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Making It Stop: A Practical Guide To Challenging Your Competitor's Advertising Claims

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You are an in-house attorney or outside counsel and your client brings a competitor's advertising claim to your attention, convinced that it cannot be substantiated. Your instructions are clear: make it stop. What are your options, and what factors should influence your recommended course of action?

Aside from some of the simplest options like sending a cease-and-desist letter, there are three principal ways to challenge a competitor's advertising claims: (1) initiate a proceeding before the National Advertising Division (NAD), (2) alert state and/or federal regulators, or (3) litigate. These options are not exclusive, and in some cases it may be effective to pursue more than one.

This article provides the practical guidance necessary to evaluate which option or options are best suited to serve your client's needs and increase the likelihood of a successful challenge.

Initiate A Proceeding Before The National Advertising Division

The National Advertising Division of the Council of Better Business Bureaus, Inc. is a self-regulatory body consisting of highly competent attorneys who

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review advertising issues and apply relevant precedent in determining whether a claim is truthful, non-misleading, and substantiated.

One of the greatest benefits of using the NAD process is the ability to obtain a thorough review on the merits in only a fraction of the time required for litigation. The NAD process provides for briefing and, if desired, meetings. A decision is usually issued within about 90 days of a challenge, or within about 60 days if the challenger opts to use NAD's expedited process, waiving the right to respond after filing the initial complaint. There is also no discovery, which relieves challengers of disruption to business and results in substantial cost savings.

While total costs for an NAD proceeding vary, a challenger should expect to spend significantly more than it would if pursuing a remedy through a simpler option such as a cease-and-desist letter, but much less than in litigation. With regard to preparation, internal assistance is usually required to marshal facts and gather testing documents. NAD has rules concerning the treatment of confidential materials so that proprietary information submitted during the process is protected. While NAD rules do not permit counterclaims, in practice, challengers are some-

times the target of retaliatory counter-challenges. To the extent NAD accepts the counter-challenge, it assigns a different case review specialist to ensure the proceedings do not bleed into each other.

Regardless of the outcome, each NAD decision is accompanied by a press release, and advertisers are asked to provide a statement indicating whether they intend to comply with the decision. With the exception of this press release, NAD proceedings are generally not appropriate for publicity. Further, crowing after a victory at NAD is considered bad form and can work against a successful party in future cases.

NAD has an excellent reputation and has been increasingly recognized as being the most appropriate, authoritative entity on advertising issues. In addition to serving as a model of self-regulation in several new partnerships and programs,¹ NAD's expertise has been further underscored by its recognition in federal court proceedings² and by the rarity of reversals upon appeal to the National Advertising Review Board, which granted 10 appeals in 2007 and overturned none.

Along with NAD's reputation comes an excellent compliance record. Reputable advertisers honor NAD decisions even if they do not always agree with them. When an advertiser refuses to cooperate with NAD proceedings or indicates that it will not comply with an NAD decision – a rarity – NAD forwards the case to the Federal Trade Commission or to a state regulator for action. While NAD referral has rarely resulted in a formal order in past years, the potential for increased scrutiny is a substantial deterrent against advertisers failing to cooperate with NAD.

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Alert State/Federal Regulators

Advertising issues can always be brought to the attention of regulators in the hope that the FTC or state officials will use their statutory authority to end an offending practice. Complaints to federal and state regulators can be made at virtually no cost, and many government attorneys have the particular skills and experience necessary to understand the implications of your complaint and assess the potential for consumer harm. Further, the Division of Advertising Practices within the FTC coordinates consumer protection initiatives with state, federal, and international law enforcement agencies, as well as with industry self-regulation groups. The agency's strong ties with other regulators and enforcement agencies has the benefit of adding extra "bite" to a report that a competitor is engaging in false or misleading advertising.

There are, however, significant disadvantages to proceeding solely in this fashion. Once the complaint is made, you have no control over how (or if) the investigation will proceed. An investigation can carry on for years without your knowledge that it is even underway, as statutes and regulations regarding maintenance of confidentiality during investigations prohibit regulators from sharing information about progress. If publicity is important to your company's challenge, this is not the correct forum. Further, while there is no risk of a counterclaim here, educating the government about an industry concern poses a risk of increased scrutiny of the entire industry. Your company's advertising and related documents should be clean before alerting a regulator to your competitor's advertising practices.

If you decide to go forward, you likely would want to present a white paper outlining your position, which may require internal assistance with facts and testing. Meetings with regulators also may be to your advantage. Whether a regulator will actually proceed, however, depends on a variety of factors, with consumer harm the most critical. If the dispute is perceived as a matter between competitors only, regulators are less likely to commit limited resources to investigation and resolution. Instead, they will expect the parties to resolve the issue through negotiation, self-regulation, litigation, or other means.

Litigate Under The Lanham Act

The third main option for challenging a competitor's advertising claims is to litigate under the Lanham Act, which permits an advertiser to recover for injury sustained as a result of false and/or misleading claims made by competitors.³ Liability arises if the commercial message or statement is either (1) literally false, or (2) literally true or ambiguous, but has the tendency to deceive consumers because of an implied message.⁴

As an initial step, you should assess whether your client is likely to succeed in bringing a Lanham Act action at all. In recent years, an increasing number of courts have used prudential standing limitations to bar plaintiffs from pursuing false advertising claims under the Lanham Act.⁵ In addition, courts have continued efforts to determine the scope to which the 2003 Supreme Court decision *Dastar Corp. v. Twentieth Century Fox Film Corp.* bars false advertising claims based on representations about intellectual property rights in a product, and slight differences in the wording of a challenged advertisement can determine whether a claim will survive.⁶

Assuming you can still proceed with a Lanham Act claim, you should consider several other factors before deciding to move forward. For starters, you should plan for the process to take 10 to 12 months if not longer. In addition, monetary damages are rare, and counterclaims are a near certainty. There will be substantial disruption to your client's business, including depositions, interviews, and document discovery that could lead to the disclosure of potentially damaging documents. Finally, like all litigation, it is expensive. Thus, with several other options for challenging a competitor's advertising claims, you should generally only proceed with Lanham Act litigation if your client has the strongest of claims and a full expectation that counterclaims will follow.

If you decide to go forward and your competitor's false advertising threatens to cause irreparable injury, you can move for a preliminary injunction, which, if granted, would end the campaign immediately. To prevail on a motion for preliminary injunction, a plaintiff must show, among other things, likelihood of success on the merits, which will require the plaintiff to argue the entire case in a very tight time frame – usually about thirty days. The filing of a motion for pre-

liminary injunction sends a clear signal to the marketplace and the court that the challenge is serious and that your client is prepared to incur the costs and provide the evidence necessary to put the offending claims to an end. Thus, while Lanham Act litigation is costly, burdensome, and involves substantial risk, it remains the strongest way to challenge a competitor's claim and, in some cases, may be the only effective option.

Conclusion

Challenging a competitor's advertising claims can mean anything from writing a letter to spending a year battling claims and counterclaims in court, with several additional options in between. While choosing the best plan of action is rarely an easy task, knowing your options and how they tend to play out in practice will help you to choose strategically and adjust your plan wisely as you go.

¹ See Press Release, Council for Responsible Nutrition, CRN, NAD Initiative to Expand Review of Dietary Supplement Advertising: New Initiative to Target False and Misleading Advertising (Sept. 18, 2006); National Advertising Review Council, About the Electronic Retailing Self-Regulation Program (ESRP), <http://www.narcpartners.org/esrp> (describing the program as an extension of NAD's success in self-regulation).

² See *Russian Standard Vodka (USA), Inc. v. Allied Domecq Spirits & Wine USA, Inc.*, 523 F. Supp. 2d 376 (S.D.N.Y. 2007) (granting stay of a federal suit for declaratory judgment and sending vodka advertising case back to NAD for review and decision, acknowledging NAD's expertise in the area and that allowing NAD to complete its proceedings would promote judicial economy).

³ 15 U.S.C. § 1125(a).

⁴ See *Johnson & Johnson-Merck Consumer Pharms. Co. v. Rhone-Poulenc Rorer Pharms., Inc.*, 19 F.3d 125, 129-30 (3d Cir. 1994).

⁵ See *Phoenix of Broward, Inc. v. McDonald's Corp.*, 489 F.3d 1156 (11th Cir. 2007) (holding that prudential standing limitations apply to false advertising claims and that Burger King franchisee lacked standing to challenge McDonald's for alleged misrepresentations made in connection with advertising for certain promotional games); *ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 138 (2d Cir. 2007); *Alexander Mill Services, LLC v. Bearing Distributors, Inc.*, 2007 WL 2907174 (W.D. Pa. Sept. 28, 2007); *Mugworld, Inc. v. G.G. Marck & Associates, Inc.*, 2007 WL 2446539 (E.D. Tex. Aug. 23, 2007).

⁶ 539 U.S. 23 (2003). Compare *Baden Sports, Inc. v. Molten*, 2008 WL 238593 (W.D. Wash. Jan. 28, 2008) (advertisement of a "Dual Cushion" basketball as "innovative" was essentially a claim that the basketball was "new" and thus not barred), with 2007 WL 2058673 (W.D. Wash. Jul. 16, 2007) (claim based on advertising for the same product as "exclusive or "proprietary" was barred).