

Online Brand Enforcement 2019

Protecting Your Trademarks in
the Electronic Environment

Return on investment – proving that protection pays

Sterne, Kessler, Goldstein & Fox PLLC

Monica Riva Talley, Nicholas J Nowak and Daniel S Block

WTR

TRADEMARK & BRAND PROTECTION



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The firm "takes a holistic approach to brand protection. Clients are able to defend their brand, improve operations and increase sales."

- *Financial Times' Most Innovative North American Law Firms Report (2018)*

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We specialize in:

- Trademark Clearance and Counseling
- Portfolio Development and Management
- Trademark Enforcement
- Anti-Counterfeiting
- Marketing and Advertising

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The unfortunate reality of the modern marketplace is that counterfeiting negatively affects profits, consumer safety and business reputations around the globe. Virtually all industry segments deal with counterfeiting on some level – analysts estimate that 25% of global internet commerce today involves counterfeit products.

Scope of the problem

Several market factors have fuelled this growth. The Internet, for all the benefits that it has provided in terms of information sharing and commerce, has been a key turning point in the explosion of counterfeiting. For example, in 2017 89% of all IP rights seizures were from international and express mail – confirming that the vast majority of counterfeit products entering the United States are via smaller, often direct business-to-customer transactions.

Another factor in the explosion of counterfeiting is the growth in worldwide economies and corresponding consumption of goods. As countries develop, barriers to trade are diminished and new markets develop for inexpensive consumer goods. By this factor alone, the sheer number of items purchased every day has increased exponentially.

Cost to business

Even though the threat from counterfeiting shows no sign of diminishing, companies are often stumped by how to assess the cost

of counterfeiting on a business, and how to effectively counteract the economic and reputational harm that it causes. Compounding the issue, anti-counterfeiting efforts are often reactive and piecemeal, and do little to address the root of the problem or provide sufficient disincentive for recidivism.

The reality is that an effective anti-counterfeiting programme must:

- involve the company as a whole;
- influence how, where and with whom the company does business;
- recognise the channels of trade through which the company's goods travel;
- include any new brands;
- incorporate the IP protections put into place to protect the company's assets; and
- influence how and where the company undertakes enforcement efforts.

Effective anti-counterfeiting programmes also encompass collaboration with Customs and local law enforcement officials. In addition to the available civil remedies for counterfeiting, counterfeiting is a criminal offence in most jurisdictions.

Engaging the business

The first step to implementing an effective anti-counterfeiting programme is to view counterfeiters through their impact on all aspects of the business. IP theft is felt throughout the entire organisation, through loss of revenue, tarnished brands, increased



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burden on customer service and tech support, loss of consumer confidence and liability exposure. Many anti-counterfeiting programmes fall short of reaching their potential due to an approach that fails to engage all business divisions.

Competitive mindset

Characterising counterfeiting as a competitive concern frames it as a strategic issue that can engender whole business buy-in rather than an enforcement issue left to the legal department. Moreover, to be successful, anti-counterfeiting programmes must involve all parts of the business working together to ensure that

counterfeits are detected and dealt with, as well as ensuring that the company is implementing business practices to deter counterfeiting from the start.

Programmes that view anti-counterfeiting efforts as a business opportunity (some anti-counterfeiting programmes can even become a profit centre) and not as a business cost, typically experience greater success. Once framed as a competitive rather than a legal or enforcement issue, it makes it easier for business units to work together to share information, develop appropriate budgets and devise strategies to capture the counterfeiters’ market share.



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Evaluating loss and exposure

The second step in instituting a proactive (rather than reactive) anti-counterfeiting programme is to assess the impact that counterfeiting is having on the business. This can be done in a number of ways and the most successful campaigns often integrate a number of analysis tools. One method includes analysing electronic traffic to determine the source of counterfeits and retail outlets for counterfeiters, as well as to understand the percentage of sites selling authentic products versus those that are fake. Anti-counterfeiting counsel usually work with various vendors and investigators to develop monitoring systems

to regularly monitor search engines, online marketplaces, auction websites, business-to-business websites and social media sites for counterfeit products.

Other evaluation methods include researching the source and volume of any counterfeit products or parts returned to the business for service, canvassing trade shows for look-alike (though possibly unbranded) products, and analysing sales data to determine whether any regions have experienced unexpected sales slowdowns – which could mean that a counterfeiter has infiltrated the supply chain.

How to measure success

The third consideration is determining how to quantify the success of an anti-counterfeiting campaign. Successful campaigns are usually measured in terms of:

- shutting down a particular market or counterfeiter;
- a reduction in the percentage of counterfeits found in online marketplaces; and
- increased sales and market share.

They can also be measured in terms of the number of products seized or destroyed, the number of actions brought and any damages received from litigations or settlements. An easy measure of success is the damages awarded in counterfeit lawsuits – some of which may even be cash positive. Many benefits of a successful campaign are harder to measure but just as valuable, including maintaining the integrity of the brand and consumer confidence.

Prioritising types of action

Since anti-counterfeiting actions can take many forms, the fourth step is to engage in regional and product prioritisation based on the data obtained from the assessment phase, evaluated in the context of current IP protection and business needs and opportunities. For example, perhaps there is a gap in IP protection versus location of market share, or there are issues stemming from a region in which the business has no presence – counterfeiters do not always follow the business, sometimes they fill gaps in the market. The biggest threat may be from unknown sellers, hiding behind the anonymity

of the online marketplace. Once you have the data, you can map out an internationally coordinated, intelligence-driven programme that provides better results and is easier for budget planning.

Legal action against online sellers

Targeted district court actions against known counterfeiters

Lawsuits – and even the threat of lawsuits – can be a potent weapon in the fight against counterfeiting. Nevertheless, brands are often reluctant to file lawsuits against trademark infringers and counterfeiters because of concerns about public perception, becoming bogged down in protracted litigation and the potential cost, among other things. However, these uncertainties can be reduced with some strategic pre-planning and thoughtful consideration as to intended goals.

It is advisable to begin by researching potential counterfeiters and ranking them by size and potential volume of counterfeit sales. While never an exact science, a close estimation can be gleaned from the counterfeiter's internet presence and other available data. Once a list of targets has been identified, test buys can confirm that the products are in fact counterfeit and help confirm defendant parties to include in the action. A clear chain of custody should be maintained with regard to test buys, particularly in the event that a defendant attempts to challenge the evidence against them.

The complaint itself should be detailed enough to provide the defendant with a full and complete summary of the case against them and send a clear signal that the evidence is airtight and suitably overwhelming to deter protracted litigation. Often, counterfeiters faced with such charges (especially those that are represented by competent counsel) will understand the ramifications and quickly reach out to settle, typically for terms that include a permanent injunction and reasonable damages.

By strategically and aggressively employing targeted litigation, word will travel quickly throughout the counterfeiting community that the brand is serious about enforcement. A win against even a single counterfeiter can have far-

reaching effects, and a savvy public relations campaign can help spread word of the brand's success and bolster larger benefits of a targeted anti-counterfeiting litigation campaign.

As counterfeiters move away from utilising trademarks and logos to try and avoid liability, but continue to copy the product design or its packaging, targeted litigation can also be used to enforce design patents in those designs – providing another avenue to enforce against copycat and knockoff products.

Marketplace takedowns

Marketplace takedowns are an important tool in any brand's anti-counterfeiting toolbox. They are relatively easy, can be performed by non-lawyers and yield quick results. On the plus side, marketplace takedowns can provide an easy measure of success, noticeably reducing the sale of counterfeit goods on targeted platforms.

However, marketplace takedowns alone can amount to nothing more than an expensive temporary solution. To get the most out of such services, strategies that result in actionable intelligence should be employed, such as providing the identity of the online seller or the identity and location of the manufacturer of the counterfeit goods. Moreover, takedowns should make counterfeit sellers think twice about simply restarting operations under a different online alias or store name. More aggressive strategies, like John Doe lawsuits, should be considered in order to accomplish these objectives and more.

On-the-ground investigations

The end goal for any brand involved in an anti-counterfeiting campaign should be to track down the source of the counterfeit merchandise, stopping it in its tracks. The intelligence gained from enforcement actions, including the names and locations of suppliers and manufacturers, should be used to inform on-the-ground investigations. Today's unfortunate reality is that a vast majority of counterfeit products are manufactured in China. Many brands work with partners who have long-standing connections to Chinese legal counsel and law enforcement to identify and take direct civil and criminal action at the source of the problem.

Demand-letter campaigns

Most brands employ demand-letter campaigns as part of their anti-counterfeiting and trademark enforcement strategy, which can be an effective technique, particularly against smaller resellers or judgment-proof defendants. For larger infringers, brands should consider moving directly to targeted litigation depending on the severity of the infringement. Once a demand letter is sent, consistent follow-up is key. Brands engaged in demand-letter campaigns must be ready and willing to follow up with additional letters and even litigation if necessary. Hollow threats may, in some cases, prove to be more detrimental than doing nothing, signalling to the counterfeiting community that the brand is not serious about enforcement.

Cash-positive litigation

One effective US litigation tactic targets unknown foreign counterfeiters and successfully hits them where it hurts most: the wallet.

This strategy involves identifying and verifying sellers of counterfeit goods sold by sellers on online platforms (eg, eBay). Once a critical mass of defendants has been identified, a lawsuit is filed in a venue convenient to the brand. Because these defendants are foreign, a US district court venue is deemed proper, as long as there is personal jurisdiction (eg, when a defendant has sold products in the state).

Along with the complaint, plaintiffs typically file an *ex parte* motion for a temporary restraining order, asking the court to freeze the defendant's assets in the relevant financial institution.

In these types of case, it is common to reach settlements with defendants that represent 60% to 80% of all money frozen. As for the remaining defendants, the plaintiff can move for default judgment. Plaintiffs routinely ask for the statutory maximum of \$2 million in the default judgment motion. While it is not common to collect the total damages awarded from each defendant, these cases typically

yield results that cover the cost of the litigation and can even result in a positive cash flow for brand owners.

Comment

Although no brand is 100% immune from the impact of infringement and counterfeiting, the extent of loss that a brand suffers at the hand of wrongdoers will depend on a number of factors, including how the business interacts with the global marketplace and the checks put into place that make it possible to track and evaluate the impact and source of infringement. The companies that are most successful at trademark enforcement and anti-counterfeiting initiatives ensure that their efforts are enterprise-level undertakings, coordinated across business units.

Moreover, as with any business challenge, the best defence to infringement and counterfeiting is a good offence. Brands that proactively engage in strategies that deter infringement and counterfeiting (eg, strategic registration and monitoring programmes) can minimise the impact of infringement and counterfeiting. Finally, engaging in targeted enforcement and litigation efforts, including those that result in the seizure of financial assets, sends a powerful message to counterfeiters: do not mess with our brand. **WTR**



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