INTELLECTUAL PROPERTY INFRINGEMENT: A CASE STUDY ON ECOMMERCE COUNTERFEITING

Matthias Eggertsson
POMPANO BEACH, FLORIDA, U.S.A.

Abstract

This paper analyzes the threat of counterfeiting for both small and large companies in the E-Commerce industry. It examines intellectual property, like patents, copyright and trademark, and the importance of companies who are entering E-Commerce to protect themselves.

In the strategy part of the paper, a fictitious company is formed, called EMC, where a new software strategy is proposed to enter E-Commerce and protect their new computer program. This company is analyzed using a strategic model, background analysis, internal and external analysis, gap analysis and recommendations. A detailed Teaching Note is available from the author to bona fide case users.

KEY WORDS: E-Commerce, intellectual property, copyright, trademark, international marketing, international management

INTRODUCTION

Counterfeiting is a big threat to both small and large companies all over the world. While large international companies like Adidas, Microsoft and others spend millions annually to fight the massive problem, small and medium sized firms generally lack the resources to pay legal fees and lobby for action that could protect their goods from counterfeiters. This infringement happens even more with intellectual property, where it is relatively easy to copy and redistribute software used in the delivery of goods and services. Intellectual property laws refer to patents, copyrights and trademarks. They provide for a form of legal protection that provides the owner with exclusive rights to its use. Before internet services became a strong force in the world of business, this legal mechanism was applied to the protection of tangible goods (Mykytyn & Mykytyn, 2005). As E-Commerce continued to grow, there has been a fundamental shift from tangibles as the only measure of wealth to service and intangibles as significant factors in commerce (Nimmer, 1997).

Lee and Mansfield (1996) stated that intellectual property rights are a major issue in trade negotiations and in growth strategies in both developing and developed nations. Their study indicates that a nation’s system of intellectual property protection influences both the volume and the composition of U.S.A. direct foreign investment. Further social attitudes to private property would certainly involve more than the passage of any intellectual property laws because of the difficulty in enforcing such laws. It is a fact today that many E-Commerce implementation efforts are global in nature, crossing international borders smoothly. These systems involve both business-to-business (B2B) and business-to-consumer (B2C) applications.

The most commonly discussed approach today to protect computer software as intellectual property is through patent protection. Software was first deemed patentable in 1981 through a supreme court ruling (Diamond v. Dieby, 1981). Between then and the mid-1990s thousands of software patents were issued. In 1998, in what has been referred to as a landmark case, software in general and more specifically, business methods, were implemented in software where deemed patentable (State Street Bank & Trust Co. v. Signature Fin. Group Inc., 1998).
The effect of software patents on organizations can be dramatic. Companies in finance, insurance, and marketing businesses, many of which had not previously considered patents as viable to protect software, must do so now. The reality is that businesses must either acquire patents or watch the competition acquire them first (Cantzler, 2000). Patents have changed the way in which companies compete, with many firms expecting that they will be tied to their competitors and suppliers by a Web of cross-licensing agreements. In that way they will avoid infringing other intellectual property while at the same time, earning royalties from their own patent (Anonymous, 1996).

Copyright laws involving software are intended to protect artistic creativity. How far does copyright law extend regarding copying and should it be permitted in order to further social goals associated with technological development? In Sega Enters. Ltd vs Acolade, Ins. in 1992 stated that intermediate copying associated where reverse-engineering is permitted. Reverse-engineering is where one finds the benefits of a device or computer program and try to make another device or software that will give the same or better results.

With respect to E-Commerce graphical displays and user interfaces are considered output created by a program. Displays that are protected by copyrights if copied infringe the program even if the code of each program is entirely different (Nimmer, 1997). Even if code is not copied, if a web site links to another without authorization, infringement can occur.

A trademark can be any word, phrase, slogan, graphic image, musical phrase, distinctive sound, or other symbol used in the offer and sale of goods or services. The fundamental purpose for the trademark statute is to protect the public against misidentification of a product or service, so that there is little likelihood of confusion as to the manufacturer or service provider (Mykytyn & Mykytyn, 2005).

The use of trademark protection in E-Commerce has received considerable attention from the professional and legal communities in the past seven years. Owners of trademarks like Yahoo.com and Priceline.com have taken action to ensure that the substantial investments they have made in the promotion of the product or service used in E-Commerce are also protected from misappropriation by competitors. The misuse of domain names and web site addresses that have been trademarked has now been propelled into the same disordered game of catch-up with which the other branches of intellectual property (patent, copyright) have become familiar (Merges, 2000).

**SUGGESTED STRATEGY FOR LAWS FOR THE E-COMMERCE**

It is possible to develop the following strategy for a company entering the E-Commerce, when the company decides to protect their intellectual property (patent, copyright or trademark). For the purpose of this paper, let’s fictitious company, EMC, is created. EMC’s mission is “to supply customers with genuine industrial engine parts, in timely and economically manner.” EMC is entering E-Commerce with their newly developed software program that allows their customers to enter directly the make and model of their engine. Then, the program responds with a list off all parts for that particular engine, including a separate list with the most common parts that are usually bought for that unit. EMC wants to protect this software program so the competition will not be able to copy it. EMC is going to help the customer to determine immediately which parts the customer must buy to repair a certain engine, including delivered price (including freight charges), availability, weight and volume. The newly developed program will be vital to fulfill the mission, where they can identify the parts needed, get the weight and volume so freight can be estimated, and estimate price and availability. This new vision is: “Within the next five years EMC will become the number one supplier of engine parts to customers inside and outside USA.”

**INTERNAL ANALYSIS**

The Resource Based Value (RBV) of a firm postulates that the service rendered by the firm’s unique bundle of resources and capabilities may lead to value creation (Amit & Zott, 2001). A firm’s resources and capabilities are valuable if and only if, they reduce a firm’s cost or increases its revenue compared to what would have been the case if the firm did not possess those resources (Barney, 2007).

At this point, the company strength is large customer base and a strong relationship with parts manufacturers, while the weakness is the credit that is being able to become the world largest parts supplier. Also, because of their new computer program, another important weakness is the vulnerability for other businesses to copy their idea and develop similar or same program. To protect themselves EMC has decided to register the program with United States Copyright Office and also to invest in technological protection
measures to prevent downloading the program from inside or outside sources. Some of their intangible resources are good repetition with both customers and suppliers, extensive experience in the parts industry, superior sales force, and a highly skilled work force.

Porter (1985), viewed “value chain” as a collection of activities that add value to the product or services provided. For instance, value is added when the production process takes raw material, transforms them into finished or semi-finished product, and distributes them to customers. At each stage, a company makes profit if the price customers are willing to pay for the product exceeds the cost of creating the value.

The value adding for EMC is the new computer program that helps identify promptly which parts are needed, including estimating the weight and volume so freight charges can be estimated, and if the parts are available for immediate shipment. The dramatic changes in the way information flows throughout the
organization deeply affect its entire value chain. Through the new possibilities of electronic collaboration and IT supported production, it is expected that the productivity will increase, value-added content of products/services will enhance, and the unit cost of production will decrease (Uzzi, 1997).

CASE STUDY STUDENT TEAM ORGANIZATION AND RESPONSIBILITIES

There are many ways to approach this controversial topic of intellectual infringement; however, one general way to organize the students is to divide them into five teams:

Team A: EMC staff members, including all levels of management (strategic and operations)
This team would establish the procedure for all teams to follow as they report on their research and discussion in closed group sessions outside of class. Some guidelines would have to be published by Team A regarding procedure for reporting orally and in writing. Other guidelines would have to be published by the instructor regarding the grading policy on team project work, including Team A.

Team B: Use of the Porter Model of value chain analysis, as generally discussed in class

Team C: Use of GAP analysis method, as generally discussed in class

Team D: Use of the Balanced Score Card Approach, as generally discussed in class

For a more detailed discussion of these methods and how they impact on the case, teachers are directed to the teaching notes forwarded to WACRA separately. It would be the teacher’s responsibility to describe fully how each of these methods could address the problems and make progress toward a competitive solutions.

CONCLUDING COMMENTS

For the EMC case study, it would be good to develop alliances/partnership with their larger suppliers to get priority on available inventory so when they place an order their goods would ship promptly. This would also help to negotiate efficient line of credit to finance the orders. It would be interesting to see how student teams would approach this concept, even perhaps developing some project work directly with companies that might be the actual suppliers. This approach would add authenticity and practicality to the various theories, and depending on the student level (upper undergraduate, graduate) may even incorporate competitive team negotiation for additional consulting ventures.

It would also be important to start programs regarding the training process. EMC staff must learn new knowledge, skills, abilities, and application to improve product and service quality. Also, it must encourage knowledge sharing among employees, so when new valuable information becomes available, everyone is informed for best customer and supplier service. It is important for EMC to stay on top of the industry and [learn] how to handle this new technology.

REFERENCES


Barney, J., Gaining and Sustaining Competitive Advantage (Addison-Wesley: Reading 1997)


Defamation and the Internet. thhp:/ cse.stanford.edu/classes/cs201/projects97-98/defamation-and-the-internet/index/index2.html

Diamond vs. Diehr, 150 US 175 (1981)


