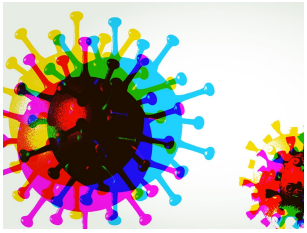

Protecting Your Brand During the Coronavirus

Mar 19, 2020

Categories:

Coronavirus Response Team
Publications

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COVID-19 is impacting every facet of business. Businesses are now being forced to change their sales models due to a spike in consumer demand and a corresponding shortage of supply. These changes create a ripe scenario for the certain enlargement of a secondary market of illegitimate goods and services coupled with increased utilization of secondary market options by unwitting consumers. Therefore, brands must be kept top of mind as your business patterns change and the secondary market grows.

This enlarged secondary market is not just reserved for what you would traditionally think of as counterfeit goods, such as the case with consumer products. It also includes (i) manufacturing shipments,[1] (ii) wholesale shipments,[2] and (iii) phishing and other predatory schemes involving goods and services. You should take steps now to ensure that your business has adequate brand protection and enforcement mechanisms in place to employ both proactive and reactive measures when necessary and where needed.

E-Commerce and Secondary Markets were Problematic Before COVID-19

Counterfeit goods have undoubtedly seen a dramatic increase in recent years, largely due to the rapid growth of e-commerce.[3] Just this past January, the Department of Homeland Security released a 54-page report with recommendations on what actions the U.S. government could and should take to crack down on counterfeit goods, noting that

> "[w]hile counterfeit and pirated goods have been sold for years on street corners, alleys, and from the trunks of cars, these illicit goods are now marketed to consumers in their homes through increasingly mainstream e-commerce platforms and third-party online marketplaces that convey an air of legitimacy."[4]

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This air of legitimacy is created due to the removal of the hands-on purchasing experience that occurs in the brick-and-mortar world – i.e. the ability for a consumer to personally assess the quality of the goods, the quality of the location, and the quality of the seller has been removed. That makes the ability to create genuine looking e-commerce stores and platforms all that much easier.[5]

COVID-19 Compounds the Problem

While COVID-19 is creating global supply chain issues for your business, the fear surrounding COVID-19 is concurrently causing a spike in the demand for both essential and non-essential products amongst consumers. While most businesses, like yours, are doubling down on stop gap measures for supply-chain issues, this spike in consumer demand is creating a shortage in supply for many regions and many types of products. Coupled with the response of both local governments and private sector companies in its closure of access to brick-and-mortar stores, the consuming public is forced to rely solely upon e-commerce for its essential and non-essential needs. Infringers will undoubtedly be taking advantage of the air of legitimacy that can be obtained online.

This air of legitimacy cannot be understated and the following equation may soon take hold in the United States: "spike in demand" + "shortage of supply" + "increased uncertainty of COVID-19" = "an enlarged secondary market of illegitimate products and services for less discerning and/or unwitting consumers." A cursory glance of headlines around the world confirms this is happening. For instance, China has seized over 31 million counterfeit face masks amid the coronavirus outbreak. U.S. ports are increasingly reporting large seizures of counterfeit face masks, test kits, and other medical supplies trying to enter the stream of U.S. commerce. While there is undoubtedly a legitimate need for these types of products, allowance for counterfeit goods in emergency situations should never be an acceptable stop gap measure because the lack of transparency behind counterfeit goods allows for more than just unfair competition – it would invite the normalcy of tactics currently and previously deemed unacceptable by law and society, such as:

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- the use of unfair or illegal labor practices (slave, coerced, or child labor);
- utilization of lower quality components and products (causing harm to its end user); and
- the ultimate funding of illegitimate goals (such as organized crime and terrorism).[6]

Why Should Your Business Care?

Your business is built on name recognition and brand loyalty. Infringers build secondary markets by using your name recognition and brand loyalty to pray upon consumer concerns of cost and supply (among other concerns) for their own monetary gain (and for nefarious causes). While this cuts into your market share and is a measurable damage in and of itself, it also invites consumer confusion which leads to tarnishment of the very name recognition and brand loyalty you have built amongst your consumer base. That latter type of damage is immeasurable and is often the death knell for a business of any size. As the uncertainty of COVID-19 looms, and the more that consumers are forced to rely solely upon e-commerce, not only will infringers take advantage of those consumers looking for products designed to allay COVID-19 related fears, such as with medical supplies, those infringers will most certainly take advantage of less discerning purchasing decisions made for all types of products and services.[7]

You should also bear in mind that while counterfeit products are typically sold through third-party online platforms, illegitimate services are often rendered through domain names that contain the brand name of the legitimate provider. With the increase in top-level domains (TLDs) available within which to register domain names, and the relatively low expense of registering a domain name and creating web content, the internet is ripe for an explosion of cyberpiracy.[8]

What Should Your Businesses Do?

You have a variety of remedies at your disposal, dependent upon whether your brand is the subject of federal trademark

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registrations. As your business tackles supply-chain, employment, and other issues, look at your IP asset portfolio and ask yourself the following questions:

- Trademark Registrations
    - Are my brands registered with the U.S. Patent and Trademark Office (i.e., do I have federal trademark registrations)?
        - If not, what brands do I have and how long have I been using them?
        - If so, and I sell products, do I have those registrations deposited with U.S. Customs to make possible the seizure of counterfeit goods at the border/ports of entry?
        - If so, regardless of my business line, have I deposited my trademark registrations with the Trademark Clearinghouse or otherwise taken advantage of domain name blocking programs?
    - Have recent events prompted my company to offer new products or services that are not covered by existing registrations?
    - If I manufacture products abroad, do I have trademark registrations in those countries?
        - If so, do I have those registrations deposited with local customs authorities for possible seizure upon the export of counterfeit goods?
- Watch Services[9]
    - If I sell consumer products, do I use a third-party vendor to find and take down infringing and counterfeit goods from third-party online platforms, including social media?
    - If I am a service provider, or conduct non-retail sales of products (manufacturing or wholesale), do I have watch services in place for finding infringing domain names or social media handles?

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Depending upon your business and its unique set of circumstances, there may be other questions that should be asked and/or measures employed and our branding and trademark attorneys can help you navigate these issues, shore up your trademark registrations, and employ enforcement measures.

If you would like to learn more, or if you have a specific question about implementing a brand enforcement program, please contact Samantha M. Quimby, Eric Lamb, Cindy Stewart, or any attorney in our Trademark Group.

To provide guidance and support to clients as this global public-health crisis unfolds, Frost Brown Todd has created a Coronavirus Response Team. Our attorneys are on hand to answer your questions and provide guidance on how to proactively prepare for and manage any coronavirus-related threats to your business operations and workforce.

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[1] e-commerce accounted for 66.7% of manufacturing shipments in the U.S. in 2017. See, https://www.census.gov/content/dam/Census/library/publications/2017/econ/estats1.pdf

[2] e-commerce accounted for 32% of wholesale shipments in the U.S. in 2017. Id.

[3] There has been a 154% increase in counterfeits traded internationally — from $200 billion in 2005 to $509 billion in 2016. Similar information collected by the U.S. Department of Homeland Security (DHS) between 2000 and 2018 shows that seizures of infringing goods at U.S. borders have increased 10-fold, from 3,244 seizures per year to 33,810. In the United States, e-commerce year-over-year retail sales grew by 13.3 percent in the second quarter of 2019 while total retail sales increased by only 3.2 percent as brick-and-mortar retail continued its relative decline. See, https://www.dhs.gov/sites/default/files/publications/20_0124_plcy_counterfeit-pirated-goods-report_01.pdf at 4 and 7.

[4] Id. at 8.

[5] In 2017, MarkMonitor found that 39 percent of all unwitting purchases of counterfeit goods were bought through online third-party marketplaces. Id. at 15.

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[6] Id. at 19.

[7] "Usual Suspects" of counterfeits include apparel, jewelry, toys, electronics, media, cosmetics and personal care. Id. at 16.

[8] For more information on the new TLD-era, please see the following legal updates: https://fbtgibbons.com/with-cbd-legal-is-thc-in-the-workplace-a-ok/; https://fbtgibbons.com/the-new-tld-era-much-ado-about-nothing/; and https://www.fbtgibbons.com/resources-the-new-tld-era-status-update-what-have-we-seen-and-what-should-we-expect.html;

[9] Another issue to be mindful of is whether your competitors are unfairly cutting into your market share by using unsupported claims of COVID-19 prevention and cure. See, e.g., https://www.consumer.ftc.gov/features/coronavirus-scams-what-ftc-doing.

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