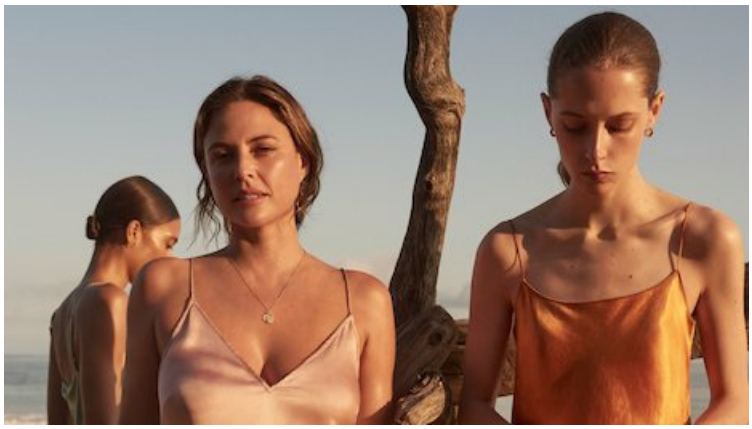
Luxury Daily®
The News and Intelligence You Need on Luxury

LEGAL AND PRIVACY

Josie Maran cosmetics trademark case tests strategy of controlling branded product sales on Amazon

July 10, 2020



Los Angeles-based Josie Maran alleges that an unauthorized dealer has been selling its cosmetics products on Amazon, even though its policy is that sales by an unauthorized dealer voids its warranty. Image credit: Josie Maran

By Milton Springut

Luxury goods and other fashion brands often try to control where their products are sold, limiting sales to approved authorized dealers whose high-end image complements that of the brand.

But to brand owners' consternation, genuine products often leak outside the authorized distribution chain, and then are resold at discount, including Internet, outlets.

A recent trademark-infringement suit brought in federal court in Los Angeles by cosmetics brand Josie Maran against an unauthorized Amazon reseller raises a number of interesting issues about how trademark law can be used to control to whom and where branded products are sold.

First sale doctrine and material differences

As I have previously written, trademarks protect the right of owners to identify their products as emanating from them. A trademark identifies the source of a product and who stands behind it.

Generally, once a brand owner sells an item with its trademark, then the brand owner loses all right to control any future sales. This is known as the "first sale" doctrine a brand owner's rights are limited to the first sale of the item. Subsequent sales of the same genuine item are beyond the owner's trademark rights.

But there is an important exception to this rule.

Where there are "material differences" between the items sold by the brand owner and that sold by a reseller, then the reseller's items are not genuine and infringe the trademark.

Typically this occurs where brand owners sell different versions of the same item in different geographic areas, and then someone imports these "grey goods" into the United States.

For example, sometimes a brand will sell products with different formulations in different countries.

In one well-known case, chocolate manufacturer Perugina employed a different formula in Venezuela than in the United States, to match different tastes in the respective markets.

A federal court of appeals held that the Venezuelan chocolates, though genuine in that country, were materially different from the U.S. product, and hence their sale in the United States violated Perugina's U.S. trademarks.

The reason for this exception is that trademarks not only exist to protect the reputation and goodwill of the trademark owner, but also to protect consumers from confusion and deception.

U.S. consumers would expect their favorite brand of chocolate to taste like the U.S. version, and the use of the brand to identify a different tasting foreign version would confuse them, and hence infringe the trademark.

Later cases have extended the material differences rule to domestic products.

Even if the genuine goods never leave the United States, if the reseller's version is materially different, then the sale is infringing of the trademark.

For example, if an item has been altered, or the warranty voided, then the product that does not match the brand owner's item is materially different, and hence infringing.

Yet not all differences are "material" the difference must be such that consumers would consider it relevant to their purchasing decision.

Still, courts generally will lean in the direction of finding virtually any differences relevant, since subtle differences often are the most likely to confuse consumers.

Serial numbers: Another exception
Courts have developed another exception to the first sale doctrine, the quality control exception.

Some manufacturers use serial numbers on each product or batch of products which allow them to identify, for example, the factory that made the item, the date it was produced, and to which customer the item was sold. If items leak outside the authorized distribution chain, then a manufacturer can try to trace the leak and put a stop to it.

But what if a seller redacts the serial number? That was the issue in a case brought by fragrance manufacturer Zino Davidoff.

The company claimed that its serial numbers were important to its quality control efforts. Specifically, serial numbers allowed it to conduct recalls of defective products, and thus ensure the customer received the benefit of these efforts. Redacted serial numbers interfered with this quality-control procedure.

A federal court of appeals agreed with Davidoff that where a difference interferes with a manufacturer's quality control, then the resulting product is not genuine and infringes upon the manufacturer's trademark.

Many trademark owners use serial numbers to control distribution if the number is not redacted, then it is useful in tracing leaks. If it is redacted, then the product becomes infringing under the *Zino Davidoff* ruling.

Warranty and service differences
Physical differences in a product, and even its packaging, have been held in a number of cases to qualify as "material differences."

But what about differences in intangibles connected to the product, such as coverage by the manufacturer's warranty, or willingness of the manufacturer to provide post-sale services, such as repair?

Several courts have held that these too can constitute material differences.

For example, many brand owners have a policy that any alteration to the product will void the warranty or they will not provide post-sale service. This lack of warranty or post-sale service can render the reseller's product materially different, and, hence infringing.

Some brand owners who seek to control distribution have adopted policies that sales only through an authorized dealer will be covered by the warranty otherwise the warranty is void.

The lack of warranty then renders any sale outside the authorized distribution network as materially different, and, hence infringing.

There are, however, two important limitations on this strategy.

First, as one federal appeals court explained, "material differences" are not an end in itself, but merely a way for courts to gauge whether consumers will likely be confused. It follows that if a reseller makes an adequate disclosure, then there is no confusion, and hence no trademark infringement.

This is why many reseller Web sites will state "Manufacturer's Warranty Void. We Provide Our Own Warranty." If the disclosure is adequate to inform customers, then there will be no infringement.

Another limitation is that some states limit how manufacturers may disclaim warranties.

In particular, New York law provides that a warranty may not be limited by a manufacturer "*solely* for the reason that such merchandise is sold by a particular dealer or dealers."

In one case decided by a New York federal court, the court ruled that this statute limits the ability to disclaim a warranty because the seller is not authorized, and hence that cannot constitute a material difference.

On the other hand, that same court ruled that the New York law applies only when the disclaimer is "solely" for that reason, if there are other reasons, such as poor customer service, then the disclaimer of warranty might be valid.

The effect of Amazon: the *Josie Maran* case

The *Josie Maran* case adds a new twist the intersection of the above trademark law with Amazon's merchant policies. It turns out that the combination of the two may make it easier for brand owners to control whether their products are sold on Amazon, and by whom.

In its complaint Josie Maran alleges that an unauthorized dealer has been selling its cosmetics products on Amazon, even though its policy is that sales by an unauthorized dealer voids its warranty. The voided warranty is the *only* difference alleged between the items offered by that seller and by Josie Maran.

Josie Maran's complaint then notes that Amazon's merchant policy provides that whenever an item is listed on Amazon as "new," the merchant must ensure that the original manufacturer's warranty, if any, still applies, and include warranty details in the listing comments.

The complaint also notes that all sales of a particular item on Amazon, regardless of the seller, need to be sold under the *same* Amazon Standard Identification Number (ASIN).

Because of this, the company alleges, "consumers have no way of knowing whether a product is coming from an authorized reseller offering genuine products or from an unauthorized reseller offering an inferior version of such products."

Amazon's policies thus make it more difficult for an unauthorized dealer to avoid having its products being determined to be "materially different."

As I previously discussed on *Luxury Daily*, under applicable trademark law, such a reseller might avoid infringement by making adequate disclosures that the manufacturer's warranty has been voided.

But since Amazon does not allow sale of new products with a voided manufacturer's warranty even with full disclosure about voided warranties that might avoid the trademark-law problem then a merchant has no way to avoid infringement through a full disclosure.

The net result is that Josie Maran's warranty policy combined with Amazon's merchant policy renders all sales by unauthorized dealers on Amazon as infringing. That is the central theory of Josie Maran's lawsuit.

What should luxury goods companies learn

As online sales continue to explode, especially on platforms such as Amazon, the ability of luxury goods and fashion companies to control where and how their branded items are sold becomes more challenging.

The *Josie Maran* case highlights how creative use of warranty policies and trademark law can be used by brand owners to control distribution.

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