

## **Crown & Fancy**

1428<sup>th</sup> Commissioners' Meeting (2019)

Case: Crown & Fancy was complained for violating the Fair Trade Law by failing to fully disclose important franchise information

Keyword(s): Franchise, important information, information disclosure

Reference: Fair Trade Commission Decision of March 20, 2019 (the 1428<sup>th</sup> Commissioners' Meeting); Letter Kung Fu Tzu No. 108260177

Industry: Restaurants (5611)

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

### Summary:

1. The FTC received complaints from private citizens that Crown & Fancy Chain Co., Ltd. (hereinafter referred to as Crown & Fancy) failed to fully disclose important franchise information, including the various expenses before their business operations started, when recruiting franchisees for the Crown & Fancy Coffee chain. They claimed that the conduct was in violation of the Fair Trade Law.
2. Findings of the FTC after investigation:
  - (1) Before establishing a franchise contract, Crown & Fancy would collect a deposit and sign a preliminary franchise agreement with its prospective franchisee. If the prospective franchisee decided not to sign the official franchise contract later on, Crown & Fancy would return the deposit. The company had indeed offered the evidences that were sufficient to prove that it had returned deposits. Under such circumstances, the FTC could not conclude the company had done anything to restrict its prospective franchisees from switching to other franchisors. However, Crown & Fancy still had the obligation to provide its prospective franchisees with important franchise information before contract signature.
  - (2) According to the written statements and evidences from the informer and Crown & Fancy, it was certain that Crown & Fancy had disclosed two kinds of information, namely, the company's management project or plan to set up other franchisees in the operating area where the prospective franchisee would be located, and the contents and approaches of assistance and training the company would provide to its franchisees. Meanwhile, Crown & Fancy had posted the addresses of all the retail outlets on its website. In addition, as contract cancellation and termination had never happened until after 2016, the company was not required to disclose such information to its prospective franchisees when it conducted the recruiting between 2012 and 2016, and the fact of non-disclosure had no impact on the interests of trading counterparts. As for the information associated with intellectual property rights, the contract presented by the informer indicated trading counterparts could learn about the names of trademark rights of the Crown & Fancy brand, as well as the range of use and the restrictions entailed. Since trading counterparts already knew the names of trademark rights, they could access the Trademark Search System of the Intellectual Property Office of the Ministry of Economic Affairs to find out more about the contents and validity periods of the trademark rights. In other words, the information disclosed by Crown & Fancy was unlikely to cause any influence or damage when prospective franchisees evaluated whether they would

make the transactions with Crown & Fancy.

- (3) As for the information about “expenses before business operations started,” the estimated franchise fee and costs of equipment and engineering were already specified in the franchise description provided by Crown & Fancy. However, the informer refused to disclose his identity and the FTC could not find information related to the expenses of coffee cups and other products. Each side had its own story and it was difficult for the FTC to conclude Crown & Fancy had forced franchisees to purchase coffee cups and other products before their business operations started. Furthermore, during the period of the investigation conducted by the FTC, Crown & Fancy already expressed that, in the future, it would request prospective franchisees to signed their names while they read the information about raw material items and the corresponding amounts so that there would not be any further controversies.
3. After assessing the information disclosure situation in this case, the FTC found it difficult to conclude Crown & Fancy had violated Article 25 of the Fair Trade Law by failing to fully disclose important franchise information such as the expenses required before business operations began. Nonetheless, to prevent further controversies in the future and maintain market trading order, the FTC issued a letter to remind Crown & Fancy to be aware of related regulations in the Fair Trade Law.

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