

## Publications

### How a Company Operates Can Impact Whether It May Have Legal Claims Against Unauthorized Sellers

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Unauthorized online sales have become very problematic for many businesses, including those offering high-end luxury products, companies selling beauty and skin care products and also multi-level marketing (or MLM) companies.

While not an ideal problem to have, there is potential legal recourse for a company forced to deal with these problematic unauthorized sales.

Whether a company has legal claims against an unauthorized online seller, though, often turns on: 1) whether the particular seller has sold or is selling products that are “materially different” from the company’s authorized products; or 2) if the unauthorized seller has not followed the quality controls that the manufacturer has implemented in its distribution channel.

Thus, taking it a step further, based on our experience, whether a company has legitimate legal claims often depends on how the business operates. For instance, if a company sells products that have certain intangible components that an unauthorized seller cannot personally provide, the authorized seller will most certainly have a trademark infringement claim against an unauthorized seller.

This is because the seller will be selling products that are materially different from the authorized products, yet with the manufacturer’s trademark affixed to this (which tarnishes the company’s trademark and its overall brand). Material differences that can be the source of consumer confusion can give rise to liability under the Lanham Act, courts have held.

An example of this is when a company offers a warranty or 30-day money back guarantee with products sold within the authorized distribution channels but not with those sold outside these channels. Thus, an alleged unauthorized sale—of course, sold outside the authorized channel of distribution—would mean that the seller is selling the product without the added component.

In fact, courts have held that products sold without a warranty (or a difference in warranty) are materially different from those authorized sales, which thus constitutes trademark infringement. See, e.g. *Swatch S. A. v. New City Inc.*, 454 F. Supp. 2d 1245 (S.D. Fla. 2006), *Dan-Foam A/S & Tempur-Pedic, Inc. v. Brand Named Beds, LLC*, 500 F. Supp. 2d 296 (S.D.N.Y. 2007).

Thus, companies offering such a warranty or guarantee with authorized sales only are generally in a superior position to others in terms of the ability to bring legal claims against parties selling products containing material differences (who are, therefore, violating the manufacturer's trademarks).

Companies can also offer consumers who purchase from authorized sellers post-sale services, such as consultations and access to educational materials. If a company does not provide these to those who purchase from unauthorized sellers, then the unauthorized sellers cannot practically sell the products without these material differences. Thus, the manufacturer will have claims against the unauthorized sellers.

Aside from material differences, another element impacting a business's ability to take legal action against unauthorized sellers is whether the business establishes quality controls, within its distribution channels, that unauthorized distributors cannot or will not practically use themselves.

Courts have held that unauthorized sales of products distributed without the manufacturer's established (and intended) quality controls will constitute a trademark violation. See, e.g. *Societe Des Produits Nestle, S. A. v. Casa Helvetia, Inc.*, 982 F.2d 633 (1st Cir. 1992) (finding that "substantial variance in quality control ... create[d] a presumption of consumer confusion as a matter of law.")

Examples of such quality controls include having the authorized sellers deliver specific instructions when they sell or deliver the products, the use of special containers or packaging when transporting the products, utilizing specialized storage requirements and having authorized distributors formally trained and following certain protocols, among others.

For more information, contact Vorys' *Illegal Online Seller Enforcement* team at 877.545.6905. Read more about the practice at [services-648.html](#).