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BRAND SPILLOVERS

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I. INTRODUCTION

> *Scenario 1*: Jane sees a newspaper advertisement for her local drugstore offering Tylenol analgesics at an attractive price. Jane decides to visit the drugstore to purchase a bottle. When she gets to the analgesics aisle, she notices a store-branded substitute for Tylenol right next to Tylenol. The store brand is cheaper than Tylenol, so Jane decides to purchase the store brand instead. As she walks back to the cash register, Jane notices that her favorite shampoo brand is prominently displayed at the end of the aisle, so she picks up a bottle of shampoo as well. Jane leaves the drugstore a satisfied customer even though she did not purchase any Tylenol-branded product — which ostensibly was the reason for her drugstore visit in the first place.

Every day, millions of consumers have experiences similar to Jane's. Jane's choices, however, are not merely serendipitous. Instead, the drugstore used several common retailing techniques, such as loss leaders and shelf space adjacency, to induce Jane to make purchasing decisions that increased the drugstore's profits from Jane's visit. Both Jane and the drugstore may be happy with the results, but what about McNeil-PPC, the owner of the Tylenol trademark? McNeil-PPC spent many years and millions of dollars to build a well-known brand that was strong enough to draw Jane to the drugstore. Yet, while the drugstore and some third-party manufacturers profited from Jane's visit, McNeil-PPC got nothing. Is this right? Or fair?

This Article discusses "brand spillovers," positive externalities that occur when consumer interest in a trademark increases the profits of third parties who do not own the trademark. Several brand spillovers occurred in Jane's scenario, benefiting both the drugstore and the manufacturers of the store-branded analgesic and the shampoo.

While brand spillovers in the retail[1] context might appear superficially problematic, trademark owners, courts, and legislators do not

1. For the purposes of this Article, "retail" excludes all online stores.

seem to object to them. Brand spillovers have been an integral part of retailing practices for decades, but they rarely result in trademark lawsuits. Instead, there appears to be widespread consensus that such retailing practices are permissible under trademark law.

In contrast, the emergence of online intermediaries, such as search engines, has raised serious questions about the propriety of brand spillovers in the online context.

> *Scenario 2*: Joe has a headache and wants to find a place to buy Tylenol. He enters the search term "Tylenol" into the Google search engine. Along with the editorially generated search results, Google displays an ad for a third-party competitor's analgesic because the competitor bought the keyword "Tylenol" from Google.[2] Joe clicks on the ad (thereby generating revenue for Google), learns that the competitive analgesic will meet his needs at a lower cost, and chooses to buy the competitive product.

Like the drugstore in Jane's scenario, Google profits from Joe's interest in a third-party trademark. Yet, unlike retailers' use of brand spillovers, online brand spillover activities have been repeatedly attacked in courts and legislatures. Trademark owners have repeatedly sued Google and other online intermediaries for selling ads triggered by searches for third-party trademarks (a process called "keyword triggering"),[3] and two states have banned some forms of keyword triggering.[4] The resulting policy and academic debate over keyword triggering has been irresolute,[5] reflecting wildly divergent views about legitimacy of this practice.

This Article contrasts the seeming legitimacy of brand spillovers by retailers with the putative illegitimacy of online brand spillovers. The legal treatment of retailers' brand spillovers provides a fresh angle from which to reconsider the keyword triggering debate. Upon closer scrutiny, the dichotomous treatment appears to lack any basis, which suggests that it may be a product of unwarranted cyberspace exceptionalism. As a result, this Article proposes that both online and offline intermediaries (including retailers, search engines, and others)

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2. Although this scenario is typical of how consumers use search engines, this particular scenario is partially hypothetical. On January 25, 2009, I did a search in Google for the term "Tylenol" and received only one third-party ad for an online retailer.

3. *See generally* Eric Goldman, Keyword Law, http://www.ericgoldman.org/Resources/keywordlaw.pdf.

4. The two states are Alaska and Utah. *See infra* notes 100–03 and accompanying text.

5. *See* Goldman, *supra* note 3.

should be equally free to use brand spillovers as part of their ongoing efforts to reduce consumer search costs.

This Article proceeds in four parts. Part II describes retailers' extensive use of brand spillovers and how trademark law tolerates such activities. Part III explains how online intermediaries are increasingly providing the functions traditionally provided by retailers while facing more trademark liability than retailers. Part IV explores the dichotomous legal treatment and concludes it is the product of cyberspace exceptionalism. Part IV then proposes to harmonize the legal treatment applicable to all intermediaries to encourage intermediaries to reduce consumer search costs, even if they profit from brand spillovers in doing so. Part V concludes.

II. Retailers and Trademark Law

This Part explains how retailers routinely increase their profits by creating brand spillovers but have not faced trademark liability for these activities.

A. Retailers as Active Intermediaries

A typical distribution chain — the process by which manufacturers distribute goods to consumers — has four stages: (1) the manufacturer makes the good,[6] (2) the manufacturer sells the good to distributors (there may be one or multiple levels of distributors in the chain), (3) distributors sell the good to retailers, and (4) retailers sell the good to consumers. Visually, a simple distribution chain looks like this:[7]

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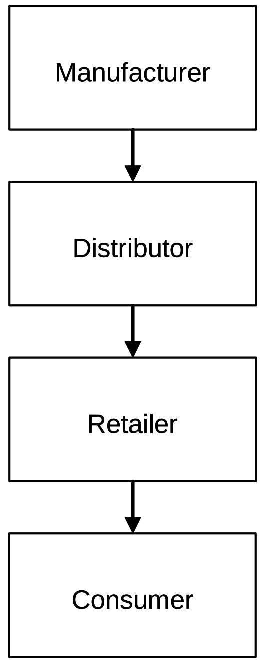
6. For simplicity, this Article assumes that manufacturers own the trademarks associated with their goods. However, this need not be the case. For example, distributors can own a trademark and outsource manufacturing of the associated goods to original equipment manufacturers ("OEMs") or contract manufacturers.

7. Distribution chains can take on a nearly infinite number of varieties. For example, manufacturers can sell directly to consumers, bypassing distributors and retailers altogether.



Traditionally, many economists ignore the retailers' role in this distribution chain.[8] They assume that retailers passively and accurately aggregate consumer demand for products and communicate the demand "up the chain" to manufacturers.[9] The rationale is that if a retailer did anything else, that retailer would not satisfy consumer demand while other retailers would, driving the nonconforming retailer out of business.[10] Accordingly, these economists can ignore the retailers' presence in the chain because, in their view, retailers simply act as a pass-through agent for consumer preferences.

This assumption is wrong. In practice, retailers actively mediate the relationship between manufacturers and consumers to maximize their own profits,[11] and retailers' profit-maximizing choices can significantly affect the marketplace information communicated to manu-

8. *See, e.g.*, Benjamin Klein & Joshua D. Wright, *The Economics of Slotting Contracts*, 50 J.L. & ECON. 421 (2007); Michael P. Lynch, *Why Economists Are Wrong to Neglect Retailing and How Steiner's Theory Provides an Explanation of Important Regularities*, 49 ANTITRUST BULL. 911 (2004).

Economists also ignore the role of distributors in the distribution chain. For simplicity, I do so as well because the ways distributors add value in the chain can vary widely by industry. However, because distributors mediate the relationship between retailers and manufacturers, distributors could have the same profit-motivated bias on demand that this Article ascribes to retailers.

9. *See, e.g.*, Lynch, *supra* note 8.

10. *Id.*

11. *Id.*

facturers. The remainder of this Section explains how retailers distort supply and demand factors between manufacturers and consumers.

1. Retailers and the Supply Side

On the supply side, retailer intermediation precludes manufacturers from maximizing profitable sales. First, retailers may choose not to carry a manufacturer's goods at all. In the grocery store industry, for example, retailers typically have enough physical selling space to carry only a small fraction of the thousands of new products manufacturers introduce each year.[12] In fact, when retailers allocate only enough space to carry a single manufacturer's goods, their decision effectively creates a winner-take-all situation,[13] freezing out other manufacturers from making any profitable sales through that retailer. Because retailers' placement decisions can affect manufacturer profits so significantly, manufacturers may gladly pay "slotting fees" and other consideration to retailers to influence those decisions.[14]

Even when retailers carry a manufacturer's goods, retailers do not seek to maximize the manufacturer's profitable sales of those goods. Instead, retailers seek to maximize their overall profit from each consumer.[15] Thus, if each manufacturer offers the same margin to the retailer, retailers do not care which competing manufacturer sells a particular item; when there are differences in margins between manufacturers, retailers want consumers to pick the highest margin good. Further, retailers may try to "fire" customers who are unprofitable to them,[16] even if those customers would have generated profitable sales for specific manufacturers. Collectively, retailers' profit-maximizing choices prevent manufacturers from maximizing their own profitable sales.

2. Retailers and the Demand Side

On the demand side, retailers do not just passively reflect consumer demand. Instead, they routinely create and modify such de-

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12. *See, e.g.*, Vithala R. Rao & Edward W. McLaughlin, *Modeling the Decision to Add New Products by Channel Intermediaries*, J. MARKETING, Jan. 1989, at 80; FOOD MKTG. INST., FMI BACKGROUNDER: SLOTTING ALLOWANCES IN THE SUPERMARKET INDUSTRY, http://www.fmi.org/media/bg/slottingfees2002.pdf.

13. *See* Benjamin Klein, *Exclusive Dealing as Competition for Distribution "On the Merits,"* 12 GEO. MASON L. REV. 119, 120 (2003).

14. *See generally* Marianne M. Jennings et al., *The Economics, Ethics and Legalities of Slotting Fees and Other Allowances in Retail Markets*, 21 J.L. & COM. 1 (2001) (describing the variety of ways that retailers extract concessions from manufacturers).

15. *See, e.g.*, Klein, *supra* note 13, at 139.

16. *See generally* LARRY SELDEN & GEOFFREY COLVIN, ANGEL CUSTOMERS & DEMON CUSTOMERS (2003) (describing retailers' efforts to avoid undesirable customers).

mand for their profit.[17] Typically, retailers carefully and scientifically design their stores to accomplish the singular goal of extracting more money from consumer pockets.[18] For example, retailer sales increase when consumers spend more time in a store.[19] Accordingly, grocery stores deliberately try to increase consumers' in-store time by locating staple items (milk, eggs, bread, etc.) at the back of the store to induce consumers to walk through the entire store and see other items of possible interest along the way.[20]

Retailers also shape consumer demand for a manufacturer's goods through their pricing and placement decisions. First, retailers set the final price charged to consumers.[21] To the extent price signals quality,[22] retailer-set pricing can affect consumer perceptions of a manufacturer's good and thereby affect consumer demand for that good. This demand-shaping effect is particularly pronounced when retailers aggressively discount a luxury good, which can reduce long-term consumer demand by degrading the good's perceived quality.[23] Retailer-set pricing can also affect consumers' relative demand for complementary goods (the "cross-elasticities"), such as when a retailer creates a product bundle composed of multiple manufacturers' goods for a single price (e.g., a "buy cereal, get bananas free" offer).

Second, retailers control product placement in their stores, and these product placement decisions can significantly affect consumer demand for manufacturers' goods. Retailers generally have the unilateral authority to determine where to place manufacturers' products

17. *See* Jon D. Hanson & Douglas A. Kysar, *Taking Behavioralism Seriously: Some Evidence of Market Manipulation*, 112 HARV. L. REV. 1420, 1444–50 (1999); Klein & Wright, *supra* note 8, at 431–32.

18. *See* DAVID WEINBERGER, EVERYTHING IS MISCELLANEOUS 1–7 (2007) (describing Staples's laboratory store, which it uses to test different retailing practices); Jack Hitt, *The Theory of Supermarkets*, N.Y. TIMES, Mar. 10, 1996, § 6 (Magazine), at 56 ("[E]ach inch of [grocery store] space is scientifically calibrated to hold only what you will buy at the highest possible margin.").

19. *See* PACO UNDERHILL, WHY WE BUY 33, 37, 102 (1999); Hitt, *supra* note 18 (citing research demonstrating that each extra minute a shopper spends in a supermarket beyond the average visit length generates an additional $1.89 of sales).

20. *See* UNDERHILL, *supra* note 19, at 82; WEINBERGER, *supra* note 18, at 2; Hanson & Kysar, *supra* note 17, at 1447. Drugstores position the pharmacy department at the back of the store for the same reason. *See* UNDERHILL, *supra* note 19, at 82–83.

21. Manufacturers exercise some indirect control over consumer prices by setting wholesale prices. Further, manufacturers can try to exercise control over retailer pricing through contractual minimum price obligations. *See, e.g.*, Leegin Creative Leather Prods., Inc. v. PSKS, Inc., 127 S. Ct. 2705 (2007). Many retailers will honor manufacturer-set price floors, but even in those cases the retailer controls the final pricing determination (although a price below the floor might get the retailer kicked out of the authorized distribution chain).

22. *See, e.g.*, David J. Curry & Peter C. Riesz, *Prices and Price/Quality Relationships: A Longitudinal Analysis*, J. MARKETING, Jan. 1988, at 36, 36; Paul Milgrom & John Roberts, *Price and Advertising Signals of Product Quality*, 94 J. POL. ECON. 796, 799 (1986).

23. For this reason, manufacturers have repeatedly sought legal mechanisms to restrict unwanted retailer price discounting, including (most notably) state fair trade acts. *See generally* Note, *Fair Trade Laws and Discount Selling*, 64 HARV. L. REV. 1327 (1951) (discussing criticisms of fair trade statutes).

within their store — including placing the product in a category in the retailer's taxonomy of products, as well as the specific shelf in that product category. The retailers' absolute discretion may look less clear when retailers ask manufacturers to help develop shelf-by-shelf product configuration plans (called "planograms")[24] or designate a manufacturer as a "category captain" to help organize the retailer's entire product category (including placement of competitors' products).[25] However, even when retailers outsource category placement or category management to manufacturers, retailers retain their final decision-making authority over placement decisions.[26]

Retailers' placement decisions can affect consumer demand for a product in a variety of ways. Shelf placement may affect consumer brand perceptions by implicitly communicating information about the product's importance and meaning.[27] For example, a bookstore's prominent display of a book, such as in the store's front area, may cause consumers to infer that the book is popular.[28]

24. *See, e.g.*, Uniek, Inc. v. Dollar Gen. Corp., 500 F. Supp. 2d 1158, 1161 (W.D. Wis. 2007) ("A planogram is 'a diagram of fixtures and products that illustrates how and where retail products should be displayed, usually on a store shelf in order to increase customer purchases'; it assigns a 'specific amount of space . . . to specific items in the store.'"); Posely v. Eckerd Corp., 433 F. Supp. 2d 1287, 1294 (S.D. Fla. 2006).

Manufacturers may also (at their expense) provide retailers with physical display units. *See, e.g.*, Meyers Printing Cos. v. Desa, LLC, No. 06-255 ADM/AJB, 2007 WL 2907996, at *2 (D. Minn. Oct. 2, 2007); W. Publ'g Co. v. Publ'ns Int'l, Ltd., No. 94 C 6803, 1995 WL 1684082, at *5 (N.D. Ill. May 2, 1995).

25. *See* Leo S. Carameli, Jr., Note, *The Anti-Competitive Effects and Antitrust Implications of Category Management and Category Captains of Consumer Products*, 79 CHI.-KENT L. REV. 1313, 1316 (2004); Robert L. Steiner, *Category Management — A Pervasive, New Vertical/Horizontal Format*, ANTITRUST, Spring 2001, at 77, 77; *see also* Conwood Co. v. U.S. Tobacco Co., 290 F.3d 768, 785 (6th Cir. 2002); *Meyers*, 2007 WL 2907996, at *1; *Uniek*, 500 F. Supp. 2d at 1158.

26. El Aguila Food Prods. Inc. v. Gruma Corp., 301 F. Supp. 2d 612, 615 n.5 (S.D. Tex. 2003) ("The plaintiffs admit that the retailers, not Gruma, approve placements."); Bristol-Myers Squibb Co. v. McNeil-P.P.C., Inc., 786 F. Supp. 182, 201 (E.D.N.Y.), *rev'd on other grounds*, 973 F.2d 1033 (2d Cir. 1992) ("Despite McNeil's assertions that it provides a planogram to each of its retailers — a claim which the Court readily finds credible — it has little if any ability to control and monitor the placement of TYLENOL PM on a daily basis."); R.C. Bigelow, Inc. v. Unilever N.V., 689 F. Supp. 76, 81 (D. Conn. 1988), *rev'd on other grounds*, 867 F.2d 102 (2d Cir. 1989) (citing an affidavit stating that "it is [the retailer], and not Lipton or any other supplier, which decides shelf location and how much space each product will receive in the allocation").

27. *See* MICHAEL R. SOLOMON, CONSUMER BEHAVIOR 318–20 (7th ed. 2004) (discussing the importance of product categorization); UNDERHILL, *supra* note 19, at 202 (noting that product juxtapositions educate consumers); WEINBERGER, *supra* note 18; *cf.* Christina L. Brown & Aradhna Krishna, *The Skeptical Shopper: A Metacognitive Account for the Effects of Default Options on Choice*, 31 J. CONSUMER RES. 529 (2004) (discussing how marketers' merchandising decisions communicate information to consumers).

28. *See* Randy Kennedy, *Cash Up Front*, N.Y. TIMES, June 5, 2005, § 7 (Book Review), at 14; *see also* UNDERHILL, *supra* note 19, at 91 (discussing how Blockbuster was encouraged to deliberately "spike" the trolley of returned videos with old movies as a way of "making them seem current and desirable," in turn alleviating demand for limited copies of new releases).

Retailer placement also may educate consumers about new uses of a product by creating associations between complementary products (e.g., putting apples in the cheese aisle) or informing consumers that seemingly non-competitive products are actually substitutes for each other (e.g., putting baking soda or lemon juice in the household cleaners aisle). Because it teaches consumers about novel, complementary, or substitutable uses, a retailer's placement decisions can also affect a product's cross-elasticities of demand with other products.

Retailer placement also serves as advertising for manufacturers' products. Shelf placement can inform new consumers about a product's availability and remind existing consumers to consider a product.[29] For products with limited access to mainstream advertising vehicles (such as cigarettes or alcohol), shelf placement can be an essential form of advertising.[30]

Shelf placement also can boost consumer demand for a manufacturer's goods by spurring unplanned ("impulse") purchases. According to retail anthropologist Paco Underhill, "[a]bout 60 to 70 percent of the things we buy in supermarkets and convenience stores we had no intention of buying when we walked in the door,"[31] and shelf placement can play a critical role in stimulating those impulse purchases.[32] Thus, grocery stores put kid-appealing items on lower shelves (where kids are more likely to see them) and high-margin items at the checkout stand (when consumers have their wallets out),[33] in each case increasing the likelihood of sales. Meanwhile, if a retailer places a manufacturer's products in obscure locations, such as at the back of the store or too high or low on shelves, then consumer demand for the product can diminish accordingly.[34]

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29. *See generally* Klein, *supra* note 13 (discussing placement as a type of "promotional service" provided by retailers); FOOD MKTG. INST., *supra* note 12, at 2. Manufacturers have reduced mass media marketing spending and redirected those dollars to convincing grocers to give more prominent in-store promotion; due to consumer infoglut, "consumers can be reached most effectively in the stores where they actually buy groceries." *Id.*

30. *See* David Segal, *Philip Morris, Leader of the Packs: Cigarette Maker's Rivals Sue Over Display Racks*, WASH. POST, Sept. 15, 1999, at E1; *see also* Louise Story, *Product Packages Now Shout to Grab Your Fickle Attention*, N.Y. TIMES, Aug. 10, 2007, at A1 (describing how shelf-based advertising becomes even more important as fewer consumers see television commercials).

31. Underhill was quoted in Segal, *supra* note 30; *see also* Jacqueline J. Kacen & Julie Anne Lee, *The Influence of Culture on Consumer Impulsive Buying Behavior*, 12 J. CONSUMER PSYCHOL. 163, 163 (2002) (noting that in some product categories, impulse buying is up to 80% of sales); Hitt, *supra* note 18 (noting that only 1/3 of consumers' supermarket purchases are planned; the remainder are "splurchases").

32. *See, e.g.*, UNDERHILL, *supra* note 19, at 79 (discussing the value of "endcaps," displays at the end of the aisle).

33. *See* Hanson & Kysar, *supra* note 17, at 1446–50; *see also* UNDERHILL, *supra* note 19, at 18–19 (noting that retailers place pet food treats on lower shelves because children are the principal decision-makers for these purchases).

34. *See* UNDERHILL, *supra* note 19, at 80–81, 84 ("[T]he rear wall is the dead zone.").

B. Retailers Actively Capitalize on Brand Spillovers

The previous Section illustrated how retailers play an active intermediary role between consumers and manufacturers in ways that affect both marketplace supply and demand. This Section focuses on four retailer intermediation practices that use third-party trademarks to increase retailer profits.[35]

Loss Leaders. To stimulate consumer traffic to their stores, retailers often prominently advertise a popular branded product at a significant discount (a "loss leader").[36] The retailer anticipates that consumers coming to the store for the loss leader will also purchase other products. In effect, retailers use the trademarked loss leader to stimulate profitable sales of third-party manufacturers' products.

Shelf Space Adjacency. Retailers typically place related products from multiple manufacturers into a physically adjacent group of substitutable and complementary products, such as the analgesics section of a drug store or the bread aisle in a grocery store. This adjacency between related products inevitably creates brand spillovers among the products.[37] Consumers may come to the store specifically interested in brand X but, when exposed to competitive or complementary brands in physical proximity, may make unplanned or impulse decisions to choose brand Y instead (or to purchase both).[38]

Retailers can deliberately take advantage of these inevitable brand spillovers to increase their profits. When profit margins for physically adjacent competitive products are the same, adjacency-caused spillovers are profit-neutral to the retailer. However, retailers can deliberately position a high-margin item next to a low-margin item with the hope that some consumers pick the high-margin item as an alternative.[39] For example, retailers generally make greater margins on "house brands"[40] than heavily promoted third-party branded prod-

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35. *See generally* Klein, *supra* note 13 (discussing how retailers can free-ride on manufacturer investments).

36. AMERICAN HERITAGE DICTIONARY OF THE ENGLISH LANGUAGE 1034 (4th ed. 2000).

37. *See* UNDERHILL, *supra* note 19, at 89 ("[E]veryone knows that adjacencies are of huge importance to every product . . . . Great retail minds churn themselves into mush trying to unravel the mysteries of which products should be sold near one another for maximum spark and synergy.").

38. *See* Kendall-Jackson Winery, Ltd. v. Superior Court *ex rel* E. & J. Gallo Winery, 90 Cal. Rptr. 2d 743, 747 (Ct. App. 1999) (relating how Gallo's sales representatives designed retailers' planograms "to place an inferior, lower-priced Gallo product adjacent to a higher-priced category leader. The category leader's display attracts the consumer's attention. When the consumer reaches for the well-known product, he or she will see the lower-priced Gallo product, and may buy that product instead."); *see also* UNDERHILL, *supra* note 19, at 201.

39. *See* Klein, *supra* note 13.

40. "House brands" are products that a retailer sells under its own proprietary brand, often in competition with a well-known third-party manufacturer's brand. Other synonyms for house brands include "store brands," "private label brands," "own brands," and the misnomer "generic brands." *See generally* McNeil Nutritionals, LLC v. Heartland Sweeteners,

ucts.[41] When retailers put house brands adjacent to heavily promoted brands,[42] retailers hope consumers pick the more profitable house brand.[43]

Pre- and Post-Sale Merchandising. Retailers can use a consumer's expressed interest in a trademark to merchandise other goods and services to them.

Pre-sale, a retailer may explicitly redirect a consumer in response to the consumer's expressed brand preferences. A consumer may ask for a specific brand that the retailer does not carry, and the retailer may suggest alternatives that are in stock. Alternatively, a consumer may request a branded product that the retailer carries, but a retail salesperson may try to sell the consumer on an alternative brand (such as one resulting in a larger commission to the salesperson).[44]

Another pre-sale merchandising technique is for retailers to place prominent, high-demand brands in otherwise low-traffic locations where consumers will seek them out. Retailers can place popular brands further back in the store as a way of getting consumers to walk through a store and be exposed to more merchandise from other manufacturers.[45]

Post-sale, a retailer may try to obtain additional sales based on its knowledge of the consumer's purchase of specific brands. For example, some grocery stores use Catalina Marketing's post-purchase coupon system to deliver coupons for competing third-party products triggered by a consumer's actual grocery purchases.[46] In these situations, consumers who buy a six-pack of Coca-Cola soda might get a coupon for a subsequent purchase of a six-pack of Pepsi. As another

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LLC, 511 F.3d 350 (3d Cir. 2007) (discussing "[p]resence and effect of . . . [s]tore-brand products"); Andrew W. Coleman, *National Brands, Private Labels and Unfair Competition — When Imitation Goes Beyond the Sincerest Form of Flattery*, 87 TRADEMARK REP. 79 (1997) (examining the role of "private label products" in the market place).

41. *See* New York v. Kraft Gen. Foods, Inc., 926 F. Supp. 321, 348 (S.D.N.Y. 1995); Lynch, *supra* note 8, at 927–28 ("[R]etailers usually price 'leading national brands' (LBs) so that they yield lower [margins] than on competing fringe brands or on 'store brands' (SBs) . . . . [T]he more prominent the brand, the lower its retail margin.").

Often, the branded product and the house-branded product are made by competitors. However, sometimes the same manufacturer makes both products. *See infra* note 110 and accompanying text.

42. Specifically, the prominent brand should go directly at eye-level and the higher margin substitute brand should go to its immediate right. *See* UNDERHILL, *supra* note 19, at 77–78, 204.

43. *See Kraft*, 926 F. Supp. at 348; Jean-Noël Kapferer, *Brand Confusion: Empirical Study of a Legal Concept*, 12 PSYCHOL. & MARKETING 551, 552 (1995).

44. *See* Klein, *supra* note 13, at 152. Although it may sound like "bait and switch," a salesperson's diversionary tactics are not automatically a § 43(a) Lanham Act violation. Norton Tire Co. v. Tire Kingdom Co., 858 F.2d 1533, 1534 (11th Cir. 1988).

45. *See* UNDERHILL, *supra* note 19, at 82 (noting that retailers want to put popular brands in the middle of aisles to draw consumers down the aisles and be exposed to other products, whereas manufacturers prefer to be at the higher-visibility aisle ends).

46. *See* JOSEPH TUROW, NICHE ENVY 141 (2006).

example, Amazon suggests that consumers buy books from third-party publishers based on the consumer's past book purchases.

Store Clustering. Retailers can increase their profits by physically locating stores adjacent to a popular high-traffic destination store.[47] Malls use "anchor tenants" (stores with big marketing budgets or a strong brand) to bring in traffic that spills over to other tenants.[48] As another example, competitive retailers — such as car dealers or gas stations — may cluster together to take advantage of each other's overflow traffic.[49] In some cases, a retailer can save marketing dollars if it can rely on an adjacent retailer's ability to attract customers.

C. Retailers Avoid Trademark Liability for Brand Spillovers

The previous two Sections established that retailers actively moderate the relationship between manufacturers and consumers, including intentionally using manufacturer or other third-party trademarks to increase their profits. With retailers routinely and deliberately profiting at the putative expense of trademark owners, one might infer that (1) manufacturers routinely sue retailers for capitalizing on brand spillovers, and (2) retailers are liable for trademark infringement accordingly. However, my research revealed little support for either inference.

1. Manufacturers Rarely Sue Retailers

A number of retailer practices can create trademark infringement liability for the retailers. Retailers offer goods and services under their own brands,[50] and these brands may infringe on other brands' trade-

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47. *See* Charles Q. Choi, *Atomic Physics Predicts Successful Store Location*, LIVESCIENCE, Sept. 27, 2006, http://www.livescience.com/strangenews/060927_business_physics.html (noting that proximity of complementary stores may increase odds of a new business' success); *cf.* Michael Fitzgerald, *Predicting Where You'll Go and What You'll Like*, N.Y. TIMES, June 22, 2008, at BU4 (describing efforts to use location data from cell-phone GPSs and taxi drivers to identify valuable adjacencies).

48. *See* Malcolm Gladwell, *The Terrazzo Jungle*, NEW YORKER, Mar. 15, 2004, at 120, 123 ("The point of a mall — the reason so many stores are clustered together in one building — is to allow smaller, less powerful retailers to share in" traffic generated by department stores.). Note that the mall operator often also benefits from optimizing the tenant mix, both from increased rents and from the mall operator's share of tenants' gross receipts.

49. *See* Gallo Motor Ctr. Corp. v. Mazda Motor of Am., Inc., 204 F. Supp. 2d 144, 153 (D. Mass. 2002); Northside Lincoln Mercury, Inc. v. Ford Motor Co., 603 F. Supp. 2, 5 (D. Minn. 1983).

Clustering can also produce negative spillovers. For example, a retailer may not want to locate next to a bank because people walk past banks quickly, reducing the chance that passing consumers will see the adjacent retailer's window display. *See* UNDERHILL, *supra* note 19, at 76.

50. *See* 2 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 16:47 (4th ed. 2008).

marks.[51] In particular, house brands are often designed to resemble the trade dress or trademarks of third parties.[52] Manufacturers can and occasionally do sue retailers for overly similar house brands,[53] although manufacturers may be reluctant to do so.[54] Lawsuits can also occur if a neighboring store adopts an overly similar trade dress to an existing store.[55] Retailers can be held liable for carrying and reselling third-party goods that infringe trademarks,[56] but retailers are rarely sued for doing so. Indeed, retailers usually are not named as defendants in typical manufacturer-v.-manufacturer trademark infringement lawsuits. In fact, the parties and the judge often overlook how retailers may have contributed to the possible consumer confusion. Several examples illustrate this omission.

First, courts may consider the physical proximity or adjacency of the litigants' goods in retail stores as a factor in its likelihood of consumer confusion analysis,[57] even though retailers — not manufactur-

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51. *See, e.g.*, Grocery Outlet Inc. v. Albertson's Inc., 497 F.3d 949 (9th Cir. 2007); AutoZone, Inc. v. Tandy Corp., 373 F.3d 786 (6th Cir. 2004).

52. *See* Coleman, *supra* note 40, at 80–81; Kapferer, *supra* note 43.

53. *See* 4 MCCARTHY, *supra* note 50, § 23:53; Kapferer, *supra* note 43, at 553 ("Only a few companies have gone to the courts to stop [house brands]."); *see also*, Adidas Am., Inc. v. Payless Shoesource, Inc., 540 F. Supp. 2d 1176 (D. Or. 2008); McNeil-PPC, Inc. v. Guardian Drug Co., 984 F. Supp. 1066 (E.D. Mich. 1997) (granting a preliminary injunction for trade dress infringement against a manufacturer of a store brand). The *Adidas* case led to a $305 million jury verdict, one of the largest trademark judgments on record. *See* Posting of Dan Slater to the Wall Street Journal Law Blog, Adidas v. Payless: $100 Million for Every Stripe; Payless Could Pay More, http://blogs.wsj.com/law/2008/05/07/adidas-v-payless-100-million-for-every-stripe-payless-could-pay-more/ (May 7, 2008).

54. *E.g.*, McKeon Prods. Inc. v. Flents Prods. Co., 69 U.S.P.Q.2d (BNA) 1032 (E.D. Mich. 2003). In *McKeon*, a manufacturer sued only the manufacturer of retailers' house brands for infringing trade dress and not the retailers — even though the retailers had provided their trade dress to the house brand manufacturer. *Id.* Reasons for this reluctance are discussed in Part IV.A *infra*.

55. For example, numerous pre-Lanham Act cases found unfair competition when a new store would open next to an existing store and adopt a similar name or trade dress designed to divert the original store's customers. *See, e.g.*, Weinstock, Lubin & Co. v. Marks, 42 P. 142 (Cal. 1895); Lichtenstein v. Levin, 27 Ohio N.P. (n.s.) 337 (Com. Pl. Ct. 1927).

For a more recent example, see Toy Mfrs. of Am., Inc. v. Helmsley-Spear, Inc., 960 F. Supp. 673 (S.D.N.Y. 1997). In this case, the plaintiff operated a major and well-established conference in defendant's facilities. *Id.* at 676. Defendant launched a competitive and similarly named conference simultaneously in the same building. *Id.* at 677. Further, the defendant used the building's security procedures to co-register attendees for the defendant's conference, which made it easy for plaintiff's attendees to attend defendant's conference and enabled plaintiff's exhibitors to reach the same audience by paying defendant instead of plaintiff. *Id*. As a result, the court cited the conferences' physical proximity and temporal adjacency (among other factors) in finding a likelihood of consumer confusion. *Id.* at 682.

56. Trademark infringement is a strict liability claim, so scienter is not required to establish a prima facie case. *See* 4 MCCARTHY, *supra* note 50, § 25:57.

57. A number of cases have held that retailer decisions to proximately locate products increase the risk of consumer confusion. *See, e.g.*, E. & J. Gallo Winery v. Gallo Cattle Co., 967 F.2d 1280, 1291 (9th Cir. 1992); Conde Nast Publ'ns, Inc. v. Am. Greetings Corp., 329 F.2d 1012, 1013 (C.C.P.A. 1964); Avon Shoe Co. v. David Crystal, Inc., 279 F.2d 607, 612 (2d Cir. 1960); Pure Foods, Inc. v. Minute Maid Corp., 214 F.2d 792, 797 (5th Cir. 1954); Mexican Food Specialties, Inc. v. Festida Foods, Ltd., 953 F. Supp. 846, 853 (E.D. Mich.

ers — determine product placements. For example, in *In re Martin's Famous Pastry Shoppe, Inc.*,[58] the senior user had a trademark registration for cheese, and a junior user appealed a trademark registration denial for bread. In affirming the denial, the Federal Circuit noted that the Trademark Trial and Appeal Board could consider that "deli counters may well display bread and rolls in close proximity to the cold cuts and cheeses purveyed there."[59] If so, the junior user-manufacturer's trademark registration will depend on how retailers decide to place its product.

Second, retailers can aggregate or disaggregate third-party goods into new product offerings, and this bundling can affect a court's trademark analysis.[60] In a manufacturer-v.-manufacturer lawsuit, retailers bundled similarly branded cigarettes and alcohol (both contained the word "Death" in their trademarks) made by different manufacturers into a single-price package.[61] The court cited the product bundles as evidence that the goods catered to similar customer bases, even though the retailers unilaterally created the bundles without authorization from either trademark owner. Yet, neither trademark owner sued retailers for creating these bundles.

Third, in another manufacturer-v.-manufacturer lawsuit, some retailers stocked an allegedly infringing product under shelf signage displaying the different brand name.[62] Even so, the manufacturer did not name the retailers as defendants — even though the court repeatedly noted that the retailers appeared to have been responsible for the alleged wrongdoing.[63]

1997); Storck USA, L.P. v. Farley Candy Co., 797 F. Supp. 1399, 1409 (N.D. Ill. 1992); Proxite Prods., Inc. v. Bonnie Brite Prods. Corp., 206 F. Supp. 511, 516 (S.D.N.Y. 1962).

Similarly, a number of cases have held that retailer decisions to place products in separate areas of a store reduce the risk of consumer confusion. *See, e.g.*, Gray v. Meijer, Inc., 295 F.3d 641, 649–50 (6th Cir. 2002); Plus Prods. v. Plus Disc. Foods, Inc., 722 F.2d 999, 1008 (2d Cir. 1983); Sunenblick v. Harrell, 895 F. Supp. 616, 635 (S.D.N.Y. 1995); Lever Bros. Co. v. Am. Bakeries Co., 537 F. Supp. 248, 254 (E.D.N.Y. 1982); Nestle Co. v. Nash-Finch Co., No. 68,330, 1987 WL 123836 (T.T.A.B. May 28, 1987).

Munsingwear, Inc. v. Jockey International, Inc., Civ. No. 4-93-538, 1994 WL 422280, at *5 (D. Minn. Apr. 21, 1994), reaches a slightly different conclusion: "In a market controlled by only a few producers it is inevitable that one brand will be located near another. Efficiency and customer assistance dictate that many stores will display and sell all similar products in relatively close proximity." *Id.*

58. 748 F.2d 1565 (Fed. Cir. 1984).

59. *Id.* at 1567.

60. *See Storck USA*, 797 F. Supp. at 1411 n.13 (ignoring evidence that retailers sometimes break apart a manufacturer's packaging to sell candy items individually).

61. Death Tobacco, Inc. v. Black Death USA, No. CV 92-6437-WMB, 1993 WL 761982, at *4 (C.D. Cal. June 30, 1993).

62. Optimum Techs., Inc. v. Henkel Consumer Adhesives, Inc., 496 F.3d 1231, 1246 (11th Cir. 2007).

63. *See id.* at 1242–43.

2. Retailers Are Not Liable for Brand Spillovers

Consistent with the fact that judges and plaintiffs ignore retailers' active intermediation of manufacturers' products, judges and plaintiffs also routinely ignore retailers' intentional efforts to create — and profit from — brand spillovers. In the rare situations where courts discuss brand spillovers in a trademark case, they have generally held or suggested that the retailer activities do not constitute trademark infringement.

For example, retailers profiting from store shelf adjacency do not infringe trademarks. Courts generally permit retailers to sell house brands that are similar to third-party brands, even when the retailer clearly is capitalizing on consumer demand for the third-party branded product.[64]

Further, courts routinely have said that retailers do not commit trademark infringement simply because house-branded products sit next to the national branded products. For example, a court rejected Shell Oil's effort to enjoin a gas station that sold a house brand of gasoline side-by-side with Shell-branded gasoline, even if customers were drawn into the station by Shell signage.[65]

If anything, courts may view such product adjacencies as positive, not negative. In a case not involving trademarks, the court said that "[p]roduct adjacencies are a marketing strategy whereby a wine producer attempts to have its brands displayed adjacent to the market leader brand in the relevant price segment . . . . Product adjacencies are lawful and commonly used."[66]

Judges have endorsed other brand spillover practices in trademark cases, including:

- Salesperson redirection of consumers asking for a particular brand. One court observed that "store employees who urge consumers to try or use the store brand product are certainly within their rights so

64. *See, e.g.*, Conopco, Inc. v. May Dep't Stores Co., 46 F.3d 1556, 1565 (Fed. Cir. 1994) (finding that a similar house brand did not create a likelihood of confusion); McKeon Prods. Inc. v. Flents Prods. Co., 69 U.S.P.Q.2d (BNA) 1032, 1039 (E.D. Mich. 2003) (finding no consumer confusion when retailers deliberately made house brands with similar trade dress to the national brands "not to confuse the customer into thinking they were buying McKeon's product, but rather to force the customer to choose between the more expensive brand name and the less expensive private label"); Smithkline Beckman Corp. v. Pennex Prods. Co., 605 F. Supp. 746, 751–52 (E.D. Pa. 1985) ("Placing the enteric coated aspirin in close proximity to ECOTRIN® highlights the housebrand product, but that is not unfair, only competitive."); *see also* Patricia B. Cunningham & Erin C. Witkow, *Private-Label Versions: Free Enterprise or Freeloading?*, NAT'L L.J., Aug. 27, 2007, at S1.

65. Shell Trademark Mgmt. BV v. Canadian Am. Oil Co., No. 02-01365 EDL, 2002 WL 32104586, at *4–5 (N.D. Cal. May 21, 2002).

66. Kendall-Jackson Winery, Ltd. v. Superior Court *ex rel.* E. & J. Gallo Winery, 90 Cal. Rptr. 2d 743, 752 (Ct. App. 1999).

long as there is no attempt to deceive the public as to the source of the goods."[67]

- Store clustering. One court stated that "an individual in search of a McDonald's restaurant will often be confronted with a Burger King restaurant. As long as Burger King did not mislead the consumer under false pretenses to its location, the mere fact that it decided to place itself in close proximity to a McDonald's, in an effort to potentially draw customers in search of fast food, is not 'passing off.'"[68]
- Using popular brands to draw consumers through a store and increase exposure of other brands. A Ninth Circuit judge's observation is apt:

> For example, consider the following scenario: I walk into Macy's and ask for the Calvin Klein section and am directed upstairs to the second floor. Once I get to the second floor, on my way to the Calvin Klein section, I notice a more prominently displayed line of Charter Club clothes, Macy's own brand, designed to appeal to the same people attracted by the style of Calvin Klein's latest line of clothes. Let's say I get diverted from my goal of reaching the Calvin Klein section, the Charter Club stuff looks good enough to me, and I purchase some Charter Club shirts instead. Has Charter Club or Macy's infringed Calvin Klein's trademark, simply by having another product more prominently displayed before one reaches the Klein line? Certainly not.[69]

Yet other brand spillover practices appear to be unlitigated or rarely litigated. My research did not reveal any trademark infringement lawsuits over post-sale competitive couponing against Catalina Marketing (the manufacturer of the most popular post-sale couponing system), any retailers deploying Catalina Marketing's system, or any advertisers purchasing the right to deliver competitive coupons.[70] My

67. *Smithkline Beckman*, 605 F. Supp. at 752. *But see* Coca-Cola Co. v. Overland, Inc., 692 F.2d 1250, 1252 (9th Cir. 1982) (holding that a restaurant's unannounced substitution of Pepsi in response to orders for "Coke" or "Coca-Cola" was trademark infringement).

68. FragranceNet.com, Inc. v. FragranceX.com, Inc., 493 F. Supp. 2d 545, 551 (E.D.N.Y. 2007).

69. Playboy Enters., Inc. v. Netscape Commc'ns Corp., 354 F.3d 1020, 1035 (9th Cir. 2004) (Berzon, J., concurring) (citations omitted).

70. In July 2007, I searched Westlaw's "ALLCASES" database for the search term "Catalina Marketing" and looked at every federal district court case in PACER listing Catalina Marketing as a defendant. In January 2009, I also researched every case where Catalina Marketing was a litigant in the Stanford IP Litigation Clearinghouse (http://lexmachina.stanford.edu). *Cf.* Posting of Eric Goldman to Technology & Marketing

research also did not identify any trademark lawsuits over the advertising of loss leaders to create brand spillovers.[71]

D. Implications

This Part has exposed a seeming legal anomaly. Retailers are treated as passive actors in the legal analysis of trademark infringement cases, but retailers in fact play an active role in mediating the manufacturer-consumer experience and often use manufacturers' trademarks to increase their own profits. Given this active intermediation, it seems odd that retailers do not face greater legal exposure under trademark law.[72] The next Part sharpens the anomaly by showing how trademark liability might attach to analogous active intermediation in the online context. The Article will then explore some possible explanations for this anomaly in Part IV.

III. ONLINE INTERMEDIARIES AND TRADEMARK LAW

This Part offers a contrast to the legal anomaly identified in the previous Part. It explores how online intermediaries perform similar functions as retailers but face significantly greater potential trademark liability for the way they perform those functions.

A. Online Intermediaries Have Usurped Retailers' Role in the Chain

During the 1990s, there was much speculation that the Internet would lead to widespread disintermediation of various intermediaries.[73] While much of this discussion was idealistic, perhaps naively so, the Internet has helped manufacturers disintermediate distributors and retailers by selling directly to consumers.[74]

Law Blog, Utah Amends Trademark Protection Act (But Only After Some Drama), http://blog.ericgoldman.org/archives/2008/03/utah_amends_tra.htm (Mar. 7, 2008) (discussing how the Utah legislature considered, but ultimately did not pass, a law that unintentionally appeared to regulate the Catalina Marketing system).

71. Loss leaders are regulated under other doctrines, such as laws against bait-and-switch practices, predatory pricing and pricing below cost. *See* 1A LOUIS ALTMAN & MALLA POLLACK, CALLMANN ON UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES 5-268 to -269, § 5:53 (4th ed. 2008).

72. *Cf.* Eric Schlachter, *Cyberspace, the Free Market and the Free Marketplace of Ideas: Recognizing Legal Differences in Computer Bulletin Board Functions*, 16 HASTINGS COMM. & ENT. L.J. 87, 145 (1993) (discussing how liability and editorial control are typically linked). As discussed in notes 71 and 177, brand spillovers might be governed by doctrines other than trademark law depending on the precise facts.

73. *See* Michael Hammer, *The Myth of Disintermediation*, INFO. WEEK, July 10, 2000, at 150, 150.

74. Dell Computers is a flagship example of Internet disintermediation. Dell sells its computers directly to consumers through its website and bypasses distributors or retailers. *See* John Pletz, *Dell Changed Industry with Direct Sales*, AUSTIN AM.-STATESMAN, May 3, 2004, at D1. However, Dell has recently reintermediated by selling some computers through

Even so, the Internet — and, in particular, the expansion of information flowing over the network — has also reinforced consumers' need for intermediaries to manage the data tsunami.[75] As a result, the Internet has spawned a group of powerful new intermediaries who order and index content for consumers,[76] including search engines, shopbots,[77] and consumer review websites[78] (collectively, "online intermediaries").

These intermediaries play a major role in facilitating commerce, both online and off. About three quarters of all online transactions start at search engines,[79] and many online searches result in offline purchases.[80]

As a result, just as retailers sit between manufacturers and consumers in the distribution chain, online intermediaries now effectively

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Wal-Mart. Matt Richtel, *Coming Soon to Wal-Mart: 2 Low-End PCs from Dell*, N.Y. TIMES, May 25, 2007, at C4.

75. *See* Eric Goldman, *Search Engine Bias and the Demise of Search Engine Utopianism*, 8 YALE J.L. & TECH. 188 (2006); Mitra Barun Sarkar et al., *Intermediaries and Cybermediaries: A Continuing Role for Mediating Players in the Electronic Marketplace*, J. COMPUTER MEDIATED COMMC'NS, Dec. 1995, http://jcmc.indiana.edu/vol1/issue3/sarkar.html.

76. *See* Frank Pasquale, *Copyright in an Era of Information Overload: Toward the Privileging of Categorizers*, 60 VAND. L. REV. 135, 136–37 (2007).

77. "Shopbots" are websites that aggregate retailer product/price offers and present those offers for users to compare retailers. *See* Maureen A. O'Rourke, *Shaping Competition on the Internet: Who Owns Product and Pricing Information?*, 53 VAND. L. REV. 1965, 1970 (2000); Michael D. Smith, *The Impact of Shopbots on Electronic Markets*, 30 J. ACAD. MARKETING SCI. 446 (2002). Shopbots are sometimes referred to as "comparison shopping engines" or "comparison engines." Examples of shopbots include Shopping.com, Shopzilla/BizRate and MySimon. Stereotypically, shopbots are thought to gather retailer offers from retailers automatically and without permission. In reality, because the shopbots want to be paid by the retailers for referring customers, most shopbots enter into agreements with retailers that may include the retailers regularly providing updated "feeds" of merchant offers. *See* Smith, *supra*, at 451.

78. Prominent consumer review sites include Amazon (which is also an online retailer), Epinions.com (which is part of Shopping.com/eBay and also acts as a shopbot), and Yelp.com.

79. *See* Melanie Mitchell, *Handling Search Marketing in Large Organizations*, SEARCH ENGINE WATCH, May 8, 2007, http://searchenginewatch.com/3625800. A 2007 Avenue A/Razorfish study found a lower percent but still reinforced the trend:

> [T]he biggest shift for retailers is yet to come, as their relationship with consumers appears to be increasingly disintermediated. 54% of today's connected consumers start their shopping experience at a general search engine, such as Google . . . , versus 30% who either visit the Web site of an established retail store (e.g., Crate & Barrel) or a specific eCommerce site such as Amazon.com.

Posting of Garrick Schmitt to FEED: The Digital Design Blog, Digital Consumer Behavior Study, http://www.digitaldesignblog.com/2007/09/28/digital-consumer-behavior-study/ (Sept. 28, 2007).

80. comScore Networks, *From Search to Sale*, IMEDIA CONNECTION, Dec. 16, 2004, http://www.imediaconnection.com/content/4801.asp (noting that after consumers searched for consumer electronics or computers at a search engine, 92% of subsequent purchases made by those consumers were made offline).

sit between consumers and retailers in that chain.[81] As reintermediation takes place, retailers become increasingly dependent on online intermediaries for access to online customers.[82] In effect, by obtaining frontline control over shoppers, online intermediaries have partially usurped retailers' preeminent consumer-facing role in the distribution chain.

But online intermediaries are not merely battling retailers for "control" over consumers in the distribution chain. Instead, online intermediaries increasingly perform many of the same functions traditionally performed by retailers,[83] making it harder to legally distinguish between retailers and online intermediaries.

Consider the similarities between Google and retailers as described in Part II. After a consumer submits a keyword search to Google's general purpose search engine,[84] Google presents the consumer with advertisements that reflect the consumer's past search interactions with Google,[85] the consumer's location,[86] and Google's other assessments of relevancy.[87] From a consumer perspective, the brand-triggered ads are analogous to a retail salesperson informing the consumer that competitive choices exist. They also replicate the experience of consumers learning about competitive options from the side-by-side in-store display of competitive products.

With this additional information, consumers can then navigate through the search results and ads to do comparison shopping.[88] Google even helps consumers purchase items from a third-party re-

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81. *See, e.g.*, Steve Lohr, *Just Googling It Is Striking Fear into Companies*, N.Y. TIMES, Nov. 6, 2005, § 1, at 1.

82. *See* JOHN BATTELLE, THE SEARCH 153–57 (2005) (discussing the challenges experienced by Neil Moncrief, operator of 2bigfeet.com, after it was removed from Google right before the holiday shopping season); Lohr, *supra* note 81 (discussing how search engines will force car dealers to change the services they provide to consumers); Michael Totty & Mylene Mangalindan, *As Google Becomes Web's Gatekeeper, Sites Fight To Get In*, WALL ST. J., Feb. 26, 2003, at A1 (discussing how a retailer's sales dropped 80% after having its ranking reduced in Google).

83. *See* Sarkar et al., *supra* note 75; Kevin Lee, *Paying for Shelf Space in the Search Supermarket*, CLICKZ, Sept. 1, 2006, http://www.clickz.com/3623308 (analogizing search engine keyword ads to manufacturers paying slotting fees).

84. Google's shopbot, Google Product Search, is even more analogous to a retailer. *See* Google Product Search, http://www.google.com/products (last visited May 15, 2009).

85. *See* Zachary Rodgers, *Google Targets Search Ads on Prior Queries, à la Behavioral*, CLICKZ, July 31, 2007, http://www.clickz.com/3626593.

86. *See* Google, Targeting by Location — AdWords Help, http://adwords.google.com/select/targeting.html (last visited May 15, 2009).

87. *See* Google, How Are Ads Ranked?, http://adwords.google.com/support/bin/answer.py?answer=6111&topic=115 (last visited May 15, 2009) (discussing Google's "Quality Score" for "Ad Rank").

88. *See* Gord Hotchkiss, *Tales of Pogo Sticks, Bouncy SERPs and Sticky Pages*, SEARCH ENGINE GUIDE, Sept. 11, 2006, http://www.searchengineguide.com/gord-hotchkiss/tales-of-pogo-s.php (explaining that about one in two searches involve pogo-sticking where the searcher checks out an individual search result and returns back to the search results list).

tailer by accepting and processing the consumer's payment through its "Checkout" service.[89]

When consumers follow this process completely, Google has, in practice, displaced the retailer in these sales. True, third-party retailers technically make the ultimate sale, but Google has controlled all of the meaningful facets of the consumer experience — just as a retailer would control the experience offline.

Google is not the only online intermediary tacitly displacing retailers. Amazon and eBay have become major marketplaces for independent vendors by offering many services normally provided by traditional retailers.[90] Similarly, shopbots offer their own "shopping cart" technology, allowing a consumer to consummate transactions with third-party retailers through the shopbot's system.[91] It is probable that in the future online intermediaries increasingly will capitalize on their preeminent relationship with consumers to perform the functions traditionally performed by retailers and will thereby displace retailers in the chain.

B. Online Intermediaries Face More Trademark Liability than Retailers Do

The previous Section depicted online intermediaries as the new equivalent of retailers in the distribution chain. Given their highly similar functions, it seems logical to assume that trademark law would treat online intermediaries just like retailers when engaging in profit-maximizing capitalization of brand spillovers — that is, as it does with retailers, trademark law would largely ignore the behavior of online intermediaries.

This assumption is incorrect. Retailers and online intermediaries are not treated the same. Most obviously, trademark owners routinely sue online intermediaries (especially search engines) for profiting from brand spillovers. Many of these lawsuits have focused on keyword triggering, the intermediary's sale of the plaintiff's trademark as a keyword to trigger competitive advertising,[92] but trademark lawsuits also have been directed at eBay,[93] consumer review sites,[94] and others.

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89. Google Checkout, http://checkout.google.com (last visited May 15, 2009).

90. S*ee* Tiffany (NJ) Inc. v. eBay, Inc., 576 F. Supp. 2d 463, 507 (S.D.N.Y. 2008) (holding that eBay is more like an offline swap meet than an advertising venue); Corbis Corp. v. Amazon.com, Inc., 351 F. Supp. 2d 1090, 1094–95 (W.D. Wash. 2004) (discussing some of the services that Amazon provides to its third-party zShops vendors).

91. Comparison Shopping Engine Strategies, A Look at Shopping.com's New Checkout System, http://www.csestrategies.com/cse/2006/11/a_look_at_shopp.html (Nov. 7, 2006).

92. For an aggregation of the cases that have reached some judicial resolution, see Goldman, *supra* note 3.

93. *See, e.g.*, *Tiffany*, 576 F. Supp. 2d at 463.

While these lawsuits against online intermediaries generally have not yet resulted in final adverse trademark rulings in the United States,[95] there are several trademark-related efforts to regulate online intermediaries more extensively than retailers.

First, in the United States, courts have fractured on the appropriate legal resolution of online brand spillover cases, and numerous courts have rendered adverse interim judgments that raise serious legal doubts about the legal state of keyword triggering specifically and brand spillover activity online generally.[96] Indeed, to try to preemptively minimize their liability, some online intermediaries have "voluntarily" adopted trademark policies to give trademark owners an extra-judicial recourse to stop certain types of brand spillovers.[97]

Second, Alaska and Utah have banned online intermediaries from engaging in keyword triggering in certain contexts. Utah actually passed two separate laws banning keyword triggering. The Utah Spyware Control Act, which was enacted in 2004[98] and amended (and substantially narrowed) in 2005,[99] restricted keyword triggering via

94. *See, e.g.*, Complaint, Lifestyle Lift Holding, Inc. v. Real Self Inc., No. 2:08-cv-10089 (E.D. Mich. Jan. 7, 2008), *available at* http://www.realself.com/files/complaint-from-Lifestyle-Lift-Holdings.pdf.

95. *See* Goldman, *supra* note 3. *But see* Washingtonpost.Newsweek Interactive Co. v. Gator Corp., No. Civ.A.02-909-A, 2002 WL 31356645 (E.D. Va. July 16, 2002), where the court issued a preliminary injunction against an adware vendor engaged in keyword triggering, but the order itself provided no explanation, and the court never reached the question of a final injunction.

96. To be clear, other courts have completely absolved online intermediaries from trademark liability for their brand spillover activities. *See* Goldman, *supra* note 3.

97. *See, e.g.*, Google, AdWords Trademark Complaint Procedure, http://www.google.com/tm_complaint_adwords.html (last visited May 15, 2009); Google, AdSense for Domains Trademark Complaint Procedure, http://www.google.com/tm_complaint_afd.html (last visited May 15, 2009); Microsoft adCenter Trademark Policy, http://advertising.microsoft.com/Home/Article.aspx?pageid=708&Adv_Articleid=3216 (last visited May 15, 2009); Legal Guidelines from Yahoo! Search Marketing, http://searchmarketing.yahoo.com/legal/trademarks.php (last visited May 15, 2009).

While the major search engines have all adopted this type of policy, no court has blessed the idea that such policies preclude trademark liability. Indeed, in one court, a domainer's voluntarily adopted trademark policy did not eliminate its cybersquatting liability. Verizon Cal. Inc. v. Navigation Catalyst Sys., Inc., 568 F. Supp. 2d 1088 (C.D. Cal. 2008).

Further, the search engine trademark policies may block activities that are otherwise permissible under trademark law. *See, e.g.*, Chris Soghoian, *Google Censors Political-Donation Transparency Ads*, CNET NEWS, Dec. 17, 2008, http://news.cnet.com/8301-13739_3-10122713-46.html.

98. 2004 Utah Laws 1679 (codified as amended at UTAH CODE ANN. §§ 13-40-101 to -401 (2008)). The statute prohibited adware from displaying pop-up advertising triggered in response to a third party trademark. *Id*.

99. Spyware Control Act Revisions, 2005 Utah Laws 1132 (codified at UTAH CODE ANN. §§ 13-40-102 to -302); *see* Posting of Eric Goldman to Technology & Marketing Law Blog, Utah Amends Spyware Control Act, http://blog.ericgoldman.org/archives/2005/03/utah_amends_spy.htm (Mar. 22, 2005). Among other changes, the amendments required plaintiffs to show that the trademark triggering constituted trademark infringement, thus making this cause of action effectively redundant with a trademark infringement claim. *Id*.

adware.[100] Then, in 2007, Utah passed the Trademark Protection Act,[101] which categorically restricted competitive keyword triggering regardless of technology. However, in 2008, Utah rescinded the main operative provisions of the Trademark Protection Act.[102] Meanwhile, in 2005, Alaska passed an anti-adware law that resembled the 2004 version of the Utah Spyware Control Act but had its own idiosyncrasies.[103] It remains very possible that other states beyond Alaska and Utah will explore ways to regulate keyword triggering.

Third, internationally, some countries have had adverse legal reactions to online intermediaries' brand spillover activities.[104] Most notable is France, where courts have repeatedly ruled against Google's keyword triggering practices.[105]

While the ultimate legal resolution of online brand spillovers remains a work-in-progress, it is clear that at least some courts, legislatures, trademark owners, and commentators think profiting from brand spillovers by online intermediaries should be treated differently than such profiting by retailers. The next Part will try to explain these differences.

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100. Adware is client-side software that monitors a user's behavior and delivers advertising putatively associated with that behavior, including in some cases using trademarks (such as when a user submits a trademark to a search engine or inputs a trademarked domain name into his address bar) to trigger advertising. *See generally* Eric Goldman, *A Coasean Analysis of Marketing*, 2006 WIS. L. REV. 1151, 1211-13 (defining and discussing adware).

101. 2007 Utah Laws 2215 (codified as amended in scattered sections of UTAH CODE ANN. tit. 70, ch. 3a).

102. Act of Mar. 17, 2008, 2008 Utah Laws 1676 (codified in scattered sections of UTAH CODE ANN. tit. 70, ch. 3a); *see* Posting of Eric Goldman to Technology & Marketing Law Blog, *supra* note 70. In Spring 2009, Utah considered yet another attempt to regulate keyword advertising, but that law did not pass. Posting of Eric Goldman to Technology & Marketing Law Blog, Utah HB 450 Dies in Utah Senate Without a Vote, http://blog.ericgoldman.org/archives/2009/03/utah_hb_450_die.htm (Mar. 13, 2009).

103. Act of Sept. 1, 2005, 2005 Alaska Sess. Laws ch. 97, § 3 (codified at ALASKA STAT. §§ 45.45.792–.798 (2008)); *see* Posting of Eric Goldman to Technology & Marketing Law Blog, Alaska's Anti-Adware Law, http://blog.ericgoldman.org/archives/2005/06/alaskas_antiadw.htm (June 22, 2005). Unlike the Utah law, adware users could consent to the trademark-triggered pop-up ads, although it is not clear from the statute how the adware vendor can properly obtain user consent.

104. *See* Stephan Ott, Links & Law — Google's Ad Words Under Attack, http://www.linksandlaw.com/adwords-pendinglawsuits.htm (last visited May 15, 2009) (enumerating many keyword triggering decisions worldwide); Google, Inc., Annual Report (Form 10-K), at 24 (Dec. 31, 2007).

The caselaw is mixed worldwide, and some countries have adopted rulings that appear to permit keyword triggering. *See, e.g.*, CC (TA) 000506/06 Matim Li v. Crazy Line, slip op. [2006] (on file with author) (suggesting that search engines may not face trademark liability in Israel); Wilson v. Yahoo! UK Ltd. [2008] EWHC 361 No. 1HC 710/07 (Ch.) (suggesting that search engines may not face trademark liability in England).

105. *See* Stephan Ott, Links & Law — AdWords Lawsuits in France, http://www.linksandlaw.com/adwords-google-keyword-lawsuit-France.htm (last visited May 15, 2009); BNA's E-Commerce & Tech Law Blog, Google AdWords Beats Trademark Claim in France, but Loses on Two Other Issues, http://pblog.bna.com/techlaw/2009/02/google-adwords-in-france-.html (Feb. 3, 2009).

IV. Optimizing Trademark Law for Intermediaries

As Part III explained, trademark law appears to treat retailers and online intermediaries differently regarding their efforts to profit from brand spillovers. This Part tries to rationalize this dichotomy.

A. Hypotheses to Explain Why Retailers and Online Intermediaries Are Treated Differently

There are multiple plausible explanations for the retailer/online intermediary dichotomy. This Section reviews some of those explanations:

1. Hypothesis #1: Spillovers in Every Direction

In some cases, retailer-created spillovers benefit trademark owners. For example, Coca-Cola might feel like retailers are taking unfair advantage of its brand when retailers advertise a Coca-Cola product as a loss leader to stimulate sales of third-party products.[106] At the same time, Coca-Cola might get positive spillovers from retailers' other retailing practices, such as a retailer's promotion of "Rum and Coke" that might generate new incremental profits for both the retailer and Coca-Cola. As a result, any individual manufacturer may not know if a retailer's practices are, on balance, *net* positive or negative for it. Due to this opacity and the possibility that they get more than they give, manufacturers might tolerate retailer-created spillovers.

However, this hypothesis does not adequately explain why manufacturers do not sue retailers for spillovers unfavorable to the manufacturers. Even if the net spillover effects were indeterminate, trademark owners nevertheless would have incentives to try to block disadvantageous spillovers using their brands while retaining any positive ones (i.e., Coca-Cola could try to stop the loss leader usage but leave the "Rum and Coke" merchandising alone).

Further, this hypothesis does not explain the online intermediary/retailer dichotomy. Spillovers can flow in every direction online, just as they do offline. Numerous keyword triggering plaintiffs also bought keyword ads on third-party trademarks[107] — thus taking ad-

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106. Soft drinks are a common loss leader. *See* David Wellman, *Incremental Bubbles*, SUPERMARKET BUS., Nov. 15, 1999, at 41, 41.

107. *E.g.*, 1-800 Contacts, Inc. v. WhenU.com, Inc., 414 F.3d 400, 409 n.12 (2d Cir. 2005) (1-800 Contacts had purchased keyword ads from adware vendors); Google Inc. v. Am. Blind & Wallpaper Factory, Inc., No. C 03-5340 JF (RS), 2007 WL 1848665 (N.D. Cal. June 27, 2007) (American Blinds purchased competitors' keywords); Buying for the Home, LLC v. Humble Abode, LLC, 459 F. Supp. 2d 310 (D.N.J. 2006) (both plaintiff and defendant had bought each other's trademarks as keywords). Indeed, when Utah passed the Utah Trademark Protection Act to outlaw keyword triggering, local Utah companies 1-800

vantage of the spillovers that they were simultaneously trying to stop. Therefore, if trademark owners have tolerated the bi-directional flow of spillovers in the offline context, it is not clear why the bi-directional flow would become unacceptable online.

2. Hypothesis #2: No Actual Spillovers

Another possibility is that the putative retailer-created brand spillovers discussed in Part II are not actually spillovers because manufacturers set their prices to internalize any positive spillovers. Thus, if a manufacturer believes that its trademarks are generating brand spillovers for retailers, the manufacturer can increase its price to capture this benefit.

Some evidence supports this hypothesis. Retailers generally earn lower margins on items with strong consumer brands[108] because retailers generally have little discretion about these brands; consumers may not patronize a retailer that does not carry their preferred brand.[109] Accordingly, a retailer often pays a relative premium to carry these items, and this premium may pass through any spillovers these brands can generate for the retailers. Also, some manufacturers produce both a category-leading branded product *and* the retailer's house brand,[110] a form of price discrimination that lets the manufacturer charge more for the spillover-producing product.

Further, this hypothesis may help explain the retailer/online intermediary dichotomy. Manufacturers and retailers are in contractual privity (although privity may be indirect due to the distribution chain), which allows manufacturers to set prices that internalize spillovers. In contrast, manufacturers typically lack privity with online intermediaries and thus lack a financial mechanism to recoup any spillovers from these intermediaries.

At the same time, manufacturers face numerous challenges setting prices accurately enough to internalize retailer spillovers. First, manufacturers may sell through a multi-tier chain of distribution, which

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Contacts and Overstock.com protested the law because they did not want to lose their ability to buy their competitors' trademarks — even though both had previously brought lawsuits to stop keyword triggering. *See* Linda Fantin, *Lawmakers Could Rethink Online Registry*, SALT LAKE TRIB., Apr. 26, 2007, at Local.

108. *See* Lynch, *supra* note 8, at 928.

109. *See* Klein & Wright, *supra* note 8, at 434; Jerre B. Swann, Sr. et al, *Trademarks and Marketing*, 91 TRADEMARK REP. 787, 810 (2001) ("Strong brands . . . can provide manufacturers with a bargaining chip in the 'channel' game. Loyal customers generate 'pull' for the brand: if a retailer does not stock what they are looking for, consumers will be unhappy.").

110. *See* Ellen Byron, *101 Brand Names, 1 Manufacturer*, WALL ST. J., May 9, 2007, at B1 ("In many cases, the maker of a brand-name product will also produce private-label versions."); *see also* Fremont Co. v. ITT Cont'l Baking Co., No. 76 Civ. 5728, 1977 WL 22763, at *420 (S.D.N.Y. Aug. 15, 1977). *See generally* Coleman, *supra* note 40 (examining the role of "private label products" in the marketplace).

reduces their ability to dictate the price that retailers actually pay.[111] Second, manufacturers cannot completely control their distribution channels, so goods can "leak" out of a distribution chain at prices that do not internalize the spillovers.[112] Third, manufacturers have a difficult time accurately determining the internalizing price given the multitudinous ways in which retailers can create brand spillovers. Finally, laws restricting the ability of manufacturers to price discriminate, like the Robinson-Patman Act, may further hinder manufacturer price setting.[113]

While the hypothesis that manufacturers set prices to prevent retailer spillovers does help explain the dichotomy, treating it as a complete explanation requires a high — and perhaps unrealistic — confidence in marketplace price-setting mechanisms.

3. Hypothesis #3: Manufacturers Are Reluctant to Sue Retailers[114]

Another possible explanation for the dichotomy is that manufacturers prefer not to sue retailers.[115] There are several reasons why this might be the case.

First, other defendants may be more attractive targets. If a contract manufacturer makes "knockoff" house brands for multiple retailers, the trademark owner might prefer to sue the manufacturer because a victory over the manufacturer can be more efficient than pursuing each individual retailer. However, because the trademark analysis

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111. When a downstream distributor sets the retailer's actual price, it may not internalize all of the retailer's spillover benefits. Of course, a manufacturer could set its price to distributors to recoup all manufacturing costs and internalize all retailer spillovers.

112. In fact, recently there has been a spate of lawsuits against online retailers based on goods that have leaked out of manufacturers' intended distribution chains and thereby eroded manufacturers' price controls. *E.g.*, Australian Gold, Inc. v. Hatfield, 436 F.3d 1228 (10th Cir. 2006); Mary Kay, Inc. v. Weber, No. 3:08-CV-0776-G, 2009 WL 426470 (N.D. Tex. Feb. 20, 2009); Tiffany (NJ) Inc. v. eBay, Inc., 576 F. Supp. 2d 463 (S.D.N.Y. 2008); Standard Process, Inc. v. Total Health Disc., Inc., 559 F. Supp. 2d 932 (E.D. Wis. 2008); Designer Skin, LLC v. S & L Vitamins, Inc., 560 F. Supp. 2d 811 (D. Ariz. 2008); Standard Process, Inc. v. Banks, 554 F. Supp. 2d 866 (E.D. Wis. 2008); S&L Vitamins, Inc. v. Australian Gold, Inc., 521 F. Supp. 2d 188 (E.D.N.Y. 2007).

113. 15 U.S.C. § 13–13a (2006).

114. This could be characterized as a subset of the broader risks associated with suing customers. *See, e.g.*, G. Richard Shell, *Suing Your Customers: A Winning Business Strategy?*, KNOWLEDGE@WHARTON, Oct. 22, 2003, http://knowledge.wharton.upenn.edu/article.cfm?articleid=863.

115. *See* Colleen Collins-Dodd & Judith L. Zaichkowsky, *National Brand Responses to Brand Imitation: Retailers Versus Other Manufacturers*, 8 J. PROD. & BRAND MGMT. 96, 96 (1999); *see also* McKeon Prods., Inc. v. Flents Prods. Co., 69 U.S.P.Q.2d (BNA) 1032, 1033–34 n.2 (E.D. Mich. 2003) ("[I]t is packaging selected by the retailers Walgreens and Albertson's which is the subject of this case. While the Court is not basing its decision solely on this point, the Court is troubled that Walgreens and Albertson's — the entities that purportedly selected the trade dress at issue — are not Defendants in this litigation. While the Court understands the reasons for McKeon's desire not to sue its own customers, the Court is nonetheless bothered by their absence from this litigation.").

may depend on the specifics of each retailer's implementation, trademark owners cannot simply ignore retailers.[116] Plus, trademark owners could simply sue manufacturers and retailers jointly.

Second, manufacturers might prefer not to sue retailers because retailers control their access to consumers, and manufacturers may fear that retailer-defendants will cut off that access.[117] This reasoning could explain why we see so few manufacturer-v.-retailer trademark lawsuits. If retailers have significant leverage over manufacturers — which they do[118] — manufacturers have good reason to be nervous about suing retailers.

This explanation is not completely satisfactory. Even though retailers as a class are powerful — and some retailers (like Wal-Mart and Costco) have overwhelming leverage over manufacturers — manufacturers could still sue weak individual retailers, such as low-volume and mom-and-pop retailers.[119] Further, manufacturers do sue retailers, such as when retailers' house brands are too close to manufacturers' brands.[120]

Moreover, even if manufacturers avoid suing retailers, this does not fully explain the retailer/online intermediary dichotomy. As explained earlier, online intermediaries are the new power brokers in the distribution chain, and manufacturers do not want to risk retaliation by online intermediaries that could vindictively cut off consumer access.[121] Perhaps manufacturers believe that online intermediaries have

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116. *E.g.*, Johnson & Johnson v. Actavis Group hf, No. 06 Civ. 8209(DLC), 2008 WL 228061 (S.D.N.Y. Jan. 25, 2008) (refusing summary judgment against contract manufacturer because the court had to consider the facts applicable to each of the defendant's retailer-customers).

117. *See* Pan Demetrakakes, *Private-Label Copycats Rankle Big Brands*, PACKAGING, June 1993, at 37, 37 ("[M]any of the look-alike store-brand packages are put out by major retailers, who have clout that other competitors don't have: the ability to deny shelf space to national brands that get too assertive in defending their trade-dress rights.").

118. *See* Hitt, *supra* note 18 (discussing how Universal Product Codes (UPCs) and scanners have shifted power from manufacturers to retailers by increasing retailer knowledge about sales activity); Bob Tedeschi, *Manufacturers Find Ways to Navigate Web Retailing*, N.Y. TIMES, Aug. 13, 2007, at C4 (discussing how some manufacturers are wary of competing directly with retailers by selling their products direct-to-consumers via the web).

119. Such lawsuits may be less attractive to manufacturers because low-volume retailers, by definition, do not engage in as many spillover activities as larger retailers, and low-volume retailers may be less financially solvent as well.

120. *Cf. supra* Part II.C.

121. *See* Oren Bracha & Frank Pasquale, *Federal Search Commission? Access, Fairness and Accountability in the Law of Search*, 93 CORNELL L. REV. 1149, 1167 (2008); *cf.* Doreen Carvajal, *Small Publishers Feel Power of Amazon's 'Buy' Button*, N.Y. TIMES, June 16, 2008, at C7 (relating how Amazon penalized publishers who did not accede to Amazon's preferred revenue splits by removing the "buy" button for those products, making it harder for consumers to actually purchase the books and disabling the books' eligibility for free shipping).

For example, there is some evidence that Google advertisers get help obtaining enhanced placement in search results. *See* Scott Buresh, *Google's Paid Search vs. Organic Results — A Rickety Wall of Separation*, SEARCH ENGINE GUIDE, Nov. 13, 2007, http://www.

more "editorial integrity" than retailers and thus are less likely to engage in manufacturer-specific retribution. Nevertheless, online intermediaries can and do make individualized and subjective judgments about their intermediation.[122] Thus, manufacturers should be as nervous about suing online intermediaries as they are about suing retailers.

4. Hypothesis #4: Retailers and Online Intermediaries Have Legally Significant Differences

This hypothesis is that existing trademark law may permit retailers' brand spillover activities but not permit the activities of online intermediaries.[123]

The First Sale Doctrine

Some retailer brand spillover activities are protected under the first sale doctrine, whereas online intermediaries' analogous activities are not. The first sale doctrine (also called the trademark exhaustion doctrine) prevents a trademark owner from restricting the resale of legitimately acquired goods.[124] The first sale doctrine also allows retailers to advertise the goods they sell, so retailers can advertise branded products as loss leaders even if that advertising actually results in the sale of competitive goods.

In contrast, online intermediaries cannot assert a first sale defense for brand spillovers when they do not vend the advertised goods themselves. Nor can an online intermediary's advertisers claim the first sale doctrine when they buy keywords using competitors' brands but do not actually resell the competitors' goods. Accordingly, the first sale doctrine might explain some aspects of the retailer/online intermediary dichotomy.

However, online intermediaries benefit from the printer/publisher limit on remedies,[125] which loosely parallels first sale protection for retailers. The printer/publisher defense says that an innocent printer or publisher of third-party content or ads (including online printers and

searchengineguide.com/scott-buresh/googles-paid-search-vs-organic-results-a.php. Many manufacturers would not want to risk access to such help.

122. *See* Goldman, *supra* note 75; Randall Stross, *The Human Touch That May Loosen Google's Grip*, N.Y. TIMES, June 24, 2007, at BU3; Saul Hansell, *Inside the Black Box*, N.Y. TIMES, June 3, 2007, § 3, at 1; Matt Cutts: Gadgets, Google, and SEO, The Role of Humans in Google Search, http://www.mattcutts.com/blog/the-role-of-humans-in-google-search/ (June 23, 2007); Andrew Orlowski, *Google Cranks Up the Consensus Engine*, REGISTER, Dec. 12, 2008, http://www.theregister.co.uk/2008/12/12/googlewashing_revisited/.

123. Part IV.B *infra* will advocate for harmonized legal treatment.

124. Prestonettes, Inc. v. Coty, 264 U.S. 359, 359 (1924); Sebastian Int'l, Inc. v. Longs Drug Stores Corp., 53 F.3d 1073 (9th Cir. 1995); 4 MCCARTHY, *supra* note 50, § 25:43.

125. Lanham Act § 32, 15 U.S.C. § 1114(2) (2006).

publishers) is liable only for a future injunction, not damages for past infringements.[126] While the doctrine does not completely eliminate an online intermediary's liability for brand spillovers, the limit on remedies ought to discourage some lawsuits.

Instead, the printer/publisher limit on remedies apparently has not deterred some trademark owners, perhaps because no one is sure how the doctrine applies in the online context.[127] Further, the doctrine only protects "innocent" infringers, and based on differing moral norms about capitalizing on positive externalities,[128] some judges may view brand spillover activities as categorically culpable. Therefore, it remains to be seen whether the printer/publisher doctrine helps online intermediaries as much as the first sale doctrine protects retailers that take advantage of brand spillovers.

Use in Commerce

Retailers' brand spillover activities also may not qualify as a "use in commerce" of manufacturer trademarks, while online intermediaries' activities might. The Lanham Act only applies when a defendant makes a "use in commerce" of a third-party trademark "in connection with the sale, offering for sale, distribution, or advertising of any goods or services."[129] The "use in commerce" requirement has led to confused jurisprudence for online intermediaries[130] for good reason. The Lanham Act has two possibly conflicting definitions:

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126. *Id.*

127. In addition to other ambiguities, the doctrine lacks much interpretive precedent. On July 19, 2008, I searched in Westlaw's ALLCASES database for "1114(2) /p trademark /s (printer publisher)" and got fewer than ten different cases citing the statute, only some of which relate to online litigation.

128. *See, e.g.*, Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEX. L. REV. 1031, 1032 (2005).

129. 15 U.S.C. § 1114(1)(a) (registered marks); *see also* 15 U.S.C. § 1125(a)(1) (unregistered marks); 1-800 Contacts, Inc. v. WhenU.com, Inc., 414 F.3d 400, 410–11 (2005).

130. *See* Eric Goldman, *Online Word of Mouth and Its Implications for Trademark Law*, *in* TRADEMARK LAW AND THEORY: A HANDBOOK OF CONTEMPORARY RESEARCH 404, 414–24 (Graeme B. Dinwoodie & Mark D. Janis eds., 2008); *see also* Graeme B. Dinwoodie & Mark D. Janis, *Confusion Over Use: Contextualism in Trademark Law*, 92 IOWA L. REV. 1597, 1609–14 (2007); Graeme B. Dinwoodie & Mark D. Janis, *Lessons from the Trademark Use Debate*, 92 IOWA L. REV. 1703, 1706–08 (2007); Stacey L. Dogan & Mark A. Lemley, *Grounding Trademark Law Through Trademark Use*, 92 IOWA L. REV. 1669, 1676 (2007).

There have been numerous other articles exploring the problems with the "use in commerce" provision, in some cases addressing the online intermediary issue. *See, e.g.*, Margreth Barrett, *Finding Trademark Use: The Historical Foundation for Limiting Infringement Liability to Uses "In the Manner of a Mark,"* 43 WAKE FOREST L. REV. 893, 897 (2008); Margreth Barrett, *Internet Trademark Suits and the Demise of "Trademark Use,"* 39 U.C. DAVIS L. REV. 371, 382 (2006); Mark P. McKenna, *Trademark Use and the Problem of Source in Trademark Law*, 2009 U. ILL. L. REV. 773; Uli Widmaier, *Use, Liability, and the Structure of Trademark Law*, 33 HOFSTRA L. REV. 603 (2004).

1. A definition of "commerce" that tracks the constitutional definition under the Commerce Clause. This definition effectively eliminates the "use in commerce" element of the plaintiff's prima facie case,[131] with the logical consequence that keyword advertising should always constitute a "use in commerce."

2. A definition of "use in commerce" that implicitly requires consumers to see the trademark being used.[132] Under this definition, keyword advertising would not satisfy the standard if the advertiser's ad copy does not mention the trademark.

Because the statute does not provide adequate guidance for courts to choose between the two definitions, "courts have irreconcilably split" about whether keyword advertising constitutes "use in commerce."[133] As the Second Circuit recently said, "[i]t would be helpful for Congress to study and clear up this ambiguity."[134]

If the "commerce" definition applies, it may not explain the retailer/online intermediary dichotomy because some retailers' brand spillover activities ought to qualify as a "use in commerce." For example, retailers invisibly "use" manufacturer trademarks when they deliberately create shelf adjacencies, knowing that a manufacturer's trademark will draw customers to third-party goods — much like the way online intermediaries create "virtual" adjacencies by displaying third-party ads to consumers "drawn" to a manufacturer's trademark. Yet, no court has deemed shelf space adjacency a use in commerce,[135] while numerous courts have said that "invisible" keyword triggering is a trademark use in commerce.[136] Accordingly, the "use in commerce" doctrinal analysis does not explain the dichotomy.

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131. The definition of "commerce" is "all commerce which may lawfully be regulated by Congress." 15 U.S.C. § 1127. Under this definition, the Lanham Act's scope is co-extensive with Congress's Commerce Clause powers, and Congress can regulate virtually anything related to the Internet under the Commerce Clause.

132. *See id.*; Goldman, *supra* note 130, at 421.

133. Goldman, *supra* note 130, at 428; Goldman, *supra* note 3 (showing that there are about equal numbers of cases supporting each interpretation).

134. Rescuecom Corp. v. Google Inc., No. 06-4881-cv, 2009 WL 875447, at *16 (2d Cir. Apr. 3, 2009).

135. *Cf. id.* at *6 ("It is not by reason of absence of a use of a mark in commerce that benign product placement escapes liability; it escapes liability because it is a benign practice which does not cause a likelihood of consumer confusion.").

136. *See id.* at *4; Hearts on Fire Co. v. Blue Nile, Inc., No. 08cv11053-NG, 2009 WL 794482, at *1 (D. Mass. Mar. 27, 2009); Market Am. v. Optihealth Prods., Inc., No. 1:07CV00855, 2008 WL 5069802, at *6 (M.D.N.C. Nov. 21, 2008); Hysitron Inc. v. MTS Sys. Corp., No. CIV 07-01533 ADM/AJB, 2008 WL 3161969, at *3 (D. Minn. Aug. 1, 2008); Fin. Express LLC v. Nowcom Corp., 564 F. Supp. 2d 1160, 1173 (C.D. Cal. 2008); T.D.I. Int'l, Inc. v. Golf Pres., Inc., No. 6:07-313-DCR, 2008 WL 294531 (E.D. Ky. Jan. 31, 2008); Boston Duck Tours, LP v. Super Duck Tours, LLC, 527 F. Supp. 2d 205, 207 (D. Mass. 2007); J.G. Wentworth, S.S.C. Ltd. P'ship v. Settlement Funding LLC, No. 06-0597, 2007 WL 30115, at *6 (E.D. Pa. Jan. 4, 2007); Buying for the Home, LLC v. Humble Abode, LLC, 459 F. Supp. 2d 310, 323 (D.N.J. 2006); 800-JR Cigar, Inc. v. GoTo.com, Inc., 437 F. Supp. 2d 273, 285 (D.N.J. 2006); Edina Realty, Inc. v. TheMLSonline.com, No. Civ. 04-4371JRTFLN, 2006 WL 737064, at *3 (D. Minn. Mar. 20, 2006); Rescuecom Corp. v.

No Consumer Confusion

Consumer confusion is a central requirement of trademark infringement, and another possible explanation for the dichotomy is that consumers are confused by online brand spillovers but not retailer spillovers. This explanation has some support. When consumers encounter competitive options bearing distinguishable brands on the same store shelf, consumers choosing between the options should be able to understand the relative relationship between the two products. In contrast, consumers may not clearly understand technological activities like keyword triggering.[137]

However, even if consumers do not understand why they are seeing a keyword-triggered ad, they may still be clear about the relationship between the various brands — especially when the advertiser's ad copy displays its own brand.[138] In that circumstance, the consumers are presented with information about competing brands among which they can select, just like the side-by-side retail shelf presentation of competing brands. However, even without that display, we should not automatically assume consumer confusion.[139] Further, as I will discuss below, there is no reason to believe that consumers have a clearer understanding of retailing practices than of online intermediation.

Computer Troubleshooters USA, Inc., 464 F. Supp. 2d 1263, 1266–67 (N.D. Ga. 2005); GEICO v. Google, Inc., 330 F. Supp. 2d 700, 703 (E.D. Va. 2004).

If the ad copy displays the manufacturer's trademark, then courts agree that the trademark display is a trademark "use in commerce." *E.g.*, Hamzik v. Zale Corp./Del., No. 3:06-cv-1300, 2007 WL 1174863, at *4 (N.D.N.Y. Apr. 19, 2007) (holding that third-party trademark reference in ad copy is a trademark use in commerce, even if using the trademark as a keyword trigger — without more — is not).

137. In two of the leading keyword triggering cases, plaintiffs introduced evidence that consumers did not understand the keyword triggering process. In the 2003 *1-800 Contacts v. WhenU.com* case, the plaintiff introduced survey evidence that a majority of surveyed consumers mistakenly thought (1) adware-delivered pop-ups were delivered by the underlying websites, and (2) those websites had prescreened and approved the ads. 309 F. Supp. 2d 467, 499–500 (S.D.N.Y. 2003), *rev'd*, 414 F.3d 400 (2d Cir. 2005). In the 2004 *Playboy Enterprises v. Netscape Communications* case, the plaintiff introduced survey evidence that a majority of searchers for the term "playboy" thought Playboy Enterprises sponsored or was affiliated with the keyword-triggered third-party ads. 354 F.3d 1020, 1026 (9th Cir. 2004). Both surveys were ultimately subject to significant criticism by the courts and given diminished weight, but directionally they might provide some evidence that consumers did not understand why they were seeing the material presented to them.

138. Ironically, Google's trademark policy allows trademark owners to block references to their trademarks in third-party advertisers' ad copy, which arguably may exacerbate any consumer confusion about the relationship between the advertiser and the trademark owner. Google, AdWords Trademark Complaint Procedures, *supra* note 97; *see* Soghoian, *supra* note 97.

139. In a slightly analogous context, consumers had a surprisingly good grasp on ambush marketing efforts — where a marketer tries to associate itself with a sporting or other live event without paying to become an official sponsor. Anita M. Moorman & T. Christopher Greenwell, *Consumer Attitudes of Deception and the Legality of Ambush Marketing Practices*, 15 J. LEGAL ASPECTS SPORT 183, 203 (2005); *see* Steve McKelvey, NHL v. Pepsi-Cola Canada, *Uh-Huh! Legal Parameters of Sports Ambush Marketing*, ENT. & SPORTS LAW., Fall 1992, at 5, 5.

5. Hypothesis #5: Cyberspace Exceptionalism

As this discussion illustrates, the four prior hypotheses each offer partial explanations of the retailer/online intermediary dichotomy, but no single hypothesis is fully satisfactory. There remains one other hypothesis to consider: perhaps the dichotomy is a doctrinal anomaly that lacks analytical support.

If so, what caused this anomaly? To me, the retailer/online intermediary dichotomy looks like "cyberspace exceptionalism," the development of Internet-specific legal rules that treat the Internet as unique, special, or different from existing media.[140] Sometimes, cyberspace exceptionalism reflects bona fide differences between the Internet and other media; more often, cyberspace exceptionalism is a factually or logically unsupportable overreaction to exaggerated differences.

Keyword triggering seems especially susceptible to cyberspace exceptionalism. After all, the triggering process is unfamiliar and poorly understood, which naturally leads to suspicion. Over time, consumers and judges will better understand keyword triggering technologies and other online intermediary spillover practices. But for now, most people probably find it vaguely mysterious.

In contrast, retailers' brand spillover practices have been widely used for years (and in some cases decades), so superficially they may seem familiar and "typical" to consumers and judges. Yet, in fact, consumers often do not actually understand retailers' merchandising practices any better than they understand keyword triggering,[141] either because the practices are relatively recent or unknown — such as slotting fees and category management — or because consumers simply do not think about them. As with keyword triggering, certain merchandising innovations have generated some policy angst,[142] but they have not produced the same kind of overt regulatory responses.

Some people may also feel that keyword triggering is inherently unfair to the trademark owner, especially if they assume that a consumer using a trademarked search term is looking for the trademark owner. Based on this assumption, a competitor trying to take advantage of the consumer's apparently expressed interest in the trademark

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140. Julie E. Cohen, *Cyberspace as/and Space*, 107 COLUM. L. REV. 210, 210–11 (2007); H. Brian Holland, *In Defense of Online Intermediary Immunity: Facilitating Communities of Modified Exceptionalism*, 56 U. KAN. L. REV. 369, 276 (2008); Posting of Eric Goldman to Technology & Marketing Law Blog, The Third Wave of Internet Exceptionalism, http://blog.ericgoldman.org/archives/2009/03/the_third_wave.htm (Mar. 11, 2009).

141. *See* Hanson & Kysar, *supra* note 17, at 1447; Widmaier, *supra* note 130, at 684–85.

142. For example, the emergence of slotting allowances led to several Congressional hearings and Federal Trade Commission workshops. FTC, REPORT ON THE FEDERAL TRADE COMMISSION WORKSHOP ON SLOTTING ALLOWANCES AND OTHER MARKETING PRACTICES IN THE GROCERY INDUSTRY 1–2 (2001), *available at* http://www.ftc.gov/os/2001/02/slottingallowancesreportfinal.pdf.

owner seems to be "stealing" the customer.[143] However, this assumption is unquestionably incorrect; many consumers entering a trademarked search term may not be looking for the trademark owner's goods or services.[144] As a result, fears about consumer "poaching" are both factually misguided and exactly the kind of overreaction that spurs cyberspace exceptionalism.

Even if consumer "poaching" was a bona fide concern, it is hardly a new phenomenon in cyberspace. As described in Part II.A, for decades, retailers have used third-party trademarks to redirect consumers for their profit (and the profit of other manufacturers) with negligible response from trademark owners.

The most compelling evidence supporting cyberspace exceptionalism is the absence of trademark challenges to grocery stores' in-store delivery of trademark-triggered coupons for third-party manufacturers. Like keyword triggering, these couponing systems surreptitiously use manufacturers' trademarks to display competitive advertising to consumers. If the coupons work as intended, they divert consumers' future purchases from a loyal brand to a competitive interloping brand. Yet, in contrast to keyword triggering, trademark owners and legislatures have seemingly acquiesced to these couponing systems.[145] Why the radically different treatment?[146]

This Section has explored several possible explanations for the retailer/online intermediary dichotomy. Each hypothesis helps explain certain aspects of the dichotomy, but I believe the only fully satisfying explanation is cyberspace exceptionalism. The next Section explores ways to rectify the exceptionalism.

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143. Utah State Senator Dan Eastman, sponsor of Utah's 2007 anti-keyword triggering law, describes keyword triggering as a type of corporate identity theft and says that keyword triggering leads to consumers being "shanghaied" and "carjacked." Posting of Dan Eastman to The Senate Site, Identity Theft: The Next Generation, http://senatesite.com/blog/2007/04/identity-theft-next-generation.html (Apr. 5, 2007).

144. Eric Goldman, *Deregulating Relevancy in Internet Trademark Law*, 54 EMORY L.J. 507, 521–25 (2005) (describing the myriad of possible meanings when a consumer uses a trademark as a search keyword). In some cases, consumers use the trademark to describe the class of goods that include the trademark, such as using Kleenex as a proxy for tissues. *See id.*; Posting of James Grimmelmann to The Laboratorium, Ben Edelman Gets It Wrong on Utah H.B. 450, http://www.laboratorium.net/archive/2009/03/10/ben_edelman_gets_it_wrong_on_utah_hb_450 (Mar. 10, 2009).

145. *See supra* note 70.

146. One obvious difference is that the coupon is delivered after the consumer's purchase of the trademark owner's good. This means that the consumer has already sorted between marketplace options to some degree, and the transaction is complete. In contrast, the online intermediary might be diverting a consumer while the transaction is still up for grabs. However, trademark owners might be even more incensed about the post-purchase delivery because the coupon is trying to divert future purchases of a consumer who has already demonstrated his interest in the brand.

B. A Harmonized Brand Spillover Law for Intermediaries

This Article assumes that harmonization of brand spillover law for intermediaries is desirable.[147] Given that unwarranted exceptionalism towards online brand spillovers seems to explain the retailer/online intermediary dichotomy, how should we correct the exceptionalism? Should the policy be more like the offline retailer standard, where taking advantage of brand spillovers does not create liability, or should it look more like the online standard, which is veering towards imposing liability?

The answer depends on the way that intermediaries (those mediating the manufacturer-consumer relationship) contribute to the efficient functioning of the marketplace. In a world of perfect information and zero transaction costs, intermediaries should be unnecessary. Manufacturers and consumers would deal directly with each other, and neither would want to compensate an intermediary for facilitating the match.

However, in a world filled with transaction costs, intermediaries offer a variety of valuable services to both manufacturers and consumers, such as the ability to accept returns more efficiently than manufacturers, economies of scale in shipping goods to particular geographical areas, and local storage of goods that makes products available on demand.[148]

1. Retailers as Search Cost Managers

Retailers also reduce manufacturer-consumer transaction costs by satisfying the needs of consumer niche markets more cheaply than manufacturers can. Determining consumer needs is costly; it includes costs to aggregate data, analyze it, and respond to identified needs. For manufacturers trying to cater to multiple, diverse, and far-flung consumer segments, it can be cost-prohibitive to learn and understand the needs of every consumer niche, especially small niches. In contrast, retailers can cater to consumer niches, such as specific geographies or industries. Additionally, retailers can spread consumer research costs across multiple manufacturers. As a result, retailers

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147. *Cf.* Mark A. Lemley, *Rationalizing Internet Safe Harbors*, 6 J. ON TELECOMM. & HIGH TECH. L. 101 (2007) (advocating harmonized safe harbors across various online IP claims).

148. Sarkar et al., *supra* note 75 (stating that intermediary-provided services include "search and evaluation," "needs assessment and product matching," "customer risk management," "product distribution," "product information dissemination," "purchase influence," "provision of customer information," "producer risk management," "transaction economies of scale," and "integration of consumer and producer needs").

often can learn about and satisfy the needs of consumer niches more cost-effectively than manufacturers.[149]

By understanding the needs of their consumers, retailers can provide valuable services to these consumers as well. Consumers suffer from several information problems when trying to make marketplace decisions,[150] including having too much and too little information.[151] Retailers can use specialized knowledge about their customers' needs to provide information that will help consumers make decisions[152] — and as retailers do a better job performing this function, they increase their profits as well. Thus, retailers also add value to the distribution chain by helping consumers reduce their search costs.[153]

Retailers' taxonomical decisions about where and how to place products are one of the main ways they help reduce consumer search costs.[154] Typically, retailers put functionally similar products physically adjacent to each other, but retailers could — and occasionally do — use alternative organizational schemes if they are more effective for consumers.[155]

Now, what if retailers could not make taxonomical or other placement decisions unilaterally, based on their own assessments of their consumer needs? To see how limited retailer placement discretion could hurt consumers, consider what would happen if trademark law forced retailers to reduce brand spillovers by using alternative taxonomies such as the following:

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149. *Id.* ("[R]etail intermediaries implicitly provide information processing services by aggregating demand information from a variety of local markets.").

150. Vincent-Wayne Mitchell et al., *Towards a Conceptual Model of Consumer Confusion*, 32 ADVANCES CONSUMER RES. 143, 146 (2005) (proposing a typology of consumer confusion that includes "similarity confusion," "overload confusion," and "ambiguity confusion").

151. For discussion about consumers' problems with information overload in retail environments, see BARRY SCHWARTZ, THE PARADOX OF CHOICE 133 (2004), providing an interesting example of a retailer who sold more jam by offering six varieties instead of twenty four. *See also* Jacob Jacoby et al., *Brand Choice Behavior as a Function of Information Load*, 11 J. MARKETING RES. 63 (1974) (describing an experiment tending to show that consumers make poorer purchase decisions with more information).

152. Sarkar et al., *supra* note 75 ("[I]ntermediaries can provide a valuable service by helping customers determine their needs.").

153. *Id*.

154. *See* SOLOMON, *supra* note 27, at 320 ("If products do not clearly fit into categories (e.g., is a rug furniture?), consumers' ability to find them or make sense of them may be diminished."); UNDERHILL, *supra* note 19, at 203 (noting that product adjacencies are "about order — coming up with a sensible, logical sequence of products"); WEINBERGER, *supra* note 18, at 5–6, 61–62 (explaining, among other things, why physical space retailers cannot stock the same good in multiple taxonomical nodes).

155. *See, e.g.*, WEINBERGER, *supra* note 18, at 231–33 (describing a novelty store with no seeming organization to its offerings); F. Gregory Lastowka, Note, *Search Engines, HTML, and Trademarks: What's the Meta for?*, 86 VA. L. REV. 835, 859 (2000) (discussing how a store could organize its goods by throwing random goods into bins and forcing consumers to sort through the bins).

By brand. If trademark owners were concerned about brand adjacencies, they could require retailers to segregate their brand from others so that brand-loyal consumers could find their products in a single grouping.

Brand-based organization would not be unprecedented.[156] Music stores and bookstores often organize their offerings alphabetically by artist/author name (at least, within broad topical categories); some clothing retailers establish dedicated areas for clothes from a particular clothing manufacturer;[157] and art galleries may organize the works by artist.

Other retailers could adopt a brand-based organizational scheme to reduce brand spillovers. For example, a grocery store could put all of the Del Monte-branded products next to each other, followed by the group of Dole-branded products. A brand-based taxonomy would ensure that competitive brands are physically segregated, reducing the risk of diversion between competitive brands.[158]

Further, brand-based organization might reduce search costs for consumers with established brand loyalties who are shopping in unfamiliar stores.[159] A consumer looking for Coca-Cola could go to the "C" section rather than searching for the beverages aisle.

On the other hand, brand-based organization would frustrate consumers without brand loyalty. If these consumers did not know any brands in the product category, where would they start? This organization would also thwart any consumers who want to compare prod-

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156. Gray v. Meijer, Inc., 295 F.3d 641, 644 (6th Cir. 2002) (relating how a grocery store organized products by source so that house brands were segregated from third-party branded products.). I am not addressing retailers who carry the product line of a single manufacturer or a limited handful of manufacturers.

157. *Cf.* AutoZone, Inc. v. Tandy Corp., 373 F.3d 786, 790 (6th Cir. 2004) (stating that Radio Shack created "store[s] within a store" organized by manufacturer and incorporating the manufacturer's brand, such as a "Sprint Communications Store, an RCA Digital Entertainment Center, a Microsoft Information Center, and a Compaq Creative learning center").

158. *Gray*, 295 F.3d at 650:

> As Gray contended, Meijer [the retailer] controlled the placement of the products, and it chose to put Gray's product with other independent brands and its own product with other Meijer products. Though popcorn was in the same basic area, I agree with the district court in the importance of the placement of the products, as it can naturally be inferred that if Meijer had sought to confuse and trade-off Gray's popcorn brand, then it would have placed them side-by-side rather than surround its popcorn with other Meijer products, which clearly indicates that all products in that section are Meijer products. As the district court concluded, "[a] purchaser with even a minimal degree of care and sophistication would not reasonably believe that the Grays' [sic] popcorn product was placed alone amidst a sea of Meijer's private label products. The placement of the products minimizes the likelihood of confusion between the products. This factor favors Meijer.

Id.

159. Sixty percent of Staples customers do not know where their desired products are located in the store. *See* WEINBERGER, *supra* note 18, at 2.

ucts on price or other attributes. To do so, they would have to traipse through the store to find comparable items (assuming they knew the relevant brands), making side-by-side comparison difficult. Consumers buying multiple goods in the same trip would find this exercise exasperating.[160]

By price. As an alternative example, trademark owners could push retailers to organize their products by price from low to high or vice versa. A price-based retailing taxonomy would eliminate retailers' ability to benefit from price differentials to divert consumers from heavily branded products to cheaper house brands.[161]

Unlike brand-based organization, price-based organization is uncommon among physical space retailers. Some retailers charge a flat price for all items in the store (such as dollar stores), and others may arrange products by price within specific product categories.[162] However, I have not found any physical space retailers that organize their products entirely by price.[163]

There may be good reasons for this. A price-based organization probably would not be popular with consumers. Consumers who have strong brand preferences will incur extra search costs trying to map their desired brands to the retailer's price. Meanwhile, consumers would also struggle to comparison shop because of the difficulty finding comparable items.

I am not aware of any trademark owners advocating for either brand-based or price-based organization. However, conceptualizing the problems associated with alternative taxonomical schemes reminds us how much consumers depend on retailers to develop sensi-

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160. *See id.* at 24–45 (discussing the limits of alphabetization as an organizational scheme including, for example, the likelihood that manufacturers would try to game an alphabetical scheme by front-loading all their product names into "A," just like Yellow Pages advertisers do).

161. The retailer could still put higher-margin house brands next to lower-margin branded products by setting the same price for both. However, if there is no price differential between the two goods, the likelihood of consumer diversion to the house brand should drop substantially.

162. This may be an example of the framing effect. A higher-priced product may make the cheaper product look like a comparative bargain. Psychologist Barry Schwartz gives a good example of this. A catalog offering a $279 bread maker later added a new $429 bread maker. The catalog sold relatively few $429 bread makers, but sales for the $279 bread maker almost doubled. SCHWARTZ, *supra* note 151, at 62; *see* Brian Bergstein, *Software Helps Retailers Set Prices for Maximum Profit*, WASH. POST, May 20, 2007, at A09 (describing a retailer who initially offered three drills, priced $90, $120 and $130; by cutting the $120 drill to $110, the sales of the $90 drill dropped 4% and the $110 drill rose 11%).

163. Putting aside the consumer inefficiencies, a price-based organizational scheme would have other inefficiencies in a grocery store context, such as how frozen or refrigerated items might be stocked.

In contrast, price-based organization can and is done online. For example, Amazon organizes its digital music download offerings into price-based categories. Amazon.com: Special MP3 Deals, http://www.amazon.com/MP3-Deals/b/ref=?ie=UTF8&node=678551011 (last visited May. 15, 2009) (left hand column categorizes music by genre and then subcategorizes by price).

ble and efficient organizational systems that facilitate consumer decision-making[164] — including using brand spillovers as part of the taxonomical options. Indeed, while not every retailing practice improves the efficiency of consumer shopping, retailers compete in part on the efficiency of their taxonomical organizations,[165] and they can suffer marketplace consequences when they degrade consumer efficiency.[166]

2. Online Intermediaries as Search Cost Managers

When retailers create sensible and logical product adjacencies, they provide search cost management services to consumers. However, they are not the only search cost managers in our economy. Instead, every intermediary between manufacturers and consumers necessarily provides search cost management services.

In particular, online intermediaries also act as search cost managers for consumers.[167] Just as retailers compete with each other on the efficiency of their taxonomical organization, search engines compete to deliver search results that resolve consumers' needs more efficiently.[168] This competition has the socially beneficial effect of lowering consumer search costs.[169] And just as retailers may choose to use brand spillovers as part of their search cost management toolkit,

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164. *See* WEINBERGER, *supra* note 18, at 51–52 (explaining that poor organizational schemes effectively obscure some entries sufficient to make them invisible).

165. *See id.* at 1 (explaining that Staples organizes its products as it does "because that's what our customers told us they want"); UNDERHILL, *supra* note 19, at 203 (mentioning an Italian supermarket that organizes its products by meal, i.e., all dinner items grouped together).

166. For example, when grocers put staples like milk and eggs at the back of the store, convenience stores can capture market share by positioning those products more conveniently. *Id.* at 82. In response, some grocery stores created a "shallow loop" where the staples are positioned upfront to compete more effectively with the convenience stores. *Id*.

167. Yannis Bakos, *The Emerging Landscape for Retail E-Commerce*, J. ECON. PERSPECTIVES, Winter 2001, at 69, 70; Mark S. Nadel, *The Consumer Product Selection Process in an Internet Age: Obstacles to Maximum Effectiveness and Policy Options*, 14 HARV. J.L. & TECH. 183, 186 (2000); Sarkar et al., *supra* note 75.

168. *See* Goldman, *supra* note 75, at 197; Geeking with Greg, Marissa Mayer at Web 2.0, http://glinden.blogspot.com/2006/11/marissa-mayer-at-web-20.html (Nov. 9, 2006) (describing how Google tried increasing the number of search results on the page but reversed the change because the added results slightly slowed down page delivery, which substantially decreased consumer searching).

169. *See* Pasquale, *supra* note 76; WEINBERGER, *supra* note 18, at 6 (explaining why online organization of goods is better than what is possible in the physical world).

However, some commentators do not believe that there is "competition" among search engines given Google's high market share. *See, e.g.*, Charles Cooper, *So When Do We Get It Over With and Declare Google a Monopoly?*, CNET NEWS, July 22, 2008, http://news.cnet.com/8301-10787_3-9996710-60.html. Despite this, I still believe that the search engine marketplace is robust enough to force Google to compete on search cost management. *See* Goldman, *supra* note 75, at 198.

online intermediaries may use brand spillovers, such as keyword triggering, to reduce consumer search costs.[170]

3. Brand Spillovers and Trademark Policy

By definition, brand spillovers are a positive externality — intermediaries and third-party manufacturers derive economic benefits from assets developed by trademark owners. According to neoclassical economics, trademark owners will underinvest in their trademarks because they are not receiving the full economic benefit from their investments.[171] To prevent this putative underinvestment, keyword triggering and all other brand spillover activities, such as the retailer activities described in Part II.B, could be designated as trademark infringement.

On the other hand, designating brand spillovers as trademark infringement may be unnecessary. As Frischmann and Lemley recently explained, not every spillover needs internalization, and it can be socially inefficient to attempt to correct all spillovers.[172] Indeed, brand spillovers have been a successful and essential part of our retailing economy for decades, and there is no evidence that they have caused trademark owners to diminish their brand investments in any way.

Furthermore, restricting brand spillovers could harm the overall information flows that consumers need to make marketplace choices.[173] As discussed above, intermediaries compete with each other to lower consumer search costs, and brand spillovers are one of the cost-reduction tools in the intermediaries' toolkits. If using brand spillovers was a trademark infringement, then it would remove some discretion from intermediaries about how to manage brand spillovers and vest that decision-making power with trademark owners. It is hard to see how letting trademark owners decide how to present information would improve the results for consumers or the market.[174] As discussed above, trademark owners do not have the expertise about consumer preferences that entities lower down in the distribution chain have. It seems likely that trademark owners would simply use their monopolistic powers to increase their wealth at the expense of everyone else in the chain.

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170. The fact that keyword triggering presents ads rather than editorially selected search results is immaterial to this inquiry. Indeed, Google's ad ranking formula takes into consideration the quality and relevancy of the ads. *See* Google, *supra* note 87.

171. Brett M. Frischmann & Mark A. Lemley, *Spillovers*, 107 COLUM. L. REV. 257, 283 (2007).

172. *Id.* at 300; Lemley, *supra* note 128.

173. *Cf.* David W. Barnes, *Trademark Externalities*, 10 YALE J.L. & TECH. 1 (2007) (discussing the value of uninternalized trademark externalities).

174. *See* Goldman, *supra* note 75, at 197–98; *see also* WEINBERGER, *supra* note 18, at 132–33 (discussing the problems with ownership rights in organizational structures).

Thus, if brand spillovers constituted trademark infringement, the result may be higher consumer search costs,[175] which would reduce economic welfare across society. This would be a counterintuitive result. We typically justify trademark law for its salutary effect on consumer search costs,[176] but regulation could produce the directly opposite result. For trademark law to accomplish its goal, it should tolerate brand spillovers.[177]

V. CONCLUSION

Technology exceptionalism is hardly new. In fact, during the early stages of a technology's adoption, exceptionalism is practically inevitable.[178] However, unwarranted technology exceptionalism can seriously distort policy-making, so each instance requires rigorous scrutiny.

The reaction to keyword triggering appears to be a textbook case of misplaced exceptionalism. Retailers engage in similar behavior offline but their behavior has been completely immune from trademark scrutiny. Nevertheless, it has proven almost irresistible to characterize the Internet as somehow unique, special, or different and therefore to overlook the analogous well-settled offline rules.

This temptation may be understandable, but that does not make the results any less pernicious. Intermediaries can add value in the distribution chain by helping consumers reduce their search costs, and third-party trademarks provide an essential tool to facilitate that goal. As a result, preventing intermediaries from using third-party trademarks as a merchandising aid hinders their ability to function as search cost managers. We all lose in this process: intermediaries become less valuable to consumers; consumers face increased search costs; and society as a whole suffers reduced wealth from the increased search costs. The appropriate resolution is for trademark law to accept brand spillovers, both online and offline.

175. *See* Stacey L. Dogan & Mark A. Lemley, *A Search-Costs Theory of Limiting Doctrines in Trademark Law*, 97 TRADEMARK REP. 1223 (2007).

176. *E.g.*, Stacey L. Dogan & Mark A. Lemley, *Trademarks and Consumer Search Costs on the Internet*, 41 HOUS. L. REV. 777 (2004).

177. Even so, some classes of brand spillovers are — and should be — regulated by other legal doctrines, such as the prohibition of bait-and-switch under consumer protection laws.

178. *See* Peter Huber, *Safety and the Second Best: The Hazards of Public Risk Management in the Courts*, 85 COLUM. L. REV. 277 (1985) (arguing that courts overreact to the risks of new technologies).