

**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

HONG KONG LEYUZHEN TECHNOLOGY
CO. LIMITED,

Plaintiff,

v.

████████████████████

Defendant.

Case No. 1:25-cv-08050

**FIRST AMENDED COMPLAINT FOR
COPYRIGHT INFRINGEMENT**

JURY TRIAL DEMANDED

Plaintiff, Hong Kong Leyuzhen Technology Co. Limited, (“Plaintiff”), by and through its counsel, the Bayramoglu Law Offices, LLC, submits the following Complaint against the Defendant, ██████████ (“Defendant”), and hereby alleges as follows:

NATURE OF THE ACTION

1. Plaintiff is the owner of all rights, title and interest in and to the copyright registration issued by the United States Copyright Office for certain images related to its Rotita Brand product line (the “Rotita Brand”) used in connection with the promotion and sale of women’s apparel, which bear the following federal registration number ██████████ (the “Copyright-Protected Images”).

2. Plaintiff has filed this action to combat online copyright infringers who trade upon Plaintiff’s reputation, goodwill and valuable copyrights, including the Copyright-Protected Images, to sell competing products of inferior quality by representing them to be authentic Rotita Brand products through the unauthorized display of the Copyright-Protected Images on their online storefronts (the “Online Stores”) maintained on the Amazon sales platform, and identified on Schedule “A” (the “Online Platform”). Defendants also offer their competing products at

substantially reduced prices compared to the authentic Rotita Brand products offered by the Plaintiff.

3. Plaintiff exclusively utilizes the Copyright-Protected Images in connection with the advertising, display, and sale of its authentic Rotita Brand products on its wholly owned, operated, and controlled company website. Plaintiff does not advertise, market, display, or sell its authentic Rotita Brand products on the Online Platform.

4. The defendant also advertises, markets, and sells its competing products that feature Plaintiff's Copyright-Protected Images by referencing the same photographs and 3-D artwork associated with genuine Rotita Brand products. This causes additional confusion and deception in the marketplace.

5. Plaintiff is compelled to file this action to address Defendant's unauthorized use of its Copyright-Protected Images to sell inferior, competing products, as well as to protect unwitting consumers from purchasing these inferior, competing products over the Internet. The plaintiff has suffered and continues to suffer irreparable harm, including consumer confusion, reputational damage, market disruption, competitive disadvantage, and the loss of licensing opportunities, as a result of the Defendant's actions. Therefore, the company seeks injunctive and monetary relief.

JURISDICTION AND VENUE

6. This Court has original subject matter jurisdiction over the claims in this action pursuant to the provisions of the Federal Copyright Act, 17 U.S.C. § 101, et seq., 28 U.S.C. § 1338(a)–(b), and 28 U.S.C. § 1331.

7. This Court has jurisdiction over the unfair deceptive trade practices claim in this action that arise under the laws of the State of Illinois pursuant to 28 U.S.C. § 1367(a) because the

state law claims are so related to the federal claims that they form part of the same case or controversy and derive from a common nucleus of operative facts.

8. Venue is proper in this Court pursuant to 28 U.S.C. § 1391. This Court may properly exercise personal jurisdiction over Defendant, since Defendant directly targets consumers in the United States, including those within the State of Illinois, through at least the fully interactive commercial internet stores accessible through Defendant's Online Store.

9. Specifically, Defendant is reaching out to do business with Illinois residents by operating one or more commercial, interactive internet stores through which residents can purchase inferior products that are advertised for sale using, without authorization, Plaintiff's Copyright-Protected Images.

10. Defendant has targeted sales from Illinois residents by operating online stores that offer shipping to the United States, including to the State of Illinois, accept payment in United States currency, and, on information and belief, has used Plaintiff's Copyright-Protected Images, without authorization, to sell competing, products of lesser quality to residents of the State of Illinois.

The Defendant is committing tortious acts within the State of Illinois, engaging in interstate commerce, and has wrongfully caused substantial injury to the Plaintiff in Illinois. Venue is proper in this Court under 28 U.S.C. §§ 1391(b)(2) and 1400(a) because the Defendants have committed copyright infringement within this district and conduct substantial business here.

THE PARTIES

11. Plaintiff is a corporation organized under the laws of the People's Republic of China ("China"). It is the owner of the Copyright-Protected Images asserted to have been infringed in this action by the Defendant. Attached hereto as Exhibit 1 are true and correct copies of the

federal copyright registration issued for the Copyright-Protected Images and Copyright Public Records Data.

12. Plaintiff founded its Rotita Brand in 2009, which is dedicated to women's fashion apparel and serves consumers in the United States and worldwide.

13. Plaintiff designed, caused to subsist in material form, and first published the Copyright-Protected Images of its fashion collection of women's tops on its website located at the company's designated website employing the Rotita Brand in its URL and over the years has worked hard to establish success and recognition for high quality women's apparel internationally and in the United States.

14. The Plaintiff has expended substantial time, money, and other resources in developing, advertising, and promoting its Rotita Brand, specifically the Copyright-Protected Images. As a result, the Rotita Brand is widely recognized and exclusively associated with quality products by consumers, the public, and the trade.

15. Plaintiff owns all rights, including, without limitation, the rights to reproduce the Copyright-Protected Images in copies, to prepare derivative works based upon the copyrighted works, and to distribute copies of the copyrighted works to the public by sale or other transfer of ownership, or by rental, lease, or lending, the protected works.

16. The Plaintiff has neither licensed nor authorized the Defendant to use the Copyright-Protected Images, and the Defendant is not an authorized retailer of the Plaintiff's genuine Rotita Brand products.

17. Defendant claims to the Online Platform to be located in Yunnan Province in China.

18. The defendant conducts business across the United States, including in this judicial district, through the operation of their Online Amazon Store. They have offered to sell, and based

on information and belief, have sold and continue to sell competing products within the United States, including in this judicial district, by displaying the Copyright-Protected Images without authorization on their Amazon Store. Exhibit 2 provides a side-by-side comparison of the original images copyrighted by the plaintiff and the images on each defendant's storefront, along with links to each storefront.

19. In addition, the Defendant goes to great lengths to conceal its identity and the full scope of its operations, making it virtually impossible for the Plaintiff to learn the Defendant's true identity and the exact workings of their network.

20. Defendant misappropriates Plaintiff's Copyright-Protected Images depicting its authentic Rotita Brand fashion collection of women's tops, and uses them in advertising inferior, unauthorized products for sale through their Online Stores to deceive consumers into believing their purchases are from an authentic and authorized source.

DEFENDANT'S UNLAWFUL CONDUCT

21. The success of Plaintiff's Rotita Brand has resulted in intentional copying of Plaintiff's products, and the sale and offering for sale of said products through the unauthorized use of the Copyright-Protected Images. Upon information and belief, Defendants conduct their illegal operations through their Online Stores maintained on the Online Platform. Defendant targets consumers in the United States, including in the State of Illinois, and sells and offers for sale competing products through the unauthorized use of the Copyright-Protected Images.

22. In similar cases, defendants conceal their identities and the full scope of their counterfeiting operations to deter plaintiffs and Courts from learning their true identities and the full extent of their illegal counterfeiting activities.

23. In this case, through the unauthorized use of copyrighted images on their Online Store, the defendant published the Copyrighted Images on its storefronts and is directly and personally contributing to the infringement of the Copyrighted Images.

24. Upon information and belief, and at all times relevant to this matter, Defendants have known that the Plaintiff owns the Copyright-Protected Images, including its exclusive rights to use and license the Rotita Brand and the associated goodwill.

25. Plaintiff has identified numerous stores on the Online Platform, including Defendants' Online Stores, which are offering for sale, selling, and importing competing products to consumers in this judicial district and throughout the United States by using, without authorization, the Copyright-Protected Images.

26. Infringers on e-commerce platforms, such as Defendant's online store, are estimated to receive tens of millions of visits per year and generate over \$135 billion in annual online sales. According to an intellectual property rights seizures statistics report issued by the United States Department of Homeland Security, the manufacturer's suggested retail price ("MSRP") of goods seized by the U.S. government in fiscal year 2020 was over \$1.3 billion. Internet websites, such as Defendant's online store, are also estimated to contribute to tens of thousands of lost jobs for legitimate businesses and broader economic damages, including lost tax revenue, every year. According to a January 2011 MarkMonitor report, entitled "Traffic Report: Online Piracy and Counterfeiting," the average daily traffic to 48 sites selling counterfeit goods was more than 240,000 visits, totaling over 87 million visits per year. A 2012 MarkMonitor article, entitled "White Paper: Seven Best Practices for Fighting Counterfeit Sales Online," reported that counterfeiters' illicit online activities would cost legitimate businesses billions in lost revenue annually. True and correct copies of these reports are attached hereto as Exhibit 3.

27. On information and belief, the Defendant set up a seller account on the Online Platform using, without authorization, copyrighted images so that they appear to unknowing consumers to be authorized online retailers of genuine Rotita Brand products. Defendants' online stores accept payment in United States currency via credit cards.

28. On information and belief, Defendant deceives unknowing consumers by using Plaintiff's Copyright-Protected Images on Defendant's Online Store without authorization to attract customers, and to sell products resembling authentic Rotita Brand products.

29. Defendants in similar cases deceive unwary consumers by using the infringed intellectual property, as originally applied to genuine products, within the content, text, and/or meta tags of their websites to attract search engines crawling the Internet for relevant consumer product searches. Additionally, counterfeiters in similar cases use other unauthorized search engine optimization ("SEO") tactics and social media spam to ensure that the Defendants' online store listings appear near the top of relevant search results, misleading consumers seeking authentic products. Furthermore, counterfeiters employ similar illegal SEO tactics to move new domain names to the top of search results after others are shut down.

30. Here, a search for the Rotita Brand women's dresses on the Online Platform resulted in the unauthorized display of copyright-protected images being used to promote competing, inferior products. As such, Plaintiff also seeks to disable Defendant's Online Stores, where the Defendants display, without authorization, the Copyright-Protected Images, to continue to sell knockoff products to consumers in this judicial district.

31. Upon receiving notice of a lawsuit, counterfeiters in similar cases will often register new domain names or online marketplace accounts under new aliases.¹ Counterfeiters also typically ship products in small quantities via international mail to minimize detection by U.S. Customs and Border Protection. A 2021 U.S. Customs and Border Protection (“CBP”) report on seizure statistics indicated that e-commerce sales accounted for 13.3% of total retail sales with second quarter of 2021 retail e-commerce sales estimated at \$222.5 billion.² In FY 2021, there were 213 million express mail shipments and 94 million international mail shipments. *Id.* Nearly 90 percent of all intellectual property seizures occur in the international mail and express environments. *Id.* at 27. The “overwhelming volume of small packages also makes CBP’s ability to identify and interdict high-risk packages difficult.” *Id.* at 23.

32. Furthermore, counterfeiters often operate multiple credit card merchant accounts and third-party accounts behind layers of payment gateways, allowing them to continue operating despite enforcement efforts. Upon information and belief, Defendant maintains offshore bank accounts and regularly moves funds from their Online Platform accounts to offshore bank accounts outside the jurisdiction of this Court, particularly since Defendant reports to the Online Platform that it is located in China.

33. Defendants’ use of Plaintiff’s Copyright-Protected Images in connection with the advertising, marketing, distribution, offering for sale, and sale of competing products of inferior quality is likely to cause confusion, mistakes, and deception among consumers and is irreparably harming the Rotita Brand. Defendant has manufactured, imported, distributed, offered for sale,

¹ <https://www.ice.gov/news/releases/buyers-beware-ice-hsi-and-cbp-boston-warn-consumers-aboutcounterfeit-goods-during> (counterfeiters are “very adept at setting up online stores to lure the public into thinking they are purchasing legitimate good on legitimate websites”) (last visited Apr. 6, 2022).

² U.S. Customs and Border Protection, Intellectual Property Right Seizure Statistics, FY 2021 (<https://www.cbp.gov/sites/default/files/assets/documents/2022-Sep/202994%20-%20FY%202021%20IPR%20Seizure%20Statistics%20BOOK.5%20-%20FINAL%20%28508%29.pdf>)

and sold their inferior products using the Copyright-Protected Images without authorization and will continue to do so unless restrained temporarily, preliminarily, and permanently by this Court.

34. Defendants, without authorization or license from Plaintiff, knowingly and willfully used and continue to use the company's Copyright-Protected Images in connection with advertising, offering for sale, and selling competing products through, among other things, their Online Store.

35. Upon information and belief, Defendant will continue to infringe Plaintiff's Copyright-Protected Images to sell inferior competing products unless preliminarily and permanently enjoined.

36. Defendant's unauthorized use of the Copyright-Protected Images in connection with the advertising, distribution, offering for sale, and the sale of poor-quality products in the United States and specifically into the State of Illinois, is likely to cause and has caused confusion, mistake, and deception by and among consumers and is irreparably harming the goodwill and intrinsic value of Plaintiff's Rotita Brand.

37. Unless enjoined, Defendants' infringing conduct will continue to cause irreparable harm to Plaintiff.

COUNT I
COPYRIGHT INFRINGEMENT (17 U.S.C. § 101, et seq.)

38. Plaintiff repeats, realleges, and incorporates by reference herein its allegations contained in paragraphs 1 through 38, above.

39. Plaintiff's Copyright-Protected Images have significant value and have been produced and created at considerable expense.

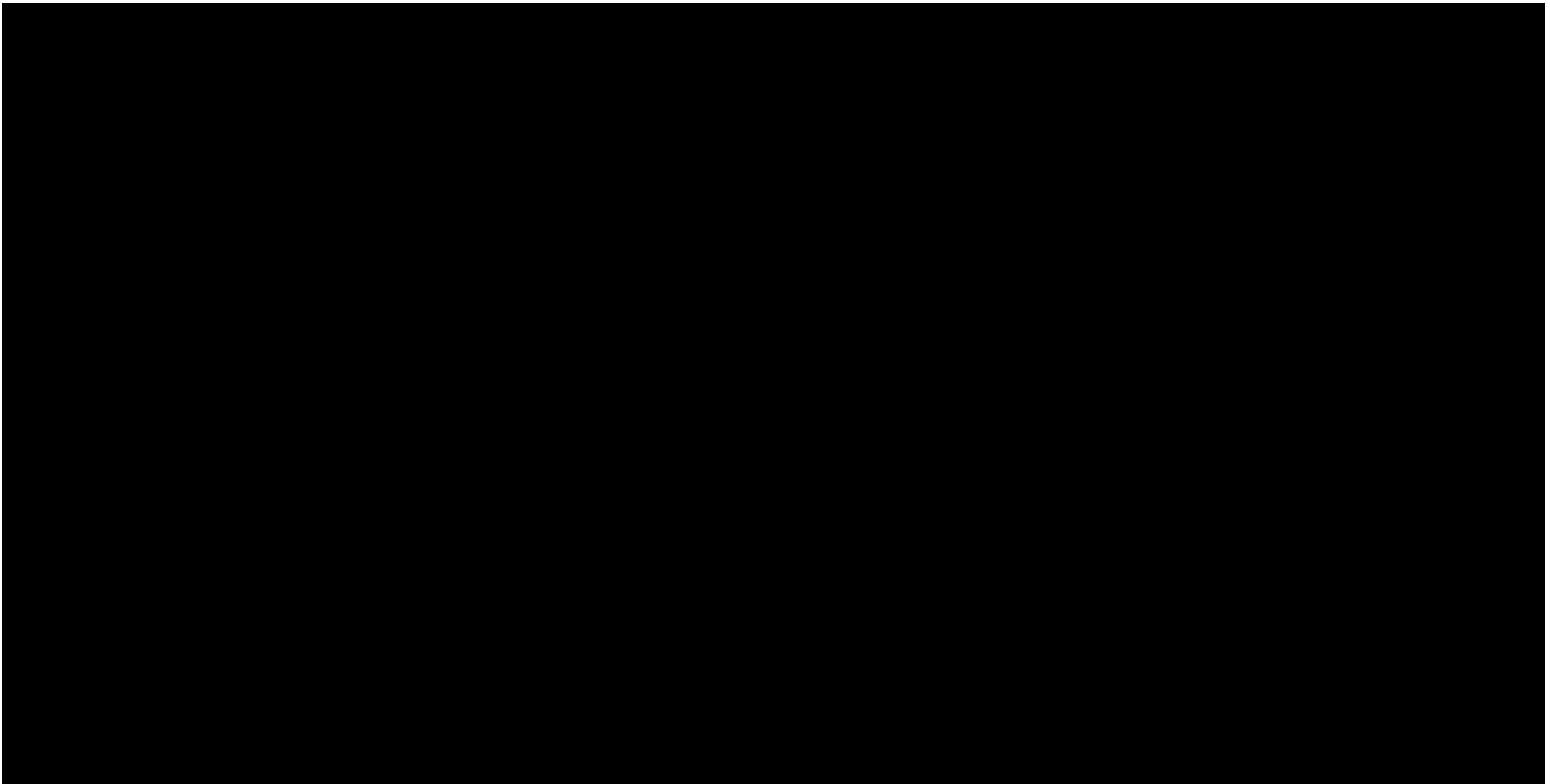
40. Plaintiff owns all exclusive rights, including, without limitation, the rights to reproduce the Copyright-Protected Images in copies, to prepare derivative works based upon the

copyrighted work, and to distribute copies of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending of the copyright-protected works.

41. Defendant has sold, offered to sell, marketed, distributed, and advertised, and are still selling, offering to sell, marketing, distributing, and advertising products using the Copyright-Protected Images without Plaintiff's permission, authorization, consent, or license.

42. Upon information and belief, Defendant has directly copied the Copyright-Protected Images and used them, without authorization, to advertise, promote, offer for sale, and sell competing products of low quality and at a fraction of the price.

43. As examples, Defendants deceive unknowing consumers by using, without authorization, the Copyright-Protected Images on Defendants' Online Stores to attract customers as follows:



44. Defendant's unauthorized exploitation of Copyright-Protected Images to advertise, offer for sale, and sell inferior products on Defendant's Online Store constitutes copyright infringement.

45. On information and belief, Defendant's infringing acts were willful, deliberate, and committed with prior notice and knowledge of the Copyright-Protected Images.

46. Defendant either knew or should have reasonably known that the Copyright-Protected Images are subject to federal copyright protection. Further, Defendant continues to infringe upon Plaintiff's rights in and to the Copyright-Protected Images.

47. As a direct and proximate result of their unauthorized and infringing conduct, Defendant has obtained and continues to realize direct and indirect profits and other benefits that rightfully belong to Plaintiff, benefits that they would not have obtained but for their infringement of Plaintiff's Copyright-Protected Images.

48. Accordingly, Plaintiff seeks an award of damages pursuant to 17 U.S.C. § 504.

49. In addition to actual damages, Plaintiff is entitled to receive the profits made by Defendant from its wrongful acts, pursuant to 17 U.S.C. § 504(b). Defendant should be required to account for all gains, profits, and advantages derived by Defendant from its acts of infringement.

50. In the alternative, Plaintiff is entitled to and may elect to choose statutory damages pursuant to 17 U.S.C. § 504(c), which should be enhanced by 17 U.S.C. § 504(c)(2) because of Defendant's willful copyright infringement.

51. Plaintiff is entitled to and may elect to choose injunctive relief under 17 U.S.C. § 502, enjoining any use or exploitation by Defendant of its infringing work, and for an order under 17 U.S.C. § 503 that any of Defendant's infringing products be impounded and destroyed.

52. Plaintiff seeks and is also entitled to recover reasonable attorneys' fees and costs of suit pursuant to 17 U.S.C. § 505.

53. Plaintiff has no adequate remedy at law, and if Defendant's actions are not enjoined, Plaintiff will continue to suffer irreparable harm to the reputation and goodwill of their well-known Rotita Brand.

54. The conduct of Defendant is causing and, unless enjoined and restrained by this Court, will continue to cause Plaintiff significant and irreparable injury that cannot fully be compensated or measured monetarily. As such, Plaintiff has no adequate remedy at law. Pursuant to 17 U.S.C. §§502 and 503, Plaintiff is entitled to injunctive relief prohibiting Defendant from further infringing the Copyright-Protected Images and ordering that Defendant destroy all unauthorized copies. Defendant's copies, plates, and other embodiments of the copyrighted works from which copies can be reproduced, if any, should be impounded and forfeited to Plaintiff as instruments of infringement, and all infringing copies created by Defendants should be impounded and forfeited to Plaintiff, under 17 U.S.C §503.

COUNT II
VIOLATION OF ILLINOIS UNIFORM DECEPTIVE TRADE PRACTICES ACT
(815 ILCS § 510/1, et seq.)

55. Plaintiff repeats, realleges, and incorporates by reference herein its allegations contained in paragraphs 1 through 38, above.

56. Defendant has engaged in acts violating Illinois law including, but not limited to, passing off its knockoff products as those of Plaintiff's Rotita Brand products through the unauthorized use of the Copyright-Protected Images, thereby causing a likelihood of confusion and/or misunderstanding as to the source of its goods, causing a likelihood of confusion and/or misunderstanding as to an affiliation, connection, or association with genuine Rotita Brand products, falsely representing that its products have Plaintiff's approval when they do not, and

engaging in other conduct which creates a likelihood of confusion or misunderstanding among the public.

57. Furthermore, Defendant has used, without permission, Plaintiff's Copyright-Protected Images to promote Defendant's Online Store by displaying them to sell knockoff and/or inferior products, misleading consumers into thinking these products are genuine Rotita Brand items.

58. The foregoing acts of Defendants constitute a willful violation of the Illinois Uniform Deceptive Trade Practices Act, 815 ILCS § 510/1, et seq.

59. Plaintiff is entitled to the recovery of damages and attorneys' fees as authorized by statute.

60. Plaintiff has no adequate remedy at law, and Defendant's conduct has caused Plaintiff to suffer damage to its Rotita Brand's reputation and goodwill. Unless enjoined by the Court, Plaintiff will continue to suffer future irreparable harm as a direct result of Defendant's unlawful activities.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for judgment against Defendant as follows:

1. That Defendant, its affiliates, officers, agents, servants, employees, attorneys, confederates, and all persons acting for, with, by, through, under, or in active concert with Defendant be temporarily, preliminarily, and permanently enjoined and restrained from:

a. Using Plaintiff's Copyright-Protected Images or any reproductions, or colorable imitations thereof in any manner in connection with the distribution, marketing, advertising, offering for sale, or sale of any product that is not a genuine Rotita Brand product or is not authorized by Plaintiff to be sold in connection with its registered copyrights:

b. passing off, inducing, or enabling others to sell or pass off any product as a genuine Rotita Brand product or any other product produced by Plaintiff by using the Copyright-Protected Images to sell and offer for sale such products that are not Plaintiff's or not produced under the authorization, control, or supervision of Plaintiff and approved by Plaintiff;

c. committing any acts calculated to cause consumers to believe that Defendant's inferior products are those sold under the authorization, control, or supervision of Plaintiff, or are sponsored by, approved by, or otherwise connected with Plaintiff or its Rotita Brand;

d. further infringing the Copyright-Protected Images and damaging Plaintiff's Rotita Brand's reputation and goodwill;

e. otherwise competing unfairly with Plaintiff through the unauthorized use of the Copyright-Protected Images in any manner;

f. shipping, delivering, holding for sale, transferring, or otherwise moving, storing, distributing, returning, or otherwise disposing of, in any manner, products or inventory sold or offered for sale through the unauthorized use of the Copyright-Protected Images;

g. using, linking to, transferring, selling, exercising control over, or otherwise owning the Defendants' stores on Defendants' Online Stores or the Online Platform, or any other domain name or online marketplace account that is being used to sell or is the means by which Defendants could continue to sell knockoff Rotita Brand products through the unauthorized use of the Copyright-Protected Images; and

h. operating and/or hosting websites at the Defendant's Internet stores and any other domain names registered or operated by Defendant that are involved with the distribution, marketing, advertising, offering for sale, or sale of any product through the unauthorized use of the Copyright-Protected Images.

2. That Defendant, within fourteen (14) days after service of judgment with notice of entry thereof upon them, be required to file with the Court and serve upon Plaintiff a written report under oath setting forth in detail the manner and form in which Defendant has complied with paragraph 1 above;

3. Entry of an Order that, upon Plaintiff's request, those in privity with Defendant and those with notice of the injunction, including AliExpress, Walmart, Amazon, DHgate, eBay, Temu, and Wish, social media platforms such as Facebook, YouTube, LinkedIn, Twitter, Internet search engines such as Google, Bing and Yahoo, web hosts for the Defendant's Online Stores, and domain name registrars, shall:

a. disable and cease providing services for any accounts through which Defendant engages in the sale of knockoff Rotita Brand products by using, without authorization, the Copyright-Protected Images, including any accounts associated with the Defendants listed on Schedule "A";

b. disable and cease displaying any advertisements used by or associated with Defendants that display the Copyright-Protected Images; and

c. take all necessary steps to prevent links to Defendant's Online Store from displaying in search results, including, but not limited to, removing links to Defendant's domain names from any search index.

4. That Defendant account for and pay to Plaintiff all profits realized by their unauthorized use of the Copyright-Protected Images.

5. In the alternative, that Plaintiff be awarded statutory damages of not less than \$750 and not more than \$30,000 for each and every infringement of the Copyright-Protected Images pursuant to 17 U.S.C. § 504(c), which should be enhanced to a sum of not more than \$150,000 by

17 U.S.C. § 504(c)(2) because of Defendant's willful copyright infringement.

6. That Defendant, to the extent not enjoined for violation of the Copyright Act, be temporarily, preliminarily, and permanently enjoined under 815 ILCS § 510/1, et seq.

7. That Plaintiff be awarded attorneys' fees and costs damages as authorized by statute under 815 ILCS § 510/1, et seq.

8. That Plaintiff be awarded its reasonable attorneys' fees and costs; and

9. Award any other relief that this Court deems just and proper.

DEMAND FOR JURY TRIAL

Plaintiff also demands a trial by jury of all issues so triable pursuant to Federal Rule of Civil Procedure 38.

Dated: July 23, 2025

Respectfully Submitted

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EXHIBIT 1
FILED
UNDER SEAL

EXHIBIT 2
FILED
UNDER SEAL

EXHIBIT 3

January 2011

Traffic Report: Online Piracy and Counterfeiting

Traffic Report: Online Piracy and Counterfeiting

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The Internet is arguably one of the greatest innovations of modern society—allowing for countless new businesses to thrive and dramatically altering the way society operates. The Internet has enabled a global marketplace to flourish with lightning-quick communication and an unparalleled access to information. However, the advancement of the Internet into nearly all of our daily activities, combined with rapid download speeds, the perfection of digital copies, the rise of e-commerce and the complexity of online enforcement, has magnified the seriousness and consequences of online counterfeiting and piracy. Websites offering pirated goods generate billions of visits annually, and websites that sell counterfeit luxury goods, fake drugs, and products that may pose health and safety risks attract hundreds of millions annually.

Recognizing that illicit online sales have a significant impact on the U.S. economy in financial terms as well as in public health and well-being, MarkMonitor® worked to identify a sample of rogue Internet sites that are responsible for trafficking counterfeit and pirated goods. The goal of the project was to illustrate the nature of this illicit ecosystem and, using publicly-available traffic information on the number of visits, determine its scope.

The first step was to identify business categories and brands targeted by online counterfeiters and digital pirates. Using 22 major brands as criteria—ranging from pharmaceuticals, luxury goods, and apparel to entertainment titles and software—MarkMonitor used its patented technology to comb the Internet for sites suspected of offering counterfeit goods or pirated digital content. The initial scans resulted in more than 10,000 results which were then de-duplicated and filtered further using MarkMonitor technology to identify dedicated e-commerce and digital download sites. The final step required hand-examination and verification of more than 600 results to determine classification. Since some sites offered multiple brands, this step led to almost 100 unique domains or websites which were then classified in one of two ways: 'counterfeit' or 'digital piracy'.

Using publicly-available Internet traffic data from Alexa, the sites were then ranked by the number of visits, which were significant, speaking to the level of demand for these goods as well as to the website operators' success in promoting these sites so they are visible and accessible online. Since the study used a sample of only 22 brands, it provides a small glimpse of the nature of online intellectual property (IP) theft and the dark side of illicit e-commerce. However, given the large number of popular brands, it is reasonable to assume that hundreds of thousands of other rights-holders, brands and content creators are suffering the same damage.

*As our economy
has worsened,
brand abusers have
sharpened their focus.*

Key Findings

The study's findings demonstrate that online distribution of pirated digital content and e-commerce sales of counterfeit goods is rampant. Specific findings include:

- In total, the 10 media brands in the study yielded 43 unique sites classified as 'digital piracy.' Traffic generated to these sites was over 146 million visits per day, representing more than 53 billion visits per year.
- The top-three websites classified as 'digital piracy'—rapidshare.com, megavideo.com, and megaupload.com—collectively generate more than 21 billion visits per year.
- The availability of reliable infrastructure is an important factor in the location of sites hosting piracy. The study found that North America and Western Europe represented the host location for 67 percent of the sites classified as 'digital piracy.'
- The combined traffic to the 48 sites selling counterfeit goods is more than 240,000 visits per day on average or more than 87 million visits per year.
- When it comes to host location of the sites categorized as 'counterfeit', 73 percent were hosted in North America or Western Europe. Eastern European countries hosted another 14 percent of the sites while 9 percent of the sites were hosted in Asia.
- The combined traffic to the 26 sites selling counterfeit prescription drugs is more than 141,000 visits per day on average or more than 51 million visits per year.
- The combined traffic to the 21 e-commerce sites selling counterfeit luxury goods is more than 98,000 visits per day on average or almost 36 million visits per year.

These findings are just the tip of the iceberg. The true scope of the problem is exponentially higher in terms of user traffic, lost revenue and risks to public health and safety.

Methodology

Using a list of industries most affected by online counterfeiting and digital piracy,¹ MarkMonitor chose major brands from each industry and ran automated scans for those brands using its patented technology. In all, the study examined 22 brands in the digital content category (movies/TV shows, music and software/videogames) and the physical goods category (handbags, sports apparel, pharmaceuticals and luxury items, footwear, and apparel.)

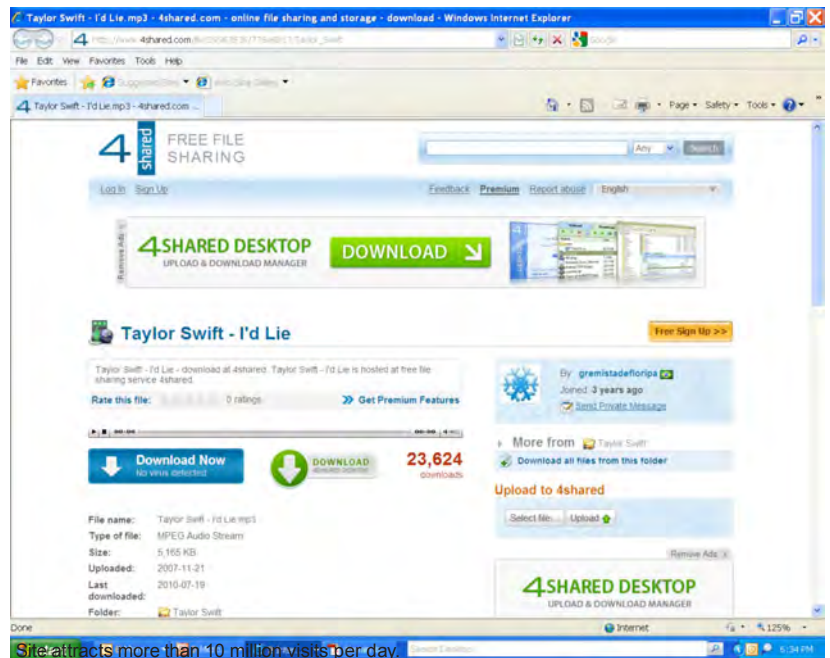
The study used very narrow criteria to classify sites selling physical goods as 'counterfeit.' It is important to point out that many of the e-commerce sites that did not meet that strict guideline did display multiple factors arousing suspicion. This

“The study used only 22 brands, so we can assume that many other brands and content-creators are suffering similar damage.”

¹—Digital Content industries: Entertainment (music/movies/television shows), Software/Videogames; Physical Goods: Handbags, Sports Apparel with logos, Pharmaceuticals, luxury items, footwear, and apparel.

underscores the crucial role that brand owners and law enforcement personnel trained by brand owners play in determining whether a site is offering counterfeit goods. Technology can be used to conduct the heavy lifting in identifying and prioritizing sites for further action, but the in-depth market and product knowledge of brand owners' is vital.

The scans focused on identifying e-commerce and peer-to-peer, streaming, and torrent sites that yielded high traffic levels. In order to be classified as an e-commerce site, the site needed to contain a shopping cart while the sites classified as piracy needed to contain some type of link, index or player that could be used to download, stream or share digital content. These criteria were designed to eliminate editorial, blog or discussion sites and to focus exclusively on sites where pirated goods could be shared, viewed, streamed or downloaded and counterfeit goods could be purchased.



The initial scans resulted in more than 10,000 results which were then de-duplicated and filtered further using MarkMonitor technology to identify dedicated e-commerce and digital content sites used for downloading, sharing or streaming. The final step required hand-examination and verification of more than 600 results to determine classification. Since some sites offered multiple brands, this step led to almost 100 unique domains or websites which were then classified as either 'counterfeit' or 'digital piracy'. The results were ranked by the amount of traffic, defined as the number of daily visits, using Alexa-supplied information. None of the scans contained MarkMonitor customer data or information.

Criteria for Websites

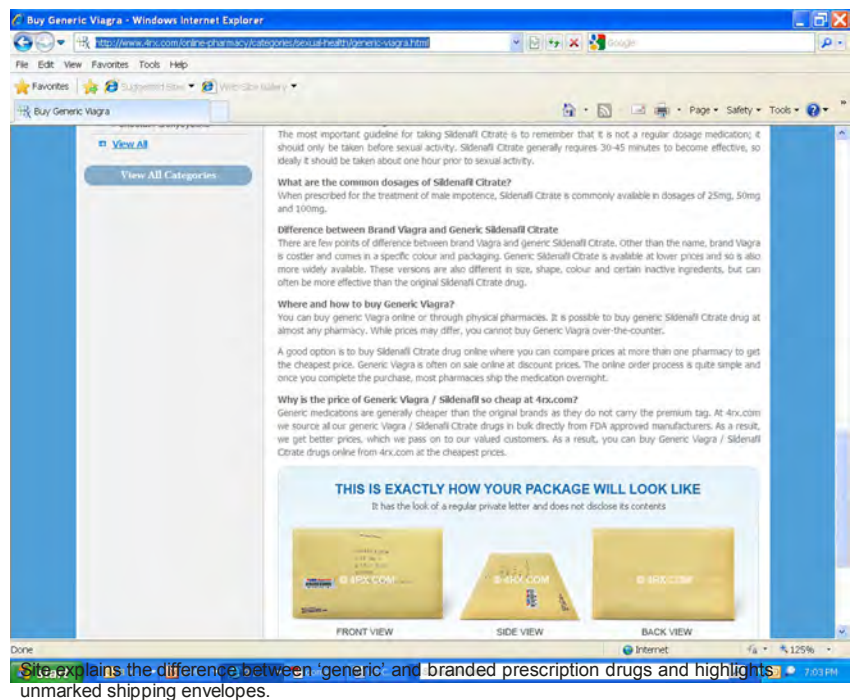
The results from the initial scans were examined further by MarkMonitor experts in order to classify these sites, or domains, into one of two categories: 'counterfeit' or 'digital piracy.' After thorough analysis, MarkMonitor concluded that 91 websites with high traffic numbers qualified for inclusion in one of these categories. The 'counterfeit' classification referred to e-commerce sites selling counterfeit physical goods while the 'digital piracy' classification refers to sites offering pirated versions of music, movies, television shows, software, and videogames.

Digital Piracy: The total number of unique domains identified as 'digital piracy' totaled 43. To fit the 'digital piracy' classification, the domain needed to offer or point to one or more of the brands used in the digital content portion of the study for free. While some of these sites do offer takedown processes for pirated

content, the action must be initiated by the content owner. The resulting domains were then sorted by traffic volume.

'Counterfeit': In the case of e-commerce domains selling physical goods, the domains needed to satisfy one of two conditions to be deemed as selling counterfeit goods: (1) either the domain itself specified that the goods were not authentic (i.e., using terms like 'replica,' 'knock-off,' and 'copy') or (2) in the case of pharmaceuticals, the domain offered 'generic' versions of prescription drugs that are not available in generic form in the U.S., targeted the U.S. market by providing pricing in U.S. currency, and did not require a prescription.² Since some domains offered more than one type of product, the domain is counted only once, even if multiple URLs for that domain surfaced during the scans. MarkMonitor found that 48 websites fell under the criteria for selling counterfeit goods.

While the online pharmacies displayed the 'generic' label prominently on product listings, MarkMonitor needed to consult FAQ or 'About' sections of the online drugstores, or even needed to follow the purchase process, in order to determine if prescriptions were required by the online pharmacy. In addition, MarkMonitor examined the currency used to quote prices, shipping information or other information on the site that indicated markets served, such as flags, shipping information, telephone numbers or references to the U.S. Drug Enforcement Agency. Many of the e-commerce domains selling counterfeit goods displayed the term 'replica' quite prominently while others included such information in their FAQ or 'About.'



² During the course of the study, MarkMonitor identified some additional sites that fit the criteria for inclusion but did not use one of the original media brands such as sites offering key generators used to 'unlock' protected material.

Traffic Analysis

As a backdrop to examining website traffic figures, it is important to point out that traffic measurements can vary greatly depending on methodology. Some traffic measurement sources depend on technology, others depend on some type of user panel or community, and a third category uses a hybrid approach. Each approach has advantages and disadvantages which, as a result, allow publicly-available traffic data to vary based upon the measurement source. In this study, MarkMonitor used data based on Alexa. The more than 90 unique domains culled from the initial set of over 10,000 results display a wide range of traffic figures, depending on the type of goods being offered.

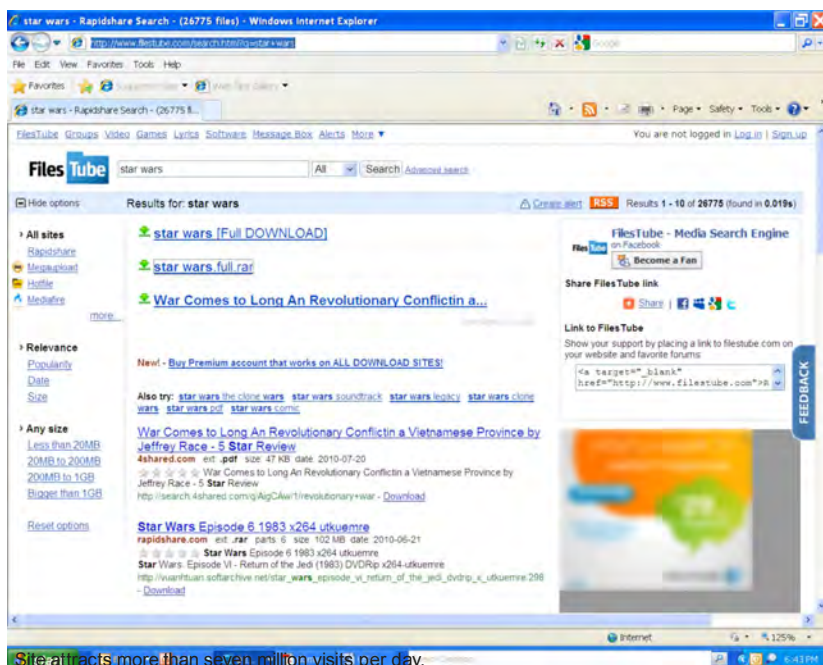
Digital Piracy Web Traffic Analysis: Those domains classified as ‘digital piracy’ attracted the highest levels of traffic with a high in excess of 32 million daily visits on average for the most-trafficked domain—rapidshare.com. On an annual basis, that traffic equates to more than 11.8 billion visits per year for that site. This pattern continues with the second and third most-trafficked sites—megavideo.com and megaupload.com—each of which generates more than 13 million visits per day on average, or more than 4.9 billion visits per year to each site. Collectively, these three digital piracy sites generate more than 21 billion visits per year.

In total, traffic generated to the sites classified as ‘digital piracy’ was more than 146 million visits per day, representing more than 53 billion visits per year. Lest these figures be viewed as anomalies, examining the ten least-visited ‘digital piracy’ sites show annual visits total more than 781 million per year, demonstrating that even the lesser-trafficked sites in this category drive significant traffic.

The bulk of the ‘digital piracy’ sites, or 67 percent, were hosted in North America or Western Europe.

Counterfeit Website Traffic Analysis: Due to the narrow criteria used to classify sites as ‘counterfeit,’ all the sites included in the analysis, with one exception, sold prescription drugs or luxury goods, including handbags, watches or jewelry. The combined traffic to the 48 sites selling counterfeit goods is more than 240,000 visits per day on average or more than 87 million visits per year. The majority of these sites reflect similar patterns as the sites classified as ‘digital piracy’ when it comes to the server’s host location with or 56 percent hosted in North America and Western Europe. However, Eastern European countries hosted 22 percent of the sites while 14 percent of the sites were hosted in Asia.

Traffic to sites suspected of offering pirated content was over 146 million visits per day.



However, examining the site registration information for these ‘counterfeit’ sites suggests that more of these sites may be linked to Asia as seven sites hosted in non-Asian countries are actually registered by Asian registrars. Factoring in that information indicates that 29 percent of the sites have some connection to Asia, either through host location or registrar.

While not at the scale of the suspected digital piracy sites, e-commerce domains classified as ‘counterfeit’ attracted considerable levels of traffic as well with the most-trafficked site, an Internet pharmacy, driving 28,000 daily visits on average, representing more than 10 million visits to the site per year.

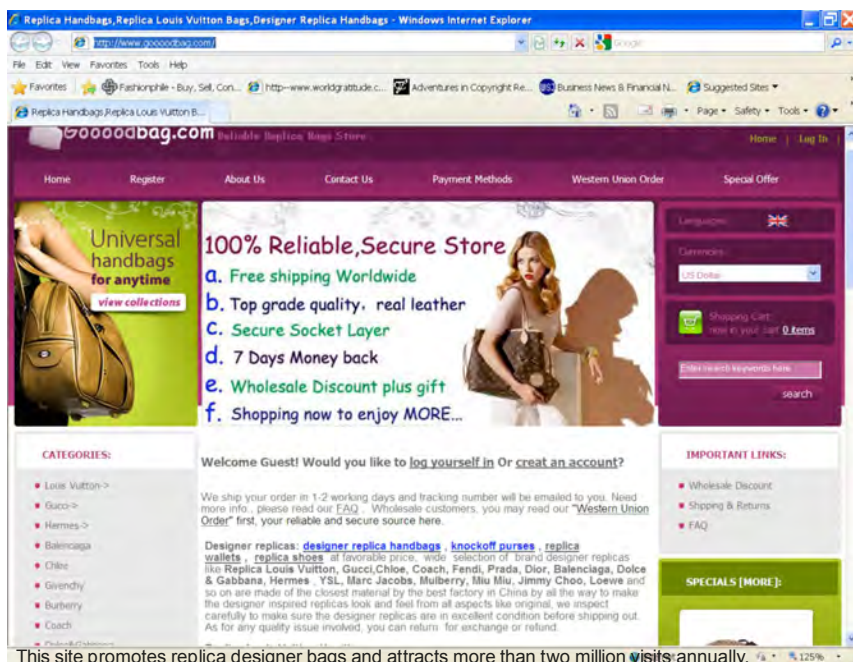
Suspicious Sites: During the course of the research, we identified sites that displayed one or more factors that appeared questionable, such as significant price discounts, links to sites selling counterfeit goods, trade dress issues, or, in the case of online pharmacies, no requirement for prescriptions. These types of issues underscore the crucial role that brand owners and law enforcement personnel trained by brand owners play in determining whether a site is offering counterfeit or pirated goods. While some sites are very clear in specifying their goods are ‘copies’ or ‘replicas,’ others are less forthcoming. In many cases, deep discounts combined with promises of high-quality goods from the current season raise questions that only the brand owner—with knowledge of channel strategy, pricing and partnerships—can address.

In the case of highly regulated goods like pharmaceuticals, intellectual property protections for pharmaceutical patents or regulations governing generics may differ across national boundaries. Instead, the business practices of the pharmacy itself—such as prescription requirements or sales of individual pills—are more useful in identifying suspicious drugs. The role of the brand owner, with in-depth knowledge of distribution channels, pricing and local business practices, is vital. In each of these examples, the most authoritative answer is provided by a physical examination of the goods themselves.

Conclusion

The research presented in this study demonstrates the wide availability of pirated digital content and counterfeit goods via the Internet and e-commerce. The websites yielded in the research and analyses of this study all have one thing in common: business models that are indisputably centered on the sale or distribution of counterfeit and pirated goods. These illegal operations are shifting revenue

“ Combined traffic to the sites selling counterfeit goods is more than 87 million visits per year. ”



from legitimate brands' e-commerce sites, causing economic harm and risking consumer health. This study highlights the type of data that needs to be examined in order to identify and locate sites trafficking in counterfeit and pirated goods. Accurate and unbiased information describing the scope of online counterfeiting and piracy as an essential prerequisite for safeguarding consumer safety and economic well-being.

While counterfeiting and piracy in the physical world are serious problems, these issues are growing at a significant rate online and pose unique challenges in remediation, due to the inherent nature of the Internet with its global reach, cost efficiencies, and anonymity. Awareness and educational efforts focused on the distinctive nature of online counterfeiting and piracy are necessary in developing effective response mechanisms to this global, cross-border problem. Necessary government policies, corrective legislative measures, law enforcement action and, most importantly, actively-engaged brand owners are all needed to stem this growing tide of illegal Internet activity. The bottom line is that online IP theft ultimately affects the most creative and innovative sectors of the economy, contributing to billions in lost revenue and millions of lost jobs. Protecting IP rights is a critical component of our economic resurgence, and vitally important to our future; stopping the spread of pirated and counterfeit goods is a necessity.

Combined traffic to the pharmacies selling suspected counterfeit prescription drugs is more than 51 million visits per year.

About MarkMonitor

MarkMonitor, the global leader in enterprise brand protection, offers comprehensive solutions and services that safeguard brands, reputation and revenue from online risks. With end-to-end solutions that address the growing threats of online fraud, brand abuse and unauthorized channels, MarkMonitor enables a secure Internet for businesses and their customers. The company's exclusive access to data combined with its patented real-time prevention, detection and response capabilities provide wide-ranging protection to the ever-changing online risks faced by brands today. For more information, visit www.markmonitor.com

More than half the Fortune 100 trust MarkMonitor to protect their brands online. **See what we can do for you.**

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MarkMonitor®

Seven Best Practices for Fighting Counterfeit Sales Online

Executive Summary

Counterfeit sales represent seven percent of all global trade.¹ The damage these sales do to rightful brand owners goes well beyond revenues and profits: Numerous reports have suggested that counterfeit and piracy trade supports terrorism, organized crime and other threats to both national security and human rights. The Internet's rapid growth — along with its instant global reach and anonymity — has significantly escalated the situation.

An entire online supply chain, parallel to legitimate distribution channels, has flourished around counterfeit goods. Online B2B marketplaces, in addition to e-commerce sites — many promoted via social media and search engines — commonly traffic in counterfeit goods. Fake products acquired on wholesale sites are sold across multiple digital channels, or at flea markets and shops in the physical world.

Deceptive use of proven marketing techniques — paid search ads, search engine optimization, email and social media campaigns, branded domain names and more — are important parts of this illicit ecosystem, as savvy counterfeiters apply marketing best practices.

Fortunately, brand owners can adopt their own proven best practices to successfully combat online counterfeit sales. Unlike anti-counterfeiting strategies in the physical world, however, a two-pronged approach is necessary: Brand owners must choke off counterfeit sales at both promotional and distribution points. Technology exists for identifying and quantifying worldwide online counterfeiting activity in both promotional and distribution channels, and, once visible, infringement can be prioritized and attacked. The battle against online counterfeit sales can be won. With billions in revenues, critical customer loyalty and even public safety and human rights at stake, it must.

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Counterfeiting: A Growing Online Threat

“If you can make it, you can fake it.” Unfortunately, the old saying is all too true. Sales of counterfeit goods affect a wide range of industries, from high-margin luxury and technology goods to low-margin consumer goods like batteries, shampoo, gasoline and food.

The problem is growing, in part because the volume of fake goods produced is rapidly increasing — especially in countries like China, where manufacturing capacities continue to skyrocket. Mainland China was the point of origination for approximately \$1.2 billion of the \$1.7 billion in counterfeit goods confiscated by U.S. law enforcement agencies in 2013.²

This growth in supply helps fuel the exploding demand — especially online. The Internet’s rapid growth — along with its instant global reach and anonymity — has significantly escalated the situation, moving the sale of counterfeit goods from the local street corner to a global marketplace. Because criminals can quickly and easily set up e-commerce storefronts or place listings on B2B marketplaces cost-effectively, their activities will continue to cost legitimate businesses billions in lost revenue.

Counterfeiting’s Real Cost to Business

According to the secretary general of the ICC, multinational manufacturers lose roughly ten percent of their top-line revenue to counterfeiters — but the impacts go well beyond the revenue hit. For some companies, perceived brand value suffers when knock-offs become plentiful. Brands may even lose representation in distribution channels when resellers and affiliates see a reduction in demand due to competition from fakes. Additionally, the availability of cheaper, albeit fake, alternatives can exert downward pressure on legitimate brand pricing.

Other impacts include product safety issues — especially in pharmaceutical, automotive, aviation, healthcare, electronics and similar industries — accompanied by increased legal liability risks. And as consumers experience quality problems with fake goods, the legitimate brand’s customer service and warranty costs can climb.

Marketing costs also rise as illicit sellers bid up paid search advertising costs and erode legitimate search engine optimization (SEO) investments. Finally, as more customers encounter inauthentic brand experiences, both loyalty and lifetime customer value suffer.

How Counterfeiting Thrives Online

Counterfeits in Digital Channels Affect Multiple Industries:

Tablets	<p>Listings for clones, suspected counterfeits or gray market tablet computers numbered more than 23,000 in a single day</p> <p>More than 6,600 cybersquatted sites taking advantage of tablet brands generated more than 75 million annual visits</p>
Luxury Goods	<p>Suspected counterfeiters attracted 120 million annual visits to their e-commerce sites, representing almost half the traffic generated by the legitimate dot com sites for five luxury brands</p> <p>Brandjackers set up more than 1,100 cybersquatted sites touting luxury brands and more than 50 suspicious vendors purchased luxury brands keywords in paid search scams</p>
Sports Apparel	<p>Suspected counterfeiters attracted 56 million annual visits to e-commerce sites annually</p> <p>Suspected counterfeiters sold almost 1.2 million suspicious jerseys via e-commerce and business-to-business (B2B) marketplaces sites annually</p> <p>We found more than 6,000 suspects selling more than 1.2 million shirts or jerseys annually over the Internet, generating nearly \$25 million in revenue.</p>

Source: MarkMonitor Brandjacking Index®

An entire online supply chain — parallel to legitimate distribution channels — has grown around counterfeit goods. This illicit but highly profitable industry takes advantage of the same online tools, techniques and best practices employed by legitimate brands online.

The contrasts with counterfeiting in the physical world are important to understand, and are based upon the Internet’s global reach, anonymity and efficiency. These attributes — and especially the digital world’s powerful promotional potential — have enabled online counterfeiters to dramatically (and rapidly) outstrip all the street corner fakes, flea markets and “Canal Street districts” that exist.

In the wholesale trade, B2B marketplaces (also known as trade boards) often traffic in counterfeit goods. At the retail level, counterfeiters also use marketplaces to supply counterfeit goods to consumers. It’s not unusual for counterfeiters to acquire fake goods on wholesale sites, only to resell them to consumers via digital channels — in addition to offline flea markets, bazaars and even retail shops.

Promotion is an important part of this illicit ecosystem. Counterfeiters use the same tactics as legitimate marketers, such as paid search

ads and search engine optimization to lure buyers to their sites. According to Direct Magazine, fully 14 percent of searches on a branded item lead online users somewhere other than the legitimate brand’s site. While some of these searches may lead to legitimate resellers or partners, it’s reasonable to assume that many of them end up on the site of a counterfeiter.

Some counterfeit sellers also employ unsolicited email — spam — to boost their site traffic. This is especially prevalent among sellers of fake pharmaceuticals, software and luxury goods such as watches, jewelry and high-end apparel. They also make use of cybersquatting techniques, using branded terms in domain names in order to attract Web traffic and convey authenticity. And, as savvy marketers, they take advantage of inbound linking strategies and other SEO techniques to sell their illicit goods online.

The counterfeiting ecosystem extends to popular auction and exchange sites where direct searches frequently include counterfeit goods among their results. Links to sites pushing counterfeit wares can also be found on social media venues such as social networking sites, blogs and micro-blogs.

Clearly, legitimate and counterfeit ecosystems overlap — with some auction and e-commerce sites selling both real and fake goods — and this makes the problem more difficult to address. There are best practices, however, which can help brands minimize the damage from counterfeit sales in digital channels.

Beating Back Counterfeiters Online: Seven Best Practices

While the sale of counterfeit goods in the physical world is a timeworn tradition — if an unwelcome one — the online counterfeiting ecosystem offers unique challenges that require a unique approach. Proven best practices have emerged from brands that have actively and successfully engaged in combating counterfeit sales online.

1. Attain global visibility. Before a brand can understand the scope of the threat posed by online counterfeit sales, it must expose and quantify the problem. Counterfeiters operate over a wide array of online channels; all of these, including online marketplaces, e-commerce sites, message boards and the rest, must be monitored and analyzed. There's some good news for brands, however. Our experience shows that ten online marketplaces account for fully 80 percent of all marketplace traffic. Monitor these marketplaces, and you're watching a significant share of traffic.

Counterfeiters depend on technology to drive sales volumes so approach the monitoring challenge with the same tools and leverage technology to form a complete and accurate picture of the counterfeiting challenge that your brand faces.

2. Monitor points of promotion. While it's obviously important to identify and shut down distribution channels, it's almost certain that counterfeiters will regularly seek new sales venues. So it's just as critical to monitor the online promotional channels used by these criminals.

Counterfeiters use the same effective promotion techniques employed by legitimate marketers while leveraging the powerful, highly recognizable brands built by experts. Using paid search advertising, links within social media, black hat SEO tactics, cybersquatting and spam, they successfully steer traffic to their illicit offerings, and diminish the marketing ROI of legitimate brands. Monitoring for these promotional efforts is critical — and enables our next best practice.

3. Take proactive action. Counterfeiters obviously encounter more success when left to operate unchallenged; they're also known to shift their energies to more passive targets when brands visibly fight back. Once a brand understands where

the greatest threats lie, aggressive action is the best strategy. Brands should:

- Set priorities. Identify the biggest offenders, offering the greatest number of counterfeit goods in the most highly trafficked venues, and address them first. Brand owners should determine which counterfeit goods are generating the largest sales, and target them first as well.
- Watch for cybersquatters. Brands should actively monitor the Internet for unauthorized use of their branded terms in domain names. This will aid in rapid detection of e-commerce sites selling counterfeit or unauthorized goods — and frequently also uncovers other abuses such as false association with offensive content like pornography.
- Become a difficult target. Brands that visibly, vigorously fight to remove counterfeit goods from online venues often see a dramatic drop in infringement against their brands.
- Use all your weapons. Most online channels provide mechanisms for dealing with counterfeit sales situations. Online marketplaces, for example, typically have policies and procedures enabling brand owners to report listings that infringe their brand.

The Best Tools for Fighting Technology-enabled Counterfeit Sales

Brand: Snap-on

Challenge: Significant online sales of counterfeit Snap-on tools, resulted in erosion of revenues, perceived brand value and customer loyalty.

Response: Snap-on employed sophisticated monitoring and detection technology solutions to fight online counterfeit sales.

Results: Counterfeit products valued at \$1.2 million — found in 4,900 illegal auction listings — were identified and removed in coordination with an online auction site.

Search engines offer similar facilities. Major search engines have procedures for requesting the removal of ads linked to counterfeit sites. Websites can also be removed from search results pages if they are found to violate copyright laws (a common practice among sites selling counterfeits, typically through unauthorized use of product images).

- Get help from friends. Industry relationships can be powerful weapons in the fight against online counterfeiting. When choosing a brand protection solution provider, look for one with established ties with thousands

of ISPs and Registrars worldwide. Simply put, these ties make it possible to get counterfeit sites shut down more quickly—thereby minimizing brand owner losses. Trade associations such as the International AntiCounterfeiting Coalition (IACC), the Anti-Counterfeiting Group (ACG) and the American Apparel and Footwear Association (AAFA) also provide resources and advice on best practices for fighting counterfeiters.

4. Fight online counterfeit sales holistically. Online counterfeit sales are easier to address when the entire enterprise participates. That means brand owners should set up a cross-functional task force to address the issue in a coordinated, holistic manner.

Stakeholders — and, therefore, recommended participants — will vary by industry and enterprise, but can include legal, marketing, risk management, loss prevention,

channel sales management, manufacturing, supply chain management and other functional units.

Because fighting online counterfeiting requires attacking both promotional and distribution channels, this group needs to address more facets of the problem than seen in the physical world. All of these groups can, and should, set priorities and strategies for detecting, reporting and responding to infringers and should continue to inform the process as their situations and perceptions dictate.

5. Let online intelligence inform offline defense measures. Because offline measures — physical investigations, factory raids and other activities — can be costly and time-consuming, it's critical to know where they should be focused. Online intelligence can help identify the most egregious infringers, so that offline defensive efforts can be focused where they'll be most effective.

6. Act swiftly — and globally. Perhaps even more than it affects legitimate business, the proliferation of international trade offers tremendous benefits to online counterfeiters. While a domestic seller or manufacturer may seem like an easy first target, brands have learned that it's more effective to launch global anti-counterfeiting initiatives — and to get them underway expeditiously.

Prepare by ensuring your trademarks are registered internationally — especially in China, which observes a “first-to-file” policy that grants registration to whoever files first, even if it's not the true brand owner.

A global effort doesn't preclude addressing markets that target a specific country exclusively. In some cases, this will require competent language translation resources for monitoring, detection and enforcement. Most companies rely on third-party brand protection solution providers for this kind of expertise.

7. Educate your customers. Your customers can be an important ally in minimizing sales of counterfeit goods with all its associated costs. Educate your customers about the risks of buying from unauthorized sources, and recruit them to join in the effort by reporting suspicious goods and sellers. The Authentics Foundation and its consumer site, dontbuyfakes.com, have useful resources for consumer education. Also, many brands provide form or email-based mechanisms for reporting suspected infringement. When offering such tools, be sure to reinforce the benefits of buying authentic goods from authorized sellers.

Footwear Manufacturer Stomps Online Counterfeiters

Global footwear leader Deckers Outdoor, faced with millions in online sales of counterfeit and grey market goods, moved promptly to protect its customers and its bottom line. Leveraging brand protection technology, the company was able to:

- Pinpoint — and remove or de-list — \$4.35 million in illegitimate goods and knock-offs within just 90 days
- Significantly curtail counterfeiting activity that undermined its revenues
- Enhance its brand reputation and increase customer trust and loyalty by automating and extending online enforcement

Online Intelligence Helps Focus Physical Efforts

Acushnet Company, a leader in the golf industry, leveraged online intelligence to guide a major raid in the U.K., shutting down a large counterfeiting operation that fed online distribution channels.³

Conclusion: The Fight Is Yours to Win

Online counterfeiting can heavily impact any company, affecting revenues, channel relationships, customer experience, marketing effectiveness, legal liability and more. Ignoring it — or just hoping for the best — simply isn't good business.

Fortunately, taking action can be fairly straightforward. Implementing the best practices discussed here doesn't have to involve complex organizational changes or extensive hiring efforts, as third-party solution providers can help make the effort efficient and supplement internal teams.

Global Imaging Giant Protects its Image — and Profits

Print technology leader Epson created a centralized mechanism for globally monitoring for online brand abuses including counterfeit sales.

By forming a global, cross-functional team, Epson achieved a three-fold reduction in counterfeit sales activities on consumer and B2B marketplaces. Their visible, aggressive strategy has also served to deter abuse.

To successfully reduce the negative effects of counterfeiting, many companies have found that a cross-functional team contributes a great deal to an aggressive, global anti-counterfeiting initiative.

Most importantly: To effectively choke off counterfeit sales, the strategy must focus on both distribution and promotional channels for counterfeit goods. The returns — in revenues, profits, and long-term brand value — will certainly make the effort worthwhile.

Tall Order: Fighting Counterfeiting in China

One of the most important centers of counterfeit trade is China. In addition to originating roughly \$1.2 billion of the \$1.7 billion in counterfeit goods confiscated by U.S. law enforcement agencies in 2013, China hosts vast internal marketplaces — both online and off — where counterfeit goods are traded.⁴

¹ Quintanilla, Carl. "War on Counterfeit Goods." CNBC. N.p., n.d. Web. 14 June 2013.

² United Nations Office on Drugs and Crime. "Transnational Organized Crime: Let's Put Them Out of Business." Counterfeit Goods: A Bargain or a Costly Mistake? N.p., n.d. Web. 29 May 2014.

³ CNN. "Fake Golf Clubs Scam 'Duped' eBay Customers." CNN. N.p., n.d. Web. 23 September 2009.

⁴ United Nations Office on Drugs and Crime. "Transnational Organized Crime: Let's Put Them Out of Business."

About MarkMonitor

MarkMonitor, the leading enterprise brand protection solution and a Clarivate Analytics flagship brand, provides advanced technology and expertise that protects the revenues and reputations of the world's leading brands. In the digital world, brands face new risks due to the Web's anonymity, global reach and shifting consumption patterns for digital content, goods and services. Customers choose MarkMonitor for its unique combination of advanced technology, comprehensive protection and extensive industry relationships to address their brand infringement risks and preserve their marketing investments, revenues and customer trust. For more information, visit markmonitor.com.

About Clarivate Analytics

Clarivate Analytics accelerates the pace of innovation by providing trusted insights and analytics to customers around the world, enabling them to discover, protect and commercialize new ideas faster. Formerly the Intellectual Property and Science business of Thomson Reuters, we own and operate a collection of leading subscription-based services focused on scientific and academic research, patent analytics and regulatory standards, pharmaceutical and biotech intelligence, trademark protection, domain brand protection and intellectual property management. Clarivate Analytics is now an independent company with over 4,000 employees, operating in more than 100 countries and owns well-known brands that include *Web of Science*, *Cortellis*, *Thomson Innovation*, *Derwent World Patents Index*, *CompuMark*, *MarkMonitor* and *Techstreet*, among others. For more information, visit clarivate.com.

More than half the Fortune 100 trust MarkMonitor to protect their brands online. See what we can do for you.

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White Paper

Seven Best Practices for Fighting Counterfeit Sales Online

Executive Summary

Counterfeit sales represent 5 to 7 percent of world merchandise trade today¹. The damage these sales do to rightful brand owners goes well beyond revenues and profits: numerous reports have suggested that counterfeit and piracy trade supports terrorism, organized crime and other threats to both national security and human rights. Now, the Internet's rapid growth—along with its instant global reach and anonymity—has significantly escalated the situation.

An entire online supply chain, parallel to legitimate distribution channels, has flourished around counterfeit goods. Online B2B exchanges, in addition to eCommerce sites—many promoted via social media and search engines—commonly traffic in counterfeit goods. Fake products acquired on wholesale sites are sold on auction sites, or at flea markets and shops in the physical world.

Deceptive use of proven marketing techniques—paid search ads, search engine optimization, unsolicited email, the use of branded terms in domain names and more—are important parts of this illicit ecosystem, as savvy counterfeiters apply marketing best practices.

Fortunately, brand owners can adopt their own proven best practices to successfully combat online counterfeit sales. Technology exists for identifying and quantifying worldwide online counterfeiting activity—in both promotion and distribution—as it affects a specific brand. Once visible, infringement can be prioritized and attacked. Unlike anti-counterfeiting strategies in the physical world, however, a two-pronged approach is necessary: brand owners must choke off counterfeit sales at both promotional and distribution points.

The battle against online counterfeit sales can be won. With billions in revenues, critical customer loyalty, and even public safety and human rights at stake, it must.

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Counterfeiting: A Growing Online Threat

“If you can make it, you can fake it.” Unfortunately, the old saying is all too true. Sales of counterfeit goods affect a wide range of industries, from high-margin luxury and technology goods to low-margin consumer goods like batteries, shampoo, gasoline and food.

The problem is growing, in part because the volume of fake goods produced is rapidly increasing—especially in countries like China, where manufacturing capacities continue to skyrocket (89 percent of seized counterfeit products originate there).²

This growth in supply helps fuel the exploding demand—especially online. The Internet’s rapid growth—along with its instant global reach and anonymity—has significantly escalated the situation, moving the sale of counterfeit goods from the local street corner to a global marketplace. Because criminals can quickly and easily set up eCommerce storefronts or place listings on B2B exchanges and on auction sites—with only minor expense—their activities will likely cost legitimate businesses \$135 billion in lost revenue this year.

Counterfeiting’s Real Cost to Business

According to the secretary general of the ICC, multinational manufacturers lose roughly ten percent of their top-line revenue to counterfeiters³—but the impacts go well beyond the revenue hit. For some companies, perceived brand value suffers when knock-offs become plentiful. Brands may even lose representation in distribution channels when resellers and affiliates see a reduction in demand due to competition from fakes. Additionally, the availability of cheaper, albeit fake alternatives can exert downward pressure on legitimate brand pricing.

Other impacts include product safety issues—especially in pharmaceutical, automotive, aviation, healthcare electronics and similar industries—accompanied by increased legal liability risks. And as consumers experience quality problems with fake goods, the legitimate brand’s customer service and warranty costs can climb.

Marketing costs also rise as illicit sellers bid up paid search advertising costs and erode legitimate search engine optimization (SEO) investments. Finally, as more customers encounter inauthentic brand experiences, both loyalty and lifetime customer value suffer.

¹ International Chamber of Commerce

² *Intellectual Property Rights Seizure Statistics: Fiscal Year 2009*, U.S. Customs & Border Protection, Oct 2009

³ <http://www.livemint.com/2007/06/18001520/Counterfeiters-taking-on-globa.html>

How Counterfeiting Thrives Online

Burned by counterfeiters: Zippo Lighters⁴

Revenues:	Zippo lost fully one third of its revenues to counterfeiters between 1995 and 2001.
Employment:	For every 20,000 fake lighters sold, Zippo reduced staff by 1 full-time employee.
Product Safety:	Lower-quality, counterfeit lighters, with a greater tendency to flare up or even explode, caused serious consumer injury.
Liability:	Zippo was named in two lawsuits for incidents involving “Zippo lighters” it had not manufactured.

An entire online supply chain—parallel to legitimate distribution channels—has grown around counterfeit goods. This illicit but highly profitable industry takes advantage of the same online tools, techniques and best practices employed by legitimate brands online.

The contrasts with counterfeiting in the physical world are important to understand, and are founded on the Internet’s global reach, anonymity, and efficiency. These attributes—and especially the online world’s powerful promotional potential—have enabled online counterfeiters to dramatically (and rapidly)

outstrip all the street corner fakes, flea markets and “canal street districts” that exist.

In the wholesale trade, B2B exchanges (also known as trade boards) commonly traffic in counterfeit goods. At the retail level, auction sites and eCommerce sites supply counterfeit goods to consumers. It’s not unusual for individuals to acquire fake goods on wholesale sites, only to resell them to consumers on auction sites and in other online, consumer-facing venues—in addition to offline flea markets, bazaars, and even retail shops.

Promotion is an important part of this illicit ecosystem. Counterfeiters use the same tactics as legitimate marketers, such as paid search ads and search engine optimization to lure buyers to their sites. According to *Direct Magazine*, fully 14 percent of searches on a branded item lead online users somewhere other than the legitimate brand’s site: While some of these searches may lead to legitimate resellers or partners, it’s reasonable to assume that many of them end up on the site of a counterfeiter.

Some counterfeit sellers also employ unsolicited email—spam—to boost their site traffic. This is especially prevalent among sellers of fake pharmaceuticals, software, and luxury goods such as watches, jewelry, and high-end apparel. They also make use of cybersquatting techniques, using branded terms in domain names in order to attract web traffic and convey authenticity. And, as savvy marketers, they take advantage of inbound linking strategies and other search engine optimization (SEO) techniques to sell their illicit goods online.

⁴ http://www.zippo.com/NewsAndEvents/Counterfeiting_of_Zippo_Lighters_In_China_affecting_Bradford.aspx?article=9209ee4c-ff1e-4712-b340-7124b485164&bhcp=1

The counterfeiting ecosystem extends to popular auction and exchange sites, of course, where direct searches frequently include counterfeit goods among their results. Links to sites pushing counterfeit wares can also be found in quantity on social media venues such as social networking sites, blogs and micro-blogs.

Clearly, legitimate and counterfeit ecosystems overlap—with some auction and eCommerce sites selling both real and fake goods—and this makes the problem more difficult to address. There are best practices, however, which can help brands minimize the damage from online counterfeit sales.

Beating Back Counterfeiters Online: Seven Best Practices

While the sale of counterfeit goods in the physical world is a timeworn tradition—if an unwelcome one—the online counterfeiting ecosystem offers unique challenges that require a unique online approach. Proven best practices have emerged from brands that have actively and successfully engaged in combating counterfeit sales online.

1. Attain global visibility. Before a brand can understand the scope of the threat posed by online counterfeit sales, it must expose and quantify the problem. As we have seen, counterfeiters operate over a wide array of online channels; all of these, including B2B exchanges, auction sites, eCommerce sites, message boards, and the rest, must be monitored and analyzed. There's some good news: just ten online marketplaces account for fully 80 percent of all marketplace traffic. Monitor these marketplaces, and you're watching a significant share of traffic.

The counterfeit sales volumes involved cited here—along with everything else about the Internet—are all enabled by technology. The only possible way to approach the monitoring challenge is to leverage technology as well; there is simply no other practical method.

2. Monitor points of promotion. While it's obviously important to identify and shut down distribution channels, it's almost certain that counterfeiters will regularly seek new sales venues. So it's just as critical to monitor the online promotional activities these criminals launch.

Counterfeiters use the same effective promotion techniques employed by legitimate marketers—leveraging the powerful, highly recognizable brands built by experts. Using paid search advertising, links within social media, black hat SEO tactics, cybersquatting and spam, they successfully steer traffic to their illicit offerings, while diminishing the marketing ROI of legitimate brand holders.

Monitoring for these promotional efforts is critical—and enables our next best practice.

The best tools for fighting technology-enabled counterfeit sales.

Brand:	Snap-on Tools
Challenge:	Significant online sales of counterfeit Snap-on tools, resulted in erosion of revenues, perceived brand value, and customer loyalty.
Response:	Snap-on employed sophisticated monitoring and detection technology solutions to fight online counterfeit sales.
Results:	Counterfeit products valued at \$1.2 million—found in 4,900 illegal auction listings—were identified and removed in coordination with an online auction site.

3. Take proactive action. Counterfeiters obviously encounter more success when left to operate unchallenged; they're also known to shift their energies to more passive targets when brands visibly fight back. Once a brand understands where the greatest threats lie, aggressive action is the best strategy. Brands should:

- **Set priorities.** The biggest offenders, offering the greatest number of counterfeit goods in the most highly trafficked venues, should be identified and addressed first. Brand owners should determine which counterfeit goods are generating the largest sales, and target them first as well.

- **Watch for cybersquatters.** Brands should actively monitor cyberspace for unauthorized use of their branded terms in domain names. This will aid in rapid detection of eCommerce sites selling counterfeit or unauthorized goods—and frequently also uncovers other abuses such as false association with offensive content like pornography.
- **Become a difficult target.** Brands that visibly, vigorously fight to remove counterfeit goods from online venues often see a dramatic drop in infringement against their brands.
- **Use all your weapons.** Most online channels provide mechanisms for dealing with counterfeit sales situations. Online marketplaces, for example, typically have policies and procedures enabling brand owners to report listings that infringe their brand. Others often respond readily to emailed complaints from brand owners. Search engines offer similar facilities. Major search engines have procedures for requesting the removal of ads linked to counterfeit sites. Websites can also be removed from search results pages if they are found to violate copyright laws (a common practice among counterfeit sites, typically through unauthorized use of product images). Another useful tactic is the sending of takedown notices, which can be sent directly to Internet service providers. In one recent court case⁵, two web-hosting companies were fined \$32 million for not responding to takedown notices aimed at blocking counterfeit sales on sites they hosted.
- **Get help from friends.** Industry relationships can be powerful weapons in the fight against online counterfeiting. When choosing a brand protection solution provider, look for one with established ties with thousands of ISPs

⁵ Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc. et al. ; http://www.ft.com/cms/s/0/54c5a3a4-9686-11de-84d1-00144feabdc0.html?catid=57&SID=google&nclck_check=1

and registrars worldwide. Simply put, these ties make it possible to get counterfeit sites shut down more quickly—and thereby minimize brand owner losses. Trade associations such as the International AntiCounterfeiting Coalition (IACC), the Anti-Counterfeiting Group (ACG) and the American Apparel and Footwear Association (AAFA) also provide resources and advice on best practices for fighting counterfeiters.

4. Fight online counterfeit sales holistically. Online counterfeit sales are easier to address when the entire enterprise participates. That means brand owners should set up a cross-functional task force to address the issue in a coordinated, holistic manner.

Stakeholders—and, therefore, recommended participants—will vary by industry and enterprise, but can include legal, marketing, risk management, loss prevention, channel sales management, manufacturing, supply chain management, and other functional units.

Because fighting online counterfeiting requires attacking both promotional mechanisms and distribution channels, this group will be larger than needed to fight physical-world counterfeiting. All of these groups can and should set priorities and strategy for detecting, reporting and responding to infringers—both online and off—and should continue to inform the process as their situations and perceptions dictate.

5. Let online intelligence inform offline defense measures. Because offline measures—physical investigations, factory raids and other activities—can be costly and time-consuming, it's critical to know where they should be focused. Online intelligence can help identify the most egregious infringers, so that offline defensive efforts can be focused where they'll be most effective.

6. Act swiftly—and globally. Perhaps even more than it affects legitimate business, the proliferation of international trade offers tremendous benefits to online counterfeiters. While a domestic seller or manufacturer may seem like an easy first target, brands have learned that it's more effective to launch global anti-counterfeiting initiatives—and to get them underway expeditiously.

Footwear manufacturer stomps online counterfeiters.

Global footwear leader Deckers Outdoor, faced with millions in online sales of counterfeit and grey market goods, moved promptly to protect its customers and its bottom line. Leveraging brand protection technology, the company was able to:

- Pinpoint—and remove or de-list—\$4.35 million in illegitimate goods and knock-offs, all within just 90 days
- Significantly curtail counterfeiting activity that undermined its revenues
- Enhance its brand reputation and increase customer trust and loyalty by automating and extending online enforcement

Online intelligence helps focus physical efforts.

Acushnet Company, a leader in the golf industry, leveraged online intelligence to guide a major raid in the UK, shutting down a large counterfeiting operation that fed online distribution channels.⁶

⁶ CNN: <http://edition.cnn.com/2009/SPORT/09/23/golf.ebay.clubs.scam>

Prepare by ensuring your trademarks are registered internationally—especially in China, which observes a “first-to-file” policy that grants registration to whoever files first, even if it’s not the true brand owner.

Global imaging giant protects its image—and profits.

Print technology leader Epson created a centralized mechanism for globally monitoring for online brand abuses including counterfeit sales.

By forming a global, cross-functional team, Epson achieved a three-fold reduction in counterfeit sales activities on consumer auction and B2B exchange sites. Their visible, aggressive strategy has also served to deter abuse.

Tall order: fighting counterfeiting in China.

One of the most important centers of counterfeit trade is China. In addition to originating roughly 89% of counterfeit manufactured goods, China hosts vast internal marketplaces—both online and off—where counterfeit goods are traded.

A global effort doesn’t preclude addressing markets that are internal to a given country. In some cases, this will require competent language translation resources for monitoring, detection and enforcement. Most companies rely on third-party brand protection solution providers for this kind of expertise.

Many online B2B exchanges and auctions are presented only in Chinese-language characters, posing translation barriers to legitimate brands aiming to protect their rights. Regardless of the source of counterfeit goods sold on these sites, buyers commonly re-sell the illicit products in other online and offline venues. Losses to legitimate brands are in the billions.

7. Educate your customers. Your customers can be an important ally in minimizing sales of

counterfeit goods with all its associated costs. Work aggressively to show customers the risks of buying from unauthorized sources, and recruit them to join in the effort by reporting suspicious goods and sellers.

Many brands have established web-based tools for verifying the authenticity of goods and/or the legitimacy of sellers. Others provide form- or email-based mechanisms for reporting suspected infringement. When offering such tools, be sure to reinforce the benefits of buying authentic goods from authorized sellers.

Another effective, pro-active measure enables brands to warn consumers directly of known counterfeiting activity, before the consumer makes a purchase. This patented technology leverages relationships with major Internet security providers to deliver early warnings to Internet users, waving them off before they click through to a site known to traffic in counterfeit or recalled goods.

Many consumers don’t want cheap knock-offs—and they don’t want their authentic goods cheapened by the presence of illicit goods. Take advantage of these sentiments: join forces with your customers to spot counterfeit products quickly and help get them off the market.

Conclusion: The Fight Is Yours to Win

Online counterfeiting can heavily impact any company, affecting revenues, channel relationships, customer experience, marketing effectiveness, legal liability and more. Ignoring it—or just hoping for the best—simply isn't good business.

Fortunately, taking action can be fairly straightforward. Implementing the best practices discussed here doesn't have to involve complex organizational changes or extensive hiring efforts, as third-party solution providers can help make the effort efficient and supplement internal teams.

To successfully reduce the negative effects of counterfeiting, however, companies must commit to forming a cross-functional team, at least at the advisory level, and to an aggressive, global anti-counterfeiting initiative.

Most importantly: to effectively choke off counterfeit sales, these teams must ensure a strategy that focuses on both distribution and promotional mechanisms associated with counterfeit goods. The returns—in revenues, profits, and long-term brand value—will certainly make the effort worthwhile.

About MarkMonitor

As the global leader in online brand protection, MarkMonitor provides advanced technology and expertise that protects the revenues and reputations of the world's leading brands. In the digital world, brands face new risks due to the web's anonymity, global reach and shifting consumption patterns for digital content, goods and services. Customers choose MarkMonitor for its unique combination of industry-leading expertise, advanced technology and extensive industry relationships to preserve their marketing investments, revenues and customer trust.

To learn more about MarkMonitor, our solutions and services, please visit markmonitor.com or call us at **1-800-745-9229**.

More than half the Fortune 100 trust MarkMonitor to protect their brands online. **See what we can do for you.**

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