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Running head: TRADEMARK LAW & KEYWORD ADVERTISING

**Trademark Law and the Economics of Competition:  
How keyword advertising does not infringe on a  
trademark owner's rights**

*By Elizabeth P. Warner*

Rochester Institute of Technology  
Summer 2004

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Degree in Communication & Media Technologies

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### Abstract

The growth of the Internet as a commercial medium has brought about new concerns in terms of the future of intellectual property law. The newest form of advertising, keyword advertising, has created much controversy within the legal system. In the latest case, *Google, Inc. v. American Wallpaper and Blind Factory*, Google has requested that courts make a decision as to what constitutes infringement in terms of the sale of keywords for advertising on the Internet. The case is still in pending process. Through an economic analysis of trademarks and advertising on the Internet, this paper seeks to demonstrate that the sale of trademarked keywords does not in fact infringe on a trademark owner's rights.

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## **Trademark Law and the Economics of Competition: How keyword advertising does not infringe on a trademark owner's rights**

The growth of the Internet has caused more than a grand opening for new channels of commerce and communication. It has also opened up grand opportunities for competition causing nothing but a stir among the legal court system. Commercial use of the Internet has generated a myriad of lawsuits over trademark and copyright issues. During the early 1990's, trademark disputes pertained more to the use of metatags, linking, and framing. More recently, during another round of trademark issues, keyword advertising has become a controversial issue.

Generally speaking, keyword advertising is when a company buys the rights to words from a third party, for example Internet Service Providers or search engines such as Google, so that when a consumer enters a word into the search engine, the company's web advertisement will be displayed.

The issues that have arisen before the court have not been over whether a company should be allowed the right to purchase keywords, rather question is raised over whether these third parties should be allowed to sell keywords that are trademarks, such as the name of a company's leading competitor.

Because the Internet is still in its infant stage, courts have had to resort to traditional trademark principles in the attempt to settle Internet related disputes. Trademark law protects the owner's distinctive, registered mark from others who use confusingly similar marks in business related instances; and infringement can be established if a substantial number of consumers pose the likelihood of being confused.

The problem with the Internet in cases involving these issues is that it lacks a stable context; thus, forcing legal decision makers to make decisions and make them fast. The most recent case involving keyword advertising and trademark issues, *Google, Inc. v. American Wallpaper and Blind Factory*, is still pending as Google has requested the courts to make a decision over what constitutes trademark infringement on the Internet. The outcome of this case is crucial to the future of not only trademark law and advertising, but to the way in which business is conducted.

How does keyword advertising infringe on a trademark owner's rights? After an overview of traditional trademark law, and an analysis of advertising on the Internet, economic theory, and the role of competition, this paper seeks to aid lawmakers in their decision in the future of trademark law by demonstrating that the sale of trademarked keywords does not constitute as infringement on a trademark owner's rights.

## REVIEW OF RELATED LITERATURE

### Traditional US Trademark Law

#### *An Introduction to US Trademark Law*

Falling under the umbrella of Intellectual Property law, Trademark law comprises the set of legal rules that govern how businesses identify their products and services in the marketplace so that confusion does not exist among consumers as to the origin of the product or service. Trademark law also serves to protect trademarks against use by any competitor.

By definition under the US Lanham Act (15 U.S.C. 1125), a trademark is "...any word, name, symbol, or device, or any combination thereof adopted and



used by a manufacturer or merchant to identify his or her goods or services...and to indicate the source of the goods.” Colors, as in *Qualitex Company v. Jacobson Products, Inc.*, and sounds as demonstrated in the National Broadcasting Company’s three note jingle “G, E, C” have also been recognized by the Trademark Trial and Appeal Board as valid trademarks (Moore, Farrar, & Collins, 1998). Simply put, a trademark’s key characteristics include *identification* and *distinction*.

According to the US Patent and Trademark Office (2004), a trademark is used to prevent others from using a confusingly similar mark. By law, however, a trademark does not exist in order to prevent others from making or selling the same goods and services offered under a clearly different mark. Trademarks that are used in interstate or foreign commerce may be registered with the Patent and Trademark Office.

It was not until 1946 that the Lanham (Trademark) Act was created not only to protect the rights of a trademark owner, but also to promote the flow of ideas and information. Effective since November 16, 1989, the Trademark Law Revision Act of 1988 served to permit a trademark owner to recover damages and seek a ruling for product or service misrepresentation. That is, if the issue pertained to commercial use, not political or educational use of a trademark (Moore, Farrar, & Collins, 1998). For example, in the case of *L.L. Bean, Inc. v. Drake Publishers, Inc.*, (1<sup>st</sup> Cir. 1987), which took place before the 1988 amendment, L.L. Bean filed suit claiming that Drake violated Maine’s antidilution statute when they published a *Back-to-School Sex Catalog* that parodied L.L. Bean’s clothing catalog. The First Circuit U.S. Court of Appeals

ruled that because the sex catalog was not for commercial use, the antidilution statute could not be used under the First Amendment to disallow publication. If, however, the sex catalog was not purely for creative purposes and was actually used to market products, and had been published after the Trademark Law Revision Act of 1988, the court would have probably ruled in favor of L.L. Bean (Moore, Farrar, & Collins, 1998).

The Lanham Act was created in order to regulate issues pertaining to the idea of unfair competition; thus, its main objective is to govern disputes between business owners over the names, logos, and other devices they use to identify their goods and services in the marketplace. It also attempts to eliminate fraudulent practices revolving around the misuse of trademarks in interstate commerce (Dueker, 1996). According to the Trademark Law Revision Act of 1988:

The purpose underlying any trade-mark statute is twofold. One is to protect the public so it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trademark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats.

In terms of arguments involving the distinction between trade “marks,” and trade “names,” it can be determined that they are directly related and that their functions are coterminous (Dueker, 1996). Trade names represent a

business as a whole, while trademarks are used to visually identify a business; thus, a trademark serves as an extension of the owner's trade name.

One very common mistake people make is confusing trademarks with copyrights. Although trademarked and copyrighted materials are both forms of intellectual property, they are two different things. Under section 102(b) of the Copyright Act of 1976, it states that copyright protection does not extend to “any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.” Many of the aforementioned can however be protected by trademark, trade secret, or patent law. Nevertheless, they are not eligible for copyright even though works in which they appear can be copyrighted (Elias, 1999)

Protecting a trademark is extremely important as trademarks are of great value to a company. As long as they are heavily protected and avoid dilution and/or infringement, and are renewed every 10 years, a trademark has the potential to last forever (Elias, 1999). Trademarks can also be bought and sold as in cases of merging corporations. But what makes trademarks most valuable is that they identify the origin of a product or service and are what consumers use to identify a brand; thus act as a good indicator of quality assurance (Moore, Farrar, & Collins, 1998).

### *Infringement*

The misuse of trademarks as well as trade names can lead to infringement claims. For example, if a company uses another party's trademark or name as part of their own title and name, the company may be liable for trademark

infringement (Dueker, 1996). Although the Lanham Act establishes the criteria for determining infringement, whether misrepresentation occurs or not depends on whether confusion can be or is created among a significant number of people.

To prove trademark infringement under federal law, a plaintiff must demonstrate that the defendant's use of his or her registered trademark is likely to cause significant confusion (Kuester & Nieves, 1998). When comparing two marks to determine likelihood of confusion, frequently examined factors include strength of existing marks, degree of similarity between marks, proximity of the goods or services, and the user's good faith in choosing its marks (Kuester & Nieves, 1998).

There does exist the possibility that parties may be unaware of infringing on another's mark. Considered an "innocent infringer," the party will be found innocent, and the owner of the infringed mark will usually be able to prevent infringements in the future, but will not be able to collect money damages or defendant's profits (Elias, 1999).

In terms of infringement regarding publishers of advertising matter, 15 USC 1114 of the Lanham Act exempts a publisher from liability for money damages or profits if the advertising copy carried in a newspaper, magazine, or other periodical contains an infringing mark and the publisher had not been made aware of the infringement. However, if the publisher had been aware of the infringing activity prior to publication, the publisher will be treated as any deliberate infringer. Even though trademark law protects the mark from *infringing* use by an outside party, the trademark owner's rights are not absolute since they must co-exist with our fundamental right of free expression.

### *Dilution & Unfair Competition*

The value of a trademark can also be damaged even when there is no possibility of confusion, such as, when the mark is used by another company on a different product (Dueker, 1996). This constitutes *dilution*, which recognizes that the action either blurred the mark's identity or tarnished the reputation of the mark.

Federal and State courts have employed their own set of rules to justify what uses of trademarks can be deemed *unfair competition*. This usually occurs when one company uses another company's name or mark in such a way that poses a likeliness to cause confusion among a consumer (Elias, 1999). The issue of unfair competition, as encompassed in the Lanham Act, provides that different categories of unfair competition do indeed exist, such as passing off and false advertising (Kuester & Nieves, 1998).

The Lanham Act (15 USC 1125) prohibits the use of a "false or misleading description of fact, or false or misleading representation of fact that is likely to cause confusion with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person." Generic terms are not eligible for trademark protection. This type of mark constitutes common words that describe a product, not the brand; for example, the words 'escalator,' 'cellophane,' and 'aspirin.'

The conditions for a passing off claim regarding unfair competition are: 1) an association of origin by the consumer between the mark and the first user (i.e. substituting one product for another) and 2) the likelihood of consumer confusion when the mark is applied (Elias, 1999).

*Fair Use*

The Lanham Act permits a non-consumer of a registered trademark to make “fair use” or “nominative use” of a trademark under certain circumstances without obtaining permission from the marks owner. Some of the most typical types of fair use include comparative advertising, advertisements that demonstrate that the non-owner is a seller of the goods or services identified by the mark, journalistic reports about the owner of the mark, and in parodies involving the mark (Elias, 1999)

Typically, the use of a trademark in a fictional work to describe or identify a particular product or service will not be considered an infringement as long as the use does not confuse the reader in terms of who actually owns the trademark (Pember, 2003). Trademark law also allows the author of a non-fictional work to include content that is either favorable and/or critical of a trademark owner’s products or services. In this type of work, an author should only use the trademark for descriptive or identification purposes and should be careful not to confuse the reader as to the actual provider of the trademark owner’s products or services (Pember, 2003).

An author’s use of a trademark should be a non-confusing “nominative use” when it meets the following requirements: 1) the trademark owner’s product or service must be one that is not readily identifiable without the use of the trademark, 2) the author only uses as much of the trademark as is reasonably necessary to identify the trademark owner’s products or services, and 3) the author does nothing that would, in conjunction with the trademark, suggest to the reader sponsorship or endorsement by the trademark owner (Pember, 2003).

By choosing a descriptive term as a trademark, the owner must live with the result that an author remains free to write about or use the trademark in its “primary” or descriptive sense (Rich, 2002). Legal doctrine defines fair use of a trademark as the “reasonable and good faith use of a descriptive term that is another’s trademark to describe rather than identify the user’s goods, services, or business” (Rich, 2002, p1).

It is important to remember that the only type of use by an author that may suffice as a “fair use” of another’s trademark is the use of the mark in a non-trademark sense (Rich, 2002). It is also possible that the “overuse” of another party’s trademark, even in a descriptive sense, may not be considered fair use due primarily to the fact that the repeated use by the author could lead to a likelihood of consumer confusion based upon a presumed connection or sponsorship with the trademark owner (Rich, 2002).

One problem with the fair use defense, however, is that it lacks reliable legal certainty because of the subjectivity involved in defining the “nominative use” and “non-confusing use” defense (Rich, 2002). Court decisions involving the fair use defense are fact specific to the particular case, and sometimes the decision in a particular case appears to be contradictory to a decision from another case (Rich, 2002).

### Trademarks & the Internet

As far as trademarking goes, the Internet has created quite a legal stir. The majority of disputes involve issues pertaining to domain names; however, this is not the only source of Internet related trademark commotion. “Given the vast amount of available information, there is a great need for efficient methods

of associating Web pages with each other” (Kuester & Nieves, 1998, p1). The advent of the Internet has created a pervasive desire for marketers to reach the ever-growing audience of the new medium (Kuester & Nieves, 1998).

What it all comes down to is that there is no small issue involving the Internet. With the immense amount of information available through this medium, there is a considerable and very important need for an efficient means of regulation. The Internet is based on associations between individual Web pages, which are made interactive through hyperlinks, frames, and meta-tags. More recently Internet Service Providers (ISP), which include search engines, can be considered associational tools as they sell keywords to advertisers. Although these tools are useful, they also have the ability to affect intellectual property rights, for example trademark infringement, trademark dilution, and unfair competition, in an unfavorable way (Kuester & Nieves, 1998).

The way Internet navigation works is that, all a user needs to do is simply enter in a specific web address, also known as a Uniform Resource Locator (URL), or they may choose to use a search engine, that is readily available on the Web to search for sites through the use of keywords and phrases. The search engine then uses special software called “web crawlers” to search for web pages by reading their HTML codes. The criteria used to rank the search results vary among search engines and may include factors such as the frequency of words on a page, the location of the words on a page, the HTML title, or meta-tags, which are words used that describe the contents of a page (Kuester & Nieves, 1998). The only trick is that a user cannot physically see how this system works.



Not only do search engines organize information on the Internet, they often sell advertising space on their search results page in order to entice users to link to a site operated by the advertiser (Kuester & Nieves, 1998). In order to guarantee the effectiveness of advertising on their results pages, search engines program their servers to display pre-selected and programmed advertisements that match the “key” search terms typed in by a user (Luce, 2003).

### *Trademark Law & New Forms of Property*

Our current trademark law is based on a model intended for print media that has been amended/expanded, to accommodate the new digital medium of the Internet. With this new medium has come the development of new forms of intellectual property not found in any other medium; for example, domain names, keywords, and meta-tags just to name a few. In terms of trademark law, the most recent amendment to accommodate the new medium has been the Anti-cybersquatting Consumer Protection Act (ACPA) passed in 1999.

As previously mentioned, domain names have been the underlying issue in the majority of disputes involving the Internet and trademark law. Cases involving trademark law and the Internet only help us to better understand trademark dilution, cybersquatting, and domain names. They highlight the ways in which people attempt to use and misuse intellectual property on the Internet. The laws that have been created to address people's actions, such as those demonstrated in related cases, help to clear matters to a certain extent; however, these are issues that will arise time and again, and while there are acts and laws in place to remedy such actions, there will be ways around them and it

is certain that people will find them. As has been repeated time and again, the Internet is changing rapidly and laws will continue to need to do so.

*Sporty's Farm LLC and Omega Engineering v. Sportsman's Market* (2d. Cir. 2000), was the first appellate-level case decided using the Anti-cybersquatting Consumer Protection Act. The plaintiffs appealed from a district court's judgment finding that it had violated the Federal Trademark Dilution Act. The court of appeals applied the ACPA and found that the mark "Sporty's" was both distinctive and famous. The court decided that the domain name sportys.com is "identical to or confusingly similar to" the Sporty's mark because it is indistinguishable from the Sportsman's trademark Sporty's.

Using the factors outlined in the ACPA, the court determined that Sporty's Farm had a "bad faith intent to profit" from the mark Sporty's when it registered the domain name "sportys.com." Also the court determined that the domain name did not consist of the legal name that registered it, "Omega."

Current debates pertaining to copyright issues have had to work on a case-to-case basis. And while the majority of copyright disputes involve issues pertaining to domain names; they are not the only source of Internet-related trademark commotion, and they are still reviewed on a case-to-case basis.

Another new form of Intellectual Property that has arisen due to the Internet is keywords. Keyword advertising has been disputed in several jurisdictions, and the U.S. Court of Appeals for the Ninth Circuit recently held that the sale of third-party trademarks, under certain circumstances, might subject a search engine to trademark liability (WSGR, 2004).

*Playboy Enterprises, Inc. v. Netscape Communications Corp.* (1999) was one of the first cases to address the legality of search engine's use of trademarks as advertising keywords by a third party. In this case, the court found that the sale of the trademarked keywords "playboy" and "playmate" by the search engine may have caused consumers to initially believe that unlabeled banner ads triggered by the keywords were in fact Playboy's. Because of the "initial interest confusion" defense, as established in the case of *Brookfield Communications, Inc. v. West Coast Entertainment Corp.* (9th Cir. 1999) with regards to meta-tags, the use of unlabeled banner ads could be legally responsible for infringement and dilution.

As far as meta-tags go, trademark issues arise when Web page designers use words protected under trademark law. Playboy was actually involved in the first trademark case addressing meta-tag issues. *Playboy Enterprises, Inc. v. Calvin Designer Label* (ND Cal. 1997). Playboy sued claiming that the use of its trademark as meta-tags constituted trademark infringement and unfair competition. The court found that unauthorized use of trademarks to divert users to a Web site operated by someone other than the trademark owner was likely to confuse consumers. However, some unauthorized uses of trademarks as meta-tags are permitted. For example in another Playboy case, *Playboy Enterprises v. Terri Welles* (9th Cir., 2002), the court ruled on good faith and descriptive uses of meta-tags do not infringe. Terri Welles, a former Playboy Playmate of the year, merely used the terms to describe her experiences.

Focusing back on the keyword case, according to Playboy Enterprises, Inc., keyword searches for Playboy's trademarks produced search results that

listed the websites of Playboy's competitors ahead of sites sponsored by Playboy itself. Playboy further charged that some of the resulting competitor banner advertisements went so far as to display Playboy's trademarks in the same font and capitalization as they appear on Playboy's own Website (McFadden, 2004).

The appeals court reversed a U.S. district court's grant of summary judgment to Netscape. In dismissing the action, the lower court had concluded that the use of the terms "playboy" and "playmate" were permissible "fair use." The district court's opinion, which was the first to consider the potential for search engine liability under such circumstances, had initially provided comfort to search engines and companies that engage in keyword buys (McFadden, 2004, p. 1).

The Ninth Circuit Court of Appeals held that the merits of Playboy's trademark infringement claims should have been considered by the lower court, and remanded the case for further consideration, finding that Netscape did nothing to alleviate confusion (McFadden, 2004) According to the appeals court decision, "some consumers, initially seeking Playboy's sites, may initially believe that unlabeled banner advertisements are links to Playboy's sites...Once they follow the instructions to 'click here,' and they access the site, they may well realize that they are not at a Playboy-sponsored site" (F.Supp.2d, 1999).

In assessing the likelihood of consumer confusion in this case, the court of appeals relied heavily upon three factors: 1) Playboy's expert witness testified that there was actual confusion since a statistically significant number of Internet users would be confused by Playboy's trademarks as keywords, 2) The defendants acknowledged the strength of the "Playboy" and "Playmate"

trademarks by admitting that they used the trademarks because of their ‘secondary’ meaning. The Court of Appeals (1999) found that “defendants obviously do not use the term ‘playmate,’ for example, for its dictionary definition: ‘a companion, especially of a child, in games and play.’”. And 3) Playboy’s and its competitor’s goods and services were clearly related; as the Court (1999) also determined that the proximity between Playboy’s marks and its competitor’s goods provides the reason why Netscape “keys” Playboy’s marks to competitors in the first place (McFadden, 2004).

### A brief look at advertising

#### *Advertising Today*

In the 1950’s it was the television that reshaped the advertising business. Today it is the Internet that has been impacting all forms of communication by building its own audience and recruiting users of other “traditional” media. According to the US Census (2000), 50% of US households owned a computer and 42% connected to the Internet at least once a day. Due to the changing media environment, the advertising industry was left a bit disoriented but so far has done a decent job at adapting. Due to a combination of long-term changes, such as the growing diversity of media, and the arrival of new technologies, traditional methods of advertising and marketing simply no longer work.

The current state of advertising today is that consumers feel a bit suffocated by it. It has been estimated that the average American sees over 3,000 advertisements each day, consciously or unconsciously. But, many are able to ignore or tune them out. As the Internet is a pull medium where consumers go

online to extract information, they may feel even more suffocated and annoyed by advertising as they are actually bombarded with the ads. And due to this “commercial clutter,” it is becoming even more difficult to convince consumers through advertising (The Economist, 2004).

Today, the various forms of online advertising include sponsored web pages, banner ads, E-mail, Skyscrapers, Pop-ups, Superstitials, and B2B networks. In terms of World Wide Web home pages, for example, the web page for Sears delivers information about their sponsor along with advertising and other sales messages (Armstrong, 2001).

Banner ads are the Internet’s equivalent of a billboard and are usually placed on a Web site featuring a complementary product. For example, Visa may choose to place a Banner ad on Expedia.com in order to remind consumers to use Visa when purchasing through Expedia. They are easy to create, and include the interactive element. Although extremely popular when they were first introduced in 1994 by IBM (Wells, Burnett, & Moriarty, 2003) they have proven to provide an extremely low click through rate after the research has been calculated.

Email is another online channel in which advertisers utilize to sell their products and/or services. Today, because databases have been improved, marketers have been able to quickly and easily obtain information about their target prospect and then mail them unsolicited advertisements to their email. This type of advertising is commonly known as *spam* and is generally unwelcome by consumers. Surprisingly, the response rate for an unsolicited email campaign is 5 to 15 times higher than that for a banner ad campaign (Wells, Burnett, & Moriarty, 2003).

Another popular form of online advertising is the Pop-up. These ads literally pop-up or appear on a viewer's screen in the form of a mini-site. This allows advertisers to market without directing traffic away from the site the viewer originally was visiting. This form of advertising has the reputation of being intrusive, annoying, and obnoxious; however it still generates a click through of approximately 5 percent. Like pop-ups, superstitials magically appear on a viewer's screen; however these come in the form of a 20 second animation that appears in a window when the viewer moves from one page to the next (Wells, Burnett, & Moriarty, 2003).

The newest sector of the online advertising market is business to business ad networks. The oldest network, B2B Works, was first introduced in 2000 and works vertically as well as horizontally, such that B2b websites are linked through an entire industry as well as across an entire market (Wells, Burnett, & Moriarty, 2003) in order to "provide customized end-to-end solutions that turn target audiences into prospects and prospects into buyers" (B2B Works, 2001).

In terms of ad spending, the internet accounts for only a tiny piece of the overall advertising pie; even though it has been growing rapidly (see Table 1). A joint study by the Interactive Advertising Bureau and PricewaterhouseCoopers found that internet advertising revenue in America grew by 39% to \$2.3 billion in the first quarter of 2004, compared with the same period a year earlier. Internet ad revenues are now back above what they were at the height of the tech boom. (The Economist, 2004)

Table 1.

It all adds up	2
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### *Keyword Advertising*

According to Wilson, Sensini, Goodrich & Rosati (WSGR)(2004), keyword ads are “quite simply, targeted Web advertisements—often all-text ads compromised only of a title and a brief description—generated when an individual enters a specific query into a search engine”(p1). These search engines, or portals, such as Google, Yahoo!, Excite, and Netscape, give advertisers the opportunity to have their ads “triggered” by keywords in which they have bought with the hopes of enticing a user to link to a site operated by the advertiser. Who ever bids the highest ‘owns’ the keyword (WSGR, 2004).

Keyword advertising is deemed a highly effective marketing tool. According to the Internet Ad Report released by the Interactive Advertising Bureau (IAB) in 2003, the format of keyword advertisements took the lead producing 35% of the total online revenue; up 20% from the previous year. Compared to other various ad formats, keyword ads have proven to be a company’s best bet. (See Table 2)



Table 2. IAB Final Full-Year 2003 Internet Ad Revenue Figures

Ad-Format:	2002	2003
Display	29%	21%
Sponsorships	18%	10%
Classifieds	15%	17%
Slotting Fees	8%	3%
<b>Keyword</b>	<b>15%</b>	<b>35%</b>
Interstitial	5%	2%
Email	4%	3%
Rich Media	5%	8%
Referrals	1%	1%

Not only do marketers find keyword advertising effective, but they are extremely cost effective as well. Because portals have developed their own keyword advertising programs, marketers only have to pay when a user clicks through to their Website (WSGR, 2004). This practice has become big business. Portals have become known as “gatekeepers of the Internet that are keenly aware of their market power and have understandably sought to exploit it for commercial advantage” (Luce, 2003).

### *Keyword Controversy*

Some marketers have realized the effectiveness of keyword advertising and have come up with an ingenious idea to buy third party trademarks as keywords (WSGR, 2004). For the purpose of giving an example only, Coca-Cola Company could spawn web traffic by purchasing the term “Pepsi cola” from a search engine. When a user or customer types in that term and searches for “Pepsi cola,” the Coca-Cola Company’s advertisement would appear on the search engine’s page; thus creating the potential for a user to do business with Pepsi’s leading competitor. Trademark issues transpire when search engines program

their servers to identify trademarked terms and display advertisements sponsored by a party other than the owner of the trademark.

Keyword advertising has been disputed in several jurisdictions, and the U.S. Court of Appeals for the Ninth Circuit recently held that the sale of third party trademarks as keywords, under certain circumstances, may subject a search engine to trademark liability (WSGR, 2004).

## METHODOLOGY

### An economic perspective on trademark law

Focusing back on trademarks; because trademark law is commonly thought of in terms of what it forbids (the use of another party's trademark in such a way that confusion is caused among consumers in the marketplace) due to the fact that courts frequently express the goal of trademark law as avoiding consumer confusion, it has resulted in a consequential effect of preventing the misrepresentation of a producer's good will (Dogan & Lemley, 2004).

Theoretically and economically speaking, trademarks have the ability to reduce consumer search costs by giving consumers and producers quick and easily identifiable access to truthful information about the source of the products and services in which they seek (Landes and Posner, 2003). "Rather than having to inquire into the provenance and qualities of every potential purchase, consumers will demand more of it, and will arguably become better informed, resulting in a more competitive market" (Dogan and Lemley, 2004, p. 12). Simply stated, the economic function of trademarks is to lower the cost to consumers of distinguishing between products.

Trademark law serves to protect trademarks from confusing imitation and also proves to be beneficial to both the sellers and the buyers.

By protecting established trademarks against confusing imitation, the law ensures a reliable vocabulary for communications between producers and consumers. Both sellers and buyers benefit from the ability to trust this vocabulary to mean what it says it means. Sellers benefit because they can invest in goodwill with the knowledge that others will not appropriate it. Consumers benefit because they don't have to do exhaustive research or even spend extra time looking at labels before making a purchase; they can know, based on a brand name that a product has the features that they are seeking. Trademark law, in other words, aims to promote rigorous, truthful competition in the marketplace by preserving the clarity of the language of trade. (*Dogan & Lemley, 2004, p. 13*)

### *Branding, Advertising, and Competition*

As trademarks are the building blocks of brands, competitive advertising plays a major role within a company's marketing strategy and media plan. In terms of competitive advertising, few advertisers are willing to ignore a competitor's advertising activity (Kotler, 2003). Part of the planning and decision making process of a company is to try and gain the competitive advantage by analyzing their product in comparison to competing products. Media planners base their decisions on the amount of competitive traffic that is generated. The relationship between advertising and competition is that advertising can increase sales either by changing the buyer's tastes, or simply by

providing information (Kotler, 2003). All in all, trademarks are essential to brand name competition, and in theory, competition is the driving force behind the generation of new ideas and products; thus, another purpose of trademark law is to preserve the informative role of trademarks.

Trademark law does have the potential to obstruct rather than facilitate competition. For example, when trademark holders have economic power and absolute control over the uses of their marks, they create significant barriers to entry by competitors looking to describe their own products (Dogan & Lemley, 2004). “Strong trademark rights come at a cost because they have the potential to remove words from our language and product features from competition” (Dogan & Lemley, 2004, p.14).

## CASE ANALYSIS

### The Google Case

In the latest case involving Internet trademark issues, the search engine Google filed suit against the American Blind and Wallpaper Factory (ABWF). Originally ABWF filed a complaint against Google and Google is now seeking a ruling that its policy regarding the sale of keyword advertising does not, in fact, signify trademark infringement.

Google’s policy states that it is the advertisers who are responsible for the keywords and ad text they choose to use. And, according to the Google AdWords policy(2004), “[A]s a provider of space for advertisements, please note that Google is not in a position to arbitrate trademark disputes between the advertisers and the trademark owners.”

However, AWBF argued that “American Blind and Wallpaper Factory” is their federally registered trademark, and they object to the fact that a user can type in that exact phrase and be misleadingly directed to one of their competitor’s links, and they claim that Google does this in order to make a profit (Garrity, 2004). Overall, this lawsuit seeks guidance on the issue of whether a search engine is required to police its advertiser’s use of trademarks.

The big question still stands: Does keyword advertising infringe on a trademark owner’s rights? The courts have yet to resolve this issue. Because Internet search engines have become keenly aware of the added value and effectiveness of keywords in terms of advertising, they have assisted marketers by selling the right to have a company’s advertisement prominently displayed on the results page of a user’s search. But trademark holders might think that the search engine’s use of their marks as keywords to trigger advertisements can be compared to eavesdropping when a customer calls a merchant and is interrupted by telemarketing (Zimmerman, 1999).

The way in which Internet keyword advertising fits into established law is that search engines will maintain that trademark law is completely irrelevant because they are not making any commercial use of anyone’s trademark (Zimmerman, 1999). However, a search engine is making use of the trademark if they are selling it to make a profit which is most likely the case as the Internet is an extremely commercial medium.

“Placing a competitor’s ad above a list of search results that includes a company’s Web page link is very much like the billboard-across-the-street analogy” (Zimmerman, 1999, p. 1 ). The party buying the rights to the

trademarked term can argue that “nothing about the position of the ad or its timing would lead consumers to believe that the advertiser must be affiliated with the brand-name goods or the company they were looking for in the first place” (Zimmerman, 1999, p.1).

On the other hand, companies whose marks have been used as keywords, such as American Blind and Wallpaper Factory and Playboy Entertainment, Inc., can argue that “the company that puts up a billboard does not use its competitor’s mark in the process of doing so” (Zimmerman, 1999, p. 2).

So what? The search engines will respond. Yes, we may be ‘using’ a trademark or trade name to initiate an automated, invisible-to-consumers digital process that results in transmission of non-confusing advertisements. But, this is no more an infringing activity than...using a competitor’s trade name in a letter to a print magazine, giving the magazine a standing order that any month it runs an ad from the competitor, it should also run an ad from the company. (Zimmerman, 1999, p.2)

A trademark owner may then rebut that keyword advertising is an “entirely new and disturbing phenomenon: customized interventions between a company and customers who seek to reach it, interventions only made possible by means of the unauthorized use of protected trademarks” (Zimmerman, 1999, p.2).

## CONCLUSION

### Advertising in the Future

The future of advertising relies heavily upon the effectiveness of advertising efforts. This means that two important questions should always be asked and re-asked: Are the advertising efforts effective? And, how can the effectiveness of our efforts be measured? Because the rate in which information flows on the Internet is extremely fast and because of the rapid pace in which technology is changing, advertisers must constantly be examining and re-examining their efforts and be on the constant look out for new ways to reach their target audience.

Advertising on the Internet definitely has its advantages, however with that come disadvantages. The Internet does allow advertisers to more easily access demographic and behavioral variables through databases so that they may craft tailored messages leading to more effective communication. On the other hand, “the most serious drawback is the inability of strategic and creative experts to consistently produce effective ads and to measure their effectiveness” (Wells, Burnett, & Moriarty, 2003, p.292).

The key to the media system of tomorrow is understanding the role of advertising in the development of the media system of today (Alvey, et. al., 1995). Due to the evolution of the Internet, the role of the advertising agency has actually taken on an entire new role and has been forced to provide integrated marketing services rather than just advertising services. Although this idea of integration is still young, it is possible (Cappo, 2003).

The future of advertising is controlled by the future of media technology and as of today, old media are leading to the development of new media. Interactive television (the combination of cable television and the Internet) is emerging and will only grow to be more popular. The telecommunications industry and the cellular phone are constantly changing and being upgraded and integrated. Today the Internet can be accessed via the cell phone and as far as advertising goes, advertisements may be sent directly to a person's phone in the near future. (Cappo, 2003)

As old media mix with new media, even newer media will evolve. This means that advertisers will have to figure out new and creative ways to target and effectively communicate to consumers. As previously stated, advertisers must be able to measure the effectiveness of their efforts. But as technology is changing at such a rapid pace, this may pose as an exhausting, difficult, and redundant task. The key to advertising is effective communication and advertisers must know whom they are talking to in order to do so. While the Internet provides bright and unlimited opportunities for advertisers, it also poses an extreme challenge as it is in constant transformation

### Old Law, New Property? Or New Property, New Law?

Clear boundaries make law possible, encouraging rapid differentiation between rule sets and defining the subjects of legal discussion. New abilities to travel or exchange information rapidly across old borders may change the legal frame of reference and require fundamental changes in legal institutions. Fundamental activities of lawmaking—accommodating



conflicting claims, defining property rights, establishing rules to guide conduct, enforcing those rules, and resolving disputes—remain very much alive within the newly defined, intangible territory of Cyberspace. At the same time, the newly emerging law challenges the core idea of a current law-making authority—the territorial nation state, with substantial but legally restrained powers. (Johnson & Post, 1996, p. 19)

It has taken over a century to establish the laws utilized in today's society. And over these years, the law has slowly been amended so that it coincides with the changing norms. However, in today's society, technological change has occurred at such a rapid pace that legal professionals have had to implement "law-forcing," which occurs when technological change is so dramatic that it causes doctrinal reform (Heinrich, 2000). "As courts encounter the inevitable flood of future Internet litigation, they should carefully scrutinize the underlying foundations of existing legal doctrine, and ask whether cyber-reach uproots or at least weakens, those foundations" (McSwain, 1999 p.14).

The advent of the Internet and the development of Cyberspace have brought about many issues pertaining to communication law and ethics, and when traditional law is applied as a form of regulation, in many cases it does not quite work. Using traditional law for cyber-law is best described by the metaphor of forcing square pegs into round holes. The reason being is that the Internet lacks borders. It works in terms of "logical," not geographical locations and is simultaneously available to anyone linked to the global network. Messages can be routed from one network to another with no centralized

location whatsoever; thus, messages exist everywhere, nowhere in particular, and only on the Internet (Johnson & Post, 1996). And because of this, traditional law becomes so disarrayed that it clearly lacks the ability to satisfactorily govern cyber-law.

Some trademark issues depend on geographic locations and that is why it is so debatable in a world without borders. A prime example is domain name system because there is nothing more important than a name or identity, especially on the Internet because of the commercial asset it contains. “The domain name system, and other online uses of names and symbols tied to reputations and virtual locations, exist operationally only on the Net...non-country-specific domain names like “.com” and “.edu” lead to the establishment of online addresses on a *global* basis” (Johnson & Post, 1996, p6).

Confusion is the basis for traditional copyright and trademark law and situations only become more confusing when the Internet gets involved, primarily because of its borderless environment and lack of context. Perhaps new law-making institutions will need to develop that are not territorially based, in an attempt to minimize confusion.

The Internet is a global community and the “law of any given place must take into account the special characteristics of the space it regulates and the types of persons, places, and things found there” (Johnson & Post, 1996, p4). The Internet is different than anything found in the real world. People exist in Cyberspace, but only in the form of a particular ID, user account, or domain name. “If Cyberspace law is to recognize the nature of its “subjects,” it cannot rest on the same doctrines that give geographically based sovereigns, jurisdiction over

“whole,” locatable, physical persons” (Johnson & Post, 1996, p.4). In a way traditional law only hinders the governance of cyberspace by aiding in the confusion.

While the old rules may not fit the new situation very well, there are advantages to using them that should be mentioned. For example, “if we treat the hypertext version of the New York Times as if it were a print newspaper, then we have about 200 years worth of rules to tell us how to handle it. We can avoid the problems that accompany writing new rules, or teaching them to the people who need to learn them” (Litman, 1996, p3). Also, most businesses started out as brick and mortar and only recently turned to the brick and click model. Up until this point, traditional law has been engrained in their practices.

In terms of governing their practices, the ultimate purpose of trademark law is to provide a means in which companies can identify themselves to consumers; while at the same time can reap the benefits of a good reputation without misleading the consumer. Trademark owners under the protection of the Lanham Act can make the argument that there is more than one way to mislead a consumer (Zimmerman, 1999). When a user searches the Internet, trademarks are blatantly used to lead consumers to the exact product that they seek; thus, saving time and money.

What Google, among other third party sellers of keywords, does is provide a service to company's who are looking to effectively advertise on the Internet. They do not sell trademarks; they merely promote healthy competition by selling space on their site for a company to advertise. This action is no different from writing a letter to the producer of a magazine, using the

trademarked name of one of their competitor's, stating that when the competition places an ad in their magazine, they want their ad placed right next to it; same goes in the television industry.

Keyword advertising in general is an ingenious marketing tool and the sale of trademarked keywords by third parties should not be considered an improper and unfair activity. After an analysis of the economics of trademarks, keyword advertising of trademarks promotes healthy competition and serves the purpose of established Intellectual Property law.

## Appendix A

All sources used as reference for this document were found in Proquest, ABIInform, LexisNexis, Academic Search Elite, and the Rochester Institute of Technology Wallace Library, using the search keywords: *trademarks, intellectual property, copyright, advertising, economic theory, trademark policy, advertising competition, keyword advertising, trademark law, and intellectual property law.*

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