

Shangfeng Enterprises

1410th Commissioners' Meeting (2018)

Case: Shangfeng Enterprises violated the Fair Trade Law for adopting unlawful means to market water purifier accessory products

Keyword(s): Water purifier, water purifier filter, raffle activity

Reference: Fair Trade Commission Decision of November 14, 2018 (the 1410th Commissioners' Meeting); Disposition Kung Ch'u Tzu No. 107102

Industry: Manufacture of Other Domestic Appliances (2859)

Relevant Law(s): Article 25 of the Fair Trade Law

Summary:

1. An e-mail sent by a complainant stated that he participated in a raffle activity when dining at a steakhouse and later was notified he won a water purifier but had to pay 3,999 New Taiwan dollars (same currency applies hereinafter). He thought the conduct was in violation of the Fair Trade Law and filed a complaint with the FTC.
2. Findings of the FTC after investigation:
According to the wording of "Green Energy water purifier" on the poster provided by the steakhouse, the FTC had found the registered website and the contact phone number of the water purifier company. The FTC requested the provider of the domain and the fixed network to provide information on the registrants. Afterwards, when the registrants came to the FTC to give their statements, the FTC found out they were employees of Shangfeng Enterprises. They explained the process of the raffle activity and presented their arguments. Later, the FTC also verified with the stores collaborating with Shangfeng Enterprises to organize raffle activities and the water purifier supplier and learned that Shangfeng Enterprises had held two raffle activities between August 2017, when the company was founded, and June 2018. On both occasions, the same poster and raffle tickets were used. The poster indicated that there were four approaches to draw out winners, including the weekly draw, the special offer draw, the value-added draw and the installation draw. Shangfeng Enterprises also admitted the weekly draw and value-added prizes were actually the same. The difference was how the winners were created: by drawing once every week for four weeks in a series or by drawing all the winners at one time. In addition, the collaborating stores could only choose one of the two different ways to draw out winners.
3. Grounds for disposition:
 - (1) The poster from Shangfeng Enterprises indicated that winners would be drawn out in four approaches. Among them, the prizes of the weekly draw and the value-added draw were the same. The difference was how the winners were drawn out and the collaborating stores could only choose one of the drawing approaches. As for the special offer draw and the installation draw, they were adopted to present the special offer prize and service separately. The main purpose was to promote sales of water purifiers and attract consumers to fill out the raffle tickets. In other words, it was obvious that Shangfeng Enterprises took advantage of consumers' mentality of aleatory to hold each raffle activity and

obtain the personal information of participants in order to promote the company's products over the phone later on.

- (2) Shangfeng Enterprises admitted that it only sold water purifiers. The raffle prizes, donated by its suppliers, were indicated as worthy of NT\$ 25,800 per piece. However, the FTC's investigation showed the purchase cost was far lower than the alleged value. Apparently, Shangfeng Enterprises exaggerated the value of the product in order to take advantage of consumers' mentality of aleatory as a result of the erroneous expectation of the quality of the water purifier. Moreover, each winner had to pay NT\$ 3,999 which Shangfeng referred to as the special offer price. Obviously, the company used the low-cost product as the bait to take advantage of consumers' mentality of aleatory and concealed its real intention of marketing water purifiers.
- (3) Filter replacements are required for the filters of water purifiers to achieve the purpose of water purification. As a result, the costs shall not be the only concern when consumers shopped for water purifiers, consumers would also have to take into consideration the expenses of filter replacement. At the same time, Shangfeng Enterprises admitted filter replacement would be necessary. However, since filters were not sold during the activity, the company did not set the filter price. This increased the consumers' uncertainty about filter replacement in the future and consumers were unable to compare filter prices in advance. In consequence, consumers were caught in information asymmetry.
- (4) As mentioned above, Shangfeng Enterprises used the pretext of holding raffle activities to attract people with no intention to make purchases and obtain their personal information. Then the company informed certain people that they were winners and exploited their mentality of aleatory. Furthermore, the company lied about the price of the water purifier. Caught in information asymmetry, consumers had wrong idea about the value of the purifier and decided to make the transaction. The overall marketing approach was deceptive and unfair conduct able to affect trading order in violation of Article 25 of the Fair Trade Law. Therefore, the FTC cited the first section of Article 42 of the same Law and imposed an administrative fine of NT\$ 50,000 on Shangfeng Enterprises.

Appendix:

Shangfeng Enterprises' Uniform Invoice Number: 72664771

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