

# Lawyer Insights

## Policing Your Brand on Online Marketplaces: an Intellectual Property Guide for Retailers

By Armin Ghiam, Matthew Nigriny, Jeremy Boczko  
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Given the rapid growth of online retail over the past few years, brand owners have become increasingly vigilant about the distribution of their products, in many instances by third-party resellers, on these online platforms. This article offers a quick review of common brand policing challenges that brand owners face on online platforms. Then, we discuss solutions based on trademark and copyright laws for addressing these issues.

Many of the challenges in this area stem from the fact that most online marketplaces rely not just on themselves or brand owners for offering products but also on creating a network of independent third-party resellers and distributors that have the ability to carry the same goods. Indeed, there are millions of resellers on Amazon, Ebay and the like accounting for a significant portion of the total retail sales on these websites. Resellers tend to be small to midsize entities and they are usually not affiliated with brand owners. They all possess differing degrees of sophistication and business acumen but are nevertheless able to reach an extremely large number of U.S. consumers.

Given this expansive network of third-party resellers and brand owners, it is unsurprising that a multitude of retail problems arise daily, often relating to brand owners' dissatisfaction with the third-party resellers.

The situation may arise, for example, where a product receives poor reviews but the reviews are a result of the third-party seller's performance rather than the product itself. For example, a product may not arrive in an expected time frame, it may arrive damaged due to insufficient packaging, or even the wrong product may have been shipped.

Additionally, consumers may be dissatisfied with a product based on a product description that is inaccurate, incomplete, misleading or untrue. Product descriptions may lead consumers to believe a product has features or capabilities that the product does not include, or incorrectly believe that a product is fit for an intended use.

All of these third-party reseller issues may, and likely will, lead to poor reviews, which can impact the product's standing online and the overall sales and reputation of the brand owner — the review affects the product and the brand, not the seller. Potential consumers will see an aggregated product score that may be lower than a competitor's product, which puts the product at a competitive disadvantage, e.g. on search optimization algorithms.

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A brand owner understandably wants to prevent and/or eliminate poor product reviews stemming from a reseller's conduct and misrepresentations. However, in many instances, the third-party resellers have no business relationship with the brand owner, because these resellers are buying their inventory from other retailers or distributors and then reselling the products through the online platform. Thus, there is no breach of a distribution agreement or other grounds for redress directly from the resellers.

One popular approach for addressing this type of problem is to bring a false advertising claim against the third-party reseller based on the untrue or misleading statements made in the product description, such as whether the product is new, has certain features, has a specific warranty, delivery timeframe, etc. While the damages can be negligible (i.e. lost profits for each negative review), oftentimes the expenses associated with defending the action force the third-party reseller to effectuate immediate remedial action (to settle the matter). In some instances, the reseller may agree to stop selling the product immediately in exchange for the brand owner dropping the lawsuit.

Another example of a problem in this space is price gouging, particularly when the demand for a product spikes. For example, during the pandemic, there was a heightened demand for masks and other medical supplies. These types of demand spikes inevitably lead to unscrupulous sellers raising prices beyond a reasonable amount. This is true of third-party sellers on online platforms as well.

Price gouging on these platforms can lead to consumer dissatisfaction, and this dissatisfaction may be incorrectly directed at the brand owner instead of the third-party reseller. This dissatisfaction may again result in poor product reviews or in general negative brand goodwill. The ultimate harm stems from any perceived association between the brand owner and the third-party seller.

In this scenario, a brand owner may have a claim for false association against the third-party reseller. The theory behind this claim is that the third-party seller is holding itself out as an agent of or authorized distributor for the brand owner, or has otherwise been approved by the brand owner.

Fake third-party reviews are yet another unique challenge for online platforms. Product review ratings are important on these platforms, since consumers often use these reviews and ratings as a shortcut to quality and a basis for their purchase decisions. Sometimes a competing entity pays for fake reviews. These reviews are intended to elevate the entity's product or denigrate a brand owner's product (through negative reviews on the brand owner's product).

If a brand owner is a victim of this practice, then there may be a contributory false advertising claim that can be brought against the party purchasing the fake reviews. The theory is that the party purchasing the fake reviews is causing the online platform to falsely advertise the quality of the competitor entity's product.

Another recurring issue in the context of online retail is listing sabotage. Some online platforms maintain product listings that third-party sellers may use for a given product. Because these listings are commonly maintained, images and descriptions relating to the product may be added by third parties. In some instances, competitors for a given product have uploaded misleading or incorrect images for a product listing, e.g. uploading images of a sweater for a listing that offers pants. This results in consumer confusion, decreased sales, dissatisfied customers and reputational harm to the brand owner in the form of bad reviews.

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In some instances, depending on who owns the images uploaded to the product listing, copyright law may be leveraged to combat these anticompetitive practices. After all, the saboteur probably obtained the image from the brand owner's website.

While it is hard to believe, false trademark infringement claims (or false IP claims in general) are filed on online platforms every day. It is increasingly becoming a major source of disruption for many sellers on online marketplaces. There are instances where a brand owner is lawfully selling products on an online platform, but it nevertheless receives a false trademark (or other intellectual property) infringement complaint. In some instances, the brand owner's account is frozen for several days if not months.

These scenarios are highly fact-specific, but there are avenues of recourse available. One such avenue is bringing a declaratory judgment claim against the party alleging the infringement claim. A second avenue is to bring a defamation claim against the alleging party.

Grey market products also present a challenge on online platforms. Grey market products are not fake but rather are travelling outside the approved distribution channels. When these products are offered for sale by third-party resellers, the pricing may undercut the brand owner's pricing for the given distribution channel.

Brand owners often attempt to deal with grey market products by refusing warranty on such products, but this does not mitigate reputational harm or address the underlying problem. Normally, a trademark infringement claim would not be feasible against the sale of genuine products due to the first sale doctrine. However, the first sale doctrine does not apply when a third-party reseller offers products that are "materially different" from those sold by the brand owner's authorized sellers.

In this instance, the brand owner may be able to argue that the lack of a warranty on grey market goods is a material difference from the normal product and, therefore, a trademark infringement claim may be asserted.

Finally, lack of quality control is another example of the challenges relating to online platforms. This issue is similar to grey market product sales in that it provides an exception to the first sale doctrine. When a brand owner wants to prevent an unauthorized reseller on an online platform, the brand owner may consider whether there are any types of established quality controls for the product at issue and if that third-party reseller is abiding by those quality controls. Examples of quality controls include expiration dates, handling requirements, and storage conditions (e.g. refrigeration).

If a reseller is not following established quality controls for a product, the brand may suffer. As such, the brand owner may allege that the product is materially different from their product, and therefore the first sale doctrine does not apply. On that basis, the brand owner may allege trademark infringement.

In short, while the sale of branded products on online marketplaces presents new challenges, trademark and copyright law can be used to curtail some anticompetitive behaviors on these platforms. In addition to the traditional benefits provided by registering intellectual property such as trademarks and copyrights, these registrations can help facilitate swift action against third-party resellers on online platforms. Accordingly, retailers are advised to take steps to adequately protect their intellectual property and continuously monitor online marketplaces for the practices described above.

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