

WHITE PAPER

Best Practices for Online Protection and Effective Enforcement in China





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Introduction

The digital world, the rise of e-commerce and globalization have paved the way for new opportunities to reach consumers and new frontiers in safeguarding brands and revenue.

According to the latest report issued by the China Internet Network Information Center (CNNIC) China's Internet usage has passed a major milestone, with an online population exceeding 800 million.¹ This new number now represents more than the combined populations of Japan, Russia, Mexico and the U.S. For some additional context on that incredible number, the U.S is estimated to have around 300 million Internet users.

Counterfeit goods from China and Hong Kong combined are estimated to make up 86% of the world's counterfeits, the value of which totals nearly \$400 billion.² With 71% of China's Internet users now using online payments or e-commerce services³, there has never been a better time to fortify online strategies.

Tailoring your brand protection strategy to address the problem of Chinese counterfeits can not only help you achieve your business goals in this important region but also help to drive business in other parts of the world. An effective domain management and enforcement program is the cornerstone of a successful brand protection strategy, and enforcement in China presents some special challenges.

This whitepaper summarizes best practices to help meet those challenges and highlights why joining forces with experts who understand the complexities of protecting brands in China and across Asia is integral to driving results.

Best Practices Summary

1. Consult local legal counsel to verify the strength of your trademark rights and help you navigate local requirements.
2. Proactively register key trademarks as domain names to thwart third party domain abuse.
3. Become a “hard target” by requesting delistings for counterfeit goods on a regular basis to significantly reduce the overall volume of infringement.
4. Use native marketplace search technology, rather than generic alternatives, so your results reflect those your consumer sees.
5. Review delisting requests with brand protection professionals who have local language expertise and strong knowledge of cultural nuances.
6. Be prepared to adapt your internal procedures to accommodate type of infringement, localized requirements and guidelines for each marketplace.
7. Join forces with local experts with cultural knowledge and long-standing relationships to allow you to adapt quickly to local policy changes as they occur.
8. Examine marketplace coverage models and compliance rate history in China before selecting a brand protection partner.
9. Use the intelligence you glean from combating counterfeiters to gain consumer insights into market gaps and unmet customer needs.

Get Prepared: Trademark Registration

The foundation of a successful brand protection strategy in any market is built on a strong intellectual property portfolio in which trademarks play a crucial role. China presents some specific challenges for trademark owners in several ways. One of the most significant challenges is the unique classification system in China, which differs from that used by the World Intellectual Property Office (WIPO). The China Trademark Office (CTMO) divides each class used in the WIPO system into a distinctive system of subclasses, each of which is treated discretely. Determining which class should be used to register a trademark requires experts who understand the CTMO classification system.

There are also procedural details that must be met so you can enforce your intellectual property rights. Some online marketplaces in China will accept trademark registration documents only if they are in color and affixed with an official local government seal as evidence. Additionally, the name on the trademark registration and the company's business license must match exactly. This requirement can be problematic when trademarks are registered with local subsidiaries, but enforcement requests are sent through parent companies. For example, if the trademark is registered to brand Y but the business license is issued to a parent company, company X, the enforcement agent will need a letter of authority to clarify the relationship between the companies and confirm the trademark's ownership. Without a letter of authority, the marketplace may not cooperate with enforcement requests that are sent through the parent company.

We recommend registering trademarks and domain names in advance of the launch of new products or services in each region or country in which you wish to conduct business. An important best practice for Asia is to consult local legal counsel to verify the strength of

Why China?

- E-commerce sales in China are expected to reach \$1.53 trillion in 2018. In 2017, sales outpaced estimates by \$44.41 billion, driven largely by transactions on Taobao and Tmall.⁴
- In China, the online retail market is predicted to grow from \$294 billion in 2013 to \$672 billion in 2018.⁵
- Counterfeit goods from China and Hong Kong combined are estimated to make up 86% of the world's counterfeit goods, the value of which totals nearly \$400 billion dollars.⁶

your trademark rights and help you navigate local requirements. This is especially important with the changes to Chinese trademark law which came into effect on May 1, 2014. Without a strong trademark rights foundation, brands can lose significant revenue to local firms that wish to profit from the brand's global reputation. In fact, because China operates on a first-to-file basis, it is advisable to register trademarks regardless of whether the country is included in your strategy.

Be sure to promptly renew your trademarks. The time it takes to renew an expired mark in Asia is lengthy. Exchanges will not accept enforcement using a market that is expired. Time wasted in waiting on renewal is time for counterfeiters to take advantage of your brand.

Best Practices in Enforcement Strategies

Disrupting the counterfeiters' business and making it difficult for consumers to find counterfeit versions of your products is a priority. Brands must understand the volume of

cases of infringement as well as the number of marketplaces and sites on which the cases are found. Setting realistic goals will yield multiple benefits in terms of revenue erosion, customer satisfaction, lower customer service costs and continued brand health. Successful enforcement depends upon an accurate assessment of the scope of brand infringement, clear priorities for action and scrupulously-prepared documentation.

Understanding the marketplaces that attract the most traffic is the first step in developing your enforcement strategy. Currently, Taobao is the most highly trafficked Asian marketplace with close to 500 million daily users. Since counterfeiters follow traffic, it's logical that the greatest number of enforcements occur on popular marketplaces, whether those marketplaces are B2B or B2C. It's no surprise, then, that the Chinese marketplaces with high levels of enforcement are Taobao, Aliexpress, Alibaba and Alibaba China, the Chinese language version of Alibaba.

Categorize marketplace listings by region and by type, i.e., whether the listing shows suspected counterfeit,

Understanding the Chinese E-commerce Landscape

High-traffic marketplaces in China

- | | | |
|--------------|-----------------|--------------------|
| ▪ Taobao | ▪ Tmall | ▪ DHGate |
| ▪ Aliexpress | ▪ Alibaba | ▪ Made-in-China |
| ▪ JD.com | ▪ Alibaba-China | ▪ eBay - Hong Kong |

grey market or legitimate goods. Become a difficult target with consistent, vigilant enforcement to reduce the overall volume of infringement, and counterfeiters will shift their focus to other, “softer” targets.

Technology that focuses on where your consumer shops can help you identify patterns and similarities in listings, even across marketplaces, to detect high-volume and persistent sellers requiring extra focus. By focusing on the pages and listings that come up for your customers as they look for your product or service, you’ll be most effective in your strategy.

Often, pinpointing these persistent sellers leads to discovering manufacturing capacity as many high-volume, repeat sellers have close ties to factories that can supply large volumes of counterfeit goods.

Proper market-specific trademark registrations are vital to avoiding problems when conducting enforcement activities for counterfeits. Precise enforcement codes are crucial along with careful documentation to justify takedown requests.

Delisting requirements may differ among marketplaces, so prepare to adapt internal processes to accommodate localized requirements and guidelines for each marketplace. In general, Chinese marketplaces are “high touch” and personal relationships with local experts can make a tremendous impact on your enforcement program.

One of the more unique challenges to enforcement in China is that some marketplaces permit the sale of lookalike brands and products. In these cases, counterfeiters make a slight change, such as misspelling the product or brand name or changing your logo. They may “create” products that do not exist in your product line and apply your trademarked terms or logos. These listings may even include images from your official product catalog to add legitimacy.

Unfortunately, many Chinese marketplaces see this as an instance of fair use or entrepreneurship and will not carry out delisting requests on the basis of “counterfeit” against these sellers. These types of situations need to be escalated outside of the

A Consumer-Centric Approach

Focus on the pages and listings that your shopper sees.

- Native marketplace search
Use native search technology, rather than generic alternatives, to gather relevant results.
- Geo-specific search
Find out what shoppers see, specific to their geographical whereabouts with localized, geo-specific searching tools.
- Threat level analysis
Speed up the process with data science can prioritize listings that look most suspicious.



93%

By following these guidelines, our customers have experienced compliance rates of 93 percent or more for enforcement requests on counterfeit goods on Chinese marketplaces.

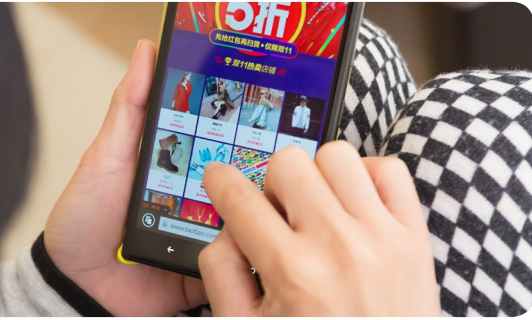
standard processes so they do not distract the marketplace from other delisting requests. Having a reference library of images covered by copyright can be useful in these cases, and, of course, your patent portfolio is crucial. This is another instance where local experts with well-established relationships within marketplaces can play a critical role. These situations take extra time and effort, but the brand that perseveres can usually significantly reduce infringing listings.

Partnering with trusted experts will also help you stay up to speed on new brand protection regulations. As of January of 2019, for example, the People's Republic of China (PRC) PRC Electronic Commerce Law will be enacted. With its strong presence in the China market, the MarkMonitor global relationship team plays a key role in ensuring businesses adapt to new changes like these as they take effect.

Most Chinese marketplaces will not carry out enforcement measures for distribution problems such as grey market goods, referring the brand to their partner agreements for resolution. However, an examination of grey market listings can reveal useful intelligence about traffic patterns and product movements that can help brands identify their source. Make sure you have appropriate strategies and expectations for the various types of infringements.

The most successful brands work hard with regional marketplaces to build trust, resulting in higher compliance rates for enforcement efforts. By paying special attention to each marketplace's enforcement guidelines and procedures, brands build a track record for accuracy, which in turn builds a sense of partnership. If brands are too aggressive with delisting requests, such as submitting requests without the proper justification, they can face additional scrutiny and removal time for all delisting requests.

Local expertise, including local language skills, aids in successful enforcement. Working with local experts, whether in-house staff, a partnership, or a vendor relationship, lets you benefit from cultural knowledge and long-standing relationships while allowing you to



Evaluating geographic purchase patterns can deepen your understanding of consumer buying patterns at global, regional and local levels.

adapt quickly to local policy changes as they occur. By following these guidelines, our customers have experienced compliance rates of 93 percent or more for enforcement requests on counterfeit goods on Chinese marketplaces. As in other markets, a strong, dedicated enforcement strategy will result in higher compliance rates over time.

Gather Intelligence and Measure Results: Combating Counterfeiters Yields Consumer Insight

Your brand protection strategy in China can yield valuable insights that help you optimize marketing, pricing and product strategies across the region. Intelligence gleaned from tracking legitimate web traffic and combating counterfeiters is valuable in helping brands understand consumer behavior as well as digital marketing trends.

Counterfeiters are adept at identifying and capitalizing on market gaps, serving a market need with fake versions of your branded products. Evaluating geographic purchase patterns can deepen your understanding of consumer buying patterns at global, regional and local levels. For example, when one denim company experienced slow sales in Asia, it began studying activity on sites selling counterfeit versions of their products. Analysis of site visit patterns, sizes in inventory and items frequently added to shopping carts revealed a market gap: Customers were looking for smaller waist sizes and shorter inseams. The company used that intelligence to make more informed manufacturing and merchandising decisions for the Asian market, generating more revenue and attracting new customers.



Key partnerships and expertise afford you the resources it takes for successful online protection in Asia. Our Shanghai team has supported strategic accounts since its beginnings in 2012.

Conclusion

With the continued growth of digital channels and China's role as the world's "factory floor," the success of your brand protection strategy in China and throughout the world is tied to your ability to target counterfeit goods sold on leading Chinese online marketplaces.

Chinese IP law presents unique requirements that must be met in order to enforce your rights successfully. A strong intellectual property portfolio, along with support from legal experts with specific knowledge of Chinese trademark law, are crucial elements to your brand's success in Asia markets. By partnering with experts who have a local presence in China, you to benefit from long-standing relationships where it matters most.

Implementing a smarter, more consumer-focused enforcement program will result in higher compliance rates and will deter counterfeiters to target brands with weaker defenses. Tools such as geo-specific search, native marketplace technology and threat level analysis can provide you with a direct line of sight into the paths your audience takes to find your business online.

Our clients have experienced compliance rates of 93 percent and more in China by following the best practices outlined in this whitepaper.

¹ China Internet Network Information Center (CNNIC). "Statistical Report on the Development of China's Internet Network". N.p., n.d. Web. 20 August 2018.

² Chen, Lujie; Yue, Tao & Zhao, Xiande. "8 Ways Brands Can Fight Counterfeits in China". Harvard Business Review. N.p., n.d. Web. 10 May 2018.

³ Russell, Jon. "China reaches 800 million internet users". TechCrunch. N.p., n.d. Web. 21 August 2018.

⁴ McNair, Corey. "Retail and Ecommerce Sales in China 2018". eMarketer. N.p., n.d. Web. 19 July 2018.

⁵ Davis, Don. "Internet Retailer". E-commerce grows in Asia-Pacific, with China leading the way. N.p., n.d. Web. 2 December 2013.

⁶ Chen, Lujie; Yue, Tao & Zhao, Xiande. "8 Ways Brands Can Fight Counterfeits in China". Harvard Business Review. N.p., n.d. Web. 10 May 2018.

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

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