

## **Ruday Co., Ltd.**

1460<sup>th</sup> Commissioners' Meeting (2019)

Case: Ruday was complained for failing to disclose important franchise information in violation the Fair Trade Law

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

Reference: Fair Trade Commission Decision of October 31, 2019 (the 1460<sup>th</sup> Commissioners' Meeting)

Industry: Restaurants (5611)

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

### Summary:

1. The FTC received complaints that Ruday Co., Ltd.(hereinafter referred to as "Ruday") did not provide information regarding the expenses needed or expected for purchasing materials during operation and the restriction on minimum quantities of materials to be ordered when the company recruited franchisees for the Ruday Spicy Luwei (snacks stewed with soy sauce). The failure to fully disclose such information was in potential violation of the Fair Trade Law.

2. Findings of the FTC after investigation and the results:

- (1) During the recruitment process, Ruday would sign with prospective franchisees a letter of intent for cooperation and at the same time collect NT\$30,000 as the performance deposit. The letter of intent for cooperation included the stipulation that "After the letter of intent for cooperation is signed, if the prospective franchisee fails to sign the official franchise agreement within the period specified, the letter of intent would become invalid and the performance deposit will not be returned." Since the deposit was not a small amount, the above stipulation that it would be confiscated if the official franchise agreement was not signed could create certain pressure on people interested in joining the franchise, lead to a lock-in effect, and reduce the possibility of prospective franchisees ending up switching to other franchisors. For this reason, Ruday had the obligation to provide prospective franchisees with important franchise information before they signed the letter of intent for cooperation.
- (2) Although the information such as the expenses needed or expected for purchasing materials during operation and the restriction on minimum quantities of materials to be ordered was indicated on the Ruday retail outlet order form attached to the franchise agreement and the franchisee management agreement, Ruday admitted that the franchise agreement would be provided only after the letter on intent for cooperation was signed. In other words, the company did not disclose the aforementioned information before signing the letter of intent for cooperation with potential franchisees.
- (3) Accordingly, when recruiting franchisees Ruday did not disclose important franchise information, including the expenses needed or expected for purchasing materials during operation and the restriction on minimum quantities of materials to be ordered before the letter of intent for cooperation was signed with prospective franchisees. The practice was obviously unfair to people interested in joining the franchise. Nonetheless, Ruday recruited only a small number of

franchisees during the period when the FTC investigated the case and the company had settled the dispute with the informer. The impact on the trading order in the market was thus limited and the FTC found it difficult to conclude that Ruday had violated Article 25 of the Fair Trade Law.

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