Recent and developing trends in false advertising disputes

A group of senior trademark and brand professionals convened in New York in January to discuss recent and developing trends in false advertising law. This special report details some of the key points and presents essential takeaways

On January 22 2018 a group of corporate counsel from various industries sat down with Finnegan attorneys Doug Rettew, Anna Naydonov and Morgan Smith, and *World Trademark Review* editor Trevor Little, at the W Hotel in downtown Manhattan to discuss recent and developing trends in false advertising law.

Throughout the afternoon, participants discussed a wide range of false advertising topics – including class actions, puffery, use of consumer surveys in false advertising cases, false advertising disputes brought under the Lanham Act, National Advertising Division (NAD) proceedings, Federal Trade Commission (FTC) enforcement and native advertising.

While the exact nature of the afternoon's discussions – as well as who said what – was meant for only those present, Rettew, Naydonov and Smith have put together a special report detailing some of the key points.

Finnegan and *World Trademark Review* are grateful to the following participants for their contribution, commitment and enthusiasm throughout the day:

- Nick Barnhorst (Fresh)
- Antonio Borrelli (Marc Jacobs)
- Jessica Cardon (Quality King Distributors)
- Joseph Conklin (Coty)
- Patrick Flaherty (Verizon)
- Shawn Flowers (Time)
- Roger Kim (Nespresso USA)
- Judy McCool (HBO)
- Laura Quintano (Combe)
- Lena Saltos (URBN)
- Pamela Weinstock (Kenneth Cole)

False advertising

Industries of all types face a myriad of challenges associated with developing effective, relevant and permissible advertising. These come from many sources, including consumers, competitors and regulatory agencies. Some sectors – such as food, beverage and personal care products – tend to be more seasoned than others when it comes to addressing these challenges, in part because they are so heavily regulated. However, the age of innovation and information is changing nearly every aspect of false advertising disputes. Industries that were not previously common targets for complaints now find themselves mired in litigation. New technologies have made it possible to more accurately test product composition and substantiate (or disprove) ingredient claims. Online consumer surveys have made it easier and less expensive to obtain primary source data about consumer impressions and purchasing decisions. Even the nature of advertising itself has changed, bringing with it new legal issues and regulatory guidance. These issues and more were the subjects of the thoughtful discussion between Finnegan attorneys and industry leaders at *World Trademark Review*'s false advertising roundtable.

Consumer class actions

By far the most popular method of consumer redress is the class action. It is a powerful legal tool that, if successful, groups the claims of thousands into a single case with one – often large – monetary award. From a plaintiff's perspective, the class action transforms what would be David versus Goliath into Goliath versus Goliath by exposing the defendant company to large financial risk, often incentivising settlement. However, before an individual claim can become a class claim, the plaintiff must overcome several hurdles, giving defendants ample opportunity to undermine and challenge the plaintiff's case.

Puffery

One such challenge is a threshold question of whether the allegedly false statement is actual advertising, which is actionable, or mere puffery, which is not. 'Puffery' is defined as grossly exaggerated, hyperbolic claims or claims of general superiority over a competitor's product. Such statements cannot be objectively verified and therefore cannot be proven true or false.

While the distinction between advertising and puffery may be clear on paper, in practice it is often much murkier. Perhaps the most well-known example comes from the so-called 'pizza wars' between Papa John's and Pizza Hut. Papa John's began using the slogan "better ingredients, better pizza" in the 1990s. On its own, the slogan was likely just puffery. However, Papa John's then started an ad campaign stating that it "won big time" in taste tests over Pizza Hut and stated that its sauce and dough were better than Pizza Hut's because they were made with fresh tomatoes and filtered water and did not include ingredients such as xanthan gum and hydrolysed soy protein. In this context, "better ingredients, better pizza" became a quantifiable advertising statement that was false or misleading, at least according to the jury that heard the case. However, in a prime example of how blurred the line between advertising and puffery can be, the appeals court overturned the verdict and found in favour of Papa John's and its puffery.

More recent cases have left practitioners with no clearer guidance. In a case involving cosmetic products, the statements "naturally nourishing with our botanical blends" and "obsessively natural kids" were found to be false and misleading rather than mere puffery because the products contained various chemical ingredients (*Gasser v Kiss My Face, LLC*, 2017 WL 4773426 (ND Cal, October 23 2017)). According to the court, these statements were not puffery because "a reasonable consumer could interpret them to mean that [the] product is mostly natural" (*id* at *5). In a case about dog treats, the court found that "100% real wholesome and delicious" was not puffery, but that "good for pets" was (*In re Milo's Dog Treats Consolidated Cases*, 9 F Supp 3d 523 (WD Penn 2014)). However, the court cautioned that even "good for pets" could be transformed into an actionable claim if it "contribute[d] to the deceptive context of the packaging as a whole" (*id* at 541).

These cases and others highlight the importance of context in determining what is puffery and what is not. Courts often emphasise that, when determining whether a statement is mere puffery, "it must be considered in context of the whole label" (*Krommenhock v Post Foods, LLC*, 255 F Supp 3d 938, 965 (ND Cal, 2017)). Although the boundaries of puffery are frustratingly fuzzy, one thing is clear: defendants who support motions to dismiss by cherry-picking statements out of context will not succeed. Instead, defendants must explain why their statements, when taken in context, constitute puffery.

L-R: Shawn Flowers (Time); Anna Naydonov (Finnegan); Roger Kim (Nespresso USA); Antonio Borrelli (Marc Jacobs); Pamela Weinstock (Kenneth Cole); Joseph Conklin (Coty); Laura Quintano (Combe)

L-R: Judy McCool (HBO); Doug Rettew (Finnegan); Jessica Cardon (Quality King Distributions/Perfumania Holdings); Nick Barnhorst (Fresh); Patrick Flaherty (Verizon); Trevor Little (*World Trademark Review*)

Unfortunately, the importance of context leaves in-house counsel with few certainties when training their marketing departments. From their perspective, marketing staff often struggle to understand how a statement might be permissible in one instance but not in another. In an ideal world, in-house counsel could review each advertisement on a case-by-case basis. In practice, this would result in a creative bottleneck – unacceptable in today's fast-paced marketing environment. Many companies combat these problems by training marketing staff on broad concepts rather than bright lines and encouraging ongoing dialogue between the marketing and legal departments.

Lack of substantiation – no private right of action

Defendants can also challenge, before class certification, that a plaintiff's case is an improper lack of substantiation claim disguised as a false representation claim. This type of challenge is specific to California state law, which grants private plaintiffs the right to bring claims only for false or misleading statements; private plaintiffs cannot bring suit alleging that a statement lacks substantiation. The Ninth Circuit affirmed this principal in 2017 when it dismissed a complaint alleging that statements such as "clinically tested" falsely implied that the marketing claims were clinically proven by scientific proof (*Kwan v SanMedica Int'l*, 854 F 3d 1088 (9th Cir, 2017)). According to the court, this was merely an allegation that the defendant's advertising statements lacked substantiation, not that they were false or misleading (*id*). When an advertising claim involves language such as "tests prove", plaintiffs must be particularly careful to articulate their claims to make clear they are not challenging the "test proves" language. On the flip side, defendants should carefully scrutinise a plaintiff's complaint for a lack of substantiation claim disguised as a false representation claim and move to dismiss the former.

Use of surveys in class actions

If a case survives a motion to dismiss it proceeds to the class certification stage, where the plaintiff is tasked with showing that the case meets the stringent requirements for class actions. Before a case is certified as a class action, the individual plaintiff must show that:

- the class is so numerous that joinder of all members is impractical;
- there are common questions of law or fact;
- the claims or defences of the individual class representative(s) are typical of the claims or defences of the class; and
- the class representative will fairly and adequately protect the interests of the class (Fed R Civ P 23(a)).

Provided that these requirements are met, consumer class actions are most often certified under Federal Rule of Civil Procedure 23(b)(3), which requires that common questions of law or fact predominate over individual ones and that a class action is superior to other available methods for adjudicating the matter. Many state false advertising laws require a showing that the statement is false or misleading, and that it is material to the purchasing decision (ie, that the consumer relied on the advertiser's statement in purchasing the product). In false advertising class actions, plaintiffs must therefore show that the issue of materiality is common among the class and predominates over any individual issues.

Consumer surveys are a powerful tool for gathering primary source data regarding how consumers perceive advertising and what influences their purchasing decisions. Now that surveys are largely conducted online, rather than through mall intercepts, they are cheaper and more accessible to litigants. With this increased accessibility, consumer surveys are making their way into more and more class action cases for various reasons, including:

- to show that a statement is not false or misleading;

> **The age of innovation and information is changing nearly every aspect of false advertising disputes**

- to show that a statement is not material;
- to show that the issue of materiality does not predominate; and
- to show that the plaintiff's damage theory cannot be used on a class-wide basis.

In 2013 class actions were brought against several top tennis equipment manufacturers regarding claims that professional athletes played with the same rackets available at retail. Finnegan, in representing Head, successfully defeated class certification by using a consumer survey (*Ono v Head Racquet Sports USA, Inc*, 2016 WL 6647949 (CD Cal, March 8 2016)). The survey tested how consumers buy tennis rackets and what factors they look at to show that consumers buy tennis rackets for a number of different reasons. Head relied on the survey results to show that the issue of reliance or materiality did not predominate among the class and that the plaintiff was not typical of the class. The court ultimately agreed with Head and denied the plaintiff's motion for class certification (*id*).

Other cases have followed this trend. In a case involving energy drinks, the court denied the plaintiff's class certification motion, in part because the defendant's survey showed that purchasers bought the product for many reasons and only 2.2% of respondents attributed their purchase to "marketing efforts" (*In re 5-Hour Energy Marketing and Sales Practices Litigation*, 2017 WL 2559615 (CD Cal, June 7 2017)). Common issues thus did not predominate (*id*). In *Morales v Kraft Food Group, Inc* the plaintiff conducted a survey to measure the monetary value consumers placed on the term 'natural' when buying cheese (2017 WL 2598556 (CD Cal, June 9 2017)). Kraft ultimately succeeded in decertifying the class because the survey tested only consumer willingness to pay for 'natural' cheese, not the actual market value of the term – which was required to support the plaintiff's price-premium damages theory (*id*). On the plaintiff's side, a consumer survey in *Cohen v Trump* showed that over 80% of respondents reported that a university's advertising statements positively affected their decision to purchase the products, thus supporting the allegation of materiality (2016 US Dist LEXIS 117059 (SD Cal, August 29 2016)).

Consumer surveys are becoming increasingly popular in consumer class actions, on both sides of the 'v'. They can be used in a variety of ways to support or undermine the showings required for class certification and provide judges and juries with insightful evidence into consumers' purchasing decisions and the impact of certain advertising statements on those decisions.

Lanham Act false advertising disputes

Consumers are not the only source of false advertising complaints and companies today often find themselves facing complaints from their competitors as well. While comparative and referential advertising is popular and effective, the tactics are not without risk. For example, use of a competitor's brand in advertising – if done improperly – can expose the advertiser to claims of lack of substantiation, trademark infringement and, in some cases, counterfeiting.

For example, Tiffany & Co successfully claimed that Costco infringed its TIFFANY mark and sold counterfeit rings because the signage that Costco placed next to the rings displayed statements such as "Platinum Tiffany .70 VS2, 1 Round Diamond Ring" and "Platinum Tiffany VS2.1 1.00CT Round Brilliant Solitaire Ring" (*Tiffany & Co v Costco Wholesale Corp*, 127 F Supp 3d 241 (SDNY, 2015)). Costco argued that it did not use the TIFFANY mark at all but was instead using the generic term 'tiffany' to describe a particular type of pronged diamond setting. Costco submitted dictionary definitions, excerpts from the *Jeweler's Manual* and employee testimony to show that the term 'tiffany' was routinely used in a non-trademark, descriptive sense to refer to a style of pronged ring setting. For its part, Tiffany & Co submitted a survey showing that nine out of 10 consumers considered TIFFANY a brand identifier and that, when seen in the context of Costco's point-of-sale displays, four out of 10 respondents said that TIFFANY was being used as a brand name. The court ultimately sided with Tiffany & Co and in August 2017 awarded it $11.1 million in damages (three times Costco's profits) and an additional $8.25 million in punitive damages. Costco was also permanently enjoined from using 'tiffany' as a standalone term, without immediately being followed by modifiers such as 'setting', 'set' or 'style'.

This case serves as a strong reminder of the serious risks that can come with comparative and referential advertising. Indeed, some companies view these risks as so great, both from legal and business perspectives, that they avoid the issue altogether and simply do not refer to competitors in their advertising. Companies who find their brands used in another company's advertising take swift and forceful action against what they see as infringements and unsubstantiated claims.

Use of surveys in Lanham Act cases

As with class actions, consumer surveys play an increasingly important role in Lanham Act false advertising cases. In Lanham Act cases, consumer surveys are often the best evidence of whether a given advertisement has a tendency to mislead. Courts are increasingly reliant on such surveys and expect to see carefully crafted studies. For example, in a case between competitor LSAT test prep companies, *Themis Bar Review, LLC v Kaplan, Inc*, the Southern District of California noted that Kaplan's survey was "highly probative" on the issue of whether Themis's advertisement had a tendency to mislead (2016 US Dist LEXIS 38920 (SD Cal, March 24 2016)). In February 2017 the Fourth Circuit sharply criticised the plaintiff's lack of survey evidence when it upheld summary judgment in favour of the defendant (*Verisign, Inc v XYZ.com, LLC*, 848 F 3d 292 (4th Cir, 2017)).

It is clear that courts have come to expect consumer survey evidence in Lanham Act false advertising cases. However, not just any survey will do. Proper surveys must be carefully crafted to test the right audience (ie, actual or potential purchasers) in the right way. Surveys that are not constructed in this manner are of little value in modern-day litigation. In a case concerning scent-control clothing used for hunting, the Western District of Michigan rejected a consumer survey that

In-house attorneys are working closely with their business teams to establish digital marketing best practices as the law evolves. It is important to spell out in contracts with social media influencers the disclosures that should be made. It is equally important for your team to stay involved so that, among other things, you can ensure that proper disclosures are being used. Also, be aware that real estate on a post is limited, and some platforms incorporate video or click-through options that complicate how and where to include disclosures. It particularly helps to stay on top of developing norms regarding appropriate hashtags and placement for compensated posts.

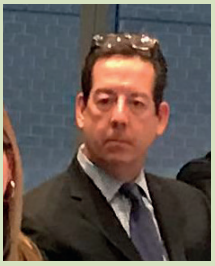
Pamela Weinstock, Kenneth Cole

The boardroom roundtable engaged lively discussion among in-house counsel from several consumer products industries. Of particular interest was a discussion focusing on use of the US National Advertising Division to resolve advertising disputes among companies, under the purview of the Council of Better Business Bureaus, in the manner that the UK advertising industry also self-regulates.

Jessica Cardon, Quality King Distributors

It was a great opportunity to spend some time with other in-house counsel to learn about their challenges with false advertising issues and pragmatic solutions for addressing those concerns. The boardroom roundtable was informal, which ensured that all participants had a chance to contribute."

Joseph Conklin, Coty



did not survey the appropriate universe of purchasers (*ALS Enters, Inc v Robinson Outdoor Prods, LLC*, 2017 WL 393307 (WD Mich, January 30 2017)). ALS's survey tested only whether end consumers found the advertisement in question misleading but was silent on the issue of whether the retailers who purchased the defendant's product were deceived (*id*). Given the limited applicability of ALS's survey, the court found that ALS failed to present evidence that retailers – as opposed to end consumers – were deceived.

These and other recent cases show that great care is required in constructing consumer surveys and that they are of limited value if not designed to capture the appropriate universe. However, when carried out correctly, they provide powerful evidence of whether a defendant's advertising statement has a tendency to mislead consumers.

NAD proceedings

The National Advertising Division (NAD) is an administrative body that monitors national advertising in all media for truth and accuracy. For the most part, its cases arise when a competitor challenges another company's advertising, although the NAD does also engage in self-regulatory actions. To bring a challenge, the challenging party submits a letter of complaint to the NAD including the advertisements at issue. The advertiser has the option of responding to the allegations, and the NAD issues a written decision within 60 days of the initial complaint. If an advertiser receives an adverse decision, it can comply with the recommendations, appeal to the National Advertising Review Board or refuse to comply. If an adverse decision issues, the advertiser has five business days to submit a statement as to whether it will modify or discontinue the ad in question. NAD proceedings are confidential; only the challenger's and advertiser's positions, the NAD's decision and the statement from the advertiser are made public.

Why participate?

NAD proceedings and compliance with its findings are voluntary, although most advertisers actively participate and comply with the NAD's recommendations. Non-compliant advertisers risk being referred to the appropriate regulatory agency or else facing private litigation. In fact, enterprising plaintiffs' attorneys often monitor NAD findings for inspiration for future cases, while courts often give NAD decisions great deference in subsequent litigation. It is thus often in the advertiser's best interest to participate and comply when necessary.

NAD versus district court actions

There are many reasons that a company might choose to challenge a competitor's advertising at the NAD rather than in district court. NAD proceedings are much less expensive than district court litigations, do not involve extensive discovery, are much faster and are heard by a tribunal specialising in advertising disputes, rather than a judge or jury who might require extensive education on the issues. However, NAD proceedings do not offer the possibility for monetary awards and NAD decisions are non-binding and not easily enforced if the advertiser does not comply voluntarily. District court litigation may therefore be preferable in instances where considerable pressure needs to be put on the other side or when immediate injunctive relief is needed.

FTC and native advertising issues

The panel rounded out its discussion on the topic of native advertising and the FTC's enforcement of such advertising. Because native advertising and the use of so-called 'influencers' are relatively new in the advertising world, the FTC has taken a keen interest in both. The FTC is primarily concerned with ensuring that consumers understand that they are in fact looking at an advertisement, rather than unsolicited, unprompted social media content. Of primary importance to the panellists was the use of influencer agencies and how to ensure that these and their influencers comply with the FTC's social media guidelines when advertising on the company's behalf. Many companies are aware that mere contractual obligations requiring influencer compliance are insufficient to insulate themselves from FTC scrutiny. For further protection, some companies have started tracking non-compliant influencers and agencies to avoid working with them in the future. Others have restructured payment plans so that full payment is withheld until the contracted campaign is completed without incident. One way or another, companies are moving to incentivise their advertising agencies and influencers to meet the requirements that the FTC ultimately places on the company itself.

Comment

Technology has changed the face of advertising, making it possible to reach consumers in new and different ways. With those changes come different regulations and different ideas of which advertising techniques are misleading and which are not. Technology has also improved our ability – through empirical testing and surveys – to determine whether an advertising claim is false or misleading to begin with, how consumers interpreted the claim and whether the claim affected purchasing decisions. Only by keeping abreast of these changes can companies successfully and effectively market their products and simultaneously stay relevant to consumers. **WTR**

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