

Macu Tea Shop Co., Ltd.

1492nd Commissioners' Meeting (2020)

Case: Macu Tea Shop violated the Fair Trade Law by not fully disclosing important franchise information before franchise contract signature

Keyword(s): Franchise, important information, material cost

Reference: Fair Trade Commission Decision of June 10, 2020 (the 1492nd Commissioners' Meeting); Disposition Kung Ch'u Tzu No.109037

Industry: Beverage Serving Activities via Shops (5631)

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

Summary:

1. As franchisors often posted franchisee recruitment information on their company websites, the FTC therefore went online to take a look at such information. When visiting the franchisee recruitment page of Macu Tea Shop Co., Ltd. (hereinafter referred to as Macu Tea Shop), the FTC had the suspicion that the company did not fully disclose important information with regard to the expenses needed before a franchisee started the operation. The conduct was in violation of Article 25 of the Fair Trade Law and therefore the FTC launched an investigation.

2. Findings of the FTC after investigation:

- (1) An inspection of the documents Macu Tea Shop provided to prospective franchisees during the recruitment process showed important franchise information such as “the amount or estimated amount of expenses for materials to be purchased before the operation begins” and “the amount or estimated amount of expenses for materials to be purchased during the operation” was not disclosed.
- (2) Meanwhile, the questionnaire survey administered on and interviews conducted with franchisees of Macu Tea Shop revealed, before the contract was signed, Macu Tea Shop would either only give an oral explanation or not provide the aforesaid important franchise information at all. Some franchisees expressed that the failure of Macu Tea Shop to fully disclose important information had affected their transaction decisions or interests.

3. Grounds for disposition:

- (1) As Macu Tea Shop failed to fully disclose important franchise information such as “the amount or estimated amount of expenses for materials to be purchased before the operation begins” and “the amount or estimated amount of expenses for materials to be purchased during the operation” before the contract was signed, parties interested in joining the franchise could not sufficiently assess the amount of capital they needed to invest and the expenses they had to cover during the operation. Such information was an important concern of parties interested in joining the franchise and it was also an important consideration when such parties evaluated whether they would sign the contract or choose another franchisor. In other words, Macu Tea Shop had the information advantage but did not fully disclose the aforementioned important franchise information. By doing this,

Macu Tea Shop took advantage of the information asymmetry of its trading counterparts. In consequence, the practice could impede its trading counterparts from making correct transaction decisions and jeopardize the interests of its trading counterparts. At the same time, the practice could also cause competitors to lose their opportunities to sign contracts with potential trading counterparts. The result was unfair competition which could bring damage to trading order in the market. It was obviously unfair conduct able to affect trading order in violation of Article 25 of the Fair Trade Law.

- (2) After assessing the duration of the unlawful act, the amount of sales, the total number of franchisees, the level of its cooperativeness throughout the investigation, the offense being the first one and the company having made corrections, the FTC cited the first section of Article 42 of the Fair Trade Law and imposed an administrative fine of NT\$100,000 on the company.

Appendix:

Macu Co., Ltd.'s Uniform Invoice Number: 54213331

Summarized by: Jhou, You-Lin; Supervised by: Ho, Yen-Jung