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## REVIEW OF INTELLECTUAL PROPERTY LAW



### THE SOPHISTICATION OF THRIFTING FOR DESIGNER GOODS: TRADEMARK LAW IN THE SECONDHAND MARKET

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#### ABSTRACT

Trademark law serves as a critical framework for regulating retailers and safeguarding consumers from potential deception from providers of goods or services. Cases involving trademark infringement and false advertising, which may confuse consumers, are brought before the courts under the Lanham Act. The primary focus has historically been trademark owners against direct-to-consumer infringers. However, with a shift in consumer trends with online shopping becoming consumers' primary source of commerce paired with the rise in popularity of purchasing goods secondhand, the prominence of online secondary retailers has expanded exponentially. *Chanel v. The RealReal* demonstrates the court's stagnant approach to trademark infringement and false advertising issues within the context of an ever-evolving market. The shift toward secondhand purchases facilitated by online platforms like The RealReal has led to new challenges in maintaining consumer trust and brand integrity. This case note will discuss the court's approach and its role in nurturing a collaborative relationship between designers and secondhand retailers, as both share a common objective of safeguarding consumers, protecting the brand, and upholding the integrity of their respective platforms. The case note will explore how the legal system can adapt to meet the needs of all parties to effectively address the complexities of trademark issues in the new market.



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## THE SOPHISTICATION OF THRIFTING FOR DESIGNER GOODS: TRADEMARK LAW IN THE SECONDHAND MARKET

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### I. INTRODUCTION

My first exposure to the Dior Saddle bag happened over a decade ago while watching *Sex and the City* on television.<sup>1</sup> It was recently when I met a close friend who happened to own the same iconic Dior Saddle bag, which had only been seen carried by *the* Carrie Bradshaw.<sup>2</sup> Since the bag debuted on television in the early 2000s, its value has only increased.<sup>3</sup> Whether it is the Dior Saddle, Fendi Baguette, or a glimpse of the Hermes Birkin, the collection of bags and shoes seen on *Sex and the City* are some of the most notable and desired vintage luxury goods.<sup>4</sup> The desire to invest in and own vintage luxury products stems from their exclusivity.<sup>5</sup> If you are seen carrying a unique vintage Chanel Flap Bag, your bag will be noticed. Secondhand retailers make it possible for the average consumer to own some of the most exclusive bags and shoes.<sup>6</sup>

The high demand and exclusive nature of vintage designer goods consequently increase their value.<sup>7</sup> Their high value and steep prices create an essential need to authenticate vintage bags, shoes, accessories, and other luxury goods.<sup>8</sup> Without guaranteed authenticity, such products risk losing their value in the secondhand

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<sup>1</sup> Isabelle E., *The Handbags of Sex and The City*, THE VAULT (Nov. 29, 2021), <https://www.rebag.com/thevault/the-handbags-of-sex-and-the-city/>.

<sup>2</sup> *Id.*

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*

<sup>5</sup> Anna Solomon, *The Economics of Exclusivity: Why Luxury Brands are Hiking Prices to Draw Buyers In*, LUXURY LONDON (June 17, 2022), <https://luxurylondon.co.uk/style/hers/chanel-hermes-price-rises-luxury-scarcity-exclusivity>.

<sup>6</sup> Achim B., Bassel B. Naoyuki I. & Stefano Z., *Welcome to Luxury Fashion Resale: Discerning Customers Beckon to Brands*, MCKINSEY & COMPANY (Nov. 29, 2021), <https://www.mckinsey.com/industries/retail/our-insights/welcome-to-luxury-fashion-resale-discerning-customers-beckon-to-brands>.

<sup>7</sup> Solomon, *supra* note 5; see also Erica Kagan, *The Luxury Price Boom: Why You Should Invest in Chanel Handbags Today*, SOTHEBY'S (Mar. 14, 2022), <https://www.sothebys.com/en/articles/the-luxury-price-boom-why-you-should-invest-in-chanel-handbags-today>.

<sup>8</sup> *The Rise of Pre-Owned Luxury in the US*, VOGUE BUS. (Aug. 12, 2021), <https://www.voguebusiness.com/sustainability/the-rise-of-pre-owned-luxury-in-the-us>.

market.<sup>9</sup> Secondhand retailers have become more prevalent in the luxury goods market, making the guarantee of authenticity a critical selling point for their companies.<sup>10</sup> *Chanel v. The RealReal* teaches us that authentication cannot be certain unless the luxury goods are purchased directly from designer brands.<sup>11</sup> *Chanel* concerned protection of the Chanel Brand;<sup>12</sup> however, courts should consider the effects of counterfeit products on consumers and the secondhand market overall.

This case note will discuss policy arguments in favor of applying the Lanham Act in the fashion resale market to protect consumers from purchasing counterfeit products. Part II will discuss the case of *Chanel v. The RealReal* and the court's application of the Lanham Act. Part III of this case note will discuss the history and legal standards of Trademark Law and the role the law plays in retail and secondhand markets. Part IV will analyze the court's application and decision and discuss whether the judicial system should take a broader approach when applying the tests under the Lanham Act where various markets begin to overlap. Part V will summarize the main points of this case and reiterate the importance of the broad application of the Lanham Act to protect consumers.

## II. BACKGROUND

The foundation of trademark law is a two-fold concept built on the objective of protecting consumers.<sup>13</sup> Both in historical and current trademark law, the goal is to minimize consumer confusion and deception over trademarks and protect a trademark owner's property.<sup>14</sup> In instances where the use of a trademark may cause confusion for consumers, courts rely on the Lanham Act to guide their analyses and discussions on the use of trademarks.<sup>15</sup>

Trademark infringement has customarily been categorized as a form of consumer deception as it deprives consumers of the ability to distinguish genuine goods from counterfeit goods.<sup>16</sup> Existing trademark laws protect the average consumer and trademark owners from direct-to-consumers infringers.<sup>17</sup> Trademark law does not clearly define the type of consumer protected under the law but instead is intended to offer broad protections.<sup>18</sup> In specific cases of trademark law violations, sections 43(a)

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<sup>9</sup> Graham Wetzberger, *The Rise of Recommerce: Resale and Authenticity*, A.B.A. SEC. OF INTELL. PROP. L. (Mar. 30, 2022), [https://www.americanbar.org/groups/intellectual\\_property\\_law/publications/landslide/2021-22/march-april/rise-recommerce-resale-authenticity/](https://www.americanbar.org/groups/intellectual_property_law/publications/landslide/2021-22/march-april/rise-recommerce-resale-authenticity/).

<sup>10</sup> *Id.*

<sup>11</sup> See generally *Chanel v. The RealReal*, 449 F. Supp. 3d 422 (S.D.N.Y. 2020).

<sup>12</sup> *Id.*

<sup>13</sup> 112 ANNE GILSON LALONDE, JEROME GILSON, GILSON ON TRADEMARKS § 5.01 (2022) [hereinafter GILSON ON TRADEMARKS].

<sup>14</sup> 5 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:2 (5th ed. 2022) [hereinafter MCCARTHY ON TRADEMARKS].

<sup>15</sup> *Id.*

<sup>16</sup> MCCARTHY ON TRADEMARKS, *supra* note 14, § 2:22.

<sup>17</sup> *Id.*

<sup>18</sup> *Id.*

and 32 of the Lanham Act were designed to provide plaintiff trademark owners protection from infringement and false advertising of their brands.<sup>19</sup>

#### A. *The Lanham Act of 1946*

The Lanham Act defines “trademark” as a mark used in commerce.<sup>20</sup> The Act requires that trademark owners use their marks to create an affiliation between the brand, the trademark, and their products or services.<sup>21</sup> The purpose of the Lanham Act is rooted in the fundamentals of trademark law, which is to protect consumers from deception and brands from the misappropriation of their names.<sup>22</sup>

Bringing a claim of trademark infringement or false advertising under the Act require the plaintiff to demonstrate that the defendant is using an owned mark in commerce without the plaintiff’s consent.<sup>23</sup> Section 32(1)(a) of the Lanham Act generally imposes civil liability on any person or brand who uses any counterfeit or copy of a registered mark in connection with a sale or distribution of any good or services without the permission of the trademark owner.<sup>24</sup> A critical component for such liability is the high likelihood that the use will cause confusion or mistake for consumers.<sup>25</sup>

Courts make two inquiries when analyzing a trademark infringement claim under section 32(1) of the Lanham Act.<sup>26</sup> First, whether the mark “merits protection.”<sup>27</sup> And again, whether the allegedly infringing use of the mark will likely cause consumer confusion.<sup>28</sup>

Similarly, the primary purpose in creating section 43(a) of the Lanham Act is to prevent consumer confusion concerning the source of their product.<sup>29</sup> The standards

<sup>19</sup> MCCARTHY ON TRADEMARKS, *supra* note 14, § 27:10.

<sup>20</sup> GILSON ON TRADEMARKS, *supra* note 13, § 5.01; *see also* Robert A. Mikos, *Unauthorized and Unwise: the Lawful Use Requirement in Trademark Law*, 75 VAND. L. REV. 161, 163 (forthcoming Jan. 2022).

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

<sup>22</sup> *Id.*

<sup>23</sup> GILSON ON TRADEMARKS, *supra* note 13, § 5.01; *see also* MCCARTHY ON TRADEMARKS *supra* note 14, § 23:8.

<sup>24</sup> The Lanham (Trademark) Act of 1946, 15 U.S.C. § 1114 (imposing civil liability on, “[a]ny person who shall, without the consent of the registrant— (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; or (b) reproduce, counterfeit, copy, or colorably imitate a registered mark and apply such reproduction, counterfeit, copy, or colorable imitation to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive . . .”).

<sup>25</sup> *Id.*

<sup>26</sup> *Chanel*, 449 F. Supp. 3d at 435.

<sup>27</sup> *Id.*

<sup>28</sup> *Id.*; *see also* MCCARTHY ON TRADEMARKS, *supra* note 14, § 23.

<sup>29</sup> *Chanel*, 449 F. Supp. 3d at 435; GILSON ON TRADEMARKS, *supra* note 13, § 5.01 (prohibiting any person from using in commerce, “any word, term, name, symbol or device or any combination

under sections 32(1) and 43(a) of the Lanham Act are essentially identical.<sup>30</sup> Under both, the test for trademark infringement or false advertising relies on the deception that may result from the alleged infringement.<sup>31</sup> The tests under the Lanham Act do not distinguish between particular categories of products or services.<sup>32</sup>

Courts may apply different analyses provided under the Lanham Act in suits brought by designer brands to stop the sale of counterfeit products by independent retailers.<sup>33</sup> However, regardless of the court's approach, the factors being analyzed are consistent in such cases.<sup>34</sup>

As consumer trends become more complex with the emergence of secondhand retailers in the market<sup>35</sup>, courts must become more liberal in applying the Lanham Act to such claims brought by designers. In other words, courts must determine how to adequately use the Lanham Act in suits emerging from the secondhand market.

### 1. Consumer Confusion Standards & The Role of Consumers

Although brands are subject to the protections of trademark law, in order for a claim to survive, it is imperative that the alleged trademark infringement or false advertising brought before the court is deceptive to consumers.<sup>36</sup> However, contrary to the goal of the Lanham Act, consumers do not actually have standing to invoke claims under sections 43(a) or 32.<sup>37</sup> The consumer protections embodied in the Lanham Act may only be initiated by the trademark owners themselves.<sup>38</sup> When a brand brings about a claim under either section, courts have consistently placed a burden on the

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thereof or any false designation of origin, false or misleading description of fact or false or misleading representation of fact, which is likely to cause confusion ... as to the affiliation, connection or association of such person with another or the origin, sponsorship or approval of their goods, services or commercial activities by another person.”).

<sup>30</sup> *Id.*

<sup>31</sup> *Id.*

<sup>32</sup> See GILSON ON TRADEMARKS, *supra* note 13, § 3.02.

<sup>33</sup> *Gucci America, Inc. v. Duty Free Apparel*, 286 F. Supp. 2d 284, 290 (S.D.N.Y. 2003) (discussing the court's application of the Lanham Act to find that Duty Free's sale of counterfeit Gucci products violated the trademark law, and the court's decision to grant injunctive relief to stop the sale of counterfeit products).

<sup>34</sup> See generally *Chanel*, 449 F. Supp. 3d at 429; see also *Chanel v. What Goes Around Comes Around*, 2018 U.S. Dist. LEXIS 158077 (S.D.N.Y. Sept. 14, 2018).

<sup>35</sup> Caylee Phillips, *Online: A No-No From Coco: The Contentious Relationship Between Luxury Brands and Resale Websites*, 24 SMU SCI. & TECH. L. REV. 445, 447 (2021) (discussing the growing popularity of resale websites among younger consumers).

<sup>36</sup> 15 U.S.C. §§ 1114, 1125.

<sup>37</sup> MCCARTHY ON TRADEMARKS, *supra* note 14, § 27 (stating that the congressional goal of the Lanham Act § 43(a) is to protect consumers from deception and continues to explain that consumers do not have standing to invoke those protections and it may only be invoked by either a competitor of the defendant or some other injured commercial entity and discussing the paradoxical relationship between the Congressional goal and the consumers who fall victim to deception who cannot bring a claim to court against the defendant company).

<sup>38</sup> *Id.*

plaintiff, who is not the consumer, to demonstrate the likelihood of consumer confusion.<sup>39</sup>

Historically, courts have recognized that the very purpose behind manufacturing counterfeit goods is to create consumer confusion.<sup>40</sup> In all other trademark infringement suits where counterfeit products were not involved, developing a standard for consumer confusion was necessary to help guide courts when applying the Lanham Act.<sup>41</sup> The Second Circuit set out an eight-factor balancing test in *Polaroid Corp. v. Polarad Electronics Corp.*, providing guidelines for infringements that are likely to cause confusion.<sup>42</sup> The eight factors under the *Polaroid* test include (1) the strength of the trademarks; (2) the similarities of the trademarks; (3) proximity of the products and their competitiveness; (4) evidence that the senior user may ‘bridge the gap’ by developing a product for sale in the market of the alleged infringer’s product; (5) evidence of actual consumer confusion; (6) evidence that the imitative mark was adopted in bad faith; (7) quality of products; and (8) the sophistication of consumers in the relevant market.<sup>43</sup> Courts may also use the “nominative fair use” factors to analyze the likelihood of consumer confusion.<sup>44</sup>

In either approach, the court makes clear that no single factor is dispositive, however, every factor must be analyzed when determining if consumer confusion is likely.<sup>45</sup> Where a factor is not relevant to a certain case, the court must explain why.<sup>46</sup> Despite that, when the very purpose behind manufacturing a counterfeit product is to deceive the consumer, the *Polaroid* test becomes obsolete.<sup>47</sup>

Circuit courts have held that using a trademark in a non-confusing way is legal.<sup>48</sup> The court in *Chanel* explicitly stated that the Lanham Act “does not prevent one who trades a branded product from accurately describing it by its brand name.”<sup>49</sup> Trademark law is limited in that it does not reach sales of authentic goods bearing a

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<sup>39</sup> MCCARTHY ON TRADEMARKS, *supra* note 14, § 23:11 (discussing that the plaintiff has the burden of proof to demonstrate that the use of its trademark is likely to cause consumer confusion).

<sup>40</sup> *Chanel v. Veronique Idea Corp.*, 795 F. Supp. 2d 262, 267 (S.D.N.Y. 2011); *Chanel*, 449 F. Supp. 3d at 421 (explaining that the inherent nature of counterfeit products is to create consumer confusion, so applying the step-by-step likelihood of consumer confusion analysis is unnecessary).

<sup>41</sup> MCCARTHY ON TRADEMARKS, *supra* note 14, § 23:1.50 (discussing that in almost every aspect of trademark law “likelihood of confusion” is the test of infringement).

<sup>42</sup> *Chanel*, 449 F. Supp. 3d at 436-37.

<sup>43</sup> *Id.*

<sup>44</sup> *Id.* at 437. There are three factors under the “nominative fair use” doctrine that courts use to guide their analysis of consumer confusion, including; “(1) whether the use of the mark is necessary to describe both the plaintiff’s ... and defendant’s product or service ...; (2) whether the defendant uses only so much of the plaintiff’s mark as is necessary to identify the product or service; and (3) whether the defendant did anything that would, in conjunction with the mark, suggest sponsorship or endorsement by the plaintiff.” *Id.*

<sup>45</sup> *Id.*

<sup>46</sup> *Id.*

<sup>47</sup> *Veronique Idea Corp.*, 795 F. Supp. 2d at 267; *see also Chanel*, 449 F. Supp. 3d at 421 (explaining that the inherent nature of counterfeit products is to create consumer confusion, so applying the step-by-step likelihood of consumer confusion analysis is not necessary).

<sup>48</sup> *See generally* *New Kids on the Block v. America’s News Pub., Inc.*, 971 F.2d 302 (9th Cir. 1992); *see also Tiffany Inc. v. eBay, Inc.*, 600 F.3d 93, 103 (2d Cir. 2010); *see also* MCCARTHY ON TRADEMARKS, *supra* note 14, § 23:11 (discussing that the use of a brand’s trademark without consent alone is not illegal).

<sup>49</sup> *Chanel*, 449 F. Supp. 3d at 435.



true mark even though the mark owner does not authorize the sales.<sup>50</sup> However, secondhand retailers often face trademark infringement claims as counterfeit goods enter the stream of commerce in the resale market among genuine goods.<sup>51</sup>

Since designers cannot bring a claim against secondhand retailers for the unauthorized sale of genuine goods, courts must determine how to apply the Lanham Act when secondhand retailers begin selling counterfeit products to consumers in good faith.<sup>52</sup> Courts must broaden their approach by allowing consumers to be plaintiffs in such trademark infringement suits, as neither secondhand retailers nor designer brands' primary objective in such lawsuits is to protect consumers from spending thousands on counterfeit products.<sup>53</sup> Trademark law in the secondary market must afford consumers equal protections similar to those provided to the brands without deterring the expansion of the resale market.<sup>54</sup>

## 2. An Overview of Counterfeits and Trademark Law

Counterfeiting is “the act of producing or selling a product with a sham trademark that is an intentional and calculated reproduction of the genuine trademark.”<sup>55</sup> In cases involving counterfeit products, courts assume the likelihood of confusion is present and therefore do not apply the consumer confusion analysis.<sup>56</sup> Official and unofficial retailers engaged in the sale of counterfeit goods are consistently held liable for trademark infringement.<sup>57</sup> However, those entities that unknowingly transport counterfeit products are not held directly liable as an infringer.<sup>58</sup> In the past, the most common suits involved independent retailers who intentionally sold the counterfeit product.<sup>59</sup> Regardless of the consumers awareness of the authenticity of the products, those retailers were nonetheless held liable for trademark infringement and false advertising.<sup>60</sup>

As consumer trends evolved and the secondhand e-commerce market began to expand, the authenticity of luxury goods has become increasingly more important.<sup>61</sup>

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<sup>50</sup> *Tiffany Inc. v. eBay, Inc.*, 600 F.3d 93, 103 (2d Cir. 2010); *see generally* *Chanel v. What Goes Around Comes Around*, 2018 U.S. Dist. LEXIS 158077 (S.D.N.Y. Sept. 14, 2018).

<sup>51</sup> Louise Nash, Gina Vetere, & Mark Young, *Responding to the Hidden Threat: How Luxury Brands are Fighting Back Against Counterfeiting*, WORLD TRADEMARK REVIEW (Mar. 2014), [https://www.cov.com/~media/files/corporate/publications/2014/02/responding\\_to\\_the\\_hidden\\_threat\\_how\\_luxury\\_brands\\_are\\_fighting\\_back\\_against\\_counterfeiting.pdf](https://www.cov.com/~media/files/corporate/publications/2014/02/responding_to_the_hidden_threat_how_luxury_brands_are_fighting_back_against_counterfeiting.pdf).

<sup>52</sup> *Id.*

<sup>53</sup> Akriti, *Chanel v. The RealReal: Luxury Meets Resale*, MIKELEGAL (July 6, 2022) <https://blog.mikelegal.com/ip-litigation/chanel-v-the-realreal-luxury-meets-resale/> (discussing that Chanel is attempting to take away The RealReal and other secondary retailers' rights to sell their products).

<sup>54</sup> Nash, *supra* note 55.

<sup>55</sup> MCCARTHY ON TRADEMARKS, *supra* note 14, § 25:10.

<sup>56</sup> *See supra* text accompanying note 14, § 25:15.50.

<sup>57</sup> *See supra* text accompanying note 14, § 25:27.

<sup>58</sup> *See supra* text accompanying note 14, § 25:27.50.

<sup>59</sup> *Gucci Am., Inc. v. Duty Free Apparel*, 277 F. Supp. 2d 284, 285 (S.D.N.Y. 2003) (discussing that Defendant, Duty Free Apparel intentionally infringed Gucci's trademarks by selling counterfeit products with Gucci logos).

<sup>60</sup> *Id.* at 290.

<sup>61</sup> *See* discussion *infra* note 76.

Secondhand retailers like The RealReal have invested in technology and processes for authentic luxury goods to allow consumers to buy and sell their designer items.<sup>62</sup> Like the recent cases involving Chanel, issues arise where the secondhand retailer acts in good faith and unknowingly sells a counterfeit product to a customer through its respective platform.<sup>63</sup> Courts must determine how to approach the complex issue involving counterfeit products, which are inherently infringing, and secondhand retailers who act in good faith.<sup>64</sup> In other words, courts must determine how to adequately apply the Lanham Act in suits emerging from the modernistic secondary market.

### *B. The Expanding Secondhand Market & Growing Need to Protect Consumers*

The resale of designer products has grown exponentially in recent years as consumers have realized the potential value of their products.<sup>65</sup> Regular consumers began tapping into the secondhand market, accelerating the demand for resale products.<sup>66</sup> Vintage couture pieces previously confined to local confinement shops have become largely accessible to the global population.<sup>67</sup> The increased demand for vintage and pre-owned goods has created a new and growing market for fashion resale.<sup>68</sup> According to the Boston Consulting Group, secondary fashion sales currently generate nearly \$40 billion annually, with a projected annual growth of 10 to 15 percent in the next decade.<sup>69</sup> Because of the widespread interest in the secondhand market, a focus on building consumer trust and protecting consumers from purchasing unauthentic goods has become increasingly important.<sup>70</sup>

Secondhand retailers operate differently from primary retailers in how they source, market, and sell their products.<sup>71</sup> Secondhand retailers rely on consumers,

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<sup>62</sup> The RealReal Inc., Prospectus (Form S-1) (May 31, 2019) (explaining the multi-point authentication process by highly skilled and trained professionals).

<sup>63</sup> See generally *Chanel*, 449 F. Supp. 3d at 421; see also *WGACA*, 28 U.S. Dist. LEXIS at \*4.

<sup>64</sup> Akriti, *supra* note 53.

<sup>65</sup> Solomon, *supra* note 5; see also Leeann Duggan, *In the Case of Chanel “Investment” Actually Means Investment*, REFINERY29 (Nov. 7, 2014), <https://www.refinery29.com/en-us/chanel-bags-investing>.

<sup>66</sup> See Duggan, *supra* note 70; See also Abigail Southan, *Vintage Chanel bags – the ultimate guide to buying secondhand*, HARPER’S BAZAAR (Aug. 26, 2022), <https://www.harpersbazaar.com/uk/fashion/what-to-wear/a40906821/vintage-chanel-bag/> (discussing the growing secondhand market as consumers have become more concerned with sustainability).

<sup>67</sup> Samantha Woodworth, *Top 10 Best Designer Resale Sites to Buy Second-Hand Luxury Online*, LUXE DIGITAL (Aug. 13, 2022), <https://luxedigital.com/lifestyle/style/best-luxury-resale-websites/>.

<sup>68</sup> TFL, *The Secondary Market Watch: A Running Timeline of Resale Investments and M&A*, THE FASHION LAW (Sept. 20, 2022), <https://www.thefashionlaw.com/the-resale-market-watch-a-running-list-of-funding-and-ma/>.

<sup>69</sup> *Id.*

<sup>70</sup> Bella Webb, *Where Fashion Resale is Headed in the Next Two Years*, VOGUE BUS. (Mar. 31, 2022), <https://www.voguebusiness.com/sustainability/where-fashion-resale-is-headed-in-the-next-two-years-vestiaire-kering-balenciaga>.

<sup>71</sup> Pamela N. Danziger, *Battle of Luxury Resale Business Models: The RealReal Vs. Reflaunt*, FORBES (Oct. 7, 2022), <https://www.forbes.com/sites/pamdanziger/2022/10/07/battle-of-luxury-resale-business-models-the-realreal-vs-reflaunts-resale-as-a-service/?sh=6452b5194f37> (explaining the various business models secondhand retailers, such as The RealReal and Reflaunt, use for buying and selling products).

whereas primary retailers rely on manufacturers or designers to stock their stores.<sup>72</sup> Essentially, secondhand retailers are the in-between for consumer-to-consumer sales.<sup>73</sup> The secondhand marketplace has long existed; however, the online secondhand retailers who primarily focus on valuable pieces worth thousands are relatively new.<sup>74</sup> The RealReal, StockX, The Outnet, Rebag, Vestiarie Collective, and Grailed are a few of the largest secondhand retailers of designer and luxury products, none of which existed ten years ago.<sup>75</sup> These secondhand retailers understand their sophisticated consumers, and as a result focus on authenticity as their selling point through their respective platforms.<sup>76</sup> Some luxury designers even started working directly with official secondhand retailers to preserve the resale market and protect their consumers and the value of their brands.<sup>77</sup> However, the select few designers are outweighed by the range of issues the resale market has created between the consumers, the brands, and the secondhand retailers.<sup>78</sup> Brands like Nike and Chanel have become increasingly adamant about ensuring that only their authentic products are sold on secondhand retailers' sites.<sup>79</sup>

In addition to the growing consumer interest, technological advancements play a critical role in the accessibility of luxury consignments online.<sup>80</sup> Consequently, however, these technological advancements have also created a thriving market for counterfeit manufacturers.<sup>81</sup> It has become progressively more challenging to differentiate counterfeit products from authentic products without the support of designer brand specialists.<sup>82</sup> Unsurprisingly, over 95 percent of shoppers cited the importance of authentication when purchasing pre-owned designer pieces.<sup>83</sup> Like other designer brands, Chanel seeks to ensure that products which are sold bearing its trademarks are genuine and authentic.<sup>84</sup> Every year, Chanel seizes thousands of websites, e-commerce marketplaces, and other platforms selling or supporting the sales of counterfeit Chanel products.<sup>85</sup> On its website, Chanel clearly noted that

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<sup>72</sup> Pamela Danzinger, *Luxury Resale Market is on Fire and The RealReal Lit The Fuse*, FORBES (Feb. 5, 2022), <https://www.forbes.com/sites/pamdanzinger/2022/02/05/luxury-resale-is-on-fire-and-the-realreal-lit-the-fuse/?sh=64c9a6c213c1>.

<sup>73</sup> *Id.*

<sup>74</sup> *See generally id.*

<sup>75</sup> Woodworth, *supra* note 67.

<sup>76</sup> Danzinger, *supra* note 72.

<sup>77</sup> Emily Farra, *What Does Kering's Deal with Vestiaire Collective Mean for Secondhand Fashion – And the Entire Industry*, VOGUE (Mar. 9, 2021), <https://www.vogue.com/article/kering-vestiaire-collective-resale-secondhand-fashion-industry-future>.

<sup>78</sup> Emilia Petrarca, *The RealReal Is a Total Mess And I Can't Quit It*, THE CUT (Aug. 30, 2022), <https://www.thecut.com/2022/08/the-realreal-review-mess.html>.

<sup>79</sup> Blake Brittain, *Nike Ramps Up Sneaker NFT Lawsuit with StockX Counterfeiting Claim*, REUTERS (May 11, 2022), <https://www.reuters.com/legal/legalindustry/nike-ramps-up-sneaker-nft-lawsuit-with-stockx-counterfeiting-claim-2022-05-11/>.

<sup>80</sup> Vogue Bus., *supra* note 8.

<sup>81</sup> *Id.*

<sup>82</sup> Nash, Vetere, & Young, *supra* note 55.

<sup>83</sup> Vogue Bus., *supra* note 8.

<sup>84</sup> Chanel, *Chanel is Very Committed to Fighting Against Counterfeits*, CHANEL, <https://www.chanel.com/au/anti-counterfeit/> (last visited Mar. 14, 2023).

<sup>85</sup> *Id.*

guaranteed authentic products are only being sold through its boutiques or authorized retailers.<sup>86</sup>

The overlap between consumer protection, brand authenticity, and growth of the secondhand market must be protected by the courts as consumer buying and selling trends evolve.

### III. THE CASE

#### A. *The Facts of the Case*

Chanel is a French luxury fashion company founded in 1910 by Gabrielle (or “Coco”) Chanel.<sup>87</sup> Chanel is currently based out of New York, New York, and sells luxury fashion goods worldwide through its retail stores and carefully selected high-end specialty stores including Neiman Marcus, Saks Fifth Avenue, Barneys, and Nordstrom.<sup>88</sup> Chanel product include “bags, shoes, clothing, jewelry, sunglasses, accessories, and beauty products.”<sup>89</sup> Chanel owns the rights to several Chanel and “CC” monogram trademarks that have become associated with its products and luxury designs.<sup>90</sup>

The RealReal is a California-based retailer founded in 2011 by Julie Wainwright.<sup>91</sup> Wainwright established The RealReal as an online e-commerce site for pre-owned luxury and high-end designer goods.<sup>92</sup> The RealReal specializes in luxury consignment by creating a strict and lengthy process to ensure counterfeit products are not sold on its platform.<sup>93</sup> Customers can purchase and consign used luxury goods through its website or in its stores.<sup>94</sup>

In 2018, The RealReal acknowledged that Chanel was one of the most popular brands bought and sold through consignment.<sup>95</sup> Around the same time, Chanel conducted an investigation into the products being sold through The RealReal.<sup>96</sup> Subsequently, Chanel discovered at least seven counterfeit Chanel handbags that were advertised as genuine and authentic through The RealReal’s marketing efforts.<sup>97</sup> The inauthentic bags were of different quality from Chanel’s genuine products.<sup>98</sup> Some

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<sup>86</sup> *Id.*

<sup>87</sup> Chanel, *The History*, CHANEL, <https://www.chanel.com/us/about-chanel/the-history/1910/> (last visited on Dec. 17, 2022).

<sup>88</sup> Chanel v. The RealReal, 449 F. Supp. 3d 422, 428 (S.D.N.Y. 2020).

<sup>89</sup> *Id.*

<sup>90</sup> *Id.*

<sup>91</sup> BOF, *Julie Wainwright*, BUSINESS OF FASHION, <https://www.businessoffashion.com/community/people/julie-wainwright> (last visited on Sept. 25, 2022).

<sup>92</sup> *Id.*

<sup>93</sup> See BOF, *supra* note 91; Chanel, 449 F. Supp. 3d at 428.

<sup>94</sup> Chanel, 449 F. Supp. 3d at 428.

<sup>95</sup> *Id.* at 430.

<sup>96</sup> *Id.*

<sup>97</sup> *Id.* at 432.

<sup>98</sup> *Id.*

even contained *carte d'authenticite*<sup>99</sup> with serial numbers that did not correspond with the serial number of Chanel's genuine handbags.<sup>100</sup>

In June 2018, Chanel brought its discoveries to The RealReal.<sup>101</sup> Although Chanel put The RealReal on notice, The RealReal failed to stop the sale of the counterfeit products.<sup>102</sup> Instead, The RealReal removed the serial numbers that indicated the products lack of authenticity.<sup>103</sup>

### *B. The Procedural History*

On November 14, 2018, Chanel filed a complaint against The RealReal for its failure to address the counterfeit products discovered in Chanel's investigation.<sup>104</sup> In its complaint, Chanel included six accompanying exhibits.<sup>105</sup> The complaint also referenced two customer reviews from The RealReal's site complaining of the counterfeit Chanel products being sold through The RealReal.<sup>106</sup>

Chanel alleged that despite The RealReal's authentication process, their authentication experts did not have the proper qualifications necessary to authenticate Chanel products.<sup>107</sup>

Chanel sued, alleging claims of trademark infringement, counterfeiting, false endorsement, unfair competition, and false advertising under Sections 31(1) and 42(a) of the Lanham Act, 15 U.S.C. §§ 1114(1) and 1125(a), and other claims under New York state common and statutory law.<sup>108</sup> Chanel sought to prevent The RealReal from "(i) continuing to mislead consumers into believing that The RealReal has an affiliation or association with Chanel and/or that Chanel has approved of or authenticated the secondhand and counterfeit items being sold by The RealReal, and (ii) continuing to sell counterfeit Chanel products."<sup>109</sup>

### *C. The Court's Decision*

The United States District Court for the Southern District of New York granted The RealReal's motion to dismiss Chanel's claim of trademark infringement, false endorsement, or unfair competition under 15 U.S.C. § 1114(1) or 15 U.S.C. § 1125(a)(1)(A) based on The RealReal's use of genuine Chanel Trademarks.<sup>110</sup> The court held that Chanel had not sufficiently alleged facts supporting its infringement,

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<sup>99</sup> See *How to Authenticate Chanel Bags*, STYLISHTOP (Sept. 12, 2020), <https://www.stylishtop.com.au/blogs/authenticate/how-to-authenticate-chanel-bags> (explaining that the *carte d'authenticite* is the official certificate of authenticity provided by Chanel when purchasing one of their products from an official retailer).

<sup>100</sup> *Chanel*, 449 F. Supp. 3d at 432.

<sup>101</sup> *Id.* at 433.

<sup>102</sup> *Id.*

<sup>103</sup> *Id.*

<sup>104</sup> *Id.* 434.

<sup>105</sup> *Chanel*, 499 F. Supp. 3d at 434.

<sup>106</sup> *Id.*

<sup>107</sup> *See id.*

<sup>108</sup> *Id.*

<sup>109</sup> *Id.*

<sup>110</sup> *Chanel*, 499 F. Supp. 3d at 438.

false endorsement, or unfair competition claims for The RealReal's use of genuine Chanel trademarks.<sup>111</sup> The court reasoned that Chanel had failed to demonstrate that the dispute involved injury to the public interest over and above ordinary trademark infringement.<sup>112</sup>

However, the court denied The RealReal's motion to dismiss Chanel's complaint alleging trademark infringement and false advertising based on The RealReal's use and sale of counterfeit products and their advertisements.<sup>113</sup> The court found sufficient evidence established by Chanel to allege a claim for trademark infringement based on The RealReal's sale of counterfeit products.<sup>114</sup>

#### IV. DISCUSSION

This section analyzes the court's application of the Lanham Act that led to its holding and argues that the judicial system should consider taking a consumer's approach when applying the tests under the Act.<sup>115</sup> In supporting such an argument, this section demonstrates the courts' role in nurturing the relationships between brands and secondhand retailers by centering its analyses on victim consumers. Additionally, it will establish the necessity for brands and secondhand retailers to work together to protect consumers from counterfeit items and false advertising of products.<sup>116</sup>

##### *A. The Current Approach (of the Lanham Act)*

###### *1. The RealReal's Advertisements Using the Chanel Trademarks*

The court's decision to dismiss Chanel's first claim based on advertisements using their trademark is no surprise.<sup>117</sup> The court's determination that Chanel failed to provide sufficient evidence showing The RealReal's usage injured the public interest disregards the victim consumers who purchased the counterfeit Chanel bags under the belief that these products were genuine.<sup>118</sup> Customers shopping at The RealReal for Chanel or Hermes bags are, in some regard, collectors of designer products.<sup>119</sup> The

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<sup>111</sup> *Id.*

<sup>112</sup> *Id.*

<sup>113</sup> *Id.* at 449.

<sup>114</sup> *Id.*

<sup>115</sup> See *Chanel v. The RealReal*, 449 F. Supp. 3d 422, 438 (S.D.N.Y. 2020).

<sup>116</sup> Webb, *supra* note 70 (discussing the designer companies like Isabel Marant, Gucci, and Kering have begun signaling interest in this new sector of the luxury market and explains the essential need to build consumer trust as this market exponentially grows).

<sup>117</sup> *Chanel*, 449 F. Supp. 3d at 448.

<sup>118</sup> *Id.* at 439; *International Information Systems v. Security University LLC*, 823 F.3d 153, 156 (2d Cir. 2016) (explaining that Chanel has not plausibly alleged facts suggesting that The RealReal "stepped over the line" into a likelihood of confusion by using its marks too prominently or too often, in terms of size, emphasis, or repetition).

<sup>119</sup> Danzinger, *supra* note 72.

sophisticated consumers purchasing bags worth thousands of dollars are particular about the retailers from which they source their collections.<sup>120</sup>

The RealReal's use of Chanel, along with other designers, trademarks in their advertisements paired with the guaranteed and detailed authentication process, leads the average consumer to believe the item being purchased is genuine.<sup>121</sup> The RealReal has acknowledged the popularity of Chanel products among its consumers.<sup>122</sup> The RealReal's use of Chanel trademarks intentionally portrays that the designer products being sold are genuine and authentic.<sup>123</sup>

## 2. *The Predictable Decision on Chanel's Claims*

The court's decision to deny The RealReal's motion to dismiss the trademark infringement and false advertisement claim based on the sale of counterfeit Chanel bags is consistent with the congressional goals under the Lanham Act for trademark owners.<sup>124</sup> In other words, the court's decision offered the bare minimum protections to Chanel and consumers with its application when applying the Lanham Act.<sup>125</sup>

The RealReal advertises that the goods sold through their platform are authentic and genuine.<sup>126</sup> This is inconsistent with their course of action, including the sale of seven counterfeit Chanel bags.<sup>127</sup> Accordingly, the court's denial of The RealReal's motion to dismiss is appropriate as it affirms the congressional protections guaranteed to trademark owners under the Lanham Act.<sup>128</sup>

## 3. *The Impact of the Court's Decision*

The holding in *Chanel v. The RealReal* will not influence courts' analyses of trademark infringement and false advertising claims because of the consistent application of the tests under the Lanham Act.<sup>129</sup> However, the secondary effects of the

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<sup>120</sup> Southan, *supra* note 66.

<sup>121</sup> *See generally* Chanel v. The RealReal, 449 F. Supp. 3d 422 (S.D.N.Y. 2020); *see also* Chanel v. What Goes Around Comes Around, 2018 U.S. Dist. LEXIS 158077 (S.D.N.Y. Sept. 14, 2018).

<sup>122</sup> *Chanel*, 449 F. Supp. 3d at 430 (asserting that Chanel was one of the most popular brands bought and sold through consignment).

<sup>123</sup> *Id.* at 438.

<sup>124</sup> *Chanel*, 449 F. Supp. 3d at 445; *see also* MCCARTHY ON TRADEMARKS, *supra* note 14, § 27:9 (explaining that the Lanham Act was enacted to prohibit unfair competition and false advertising).

<sup>125</sup> *Chanel*, at 449 (explaining the purpose of the Lanham Act stems from the fundamentals of trademark law which is to protect consumers from deception and protect companies from misappropriation of their brand name).

<sup>126</sup> *Id.* at 430 (discussing that The RealReal's represents its platform as, "the world's largest online marketplace for authenticated, consigned luxury goods.").

<sup>127</sup> *Id.* ("Through The RealReal's website and in its stores, customers can purchase and consign used luxury goods pursuant to [RealReal's] Terms of Service and Consignment Terms.").

<sup>128</sup> *Id.* at 449. *See also* 15 U.S.C. §§ 1114, 1125 (2022). The purposes of the Lanham Act stems from the fundamentals of trademark law which is to protect consumers from deception and protect companies from misappropriation of their brand name. *Id.*

<sup>129</sup> *Id.* at 436-37; *see also* *Polariod*, 287 F.2d at 497 (explaining that courts will use the eight-factor balancing test and the nominative fair use factors to determine whether an alleged infringement is likely to cause confusion).

stagnant approach may discourage secondhand retailers from growing or expanding their platforms.<sup>130</sup> Additionally, the rationale provided by the court will encourage designers to become hypercritical of the products that exist in the resale market.<sup>131</sup> The reason provided by the court enables designers to bring claims against these secondhand retailers.<sup>132</sup> Instead of supporting and investing in secondhand retailers, designers will work to restrict and control the resale market by bringing claims under the Lanham Act.<sup>133</sup>

In 2018, Chanel filed a similar claim against the secondhand retailer What Goes Around Comes Around ("WGACA"), for using Chanel trademarks in its advertisements after selling counterfeit products.<sup>134</sup> In that case, when the court denied WGACA's motion to dismiss Chanel's false advertising and trademark infringement claims, it relied on the inconsistency of the authentication terms used by WGACA.<sup>135</sup> The material difference between *Chanel v. WGACA* and *Chanel v. The RealReal* is a letter of guaranteed authenticity included with every purchase made through WGACA.<sup>136</sup> However, the court's application of the Lanham Act is the same in both cases in that it focuses on protecting the Chanel trademark.<sup>137</sup> Regardless of the specific claim brought, the court's focus when analyzing trademark infringement claims is to protect the designer's brand integrity when the focus should shift to preventing future consumers from investing thousands in counterfeit designer bags from secondary retailers who are selling products legally.<sup>138</sup> Although the reported number of buyers

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<sup>130</sup> Webb, *supra* note 70 (discussing that the resale market will grow 10-15% within the next decade, with online platforms holding nearly 30% of the market).

<sup>131</sup> See generally *Chanel v. The RealReal*, 449 F. Supp. 3d 422 (S.D.N.Y. 2020); see also *Chanel v. What Goes Around Comes Around*, 2018 U.S. Dist. LEXIS 158077 (S.D.N.Y. Sept. 14, 2018); see also Hilary Milnes, *The Tricky Relationship between Luxury and Resale*, GLOSSY (May 20, 2016) <https://www.glossy.co/evolution-of-luxury/the-complicated-relationship-between-luxury-brands-and-resale-sites/> ("brands might not like us because maybe they're not at all comfortable with their product being sold online.").

<sup>132</sup> See *id.*

<sup>133</sup> See *id.*

<sup>134</sup> See *What Goes Around Comes Around*, 2018 U.S. Dist. LEXIS 158077 at \*2.

<sup>135</sup> *Id.* at \*7 (explaining that Defendant, *What Goes Around Comes Around* used Plaintiff, *Chanel's*, mark too prominently and too often considering the size and emphasis making it likely to cause consumer confusion).

<sup>136</sup> *Id.* at \*3-\*4. What Goes Around Comes Around's website contains a section regarding the authenticity guarantees stating "any piece purchased at What Goes Around Comes Around or one of our retail partners has been carefully selected, inspected and is guaranteed authentic," and provides letters of authenticity to its customers which reads, "This letter confirms that item Q6HCHK00KB000 Chanel Black Long Tissue Box is an authentic Chanel Decoration." *Id.*

<sup>137</sup> See generally *What Goes Around Comes Around*, 2018 U.S. Dist. LEXIS 158077 at \*3-\*4; see also *Chanel*, 449 F. Supp. 3d at 422. The courts in trademark infringement brought by Chanel focused heavily on how the use of the trademark will affect the Chanel brand instead of shifting its focus to the consumers who purchased the counterfeit products. *Id.* The Lanham Act is heavily focused on protecting the average consumer therefore courts should consider the plaintiff, Chanel, as a representation of their customers. See generally *Id.*

<sup>138</sup> MCCARTHY ON TRADEMARKS, *supra* note 14, § 25 (explaining the paradox that consumers do not have standing to invoke the protections of Lanham Act § 43(a) even though the goal of the Lanham Act is to protect consumers from deception caused by trademark infringements and false advertising); see also TFL, *supra* note 74; Kagan, *supra* note 7 (discussing the increase in prices for a Chanel Medium Classic Flap bag from \$1,150 to \$7,800 between 1990 to July 2021, respectively and then again in November 2021 to \$8,800).



in *Chanel v. The RealReal* are few<sup>139</sup>, the court is obligated to centralize its analysis on the degree of confusion and the type of buyers confused.<sup>140</sup>

Trademark law does not prevent the sale of genuine goods bearing a true mark even when the sale is not authorized by the mark owner.<sup>141</sup> However, the court's approach to Chanel's claims makes it so that Chanel may bring a suit every time a secondhand retailer unintentionally sells a counterfeit Chanel product.<sup>142</sup> Consequently, discouraging the retailers from even selling Chanel products through their platforms.<sup>143</sup>

Courts must consider evolving their approach when analyzing violations of the Lanham Act in the secondhand market. A progressive approach is needed to make a genuine impact in the modern form of trademark violation claims and ultimately influence the relationship between designer brands and the secondhand market overall.<sup>144</sup>

### *B. Expanding the Application of the Lanham Act to Protect Consumers*

The complexity of the secondhand market and the issues that arise from this market require courts to develop a more dynamic approach when facing trademark infringement and false advertisement claims brought under section 43(a) of the Lanham Act.<sup>145</sup> In the interest of public policy, trademark laws should be applied to protect consumers over and above the preexisting minimum protection for brands.<sup>146</sup> The Lanham Act was developed without limits on the ways it may evolve throughout the years as consumer trends and commerce evolve.<sup>147</sup> In the early stages of the Act,

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<sup>139</sup> *Chanel v. The RealReal*, 449 F. Supp. 3d at 433. Chanel's complaint alleges that an investigation conducted by Chanel found at least seven counterfeit Chanel bags advertised as genuine by The RealReal. *Id.*

<sup>140</sup> MCCARTHY ON TRADEMARKS, *supra* note 14, § 23:2 (discussing that the measurement of the extent of likely confusion is not exact, but instead a calculated estimate with more emphasis on the type of persons confused and the degree of their confusion).

<sup>141</sup> *Tiffany Co. Inc. v. eBay, Inc.*, 600 F.3d 93, 103 (2d Cir. 2010).

<sup>142</sup> *See generally Chanel*, 449 F. Supp. 3d at 422; *see also Chanel v. What Goes Around Comes Around*, 2018 U.S. Dist. LEXIS 158077 (S.D.N.Y. Sept. 14, 2018); *see also Milnes, supra* note 137 ("brands might not like us because maybe they're not at all comfortable with their product being sold online").

<sup>143</sup> *Id.*

<sup>144</sup> MCCARTHY ON TRADEMARKS, *supra* note 14, § 27:7 (explaining the drafters of § 43(a) of the Lanham Act drafted it with only a vague perception of the expansive possibilities).

<sup>145</sup> *Id.*

<sup>146</sup> 15 U.S.C. § 1114(1) ("imposes civil liability on any person who – without the consent of the "registrant" uses in commerce any reproduction, counterfeit, copy or colorable imitation of a registered mark."); 15 U.S.C. § 1125(a) ("[prohibits] any person from using in commerce, in connection with any goods any words, term, name, symbol . . . or any false designation of origin, false or misleading description of fact . . . or misleading representation of fact which is likely to cause confusion or to cause mistake.").

<sup>147</sup> MCCARTHY ON TRADEMARKS, *supra* note 14, § 27:7 (explaining the expansive possibilities of Lanham Act § 43(a)).

the federal government and courts began to expand the meanings and protections under section 43(a).<sup>148</sup>

The court appropriately applied the nominative fair use doctrine in discussing The RealReal's use of Chanel's trademarks.<sup>149</sup> However, it failed to apply the doctrine from the perspective of the consumer.<sup>150</sup> Courts have previously made clear that the use of a brand's trademark by another to sell that brand's good or service is legal only if it is in a non-confusing way.<sup>151</sup> The RealReal did not infringe on Chanel's trademark rights by using the "CC" monogram.<sup>152</sup> However, the court failed to consider that the use of the "CC" trademark paired with advertisements guaranteeing the authenticity of products is likely intended to create an illusion of sponsorship or endorsement between The RealReal and the designers.<sup>153</sup>

In order to determine whether an advertisement will create confusion of partnership, the court must evolve in its approach of the Lanham Act to protect the consumers from deception in the secondhand market.<sup>154</sup> The consumer confusion factor should be applied more liberally and hold greater weight in the decisions made by courts to impact the Lanham Act in the online resale market.<sup>155</sup> This is especially important in cases involving unintentional sales of counterfeit products where the trademark infringement overlaps with the false advertisements.<sup>156</sup>

### *C. Consumer Trust in a Growing Resale Market*

As courts begin to implement the broader protections of the Lanham Act to consumers, trust and reliance on the secondhand market will naturally develop.<sup>157</sup> Consumer trust is vital in the resale market.<sup>158</sup> Shoppers must confidently know that the designer products they are purchasing are genuine.<sup>159</sup> This is especially true when the secondhand retailer focuses its advertisements on guaranteed authentication.<sup>160</sup>

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<sup>148</sup> See *supra* text accompanying note 14, § 11 (explaining the amendments made to the Lanham Act since 2000, most recently in 2020). The Trademark Modernization Act created new procedures in the U.S.P.T.O. to challenge registrations based on false claims that a mark has been used in commerce before as a result of the "flood of falsified applications for trademark registration." *Id.* The Act eases the burden of obtaining an injunction against infringement. *Id.*

<sup>149</sup> See generally *Chanel v. The RealReal*, 449 F. Supp. 3d 437 (S.D.N.Y. 2020).

<sup>150</sup> *Id.*

<sup>151</sup> MCCARTHY ON TRADEMARKS, *supra* note 14, at § 23:11.

<sup>152</sup> *Chanel*, 449 F. Supp. 3d at 429.

<sup>153</sup> *Id.*

<sup>154</sup> MCCARTHY ON TRADEMARKS, *supra* note 14, § 2:22 (discussing how trademark laws should be applied broadly by courts to protect consumers).

<sup>155</sup> *Id.*

<sup>156</sup> *Chanel v. Veronique Idea Corp.*, 795 F. Supp. 2d 262, 267 (S.D.N.Y. 2011); *Chanel*, 449 F. Supp. 3d at 421.

<sup>157</sup> *Webb*, *supra* note 70.

<sup>158</sup> *Id.*

<sup>159</sup> *Id.*; See also *Mikos*, *supra* note 20, at 163.

<sup>160</sup> MCCARTHY ON TRADEMARKS, *supra* note 14, § 25. The intent of the federal government with the enactment and continuous amendment of the Lanham Act § 43(a) is to protect consumers from deception that may be caused by both trademark infringements and false advertisement. *Id.*

For designers like Chanel, Prada, Bottega, and others, an active and healthy resale market encourages more customers to buy products at retail prices.<sup>161</sup> A majority of consumers are more likely to purchase classic pieces from designer brands for thousands if they know that the item will not lose its value.<sup>162</sup> Consumers are also more willing to spend a little more using that same logic.<sup>163</sup> Classic designer bags are viewed as investment pieces that can be resold at or more than the retail price or collected.<sup>164</sup> Luxury brands primarily create timeless and classic pieces focusing on the quality and style of their products.<sup>165</sup> The long-lasting styles and potential for growth in value are essential in a consumer's decision to invest thousands of dollars in these designer pieces.<sup>166</sup>

A recent trend in the sale of designer goods is its contingency on demand within the secondhand market.<sup>167</sup> The success and viability of the secondhand market depend on the consumer's trust that the products they buy are genuine.<sup>168</sup> When looking at how the three parties; the designer brand, the secondhand retailer, and the consumer, intermingle, it is evident that each relies on the other.<sup>169</sup> Designer brands and secondhand retailers must learn to co-exist to protect consumers from being misled or purchasing a counterfeit good.<sup>170</sup> Designer companies like Kering<sup>171</sup> see the value in nurturing such a relationship with secondhand retailers and have become heavy investors in specific resellers.<sup>172</sup>

Consumer trends and societal changes require the judicial system to adapt as the brands themselves have adapted as well.<sup>173</sup> The Lanham Act must continuously evolve as new issues and complexities arise.<sup>174</sup>

The relationship between brands and secondhand retailers may be encouraged by a judicial emphasis on protecting consumers in trademark infringement claims in this new and evolving market.<sup>175</sup> Courts must consider the victim consumer who does

<sup>161</sup> Wetzberger, *supra* note 9.

<sup>162</sup> *Id.* Tradeasy CEO, Tracy DiNunzio, noticed consumer patterns in the resale market translates to the retail market. *Id.* She states, "when a customer knows she can resell her item, she's going to be willing to pay a little more for it." *Id.*

<sup>163</sup> *Id.*

<sup>164</sup> *Id.*; Kagan, *supra* note 7 (discussing the investment return of a Chanel bag and the potential of future premium charges on Chanel bags within the resale market).

<sup>165</sup> Vogue Bus., *supra* note 8.

<sup>166</sup> *Id.*

<sup>167</sup> Farra, *supra* note 82.

<sup>168</sup> *Id.*; *See also* Webb, *supra* note 70 (discussing the essential need to build consumer trust within the online secondhand market as this market exponentially grows).

<sup>169</sup> Wetzberger, *supra* note 9 (explaining how consumers are more likely to purchase luxury pieces when they are perceived as investment pieces that will grow in value and have the potential for resale in the future).

<sup>170</sup> *Id.*

<sup>171</sup> Farra, *supra* note 83 (discussing Kering's investment in secondhand retailer, Vestiaire, to guarantee that all goods sold secondhand through its platform are authentic and genuine).

<sup>172</sup> *Id.*; *See also* Wetzberger, *supra* note 9.

<sup>173</sup> *Id.*

<sup>174</sup> MCCARTHY ON TRADEMARKS, *supra* note 14, § 11 (explaining that the Lanham Act was created to adapt to consumer and market trends and the various amendments made between 2000 and 2020).

<sup>175</sup> MCCARTHY ON TRADEMARKS, *supra* note 14, § 27:7 (explaining the expansive possibilities of the Lanham Act § 43(a)).

not have legal standing to bring about a claim of trademark infringement or false advertising when determining the injury resulting from the claim.<sup>176</sup> In other words, a customer who purchased a counterfeit vintage Chanel bag from The RealReal for \$15,000<sup>177</sup> with the belief that it is real and genuine must play a critical role in the court's analysis of the trademark infringement and false advertising claim.<sup>178</sup>

When the court's reasoning begins to truly incorporate the interests of consumers and the expansion of the secondhand market, more designer brands will assist secondhand retailers in their authentication processes.<sup>179</sup> Accordingly, designer brands and fashion resellers should work together to guarantee the authenticity of the products in the market to build and retain consumer trust in the secondhand market.<sup>180</sup>

## V. CONCLUSION

The role of the judicial system is instrumental in encouraging designer brands and secondhand retailers to work together to protect consumers from purchasing counterfeit products. The court in *Chanel v. The RealReal* should have analyzed the tests under the Lanham Act for claims of trademark infringement and false advertisement from the perspective of a consumer.<sup>181</sup> When courts begin to strongly consider consumers and market trends in its analysis, designer brands will become more willing to assist secondhand retailers to authenticate their products.

The Lanham Act was developed as a segment of trademark law to specifically address trademarks that cause confusion in the commerce of a product or service.<sup>182</sup> The court in *Chanel v. The RealReal* and similar prior cases relied on the Lanham Act to guide its analysis and discussion on the defendant's use of the trademark.<sup>183</sup> The element that is determinative of trademark infringement and false advertising claims is the likelihood and extent of consumer confusion.<sup>184</sup> However, consumers lack

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<sup>176</sup> Wetzberger, *supra* note 9 (explaining that victims of fraud often keep silent when they purchase something and do not get what was advertised).

<sup>177</sup> Kagan, *supra* note 7 (discussing that Chanel bags increase in value); *see also* Duggan, *supra* note 79 (discusses that rare vintage Chanel bags can go for more than \$10,000 in the resale market).

<sup>178</sup> MCCARTHY ON TRADEMARKS, *supra* note 14, § 25 (explaining the paradox that consumers do not have standing to invoke the protections of Lanham Act § 43(a) even though the goal of the Lanham Act is to protect consumer from deception caused by trademark infringements and false advertising).

<sup>179</sup> Webb, *supra* note 70 (discussing the designer companies like Isabel Marant, Gucci, and Kering that have begun signaling interest in this new luxury market sector and explain the essential need to build consumer trust as this market grows exponentially).

<sup>180</sup> *Id.*

<sup>181</sup> *See generally* Chanel v. The RealReal, 449 F. Supp. 3d 422, 435 (S.D.N.Y. 2020) (discussing the effect of The RealReal's use of Chanel's trademarks on the value of Chanel's brand which ultimately led the court to its holding).

<sup>182</sup> GILSON ON TRADEMARKS, *supra* note 13, § 5.01; *see also* MCCARTHY ON TRADEMARKS, *supra* note 14, § 23:8 (explaining that the confusion needed for trademark infringement requires confusion around whether the owner of the mark approved of the use of the trademark).

<sup>183</sup> *Chanel*, 449 F. Supp. 3d at 435; *see also* Chanel v. What Goes Around Comes Around, 2018 U.S. Dist. LEXIS 158077 (S.D.N.Y. Sept. 14, 2018); *see also* Tiffany Inc. v. eBay, Inc., 600 F.3d 93, 103 (2d Cir. 2010); *see also* Chanel v. Veronique Idea Corp., 795 F. Supp. 2d 262, 267 (S.D.N.Y. 2011).

<sup>184</sup> GILSON ON TRADEMARKS, *supra* note 13, § 3:02 (explaining that the tests for trademark infringement and false advertising claims relies heavily on the likelihood of confusion for consumers).

standing to bring trademark infringement and false advertising claims to courts.<sup>185</sup> It has been established that trademark infringement and false advertising suits must be brought by a trademark owner claiming the infringement.<sup>186</sup>

Despite the congressional goal of the Lanham Act<sup>187</sup>, consumers only play a theoretical role in a court's analysis and holding.<sup>188</sup> The *Polaroid*<sup>189</sup> factors used by the court in *Chanel* focus on the trademarks used in The RealReal's advertisements with little consideration of the misconception a sponsorship may create for consumers.<sup>190</sup> The court has an obligation to protect consumers who fell victim to the counterfeit products sold through The RealReal as opposed to its focus on the effect of the trademark usage on Chanel's brand value.<sup>191</sup> Although the victims are few, the value and cost of their purchases should not be neglected in the court's decisions.<sup>192</sup>

Consumers rely on the designer brands and secondhand retailers equally to prevent counterfeit products from entering the market.<sup>193</sup> As a result, claims over counterfeit products must give weight to consumers lack of standing to bring a claim under the Lanham Act when counterfeit products do enter the market.<sup>194</sup> When courts continue to analyze the issue of consumer confusion from the perspective of the already-protected brand, it indirectly encourages brands to bring such claims into the court instead of assisting the secondhand retailer with authentication of their products.<sup>195</sup> Chanel does not currently sell pre-owned or vintage bags although it is one of the most popular designers being purchased secondhand.<sup>196</sup> Chanel has previously brought similar claims to the court against other secondhand retailers where the court

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<sup>185</sup> MCCARTHY ON TRADEMARKS, *supra* note 14, § 27:8 (explaining that consumers who are victim of fraud do not have standing in court to bring a claim and often keep silent when they purchase a counterfeit item); *see also* Wetzberger, *supra* note 9.

<sup>186</sup> *Id.*

<sup>187</sup> *See* MCCARTHY ON TRADEMARKS, *supra* note 14, § 27:8 (explaining the congressional goal of the Lanham Act is to protect consumers from deception caused by both trademark infringement and false advertising); *see also* 15 U.S.C §§ 1114(1), 1125(a).

<sup>188</sup> *Chanel*, 449 F. Supp. 3d at 438-39.

<sup>189</sup> *See generally Polaroid*, 287 F.2d at 497.

<sup>190</sup> *See Chanel*, 449 F.Supp.3d at 436-37; *see also id.* at 497 (explaining that courts will use the eight-factor balancing test and the nominative fair use factors to determine whether an alleged infringement is likely to cause confusion).

<sup>191</sup> *Id.* at 438 (explaining the court's analysis of the consumer confusion created by The RealReal's use of the Chanel trademarks and reasons that Chanel trademarks are well-known and recognizable).

<sup>192</sup> *Id.* at 448; *see also* Southan, *supra* note 66.

<sup>193</sup> *Id.*

<sup>194</sup> *Vogue Bus.*, *supra* note 8 (explaining that over 95 percent of consumers in the secondhand market have cited the importance of authentication when purchasing resale items); *see also* Danzinger, *supra* note 72 (explaining that secondhand retailers understand their consumers' concerns regarding counterfeit products and therefore use authenticity as a selling point).

<sup>195</sup> *See Chanel v. What Goes Around Comes Around*, 2018 U.S. Dist. LEXIS 158077 (S.D.N.Y. Sept. 14, 2018). In 2018, Chanel brought a similar claim to the court against the secondhand retailer, What Goes Around Comes Around ("WGACA"), for using Chanel trademarks in their advertising after selling. *Id.* at \*4.

<sup>196</sup> *Chanel*, 449 F. Supp. 3d at 439 (explaining that in the complaint, Chanel made it clear that they do not sell secondhand or vintage Chanel goods).

ruled in Chanel's favor for the same reasoning used in *Chanel v. The RealReal*.<sup>197</sup> Where there is no competition between the designer brand and the secondhand retailer the courts should encourage a relationship between the two in order to protect the consumers who do not have standing to bring a claim themselves.<sup>198</sup> In the future, courts should more closely align their analyses with the objective of the Lanham Act.<sup>199</sup>

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<sup>197</sup> *What Goes Around Comes Around*, 2018 U.S. Dist. LEXIS at \*7. The court held that secondhand retailer, WGACA, stepped over the line by using Plaintiff, *Chanel's*, mark too prominently or too often in terms of size, emphasis, or reputation making it likely to cause consumer confusion. *Id.* at \*8.

<sup>198</sup> Mikos, *supra* note 20, at 163 (explaining the purposes of the Lanham Act align with the fundamentals of trademark law to protect consumers from deception and protect companies from misappropriation of their brand name).

<sup>199</sup> See MCCARTHY ON TRADEMARKS, *supra* note 14, § 27:8 (discussing the creation of the Lanham Act § 43(a) was created as a remedial statute that is to be broadly construed by the courts).