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BLOGS
Antitrust

District Court Denies Franchisees' Antitrust Claims for Failure to Plead a Proper Relevant Market

The United States District Court for the District of New Jersey recently dismissed federal antitrust claims brought by a pizza franchisee and its individual owners against its franchisor and the franchisor's managing member. *Beuff Enterprises Florida, Inc. v. Villa Pizza, LLC*, 2008 WL 2565008 (D.N.J. June 25, 2008).

The plaintiffs alleged that: (1) the defendants violated Sherman Act § 2 by maintaining a monopoly in a "conglomeration of unique products, trade dress, services, methods, ingredients, recipes, menus and packaging, quality and quantity control strategies, layouts, style, signage, service marks, and image," and that defendants were the only ones who provided this unique combination of products and services; (2) the defendants violated Sherman Act § 1 in that they conspired with suppliers and sellers by forcing plaintiffs to purchase supplies, furniture, equipment, fixtures, and signs from sources designated by defendants; and (3) the defendants engaged in improper tying under the Clayton Act in conditioning the sale of the franchise on the plaintiffs' agreement to sell products within the provision of the franchise agreement. As the court noted, "Plaintiffs' argument boils down to the contention that Defendants have a monopoly power over their own 'Unique Services' which, taken together, constitute their franchise system."

The district court granted the defendants' motion to dismiss, holding that plaintiffs' market definition was too narrow. The district court noted that the Third Circuit Court of Appeals in *Queen City Pizza, Inc. v. Domino's Pizza, Inc.*, 124 F.3d 430 (3d Cir. 1997), held that "antitrust claims predicated upon a 'relevant market' defined by the bounds of a franchise agreement are not cognizable." Rejecting the plaintiffs' attempts to distinguish their case from *Queen City*, the district court held that the defendants' own franchise system cannot be deemed a relevant market because the defendants do not offer truly unique products or services, because customers (the plaintiffs and other potential franchisees) have reasonably equivalent alternatives for franchise investments in the market, and because the plaintiffs are bound by contract (not by uniqueness) to purchase certain mandated supplies, no relevant antitrust market exists. Since the plaintiffs' antitrust claims all required them to plead a relevant market, the court dismissed all three claims.