

PUBLICATION

Franchisor Protected from Unfair Competition, Not All Competition

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The fine line between protecting your system's legitimate interests and trying to eliminate a competitor can be hard to define in advance. With social media so important for consumer businesses, the line is even more difficult to identify in advance. A franchisor should not presume that its branding and trade dress, even its recipes, are protectable or unique just because its documents claim that status.

Rib City Franchising, LLC franchises barbeque restaurants across the United States. Rib City entered into a License Agreement with Toni Jorgenson and Way Out West Restaurant Group (WOW) to operate a Rib City franchise in American Fork, Utah. The franchisee failed to make payments required under the License Agreement and, on July 13, 2015, Rib City terminated the License Agreement.

Rib City filed a lawsuit in federal court in Utah claiming that on or around the termination date, Ms. Jorgenson transferred the Rib City Grill franchise — including client and supplier lists, menus, recipes, décor, social media account and the Rib City telephone number — to Sarah Bowen. Ms. Bowen had worked for a time as an assistant manager at the Rib City location. Ms. Bowen and her company, Culinary Designs, LLC, began operating a barbeque restaurant in the same location under the name "Pig City BBQ."

In its lawsuit, Rib City also claimed that Ms. Bowen began to promote Pig City BBQ using various social media sites such as YELP and Trip Advisor which were previously maintained to promote the Rib City Grill. According to Rib City, rather than create new profiles, Ms. Bowen simply renamed these existing web pages, resulting in Rib City's reviews, photos, and registered marks appearing under Pig City BBQ's name.

A hearing was held shortly after suit was filed and the court ordered the defendants to take any action reasonably necessary to remove the Facebook, Twitter, YELP, Trip Advisor, Four Square and YouTube website pages that were using or referencing Rib City marks. The court also required the defendants to take any action reasonably necessary to disconnect the Rib City telephone number and to take any action reasonably necessary to prevent that number from connecting to Pig City BBQ.

By this order, the court took the necessary step to protect the integrity of Rib City's registered trademark and to prevent the wrongful use of these marks in connection with a competing business. However, Rib City was not satisfied. Rib City sought a further order from the court requiring the defendant to cease all use of what it described as the confusingly similar "Pig City BBQ" name; to remove all trade dress associated with the former Rib City Grill Restaurant; to cease any and all use of Rib City's confidential, proprietary and trade secret information, "including but not limited to Rib City Grill trade secret recipes and ketchup;" and to cease operating the competing and infringing Pig City BBQ Restaurant altogether.

After further consideration of Rib City's additional requests, the court concluded that while it was proper to take action to stop the wrongful use of Rib City's registered trademark, Rib City was not entitled to the additional relief that would effectively put its new competitor out of business.

Rib City argued that its name and "Pig City BBQ" were confusingly similar, but the court disagreed. The court pointed out that the actual graphics of the respective service marks were quite different. The court found no credible evidence demonstrating that the use of the competing mark created confusion in the marketplace.

Rib City next argued that the defendant's use of its trade dress and décor was improper. In order to prevail on this claim, Rib City was required to prove that its claimed trade dress is either inherently distinctive or has acquired a secondary meaning expressly associated with Rib City in the marketplace, and that the operation of the Pig City BBQ Restaurant created a likelihood of customer confusion. The court found nothing particularly distinctive about Rib City's décor and denied the request.

Rib City also argued that Pig City BBQ had essentially copied its menu and was improperly using Rib City recipes. The court ruled that the Rib City menu is not a trade secret. It is available on line. There is nothing distinctive about the menu; it contained most of the items found at any barbeque restaurant. Finally, the court noted that Rib City produced no evidence to indicate that Pig City BBQ was using its recipes, or that those recipes qualified as "trade secrets." The decision doesn't say whether Rib City had any agreements with the landlord or the managers of the franchised restaurant about continuity of the business, or protecting the system information and branding after the franchise left the chain.

In short, Rib City terminated its franchise location in American Fork, Utah. A new entity, not the terminated franchisee, began to operate a competing barbeque restaurant at that facility post-termination. The new operator initially took over Rib City's social media sites and, in doing so, used Rib City registered trademarks to promote its new barbeque restaurant. It also used a telephone number that belonged to Rib City. These actions were unlawful and properly enjoined by the court. Not satisfied, Rib City pressed for additional relief which essentially would have put Pig City BBQ out of business. In the era of fear for joint employer status that may prevent franchisors from asking for manager non-competition agreements, this case highlights the risk of not engaging in that protective practice. This opinion also reminds us that the purpose behind trademark and unfair competition laws are to prohibit and punish the wrongful use of trade names, service marks or, in certain circumstances, trade dress which consumers specifically associate with the owner of those marks. The purpose is to prevent unfair competition. The protection provided by these laws does not extend so far as to eliminate lawful competitors. The case reminds us of the old adage, "pigs get fat, hogs get slaughtered."