

## Customization of Luxury Goods: Swiss Federal Supreme Court Assesses Legality of Different Business Models

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In a recent decision dated 19 January 2024 ([4A\\_171/2023](#)), the Swiss Federal Supreme Court decided for the first time whether the customization of luxury goods is permissible under Swiss trademark and unfair competition law.

### 1. Relevant Facts

Company C ("C") customizes mass-produced luxury watches by changing certain parts, giving them a new appearance and/or modifying various technical features. The goal is to make the watches more exclusive. C has no retail premises but does have an atelier for customization purposes. C conducts its business by using a website that displays a catalog of examples of modified watches. Access to that website hinges on accepting a disclaimer that reveals that (i) C is an independent atelier offering watch customization services at the request of customers for private use, (ii) it does not manufacture or sell watches and (iii) that it is neither affiliated with or authorized by the watch manufacturers. Following the customization, C offers a new warranty and its terms and conditions stipulate that the original warranty automatically lapses.

Rolex, a Swiss luxury watches manufacturer, never granted permission to C to use its trademarks. Via a straw man, Rolex acquired in 2019 a modified Rolex Daytona watch for over 30,000 Swiss francs from C. This price included the supply and the customization of the watch.

In 2020, following receipt of a cease and desist letter from Rolex, C entered into several commitments towards Rolex. In essence, C undertook (i) to sell to private customers only, (ii) not to resell customized watches, and (iii) not to hold stocks of such watches. C asserts that the disclaimer had already been displayed on its website at that time.

Rolex nevertheless initiated litigation against C. The competent court in Geneva granted injunctive relief against C. C appealed this decision to the Swiss Federal Supreme Court.

### 2. Main Findings

The Court first recalled that the use of a trademark for private purposes – and not "*in the course of business*" – is lawful (with certain statutory exceptions).

The Court further emphasized that Swiss trademark law follows the principle of international exhaustion. Therefore, a purchaser of a branded product is – within the limits of the law – free to resell such product.

The Court then addressed the question whether a company that customizes watches for private customers against remuneration is thus shielded from liability. In doing so, the Court noted that, after Rolex' intervention, C had amended its business model from offering customized watches

to offering customization services only. Hence, the Court distinguished between **two business models**:

- 1) **Offering customization services only:** Customization often requires technical skills that the owner does not necessarily possess. Contrary to the lower court, the Court thus held that there is no legitimate reason to treat customization differently depending on whether a person customizes its product itself, or by using the services of a third party. By providing customization services for private customers, a company merely modifies a good for private use. A company is thus not infringing the rights of the trademark owner, when offering services to private customers aimed at repairing or customizing branded products. The Court further concluded that such customization services also do not constitute unfair competition as the customized goods are handed back to their owners for private use and the market for such goods is thus not affected.
- 2) **Offering the sale of customized goods:** If a business not only offers customization services, but also supplies customized branded items without the trademark owner's consent, the private use exception no longer applies. The principle of exhaustion of trademark rights also does not apply in such scenario, as it does not confer the right to market modified branded products without the trademark owner's consent. The Court thus held that such marketing of customized branded watches (i.e. C's initial business model) is generally unlawful.

The Court next addressed the question whether the way in which C promotes its customization services is unlawful. It emphasized that an informative use of a third party's trademark is lawful to the extent such use is closely related to the advertiser's own goods and services (e.g. repair services for branded goods), and does not create the false impression that the advertiser is somehow affiliated with the trademark proprietor. However, the lower court had failed to properly establish all relevant facts in this context. In particular, the lower court had not assessed in detail C's website, and the various disclaimers aimed at informing the user that C is not affiliated with the original manufacturers of the watches for which it offers its customization services. The Court thus partially annulled the lower court's decision and remanded the case to the first instance to further establish the relevant facts and to decide whether C's offering of its services infringes Swiss trademark and/or unfair competition law.

### 3. Comment

The customization, or personalization, of branded products is "*en vogue*", in particular in the luxury goods industry. As the Court itself highlights in its decision, other sectors, including fashion and the automotive industry, are likewise affected by this growing trend. Similarly, upcycling (e.g. the process of transforming by-products, waste materials, used or unwanted products into new materials or products of higher quality or value) is also booming and often raises similar questions if related to items bearing third-party trademarks.

This decision provides welcome guidance on such business models, and how the concepts of private use and exhaustion apply to them. It will be interesting to follow this case further, *inter alia*, as the lower court will have to rule on the issues of informative trademark use, unfair competition, and on the relevance of disclaimers in the context of marketing customization services.