VORYS eCONTROL

The Winning Strategy for MAP Success and Long-Term Brand Value in the eCommerce Market

As virtually all consumer product manufacturers and brand owners by now realize, the world is becoming increasingly eCommerce driven. While this paradigm shift has ushered in numerous opportunities for businesses, it also presents significant challenges. One of the most significant challenges businesses face in this environment is how to effectively enforce Minimum Advertised Price (MAP) policies and uphold brand value in the face of a constant assault from diverters and unauthorized marketplace sellers advertising their products at levels that harm the brands. What is becoming clearer each day is that even the most iconic brands must act swiftly and aggressively to preserve downstream sales and overall brand integrity.

The vast majority of MAP enforcement difficulties – and resulting threats to brand value – arise from a combination of the following factors: heavily intermediated and uncontrolled distribution, which leads to unsecure channels, which leads to product diversion, which soon gives rise to the presence of gray market online sellers who advertise the company's products at rock bottom prices and against whom the company has no present ability to take effective and efficient enforcement actions. When these factors are present, it is virtually impossible to run an effective MAP program and the brand's value will inevitably begin to erode.

Thus, to be able to win at MAP, uphold brand value and be positioned for eCommerce success, companies must effectively execute a comprehensive strategy that fully accounts for and addresses each of these contributing factors. The most effective strategy consists of three interdependent phases, including: (1) implementation of a viable distribution strategy that moves towards disintermediation and imposes appropriate channel restrictions that control where and how products may be sold in an authorized manner, prohibit diversion and define the quality controls and material benefits associated with authorized products so as to illegalize unauthorized product sales; (2) implementation of an aggressive and consistently applied enforcement system designed to efficiently and effectively identify and permanently shut down unauthorized resellers; and (3) firm and consistent MAP enforcement against authorized sellers with a willingness to cut off any reseller who does not respect the company's policy.

As explained in more detail below, the success of each of these phases is dependent on effectively executing the others. For example, a MAP program is destined to fail if the company does not exert sufficient control over its distribution channels. Without appropriate distribution policies and agreements in place, the company will not be able to identify and shut down unauthorized gray market sellers. And, if a company has gray market sellers advertising its products online, its MAP program will likewise fail and the brand's value will erode. Thus, long-term eCommerce success (i.e., clean channels and a strong brand value) will not be possible until each of these three phases is properly addressed and implemented. The remainder of this paper will describe in detail the best practices for implementing each phase of this comprehensive approach, thereby providing a road map for sustained eCommerce success.

The Root of the Problem

Much of the difficulty in enforcing MAP and preserving brand value in the eCommerce marketplace can be traced back to the traditional strategy employed by numerous consumer product companies favoring wide, largely uncontrolled distribution—all in hopes that their products would be sold freely in as many locations as possible. These companies may have sold to distributors (with which the company may have had some type of agreement), who in turn sold to resellers (with whom the company likely had no agreement), who sold to anyone they chose, who may have sold yet again and so on. Prior to the eCommerce explosion, the downsides of this model were not as readily visible or impactful. For example, a retailer in Pittsburgh really had no efficient way of learning the price at which a retailer in Portland was advertising the same product. Similarly, consumers, generally speaking, were not likely to expend significant time and energy calling numerous stores and traveling across town to find lower prices.

Everything has changed. Today, with the omnipresence of powerful search engines and online marketplaces, virtually anyone can become a mini-distributor, retailer or instant global bargain-shopper. Downstream resellers or those who have acquired diverted products can simply open anonymous marketplace storefronts online for little-to-no cost and begin advertising products at deeply discounted prices. Depending on their level in the supply chain, these unauthorized sellers may have access to significant product quantities such that they are able to sell material amounts of product and obtain elevated placement in marketplace search results. Their heavily discounted advertised prices become immediately visible to all, and the proverbial race to the bottom ensues; all other resellers begin scrambling to similarly drop their advertised prices, which thus harms the brand's positioning. As the major marketplaces deploy bots that "scrape" the entire internet 24/7 for competitor pricing, these price drops happen instantly.

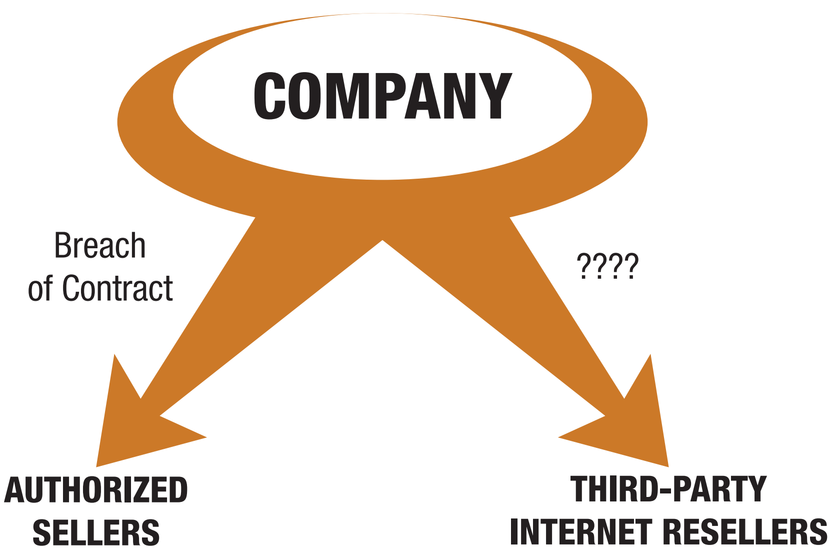
This reality quickly becomes disruptive for the company. Legitimate distributors and resellers become angry that the company tries to charge them wholesale prices greater than the price at which products are advertised on online marketplaces. Indeed, many companies have experienced their sales teams holding meetings with buyers from important retail customers only to have the buyers pull out their phones and immediately show multiple online listings for the same products at advertised prices significantly below the desired wholesale price. The retailer then demands a lower wholesale price. The company finds itself trapped in a vicious cycle, which only continues to snowball as more and

MUCH OF THE DIFFICULTY IN ENFORCING MAP AND PRESERVING BRAND VALUE IN THE ECOMMERCE MARKETPLACE CAN BE TRACED BACK TO THE TRADITIONAL STRATEGY EMPLOYED BY NUMEROUS CONSUMER PRODUCT COMPANIES FAVORING WIDE, LARGELY UNCONTROLLED DISTRIBUTION—ALL IN HOPES THAT THEIR PRODUCTS WOULD BE SOLD FREELY IN AS MANY LOCATIONS AS POSSIBLE.

more channel customers and consumers begin to compare advertised pricing online before placing orders and making purchases.

Common, Yet Ineffective Attempts to Uphold Brand Value Online

Before long, company executives start to demand that their sales, eCommerce or legal teams "fix" this problem. The first thing many companies try is to implement a MAP policy and, perhaps, hire a monitoring technology company to find MAP violators. The monitoring company promptly begins providing reams of data on sellers violating MAP, which allows the company to begin some level of MAP enforcement against those authorized sellers it recognizes and can contact. Significantly, however, the company quickly realizes that the majority of MAP offenders are anonymous unauthorized marketplace resellers with whom the company has no relationship. The company has no way of contacting these sellers and, even if it did, the sellers quickly (and often aggressively) assert that they have no relationship with the company, are not subject to any MAP policy, and that their actions are fully protected by the "first sale doctrine."



These unauthorized sellers continue violating MAP with impunity, and it becomes increasingly difficult for the company to continue to enforce its MAP policy against authorized sellers because unauthorized sellers are constantly undercutting them. This causes even further disruption to brand value as even authorized sellers now refuse to respect a company's MAP policy and demand further discounts.

At this point, real frustration typically sets in. The monitoring companies are not able to help because they typically cannot identify the offending sellers and, even if they could, the best they can do is send a form letter, which the unauthorized sellers promptly ignore (or send a hostile response threatening legal action). The company may next try using the marketplace's intellectual property infringement takedown procedures, only to find that the offending sellers quickly return under a different storefront (one of ten they may operate) in an endless game of whack-a-mole. The legal department may turn to its general outside counsel—who charges on the billable hour and cannot provide a realistic or cost effective solution on a broad scale—instead advising costly and inefficient one-off actions. All the while the problem continues to grow as more and more products find their way into the hands of unauthorized sellers who advertise products for less and less, further eroding the brand's value.

The Winning Strategy for MAP Success and Long-Term Brand Value

By working closely with the right partners to execute the right strategy, companies can effectively resolve this problem in an economical way. This strategy requires a carefully coordinated effort between the company, legal counsel, technology providers and cyber investigators that, working in unison, perform each of the following critical steps: (1) implementation of a viable distribution strategy that exerts necessary channel control, prevents diversion and enhances legal claims against unauthorized sellers; (2) implementation of an enforcement system that locates, investigates, identifies and removes unauthorized online sellers on a broad scale and in a cost-effective way; and (3) implementation of an effective MAP program using technology that is capable of locating all online offenders and determining which offenders are truly disruptive. This allows enforcement efforts to be effectively prioritized and efficiently conducted. By committing to this multifaceted approach, companies can turn the tide back towards satisfied channel customers, increased brand value and overall success in the eCommerce world.

Phase I: Achieving Effective Channel Control and Developing a Foundation for Enforcement Against Unauthorized Sellers

To have a viable MAP policy and uphold brand value, companies must implement a distribution strategy that supports their ability to maintain channel control, particularly online. The more a company can limit the number of intermediaries in its channels, the more likely the company will be able to exert sufficient control. Accordingly, most companies are typically best served by carefully restricting the online channel to only their most trusted channel partners. Relatedly, companies should be extremely wary of selling directly to distributors or retailers—particularly in the eCommerce channel—who have a history of failing to respect MAP or other similar policies, or that refuse to abide by companies' quality controls or other similar policies. By continuing to do business with these types of channel customers, companies will inevitably self-sabotage their abilities to prevent erosion of their brand's value.

Once the company has settled on a distribution strategy that, at the macro level, will allow appropriate control to be asserted over its channels, the company must carry through with actually exerting these necessary controls. First, the company must be able (and willing) to identify and monitor its authorized resellers and, in the event of MAP or other policy violations, take the necessary business actions to enforce against them (up to and including terminating the relationship). Second—and just as critically—the company must be able to simultaneously identify and conduct legal enforcement against unauthorized sellers who are able

THE MORE A COMPANY CAN LIMIT THE NUMBER OF INTERMEDIARIES IN ITS CHANNELS, THE MORE LIKELY IT IS THAT THE COMPANY WILL BE ABLE TO EXERT SUFFICIENT CONTROL.

to obtain its products and list them online at heavily discounted prices. To be able to exert these two types of control, the company must (1) implement down-stream channel agreements and policies that control where, how and by whom its products are sold; and (2) illegalize the unauthorized sale of its products. Each of these steps is discussed below.

ESTABLISH EFFECTIVE DOWNSTREAM CHANNEL CONTROL THROUGH AN AUTHORIZED RESELLER PROGRAM

Many companies' distribution models suffer from the absence of any ability to control their brands beyond the first level of distribution and, relatedly, the inability to distinguish between authorized and unauthorized sellers, particularly online. In practice, distributors (with which the company may have agreements) sell to resellers (with which the company typically has no agreements), the resellers sell to anyone they choose that may resell again, and so on. Under this type of uncontrolled model, there is no way to efficiently enforce MAP downstream and, just as importantly, no way to impose downstream implementation of the company's unique services, benefits and quality controls in a way that illegalizes unauthorized sales (more on this below). This leaves the company in an incredibly weak position—one that will only continue to be an incubator for unauthorized sellers, MAP violators and, as a result, will damage the brand's overall value.

For the majority of companies, the most efficient and effective way to deal with these issues is to implement an authorized reseller program. Under this model, the company sells to authorized distributors (or direct to authorized retailers) and approves all resellers that purchase from its authorized distributors or, at a minimum, approves any and all resellers that are permitted to sell online. Approved online sellers are then required to sign agreements that obligate them to identify themselves, sell online only on authorized websites, and follow the company's quality controls.

Implementing an appropriately designed authorized reseller program—one that effectively disseminates the material benefits and quality controls associated with authorized products—allows companies to assert good faith legal claims against any unauthorized sellers of their products and will allow the company to effectively conduct the two types of enforcement discussed above. Specifically, for authorized sellers who violate MAP or other policies, the company can revoke their authorized seller status and strip their products of the services and benefits associated with authorized products. If the now unauthorized seller continues to sell the company's products, the company will be positioned to assert trademark claims against the unauthorized seller because their products would be materially different than products sold in the company's authorized distribution channels. Sellers whose authorized status has been revoked can then be placed on an "unauthorized seller"/"do not sell" list provided to distributors to prevent them from gaining access to the company's products going forward.

In addition, implementation of an authorized reseller program will position MAP monitoring and enforcement for overall success. Authorized sellers will be required to identify—and receive approval for—each website and screen name they use to sell online. This information will allow the company to triage MAP violations into authorized and unauthorized seller categories, which will then dictate the type of enforcement to be implemented. This will also allow the company to maintain unilateral control over MAP enforcement, rather than expecting its distributors to do so. In addition to the practical difficulties that relying on distributors to police MAP imposes, it also increases antitrust risk—i.e., by increasing the risk for explicit or implicit pricing agreements down the distribution chain (or allegations thereof).

In summary, uncontrolled distribution will inevitably preclude the company from maintaining an effective MAP program and, instead, will foster the proliferation of unauthorized online sellers—all of which erodes brand value and integrity. By moving towards disintermediation, limiting dealings to only trusted channel customers (particularly online), and implementing an authorized reseller program, the company will be positioned to assert critical control over its distribution channels and will have built the foundation necessary for the efficient, broad-scale enforcement systems necessary to win in this increasingly eCommerce dominated market.

UNCONTROLLED DISTRIBUTION WILL INEVITABLY PRECLUDE THE COMPANY FROM MAINTAINING AN EFFECTIVE MAP PROGRAM AND, INSTEAD, WILL FOSTER THE PROLIFERATION OF UNAUTHORIZED ONLINE SELLERS—ALL OF WHICH ERODES PRICES AND BRAND INTEGRITY.

AUTHORIZED RESELLER PROGRAM BEST PRACTICES

An authorized reseller program can be implemented through contractual agreements (ideal) or through policy (i.e., where the company has many resellers or lacks bargaining power with particular channel customers, such as national "big box" retailers). By way of summary, the following are key components and procedures for an effective authorized reseller program:

- The company sells products only to authorized distributors with whom it has entered into an authorized distributor agreement or to whom it has provided an authorized distributor policy.
- Authorized distributors are permitted to sell only to authorized resellers, which are entities that have entered into authorized reseller agreements with the company or, alternatively, to which the authorized distributor has provided the company's reseller policy (as well as the company's MAP policy).
- Authorized resellers may sell online only after receiving the company's permission and then only on sites expressly approved by the company.
- Resellers that violate the authorized reseller policy or MAP policy are subject to the manufacturer enforcing its policy.
- An offending reseller's authorized status can be revoked and the reseller can be placed on a "do not sell" list communicated to distributors. Once on such list, the reseller's products would no

longer be authorized and would no longer be eligible for various benefits (i.e. warranty repairs, returns and the like).

- Enforcement efforts can then be undertaken using trademark theories against offending resellers that continue to sell the company's products.

Below are additional specifics on the types of agreements/policies and provisions central to an effective authorized reseller program:

Authorized Distributor Agreements/Policies Key Terms:

- Permitted to sell only to authorized resellers (as specifically defined in the agreement or policy).
- Cannot sell to any reseller on the "do not sell" list.
- No online sales unless prior written approval granted by the company.
- Notification of MAP policy.
- Description of material benefits/required quality controls—inspection requirements, product storage, product care, warranty only available on products sold in authorized channels.

Authorized Reseller Agreements/Policies Key Terms:

- Sell only to end users.
- Do not sell to any reseller on the "do not sell" list.
- No online sales unless prior approval granted in writing by the company.
- Notification of MAP policy.
- Acknowledge that any limited rights in the company's intellectual property are revoked upon termination of authorized dealer status and the company may obtain injunctive relief in the event of continued use of same.
- Description of material benefits/required quality controls—inspection requirements, product storage, product care requirements, customer service requirements, warranty only available on products sold in authorized channels.

Authorized Online Seller Agreement Key Terms:

- Only method pursuant to which permission to sell online may be granted.
- May only sell on those sites specifically identified and approved in advance by the company.

- May not sell anonymously or using generic storefront name—must provide legitimate contact information.
- Acknowledge that any limited rights in the company's intellectual property are revoked upon termination of authorized dealer status and the company may obtain injunctive relief in the event of continued use of same.
- Required to implement same quality controls as above.

Do Not Sell List:

- Create and disseminate list of resellers to which distributors are not permitted to sell the company's products.
- Notify distributors that any products sold to such resellers are unauthorized and are not eligible for various benefits, including warranty repairs, satisfaction guarantees and the like.

Buyer Beware Statement:

- Consider placing on website in appropriate location.
- Inform buyers that the company's products are sold only through authorized distribution channels and that products purchased outside of those channels are not eligible for warranty service, return, satisfaction guarantee and the like.
- Provide list of known unauthorized sellers.

TALKING POINTS FOR USE WITH CHANNEL CUSTOMERS

Companies often express concerns regarding certain distributors' or other customers' willingness to accept and abide by an authorized reseller program. However, the reality is that most companies' customers respond favorably once they fully understand the reasons why the company is implementing this program, and that the company does not wish to take away their business. The following are some useful talking points for communicating this information with wary customers:

- The company is committed to protecting and ensuring the long-term integrity of its brand by enforcing against MAP violators and unauthorized sellers.
- The company's current distribution model makes MAP enforcement difficult because the company has no way of knowing whether an entity advertising below MAP is a customer of an authorized distributor—officially subject to the company's MAP policy—or an unauthorized seller offering diverted or potentially counterfeit products—who is not. This knowledge is critical because whether a seller is authorized or unauthorized dictates the types of enforcement tools available to the company.

- Left unaddressed, the sale of the company's products by unauthorized sellers that violate MAP will erode brand value—harming you, your customers and, ultimately, consumers.
- To address these issues, the company will be implementing an authorized reseller program.
- Pursuant to this program, your customers will be required to execute an authorized reseller agreement (or be provided with and agree and adhere to an authorized reseller policy) before they are permitted to sell (or continuing selling) the company's products.
- Those authorized resellers that wish to sell products online—and are approved by the company to do so—will be required to execute authorized online seller agreements, which will require them to identify the websites on which they sell or intend to sell the company's products.
- Authorized distributors will be permitted to sell the company's products only to authorized resellers.
- Repeat offenders of the company's MAP and other policies applicable to authorized resellers will be placed on a "do not sell" list and their products will not be eligible for certain benefits that accompany authorized products. The company will publish the "do not sell" list weekly (or other frequency as the company chooses). For the benefit of all distributors and customers, the company will reserve the right to not do business with distributors who sell to entities on the "do not sell" list.
- The company is committed to making the implementation of this program as efficient and easy as possible for you and your customers.
- Under this program, authorized distributors will have no responsibility to police MAP violations by their customers.
- In addition, the authorized reseller program will enable the company to identify and take action against unauthorized online sellers that are disrupting the authorized distribution channels by flooding the market with unauthorized, cheap products.
- Like sellers in the authorized distribution chain that violate MAP, these unauthorized sellers are negatively impacting you and your customers, and they will continue to do so in increasingly damaging fashion if left unchecked. Moreover, these unauthorized sellers confuse consumers by falsely suggesting that they are affiliated with the company (when they are not); that the products being sold have the same benefits, characteristics and quality controls as products sold by authorized sellers (when they do not); and that the company approves of their products (when it does not). Often these unauthorized sellers peddle damaged, defective, expired or counterfeit goods, which erode consumers' trust in the company's brand.

- Implementation of this program is a critical component of the company's efforts to combat unauthorized sellers and uphold the value of the brand. Your support will enable the company to afford you and your customers the ability to sell a brand positioned for long-term success business in the eCommerce world.

DIFFERENTIATING UNAUTHORIZED PRODUCTS FROM AUTHORIZED PRODUCTS THROUGH IMPLEMENTATION OF MATERIAL BENEFITS AND QUALITY CONTROLS IN AUTHORIZED CHANNELS

As companies look to maintain and grow sales, market share and brand value in the eCommerce market, they must be able to distinguish their authorized products from products sold online by unauthorized third parties. The best practice for achieving this differentiation is to offer services, benefits and quality controls with authorized products that are not available with unauthorized products. Some examples include limiting warranties, satisfaction guarantees or return polices to products purchased from authorized sellers; having downstream product inspection requirements; requiring the reporting of customer complaints or safety issues; and the like. In addition to providing additional customer value, these services, benefits and quality controls also form the foundation for enforcement against unauthorized sellers.

THE PRIMARY WEAPON AGAINST UNAUTHORIZED RESELLERS IS TRADEMARK INFRINGEMENT.

More specifically, unauthorized sellers typically purport to rely on the so-called "first sale doctrine" to protect themselves on third-party marketplaces. The first sale doctrine generally provides that an individual who purchases a trademarked product acquires the right to resell that product. See *Sebastian Int'l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1074 (9th Cir. 1995) ("Resale by the first purchaser of the original article under the producer's trademark is neither trademark infringement nor unfair competition."). The first sale doctrine, however, typically does ***not*** protect resellers who sell products without the services, benefits or quality controls that accompany products in authorized channels, particularly when the authorized sellers do not clearly explain these differences to consumers. Set forth below is a detailed explanation of the applicable law, as well as examples of the types of services, benefits and quality controls that companies can consider for preserving their brand value. Importantly, companies must rely upon services, benefits and quality controls that are legitimate, followed and non-pretextual.

Exceptions to the First Sale Doctrine

The first sale doctrine does not protect resellers who offer "trademarked goods that are ***materially different*** than those sold by the trademark holder." *Beltronics USA, Inc. v. Midwest Inventory Distrib., LLC*, 562 F.3d 1067, 1072 (10th Cir. 2009) (quoting *Davidoff & CIE, S.A. v. PLD Int'l Corp.*, 263 F.3d 1297, 1302 (11th Cir. 2001)) (emphasis added). Likewise, unauthorized sellers who cannot (or do not) meet the trademark holder's quality control standards may not invoke the first sale doctrine. *See id.;*

Original Appalachian Artworks, Inc. v. Granada Elecs., Inc., 816 F.2d 68, 76 (2d Cir. 1987) ("[A] violation of the mark owner's right to control the quality of its product, that is to say its sponsorship, . . . is deemed confusion as to source."); *Courtenay Commc'ns Corp. v. Hall*, 334 F.3d 210, 213 n.1 (2d Cir. 2003) (finding trademark infringement where the use of a trademarked term on a website created the impression that the trademark holder endorsed defendants' services). Accordingly, if a reseller's product is either materially different from, or does not carry the same quality controls as, a company's "genuine" product, then there is a basis to assert that the reseller has infringed on the company's trademark. *See Polymer Tech. Corp. v. Mimran*, 37 F.3d 74, 78 (2d Cir. 1994); *Ahava (USA), Inc. v. J.W.G., Ltd.*, 250 F. Supp. 2d 366, 369 (S.D.N.Y. 2003) (An unauthorized product "is not considered genuine if the [product] does not meet the trademark owner's quality control standards.").

MATERIAL DIFFERENCES

A product sold by an unauthorized reseller can be "materially different" from a "genuine" product if it is physically different ***or*** if it does not feature the same benefits as an authorized product. Importantly, the threshold for what constitutes a "material" difference is low, and "material" differences can be either physical or non-physical in nature. *See Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 641 (1st Cir. 1992) (explaining that the "probability of confusion is great . . . when the same mark is displayed on goods that are not identical but that nonetheless bear strong similarities in appearance or function"). If the trademark holder can establish that a material difference exists and that it could confuse consumers, then the first sale/exhaustion doctrine will not apply. *See Dan-Foam A/S v. Brand Named Beds, LLC*, 500 F. Supp. 2d 296, 317 (S.D.N.Y. 2007).

When developing a program to stop unauthorized resellers, the most important material differences are those that can be built into each product such that an unauthorized reseller cannot practically match them. This is generally done by unique customer benefits with authorized products. Additionally, on a case-by-case basis, physical differences between "genuine" products and those offered by unauthorized resellers can also be relevant. For example, resellers sometimes repackage products (from bulk to individual sizes or by grouping popular combinations of products together as one item) to improve sales or to deface a UPC or tracking code on the product or packaging to hide the source of their products. Such actions make the products non-genuine, and thus the Lanham Act prohibits sales of such repackaged or modified products.

Differences in Customer Benefits or Services Accompanying Products

Courts have recognized that certain benefits accompanying an authorized sale can constitute material differences that support a claim for trademark infringement. Again, the rationale is the possibility of consumer confusion.

When customers purchasing a "genuine" product get additional associated benefits—like a warranty, money-back guarantee or access to promotions—consumer confusion can result when unauthorized resellers are offering the same products without the same associated benefits.

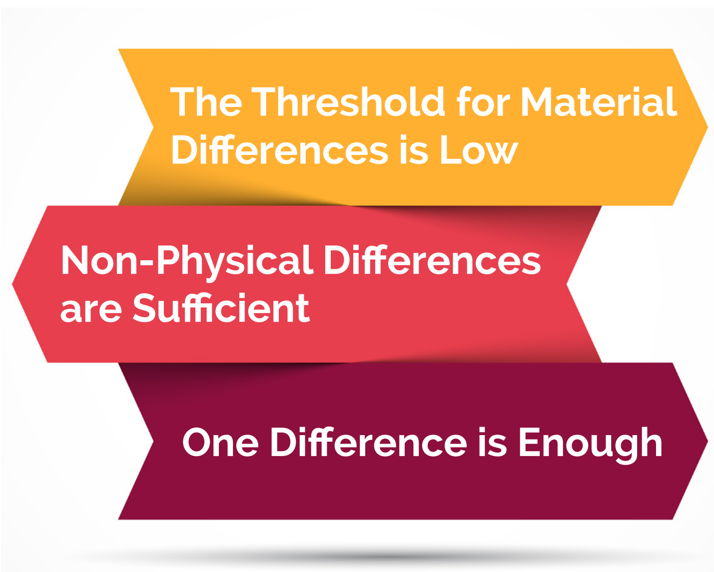
Consequently, when a company limits the applicability of its warranty to products purchased within authorized channels, courts have found that the products sold by unauthorized resellers—which do not offer the same warranty—are materially different. *See, e.g., Beltronics*, 562 F.3d at 1075-76 (affirming preliminary injunction for trademark infringement where unauthorized product did not include manufacturer's warranty); *TracFone Wireless, Inc. v. Pak China Grp. Co.*, 843 F. Supp. 2d 1284, 1298 (S.D. Fla. 2012) (holding that products sold with invalid warranties were materially different and their sale constituted trademark infringement); *Fender Musical Instruments Corp. v. Unlimited Music Ctr., Inc.*, No. 3:93CV2449, 1995 U.S. Dist. LEXIS 15746, at *10 (D. Conn. Feb. 16, 2005) (policy that foreign Fender guitars were not covered by Fender warranty was likely to create consumer confusion because they did not come with "services and guarantees that usually accompany such a sale"). Similarly, by providing the opportunity to participate in promotional opportunities only to customers who purchase from authorized sellers, companies can further differentiate their genuine products from those being resold by unauthorized sellers. *See PepsiCo, Inc. v. Pac. Produce, Ltd.*, No. 99-1326-PMP-RLH, 2000 U.S. Dist. LEXIS 12085, at *4 (D. Nev. May 4, 2000) (foreign product was materially different when it did not inform purchasers of or allow them to participate in promotions authorized by PepsiCo in the United States); *Bayer Corp. v. Custom Sch. Frames, LLC*, 259 F. Supp. 2d 503, 507 (E.D. La. 2003) (material differences between the foreign product and the U.S. product included the fact that purchase of the foreign product did not allow the customer to participate in U.S. promotions).

Courts have also recognized that additional post-sale customer service and benefits can constitute material differences. So, if a company limits its technical assistance to those who purchase genuine goods through authorized channels, then products sold by unauthorized resellers are materially different. *See, e.g., Heraeus Kulzer LLC v. Omni Dental Supply*, No. 12-11099-RGS, 2013 U.S. Dist. LEXIS 91949, at *17-18 (D. Mass. July 1, 2013) (when technical assistance is only offered in connection with authorized goods, they are materially different than goods sold without authorization); *Beltronics*, 562 F.3d at 1073 (affirming a preliminary injunction for trademark infringement where goods sold on eBay without authorization did not entitle the purchaser to customer services, such as software upgrades, product use information, and service assistance). And, offering additional after-purchase benefits with genuine products can also support a trademark infringement claim against unauthorized resellers who fail to provide the same benefits. *See, e.g., Original Appalachian Artworks*, 816 F.2d at 73 (material difference found when purchasers of foreign-manufactured dolls did not enjoy continuing benefits, such as receiving adoption certificates and birthday cards).

COURTS HAVE RECOGNIZED THAT CERTAIN BENEFITS ACCOMPANYING AN AUTHORIZED SALE CAN CONSTITUTE MATERIAL DIFFERENCES THAT SUPPORT A CLAIM FOR TRADEMARK INFRINGEMENT.

Differences in Materials Accompanying Products

Another way a company can distinguish its genuine products from those offered for resale by unauthorized sellers is through additional information or literature accompanying the product. Courts have generally recognized that differences in the instructions or literature accompanying a product can be sufficient to support a trademark infringement claim. *See Id.* at 72 (affirming the entry of a permanent injunction for trademark infringement where foreign-manufactured dolls were sold with adoption papers and birth certificates that were in Spanish instead of English); *Gamut Trading Co. v. United States ITC*, 200 F.3d 775, 781 (Fed. Cir. 1999) (goods sold without English operator and service manuals were materially different from genuine goods); *Bayer Corp.*, 259 F. Supp.2d at 507 (holding that the importation and sale of a foreign product violated the Lanham Act when the foreign product was sold with a different instructional pamphlet than the U.S. product and without safety information). While these cases most frequently occur in the context of an unauthorized reseller offering products purchased in other countries, the principles can arguably be extended to the sale of products originally intended for sale in the United States. For example, a company could provide additional product information through follow-up emails or mailings to customers who purchase from an authorized distributor. Unauthorized resellers—especially volume resellers—could not track and forward on this information to their customers. As a result, the purchasers of authorized products would receive a materially different product based on the accompanying information.



QUALITY CONTROLS

A company's quality controls is the second broad category of additional benefits that can distinguish genuine products from those offered by unauthorized resellers. Quality controls can include packaging and storage instructions, specialized training for authorized sellers, and monitoring of authorized sellers and products. *See, e.g., Zino Davidoff SA v. CVS Corp.*, 571 F.3d 238, 244 (2d Cir. 2009). These handling, tracking, and oversight measures support a claim for infringement so long as the asserted quality control procedures are "(i) established, legitimate, substantial, and nonpretextual, (ii) [the company] abides by these procedures, and (iii) the non-conforming sales will diminish the value of the mark." *Warner-Lambert Co. v. Northside Dev. Corp.*, 86 F.3d 3, 6 (2d Cir. 1996); *cf. Shell Oil Co. v. Commercial Petroleum, Inc.*, 928 F.2d 104, 107 (4th Cir. 1991) (holding that, without plaintiff's enforcement of its quality controls, the product sold by defendants was not truly "genuine"). Thus, to support a trademark infringement claim, a company must not only identify a quality control that adds value to its product, but it also must be prepared to provide evidence that the control is legitimate and enforced.

When examining quality control procedures from the perspective of an unauthorized sales enforcement program, it is important to identify procedures that will be difficult for unauthorized resellers to replicate. Again, the goal is to identify procedures that can be used as a basis for claims against all unauthorized resellers. Of course, the practices of individual sellers are also relevant, and an individual's failure to abide by a quality control procedure can also support the program on a seller-by-seller basis.

Procedures for Product Storage and Shipment

Shipping or storage procedures that are necessary to maintain the quality of the genuine product are commonly used to support a trademark infringement claim. Such procedures can include standards for storage, delivery and transportation. *See, e.g., Shell Oil*, 928 F.2d at 107 (affirming injunction prohibiting the sale of the company's product where its quality control standards for transportation, delivery and storage were not followed). They can also include procedures for oversight of the shipment and delivery network. *See, e.g., PepsiCo*, 2000 U.S. Dist. LEXIS 12085, at *4 (foreign product was distinguishable from the genuine product because the company was not able to exercise quality control over the foreign product, including by monitoring its shipment and storage conditions); *Nestle*, 982 F.2d at 642-43 (the company's procedure for overseeing the quality of its product during shipping was a legitimate quality control sufficient to support its trademark infringement claim).

Quality control measures designed to prevent a defective product from making its way to consumers have also been used to support claims of trademark infringement against unauthorized resellers. Such procedures are particularly relevant to the resale of goods when they address an inspection or other requirement that would have occurred prior to the product being sold or shipped by an authorized distributor. *See, e.g., El Greco Leather Prods. Co. v. Shoe World, Inc.*, 806 F.2d 392, 395 (2d Cir. 1986) (products bearing plaintiff's trademark were not genuine because they were not accompanied by certificates of inspection, which "were an integral part of [plaintiff]'s effort at quality control"); *Digital Theater Sys. v. Mintek Digital, Inc.*, No. SA CV 02902, 2004 U.S. Dist. LEXIS 16832, at *16 (C.D. Cal. May 26, 2004) (products "cannot be considered genuine" when they were not submitted for quality control testing).

Similarly, quality control procedures intended to ensure the freshness of a genuine product can distinguish it from an unauthorized one. These procedures often take the form of marking products with expiration dates and monitoring products in retail channels. For example, in Warner-Lambert, the court preliminarily enjoined the defendant from selling stale cough drops bearing plaintiff's trademark after finding that the cough drops at issue were not subjected to plaintiff's quality controls. 86 F.3d at 8. The relevant quality controls included marking the shipping cases and display trays with the shelf life of the product, informing retail customers about the product's shelf life, sending sales representatives to retail locations to monitor product freshness, and destroying outdated product. *Id.* at 5. *See also Mary Kay, Inc. v. Weber*, 661 F. Supp.2d 632,

A COMPANY'S QUALITY CONTROLS ARE THE SECOND BROAD CATEGORY OF ADDITIONAL BENEFITS THAT CAN DISTINGUISH GENUINE PRODUCTS FROM THOSE OFFERED BY UNAUTHORIZED RESELLERS.

642 (N.D. Tex. 2009) (quality controls sufficient to distinguish the genuine product from the expired one sold without authorization included marking products with an expiration date, educating consultants about expiration dates, and destroying products within six months of their shelf life); *Nestle*, 982 F.2d at 642 (finding that the company's practice of monitoring manufacture dates of products and destroying expired products constituted legitimate quality controls for purposes of establishing trademark infringement).

In sum, for the vast majority of companies, it is relatively easy to implement adequate material benefits and/or quality controls throughout their distribution channels that will support trademark claims against unauthorized sellers on a broad scale such that enforcement can be efficiently conducted, diversion sources cut off and brand integrity preserved.

Phase II: Stopping Gray Market Disruption Through Efficient and Effective Unauthorized Seller Enforcement

The online presence of unauthorized—and often anonymous—gray market sellers can and will significantly harm a brand's value, disrupt relationships with authorized sellers and make it virtually impossible to maintain an effective MAP program. Companies experience this reality very quickly when confronted by a number of unauthorized online sellers; however, their attempts to solve the unauthorized seller problem often miss the mark.

For example, many companies turn first to monitoring technology companies, but soon realize that while these technology companies provide them reams of data, reports of numerous warning letters being sent, and so-called "take-downs" achieved, the companies' unauthorized seller numbers never really go down and, as a result, the harm done to brand value never really abates. This is because the technology companies—by their nature—lack the ability to truly target the sellers themselves in an impactful way. While these technology companies can provide valuable monitoring, data and customer portals, they ultimately cannot bring the investigative and legal tactics to bear that actually shut the sellers down permanently. Thus, unauthorized sellers have been conditioned to ignore the technology companies' warnings and/or to promptly return under different storefronts.

Alternatively, companies may decide to devote an internal resource to combing online marketplace listings and using publicly available marketplace procedures to submit takedown requests of offending listings. Importantly, however, the marketplaces are adamant that they have no responsibility to help companies control their distribution channels and, even if the company can get a seller removed through a "takedown" process, the seller often simply comes back under a different name or moves to a different marketplace.

Finally, a company may go to its outside counsel, who more than likely has no real experience in dealing with this issue, and, after many thousands of dollars are spent, may be able to remove just a seller or two through expensive legal actions — all while dozens more appear. While companies often try one or more of these tactics; it quickly becomes clear that none really work.

Thus, once a company has structured its policies, procedures and contractual documents to effectuate the necessary control over its channels and maximize the strength of its legal claims against third party unauthorized sellers, the next step is to develop an effective enforcement system that efficiently and permanently removes unauthorized sellers on a broad scale within realistic budget constraints. To do this, the company must develop an enforcement workflow that seamlessly combines technology, cyber investigations and specialized legal enforcement to find, identify, target and permanently remove unauthorized sellers. The best workflows utilize a graduated approach that allows for less expensive techniques to be applied across large volumes of sellers, while reserving advanced legal tactics for only the most troublesome and price-disruptive sellers.

In terms of enforcement specifics, unauthorized sellers typically believe they can safely hide behind three "shields": (1) they believe what they are doing is legal in that they are protected by the first sale doctrine; (2) they believe that even if they are not so protected, the company will never uncover their identity; and (3) they believe that even if the company obtains their identity, it will not do anything about their misconduct. Thus, to successfully stop gray market disruption, companies must implement an enforcement workflow that clearly demonstrates to unauthorized sellers why each of these three "shields" fails.

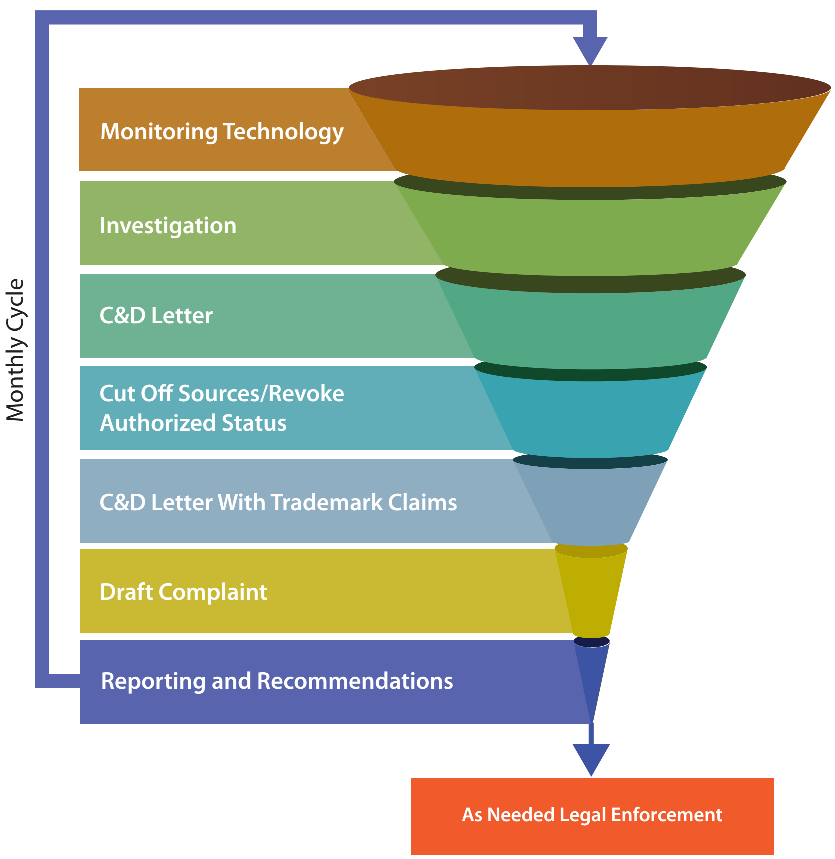
The most efficient broad scale enforcement workflow begins by using strong monitoring technology to identify all unauthorized product sellers across the internet. While many monitoring companies can perform this function, the best technology also provides the ability to identify which sellers are actually disruptive (i.e., those unauthorized sellers with material amounts of inventory, who are winning a material number of sales, and securing prime placement in search results). Because the company set up the appropriate foundation in Phase I above, all disruptive sellers can then be precision-targeted with forceful electronic cease and desist letters that clearly explain why, as a matter of law, their conduct is illegal and not protected by the first sale doctrine (because the company has implemented the appropriate material benefits and quality controls in its

THE ONLINE PRESENCE OF UNAUTHORIZED—AND OFTEN ANONYMOUS—GRAY MARKET SELLERS CAN AND WILL SIGNIFICANTLY HARM A BRAND'S PERCEIVED VALUE, DISRUPT RELATIONSHIPS WITH AUTHORIZED SELLERS AND MAKE IT VIRTUALLY IMPOSSIBLE TO MAINTAIN AN EFFECTIVE MAP PROGRAM.

authorized channels). The internet can then be monitored to determine whether the sellers have complied with the cease and desist letter. For those sellers who do not comply, the best practice is for legal counsel, working together with skilled cyber investigators, to obtain the sellers' identities. This is best accomplished using a series of advanced cyber-investigation tactics, law enforcement databases and other informational resources. Once an identity is obtained, a physical cease and desist letter can then be sent to the seller's home or business, again explaining why their conduct is illegal and, importantly, letting them know they are no longer anonymous. The vast majority of sellers will either remove their products at this stage or attempt to negotiate a resolution. Finally, for the most persistent unauthorized sellers, more advanced legal strategies can be employed, including sending draft complaints, subpoenas, or filing lawsuits and seeking injunctions transferring the unauthorized sellers' websites and proceeds to the company.

This type of graduated approach to enforcement allows a company to control costs and reduce the overall volume of unauthorized sellers while still maintaining the ability to use the "hammer" of litigation against high-volume or other problematic resellers. Such a system operates best when it repeats each of these steps on a monthly basis (see Figure 1.0).

Figure 1.0



By correctly implementing an effectively integrated, graduated monthly enforcement system, companies can realize steady reductions in the number of gray market sellers over time (see Figure 2.0).

In addition to permanently removing unauthorized sellers and curbing gray market disruption, a properly executed enforcement system also delivers valuable intangible benefits for the company.

These include deterring future unauthorized sellers, as these persons tend to focus their efforts on companies that will not aggressively enforce against them. Also, authorized channel customers typically applaud these efforts given the positive effect they have on MAP compliance and margin preservation. For this reason, many companies choose to publicize the results of their enforcement program to their channel customers to demonstrate the seriousness with which they take threats to their distribution channels and overall brand integrity. Having happy and motivated channel customers is, obviously, critical to long-term brand success.

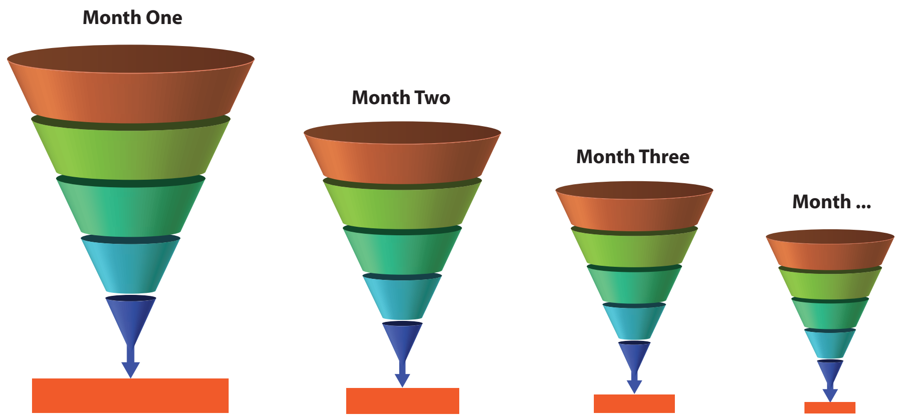


Figure 2.0

In summary, unless and until a company aggressively tackles its unauthorized seller problem, it will be practically impossible to run an effective MAP program and prevent continued harm to brand value. By appropriately crafting the right channel control agreements and policies that implement the brand's material benefits and quality controls, companies can overcome the first sale doctrine and conduct broad scale enforcement against all unauthorized sellers, with a particular emphasis on those who are most disruptive from a sales standpoint. And, by implementing a systemized enforcement workflow that properly integrates cutting-edge technology, investigative experts and legal tactics, companies can enforce in an efficient and cost-effective manner that will deliver clean distribution channels, a significant reduction in unauthorized sellers and MAP violators, and position the company to run a viable MAP program.

A GRADUATED APPROACH TO ENFORCEMENT ALLOWS A COMPANY TO CONTROL COSTS AND REDUCE THE OVERALL VOLUME OF UNAUTHORIZED SELLERS WHILE STILL MAINTAINING THE ABILITY TO USE THE "HAMMER" OF LITIGATION AGAINST HIGH-VOLUME OR OTHER PROBLEMATIC RESELLERS.

Phase III: Running a Lawful and Effective MAP Program that, by Virtue of Phases I and II, is Positioned for Success

By way of background, a MAP policy is a unilateral policy set by a manufacturer that informs a retailer or reseller that the manufacturer will only do business with those companies it chooses to do business with and will not do business with companies that advertise below a manufacturer-selected minimum price. Importantly, a MAP is not an agreement and policy does not impose any restriction on the price at which a product can be sold.

There are several important benefits to both manufacturers and their distribution channel customers in implementing and/or adhering to a MAP policy—which, with the appropriate foundation, can be a powerful tool in combatting and ensuring eCommerce success. Initially, manufacturers have an incentive to protect their brand image and value by avoiding excessive discounting, which lowers the brand's perceived value in the customer's eyes. Retailers and resellers, on the other hand, benefit because a MAP policy can help deter bargain advertising wars between sellers. This, in turn, can help businesses compete on service and value, while retaining incentives for brick-and-mortar retailers to carry the product in-store without fear of online sellers advertising the products below the manufacturer's MAP.

As has been discussed throughout this paper, a MAP program, standing alone, is not a viable solution, particularly where companies do not have adequate control over their distribution channels and/or have a number of unauthorized online sellers. Faced with these scenarios, companies soon realize that they have no way of either stemming the diversion of their products or identifying or disciplining unauthorized sellers who violate MAP. As a result, they have no way of identifying the source of these sellers' products so that it can be shut off. And even when companies are able to engage with unauthorized sellers violating MAP, the sellers almost always assert (sometimes very aggressively through lawyers) that the first sale doctrine protects them and refuse to remove their products or adhere to MAP. This, of course, causes a ripple effect, with marketplaces immediately dropping their advertised prices to meet or beat the MAP violators' advertised prices, which causes further disruption throughout the authorized distribution chain and, ultimately, significantly damages brand value.

However, by working to implement Phases I and II described above, companies will be well-positioned to maintain a lawful and effective MAP (or similar lawful policy) program. A strong MAP program can be the proverbial "final piece of the puzzle" for maintaining and growing brand value. Specifically, when the company is positioned to exert sufficient control over its distribution channels and has begun effectively ridding those channels of unauthorized sellers, it will be positioned to effectively enforce MAP in its authorized channels. To the extent unauthorized sellers violate MAP, the company (again, by virtue of building the appropriate foundations described above), will be able to quickly identify the seller and take the appropriate enforcement action against them. As the number of MAP violators continues to diminish by virtue of the company's enforcement efforts, the brand's perceived and actual value will grow.

A MAP Policy should be carefully crafted with the assistance of antitrust counsel to ensure that it covers the advertising practices most important to a company's business, clearly communicates to authorized sellers which conduct is permissible, and is lawful under federal and applicable state antitrust laws. An unclear policy—combined with significant downward pricing pressures from unauthorized sellers—can lead authorized sellers to exploit loopholes in the policy or to resort to advertising practices that violate the policy but will be difficult for the company to detect. For instance, sellers have been known to advertise that a certain brand is excluded from a storewide sale or promotional code (to comply with a provision in a MAP policy) but to program their websites to accept the code for all products. Other sellers set up fake forms to collect customer information under the guise of an "email us for pricing" exception to a MAP policy that instead redirect the customer to a hidden webpage with below-MAP advertised prices. Finally, other sellers will advertise bundled products at prices above MAP for the primary product, hoping that the brand will not notice the presence of the additional product and corresponding impact on the effective advertised price for the primary product. These types of tactics and others can be covered by a lawful MAP policy through careful drafting by an experienced attorney.

Finally, the following are best practices that will help minimize the potential for antitrust scrutiny related to MAP policy enforcement.

- **Enforce the MAP policy consistently against all types of dealers**. When designing a MAP policy, be prepared to enforce it on all dealers—whether internet-only or brick and mortar—according to the policy's terms. Picking and choosing between dealers when enforcing a MAP policy can give the appearance of favoritism. Worse, it can also lend support to claims that the MAP policy is just an agreement on price between your company and your dealers.

- **Avoid conversations about the dealer's resale prices**. MAP policies do not apply to resale prices, only to advertised prices. To avoid unwanted antitrust scrutiny, they must be unilaterally imposed. Do not attempt to influence distributors in setting their resale prices. Dealers should be free to set the ultimate resale price as they wish.

- **Do not negotiate**. Negotiations with dealers regarding policy compliance (or the effects of noncompliance) should be scrupulously avoided. Terminating or taking disciplinary action against a dealer and then reinstating a dealer prematurely gives the appearance that the dealer has implicitly or expressly promised to conform to the policy. To avoid such an inference, decide the enforcement paradigm in advance and stick to it.

- **When dealers complain, listen, but don't opine**. Legal issues may arise if there appears to be any agreement between your company and a dealer with respect to actions taken against another dealer. Accordingly, when the company receives complaints about dealer pricing or conduct, the recipient of the complaint should not state an opinion on the complained-of dealer's actions and should inform the complaining dealer that it will not discuss the matter with the complained-of dealer. While the company may unilaterally take action against dealers that do not follow the MAP policy, dealers should not be privy to internal deliberations concerning such actions.

- **Have a designated MAP point person**. Your designated MAP person should be sensitive to the potential antitrust issues with MAP policy enforcement, and others at the company should direct communications concerning the MAP policy to that individual. To the extent possible, minimize any written communications—internal or external—about dealer pricing or MAP policy compliance.

BY WAY OF BACKGROUND, A MAP POLICY IS A UNILATERAL POLICY SET BY A MANUFACTURER THAT INFORMS A RETAILER OR RESELLER THAT THE MANUFACTURER WILL ONLY DO BUSINESS WITH THOSE COMPANIES IT CHOOSES TO DO BUSINESS WITH AND WILL NOT DO BUSINESS WITH COMPANIES THAT ADVERTISE BELOW A MANUFACTURER-SELECTED MINIMUM PRICE.

Conclusion

MAP programs fail and brand value is harmed typically as a result of uncontrolled distribution coupled with the presence of unauthorized online gray market sellers. To defeat this problem, companies must implement each of the three phases of the comprehensive strategy discussed herein. In doing so, companies will be positioned for success in the eCommerce marketplace.

Who We Are

Vorys eControl was founded on this vision: to provide effective, efficient legally compliant solutions that allow brands to protect and grow their brand value by controlling sales in the age of eCommerce. Today, we represent nearly 300 brands, including several of the world's largest companies. We regularly speak across the country educating companies and service providers with innovative solutions to the challenges of controlling sales in online and brick-and-mortar channels.

Identifying and neutralizing issues with unauthorized sales, MAP violations, product diversion and quality control, Vorys helps companies implement these potential solutions with an array of services from consultations and strategy development to providing foundational polices and enforcement. Vorys' full scope of services allows us to provide a truly comprehensive approach that delivers unique business value.

ABOUT THE AUTHORS

Whitney C. Gibson
Partner and Chair
wcgibson@vorys.com
513.723.4823

Whitney is a partner and chair 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
Partner
dsgarcia@vorys.com
513.723.4076

Daren is a partner in the Vorys eControl group and dedicates his practice to the development and implementation, both domestically and internationally, of strategies and enforcement systems designed to protect brand value in the digital world. Daren has developed custom, end-to-end solutions for more than 200 brands and manufacturers confronting unauthorized sellers, MAP violators, channel conflict and other online sales challenges. Daren also regularly leads litigation matters against grey market sellers disrupting brand value for Vorys' clients.


VORYS eCONTROL