

LEGAL AND PRIVACY

Chanel legal decision shows strategy and limits to controlling reseller's use of brand's marks

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Chanel's spring/summer 2020 collection glasses selling at Neiman Marcus. Image credit: Neiman Marcus

By **Milton Springut**

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Brand image is paramount for luxury goods companies. Controlling who sells your product and how it is marketed is a crucial part of maintaining this most important brand asset.

In recent years, Chanel has brought a number of lawsuits against resellers as part of its efforts to control its brand image.

I wrote about one such case in a prior article on a [Chanel lawsuit titled, "When can another marketer use Chanel's brand?"](#)

Now, in a suit brought against a different reseller, The RealReal, a New York federal court on March 30 dismissed some of Chanel's claims, but allowed others to move forward.

Chanel's claims that use of its trademarks falsely implied that The RealReal is an authorized dealer were dismissed. A set of claims based on allegations of sales of counterfeit "Chanel" product was allowed.

What could **Chanel** have done differently to avoid dismissal of its false association claims? How can it leverage the remaining counterfeiting claims to achieve its goal of maintaining its brand image?

These questions are explored here, so that other brands can learn to enhance their own enforcement efforts from Chanel's mixed result.

The RealReal's business model

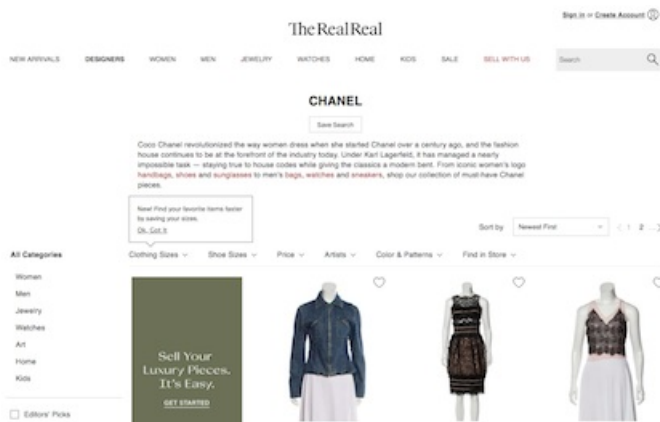
San Francisco-based retailer **The RealReal** offers secondhand luxury goods on a consignment system, allowing individuals to sell their items through the company's Web site and bricks-and-mortar stores.

While the individual retains ownership of the item until sold, The RealReal deals with all aspects of the sale, including listing and displaying the item, setting the price, and processing the purchase and shipping.

The RealReal strongly touts its efforts to authenticate the items. Its Web site brags that it takes possession of and authenticates *every single item* it offers, using a team of experienced authenticators, many former employees of luxury houses and auction houses.

The company's Web site also provides a "guarantee" of authenticity.

Chanel clearly views The RealReal as impinging on its brand image. The apparent goal of its lawsuit is to stop The RealReal from offering Chanel product.



The RealReal's Web site listing products on its Chanel page. Image credit: The RealReal

Court dismisses Chanel's false association claim

Chanel complained that The RealReal's prominent use of its trademarks creates a false impression that Chanel sponsored or authorized the site.

Chanel only sells its products online through its own Web site, as well as through "carefully selected high-end, prestigious specialty stores." The RealReal is not one of them.

But, the court noted, under U.S. trademark law, the sale of genuine branded goods is permitted, even if the seller is not authorized by the trademark owner.

And the reseller is also permitted to use the brand's marks to advertise and promote these genuine products, so long as the seller does not create confusion that implies affiliation with or authorization by the brand owner.

Thus, The RealReal is entitled to say, "Chanel product for sale here." What it is not allowed to do is to use Chanel's marks to state or imply, "[w]e are an authorized Chanel dealer."

Critically, Chanel had to allege some facts that showed that The RealReal had crossed that line in a way that would confuse the public into believing its business was authorized by Chanel.

But the court found nothing in Chanel's allegations that would support such a conclusion:

- The RealReal did not use Chanel's marks more prominently than other brands. While its Web site had a page specifically devoted to Chanel products, it also had similar pages devoted to nine other luxury brands. Nothing about this use of Chanel's marks suggested that The RealReal was authorized or sponsored by Chanel.
- The RealReal bragged that some of its authenticators were former employees of luxury houses. But its Web site made clear that the luxury houses themselves have no involvement in the authentication.
- The RealReal did provide a "guarantee" of authenticity, but again, there was no indication that this was in any way tied to Chanel or other brands.

To succeed on its claim, Chanel would have to show a probability, not a mere possibility, that customers would be confused into believing that TheRealReal was an authorized dealer.

The court found that Chanel's complaint simply failed to provide sufficient supporting facts that would allow a court or jury to conclude that such confusion was probable.

So, Chanel's false association claims were dismissed.

Often in cases such as this, the brand owner will come into court with a consumer survey to bolster its case.

Given the thin facts alleged by Chanel, such a survey might well have avoided dismissal of these claims.

Court allows Chanel's counterfeiting claims to proceed
The court did allow Chanel's counterfeiting claims to proceed.

Chanel alleged that over a period of time, it had made test purchases of Chanel product, and seven turned out counterfeit.

By definition, counterfeit goods cause confusion as to who made the product.

Selling counterfeits almost automatically results in a finding of trademark infringement.

The court rejected The RealReal's argument that it was not liable because technically the sellers of the counterfeits were not the company, but the individuals who had consigned the goods.

The RealReal relied on a 2010 decision in *Tiffany v. eBay*, where a federal Court of Appeals ruled that eBay did not use Tiffany's trademark when vendors on its platform sold counterfeit Tiffany product.

But, the *Chanel* court held, that case was different, because eBay merely allowed its platform to be used to list goods and arrange for transactions between sellers and buyers.

In contrast to eBay, The RealReal maintains close control over consignment sales it takes possession of the goods, and uses its "sole discretion" to decide which items to approve for sale and to set and control the price, display, and marketing of the items. It maintains the inventory of the products in its warehouse, and handles all of the transaction with the buyer.

This deep level of involvement in the sales and marketing process meant that, unlike eBay, The RealReal would be directly liable for trademark infringement when an item turns out to be counterfeit.

So, Chanel's counterfeiting claims were permitted to proceed, and The RealReal now faces trademark counterfeiting liability.

Chanel's strategy going forward

Despite this partial loss, Chanel still can use its remaining claims to achieve the result of upholding its brand image.

If it can prove sales of counterfeits even a few then The RealReal will be held liable for trademark infringement.

Chanel would most likely be entitled to an injunction a court order not to repeat the infringement, which here is selling counterfeit Chanel products.

Violation of a court order is contempt, both for the company and its officers.

Once put under an injunction, The RealReal would run a real risk that additional sales of counterfeits would result in a citation of contempt of court.

And, if the counterfeiting were repeated, the court could very well then bar *all* sales of Chanel by the company, including of authentic product.

There is a recognized legal doctrine called the "safe distance rule," under which a court may prohibit even legal conduct if that is necessary to ensure that illegal conduct does not repeat itself.

So while Chanel's false-association claims were dismissed, its remaining counterfeiting claims could be used to attain Chanel's apparent goal stopping this reseller from offering Chanel product.

What the *Chanel* decision teaches other brand owners

Chanel is not the only luxury brand concerned about the impact of resellers on its brand image.

This recent *Chanel* decision teaches important lessons for brands that seek to protect their trademark rights:

False association claims are easy to make, but hard to prove up. A brand needs specific facts that support a conclusion that the public will likely be confused about association to even allege such a claim.

Chanel would have been well advised to do a survey even a preliminary, mini-survey before asserting these claims.

Had its complaint referenced survey results showing confusion, then that might well have saved it from dismissal.

Always investigate the authenticity of the goods offered. The sale of counterfeits gives a basis for the brand to obtain substantial relief, including relief directed to assisting in controlling its image.

Carefully review the reseller's level of involvement in the marketing and sales. There are many different

arrangements and levels of involvement by different Web sites.

The *Chanel* court specifically distinguished eBay's selling arrangement from The RealReal's, whose greater involvement in the sales process meant it could not avoid liability for sales of counterfeits through its Web site.



Milton Springut is a partner at Springut Law PC

Milton Springut is a partner at [Springut Law PC](#), New York. Reach him at ms@springutlaw.com. Mr. Springut's opinions are solely his.

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