

Testing Modern Trademark Law's Theory of Harm

Mark P. McKenna

Modern scholarship takes a decidedly negative view of the scope of trademark law. It focuses on recently developed confusion doctrines like initial interest confusion as evidence that trademark law no longer focuses on reducing search costs.¹ Whole conferences are convened to address dilution,² despite recent empirical work suggesting that dilution is not particularly important.³

All this criticism of modern doctrinal innovations, however, obscures overwhelming acceptance of the most important determinant of the scope of trademark protection – the modern likelihood of confusion standard. As Rebecca Tushnet notes, “[e]veryone agrees that trademark infringement – use of a mark in a way likely to confuse consumers about the origin of a product or service -- is harmful.”⁴ This easy acceptance of the harmfulness of confusion is a problem because it operates at too high a level of generality, masking important differences between the various cases now lumped easily together as causing actionable confusion. These differences deserve much more attention than they have received, because courts’ and commentators’ willingness to accept uncritically the equation of confusion with harm is the real reason the scope of trademark law has expanded so dramatically. Indeed the fringe doctrines that draw critic’s fire are much less radical departures from the accepted likelihood of confusion doctrine than the current likelihood of confusion doctrine is from its traditional roots.

To put it plainly, modern scholarship has focused too much on the fringes of trademark law and not nearly enough on its core. This paper seeks to correct that imbalance by interrogating the supposed harms of the confusion recognized under modern standards. More precisely, because expansion of trademark protection to non-

¹ See, e.g., Jennifer Rothman, Initial Interest Confusion, *Cardozo L. Rev.*; Stacey L. Dogan & Mark A. Lemley, Trademarks and Consumer Search Costs on the Internet, 41 *Hous. L. Rev.* 777 (2004). See also, Glynn S. Lunney, Trademark Monopolies

² Santa Clara Law School, Trademark Dilution: Theoretical and Empirical Inquiries, October 5, 2007 (see <http://www.scu.edu/law/tmdilution/articles-and-presentations.cfm>); see also, Michigan Law Review First Impressions, Online Symposium on the Trademark Dilution Revision Act of 2006

(<http://www.michiganlawreview.org/firstimpressions/vol105/TDRA.htm>); Fordham Intellectual Property, Media and Entertainment Law Journal, 2006 Symposium, Panel II: Trademark Dilution Revision Act Implications (<http://law.fordham.edu/publications/index.ihtml?pubid=200>).

³ See Clarisa Long, *Dilution*, 106 *COLUM. L. REV.* 1029 (2006) (concluding that, as of 2006, federal judicial enforcement of dilution was not robust and eroding over time).

⁴ Rebecca Tushnet, *Gone in 60 Milliseconds: Trademark Law and Cognitive Science*, 86 *TEX. L. REV.* 507, 517 (2008).

competing goods was the signal innovation of modern trademark law, this paper focuses on the harms to producers that flow from confusion about the source of non-competing goods.

Focusing on the harms to producers is important because, despite frequent claims by courts and commentators that trademark law is designed for consumers' benefit, producer interests have always played a prominent (sometimes primary) role in trademark law.⁵ Trademark law traditionally was designed to prevent competitors from diverting a producer's trade by deceiving consumers about the source of their products.⁶ And though its normative goals are now broader than preventing trade diversion, courts continue to focus on producer interests both explicitly and implicitly when they shape trademark doctrine.⁷

Yet the claimed harms to producers from confusion about the source of non-competitive goods have been based on assumptions about consumer behavior that modern marketing literature exposes as questionable. While modern trademark law assumes that the goodwill associated with a particular brand transfers relatively easily across products and services, the marketing literature suggests that transfer of associations is a function of the "fit" between the products or services with which one uses the mark. Moreover, uses of a mark in distant markets rarely has any feedback effect on the parent brand; the circumstances where there is any risk of such feedback are quite specific to the brand and the product categories. As a result, there is little support for the notion that use of a mark without competitive proximity to the parent brand generally has any negative effect on the parent brand.

This literature then casts serious doubt on a general assumption that confusion regarding the source of non-competing goods causes any present harm to a senior user. At most it suggests that mark owners might be able to demonstrate some minimal amount of harm when the junior use is in connection with highly similar goods. What is left

⁵ See Mark P McKenna, *The Normative Foundations of Trademark Law*, 82 NOTRE DAME L. REV. 1839 (2007).

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⁷ At minimum a producer must have been harmed by the defendant's conduct in some way in order for the plaintiff to have standing to bring the claim. Under modern standing doctrine, it is not enough that the producer might be able to vindicate consumer interests. Instead, the "irreducible constitutional minimum of standing" requires (1) that the plaintiff has suffered an "injury in fact"- an invasion of a legally protected interest which is concrete and particularized (meaning the injury must affect the plaintiff in a personal and individual way) and "actual or imminent, not 'conjectural' or 'hypothetical,'"; (2) there must be a causal connection between the injury and the conduct complained of - the injury has to be "fairly ... trace[able] to the challenged action of the defendant, and not ... th[e] result [of] the independent action of some third party not before the court"; and (3) it must be "likely," as opposed to merely "speculative," that the injury will be "redressed by a favorable decision." *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560-61 (1992) Moreover, "the 'injury in fact' test requires more than an injury to a cognizable interest. It requires that the party seeking review be himself among the injured." *Id.* at 563.

when these speculative harms are removed from the equation are arguments that mark owners should have the right to use their marks in ancillary markets, not because others' use causes the mark owner harm, but because those ancillary markets rightfully belong to the senior mark owner. In this sense, modern trademark rights are remarkably similar to the derivative work right in copyright law.

I. Framing the Modern Likelihood of Confusion Standard

A. Traditional Trademark Law's Narrow Focus

Trademark law, like all unfair competition law, traditionally was intended to prevent illegitimate diversion of plaintiff's trade.⁸ As the court noted in *Canal Co. v. Clark*,⁹

in all cases where rights to the exclusive use of a trade-mark [were] invaded, it [was] invariably held that the essence of the wrong consists in *the sale of the goods of one manufacturer or vendor as those of another*, and this it is only when this false representation [was] directly or indirectly made that the party who appeal[ed] to the court of equity [ould] have relief. This [was] the doctrine of all the authorities.¹⁰

Importantly, courts understood trade diversion to be the relevant harm whether the claim at issue was formally considered one for trademark infringement or for unfair competition.¹¹ As a result, commentators like James Love Hopkins could describe unfair competition in the same language courts used to describe the wrong of trademark infringement: “[u]nfair competition consists in passing off one's goods as the goods of another, or in otherwise *securing patronage that should go to another*, by false representations that lead the patron to believe that he is patronizing another person.”¹² Indeed, as Hopkins recognized, “[t]he principles involved in trademark cases and tradename cases [were] substantially identical.”¹³

Moreover, this protection against trade diversion was based on property rights, not the incidental effect protection had on consumers. As one court said, “[t]he private action [was] given, not for the benefit of the public, although that may [have been] its incidental effect, but because of the invasion by defendant of that which [was] the

⁸ See McKenna *supra* note 5.

⁹ *Canal Co. v. Clark*, 80 U.S. 311 (1871)

¹⁰ *Id.* at 322-23.

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¹² JAMES LOVE HOPKINS, *THE LAW OF TRADEMARKS, TRADENAMES AND UNFAIR COMPETITION* § 1, at 1 (2d ed. 1905) (emphasis added).

¹³ *Id.* at § 3, at 9. See also, *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403 413 (1916) (“Th[e] essential element is the same in trade-mark cases as in cases of unfair competition unaccompanied with trade-mark infringement.”); *Marsh v. Billings*, 61 Mass. (1 Cush.) 322, 330 (1851) (referring to the “close conceptual relationship” between trademark infringement and unfair competition).

exclusive property of complainant.”¹⁴ Courts routinely noted that they “interfere[d] solely for the purpose of protecting the owner of a trade or business from a fraudulent invasion of that business by somebody else.”¹⁵ They “d[id] not interfere to prevent the world outside from being misled into anything.”¹⁶

The property rights protected in these cases derived from the natural rights theory of property that predominated in the eighteenth and nineteenth centuries. For courts operating in this tradition, property rights were intended to preserve for individuals a zone of free action and the ability to reap the benefits of their own labor or industry.¹⁷ At the same time, courts recognized that protecting property rights often conflicted with others’ ability to labor productively, and they therefore limited property rights to the extent necessary to respect “the like rights of others.”¹⁸ In the trademark context, courts frequently noted that, by protecting trademark rights, they were not preventing legitimate competition but only dishonest attempts to divert trade. As one court said of the rights of the defendant in an unfair competition case, trademark protection

does not at all trench upon the rights of others, by a course of conduct equally deserving and praiseworthy, to enter the lists of competition, and bear off the palm. But it will not allow them by falsehood, fraud, and forgery, to filch from another his good name, and share it in common with him, or destroy or impair it.¹⁹

Under this traditional view, courts did not protect trademarks for their own sake. Instead, courts sought to protect the flow of business to a producer and therefore sought to protect a mark owner only in situations where the defendant was likely to divert the

¹⁴ American Washboard Co. v. Saginaw Manufacturing Co., 103 F. 281, 284 (6th Cir. 1900).

¹⁵ Levy v. Walker, (1878) 10 Ch.D. 436, 448.

¹⁶ *Id.*

¹⁷ This notion of labor giving rise to property is most often associated with John Locke. JOHN LOCKE, TWO TREATISES OF GOVERNMENT (Peter Laslett ed., Cambridge Univ. Press 1988) (1690). Locke argued that God gave the world “to the use of the Industrious and Rational,” and that one acquires property by mixing his labor with the common. *Id.* § 28, at 288–89, § 34, at 290. Thus, the proper object of the law is to promote “the honest industry of Mankind.” *Id.* at § 42, at 298.

¹⁸ See McKenna, *supra* note 8 at 1876-80.

¹⁹ Taylor v. Carpenter, 2 Sand. Ch. 603, 617 (N.Y. Ch. 1846); see also Coats v. Merrick Thread Co., 149 U.S. 562, 566 (1893) (“Rival manufacturers may lawfully compete for the patronage of the public in the quality and price of their goods, in the beauty and tastefulness of their inclosing packages, in the extent of their advertising, and in the employment of agents, but they have no right, by imitative devices, to beguile the public into buying their wares under the impression they are buying those of their rivals.”); Hilton v. Hilton, 104 A. 375, 376 (N.J. 1918) (quoting Vice Chancellor Wood’s definition of goodwill in *Churton v. Douglas*, (1859) Johns. 174, 174, 70 Eng. Rep. 385, 385 (Ch.), as including every affirmative advantage acquired by a firm in carrying on its business, but not the negative advantage of competitors refraining from carrying on their business).

plaintiff's customers. Moreover, mindful of the need to allow robust competition and productive labor by all individuals, courts targeted only diversion achieved through deceptive means. This construct gave mark owners fairly limited rights to use a mark in a particular field of trade (both in the geographical sense and in terms of product markets). Absent competition between the parties, a plaintiff could not make a persuasive case that the defendant's use of a mark would divert customers who otherwise would have gone to the plaintiff.

Courts developed the traditional framework at a time when producers sold a limited range of products in limited geographic areas and advertising was only in its infancy.²⁰ They produced a single product or few products in a relatively narrow product class, and many (though not all) companies served geographically limited markets.²¹ Consumers in these market circumstances were not likely to attach any significance to mark similarity in unrelated markets because they were unaccustomed to producers using their marks in a range of markets. It was easy for consumers to categorize marks in terms of product categories, because consumers operated basically within product categories in terms of their relationships with producers.

The commercial landscape changed rapidly in the early twentieth century, as producers began serving much wider markets, both geographically and in terms of the products and services they offered.²² This changing commercial reality created economic and social pressure to expand the range of uses against which trademark law would respond. Most significantly, mark owners wanted protection of their marks against non-competitive goods and services. This would require fairly radical rethinking of the purposes of trademark law, because use of a mark on non-competing goods could not result in diversion of customers who otherwise would have gone to the mark owner.

B. A New Conception of Harm

The most radical, and perhaps most well-known, suggestion for re-orienting trademark law to fit the new economic reality was Frank Schechter's.²³ For Schechter, changing commercial practices demonstrated that trademarks no longer were valuable merely because they indicated source; consumers did not always know or care about the ultimate producer of a product.²⁴ Rather than simply directing consumers to known sources, Schechter believed trademarks were valuable as devices for selling the goods to

²⁰ See Robert G. Bone, *Hunting Goodwill: A History of the Concept of Goodwill Trademark Law*, 86 B.U. L. Rev. 547, 575-79 (2006).

²¹ *Id.*

²² *Id.*

²³ Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813 (1927).

²⁴ *Id.* at 814 (noting that, because of changes in production and distribution practices, "the source or origin of the goods bearing a well known trademark [was] seldom known to the consumer").

which they were attached.²⁵ Certain trademarks – ones that were “added to rather than withdrawn from the human vocabulary by their owners, and have, from the very beginning been associated in the public mind with a particular product”²⁶ – had particular value because they actually helped sell the goods to which they were attached. KODAK meant cameras, whereas BLUE RIBBON, which was in widespread use for a variety of products, meant so many things it had no distinctiveness.²⁷ According to Schechter, the real injury in cases involving non-competing goods was “the gradual whittling away or dispersion of the identity and hold upon the public mind of the mark or name by its use upon non-competing goods.”²⁸ Schechter believed this “identity and hold upon the public mind” derived particularly from the mark’s distinctiveness from other marks: “The more distinctive or unique the mark, the deeper is its impress upon the public consciousness, and the greater its need for protection against vitiation or dissociation from the particular product in connection with which it has been used.”²⁹

This was a radically new way of conceiving of a trademark in that it saw the mark as valuable itself for more than its ability to allow matching. But for our purposes here, what is notable is that Schechter was concerned about the product meaning of a mark – the link between a mark and a particular product or product type.³⁰ Schechter was concerned that use of KODAK for “bathtubs and cakes” or other unrelated products would cost KODAK its “arresting uniqueness and hence its selling power.”³¹ Of course, like most of the harms modern trademark proponents advocate, Schechter intuited this

²⁵ *Id.* at 819 (“The mark actually *sells* the goods.”) (emphasis in original).

²⁶ *Id.* at 829.

²⁷ *Id.* at 829-30. Schechter actually was wrong on some of his examples – some, like Rolls-Royce, were actually comprised of surnames, and others, like “Blue Goose” were not really “added to ... the human vocabulary by their owners.” See <http://www.rolls-royce.com/history/timeline/default.jsp> (describing agreement between Henry Royce and Charles Rolls by which Royce Limited would manufacture a range of cars to be exclusively sold by CS Rolls & Co under the name Rolls-Royce.”); Encyclopedia Britannica Online <http://www.britannica.com/eb/article-9068392/snow-goose> (last visited April 8, 2008) (“The blue goose (long separated as *C. caerulescens*) has bluish gray body plumage, with white head and neck and, sometimes, white breast and belly. It breeds in the eastern part of the range of the lesser snow goose and winters on the U.S. Gulf Coast, chiefly in Louisiana. Most biologists believe the blue goose is actually a dark colour phase (colour morph) of the lesser snow goose—not a separate species.”). What Schechter meant to suggest was that these terms, whether they were coined or arbitrary terms, were associated by consumers only with particular products or services.

²⁸ *Id.* at 825.

²⁹ Schechter, *supra* note _ at 825.

³⁰ See Stadler, *supra* note 27.

³¹ Schechter, *supra* note _ at 830. Schechter also suggested that, “apart from the destruction of the uniqueness of a mark by its use on other goods ... once a mark has come to indicate to the public a constant and uniform source of satisfaction, its owner should be allowed the broadest scope possible for ‘the natural expansion of his trade’ to other lines or fields of enterprise.” Schechter, *supra* note _ at 823.

harm. There was no empirical evidence that BUICK was less effective as a mark for cars if there also were BUICK shoes.

Most of Schechter's contemporaries, even ones who saw value in Schechter's work, took the more pragmatic approach of encouraging courts to expand the scope of infringement through broader construction of source confusion.³² Traditional trademark law focused on confusion regarding source of origin because that type of confusion led to trade diversion, which was the harm courts intended to prevent.³³ But courts interpreted "source of origin" literally in this system. Operating in a time when consumers were unlikely to believe that unrelated goods came from the same source, a liability standard that required evidence of confusion as to source was essentially equivalent to asking whether confusion would result in trade diversion.

This tight fit between the requirement of source confusion and the focus on trade diversion depended critically on the assumption that consumers would not think unrelated goods came from the same source. As commercial relationships grew more complex, that assumption became increasingly questionable. Consumers were becoming accustomed to producers selling a wider variety of goods, and they were becoming more aware that companies did not always themselves produce the products that bore their marks. In this marketplace, confusion about source was no longer a perfect proxy for trade diversion.

This provided an opportunity for courts which were no longer sure that trade diversion was the only concern. By continuing to focus on confusion as to source courts could act as though they were breaking no new ground, even as they were finding infringement when there was no risk of trade diversion.

In *Aunt Jemima Mills Co. v. Rigney & Co.*,³⁴ the plaintiff, Aunt Jemima alleged that the defendant's use of the same mark on flour infringed the former company's rights in the Aunt Jemima mark, which it had used for syrup. Under traditional principles Aunt Jemima should have lost this case because the defendant was not diverting customers who were trying to purchase syrup. Indeed, the court acknowledged that "no one wanting syrup could possibly be made to take flour." Nevertheless, the court found infringement on the ground the products were "so related as to fall within the mischief which equity should prevent."

Similarly in *Yale Electric Corp. v. Robertson*,³⁵ the court refused to allow registration of YALE for flashlights and batteries in light of the plaintiff's prior use of the

³² See, e.g., Edward C. Lukens, *The Application of the Principles of Unfair Competition to Cases of Dissimilar Products*, 75 U. PA. L. REV. 197 (1927).

³³ *Coats v. Holbrook*, 7 N.Y. Ch. Ann. 713, 717 (1845) (noting trademark law's purpose of preventing a defendant from "attract[ing] to himself the patronage that without such deceptive use of such names . . . would have inured to the benefit of [the plaintiff]").

³⁴ 247 F. 407, 409-10 (2d Cir. 1917)

³⁵ 26 F.2d 972 (2d Cir. 1928)

YALE mark for locks. The court acknowledged that the decision “[did] some violence” to the language of the [Trademark Act of 1905],” which defined as infringing uses of a mark on goods “of the same descriptive properties.” But the court claimed “it ha[d] come to be recognized that, unless the borrower’s use is so foreign to the owner’s as to insure against any identification of the two, it is unlawful.”

Both of these cases involved defendants using marks identical to the plaintiffs and on goods that were fairly closely related to the plaintiff’s. Thus, consumers in these cases might actually have believed that the plaintiff was the actual source of origin of the defendant’s goods, even if the plaintiff did not in fact sell that type of goods. Consumers might, for example, have actually believed that Aunt Jemima sold both flour and syrup, given the complementarity of those products. Consumers who believed that, of course, still would not have been deceived into buying one when they intended to buy the other. But as a purely doctrinal matter, a court could conclude with a straight face that the junior user of the Aunt Jemima mark caused at least some consumers confusion about the “source of origin” of the defendant’s products.³⁶

But advocates for broader protection were not content to expand protection only to cases where consumers might actually have believed that the mark owner was the source of the defendant’s non-competitive goods. One problem was that, while it surely was true that consumers were becoming more accustomed to seeing marks used on a wider variety of products, many consumers at this time still would not necessarily have assumed that different products bearing the same mark came from the same source. One solution was simply to assume away this inconvenience by suggesting that consumers were becoming so accustomed to seeing companies make a wide variety of goods that they would always believe goods bearing a recognized mark were made by the known senior user, even when those goods were quite remote.³⁷

Those courts and commentators that were not willing to countenance such an assumption were willing to draw another conclusion, however. Even when consumers did not believe that non-competitive products actually were produced by the same source, consumers becoming more aware of different commercial relationships might believe the producer of those non-competitive products was related to the mark owner related in some way. By redefining the “source” of a product to include related or affiliated parties,

³⁶ Schechter described the process of expansion of unfair competition principles beyond cases where diversion of trade was likely as “one of making exceptions rather than frank recognition of the true basis of trademark protection.” Schechter, *supra* note _ at 821.

³⁷ Lukens, *supra* note 32 at 204 (“As commercial organization becomes more complex, it is becoming more usual for a corporation to manufacture or sell a wide variety of products. Many companies produce articles that have no similarity, nor any relationship beyond the fact that they are so produced. Such a concern frequently applies the same trade-name to all its products in the hope that the good-will of the older products will attach to the newer ones. *The public has become so accustomed to the idea of dissimilar articles being produced by the same company that it is hardly surprised at any combination whatever.*”) (emphasis added).

courts could capture confusion about these types of relationships while continuing to insist that trademark infringement required confusion as to “source.”³⁸

Expansion of the notion of source to cover different relationships between parties also was driven by courts’ interest in accommodating the emerging practice of mark owners licensing production of products that bore their marks. Licensing posed serious conceptual problems in traditional trademark law because courts in that era viewed “source” literally. When plaintiffs who had licensed production of products bearing their marks sought to enforce their trademark rights, courts were faced with two parties, neither of which was the actual source of the products bearing the mark at issue. It was difficult for courts in these cases to see how a mark owner deserved relief when it arguably was engaging in the same type of deception as the accused infringer. It was also difficult to see how the defendant’s use diverted consumers who otherwise would have gone to the mark owner when the mark owner was not, in fact, the source of the products. For this reason, licensing traditionally was forbidden.³⁹

But courts in the early twentieth century increasingly had difficulty accepting that production of products by a mark owner’s affiliates or licensees was illegitimate. In order to distinguish these uses by affiliated companies from infringing uses by third parties, courts gradually loosened the restrictions on licensing. They did so primarily by reconceptualizing what it meant to be the “source” of a product. Even when it did not actually produce the products bearing its mark, courts began to hold, a mark owner could be considered the “source” of that product if it exercised sufficient control over the quality of products sold under its mark.⁴⁰

Congress later codified this understanding of source in § 1055 of the Lanham Act, which provides that use of a mark by “related companies” inures to the benefit of the mark owner.⁴¹ A “related company” in this context is one “whose use of a mark is controlled by the owner of the mark with respect to the nature and quality of goods or services on or in connection with which the mark is used.”⁴² Thus, in modern terms, the legal source of a product is not necessarily the actual producer of a product but instead the entity exercising control over the quality of products bearing a particular mark. That entity might be related to the actual producer only by contract.

The conceptions of source in these two contexts (infringement and licensing) were self-consciously symmetrical. It was no longer necessary that a mark owner actually produced the goods bearing its mark in order to be considered the source of those products. Nor was it necessary any longer in proving infringement for a plaintiff to

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³⁹ See McKenna, *supra* note 5, at 1893-95.

⁴⁰ See, e.g., *Keebler Weyl Baking Co. v. Son*, 7 F. Supp. 211, 214 (D. Pa. 1934) (“An article need not be actually manufactured by the owner of the trade-mark it being enough that it is manufactured under his supervision and according to his directions thus securing both the right of the owner and the right of the public.”).

⁴¹ 15 U.S.C. § 1055.

⁴² *Id.* at § 1127.

demonstrate that the defendant's use of a mark was likely to cause confusion about the actual source of the defendant's goods. Instead the mark owner could that consumers would assume that the defendant, like the mark owner's licensees, operated under the mark owner's control. The defendant's use, in other words, might cause confusion about whether the mark owner sponsored or was affiliated with the defendant's use.

II. Justifications Offered by Courts and Commentators

This expansion has been so widely accepted that most modern justifications of trademark law do not focus specifically on the harms caused by sponsorship or affiliation confusion but instead justify trademark protection as compared to a marketplace with none.

McCarthy, for example, emphasizes trademark law's role in giving producers incentive to invest in quality. Quoting a number of other commentators, including economist F.M. Scherer, McCarthy suggests:

A certain amount of image differentiation also helps consumers select products of high quality and reliability and motivates producers to maintain adequate quality standards. If there were no brand names and trademarks, the consumer might never be sure who made a product and would have difficulty rewarding through repeat purchases manufacturers who achieve high quality or cater to his or her special tastes. ... The existence of branded goods whose characteristics vary little from week to week makes it possible to have convenient supermarkets and hence to realize the efficiencies of supermarkets.⁴³

McCarthy quotes a number of commentators, including economist F.M. Scherer, in support of his contention that trademark protection is necessary to give producers incentive to invest in product quality.

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⁴³ 1 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, § 2:4 (4th ed. 2007) quoting F.M. Scherer, *Industrial Market Structure and Economic Performance* 378 (2d ed. 1980). See also W.M. Landes & R.A. Posner, *The Economic Structure of Intellectual Property Law*, pp. 168, 179 (2003) ("[A] firm with a valuable trademark will be reluctant to lower the quality of its brand because it would suffer a capital loss on its investment in the trademark.... [L]egal protection of trademarks encourages the production of higher-quality products.")

⁴⁴ 1 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, § 2:4 (4th

William Landes and Richard Posner similarly argue that, because imitators know they will not be held responsible for the quality of their products, they are likely to produce lower-quality products, thereby undermining the incentive for the senior users to maintain quality themselves.⁴⁵ These arguments have long roots,⁴⁶ and they frequently have been parroted by the Supreme Court.⁴⁷ Nevertheless, these arguments focus on situations where junior users employ a known mark for the same goods or services as the mark owner. They are not specifically applicable to the issue of protection against non-competing goods.

Some courts and commentators – though not as many as one might expect – have focused more particularly on the specific issue of non-competing goods, and they have offered a series of related arguments in favor of extending trademark protection to this context. These arguments have changed very little over time,⁴⁸ despite the fact that they were originally based on untested assumptions about how consumers would behave in the face of confusion.

One reason the arguments about the harms to producers from use of their marks on non-competing goods might not have received the scrutiny they deserved is that, at the courts were expanding protection, many courts and commentators were coming to accept the notion that trademark protection was predominantly intended for consumers' benefit. Consequently, advocates of broader protection sometimes were able to obfuscate and avoid precision in their arguments, falling back on the notion that the producer interests were only icing on the proverbial cake. For example, in the process of arguing for

ed. 2007) quoting F.M. Scherer, *Industrial Market Structure and Economic Performance* 378 (2d ed. 1980). See also W.M. Landes & R.A. Posner, *The Economic Structure of Intellectual Property Law*, pp. 168, 179 (2003) (“[A] firm with a valuable trademark will be reluctant to lower the quality of its brand because it would suffer a capital loss on its investment in the trademark.... [L]egal protection of trademarks encourages the production of higher-quality products.”)

⁴⁵ Landes and Posner, *supra* note 2 at 203. In fact, the junior user’s incentive to free ride on the senior user’s mark by imitating the mark and cutting quality will be greater the higher the quality of the underlying good, adjusted for [the junior user’s] costs of making the physical good appear equivalent to [the senior user’s].” *Id.*

⁴⁶ Edward Rogers made essentially the same argument in 1949, when he wrote that, without trademarks, “[t]here could be no pride of workmanship, no credit for good quality, no responsibility for bad.” Edward S. Rogers, *The Lanham Act and the Social Function of Trademarks*, 14 *LAW & CONTEMP. PROBS.* 173, 175 (1949)

⁴⁷ *Park ‘N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189 (1985) (“trademarks desirably promote competition and the maintenance of product quality.”). See also, *Publ. Int’l Ltd. v. Landoll, Inc.*, 164 F.3d 337 (7th Cir. 1998) (“[T]he seller will be able to appropriate the benefits of making a product that consumer like and so he will have an incentive to make a good product.”).

⁴⁸ See, e.g., Edward C. Lukens, *The Application of the Principles of Unfair Competition to Cases of Dissimilar Products*, 75 *U. PA. L. REV.* 197 (1927).

broader protection of marks against non-competing goods George Goble wrote in 1927 that

it [was] possible that under the federal trade commission act, sec. 5, it need not be shown that the plaintiff suffered harm as a result of the defendant's conduct to justify an injunction against the defendant. That act provides 'if it shall appear ... that it would be of interest to the public,' an order to cease and desist from the practice of an 'unfair method of competition' will be proper."⁴⁹

Whatever the reason, these arguments satisfied enough judges and commentators that the idea of trademark protection against non-competing goods became relatively uncontroversial. But these arguments need to be revisited, because more recent research has exposed a number of the underlying assumptions as specious.

A. Reputational Dilution

The first two related arguments in favor of protection against non-competing goods relate to the present consequences to the senior user of confusion about the source, sponsorship or affiliation of another's non-competitive goods. First is the claim that confusion regarding the source of non-competitive goods can harm a mark owner if the junior user's products are of poor quality. Second is the related claim that, regardless of the present quality of the junior user's goods, mark owners lose control over their reputation if consumers are confused about the source of the junior user's goods.

Though confusion generally is regarded by courts and commentators as entirely distinct from the harm caused by dilution, these arguments really are about dilution of a brand, broadly construed. The harms are not about imminent economic loss to a mark owner, but rather about interference with the meaning of the brand (at least in terms of quality assurance), which might ultimately cause economic harm. There is irony here in that, while dilution as a cause of action has attracted a huge amount of negative attention from scholars, sponsorship or affiliation confusion has been largely unquestioned even while it pursues harms that are different only in degree from those addressed by dilution.⁵⁰

1. Negative Feedback

According to one common justification of protection against use of a mark on non-competing goods, confusion about the relationship between a known senior user and

⁴⁹ George W. Goble, *Where and What a Trademark Protects*, 22 Ill. L. Rev. 379, 391 n. 41 (1927) quoting 15 U.S.C. § 45

⁵⁰ The similarity may explain why many early dilution cases are not dilution cases by modern standards at all – they are merely about pushing the boundaries of the requirement of competition, both geographically and in terms of the market proximity. See Pattishall Article re Dilution

a junior user or its products is harmful because the quality of the junior user's products might diverge from that of the senior user. Consumers who are disappointed with the junior user's products might hold their negative experience with against the known senior user, with which they associate the mark. More specifically, consumers who are disappointed in the quality of the junior user's products might question whether the senior user really makes the quality products they had previously expected. This will discourage consumers from patronizing the senior user in the future because consumers will no longer be able to expect quality. This is one sense in which a third party use might interfere with the association set related to a senior user's mark – by introducing new or negative product quality characteristics.

But seeing the harm to mark owners this way presents a puzzle: if a mark owner is harmed only when the quality of the junior user's products diverges from its own, why do courts not require plaintiffs to demonstrate the inferiority of the defendant's products or services? One possible answer, offered by Robert Bone in a recent article, has to do with enforcement costs.⁵¹ Bone argues that courts should not require mark owners to prove the inferiority of the defendant's products because proving a quality difference is likely to be difficult, making the administrative costs of doing so high. Moreover, "the social costs of a false negative (that is, an erroneous failure to find infringement) greatly exceed the social costs of a false positive (that is, an erroneous infringement finding)."⁵²

To be more precise, Bone argues that the rate of erroneous non-infringement findings (R_N) multiplied by the social cost of an error of this type (S_N) exceeds by more than the amount of administrative costs entailed in a more precise system (A_Q) the value of the rate of erroneous infringement findings (R_I) multiplied by the social cost of such errors (S_I).⁵³ Represented mathematically, Bone assumes that, in the aggregate,

$$R_N \times S_N > R_I \times S_I + A_Q$$

This formula assumes that harm will follow to the mark owner if the junior user makes inferior products, and the administrative costs here are the costs of requiring evidence that the defendant's goods are in fact inferior. This is, of course, merely a conceptual representation rather than a precise formulation, however, because all of these variables are likely to be difficult to quantify.

⁵¹ Robert G. Bone, *Enforcement Costs and Trademark Puzzles*, 90 VA. L. REV. 2099, 2150 (2004) (describing this phenomenon as courts focusing on likelihoods rather than harms).

⁵² *Id.* at 2155.

⁵³ An erroneous finding of non-infringement here would be a finding of non-infringement in a case where the quality of the defendant's products differed in a material way from that of the plaintiff's and therefore might cause harm to the plaintiff's reputation. An erroneous finding of infringement, on the other hand, would be a finding of infringement based on the assumption of harm even though the defendant's products do not differ materially in quality from those of the plaintiff and therefore are unlikely to impact negatively the plaintiff's reputation.

But this argument rests on an assumption that, as a general matter, mark owners will be harmed if the junior user's products are inferior in quality. Bone assumes away the possibility that mark owners might not be harmed *even if* consumers are confused about sponsorship or affiliation and the junior user's goods are inferior. Again, to be more precise, Bone assumes that the frequency with which a court finds noninfringement despite the fact that consumers are likely to impute bad quality to the mark owner (F_N) multiplied by the social cost of finding noninfringement when the harm is likely to result (C_N) exceeds by more than administrative costs of requiring mark owners to prove that such confusion actually harms them in a particular case (A_H) the cost of finding infringement when harm is unlikely to follow (C_I) times the frequency of such an erroneous conclusion (F_I). Again, mathematically:

$$F_N \times C_N > F_I \times C_I + A_H$$

This assumption is more interesting to me because we can more readily determine whether and in what circumstances harm is likely to follow from confusion of this sort. In particular, marketing literature can help us determine when consumers who are confused about a mark owner's sponsorship of or affiliation with inferior products are likely to hold their disappointment against the mark owner.

Bone's own analysis foreshadows some of the lessons of this literature, which casts doubt on the general assumption that consumers will hold mark owners responsible for the quality of non-competing goods. Describing the administrative costs of requiring evidence that the junior party's goods are inferior, Bone notes that the proving quality is likely to be particularly difficult "when the products do not compete, since the parties can also dispute the appropriate quality baseline against which to evaluate the defendant's product."⁵⁴ Put differently, Bone's concern is that courts might not know how to compare the quality of unrelated goods. Yet Bone fails to recognize that consumers may have the very same problem – when a junior party's goods are unrelated, consumers may not have any quality expectations for the new products. And if consumers have no quality baseline because the goods are dissimilar, they cannot be particularly disappointed by their experience with those goods.

2. Loss of Control

For some courts and commentators, the answer to Bone's puzzle – why courts do not typically require evidence that the defendant's goods are of inferior quality – is that the present quality of the defendant's goods is irrelevant. Whether or not the defendant's goods presently put the plaintiff's reputation at risk, refusing to find infringement when consumers were confused about a mark owner's relationship with non-competitive goods would put the mark owner's reputation in the junior user's hands.

⁵⁴ Bone, *supra* note 51 at 2152.

In *Aunt Jemima*, the court found the defendant's use of the Aunt Jemima mark on non-competing goods (flour, as opposed to the plaintiff's syrup) infringing, even though consumers obviously would "not be made to take flour for syrup."⁵⁵ According to the court, "[s]yrup and flour are both food products, and food products commonly used together. Obviously the public, or a large part of it, seeing this trade-mark on a syrup, would conclude that it was made by the complainant. Perhaps they might not do so, if it were used for flatirons. In this way *the complainant's reputation is put in the hands of the defendants.*"⁵⁶

As Judge Learned Hand remarked in *Yale Electric Corp. v. Robertson*,⁵⁷ [a producer's] mark is his authentic seal; by it he vouches for the goods which bear it; it carries his name for good or ill. *If another uses it, he borrows the owner's reputation, whose quality no longer lies within his own control.* This is an injury, even though the borrower does not tarnish it, or divert any sales by its use; for a reputation, like a face, is the symbol of its possessor and creator, and another can use it only as a mask.⁵⁸

Implicit in this argument is an assumption that junior users' products will diverge in quality, at least in some significant number of cases. That divergence may not have happened yet, but the risk is ever present. This assumption is justified, according to some law and economics scholars, for the same reason it is justified in the context of competing goods: because lack of enforcement against non-competitive products would create bad incentives. Absent the possibility of liability, junior users would have incentive to cut corners and lower quality, knowing the quality of their products would be attributed to the senior user.⁵⁹

⁵⁵ *Aunt Jemima Mills Co. v. Rigney & Co.*, 247 F. 407, 410 (2d Cir. 1917).

⁵⁶ *Id.* (emphasis added).

⁵⁷ 26 F.2d 972 (2d Cir. 1928).

⁵⁸ *Id.* at 974 (emphasis added). See also, *Carling Brewing Company, Inc. v. Philip Morris, Inc.*, 277 F.Supp. 326, 335-36 (N.D. Ga. 1967) ("The defendant argues that it has an 'untarnished reputation for fair dealing and honesty' and that its products are 'noted for their high quality', and on this basis urges that its infringement cannot cause any real or meaningful injury. Granting that the defendant has such a reputation, and that their products have such a quality, the rule remains: 'It is not to be disputed that the plaintiff is not required to put its reputation in defendant's hands, no matter how capable those hands may be.'"); *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200, 204-205 (2d Cir. 1979) ("The trademark laws are designed not only to prevent consumer confusion but also to protect 'the synonymous right of a trademark owner to control his product's reputation.'").

⁵⁹ See WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 203 (2003) (arguing that junior users that adopt marks similar to other earlier users for the purpose of confusing consumers are "likely to produce a lower-quality product").

Whether or not mark owners' reputations really are vulnerable when they lose control over the quality of the junior user's goods also depends, of course, on the assumption that consumers would hold the mark owner responsible for any deviation in quality. As it turns out, mark owners have not been particularly consistent in their claims about the risk of lack of control. In the infringement context, mark owners have argued that lack of control over the quality of the defendant's goods is a great risk to them. At the same time, putative mark owners have argued, at least in the merchandising context, that their previous lack of control over third party uses did not destroy source significance as long as the others' quality remained relatively consistent.

In *University Bookstore v. University of Wisconsin, Madison*,⁶⁰ for example, the record demonstrated that the University Bookstore and many others in the Madison area had used the WISCONSIN BADGERS mark and Bucky Badger logo for many years and even long before the University itself made any use of the marks.⁶¹ Ordinarily such longstanding uncontrolled use by third parties would result in abandonment of rights in a mark⁶² - assuming the mark owner ever had any rights.⁶³ Nevertheless, the University successfully argued in that case that the longstanding uncontrolled use of were best understood as uses under implied licenses, and that the University's failure to police those licensees was excusable because "the quality of the apparel imprinted with [the logos] remained at an acceptable level in virtually all instances."⁶⁴

The Board has, in fact, fairly routinely ignored the quality control requirement in abandonment cases where the purported licensee's products were of reasonable quality.

⁶⁰ 33 U.S.P.Q.2d 1385 (T.T.A.B. 1994)

⁶¹ *Id.* at 1395 (noting, *inter alia*, that with respect to use of the "Bucky Badger" mascot on clothing, opposers were selling apparel which imprinted with the mascot by the early 1950s and had continued to do so along with many others, while the University did not begin marketing such clothing until, at the earliest, sometime in 1983).

⁶² See McCarthy, *supra* note _ at § 17:8 (noting that a mark can "become abandoned to generic usage as a result of the trademark owner's failure to police the mark, so that widespread usage by competitors leads to a generic usage among the relevant public, who see many sellers using the same word or designation").

⁶³ Because rights at common law accrue through use, it is not clear why the University should have been regarded as having superior rights in use of the mark for merchandise. See McKenna, *supra* note 5 at __. To the extent use of the University's logo on merchandise is the type of use sufficient to trigger trademark rights, the University Bookstore and/or others in the Madison area made use of the mark long before the University. Nevertheless, the Board concluded that the Bookstore acquired no rights though its use because it had only sold apparel and merchandise imprinted with the logos and never used the logo as a mark. 33 U.S.P.Q.2d at 1396. Yet it is not at all clear why, if the Bookstore's use was not sufficient to trigger rights because it merely sold merchandise bearing the logo, the University acquired rights when it made *precisely the same type of use*.

⁶⁴ 33 U.S.P.Q.2d at 1396.

In *Brewski Beer Co. v Brewski Bros. Inc.*,⁶⁵ the court refused to find abandonment even when there was no evidence of quality control: “Even if we were to assume that [licensor] exercised no quality control over the operations of [the licensee’s] tavern ... the inference of abandonment is not drawn [where] satisfactory quality was maintained, and, hence, no deception of purchasers occurred.”⁶⁶ And it is not just the Board that has failed consistently to enforce the quality control requirement. In *Board of Governors of University of North Carolina v. Helpinstine*,⁶⁷ the court

The point here is not that courts always ignore the requirement of control – they do not⁶⁸ - only that they sometimes do, and at mark owners’ behest. This should give us some reason to question the assumption that lack of control generally is a great risk to mark owners. And, as it turns out, we have other good reasons to question the assumption.

B. Product Market Preemption

Another argument sometimes offered by courts relates not to the present impact of third party uses but to potential benefits foreclosed by those uses. A junior use of a mark for noncompetitive goods, the argument goes, may preclude the senior user from entering into the field of the junior use. Thus, for example, even if Exxon was not affected by another party’s use of the Exxon mark for cars (perhaps because consumers did not hold Exxon Corp. responsible for the quality of Exxon cars), Exxon Corp. still would be harmed because it would be unable to expand into the car market. More particularly, Exxon would not be able to expand into that market under the Exxon mark.

This argument is difficult to disentangle entirely from a pure free-riding argument because the notion that Exxon is preempted from entering another market operates on a background assumption that Exxon ought to have a superior right to enter other markets under the Exxon mark. To the extent the Exxon mark has value in the car market, this argument assumes that Exxon Corp, and not third parties, should benefit from that value.⁶⁹

⁶⁵ 47 U.S.P.Q.2d 1281 (T.T.A.B. 1998).

⁶⁶ *Id.* at 1288.

⁶⁷ 714 F.Supp. 167 (M.D.N.C. 1989).

⁶⁸ See, e.g., *Barcamerica Int’l USA Trust v. Tyfield Importers, Inc.*, 289 F.3d 589 (9th Cir. 2002) (rejecting the licensor’s argument that “because [the licensee] makes good wine, the public is not deceived by [the licensee’s] use of the [licensed] mark,” on the ground that “[w]hether [the licensee’s] wine was objective ‘good’ or ‘bad’ is simply irrelevant. What matters is that [the mark owner] played no meaningful role in holding the wine to a standard of quality – good, bad, or otherwise.”).

⁶⁹ Schechter clearly accepted this assumption. See Schechter, *supra* note _ at 823 (“Quite apart from the destruction of the uniqueness of a mark by its use on other goods ... once a mark has come to indicate to the public a constant and uniform source of satisfaction, its owner should be allowed the broadest scope possible for ‘the natural expansion of his trade’ to other lines or fields of enterprise.”).

At the time trademark law was expanding beyond competitive circumstances this foreclosure argument had two dimensions: geographic and product market. Traditionally a plaintiff had legitimate rights only against another using the same or a similar mark on competitive goods and in geographic regions in which the plaintiff sold his goods. Expansion of protection against remote geographic uses and against non-competitive products ran into the same problem – in both cases the defendant’s use could not be said to divert sales the mark owner otherwise would have had. Thus the arguments regarding harm in both cases were the same, as commentators focused in both situations on the risk a defendant would make inferior articles and on the prospect that the defendant’s use would foreclose market opportunities.

Arguing for protection in adjacent products markets, George Goble used a hypothetical case in which a plaintiff “handles Virgin Cigars and the defendant brings forth Virgin Cigarettes.”⁷⁰ Assuming that “smokers might easily suppose the maker of Virgin Cigars was also the maker of Virgin Cigarettes,” Goble concluded that the defendant in this situation would harm the plaintiff in two ways: “(1) If the defendant’s cigarettes are of inferior quality, the plaintiff’s reputation as a manufacturer of superior goods is likely to be impaired, and (2) the plaintiff is prevented from extending into the business of manufacturing cigarettes, a field into which he might naturally and readily go.”⁷¹

Goble made his arguments with respect to the then prevailing rule that a mark owner could assert its rights against non-competitive goods if those goods were of the “same class.” Determining when non-competitive articles were sufficiently similar that they were in the same class was, of course, quite difficult, and Goble advocated abandoning that approach altogether. Indeed, for Goble, products need not be similar, related or allied at all for it to be supposed that the producer of one is the producer of the other: “It seems reasonable to supposed that ordinarily the identity of the trade name or mark in itself would sufficiently related them to cause mental association as to the manufacture or origin of the goods, dissimilar and unrelated though the goods may otherwise be.”⁷² Goble was concerned primarily with the similarity of the parties’ marks, not of the goods.

⁷⁰ Goble, supra note 49 at 385.

⁷¹ Goble, supra note 49 at 385.

⁷² Goble, supra note _ at 388. Goble’s suggestion was even broader, in this respect, than Schechter’s, since Goble thought consumers would associate products with the same mark, even when the mark was a surname or otherwise composed of common elements. For example, Goble suggested that the Ford’s Milker infringed the rights of the Ford Motor Company, that use of “The Great Atlantic and Pacific Company” on any goods would violate the rights of the company by that name that produced tea, and that the same was true with respect to such names as “Woolworth,” “Montgomery Ward,” “Kroger,” and “Arm and Hammer.” Goble, supra note 49 at 388.

Courts have continued to describe the harm of use on non-competitive goods in essentially the same terms as *Goble*. In *Precision Tune, Inc. v. Tune-A-Car, Inc.*,⁷³ for example, the court characterized the defendant's use of a confusingly similar mark in a different geographic market as "depriv[ing] [the plaintiff] of an opportunity to expand its market."⁷⁴ As long as the defendant "continue[d] to employ the deceptively similar marks and trade dress, [the plaintiff] [could not] attempt to open a franchise because it [could not] guarantee its franchisee's exclusive use of the mark."⁷⁵ Likewise, in finding that the defendant's use of VERA for cosmetics and toiletries infringed the plaintiff's rights in the same mark, which it acquired through use of the mark on women's scarves, sportswear and linens, the court in *Scarves by Vera, Inc. v. Todo Imports Ltd. (Inc.)*⁷⁶ emphasized the senior user's interest in being able to enter a related field at some future time.⁷⁷

C. Free riding

Though not often offered as a stand-alone justification for expansive liability, in many cases courts have been moved by their perception that the defendant was free-riding on value created by the senior user of the mark. These arguments generally do not stand on their own because they do not depend on the traditional confusion story. Consequently, courts typically make at least some attempt to argue that the harm suffered by the plaintiff is a consequence of confusion.

Nevertheless, courts concern about free-riding is readily apparent. In *Aunt Jemima*, the court claimed that, not only would confusion put the mark owner's reputation in the hands of the defendant, but "[i]t will enable them to get the benefit of the complainant's reputation and advertisement."⁷⁸ Courts are not alone in this regard; though he is careful to note that an investment in goodwill is not enough by itself to create trademark rights, McCarthy argues that "[t]he creation of value in a trademark requires 'the expenditure of great effort, skill and ability' and a competitor should not be permitted to take a 'free ride' on the trademark owner's good will and reputation."⁷⁹

This sense that junior users of a mark are free riding on another's investment pervades modern trademark cases and in many cases seems to give comfort to courts in refusing to require rigorous explanations of harm to producers.

⁷³ 611 F.Supp. 360 (W.D. La. 1984)

⁷⁴ *Id.* at __.

⁷⁵ *Id.* at __.

⁷⁶ 544 F.2d 1167 (2d Cir. 1976).

⁷⁷ *Id.* at 1172. The court identified two other relevant interests: the mark owner's interest in protecting the good reputation associated with his mark from the possibility of being tarnished by inferior merchandise of the junior user; and the public's interest in not being misled by confusingly similar marks.

⁷⁸ *Aunt Jemima*, 247 F. at 410.

⁷⁹ 1 McCarthy on Trademarks and Unfair Competition § 2:30 (4th ed.)

III. Modern Marketing Literature and Consumer Processing of Brands

These arguments offered in support of modern trademark rights all make assumptions about how consumers will react when they encounter a known mark on a non-competitive good or service. But we need not rely entirely on assumptions here – a growing body of literature, particularly in the marketing area, specifically addresses the assumptions underlying trademark law.⁸⁰

This literature is multi-faceted, but two particular lines are relevant here. First is the body of literature dealing with the impact of brand extension. This literature seeks to determine the conditions in which brand extensions are likely to work, particularly whether goodwill related to a known brand will transfer to use on a new product. The brand extension literature therefore speaks most directly to the arguments regarding market preemption and free riding, as it seeks to identify when the junior use will benefit from goodwill associated with the senior use.

A second line of literature, which could be described as a subset of the brand extension literature, deals with the consequences of brand extension for parent brands. More specifically, these studies attempt to determine whether and when ill-advised brand extensions cause consumers to alter their perceptions of parent brands operating in their original markets. In other words, these studies evaluate the feedback effect of failed extensions.

These bodies of literature are more useful here than those studies dealing specifically with likelihood of confusion because the confusion studies typically seek only to measure when confusion is likely rather than the consequences of confusion. Moreover, those studies most often involve competitive or closely related products. Since I am interested here in the issue of harm that follows from confusion regarding the source of non-competing goods, these studies simply are not on point. The brand extension and feedback studies have another advantage. Respondents in these studies seem to have no doubt that the products on which they are seeing a known mark emanate from the same source. They thus measure the effect of use on new products in conditions that simulate 100% confusion. Since trademark infringement cases will almost never involve confusion that comes even close to that level, these studies, if anything, overstate the case for judicial intervention.

⁸⁰ The methodology of this literature limits its reliability as a measure of real-world reactions. Most of the studies pose questions to a limited in number of undergraduate students, and the questions tend to be hypothetical in nature – some involving brands that do not exist at all and others involving real brands but imagined product extensions. There are good reasons for structuring the studies this way (researchers have limited resources and want to control for as many variables as possible). Nevertheless, the results have to be taken with a grain (pound) of salt, because they do not approximate the circumstances in which consumers would be exposed to brands in the real world. In most of these experiments, consumers are asked to provide immediate responses to stimuli they're seeing for the very first time without any real world context.

A. Terminology and Methodology

Marketing literature focuses on brands and not simply trademarks. Trademarks play an important role here, since many of the studies specifically involved use of a known trademark on new goods. But the effects these studies attempt to measure are the effects on brands, which are conceptually broader than trademarks.

Marketing literature describes a brand in large part in terms of its “brand attribute associations.” Brand attribute associations are informational nodes linked to the brand in memory that contain the meaning of a brand for consumers, and marketers use these associations to differentiate, position, and extend brands by suggesting attributes or benefits of purchasing the or using the specific brand.⁸¹ According to Aaker and Keller, product attributes or characteristics are the most-used brand positioning devices.⁸² But brands also can have associations with use situations, a type of product user, a place, or a product class.⁸³ These functional and symbolic brand beliefs (“brand attribute associations”) comprise brand image, which appears to be largely product category specific.⁸⁴ Nevertheless, it is not always the case that consumers emphasize the same elements for all brands in the same product category. For example, ROLEX and TIMEX might not share brand image dimensions because ROLEX might be more associated with prestige and stored with other prestige brands in a superordinate concept category.⁸⁵

Related to but distinct from brand image is the concept of brand attitude. Brand attitude “is based on certain attributes such as durability, incidence of defects, serviceability, features, performance, or ‘fit and finish.’”⁸⁶ Brand attitude differs from the specific associations, however, because it contains elements of affect not necessarily linked to a particular attribute or association. Indeed, this affect component of brand attitude may be stored and retrieved in memory from the underlying attribute information.⁸⁷ Several marketing scholars have concluded that brand attitude is a global

⁸¹ David A. Aaker & Kevin Lane Keller, *Consumer Evaluations of Brand Extensions*, 54 J. MKTG. 27, 28 (Jan. 1990).

⁸² Id.

⁸³ Id. Aaker and Keller offer as examples Lowenbrau’s association with relaxing with good friends, Mercedes with wealthy, discriminating people, Toyota with Japan. They also note strong product class associations for Budweiser, Chevrolet, Levi’s, and Bank of America, and that the product class associations can themselves have additional associations.

⁸⁴ George S. Low & Charles W. Lamb, Jr., *The Measurement and Dimensionality of Brand Associations*, 9 J. PROD. & BRAND MGMT. 350, 352 (2000).

⁸⁵ C.W. Park, B.J. Jaworski & D.J. MacInnis, *Strategic Brand Concept-Image Management*, 50 J. MKTG. 135 (1986)

⁸⁶ Id. at 29.

⁸⁷ Id.

assessment of quality that is at a higher level of abstraction than a particular attribute of a product.⁸⁸

A third concept of consumer brand assessment is perceived quality, which is defined as the consumer's judgment about a product's overall excellence or superiority.⁸⁹

These concepts all clearly are related, but research suggests that they behave as separate dimensions in at least some circumstances. Moreover, Low and Lamb conclude that dimensionality varies with familiarity – “well known brands tend to exhibit multi-dimensional brand associations, consistent with the idea that consumers have more developed memory structures for familiar brands.”⁹⁰ Moreover, they argue, “consumers may be willing to expend more energy in processing information regarding familiar brands compared to unfamiliar brands.”⁹¹

B. What Makes Brand Extensions Work?

Brand extension refers to the practice of using an existing, known brand on new products. Nike, Inc., for example, may want to capitalize on the renown of its NIKE mark, which it uses primarily for athletic shoes and apparel, for new products it decides to offer. Since the goal of brand extension is to leverage the goodwill of a known mark into new markets, the success of brand extensions depends on the likelihood that some positive brand associations will transfer effectively from the original (“parent”) product to the new product.

One branch of marketing literature attempts to study the conditions in which positive brand associations will transfer to new products. This literature suggests that brand associations do not always transfer, and that such transfer depends primarily on the “fit” between the product on which the parent brand has been used and the product to which it is extended.

Fit in this context can be measured in a couple of different ways. One fit measure is “complementarity” – the extent to which consumers view two product classes as complements. Products are considered complements if both are consumed jointly to satisfy some particular need.⁹² A second fit measure is “substitutability” – the extent to which consumers view two product classes as substitutes. Substitute products tend to have a common applications and use contexts such that one product can replace the other in usage and satisfy the same needs.⁹³ Aaker and Keller describe ski clothing as a complementary extension for the ROSSIGNOL brand, which originally made downhill skis. Cross-country skis or ice skates might be substitute extensions. The last fit measure

⁸⁸ Zeithaml (1988); Aaker & Keller (1990) at 29.

⁸⁹ Low & Lamb; Zeithaml.

⁹⁰ Low & Lamb at 361.

⁹¹ Id.

⁹² See Aaker & Keller, Consumer Evaluations of Brand Extensions, 54 J. Mktg. 27, 30 (1990).

⁹³ Aaker and Keller, supra note __.

is “transferability” – the perceived ability of a firm operating in the first product class to make a product in the second product class.⁹⁴ Transferability relates to the relevance of particular expertise in the new product category, specifically consumers’ perceptions of the extent to which the company can use its people, facilities and skills to make the new product or offer the new service.⁹⁵

Beyond the relationship of the products as a primary determinant of transferability, transfer of particular brand attribute associations depends on whether the associations necessarily mean anything in the new context. A particular brand belief or association that is highly valued in one context may not be in another, even when there is fit between the products or services. Despite the similarity between products, for example, consumers may value thickness in tomato-based juices but not in children’s fruit flavored drinks.⁹⁶ Likewise, pulp is related to high quality in orange juice but to low quality in apple juice.⁹⁷ The extent of transfer from the original product to the extended product therefore depends, in addition to the strength of the association, on other factors such as the appropriateness of the association and whether cues are present to activate an association.⁹⁸

Significantly, all of these variables of transferability depend on the nature of the respective products and how they are positioned in the marketplace. Thus while it is undeniably true that modern marketing focuses on brand identity and producers’ ability to create associations with a brand, it is also abundantly clear that the meaning field of a particular mark has as a central component the product or product class to which the mark has been applied.

C. When Can Brand Extensions Harm the Parent Brand?

[Note to Chicago IP readers – this section is just a sketch right now. I need to put in a lot more information about the studies, but I’m just summarizing what I think are the findings here.]

A related line of literature deals with the issue of potential feedback effects on a parent brand if it is extended. This literature offers somewhat contradictory lessons. A few studies do claim to find a negative impact from failed brand extensions. These studies generally involve closely related products as the extension (extending, for example, from low-fat to non-fat yogurt), and they seem to be in the minority. Many of the studies find little or no impact on a parent brand from failed brand extension. Consumers in these cases, though they don’t give the new product the benefit of the goodwill associated with the parent brand, also do not transfer their bad experiences back to the parent brand.

⁹⁴ Id.

⁹⁵ Id.

⁹⁶ Aaker and Keller, *supra* note _ at 28.

⁹⁷ Id.; Zeithaml.

⁹⁸ Id. at 29.

Even if we take for granted that some uses of a mark on non-competitive products could have negative feedback effects for a mark owner (those where the junior use is for closely related products), these harms need to be accounted for in light of any benefits mark owners might derive from third-party use.

At least one strand of the literature suggests pretty clearly that, as long as the mark is not used by others in connection with negative images, any use of a mark by others actually increases the value of the mark.⁹⁹ Specifically in the context of brand extension, Maureen Morrin found that exposure to extension information actually facilitated parent brand retrieval by activating the parent brand's associational network.¹⁰⁰ Moreover, while Morrin found that non-dominant brands benefited more from the facilitation effects of extensions, dominant brands benefited as well.¹⁰¹ Also, for nondominant brands, while high fit extension had greater facilitating effects than low fit extensions, even low fit extensions facilitated matching as compared to pre-exposure matching. For dominant brands, fit seemed not to affect categorization speed, which increased post-exposure.

At the affective level, several studies indicate that mere familiarity with a mark increases its likeability. There may be rational explanations for this phenomenon – consumers may believe that familiar brands are so because they have been around a long time and therefore stand for reliability. But it may also be that individuals simply come to believe that they like what they are familiar with.

These findings help explain studies done by researchers such as Sanjoy Ghose and Subramanian Balachander that show that offering and advertising new products under one brand seems to create reciprocal spillover benefits – the mere existence of the second product actually activates the information nodes related to brand memory and has positive spillover effects on the parent.¹⁰² This positive effect may in some cases be offset by substitution effects – if a new product could be used as a substitution for the old product, introduction of the new product may depress demand for the older product (as a new Jaguar model may depress demand for used models). But such offsetting effects would only arise in cases where the junior product was an acceptable substitute for the senior (i.e., where the junior product is quite similar to the senior). Even when these substitution effects are present, it is not obvious which effect – substitution or spillover – will be stronger.

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¹⁰⁰ Maureen Morrin, *The Impact of Brand Extensions on Parent Brand Memory Structures and Retrieval Processes*, 36 *J. Mktg. Research* 517, 520 (1999).

¹⁰¹ *Id.* at 521 (noting that respondents were able to respond approximately 641 milliseconds faster to category matching for nondominant parent brands and 247 milliseconds faster for dominant parent brands). Dominance here to the extent to which a particular brand is recalled in response to a category cue: a dominant brand, like CREST, is one that tends to be recalled first when prompted with the category cue, like “toothpaste.”

¹⁰² Sanjoy Ghose & Subramanian Balachander, *Reciprocal Spillover Effects: A Strategic Benefit of Brand Extensions*, 67 *J. Mktg.* (2003). In fact, Ghose and Balachander find that the reciprocal spillover effect benefiting the parent brand is stronger than the forward spillover effect benefiting the junior use, for which there was no real evidence in the particular study. This means that the benefits to the senior user actually exceed those gained by the junior user.

IV. Lessons From the Marketing Literature

Taken as a whole, the evidence from the brand extension and feedback literature does not support a general assumption that use of a known mark on non-competitive goods has any negative impact on the parent brand. At best, the evidence suggests that negative consequences might arise in cases where there is a high level of “fit” between the junior and senior uses. Those certainly seem to be the only cases in which junior uses might have a negative feedback effect on a brand. But our conclusion here could only be a weak one, because any such negative effects would have to be balanced against the positive feedback effects of the junior use.

Fit between the junior and senior user’s goods or services also seems critical to any claim that the junior user preempts a market opportunity for the mark owner or that the junior user is free-riding on the mark owner’s reputation. If, as the studies seem to indicate, brand attribute associations transfer to new products only when there is fit between the products, there would only be something on which to free ride in those cases. And again, given the evidence that third party uses sometimes have positive spillover effects on the parent brand, it may not be that junior users are “free” riding at all.

At a doctrinal level it seems abundantly clear that, whatever the justification of protection, the similarity of the goods or services factor ought to have much more significance in courts’ analyses. According to Barton Beebe’s empirical research “the similarity of the marks factor is by far the most important factor in the multifactor test,” and “a finding of bad faith intent creates, if not in doctrine, then at least in practice, a nearly un-rebuttable presumption of a likelihood of confusion.”¹⁰³ This seems, in light of the marketing research, entirely misguided. Clearly there must be some similarity between the plaintiff’s and defendant’s marks for there to be infringement. But the marketing research tells us that even perfect similarity will not matter unless there is fit between the parties’ goods. Similarity of the goods therefore seems a threshold issue, particularly since intent is such a malleable concept and courts have found no systematic way to evaluate similarity of the marks.¹⁰⁴ Putting proximity of the goods at the forefront would particularly require courts to define that concept in terms of fit, focusing on complementarity, substitutability, and transferability.¹⁰⁵ Only when goods are similar in that respect is there any risk at all that senior users will suffer harm.

¹⁰³ Barton Beebe, *An Empirical Study of the Multifactor Tests for Trademark Infringement*, 95 Cal. L. Rev. 1581, 1623 (2006).

¹⁰⁴ *Id.* at 1625 (describing the similarity analysis as “a frustratingly nebulous and unsystematic inquiry, one that is typically little more than an exercise in abstract formal comparison”).

¹⁰⁵ While Beebe’s research suggests a relationship between courts’ findings on similarity of goods and likelihood of confusion, it does not disclose courts’ methodology for determining similarity of goods. *Id.* Anecdotally we can see courts defining similarity in a variety of ways, including taking into account whether the junior users goods are those that might be licensed. By defining similarity this way, courts can give effect to the

Second Circuit's view that similarity of goods is unimportant without actually saying as much. *Vitarroz Corp. v. Borden, Inc.*, 644 F.2d 960, 967 (2d Cir. 1981) ("since modern marketing methods tend to unify widely different types of products in the same retail outlets or distribution networks, this factor is not of overriding importance.")(citation omitted).