

# The Trademark Reporter®



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If the IP Fits, Wear It: IP Protection for Footwear—A U.S. Perspective

*Jonathan Hyman, Charlene Azema, and Loni Morrow*

El Principio de Primacía de la Realidad en la Jurisprudencia Sobre Propiedad Industrial del Tribunal de Justicia de la Comunidad Andina

*Hugo R. Gómez Apac*

The Principle of Primacy of Reality in Judicial Precedent on Industrial Property of the Court of Justice of the Andean Community

*Hugo R. Gómez Apac*

Ex Parte Seizure Orders Under 15 U.S.C. § 1116(d) (Section 34 of the Lanham Act): Recent Developments in Case Law

*Brian W. Brokate and Maja Szumarska*

La Marca en la Industria Farmacéutica: El Uso de la Marca del Laboratorio Innovador Para la Promoción del Medicamento Genérico, en el Derecho Español

*Blas A. González Navarro*

Trademarks in the Pharmaceutical Industry: Use of the Innovative Laboratory's Trademark to Advertise the Generic Drug in Spanish Law

*Blas A. González Navarro*

*Commentary: Rethinking Post-Sale Confusion*

*Kal Raustiala and Christopher Jon Sprigman*

*Commentary: Trademark Strength and Fame: The Federal Circuit Corrects the Trademark Trial and Appeal Board*

*J. Thomas McCarthy*

*Book Review: Kane on Trademark Law: A Practitioner's Guide.* Siegrun D. Kane.

*Raffi Zerounian*

*Book Review: You Don't Own Me: How Mattel v. MGA Entertainment Exposed Barbie's Dark Side.* Orly Lobel.

*Pamela Chestek*

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## COMMENTARY

### RETHINKING POST-SALE CONFUSION

*By Kal Raustiala\* and Christopher Jon Sprigman\*\* \*\*\**

#### I. INTRODUCTION

In 2001, global athletic shoe and clothing giant adidas sued the U.S.-based discount shoe retailer Payless ShoeSource for trademark infringement. Payless was selling athletic shoes that looked similar to adidas products: for example, Payless offered a look-alike version of adidas' well-known "Superstar" basketball sneaker, but with four stripes rather than adidas' three.<sup>1</sup>

Adidas



Payless



Adidas claimed Payless infringed its three-stripe trademark, as well as various elements of the Superstar's trade dress—most prominently, the design of the classic rubber "shell toe." A jury in the U.S. District Court for the District of Oregon found Payless liable for willful infringement and rendered a verdict amounting to over \$300 million in monetary relief: \$30.6 million in actual damages, \$137 million in profits, and \$137 million for punitive damages. (The total verdict was later reduced to \$65 million).<sup>2</sup>

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<sup>1</sup> The Payless shoe also included subtle differences in design and construction, such as the heel cup, ankle cushion, and rear tab, visible in the images above.

<sup>2</sup> *adidas Am., Inc. v. Payless ShoeSource, Inc.*, No. CV 01-1655-KI, 2008 WL 4279812 (D. Ore. Sept. 12, 2008).

If you have ever shopped in a Payless store, this verdict may be surprising. Payless did not, and does not, sell globally famous branded shoes like adidas, Nike, Puma, or New Balance. Payless is a cut-price shoe store that sells (and sold at the time) athletic shoes from inexpensive and comparatively little-known brands such as Champion, Airwalk, American Eagle, and SafeTStep. Most consumers in a Payless store examining a four-striped and shell-toed athletic shoe would readily understand—even if it was not already clear from the lack of the word “adidas” anywhere on the shoe—that the shoe was not actually made by adidas but instead was a Payless look-alike. Consequently, it is extremely unlikely that there would be consumer confusion at the point of sale.

Indeed, adidas acknowledged there was no likelihood of confusion at the cash register.<sup>3</sup> The case was not about what Payless shoppers thought in the store. Rather it was about what might happen when the Payless shoppers *left the store* wearing Payless’ look-alike shoes. Adidas claimed the shoes would cause “post-sale confusion”—that is, confusion out on the street, where third parties would see the Payless shoes and believe, mistakenly, they originated with adidas.<sup>4</sup>

The Payless-adidas litigation is a striking example of trademark litigation based in allegations of post-sale confusion.<sup>5</sup> In this

<sup>3</sup> adidas-America, Inc. v. Payless Shoesource, Inc., 546 F. Supp. 2d 1029, 1057-58 (D. Ore. 20018).

<sup>4</sup> Adidas also made a claim about initial-interest confusion. In a pretrial decision, the district court accepted the viability of adidas’ initial-interest and post-sale confusion claims as “well established forms of confusion in this context,” noting that “adidas’ failure to allege point-of-sale confusion is of no consequence.” *Id.* at 1058 (citing cases).

<sup>5</sup> See, e.g., Adidas Am., Inc. v. Skechers USA, Inc., No. 3:15-cv-01741, 201 U.S. Dist. LEXIS 122459 (D. Or. Aug. 3, 2017); Louis Vuitton Malletier S.A. v. Sunny Merch. Corp., 97 F. Supp. 3d 485 (S.D.N.Y. 2015); Oralabs, Inc. v. Kind Grp., LLC, No. 13-cv-00170, 2015 U.S. Dist. LEXIS 98246 (D. Colo. July 28, 2015); Audemars Piguët Holding S.A. v. Swiss Watch Int’l, Inc., 46 F. Supp. 3d 255 (S.D.N.Y. 2014); Coach, Inc. v. Richie’s Playhouse, Inc., No. 11-cv-12638, 2013 U.S. Dist. LEXIS 21180 (E.D. Mich. Feb. 15, 2013); 1-800 Contacts, Inc. v. Lens.com, Inc., 722 F.3d 1229, 1239 (10th Cir. 2013); Abercrombie & Fitch Co. v. Moose Creek, Inc., 486 F.3d 629, 635 (9th Cir. 2007); GMC v. Keystone Auto. Indus., 453 F.3d 351, 356 (6th Cir. 2006); Gibson Guitar Corp. v. Paul Reed Smith Guitars, LP, 423 F.3d 539, 552 (6th Cir. 2005); Acad. of Motion Picture Arts & Scis. v. Creative House Promotions, Inc., 944 F.2d 1446, 1455 (9th Cir. 1991); Ferrari S.P.A. v. Roberts, 944 F.2d 1235, 1244-45 (6th Cir. 1991); United States v. Torkington, 812 F.2d 1347, 1353 n.6 (11th Cir. 1987); Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co., 799 F.2d 867, 872-73 (2d Cir. 1986). In a decision just handed down as this article was going to press, also involving adidas, the 9th Circuit was rightly skeptical of some post-sale confusion claims. Adidas America, Inc. v. Skechers USA, Inc., No. 16-35204, U.S. App. LEXIS 12249 (9th Cir., May 10, 2018). At issue were alleged knockoffs of adidas shoes made by Skechers. As the 9th Circuit argued, “even if Skechers does make inferior products (or even if consumers tend to think so), there is no evidence that adidas’s theory of post-sale confusion would cause consumers to associate such lesser-quality products with adidas.” (at 22). Moreover, the 9th Circuit highlighted a tension we focus on below: that consumers who have trouble discerning the difference between Skechers and adidas shoes probably also cannot discern (or see well enough) any adverse quality differences that would seriously harm adidas (at 21).

commentary, we critique the concept of post-sale confusion and unpack the logic and empirics that undergird efforts to base liability on it. Our focus is on the United States, though the concept exists in other jurisdictions as well.<sup>6</sup> We believe post-sale confusion is real and ought to be addressed by the courts when merited by the circumstances and evidence. Post-sale confusion has distinctive characteristics, however, that have been insufficiently recognized and that render its use to establish an infringement cause of action more difficult than conventional wisdom suggests. In many instances post-sale confusion is either unlikely to exist or, even if it does exist among some observers of the goods at issue, it is unlikely to harm either consumers or mark owners. In such cases, courts should award neither injunctions nor monetary relief because there is no cognizable harm to remedy.

Also, proving that post-sale confusion is likely—and that it will cause harm—is not easy, for two principal reasons. First, proving that a critical mass of relevant observers is, in fact, likely to be confused requires more than simply showing that some people are walking around wearing, or carrying, a look-alike good. We stress the word *observer* because, unlike in the point-of-sale context, post-sale encounters by definition involve observers who may or may not become relevant purchasers at some point in the future. This distinction between observers and purchasers is critical. As we will detail, observers in the post-sale context will not be confused as a matter of course in every instance where the defendant's product looks like the plaintiff's. The circumstances that can lead to confusion post-sale certainly exist, but not in every case.

Second, just because some observers may be confused post-sale does not mean that the confusion is likely to harm either consumers or mark owners. In order to secure injunctive or monetary relief, a plaintiff who succeeds in showing a likelihood of confusion should also be required to articulate how this observer confusion supports a coherent theory that actionable harm is likely to occur.<sup>7</sup> And this

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<sup>6</sup> See, e.g., Case C-206/01, *Arsenal Football Club plc v. Reed*, 2002 E.C.R. I-10273, which is generally read as establishing post-sale confusion in the European Union; Charles Gielen, *Trademark Dilution Under European Law*, 104 TMR 693, 701 (2014) (noting that the CJEU's *Arsenal* opinion "expressly recognized the possibility of post-sale confusion."); P. Sean Morris, *Guess What Gucci? Post-Sale Confusion Exists in Europe*, 47 Val. U. L. Rev. 1, 3 (2012). The U.K. has followed the ECJ's *Arsenal* decision. See *Datacard Corp. v. Eagle Technologies Ltd.*, [2011] EWHC (Pat) 244, [286] (Eng.). Canadian law has moved in a similar direction; see, e.g., Eugene C. Lim, *Dilution, The Section 22 Debacle, and the Protection of Business Goodwill in Canada: Some Insights from U.S. Trademark Law and Policy*, 101 TMR 1232, 1282 (2011), as has Italian law. See Peter McAleese, *Italy: No More Confusion About Post-Sale Confusion*, 63 INTA Bull. (2008).

<sup>7</sup> We are not the first to note this. See, e.g., Jeremy N. Sheff, *Veblen Brands*, 96 Minn. L. Rev. 769, 793-794 (2012); Mark P. McKenna, *A Consumer Decision-Making Theory of Trademark Law*, 98 Va. L. Rev., 67, 102-104 (2012); Connie D. Powell, *We All Know It's a Knock Off! Re-Evaluating the Need for the Post-Sale Confusion Doctrine in Trademark*

can be challenging. Only post-sale confusion that is material to purchase decisions can interfere with the core purposes of trademark law, which are to allow consumers to economize on search costs, and to facilitate producers' incentives to invest in product quality.<sup>8</sup> To be sure, post-sale confusion can sometimes harm consumers and mark owners. In many instances, however, it doesn't.

In practice, courts often simply presume that confusion causes harm. But this presumption is inappropriate in post-sale cases. In contrast to the usual trademark case involving consumer confusion at the point of sale, which is likely to cause—and is appropriately presumed to cause—harm to the consumer and the mark owner, post-sale confusion is less likely to result in harm. Individuals who may be confused post-sale are not necessarily looking to buy a particular good. They may just be observing someone or something out in the world. In this context, simply showing a likelihood of confusion by a random observer is not tantamount to proof of harm sufficient to justify liability.

In the remainder of this commentary, we lay out the conditions under which post-sale confusion might exist. First, we explain why the real-world conditions required to generate post-sale confusion are more difficult to prove than courts and litigants have previously recognized. Those conditions are fairly limited, and the resulting path to a defensible assertion of post-sale confusion is narrow. We conclude that post-sale confusion is real, but rare.

Next, we consider the type of harm that may ensue when onlookers are confused post-sale. We identify two types of possible harm: (1) harm to the senior brand's reputation for *quality*; and (2) harm to the ability of either the senior brand or consumers to signal *status via exclusivity*. We explain the circumstances under which each of these forms of harm may occur. But it is important to underscore that post-sale confusion often produces neither form of harm. Indeed, we go further. In some cases, post-sale confusion may even *benefit* mark owners, consumers, or both.

Our conclusion is that courts should be much more wary than they have been of trademark infringement claims based solely on post-sale confusion. Courts should require plaintiffs pressing such claims not simply to show the likelihood of confusion post-sale, but

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*Law*, 14 N.C. J.L. & Tech. 1, 35-37 (2012); Ann Bartow, *Counterfeits, Copying and Class*, 48 Hous. L. Rev. 707, 741-43 (2012).

<sup>8</sup> See, e.g., William M. Landes & Richard A. Posner, *The Economic Structure of Intellectual Property Law* 6 (2003): "We argue that the principal doctrines of trademark law can be explained as efforts to optimize the value of trademarks in reducing consumer search costs—even in cases in which trademark infringement is charged on the basis of dilution of the plaintiff's mark rather than customer confusion, though we register some concern about possible extensions of antidilution doctrine."

also to demonstrate how that confusion translates into harm to their mark or to consumers.

## II. POST-SALE CONFUSION: PRINCIPLES AND ORIGIN

The traditional focus of trademark law is to protect against consumer confusion.<sup>9</sup> That said, the animating concern is not with consumer confusion in the abstract, but rather with the possible harm that confusion about the source of products can cause to consumers and producers alike. Trademarks permit consumers to economize on search costs while also incentivizing producers to invest in product quality and consistency.<sup>10</sup> If consumers are confused about the source of a good, then markets will function less efficiently. Consumers will waste resources searching for goods of specific quality. Producers, in turn, will not reap the full benefit of their investments in quality and hence may underinvest.

These principles suggest that the sort of consumer confusion that should be actionable as trademark infringement is the sort that is relevant to consumers' purchase decisions. Not all confusion is. Mark Lemley and Mark McKenna have written about the sort of consumer confusion that harms neither consumers nor mark owners,<sup>11</sup> which they memorably label as "irrelevant confusion." Lemley and McKenna are focused principally on sponsorship or affiliation confusion claims, and, secondarily, parody cases—contexts in which, they argue, a substantial number of cases feature irrelevant confusion. But as we shall see, post-sale cases are perhaps even more likely to feature confusion of this sort.

Distinguishing between relevant and irrelevant confusion is critical. Relevant confusion is a serious problem; indeed it is the *raison d'être* of trademark law. Consumers who are confused by a

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<sup>9</sup> As the Supreme Court recently stated, a trademark fundamentally "helps consumers identify goods and services that they wish to purchase, as well as those they want to avoid." *Matal v. Tam*, 582 U.S. \_\_ (2017), at 2. The Lanham Act also contains a provision banning trademark "dilution," *see* 15 U.S.C. § 1125(c), and consumer confusion is not central to trademark dilution claims. Our arguments here relate specifically to trademark *confusion* claims brought under a "post-sale confusion" theory.

<sup>10</sup> *See* McCarthy on Trademarks and Unfair Competition: "Microeconomic theory teaches that trademarks perform at least two important market functions: (1) they encourage the production of quality products; and (2) they reduce the customer's costs of shopping and making purchasing decisions." J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 2.3 (5th ed. 2017).

<sup>11</sup> Mark A. Lemley & Mark McKenna, *Irrelevant Confusion*, 62 *Stan. L. Rev.* 413 (2010). Lemley and McKenna's critique is that too often courts have focused on irrelevant confusion; that is, confusion that has no reasonable relationship to actual purchase decisions but instead may fall more in the realm of confusion about endorsement. Lemley and McKenna suggest in particular that many sponsorship or affiliation confusion cases feature potentially irrelevant confusion and an additional materiality requirement should be applied for such cases (requiring the plaintiff to establish that the sponsorship or affiliation confusion was material to purchase decisions). *See id.* at 421.

junior user's identical or similar mark can no longer reliably economize on search costs. This harms consumers who must invest more in search, and who may end up with a product they did not want. And it harms the senior mark owner, both in terms of lost sales, and in possible reputational damage that may arise when consumers have a negative experience with a product that they mistakenly believe is produced by the senior mark owner.

All of this can apply to post-sale confusion just as it does to point-of-sale confusion. However, the relationship between confusion and harm in the post-sale context is far more complex and contingent. In the traditional context of point-of-sale confusion about *source*,<sup>12</sup> it is quite reasonable to collapse the distinction between confusion and harm. That harm flows from confusion may readily be presumed because purchasers are, by definition, engaged in a purchase. A consumer who thinks he is buying adidas shoes but is really buying a Payless knock-off may well represent a lost sale for adidas or, later, a disappointed customer who eschews adidas because the experience was poor. And the consumer is herself harmed because she purchased a shoe that, had she understood its true source, she may not have wanted.<sup>13</sup>

The post-sale context is different. The majority—likely the vast majority—of people who see a four-striped shoe on the feet of a stranger out on the street may never notice the four stripes, and therefore never draw any inference about source when observing the good in question. This makes post-sale confusion claims fundamentally unlike point-of-sale claims. In point of sale claims by definition *every purchaser* is undertaking a deliberate act—a purchase—and therefore making an assessment about the source of the product being bought. In post-sale claims, none of the observers may be intending to purchase the good, and by definition none are confused *while* purchasing. Indeed, none of the “observers” may even notice the putatively infringing mark or dress. And even if a person on the street who sees four-striped shoes on the feet of a stranger does notice the stripes and is confused, that confusion may or may not cause harm.

As this suggests, post-sale confusion may not directly harm either adidas or consumers if those who are confused post-sale have no intent to purchase adidas shoes in the first place. Nor is there harm if confusion leads the observer to desire the shoes and to purchase them from adidas, which the observer believes (incorrectly) to be the source of the look-alike product they saw on the street. Indeed, in this scenario adidas gained a sale from

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<sup>12</sup> That is, rather than point-of-sale confusion about affiliation or sponsorship, which is less likely to harm. *Id.*

<sup>13</sup> Note that the presumptive link between point-of-sale confusion and harm is more tenuous for certain instances of “sponsorship or affiliation” confusion, as opposed to “source” or “quality” confusion. *Id.*



confusion.<sup>14</sup> Whether harm ensues in a post-sale context depends upon the specifics of the confused observer's perception, her intent with regard to the product, and a host of other factors we will discuss below. In sum, the path connecting post-sale confusion to harm is far more winding and uncertain than in traditional point-of-sale scenarios.

The Lanham Act, which establishes the framework for federal trademark law in the United States, does not expressly discuss post-sale confusion. Nonetheless, over the past few decades many American courts have accepted post-sale confusion as a valid theory supporting a claim of trademark infringement.<sup>15</sup> The lower federal courts developed the doctrine in the wake of 1962 amendments that removed prior language in the Lanham Act limiting liability to confusion involving "purchasers" (the excised language limited trademark liability in most cases to point-of-sale confusion).<sup>16</sup> The House Committee Report on the 1962 Amendments states that the purpose of the change "is to coordinate the language here with that used elsewhere and to omit the word 'purchasers,' since the provision actually relates to potential purchasers as well as to actual purchasers. The word 'purchasers' is eliminated so as to avoid the possibility of misconstruction of the present language of that statute."<sup>17</sup>

This legislative history is not dispositive, but it does suggest that Congress intended to extend the Lanham Act's protections at least to those with an intent to purchase, not merely those who have purchased or are in the process of purchasing. Still, accepting the rationale of the House Committee Report, for confusion to be actionable, at a minimum it must be purchase-relevant—i.e., it must be the sort of confusion that could have consequences for present or future purchasers.

<sup>14</sup> We say more about this phenomenon below.

<sup>15</sup> See *1-800 Contacts, Inc. v. Lens.com, Inc.*, 722 F.3d 1229, 1239 (10th Cir. 2013); *Abercrombie & Fitch Co. v. Moose Creek, Inc.*, 486 F.3d 629, 635 (9th Cir. 2007); *GMC v. Keystone Auto. Indus.*, 453 F.3d 351, 356 (6th Cir. 2006); *Gibson Guitar Corp. v. Paul Reed Smith Guitars, LP*, 423 F.3d 539, 552 (6th Cir. 2005); *Acad. of Motion Picture Arts & Scis. v. Creative House Promotions, Inc.*, 944 F.2d 1446, 1455 (9th Cir. 1991); *Ferrari S.P.A. v. Roberts*, 944 F.2d 1235, 1244-45 (6th Cir. 1991); *United States v. Torkington*, 812 F.2d 1347, 1353 n.6 (11th Cir. 1987); *Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, 799 F.2d 867, 872-73 (2d Cir. 1986). Some courts, the Seventh Circuit in particular, have limited the theory's applicability to potential purchasers. See, e.g., *Dorr-Oliver, Inc. v. Fluid-Quip, Inc.*, 94 F.3d 376, 381-84 (7th Cir. 1996); *Nike, Inc. v. Just Did It Enters.*, 6 F.3d 1225, 1229-30 (7th Cir. 1993). Compare *Beacon Mut. Ins. Co. v. OneBeacon Ins. Grp.*, 376 F.3d 8, 17 (1st Cir. 2004) (holding that post-sale confusion can extend beyond the scope of potential customers).

<sup>16</sup> Act of Oct. 9, 1962, Pub. L. No. 87-772, § 17, 76 Stat. 769, 773 (current version at 15 U.S.C. § 1114 (2012)); see *Syntex Labs. v. Norwich Pharmacal Co.*, 437 F.2d 566, 569 (2d Cir. 1971) (holding post-sale confusion actionable). The Supreme Court has never approved or even discussed post-sale confusion. See *Sheff*, *supra* note 7, at 773.

<sup>17</sup> (House Comm. Report, 4).

And indeed when considered in this framework, post-sale confusion makes intuitive sense as a potentially harmful form of confusion. It is entirely possible an onlooker might glance at the Payless shoes on a pedestrian's feet and mistake them for the adidas shoes they were designed to imitate. And it is entirely possible that such an observer may in turn draw a negative inference, and even refrain from a purchase because of that inference. In short, post-sale confusion is a real possibility. A key question, to which we now turn, is *under what circumstances* it occurs, and when confusion post-sale is likely to cause harm to either consumers or mark owners. We consider those two questions in turn.

### III. WHEN IS THERE POST-SALE CONFUSION?

Consider the chain of events necessary to create observer confusion in a post-sale context:

First, a purchaser must buy a good from a producer ("Not Brand"), and this good must mimic the mark or trade dress of another source ("Brand").<sup>18</sup>

Second, an observer must spy the Not Brand good at a later time (or else the observation is not "post-sale"), and the observation must be *salient*—i.e., it must be important or relevant enough to the observer for it to rise to an observation of which the observer is conscious, rather than remaining just one of a multitude of fleeting sense impressions that occur every moment in ordinary life. It is only when the post-sale observer makes a salient observation that the observer is able to draw an inference that might be labeled as "confusion."

Third, the observer must be familiar with Brand. That is, the observer must be sufficiently sophisticated to have some knowledge of the trademark and associated products of Brand and to infer that Brand is the source of a good she observes on the street.

Fourth, and critically, for post-sale confusion to occur, the observer must *wrongly* infer the source. If she correctly observes that the good is Not Brand, or at least that it is not Brand, there is no post-sale confusion. Only if she *sees* Not Brand, *knows* Brand, and *mistakenly believes* Not Brand is really Brand is there any post-sale confusion.

Like Goldilocks and the porridge in the fairy tale, things must be just right. The observer must know the attributes of Brand well enough to see them in the purchaser's Not Brand good. But she must not be so sophisticated that she can see any differences in the goods' appearance that may otherwise point out to her that Not Brand is

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<sup>18</sup> Whether the purchaser purchases the good aware it copies some other mark is immaterial to the post-sale confusion question; post-sale confusion can in principle occur alongside point-of-sale confusion or in its absence. What matters to the assessment of post-sale confusion is what the observer thinks, not the consumer.

really just a look-alike. Too little sophistication on the part of the observer, and she misses the source-identifying features. Too much, and she spots the knockoff.

Aside from the critical issue of the observer's precise level of sophistication, the context of her post-sale observation of Not Brand's product must also fit within a narrow range. The observer must be close enough to perceive the similarities in trademark or trade dress leading to confusion. But the observer must also be distant enough, or inattentive enough, that she fails to perceive differences in mark, dress, general design, materials, or quality that might otherwise signal to the observer that the senior mark owner does not in fact produce the product in question. And by definition, post-sale confusion involves observation of used goods. Those goods may be worn, damaged, or dirty, which may influence the observer's ability to discern whether the item is Not Brand, Brand, or some other brand altogether.

The importance of both consumer sophistication and the empirics of the consumer's observation cannot be overstated in the context of post-sale confusion. If post-sale confusion is to be relevant as an independent basis for trademark liability as asserted by adidas in the Payless case, there must be instances in which consumers are unlikely to be confused at the point of sale, but in which confusion is nonetheless likely for post-sale observers. In many cases in which point-of-sale confusion is unlikely, it is precisely because the overall appearance of defendant's goods is sufficiently distinguishable such that similarities in marks or dress are, out on the street, also rarely likely to lead to substantial confusion after the sale.<sup>19</sup> So it is often in the very instances in which post-sale confusion is likely to be the primary or sole basis for the cause of action that product features allowing consumers to distinguish the defendant's goods from the plaintiff's are most likely to be present. The key is that any distinguishing features have to be subtle enough that some observers miss them, even though (by definition) these observers know enough about the category of goods in question to know what they see is similar to, and maybe even an example of, Brand.

As these many caveats and twists and turns suggest, when properly evaluated, post-sale confusion is a difficult thing to establish. If a plaintiff can pass through this narrow empirical gauntlet—that is to say, if the plaintiff can show (1) similarity in marks or dress that (2) post-sale observers notice and treat as salient to them, and is (3) likely to confuse those observers who are

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<sup>19</sup> This is not true in all cases. Sometimes a difference in sales channels helps distinguish the plaintiff's and defendant's products, eliminating likely confusion at the point of sale. Post-sale observers generally are unaware of the circumstances surrounding the purchase of defendant's good, including sales channels, so those point-of-sale clues will be absent in the post-sale context.

(4) familiar enough with the plaintiff's brand to spot the similarities, and yet (5) not familiar enough or otherwise not likely to perceive differences that would apprise them that the defendant's product does not in fact originate with plaintiff—then, *and only then*, is there a plausible allegation of post-sale confusion. The plaintiff must show that each step is likely to be present, which will be difficult to do in many cases.

In our view, many litigants, commentators, and courts have not taken seriously the complexities of demonstrating the likelihood of post-sale confusion. They have far too easily embraced the idea that because two goods look alike, there is a virtual certainty of confusion once they are purchased and out in the stream of social life. As a result, too often liability is found based only on the assumption that similarity inevitably leads to confusion—and then to harm.

To give but one well-known example of this general problem—an older case that demonstrates the sort of easy equivalence between similarity and confusion we decry—consider the decision in *Mastercrafters Clock and Radio Co. v. Vacherin-Constantin Le Coultre Watches, Inc.*<sup>20</sup>

*Mastercrafters* was a case involving a copy of an expensive wall clock. The Second Circuit stated that:

At least some customers would buy [the copier's] cheaper clock for the purpose of acquiring the prestige gained by displaying what many visitors at the customers' homes would regard as a prestigious article. [The copier's] wrong thus consisted of the fact that such a visitor would be likely to assume that the clock was an Atmos clock. [T]he likelihood of such confusion suffices to render [the copier's] conduct actionable.<sup>21</sup>

This passage exemplifies the problem we identify. The court asserts that confusion is likely. Yet the opinion gives scant consideration to the important threshold question of whether the features of the Atmos wall clock are so widely known among the general public that observers are likely to recognize the design as indicating the *source* of the product, as opposed to simply being attractive. Nor does the court consider the likely sophistication of observers, or the possibility that observers, seeing the “Mastercrafters” name, which is printed directly on the copier's clock, or the electrical cord (a feature of the copier's clock absent from the Atmos clock, which was driven by atmospheric pressure) would understand that Atmos is not the source of the Mastercrafters clock. Rather, the court declares that the supposed assumption on the part of some buyers that the clock may fool observers is enough to show a likelihood of observer confusion—and that, in turn, “suffices” to establish infringement.

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<sup>20</sup> 221 F.2d 464 (2d Cir. 1955).

<sup>21</sup> *Id.* at 466.

Another way of considering this problem will help make this clear: Imagine a consumer wearing a pair of Payless's adidas look-alikes on a New York City street. There are thousands of potential observers walking by. Imagine further that 10 percent of the individuals walking down the street own a pair of adidas shoes already, that 10 percent of that 10 percent are considering buying a new pair in the near future, and that a separate 5 percent of the observers are considering an adidas pair for the first time. Of all the observers, a tiny fraction on that busy street actually observe the Payless shoes, and an even smaller fraction find that observation relevant enough such that it emerges from a swarm of other sense impressions, and becomes salient and therefore able, in theory, to affect their potential future purchases.

That cohort, likely to amount at most to a handful of people, could certainly be confused in a purchase-relevant manner, but only if the conditions we detailed earlier—observers who treat the observation as salient, who are sophisticated enough to see the tie to adidas' design, but not too sophisticated so as to tell this is a knockoff, close enough, but not too close, and, importantly, who are potential consumers—are satisfied. Even being generous, the number of confused observers with a reasonable likelihood of purchasing adidas shoes is likely to be very small. One can extrapolate mathematically—so many shoes on the street, so many potential observers, so many days wearing the shoes—but the basic question remains: some purchase-relevant confusion is certainly possible, but is it sufficient to justify trademark infringement liability? And is it likely enough, or substantial enough, to justify the award of injunctions and money damages?

At a minimum, plaintiffs pressing post-sale confusion claims should be required to provide evidence showing the likelihood of a more than *de minimis* level of purchase-relevant post-sale confusion. For the cases in which plaintiff successfully shows that likelihood, courts must still be cautious to ensure that monetary awards are assessed only for the harm caused by purchase-relevant confusion, and not any portion of post-sale confusion that is not purchase-relevant. Additionally, courts should require plaintiffs to show whether, and how, post-sale confusion is likely to cause harm. To better justify liability based on post-sale confusion requires a far deeper analysis of how confusion in a particular post-sale case translates into harm to the brand owner that trademark law is supposed to address. We turn to that issue now.

#### IV. POTENTIAL HARM FROM POST-SALE CONFUSION

As *Mastercrafters* illustrates, courts have generally treated likelihood of confusion as both necessary and sufficient for

trademark infringement liability. The conflation of confusion with harm is reasonable in the ordinary point-of-sale context.<sup>22</sup> But this conflation does not make sense in the post-sale context because post-sale confusion is not limited to consumers. For virtually any scenario of post-sale confusion, there will be many observers who (even assuming they *are* confused) have no intention to purchase nor any likelihood of purchasing the item in the future. They are just walking by, or, as in the *Mastercrafters* scenario, visiting the home of a friend. Whatever confusion exists is, for this non-purchasing majority, likely to be irrelevant. As a result, for such confusion to address the underlying rationales for trademark law, plaintiffs need to show more than likelihood of confusion. They must show likelihood of harm.

Too often this step is omitted and confusion conflated with harm. For example, the *Mastercrafters* court never explains how observer confusion in that case, if it even exists, may harm the brand owner. If an observer visits a friend's house, looks up to check the time, sees the knockoff clock, and mistakes it for the senior brand owner's original, may the brand owner file a trademark confusion complaint the moment the consumer scratches his head? No. The observer's confusion is unlikely to be purchase-relevant in the post-sale context of the *Mastercrafters* case, *because there is no evidence that the observer is buying or has any intention to buy a wall clock*. To justify an infringement finding and remedies, more is needed.

To see this, consider a scenario in which post-sale confusion on the part of an observer is clearly established. And let us stipulate that this observer happens to have an intent to buy the item. Here, any confusion is also clearly purchase-relevant. But "purchase-relevant" is not in every instance equivalent to "likely to harm." If the consumer mistakes the Payless shoe he sees out on the street for an adidas shoe, and then runs off and buys the adidas shoe, there is no economic harm to adidas arising from post-sale confusion. The consumer, too, has bought what he believed he wanted and is

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<sup>22</sup> At least in point-of-sale cases involving source or quality confusion, as distinguished from sponsorship or affiliation confusion. An illustrative example can be drawn from *Dawn Donut* and its progeny. *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358 (2d Cir. 1959). That case involved potential point-of-sale source confusion stemming from use of identical marks for the retail sale of donuts. But the court refused to grant the plaintiff any relief despite the identical marks on identical goods, noting that because the plaintiff did not sell donuts in the geographic areas serviced by defendant, there was "no likelihood of confusion arising from the concurrent use of the marks." *Id.* at 360. On the other hand, if the plaintiff began to sell (or were planning to sell) donuts in the defendant's trading area, there would be a likelihood of confusion, and an application for an injunction could be made by the plaintiff at that time. This holding indicates the importance of *harm* to the grant of relief. Likely confusion in the abstract, unconnected to potential purchases, is not the relevant issue. Only when there are instances in which customers could possibly buy defendant's donuts under the impression they were purchasing plaintiff's would that represent relevant confusion in the form of potential lost sales for plaintiff.

unharmful. Indeed, arguably adidas has benefited from this post-sale confusion, since the confusing knockoff spurred the purchase—perhaps by reminding the observer how cool the design is, or perhaps by revealing that design for the first time to the observer. (We say more about this mechanism of *beneficial confusion* below.)

In sum, the path that leads from confusion to harm is more winding in the post-sale context versus in the point-of-sale context. To be sure, confusion can yield harm. Imagine post-sale confusion *inside an adidas shoe store*, in which the observers are all there to buy shoes and happen to notice another customer wearing the Payless knockoff of adidas' Superstar shoe. If the customers see the Payless shoes are low quality, believe them to be adidas, and refrain from buying adidas shoes as a result, then clearly both adidas and the consumers have been harmed. But this example is very improbable. In the next sections, we'll discuss more plausible scenarios where post-sale confusion leads to harm, either by harming the brand's reputation for *quality*, or by impairing the ability of the brand or the consumer to *signal status through exclusivity*.

## ***A. Types of Possible Harm from Post-Sale Confusion***

### **1. Harm to Quality**

The first and most straightforward possible harm from post-sale confusion relates to the brand's reputation for *quality*. Let's posit that an observer sees a purchaser wearing Not Brand and mistakenly believes it is Brand. And let's posit further that in this post-sale context, the confused observer notes the good is shoddily constructed: the stitching is off, the label is uneven, the edges are frayed, etc. (We will put aside the fact that in a post-sale setting goods are by definition used, and hence very likely to have some degree of wear and tear.) In this scenario, the observer makes an adverse quality judgment about Brand due to her inability to discern that the (shoddily made) good is really Not Brand.

It is important to note that an even more delicate balance must exist for this scenario to result beyond what is required for post-sale confusion in general. For post-sale confusion to harm the senior brand's quality reputation, the observer must possess three things. First, enough discernment to infer that Brand may be the source. Second, not enough discernment to infer the true source of the good as Not Brand. (These two, taken together, establish confusion.) Third, the observer must *also* possess enough discernment to perceive the good's quality negatively, thereby establishing a negative association with Brand. That is, the observer must take in information sufficient to form a negative (and mistaken) impression of the quality of Brand's product, yet that information must be

insufficient to clue the observer in that the product is not in fact produced by Brand.

For all of these things to be true is not impossible. Yet the space for this sort of confusion—the sort that leads to harm to Brand’s reputation for quality—is plainly narrow. If the observer is in fact confused and refrains from purchasing Brand because of an adverse quality judgment (or talks down the brand as a result to other putative purchasers whose purchase intention is thereby blunted), plausible harm to Brand exists and a finding of post-sale confusion, and a resulting claim of trademark infringement, can be sustained. Reputational harm requires a confused observer to draw an adverse quality judgment as a direct result of her confusion.<sup>23</sup>

## 2. Possible Harm to Exclusivity

The second, and more complex, category of harm relates to *exclusivity*. There are two closely related variants of this type of alleged harm, both of which may be broadly analogized to theories of dilution and tarnishment in trademark law generally. For the first, imagine an observer sees a person wearing Not Brand, which she mistakenly believes is Brand. In addition, the person is wearing another item from cheap Uncool Brand. In this scenario, the observer may infer that Brand has lost its luster, has gone down-market, or is so overexposed that even wearers of (putatively undesirable) Uncool Brand are wearing it. (One can substitute any other supposedly unattractive feature of the unfortunate person in our hypothetical for the scenario to work.)

In the luxury goods sector, this kind of negative inference about who purchases a given brand is often thought to be damaging.<sup>24</sup>

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<sup>23</sup> Even if an observer neither intended to nor plausibly could become a buyer (let’s say she is a middle-class person observing a knockoff car imitating the look of a million-dollar Ferrari LA FERRARI-branded vehicle drive by), it is at least possible—though again, not very likely—that she may talk or write about the product or mark in a way potentially influencing other would-be purchasers in their decisions. Perhaps the observer has a large social media following and posts an Instagram of the fake Ferrari along with a disparaging note about it (while still erroneously assuming it to be a real Ferrari). This scenario contains confusion but is purchase-relevant only in a more attenuated way—i.e., via any of the observer’s Instagram followers who may be contemplating purchasing a LA FERRARI car and are *themselves confused* about the true source of the car by the observer’s communication. We do not mean to deny that harm via post-sale communication from non-purchasers to purchasers is possible, but proof of harm requires plaintiffs to show that circumstances are right. If a confused observer who herself has no purchase intention is unlikely to communicate her views to others, her confusion is irrelevant. As a consequence, courts should require plaintiffs pursuing a post-sale confusion theory to show either that some substantial number of possible purchasers are likely to be confused, or that observers who have no purchase intention did communicate or are at least reasonably likely to communicate with possible purchasers in ways that may blunt that purchase intention.

<sup>24</sup> An infamous *Economist* magazine story about champagne and hip hop featured this exchange with Roederer’s French managing director about Cristal, a signature product of Roederer and a beloved icon of many hip hop songs and videos: “Asked if an association



Many luxury goods trade on association with wealth and high social status; if a luxury brand loses that aspirational quality, it may face an accelerating downward cycle of status. This is not due to adverse judgments about *product* quality, as above. It is instead due to judgments about *brand* quality and specifically about the quality of the brand's customers. The (distasteful) supposition is that association with some types of customers will harm the brand. In this sense, as noted above, the claim is much like conventional claims of trademark tarnishment, except with association with particular undesirable human beings, rather than offensive or salacious ideas, proposed as the source of harm.

A famous example of this supposed danger—though not specific to post-sale confusion—is Burberry. A venerable English apparel company with an iconic check pattern known worldwide, Burberry in the early aughts expanded its line and began to attract a different clientele. As a 2014 *Daily Mail* story about the brand's eventual resurrection to desirability put it:

Hard to believe that it was only a decade ago that the brand seemed in crisis and that check was less icon, more albatross. Far too widespread for its own good, it had become known as 'chav check'. Immediately recognisable—and affordable, on items such as a £50 baseball cap—it was accessible luxury that became far too accessible. . . . Real or fake, it was on everything from bikinis to bags, favoured by football hooligans and—most spectacularly—worn head to toe (including toddler and buggy) by EastEnders actress Danniella Westbrook in 2002. It is hard to remember another single photograph doing a brand so much damage.<sup>25</sup>

In British slang, a “chav” is, according to the Oxford English Dictionary, “a young lower-class person who displays brash and loutish behaviour and wears real or imitation designer clothes”<sup>26</sup>; “chav check” was not a compliment. As a commentator in the *Daily Mail* story put it, Burberry became “associated with people who did bad stuff . . . . Quite a lot of people thought that Burberry would be

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between Cristal and the bling lifestyle could actually hurt the brand, he replies: “That’s a good question, but what can we do? We can’t forbid people from buying it. I’m sure Dom Pérignon or Krug would be delighted to have their business.” *Bubbles and Bling*, Economist (May 8, 2006), <http://www.economist.com/node/6905921>. In dilution cases—not our focus here—one sees similar arguments. See, e.g., *Cartier, Inc. v. DeZiner Wholesale, LLC*, 2000 WL 347171 at \*6 (S.D.N.Y. Apr. 3, 2000) (finding of dilution based in part on likelihood that “sophisticated, brand conscious consumers will lose interest in the [brand] as they see the number of inferior products in the market bearing the [brand] name grow”).

<sup>25</sup> Catherine Ostler, *As Romeo Beckham Stars in Their New Ad, How Burberry Went From Chic to Chav to Chic Again*, Daily Mail (Nov. 5, 2014), <http://www.dailymail.co.uk/femail/article-2822546/As-Romeo-Beckham-stars-new-ad-Burberry-went-chic-chav-chic-again.html>.

<sup>26</sup> <https://en.oxforddictionaries.com/definition/chav>.

worn by the person who mugged them.”<sup>27</sup> Stripped of euphemism, Burberry’s problem was that the wrong class of person now wore its goods. The quality of the goods were unchanged; it was the quality of the consumers that had changed.

The problem with using trademark law to regulate this sort of putative harm should be obvious. It frames trademark law as a tool to discriminate on the basis of social class and to protect social status by limiting access to select status markers. Most litigants and courts are uncomfortable explicitly resting trademark protection on such a dubious social purpose. As a result, they typically frame the exclusivity argument in a way not focusing directly on social distinctions, but instead on consumers’ generalized desire for exclusivity and specialness.

This is the second variant of exclusivity harm, and we see it employed, for example, in *Hermes International v. Lederer de Paris Fifth Avenue, Inc.*,<sup>28</sup> a 2000 case involving look-alike handbags. This second variant differs subtly from the first variant in that there is no quasi-tarnishment claim; instead the claim is one of overexposure or loss of exclusivity *generally*. That said, by definition there is a group that possesses the good and a group that does not—or that the brand owner does not want *perceived* as possessing the good—and so at bottom both variants of exclusivity harm are, as the name suggests, about drawing lines and insuring that only some have access and others do not.<sup>29</sup>

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<sup>27</sup> Ostler, *supra* note 25. We underscore that there was no post-sale confusion causing this alleged problem for Burberry; the source of the harm to the brand was overexposure brought about by the brand itself.

<sup>28</sup> 219 F.3d 104 (2d Cir. 2000).

<sup>29</sup> *Id.* at 109. Alternatively, in a 1987 case involving counterfeit luxury watches, the Eleventh Circuit offered a different rationale for protecting against post-sale confusion. (Counterfeit cases raise related but distinct issues that we intend to address in a future article.) The court asserted that a key reason to enforce trademarks is to promote investments in quality, which would benefit *future* consumers:

It is important to recognize that the enforcement of trademark laws benefits consumers even in cases where there is no possibility that consumers will be defrauded. For, to the extent that trademarks provide a means for the public to distinguish between manufacturers, they also provide incentives for manufacturers to provide quality goods. Traffickers of these counterfeit goods, however, attract some customers who would otherwise purchase the authentic goods. Trademark holders’ returns to their investments in quality are thereby reduced. This reduction in profits may cause trademark holders to decrease their investments in quality below what they would spend were there no counterfeit goods. This in turn harms those consumers who wish to purchase higher quality goods.

United States v. Torkington, 812 F.2d 1347, 1353 n.6 (11th Cir. 1987). This account of the threat from post-sale confusion depends critically, as the court states, on the ability of “[t]raffickers of the [ ] counterfeit goods” to “attract some customers who would otherwise purchase the authentic goods.” Note that the court has ruled out consumer confusion (“enforcement of trademark laws benefits consumers even in cases where there is no possibility that consumers will be defrauded”), and so the *Torkington* court is positing that *non-confused consumers* who would otherwise purchase the branded

In *Hermes v. Lederer*, the Second Circuit noted that “[t]rademark laws exist to protect the public from confusion.” But the opinion then declared that “a loss occurs when a sophisticated buyer purchases a knockoff and passes it off to the public as the genuine article, thereby confusing the viewing public and achieving the status of owning the genuine article at a knockoff price.”<sup>30</sup> In this passage the court appears to be endorsing the notion that purchasing a status marker at a discount is a harm that trademark law ought to police. The knockoff purchaser (what the class-conscious British might call a “bounder”) has unfairly acquired status at a discount price. And, to make matters worse, she has duped the public into thinking she has acquired the real thing. Precisely why this is harmful to the public is never spelled out—unless we frame confusion about someone’s social class as a harm in itself. Trademark’s fundamental purposes may have evolved, but few would argue that policing class distinctions in this manner is an appropriate role for any intellectual property right.<sup>31</sup>

Moreover, it is misleading to state, as the *Hermes* court did, that the problem is “achieving status” at a “knockoff price.” Imagine that an Hermes bag is given away to attendees at an exclusive awards season event in Hollywood. (The so-called “swag bag”—quite literally in this hypothetical.) Here the recipient has certainly “achieved the status of owning the genuine article at a knockoff price”—in fact, she achieved it for free. But there is no trademark violation. The same is true if someone steals an Hermes bag and carries it as if it were her own. The real issue is not acquiring the status-marking good cheaply, or even for free. It is that an item that has the *appearance* of the status-marking good is readily available—too readily available—to (presumably) any comer. The issue,

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original will choose to purchase the counterfeit. While we cannot rule out that some would-be purchasers with the means to afford an original Rolex or other luxury watch will instead buy a cheap counterfeit, the 11th Circuit offered no evidence to suggest that this is the majority of counterfeit purchasers—or even a meaningful fraction—and indeed we are not aware of any evidence supporting this claim. Moreover, there is some evidence to the contrary. One Harvard Business School study suggests that even if such a purchase occurs, this does not necessarily represent a lost sale for the luxury goods maker but instead a *deferred* sale. See Renee Gosline, Counterfeit Labels: Good for Luxury Brands? *Forbes*, <https://www.forbes.com/2010/02/11/luxury-goods-counterfeit-fakes-chanel-gucci-cmo-network-renee-richardson-gosline.html#436da8b34f54>; Renee Gosline, *The Real Value of Fakes: Dynamic Symbolic Boundaries in Socially Embedded Consumption*, at 36 (May 2009) (unpublished doctoral thesis, Harvard Business School) (finding that over 40 percent of studied counterfeit handbag consumers ultimately purchased the authentic brand), available at <https://search.proquest.com/openview/8be389c29f9ddb66788cfa6b0b3610db/1?pq-origsite=gscholar&cbl=18750&diss=y>; arguing that many well-off purchasers of counterfeits use them as trial balloons or test items and then, later, purchase the original.

<sup>30</sup> *Id.* at 108-109.

<sup>31</sup> For an argument that IP law has already, perhaps unconsciously, taken this tack, see Barton Beebe, *Intellectual Property Law and the Sumptuary Code*, 123 Harv. L. Rev. 809 (2010).

consequently, is oversupply, and this oversupply erodes the exclusivity that many purchasers of luxury goods crave and seek.<sup>32</sup>

This argument about harm suggests that an exclusive item associated with a well-known mark becomes less exclusive when readily available knockoffs or homages of the item become common. This argument rests on the central importance of status to many marks, and to their consumers. As Jeremy Sheff has argued, if the symbols used to stake claims to status are freely available to anyone, “a classic problem of information economics arises: the claim loses its credibility—indeed its very meaning—due to indiscriminate use.”<sup>33</sup> Trademark law’s response is to “incentiviz[e] private parties to ration access to such symbols.”<sup>34</sup> By doing so, trademark law “creates the scarcity that is required for the symbols to have social meaning.”<sup>35</sup> Consumers will seek, in the *Mastercrafters* court’s words, to “acquire[] the prestige”<sup>36</sup> associated with an iconic brand. If they can do so cheaply, the prestige itself will be degraded. We see this dynamic in *Hermes*: in the court’s reasoning, the knockoff buyers free-ride on the status associated with an exclusive good and are not merely neutral actors out for a bargain. The mark holders in turn seek to deploy the courts to rein in that behavior and secure the status that would be otherwise dissipated through overexposure.

However, courts often fail to explicitly connect this sort of observation about acquiring prestige on the cheap to a clear and compelling argument about how either the brand owner or consumers would be harmed. One way to understand the *Mastercrafters* decision is as a bid to protect the prestige of the plaintiff’s very expensive clock by enforcing its scarcity. If a deluge of cheap look-alikes means that a status-seeking purchaser does not get what he paid for, that purchaser may refrain from further

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<sup>32</sup> Indeed, in *Hermes*, the Second Circuit also stated that the purchaser of an expensive and coveted original “is harmed by the widespread existence of knockoffs because the high value of originals, which derives in part from their scarcity, is lessened.” The real issue here is not necessarily related to confusion, whether post-sale or otherwise. It could be that confusion about source leads to a mistaken belief that plaintiff’s formerly exclusive product is now less exclusive. But even without confusion, the existence of cheaper, more readily available products that mimic an expensive and coveted original good can render the original good less coveted. In essence, the purchaser thinks she is getting a branded item that few will possess, but in reality is getting something less exclusive, and therefore less desirable. As McKenna notes, “It is pretty obvious to anyone who reads these [post-sale] cases fairly that they are not really motivated by concern about the impact of confusion on observers of defendant’s goods. They are instead clearly intended to preserve for the mark owner the prestige value of the mark irrespective of confusion.” McKenna, *supra* note 7, at 104.

<sup>33</sup> Sheff, *supra* note 7, at 774.

<sup>34</sup> *Id.*

<sup>35</sup> *Id.* at 774-75.

<sup>36</sup> *Mastercrafters*, 221 F.2d at 466.

purchases in the future. This may harm the purchaser (at least if his alternative status-conferring good is distinctly second-best). The brand owner too may be harmed because other potential status-seeking purchasers refrain from buying the real thing, fearing they likewise will fail to obtain the status they seek. This sort of harm does not follow ineluctably from confusion, however. Indeed, for those brands that do not rely on exclusivity as their source of appeal, the harm is unlikely to occur at all. And even for brands whose appeal is rooted in exclusivity, the likelihood that post-sale confusion may lead to harm depends heavily on context. A brand's reputation for "exclusivity" does not mean that it is never seen. It means that it is not "over-seen."

It is vital, however, to note that in none of the scenarios we have described (in which brand exclusivity is somehow endangered) is there necessarily any post-sale confusion. Perhaps no one is confused, whether at point of sale or after. Rather, the wide availability of many look-alikes makes some putative purchasers refrain from purchasing the original on the grounds that the look or style is too mainstream. These purchasers are fully aware of who makes what; they are seeking distinction and differentiation in the design of their goods.<sup>37</sup> Here we have the inverse of *Mastercrafters*: rather than confusion without harm, we have harm without confusion.

We want also to emphasize that although the scarcity-status dynamics we describe often relate to social class distinctions—many post-sale cases involve expensive items generally purchased by the wealthy that are knocked off by cheaper brands generally purchased by the middle class<sup>38</sup>—but this need not be the case. Some brands trade heavily on exclusivity without being expensive or claiming any traditional notion of high social class. The streetwear label Supreme, for instance, which was recently valued at \$1 billion,<sup>39</sup> has developed an entire business model around extreme scarcity that is not grounded in class distinctions. Supreme's core audience is young, urban, and racially diverse, and its goods, grounded in skateboard culture, are rarely very expensive. But to obtain them, customers must line up for hours—sometimes days—outside the

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<sup>37</sup> As opposed to flocking—i.e., the desire of some consumers to adhere to the current fashion rather than differentiate themselves from it. See Scott Hemphill and Jeannie Suk, *The Law, Culture and Economics of Fashion*, 61 *Stanford Law Rev.* 1147 (2010) (Defining and elaborating these concepts).

<sup>38</sup> See, e.g., *Gucci America, Inc. v. Guess?, Inc.*, 868 F. Supp. 2d 207 (S.D.N.Y. 2012), regarding the long-running litigation in which the high end luxury goods company Gucci charged "mid-market lifestyle brand" Guess with infringing various trademarks.

<sup>39</sup> Khadeeja Safdar, *Why Streetwear Brand Supreme Is Worth \$1 Billion and Abercrombie Isn't*, *Wall St. J.*, Oct. 18, 2017 (available at <https://www.wsj.com/articles/why-streetwear-brand-supreme-is-worth-1-billion-and-bercrombie-isnt-1508331601> (last accessed Nov. 28, 2017)).

store in anticipation of a “drop” that sells out quickly.<sup>40</sup> The exclusivity comes not from the price, but from the cost—in time—of obtaining them.

In sum, post-sale confusion can cause harm to brands, in particular those brands that rely heavily on exclusivity. However, harm does not necessarily follow from post-sale confusion as a matter of logic. And with regard to exclusivity harm, the harm said to occur from post-sale confusion has no necessary relationship with purchase-relevant confusion at all. The harm-confusion nexus is much more complicated than courts have articulated. Moreover, all of the paths leading to harm are predictions about likely behavior, and these predictions must be supported with evidence if claims of liability are to be well-founded. Post-sale confusion need not lead to status harm at all. And in some cases, as we discuss next, confusion may actually *increase* the status offered by a branded good.

### 3. Beneficial Confusion

The notion that consumer confusion is likely to be harmful to consumers and to mark owners alike is self-evident to most trademark lawyers. But as we have argued above, not all such confusion harms mark holders. And under certain circumstances confusion can actually be beneficial. A confused observer certainly may refrain from purchasing a good of a senior mark holder. But she also may be spurred by her observation of the knockoff to buy the senior mark holder’s good. Which behavior predominates in a given situation is an empirical question that plaintiffs need to establish with evidence.<sup>41</sup>

Here we make a few general points about how confusion may work to the benefit, not just the detriment, of mark holders. Establishing that confusion benefited the mark holder can be an important element in a court’s assessment of whether, on balance, a mark holder was likely harmed—as well as helping courts assess the appropriate monetary award in the event confusion and harm are found to be sufficiently present.

To understand how beneficial confusion arises requires an understanding of the nature of trends and the role of status competition in consumer behavior. Many markets are characterized by trends or fashion cycles. Fashion (in the sense of apparel and the like) is the most common exemplar, but trends appear in many

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<sup>40</sup> See, e.g., the weekly “drop list.” <https://www.highsnobiety.com/2017/03/15/supreme-drop-list/>.

<sup>41</sup> How to “balance” beneficial confusion with harmful confusion is a very important question, but one beyond the scope of this brief commentary. Indeed, it is a variant of the question, present even in ordinary point-of-sale contexts, of how much confusion in the marketplace is sufficient to generate liability. See Michael Grynberg, *Trademark Litigation as Consumer Conflict*, 83 N.Y.U. L. Rev. 60 (2008). Here we are simply identifying this phenomenon and noting its significance for this line of cases.

contexts. For reasons we explain below, the more that fashion cycling and trends are present, the more beneficial confusion is likely.

To begin, we distinguish two effects that a copy of a branded good may cause: the *substitution effect* and the *advertising effect*.

The substitution effect occurs when a product that mimics another is purchased in the marketplace instead of the original. Substitution is the standard concern with point-of-sale confusion: a consumer intending to buy Brand instead is confused by the similar Not Brand and purchases Not Brand, believing it to be Brand. In this scenario, substitution has occurred, it is the direct result of confusion, and the owners of Brand are harmed, as is the consumer.

In the context of post-sale confusion, however, the substitution story is more complex. As we have explained elsewhere in this Commentary, linking observation to actionable confusion requires proof of a number of intermediate elements. And confusion needs to be purchase-relevant to be actionable. Imagine, however, that we have a confused post-sale observer who is also reasonably likely to purchase the original branded item. This observer may refrain from buying the original either because of an adverse quality judgment or because of an adverse brand judgment. Either way, some other good substitutes for the original, to the original brand owner's detriment. This is clearly a form of harm, and, if the plaintiff can establish an empirical basis of post-sale confusion of this type, is rightly treated as actionable. This is the paradigmatic example of the substitution effect.

The advertising effect is different. Confusingly similar copies can serve as powerful forms of advertising for a good, and this advertising, like all advertising, may beneficially stimulate sales of the good.<sup>42</sup> For example, the advertising effect can occur when post-sale confusion contributes to the perception that a particular good or style is becoming trendy—for example, those who see wearers of knock-off CONVERSE CHUCK TAYLOR sneakers and are confused into believing that they are genuine CHUCK TAYLOR shoes may conclude that the iconic shoe is coming back into fashion (as this design periodically does). As consumers who are confused post-sale rush to the store to buy genuine CONVERSE shoes, the mark holder benefits. Likewise, the existence of confusingly similar items can signal an emerging trend. That rising trend can spur further purchases of all sorts of variations on a design or style, as buyers seek to jump on the trend. Like a speculative bubble, new buyers jump in.

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<sup>42</sup> See Yi Qian, *Counterfeiters: Foes or Friends? How Do Counterfeits Affect Different Product Quality Tiers?* (2011) (Working Paper No. 16785, Nat'l Bureau of Econ. Research) (analyzing data from thirty-one shoe brands and finding that counterfeiting had positive effect on sales of high-end items), available at <https://www.nber.org/papers/w16785>; Gosline, 2010 and 2009, *supra* note 29.

This benefit, of course, is contingent. Post-sale confusion can set trends and spark consumption of the branded good, but it may also bring already-existing trends to a close. Consider again the example above, only imagine now that CONVERSE CHUCK TAYLOR shoes are in the midst of one of the design's periodic surges in popularity. At some point, the design will become so widely worn that the fashion-forward—i.e., those individuals seeking more fashion differentiation from their peers—will move away from it.<sup>43</sup> This is the beginning of the end of the trend. Post-sale confusion, to the extent it helps send a message (in part, a false message) that CHUCK TAYLOR shoes have become very widely worn, can contribute to the collapse of a trend, which can harm the brand owner.

The trick, of course, is telling which effect is more likely in a particular instance of post-sale confusion. This is an empirical question in any given case. Consequently, at the very least, courts should require plaintiffs to offer real evidence regarding the likely effect of post-sale confusion in cases where consumption of the good in question is trend-driven. To be sure, such evidence will be difficult to establish convincingly in many cases. And for that reason, courts in disputes featuring trend-driven goods should consider, as a general matter, limiting remedies to injunctions. Courts should be especially hesitant to award monetary relief in cases in which post-sale confusion might produce an advertising effect helping to set or solidify a trend, which could benefit the brand owner. Indeed, courts' reluctance to award damages should arguably go deeper. In post-sale confusion cases in which defendants can demonstrate that consumption is trend-driven, and in which the confusion has gone on for some time, courts ought to consider whether it is appropriate to award monetary relief to the mark owner for the role that confusion may have had in extinguishing a trend, when that same confusion may also have played a role in igniting that trend in the first place.<sup>44</sup> In such cases, it is highly uncertain whether the net effect on the mark owner is one of damage or benefit.

## V. CONCLUSION

The core purpose of trademark law is not to prevent consumer confusion in the abstract, but to prevent the harms to mark owners and to the public that can result when consumers are confused about the source of products and services. For point-of-sale confusion, the linkage between confusion and these harms is powerfully intuitive

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<sup>43</sup> Hemphill and Suk, *supra* note 37, at 1166-67.

<sup>44</sup> Trends are central to the fashion industry, and, indeed, copies and homage drive a substantial amount of the creative design process. See Kal Raustiala and Christopher Sprigman, *The Piracy Paradox: Innovation and Intellectual Property in Fashion Design*, 92 Va. L. Rev. 1687 (2006).



and it is entirely reasonable to collapse the distinction between the two. One cannot say the same of the relation between post-sale confusion and these harms. The actual mechanisms of post-sale confusion and underlying theory of harm via this confusion remain surprisingly underdeveloped, and this has led many courts astray.

This Commentary has looked closely at the concept of post-sale confusion to understand how it works and when it occurs. We have not dismissed the concept; to the contrary, we have argued that post-sale confusion is real, but rare. We have sought to explain why it is rare and what is required to make a showing of confusion that leads to harm.

As with point-of-sale confusion, the first step is that likely confusion itself must be established in a post-sale claim. Yet it is far more complicated to do so in the post-sale setting because the relevant actors are observers, not purchasers. The fact that individuals observe a confusingly similar trademark or trade dress does not mean they are confused, or that they are confused in a way that is likely to be purchase-relevant. As we demonstrated, a goldilocks-like “just right” set of conditions must obtain for there to be detrimental post-sale confusion: post-sale observers must be simultaneously just sophisticated enough, and just *unsophisticated* enough, about brands and marks.

Moreover, and unlike in the point-of-sale context, courts in post-sale confusion cases should require the brand owner to establish a clear connection to harm. The ready equation of confusion with harm that courts have traditionally relied on in trademark litigation is quite sensible in point-of-sale contexts. But this assumption makes little sense in post-sale confusion cases, and it has unfortunately been carried over to the post-sale context without adequate consideration of the distinctive dynamics raised by post-sale confusion. Even if a claim of post-sale confusion is present, courts and litigants ought to consider whether such confusion is likely to lead to harm to the mark holder. Likewise, even if confusion is clearly established, defendants may be able to show that this confusion is, on balance, beneficial—or that a substantial chunk of it is beneficial, and hence any monetary award ought to be highly circumscribed.

In sum, plaintiffs in a post-sale claim should be required to demonstrate a valid basis for a claim of harm, not just observer confusion, to justify judicial relief. And defendants and courts alike should recognize that post-sale confusion linked to harm is plausible only in an unusual set of circumstances—circumstances that ought to be well-established by evidence, not conjecture, in any infringement litigation.

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