there are many ways in which brands can materially differentiate their authorized products from their unauthorized products. Some well-recognized examples are differences in guarantee or warranty coverage, labeling or packaging, available customer service or technical assistance, and post-sale consumer benefits, among others.

Exception #2: Differences in Applicable Product Quality Controls

A trademark owner has the ability to dictate what quality control measures will be taken with respect to its authorized products.

Under the law, unauthorized products sold outside of those quality control measures— or sold in a manner that interferes with them—can be deemed non-genuine. This too provides a basis on which a trademark owner can assert a legal claim against an unauthorized seller of its products. Some examples of quality control measures that are important to protecting brands in today's marketplace era—and that will support claims against unauthorized sellers not subject to such quality measures— include:

- ⊘ Requiring all authorized sellers to obtain approval before selling online (or at a minimum on the marketplaces)

- ⊘ Vetting and regularly auditing all authorized online sellers

- ⊘ Prohibiting anonymous online sales

- ⊘ Maintaining clear storage, handling and shipping requirements

- ⊘ Requiring authorized sellers to conduct thorough inspections of products and execute other heightened quality controls

- ⊘ Prohibiting commingling of inventory in marketplace warehouses

- ⊘ Prohibiting the resale of products that have been returned or repackaged

When a company takes active steps to protect product quality in today's eCommerce world, many unauthorized sellers will be unable to match such efforts, which provides a strong basis for legal enforcement against them.

4 Implementation of Lawful Pricing Policy

Depending on the nature of the product, companies may also need to implement an appropriate pricing policy, such as MAP, minimum resale price (MRP) or manufacturer's suggested retail price (MSRP), to protect brand value and alleviate channel conflict. In today's world of dynamic pricing algorithms, online advertised prices can be materially harmful to a brand's equity and overall value. Without the right policy in place across all sales channels—and a willingness on the part of the brand to enforce it—brand value can erode significantly. This, in turn, can result in major retailers refusing to carry certain products, listing suppression by online marketplaces and significant channel conflict. The key is to determine whether it makes sense for your company to implement such a policy and, if so, which will be most effective in supporting your business goals.

Once the right foundation has been implemented, the company will be able to execute a robust escalated legal enforcement process tailored to meet its specific business goals. Customization is important, as the types of products at issue, the scope of the unauthorized reseller problem, unauthorized reseller size, and applicable budgets will each inform the approach taken. Some critical core components of any successful enforcement process will include the following:

1 Data & Monitoring

Effective marketplace monitoring and consistent evaluation of key data is critical to prioritizing enforcement resources and achieving real business success. Not all resellers are created equally—the focus should be on stopping those resellers that are truly disruptive from a sales or compliance perspective, rather than indiscriminately pursuing enforcement actions any time products appear online.

The data most meaningful to prioritizing enforcement resources and driving real business value includes the following for each seller:

- ✓ **Screen Name**
- ✓ **Number of Brand Products Listed**
- ✓ **Advertised Price for Each Product**
- ✓ **Quantity of Each Product Available**
- ✓ **Estimated Sales Volumes**

At the macro level, this data will inform the level of enforcement necessary to ensure a healthy online marketplace channel, including how many and which unauthorized sellers need to be removed to protect brand value and achieve stated business goals. On a seller-specific level, this data provides information useful for enforcement against individual unauthorized sellers, including:

- ✓ **Do they have a material amount of negative seller feedback?**
- ✓ **Are they selling poor quality or fake products?**
- ✓ **Are they harming the brand's reputation in any way?**
- ✓ **Do they appear to be a professional reseller?**
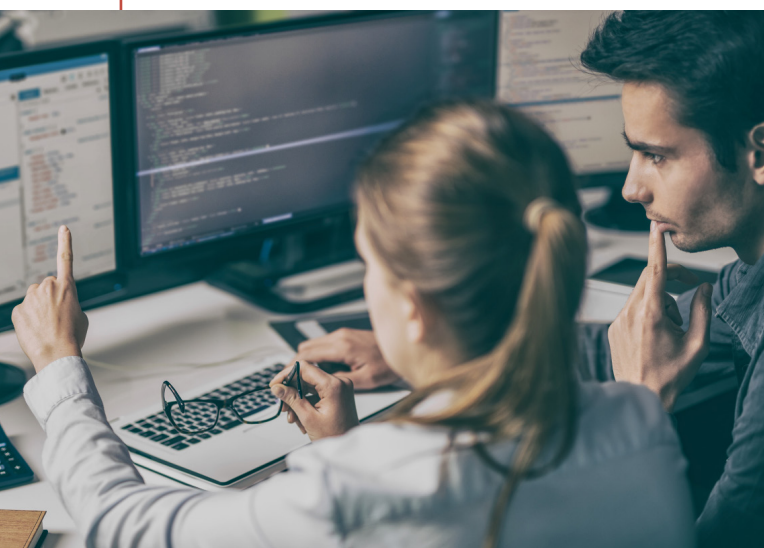
2. Investigations to Uncover Seller Identities

Given that many unauthorized sellers operate anonymously—often taking great care to hide their identities—it is vital for effective enforcement to have a sophisticated seller investigation and identification process. Simply relying on marketplace messaging systems to contact unauthorized sellers is largely ineffective and can lead to disciplinary action from marketplace administrators. Instead, the individuals and businesses behind anonymous storefronts must be unmasked before they can be efficiently removed. Vorys' investigation teams leverage open source intelligence, advanced cyber investigation techniques, access to enhanced informational databases and, ultimately, the legal subpoena power to uncover the true identifies of those persons and businesses engaged in unauthorized sales.

3. Efficient & Effective Enforcement

Once sellers are identified, they can be sorted into one of two camps for enforcement action: (i) authorized sellers violating their authorized reseller policy; or (ii) unauthorized, grey market sellers. Authorized sellers acting in violation of company policies can be dealt with in a business-to-business manner using the following methods:

- ⊘ **Business Incentives/Disincentives**
- ⊘ **Counseling on Brand policies**
- ⊘ **Account Termination**
- ⊘ **Placement on a Do-Not-Sell List**

For unauthorized sellers, companies will be able to leverage their legal foundation described above to commence an escalated legal enforcement process. This typically starts by sending a detailed cease-and-desist letter to the resellers' home or business explaining that they are unauthorized, have been identified and are violating the law by selling the company's products. Demands can be made for product source information, as well as for a commitment to never sell the company's products again.

If the seller does not remove the unauthorized products, a draft legal complaint can be sent to their home or business that formally sets forth the legal claims the brand has against them, including a demand for significant money damages. This will clearly indicate to the seller that the company is prepared to sue if necessary.

If the targeted seller still does not comply, the brand will be positioned to commence litigation and force the unauthorized seller to answer for its conduct in a federal court.

Learn More About Controlling Your Online Sales at
vorysecontrol.com or call 513.723.4076

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Case Study: Pet Specialty Brand

Situation

A leading pet specialty company's sales strategy relied heavily on its well-known brand status within the industry and strong relationships with both brick-and-mortar and professional channel customers. Their strategy was substantially disrupted as Amazon® emerged as a major platform for the resale of pet products, including theirs. Unauthorized and unknown online sellers were running rampant, causing serious negative product reviews and hurting both brand reputation and margins. In 2018, MAP compliance was at only 20%.

Solution

First, Vorys eControl® helped the brand get a handle on its distribution, tailoring its authorized seller program to specifically address unique diversion issues within its brick-and-mortar and professional channels, and also working with the brand to implement the legal foundation necessary to stop unauthorized sellers.

Second, the brand committed to an aggressive enforcement cadence led by Vorys eControl, where we routinely identified and removed unauthorized and unknown sellers. This helped the brand take back control of the ecommerce channel and communicate the seriousness of its brand protection efforts throughout the industry. These combined efforts enabled the brand to retake control and position itself for increased sales and preserved brand equity in the eCommerce age.

Results that Matter

Today, the company's authorized marketplace seller is winning over 92% of the Amazon Buy Box and MAP compliance is at 85%. Positive product reviews have significantly increased, reflecting the brand's longstanding reputation for quality in the industry amongst pet lovers.

$794K
(339%)
INCREASE
In Monthly Authorized Revenue*

43%
INCREASE
MAP Compliance*

92%
BUY BOX
Currently

* Over a one-year time period. Please note that past results are not a guarantee of future results; the outcome of a specific matter cannot be predicted based upon our past results.

About the Authors

Whitney Gibson

Whitney is a partner and leader of the nationally recognized Vorys eControl group. He and the firm's team have developed cutting-edge, yet cost-effective, solutions to help brands control their sales in the digital age. Whitney has developed custom programs for companies confronting unauthorized sales, grey market sales, counterfeit sales, Minimum Advertised Price (MAP) violators and other illegal sales on the internet. The team combines legal, technological and investigative tools and services.

Daren Garcia

Daren is the managing partner of the Vorys London office where he leads eControl in Europe. Daren dedicates his practice to the development and implementation of strategies and enforcement systems designed to protect brand value in the digital world. Daren has counseled hundreds of brands and manufacturers confronting unauthorized sellers, channel conflict and other online sales challenges. Daren has also led litigation matters against significant gray market sellers disrupting brand value for Vorys' clients.

Interested in Scheduling a Call to Discuss Your Brand's Strategy to Control Online Sales?

Call 513.723.4076 or visit vorysecontrol.com