

INTERNET THEORY, TECHNOLOGY AND APPLICATIONS

# Internet Advertising and Sales



Laura S. Ilves  
Editor

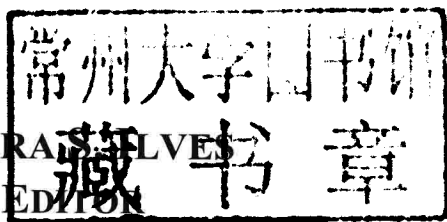
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# INTERNET ADVERTISING AND SALES

LAURA SELVES  
EDITION



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## PREFACE

Many website operators produce income by selling advertising space on their sites. Advertisers will pay a premium for ads that are more likely to reach their target demographic. In other media, such as broadcasting, advertisers engage in targeting by purchasing advertising time during programs that those who buy their products are most likely to watch. The Internet presented new challenges and opportunities for advertisers, because, rather than aiming their ads at groups of people who visit a particular site, their ads are aimed at the individual user. This maximizes the odds that the user who sees the ad will be interested in the product or service it touts. This book explores today's current issues in Internet advertising and sales.

Chapter 1- The use of trademarks in connection with Internet-based advertising has sparked disputes between trademark owners, advertisers, and Internet search engine operators over whether such activity violates federal trademark law. Specifically, trademark owners have expressed concern over the sale of their trademarks by Internet search engines to third parties that want to have “banner” advertisements, “sponsored links,” or “sponsored results” appear on a search results Web page when those trademarked words are entered as a search query. For example, the shoe company Reebok may purchase the trademark “Nike” from the Internet search engine Google as a “keyword.” If a consumer conducts a search for the term “Nike” on Google’s website, the consumer would be presented with paid advertisements for Reebok’s products in the right-hand margin of the Web page immediately next to the search results for Nike’s shoes and apparel.

Chapter 2- Chairman Gonzalez, Ranking Member Westmoreland, and members of the Subcommittee — thank you very much for inviting me to testify on the impact of online advertising on small firms. I am the President

and Chief Executive Officer of the Interactive Advertising Bureau (IAB), the trade association for ad-supported interactive media in the United States. IAB's more than 350 members account for about 86 percent of the interactive advertising sold in the U.S. Our members include the great names of the online and offline media world — Google, Yahoo, AOL, MSN, The New York Times, Time Inc., CBS, and Walt Disney among them. However, the majority of our members, 61 percent, are small businesses, earning less than \$1 million annually in advertising revenue, and employing fewer than 50 people.

Chapter 3- I sincerely appreciate the opportunity to submit this testimony to the members of Congress. It is my hope that my comments will aid you in making an informed decision about this very important topic.

There is not a doubt in my mind that advertising on the Internet is a fantastic thing for small business people here in the United States of America as well as the entire developed world. I say this for several reasons; my own small business has thrived as online advertising has become more refined, I know personally scores of small businesses that are highly successful because of online advertising and in the last few days I reached out to my own newsletter subscribers to poll them about the impact that online ads are having in their businesses.

Chapter 4- To produce revenue, websites have placed advertisements on their sites. Advertisers will pay a premium for greater assurance that the advertisement they are purchasing will be seen by users that are most likely to be interested in the product or service offered. As a result, technology has been developed which enables online advertisements to be targeted directly at individual users based on their web surfing activity. This practice is widely known as “behavioral” or “e-havioral” advertising.

Chapter 5- In May 2009, Chairman Rockefeller launched an investigation into a set of controversial e-commerce business practices that have generated high volumes of consumer complaints. Since that time, Commerce Committee staff has been investigating three Connecticut-based direct marketing companies – Affinion, Vertrue, and Webloyalty – as well as the hundreds of online websites and retailers that partner with these three companies to sell club memberships to online shoppers. Although this investigation is not yet complete, it is clear at this point that these three companies use highly aggressive sales tactics to charge millions of American consumers for services the consumers do not want and do not understand they have purchased.

Chapter 6- In November 2009, Chairman Rockefeller released a Committee staff report and held a hearing which showed that three Connecticut-based companies – Affinion, Vertrue, and Webloyalty – used a

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set of online sales tactics to charge millions of consumers over a billion dollars for membership clubs and services the consumers did not want and were unaware they had purchased. The hearing and staff report presented the initial findings of an investigation Chairman Rockefeller opened in May 2009, after learning that many consumers, law enforcement officials, and consumer advocates had alleged that Affinion, Vertrue, and Webloyalty's business practices were misleading and deceptive.



# CONTENTS

<b>Preface</b>		<b>vii</b>
<b>Chapter 1</b>	Use of Trademarks as Keywords to Trigger Internet Search Engine Advertisements <i>Brian T. Yeh</i>	<b>1</b>
<b>Chapter 2</b>	Testimony of Randall Rothenberg, President and Chief Executive Officer of the Interactive Advertising Bureau, before the Subcommittee on Regulations, Healthcare and Trade, Hearing on “The Impact of Online Advertising on Small Firms”	<b>25</b>
<b>Chapter 3</b>	Testimony of Tim Carter, AsktheBuilder.com, before the Subcommittee on Regulations, Healthcare and Trade, Hearing on “The Impact of Online Advertising on Small Firms”	<b>35</b>
<b>Chapter 4</b>	Privacy Law and Online Advertising <i>Kathleen Ann Ruane</i>	<b>43</b>
<b>Chapter 5</b>	Aggressive Sales Tactics on the Internet and their Impact on American Consumers <i>Chairman Rockefeller</i>	<b>61</b>
<b>Chapter 6</b>	Supplemental Report on Aggressive Sales Tactics on the Internet <i>Chairman Rockefeller</i>	<b>103</b>
<b>Chapter Sources</b>		<b>131</b>
<b>Index</b>		<b>133</b>

*Chapter 1*

# **USE OF TRADEMARKS AS KEYWORDS TO TRIGGER INTERNET SEARCH ENGINE ADVERTISEMENTS**

*Brian T. Yeh*

## **SUMMARY**

The use of trademarks in connection with Internet-based advertising has sparked disputes between trademark owners, advertisers, and Internet search engine operators over whether such activity violates federal trademark law. Specifically, trademark owners have expressed concern over the sale of their trademarks by Internet search engines to third parties that want to have “banner” advertisements, “sponsored links,” or “sponsored results” appear on a search results Web page when those trademarked words are entered as a search query. For example, the shoe company Reebok may purchase the trademark “Nike” from the Internet search engine Google as a “keyword.” If a consumer conducts a search for the term “Nike” on Google’s website, the consumer would be presented with paid advertisements for Reebok’s products in the right-hand margin of the Web page immediately next to the search results for Nike’s shoes and apparel.

Whether the use of trademarks as “keywords” that trigger such online advertisements constitutes actionable trademark infringement is a question that has been the subject of much litigation over the past five years. However, to

date there have been very few final court rulings on the legality of keyword advertising; most cases have involved rulings from judges on procedural pre-trial motions filed by the parties. The primary issue for these courts was not whether the trademark owner would prevail in a lawsuit brought against a keyword seller (search engines) or keyword buyer (advertisers), but whether the plaintiff was entitled to proceed to trial to offer evidence in support of the trademark infringement claim. For example, most courts have had to answer a threshold question about whether a trademark owner would be able to overcome defense motions to dismiss the case for failure to state a claim for relief, on the grounds that the use of a trademark as a paid keyword is not a “use in commerce” within the meaning of the Lanham Act. Until recently, there was a split in opinion among the federal courts in different circuits concerning this question. The April 2009 decision of the U.S. Court of Appeals for the Second Circuit in *Rescuecom Corp. v. Google, Inc.* resolved the circuit conflict in favor of a determination that the use of a trademark as a keyword trigger (or facilitating such use) *does* constitute a “use in commerce” for purposes of the Lanham Act. However, establishing that a defendant uses another’s mark in commerce is only one element of the infringement claim; for a violation of the Lanham Act to be found, such use must be likely to cause consumer confusion or mistake as to the origin, sponsorship, or approval of the goods or services offered by the defendant. So far, there is a lack of judicial consensus on this second element, and thus the legality of using trademarks for keyword-triggered advertising remains unsettled.

This chapter provides a summary and analysis of judicial opinions that have developed the current state of trademark law governing keyword-triggered advertising.

## INTRODUCTION

Internet search engine<sup>1</sup> operators such as Google, Microsoft, and Yahoo generate significant revenue by selling words or phrases (referred to as “keywords”) that trigger paid advertisements that appear on their search result Web pages. There has been much litigation over the past five years concerning the sale or purchase of trademarks as keywords to trigger sponsored search engine results. Federal courts have struggled to determine whether such trademark usage constitutes actionable trademark infringement. This chapter

first provides a brief general overview of trademark law and then reviews court opinions in this rapidly changing area of law.

## **BACKGROUND**

A “trademark” is any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant (1) to indicate the source of his or her goods or services and (2) to identify and distinguish the goods or services from those offered by others.<sup>2</sup> The principal federal statute governing trademarks is the Trademark Act of 1946 (conventionally known as the Lanham Act).<sup>3</sup> Unlike the other major branches of intellectual property law (copyright and patent), the constitutional basis for federal trademark law is not the Intellectual Property (IP) Clause of the U.S. Constitution, but rather the Commerce Clause.<sup>4</sup>

Under the Lanham Act, a merchant or manufacturer that wants to use a particular word or symbol (referred to as a “mark” in trademark law parlance) in association with a product or service must register the mark with the U.S. Patent and Trademark Office to obtain federal protection for the mark.<sup>5</sup> The Lanham Act provides a trademark owner with the right to prevent business competitors from using that mark.<sup>6</sup> The purpose and benefits of trademark law have been described by the U.S. Supreme Court as follows:

In principle, trademark law, by preventing others from copying a source-identifying mark, reduces the customer’s costs of shopping and making purchasing decisions ... for it quickly and easily assures a potential customer that this item – the item with this mark – is made by the same producer as other similarly marked items that he or she liked (or disliked) in the past. At the same time, the law helps assure a producer that it (and not an imitating competitor) will reap the financial, reputation-related rewards associated with a desirable product. The law thereby encourages the production of quality products ... and simultaneously discourages those who hope to sell inferior products by capitalizing on a consumer’s inability quickly to evaluate the quality of an item offered for sale.<sup>7</sup>

## Trademark Infringement

The trademark owner may pursue several federal private causes of action to prevent, and obtain damages for, unauthorized uses of the trademark (called “infringement”).<sup>8</sup> The following sections of the Lanham Act govern federal trademark infringement claims:

- Section 32(1): “Any person who shall, without the consent of the registrant—use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive ... shall be liable in a civil action by the registrant....”<sup>9</sup>
- Section 43(a): “Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which—is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person ... shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.”<sup>10</sup>

In order to establish a violation of either Section 32(1) or Section 43(a) of the Lanham Act, the trademark owner (plaintiff) must demonstrate that the following elements are satisfied:

1. The plaintiff possess a mark that is valid and protectable under the Lanham Act.
2. The defendant used the mark in commerce in connection with any goods or services without the consent of the plaintiff.
3. The defendant’s use of the mark is likely to cause consumer confusion concerning the origin or sponsorship of the goods or services.<sup>11</sup>

The first element is typically straightforward for the plaintiff to show. According to the Lanham Act, a certificate of registration issued by the U.S.

Patent and Trademark Office serves as “prima facie evidence of the validity of the registered mark and of the registration of the mark, of the registrant’s ownership of the mark, and of the registrant’s exclusive right to use the registered mark in commerce on or in connection with the goods or services specified in the certificate.”<sup>12</sup>

The second prerequisite to establish a defendant’s liability is to show that the defendant’s use of the plaintiff’s trademark is a commercial use of the mark as a trademark—that is, the defendant used the mark “in commerce,” in connection with the sale of goods or services.<sup>13</sup> However, this second element has caused courts interpretive difficulties because there are two relevant statutory definitions that may apply to the phrase “use in commerce.”<sup>14</sup> The first definition provides that the word “commerce” means “all commerce which may lawfully be regulated by Congress.”<sup>15</sup> The second definition defines the specific phrase “use in commerce” to mean

the bona fide use of a mark in the ordinary course of trade, and not made merely to reserve a right in a mark. For purposes of this Act, a mark shall be deemed to be in use in commerce— (1) on goods when—(A) it is placed in any manner on the goods or their containers or the displays associated therewith or on the tags or labels affixed thereto, or if the nature of the goods makes such placement impracticable, then on documents associated with the goods or their sale, and (B) the goods are sold or transported in commerce, and (2) on services when it is used or displayed in the sale or advertising of services and the services are rendered in commerce, or the services are rendered in more than one State or in the United States and a foreign country and the person rendering the services is engaged in commerce in connection with the services.<sup>16</sup>

As this chapter will discuss later, the “use” prong of a trademark infringement claim has been the focus of much of the keyword advertising litigation.

Under the third element, “likelihood of confusion,” the plaintiff need not show that actual consumer confusion has occurred as a result of defendant’s use of the trademark, but rather that consumer confusion as to the source of the goods is *probable*.<sup>17</sup> The likelihood of confusion analysis is a fact-specific inquiry that examines whether “the allegedly infringing conduct carries with it a likelihood of confounding an appreciable number of reasonably prudent purchasers exercising ordinary care.”<sup>18</sup> Evidence to prove or disprove this third element often takes the form of customer surveys.<sup>19</sup> Specific court opinions in each of the federal circuits have set forth a list of factors that

courts are to consider in trademark infringement cases when analyzing “likelihood of confusion.” For example, the U.S. Court of Appeals for the First Circuit has identified the following eight relevant criteria:

the similarity of the marks; the similarity of the goods; the relationship between the parties’ channels of trade; the relationship between the parties’ advertising; the classes of prospective purchasers; evidence of actual confusion; the defendants’ intent in adopting its mark; and the strength of the plaintiff’s mark.<sup>20</sup>

However, as one federal court has explained, “[n]ot all of the factors are always relevant; nor are they of equal importance in each case.... Consequently, no one factor is dispositive on the determination of likelihood of confusion.”<sup>21</sup>

## **Defenses**

Even if the plaintiff can establish a *prima facie* case of trademark infringement by satisfying the three elements discussed above, the defendant can assert several defenses to escape liability.<sup>22</sup> One of these defenses is the first sale exhaustion doctrine, in which there is no trademark infringement when the defendant is reselling a “genuine” good that bears the trademark.<sup>23</sup> A second defense is “nominative fair use,” in which the defendant is using the plaintiff’s trademark to specifically identify the plaintiff for certain purposes—such as comparative advertising or advertising repair services or replacement parts for the plaintiff’s goods.<sup>24</sup> In order to qualify for a nominative fair use defense, the following three-part test may be applied:

First, the product or service in question must be one not readily identifiable without use of the trademark; second, only so much of the mark or marks may be used as is reasonably necessary to identify the product or service; and third, the user must do nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder.<sup>25</sup>

A third defense is “descriptive fair use.” Descriptive words that directly inform the consumer of a characteristic, quality, ingredient, or function of a product may be protectable as a trademark if such words have acquired “secondary meaning.”<sup>26</sup> For example, if a substantial part of the public has

come to regard certain descriptive words as signifying a single and unique source of the product, rather than merely a description of the product itself, then the words or phrase has “secondary meaning.” An example of such a trademark is “PARK ’N FLY,” which not only is descriptive of the functional aspects of an off-site long-term parking lot near airports, but the mark is associated by frequent air travelers with a particular business that operates such a parking service.<sup>27</sup>

The defendant that asserts the “descriptive fair use” defense is claiming that he is using, in good faith, the particular descriptive words to communicate information to the public about the defendant’s own goods or services. This defense has been codified in the Lanham Act:

[T]he use of the name, term, or device charged to be an infringement is a use, otherwise than as a mark, of the party’s individual name in his own business, or of the individual name of anyone in privity with such party, or of a term or device which is descriptive of and used fairly and in good faith only to describe the goods or services of such party, or their geographic origin....<sup>28</sup>

## **KEYWORD ADVERTISING**

Internet search engines such as Google, Yahoo, or Microsoft’s Bing generate significant revenue from the sale of keywords to trigger online advertisements that appear on search result pages.<sup>29</sup> These advertisements typically relate to search terms entered by Internet users and appear as “banner” advertisements on the top of the Web page or “sponsored links” that are displayed on the right column of a Web page or before relevant search results; such Web ads, if clicked on, direct the user to the website of the advertiser.<sup>30</sup> For example, General Electric (GE) could purchase the word “refrigerator” from Google in order to have a “sponsored link” advertisement for GE’s refrigerators appear next to relevant search results. Someone interested in refrigerators who searches for that generic, descriptive word that has been purchased by GE as a keyword would then be presented with a sponsored advertisement that links to GE’s website concerning its refrigerators. If Whirlpool or Frigidaire also wanted to purchase the keyword “refrigerator” from Google, the search engine could follow a priority of request system or conduct an auction for the three refrigerator makers to bid on the term.<sup>31</sup>



While the sale of a descriptive word such as “refrigerator” by Internet search engines does not raise trademark concerns, the sale of a competitor’s brand name or trademark as a keyword may be actionable as a violation of federal trademark law. For example, Google or Yahoo could choose to sell the trademark name “Whirlpool” to GE, such that an advertisement for GE appliances would appear as a “sponsored link” on the computer screen of a person who searched for “Whirlpool.” In response, Whirlpool may file a trademark infringement lawsuit against either the search engine (as the seller of its trademark) or GE (as the purchaser), complaining that such unauthorized use of its trademark may create a likelihood of consumer confusion as to whether GE’s advertisement is in some manner sponsored by, endorsed by, approved by, or affiliated with Whirlpool. The prospects of Whirlpool winning such a lawsuit to restrain the practice or obtain damages are unclear, however, due to a lack of case law that has specifically addressed the “likelihood of confusion” element of the trademark infringement claim.

While trademark owners may be unhappy that their competitors’ advertisements appear in an Internet search for their trademarked names, they also may be upset over having to pay more to secure their own trademarks as keywords in an auction system.<sup>32</sup> However, some observers claim that an Internet search engine’s practice of selling trademarks as keywords benefits consumers, as it helps them to discover competing products that may be less expensive or of higher quality.<sup>33</sup> Also, sponsored advertisements allow consumers to comparison shop and may inform consumers about relevant news and criticism about the searched-for trademark name.<sup>34</sup>

## LITIGATION OVER KEYWORD ADVERTISING

Keyword-triggered advertising cases have involved trademark owners bringing suit against either keyword sellers (Internet search engines) or keyword buyers (advertisers).<sup>35</sup> In trying to hold search engines responsible for trademark infringement, trademark owners have tried two approaches: (1) direct trademark infringement, in which the search engine is making an illegal use of the mark by selling keywords, and (2) contributory infringement, in which the search engine is liable for facilitating the advertiser’s direct infringement.<sup>36</sup> Although lawsuits against Internet search engines such as Google may garner more attention in the press, the vast majority of the cases have involved the trademark owner directly suing the keyword buyer, who is