

BrandSecure® News

Inspired by Technology. Proven by Experience® | Spring/Summer 2010



This issue of BrandSecure News focuses on the apparel and luxury sectors. We discuss the challenges fashion brands face in managing outsourced production, securing the supply chain, and enforcing against unauthorized distribution on the Internet.

Outsource Production Without Losing Control

The rise of contract manufacturing, globalization, and the Internet make it easier for counterfeiters to target name brands, infiltrate the supply chain, and profit from the sale of low quality products masquerading as authentic merchandise. Counterfeit footwear, apparel, and luxury products account for a large quantity of goods seized by investigative raids and customs inspections.

The annual losses from counterfeits in the shoe and clothing industries are estimated at \$12 billion each.

BusinessWeek, October 2008

In an industry where most products are manufactured abroad, inefficiencies and leakages occur across the global supply chain. As a result of decentralized operations, brand owners often face the challenges of cheap knock-offs, third shift activity, and diverted product sales. For an effective counterattack, brand owners in the apparel and luxury industries need to deploy an integrated brand protection strategy that secures both the physical and online supply chains.

Authenticate Genuine Goods

To combat counterfeiting, apparel and luxury brands need a means to identify authentic goods versus knock-offs. Whether in the form of a security woven label, thread, hangtag, footwear tongue label, chemical taggant, or other application, essential requirements to consider in selecting an optimal authentication solution include:

- Ease of verification for consumers, retailers, investigators, and law enforcement
- Permanence of security features affixed to garments, shoes, and luxury goods
- Advanced security to effectively thwart attempts at simulation
- Adherence to safety and performance standards
- Promotion of brand image



Example footwear and apparel authentication solutions

Secure the Supply Chain

Product tracking provides brand owners with visibility into their contract manufacturing operations. Brand owners can maintain control of products, materials, and components from initial purchase through delivery. By marking items with unique serial numbers, brand owners can monitor the movement of goods along the supply chain.

The resulting benefits include:

- Capture of full royalty revenues from licensed contract manufacturers
- Elimination of over-production and third shift operations
- Reduction of grey market diversion from supply chain leakage

In This Issue

- Appeals Court Decides in Favor of eBay in Tiffany Case
- Case Study: Internet Monitoring for the Luxury Industry
- Apparel and Luxury Knock-offs Dominate Seizures

Enforce Online Channels

The Internet provides ready channels for the illegal sale and unauthorized distribution of apparel and luxury items. Internet monitoring enables brand owners to conduct

enforcement against illicit e-commerce and intellectual property infringements. Online enforcement includes activities to:

- Terminate infringing listings on eBay and other B2C platforms
- Cutoff the supply of counterfeits sourced from B2B trade boards
- Remove traffic diversion from infringing sponsored link ads
- Gather intelligence on brand abuse and unauthorized distribution

By implementing a multi-pronged approach, apparel and luxury brands can reduce risks to product integrity, supply chain security, brand reputation, and bottom-line revenues.



Appeals Court Decides in Favor of eBay in Tiffany Case

Tiffany's Claim Against eBay

Tiffany Inc. v. eBay Inc. is an insightful legal case that merits attention because of its implications for trademark protection and online enforcement. In 2004, the luxury jewelry company sued the online auctioneer for trademark infringement. An internal investigation found that 73% of a sample of eBay listings of Tiffany products were fakes. Tiffany asserted that eBay was obligated to do more to prevent the sale of fraudulent goods on its site. The Second Circuit Court's rulings on Tiffany's appeal were announced on April 1, 2010.

eBay's Enforcement Strategy

eBay demonstrated a proactive strategy to combat the sale of counterfeit goods, including automated and manual systems to crawl its site. The auction site encourages brands to report any instance of suspicious goods to eBay's attention. Brands have the ability to create a profile urging consumers to be wary of unauthorized products. As standard protocol, eBay issues a warning to all sellers that posting fake products can result in account suspension.

No Direct Infringement Decision Upheld

Tiffany claimed direct infringement from eBay's use of the Tiffany mark on its website and in sponsored links on Google and Yahoo. The Second Circuit Court ruled that eBay's use of the Tiffany mark is protected by the principle behind the Nominal Fair Use doctrine. The use of a competitor's trademark to identify a competitor's product is allowed so long as the use is not likely to cause confusion.

No Contributory Infringement Ruling Affirmed

The focus of Tiffany's appeal was on the issue of contributory infringement. The question was whether eBay continued "to supply its service to one whom it knows or has reason to know is engaging in trademark infringement." Tiffany argued that eBay did not do enough given "general knowledge that its service is being used to sell

counterfeit goods." eBay countered that it has "no affirmative duty" to proactively search for potential infringements.

The Second Circuit Court held that eBay's awareness that its website contains counterfeit goods is not enough to establish infringement. The Court also referenced eBay's proactive strategy to counter fraudulent goods and sales on its site. When eBay encountered instances of fraud, it took proper action against offenders.

Tiffany also argued that the failure to impose liability on eBay would encourage the service provider to remain willfully blind to fraudulent activities on the site. However, the Court responded that eBay's track record suggests their interest lies in minimizing counterfeit goods on its site. As a result, the Court ruled eBay was not willfully blind to counterfeiting activities.

No Dilution Verdict Sustained

The Court stated "eBay never used the Tiffany marks in an effort to create an association with its own product. Instead, eBay used the marks directly to advertise and identify the availability of authentic Tiffany merchandise on the eBay website."

False Advertising Claim Remanded

eBay advertised the sale of Tiffany goods on its website by providing hyperlinks to "Tiffany," "Tiffany & Co. Under \$150," and "Tiffany & Co. Under \$50." The auctioneer also purchased advertising space on search engines. In some cases, the ads provided a link to eBay's site, and urged consumers to

"find Tiffany items at low prices." Tiffany claimed this was false advertisement since much of the Tiffany products on the site were fakes.

The Second Circuit Court declared that the ads were not literally false, but held that they were possibly misleading. The law prohibits "an advertisement that implies that all of the goods offered on eBay's website are genuine when in fact, a sizeable proportion of them are not." The Court suggested that "a disclaimer might suffice" to protect eBay from liability. The false advertising issue has been sent back to the District Court for reconsideration.

Need for Cooperation and Vigilance

While the rulings of this suit has been in eBay's favor, the case has set a high standard for other Internet platforms who want to avoid similar claims of contributory infringement. However, the best path forward to provide consumers with a safe marketplace, variety of choices, and high value lies not in more litigation, but greater cooperation and constant vigilance between both brand owners and Internet exchanges.

*Sources:
"Update: Tiffany v. eBay",
Brian W. Brokate, IACC Internet
Committee Meeting,
Boston, MA, May 19, 2010.
"Tiffany v. eBay",
U.S. Court of Appeals
for the Second
Circuit,
April 1, 2010.*



Case Study: Internet Monitoring for the Luxury Industry

Business Challenges

A global luxury brand has established a worldwide retail presence with operations in all major regional markets. The product range is diverse, from apparel and leather goods to jewelry and accessories. The brand only sells through its authorized retail outlets, licensees and authorized online retail channels.

Over the past few years, the brand has grown in size and reputation with a range of desirable items that has attracted a loyal following of consumers, as well as the attention of counterfeiters.

The brand faced erosion of its brand reputation from the sale of counterfeit and substandard goods on auction websites such as eBay. The company sought to implement an online brand protection strategy to support its enforcement activities. The key objectives were to protect its intellectual property, reduce the availability of counterfeits sold, and combat unauthorized sales.

OpSec Solution

The luxury brand company selected OpSec to provide managed services for Internet monitoring. The enforcement program included takedowns of infringing listings found on B2C auction sites and B2B trade boards selling large quantities of finished goods.

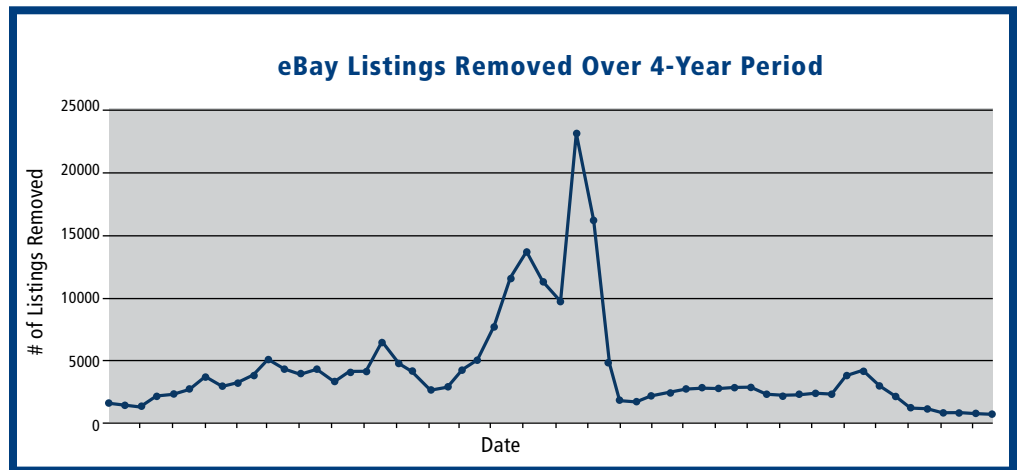
OpSec searched and monitored B2C and B2B platforms for suspicious listings. Immediate and measurable actions were performed to takedown listings and send out warning letters, where appropriate. The highest risk listings were investigated further to provide **detailed seller history information** and seller contact details, and ultimately the removal of dubious accounts working with payment platforms. OpSec worked closely with the luxury brand's legal partner to provide a **work**

flow for the cease and desist process.

In some instances, further action was required; this included close liaisons with law enforcement authorities in different regions. OpSec also provided a global test purchase service to establish evidence for any other necessary legal action.

for further investigations

- **Online case management dashboard** increased workflow efficiencies and provided real-time access of online data by entire global team in one central data repository



OpSec provided **seller network analysis** to establish relationships between sellers on different platforms and finding the links to the biggest players. OpSec also monitored **repeat offenders** for further infringements and worked with the Internet trading platforms to permanently remove these sellers.

Business Benefits

The luxury brand showed a measurable reduction in cost in outsourcing their online brand protection program. The increased efficiencies and widened scope of the program with OpSec resulted in the largest infringers, who posed the highest risk to the brand, being uncovered and subsequent action taken.

Specific actions that provided business benefits included:

- **Automatic takedowns** reduced the availability of counterfeit products in the marketplace
- **Seller link analysis** provided valuable intelligence on counterfeit networks

In a four-year period, over 200 thousand listings were removed with an estimated value of goods terminated in a single year at \$4.5 million USD.

The increased efficiencies and effectiveness of OpSec's Internet monitoring and enforcement program led to:

- **Reduction in cost** to operate online enforcement program
- **Significant reduction in availability of counterfeit products** on most visible ecommerce platforms
- **Reduction in financial loss** from counterfeit sales and unauthorized distribution
- **Preservation of brand integrity** and prestige amongst consumers

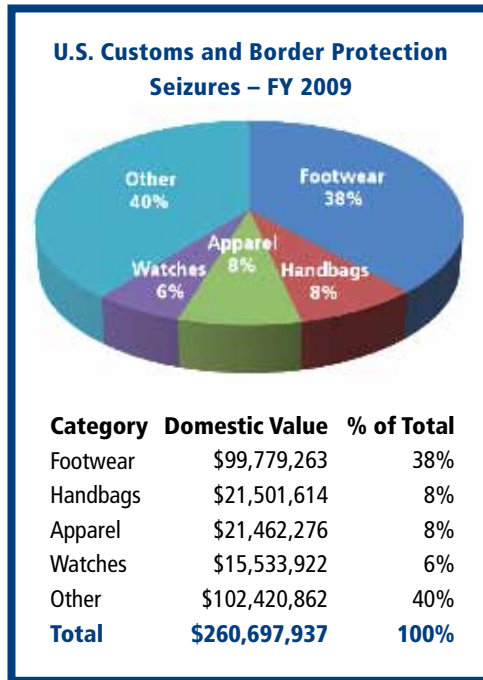
Apparel and Luxury Knock-offs Dominate Seizures

From popular brands to exclusive haute couture, the apparel and luxury industries are under relentless attack by knock-offs. As production moves to factories in the Far East and other low cost regions, the occurrence of counterfeiting and grey market diversion continues to increase dramatically. More than ever, brand owners face brand erosion and shrinking margins from unlicensed manufacturing and unauthorized distribution.

Taken together, the apparel and luxury sectors represent a large majority of counterfeits infiltrating the U.S. market. In 2009, their combined product categories accounted for 60% of customs seizures, and represented \$158.3M of domestic value.

For the fourth year in a row, footwear, including sneakers, shoes, and other products, was the top commodity seized with a domestic value of \$99.8M, which accounted for 38% of the entire value of infringing goods.

Apparel and handbags are two product categories where popular brands are regularly knocked-off by counterfeiters. Each group accounted for 8% of the total counterfeit goods seized by U.S. agencies, and each represented a domestic value of \$21.5M.



Watches are the next most popular category for counterfeiting. Expensive timepieces are a status symbol, but fake watches are relatively easy to pass off as real. Over \$15.5M of watches were seized in 2009, which accounted for 6% of total counterfeit seizures.

Source: Customs and Border Protection, Intellectual Property Rights - Seizure Statistics: Fiscal Year 2009

Events

Bread and Butter
July 7-9, 2010 Berlin, Germany
www.breadandbutter.com

2010 Outdoor Retailer Summer Market
August 3-6, 2010 Salt Lake City, Utah
www.outdoorretailer.com

ASR Marketplace 2010
August 13-15, 2010 San Diego, California
www.asrbiz.com

Gamescom
August 18-22, 2010 Cologne, Germany
www.gamescom.de

IFA
September 3-8, 2010 Berlin, Germany
www.ifa-berlin.de

ISC 2010 Conference
September 19-21, 2010 Miami, Florida
www.isc-inc.org

Brand Licensing Europe 2010
September 29-30, 2010 London, England
www.brandlicensing.eu

Published By

OpSec Security, Inc.
3 Copley Place
Suite 201
Boston, MA 02116
P 617.226.3000
F 617.226.3001
www.opsecsecurity.com

Editor
Terri Mock
Vice President, Global Marketing
Email: tmock@opsecsecurity.com

