

BLOGS

Fraud/Misrepresentation

Federal Court in New York Rules Supplier Did Not Have a Duty to Disclose in Advance its Plans to Change its Distribution System to its Distribution Partners

A federal court in New York recently held that a supplier did not have a duty to disclose its business plans to its distribution partners before it changed its distribution system. *Aaronson v. Kellogg Co.*, 2020 WL 2489087 (E.D.N.Y. May 14, 2020). Since 2000, Kellogg, a manufacturer of snack foods, had distributed its products through a Direct Store Delivery Distributor (DSDD) system, which relied on master distributors and sub-distributors for delivery and distribution of its products. In 2017, as part of a costsavings initiative, Kellogg changed its distribution model and eliminated the DSDD system, which resulted in the elimination of a number of sub-distributors. A group of affected sub-distributors sued Kellogg alleging that Kellogg and its direct distributor, W.M. Brown, misrepresented their distribution intentions to the sub-distributors.

The sub-distributors asserted claims for breach of fiduciary duty, constructive fraud, and negligent misrepresentation based on their contention that Kellogg had a secret plan to change its distribution system, that Kellogg had an obligation to disclose the existence of that plan to them, and Kellogg's failure to do so was actionable. Kellogg moved to dismiss the claims and the court agreed, holding the claims failed as a matter of law for several reasons. First, the court found that the existence of a secret plan was not supported by plausible, nonspeculative allegations. Second, the court held that several subdistributors failed to allege any representations made to them by Kellogg. Third, the court held that the other sub-distributors failed to make any allegations that plausibly suggested a fiduciary, confidential, or special relationship between them and Kellogg such that a duty to disclose its distribution plans would arise. Fourth, the court held that the sub-distributors failed to make plausible allegations that the alleged statements made by Kellogg were false or that the sub-distributors relied on them to their detriment. The sub-distributors also asserted several quasi-contract claims for quantum meruit and unjust enrichment, which the court also dismissed based on the existence of valid, written agreements between the subdistributors and the master distributor.

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