

THE DECEPTIVE MARKETING PRACTICES DIGEST

VOLUME 4



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Introduction

In this edition of the Deceptive Marketing Practices Digest, we look at online influencers, savings claims and Made in Canada representations.

Each of these can have an influence on consumers and the decisions they make. Consumers rely on the opinions and reviews shared online by influencers and believe they are genuine and impartial. They believe that Made in Canada claims signify something important about the level of Canadian manufacture that goes into a product, and when retailers make savings claims, consumers believe they are legitimate. Anyone making representations to the public to promote a product or business can avoid consumer deception by keeping these things in mind.

Consumers try to make the choices that best suit their needs. They cannot do this effectively when advertisers or influencers distort the information on which they depend. Misleading information can have a harmful effect. This is why the Competition Act prohibits deceptive marketing practices. The market works best for everyone when consumers can make informed choices.

Advertisers and influencers can avoid costly marketing mishaps by ensuring that the representations they make to the public are truthful and are presented in a way that consumers understand.

This is good for consumers and for businesses.

Matthew Boswell
Interim Commissioner of Competition

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Influencer marketing A Competition Bureau perspective

Introduction

In today's digital world, whether on social media or elsewhere online, consumers routinely follow the day-to-day activities of online personalities who share their interests and whose opinions they respect. These personalities are now an important source of information for busy consumers, including impartial product reviews and recommendations.

But what if they have a relationship with the companies whose products or brands they feature? For example, what if those companies compensate them in some way, with money or free product? Wouldn't their trusting followers want to know? Of course they would.

That is why there can be serious consequences for online personalities and advertisers who fail to adequately disclose these relationships to consumers.

What is influencer marketing?

Advertisers call these online personalities "influencers".

Using various online platforms, such as social networks, blogs or photo-sharing apps, they regularly create and share interesting or informative content with the public.

Online influencers have a greater-than-average ability to influence the behaviour of a group of consumers: those followers, subscribers

and readers who value their expertise, opinions or unique points-of-view.

While it is difficult to pinpoint what makes a successful online influencer, one thing is certain: creating consistently interesting and trustworthy content takes talent and a lot of hard work. These qualities define an influencer's brand and are the very things that advertisers want to leverage to market their own products and brands.

In today's online world, advertisers often pay or otherwise compensate influencers to create and share content that features their products or brands.

They compensate bloggers for example, to review relevant products or services, athletes to mention dietary choices or exercise products in social media feeds, and fashion or lifestyle commentators to post video content featuring clothing, cosmetic products or shopping



destinations. Influencers can receive hundreds or even thousands of dollars each time they upload new content.

Advertisers call this "influencer marketing".

Influencers come in many sizes

Many people, asked to identify a typical influencer, will immediately picture the larger-than-life celebrities whose social media presence is a cultural phenomenon. While it is true that these social media superstars are influencers, they are not representative of a typical influencer. In fact, they are more of an anomaly in the day-to-day business of influencer marketing.

More typically, influencers will be online personalities recognized by only a niche group of consumers. They probably started out by sharing personal observations, in a blog for example, or YouTube channel, about something that gave them pleasure. In time, something about their voice or perspective struck the right note and brought them a larger following.



It is not the number of followers however, that necessarily makes someone an influencer. Advertisers consider various attributes that might make an influencer a good fit for their marketing strategy. According to one industry source, while some top-tier influencers exceed 100,000 followers and subscribers, others might have between 25,000 and 100,000 (mid-level influencers) while some can have as few as 1,000 (micro-influencers).

In other words, whether influencers have 100,000 followers or 1,000, if they are active and attract an engaged following, there is a chance that advertisers are compensating them for their opinions.

Influencer marketing is big business

Advertisers have a long history of offering free product or other benefits to consumers as a reward for a purchase or for trying a product.

While free product, monetary payments and other forms of compensation are a key element of influencer marketing, it is no longer just a matter of a few lucky customers receiving the occasional freebie. It is an increasingly sophisticated marketing technique, supported by a growing industry of experts, managers and marketers. Influencer marketing is big business.

Marketing agencies build rosters of influencers and match these up with brands

Many companies now dedicate a major part of their marketing budget to influencer marketing, employing social media experts to monitor online activity, and to identify and develop relationships with influencers who are a good fit for the company's brand. The companies may compensate influencers on an informal basis, or they may enter into formal agreements with influencers, working together with them to make sure that any content they create on behalf of a company is compatible with their marketing strategy.

There are also marketing agencies whose sole business is to build rosters of influencers and match these up with brands. These companies help businesses create and manage influencer-based marketing campaigns. They can assist with the preparation and review of content and provide systems to help monitor and track influencer postings. Some will provide metrics to track an influencer's level of audience engagement so that companies can gauge the effectiveness of online marketing campaigns.

It is marketing just the same

While nothing is wrong with advertisers compensating influencers, or with influencers accepting compensation, both parties to these relationships need to remember that they are making marketing representations to consumers. After all, for advertisers, influencers are one more channel for marketing, allowing them to target a particular audience in a way that is not possible with traditional media.



As for all marketing representations, there are rules that they must follow. The Competition Act prohibits misleading advertising and deceptive marketing practices. These provisions apply to influencer marketing just as they do to any other form of marketing.

Implications for influencers

Influencers looking to benefit from their online activity by promoting products or brands need to appreciate the responsibilities associated with influencer marketing.

They should keep a couple of key concepts in mind:

Disclose material connections

Influencers should clearly disclose any material connections they have with the companies whose products or services they feature.

A material connection is any relationship between an influencer and a company that has the potential to affect how consumers evaluate the influencer's independence. This is often something of value that the influencer receives from the company, such as a monetary payment, free product, discounts or other benefits, but it can also be a business or family connection between the influencer and the company.

Influencers should disclose these connections in such a way that consumers will see them and will understand what they mean. Put another way, influencers should ensure that their followers will know that a particular reference to or review of a product is a marketing representation.

Influencers should always clearly disclose material connections with companies

With this in mind, influencers should take a good close look at their content before uploading it, and ask: Will it be clear to readers who see this content for the first time, that I have a material connection with the company who sells the product?

If the answer to this is no, or is in doubt, then the disclosure will not necessarily protect the influencer from potential liability.



Do not create content that is misleading



Consumers rely on online reviews, testimonials and endorsements when navigating the digital marketplace, including those made by influencers. Therefore, when influencers express opinions online, they must be genuine and based on actual experience.

Influencers are encouraged to read the article entitled <u>Online Reviews in Volume 1</u> of the Digest, which covers this topic in more detail. (See "Further Reading" below)

Implications for advertisers

Businesses need to know that the Competition Bureau treats the Act as applying to them as well as the influencers they engage. As such, advertisers may be liable for representations made through influencers.

This means that advertisers and their agents should leave nothing to chance when ensuring compliance with the law. After all, most companies are very careful to ensure that all other promotional representations comply with the misleading advertising and deceptive marketing practices provisions of the Act. They should take similar precautions when it comes to influencer marketing.



Common ground

There is broad consensus among consumer protection agencies and industry groups around the world about the importance of clearly and effectively disclosing material connections between influencers and advertisers.

In Canada for example, the Influencer Marketing Steering Committee, coordinated by Ad Standards, recently published draft <u>Disclosure Guidelines</u>, setting out best practices for influencer marketing and providing detailed examples of disclosure strategies for different online scenarios.

This is one example of a growing body of valuable guidance that is available online for influencers and advertisers looking to shape effective disclosures for various online platforms. (See "Further Reading")

The Competition Bureau encourages anyone actively involved in influencer marketing activities to consult these resources before going live with their campaign.

Conclusion

In a world of information overload, influencers are playing an ever more important role. They act as a curator and a trusted voice for likeminded consumers who do not have the time, expertise or resources to carefully research and navigate every decision.

The disclosure of material connections is not simply a consumer protection or law enforcement issue. It is important also for the reputations of both advertisers and influencers.

Consumers will quickly abandon a brand when they lose trust, whether in an influencer or a business.

By properly disclosing material connections and making sure that content is not misleading, influencers and advertisers will not only avoid costly legal missteps, but will foster the kind of goodwill that grows brand equity, and will set them apart in a crowded online world.

The Competition Bureau

The Deceptive Marketing Practices Digest,

Volume 1 - Online Reviews

Influencer Marketing Steering Committee, coordinated by Ad Standards

Disclosure Guidelines

The International Consumer Protection
Network
Online Reviews and Endorsement
Guidelines

U.S. Federal Trade Commission Endorsement Guides

Endorsement Guides: What People Are Asking

Word of Mouth Marketing Association Social Media Disclosure Guidelines

Made in Canada Claims A primer

Introduction

While consumers have no trouble recognizing Made in Canada claims, some may wonder what these claims mean now that many businesses produce, build, sew, assemble and otherwise manufacture products in global supply chains.

How does the Competition Bureau treat Made in Canada claims in a world of cross-border production processes and global sourcing?

Made in Canada - It matters

Made in Canada claims have influenced the buying decisions of consumers over the years. Whether from a sense of patriotism or a desire to support domestic industries and jobs, there have been many different reasons why consumers have sought out Canadian-made products.

More recently, some consumers indicate a preference for domestically made goods not only for patriotic reasons, but because of perceptions about the economic and environmental impacts of their spending, or because they associate Canadian-made with high quality standards.

In some cases, consumers will select a Canadian-made product over an imported competitor only when price and all other things are equal. In other cases, they actively search out, and are willing to pay a premium for Canadian-made products.

Whatever their rationale, those consumers rely on Made in Canada claims to inform their purchasing decisions.

The law

The Acts administered by the Competition Bureau do not require businesses to identify the country of origin of a product. They do however contain provisions that prohibit false or misleading representations. This means that when a business makes a representation about a product's country of origin, it will need to comply with those provisions.

Country of origin claims, including Made in Canada claims, must be accurate.



What is a Made in Canada claim?

Under the Competition Act, the general impression conveyed to consumers is what really matters.

Advertisers represent products as Canadianmade in different ways. They can make an explicit statement, or they might use a combination of words, images and other visual elements. Whether a representation is a Made in Canada claim will depend on whether the various components, viewed together in their normal context, are likely to create the general impression that the product is Canadian-made.

Most consumers and businesses know what a Made in Canada claim looks like. They also expect it to signify something meaningful.



When can you make a Made in Canada claim?

With Canadian content ranging from a little to a lot, companies sometimes wonder at what point they can market their products as Canadian-made.

Manufacturers often have to procure many different types of material and labour before their products are ready for sale. Consumers may not think about it, but many of these costs often occur in different places around the world. These expenditures might be on components made in another country for example, or on a raw material that simply is not available from Canadian sources.

Moreover, these expenses can vary significantly. For some products, the cost of the raw materials might make up the majority of the price of the finished product, whereas for

others, labour might account for much of the cost.

In this context, how can businesses promote Canadian content without misleading consumers? The first thing they should do is consult the Competition Bureau's "Product of Canada" and "Made in Canada" Claims Enforcement Guidelines.

The Guidelines set out the Competition Bureau's approach to determining whether Made in Canada claims in relation to non-food products are likely to contravene the false or misleading representations provisions of the Acts it administers. If a business follows the Guidelines, it is unlikely that their representations will raise concerns.

The Guidelines do not apply Made in Canada representations in the labelling of food products, as defined in the Food and Drugs Act. These are subject to a separate review. (See "Further Reading")

"Product of Canada" and "Made in Canada" Claims Enforcement Guidelines

The Competition Bureau has long taken the view that advertising a product as Made in Canada signifies to consumers that the last substantial transformation of the good occurred in Canada and a majority, or more than 51%, of the total direct costs of producing or manufacturing the good are Canadian. This allows Canadian businesses to benefit from their investment in Canadian manufacturing while recognizing the modern reality that certain costs of manufacturing may be foreign.



The Guidelines therefore examine the issue from three different perspectives:

- Where the direct costs of manufacturing the product were incurred;
- ii. Where the last substantial transformation of the good occurred; and
- iii. The representations themselves and the general impression they create.

Furthermore, by making a distinction between "Made in Canada" and "Product of Canada" claims, the Guidelines provide a useful way for businesses and consumers to distinguish between products where a significant proportion of the costs are incurred in Canada, and those that are almost wholly Canadianmade or sourced:

Made in Canada

The Competition Bureau generally will not challenge a representation that a good is "Made in Canada" if at least 51% of the total direct costs were incurred in Canada, the last substantial transformation occurred in Canada and the representations include an appropriate qualifying statement, such as "Made in Canada with imported parts".

Product of Canada

"Product of Canada" is the designation reserved for goods almost wholly Canadian-made. The Competition Bureau generally will not challenge a representation that a good is a "Product of Canada" if at least 98% of the total direct costs were incurred in Canada and the last substantial transformation occurred in Canada.

Other claims

When a product does not meet the criteria for either "Product of Canada" or "Made in Canada", businesses who want to signal a Canadian component should accurately describe the production or manufacturing activity that took place in Canada, i.e. "Assembled in Canada with foreign parts" or "Sewn in Canada with imported fabric". The representations should be accurate so that consumers understand they refer to a specific process or part, and not to the general manufacturing of the product.

Any business intending to promote its products as Canadian-made is encouraged to review the Guidelines before proceeding.

Recent Enforcement Action

The Guidelines are not law, and a deviation from them might not represent a contravention of the law. However, businesses whose representations do not conform to the Guidelines may quickly attract the Competition Bureau's attention, as illustrated by a recent case.

Moose International Inc., a Canadian sportswear supplier, was promoting the sale of parkas (under the name "Moose Knuckles") by

making certain representations to the public that the parkas were "Made in Canada".

A Competition Bureau inquiry concluded that certain of these representations created a materially false or misleading general impression, given that certain parkas were made with Canadian and imported components.

Consequently, the Competition Bureau commenced legal proceedings against the company. These proceedings were ultimately resolved when the company entered into a consent agreement wherein, in addition to donating \$750,000 to charity, it agreed to comply with the Act and with the Guidelines. The company also undertook to adopt certain measures:

- adding certain operations at its Canadian factories in the manufacturing of parkas
- agreeing not to make representations that create the general impression that it makes its parkas exclusively with Canadian inputs
- ensuring that each "Made in Canada" representation for parkas includes a qualifier that the parkas are "Made in Canada with Canadian and imported components"

The company also agreed to implement a corporate compliance program to promote compliance with the Competition Act.

Conclusion

In a world of global sourcing, the Moose Knuckles case underlines why it is important to be careful when making Made in Canada representations.

Companies can take steps to ensure that they comply with the law by ensuring that their employees know the rules and have the information and tools they need to follow them. The Guidelines are an important source of information. They provide a framework that companies can use to design and implement policies and procedures to promote Canadianmade products without misleading consumers and contravening the law.

In the meantime, the Competition Bureau will continue to monitor representations of this type to ensure that they do not have the potential to mislead Canadian consumers.

"Product of Canada" and "Made in Canada"
Claims – Enforcement Guidelines

"Product of Canada" and "Made in Canada" claims - FAQ

Competition Bureau resolves Made in
Canada advertising concerns with Moose
Knuckles - December 7, 2017

Canadian Food Inspection Agency

<u>Guidelines for "Product of Canada" and</u>

"Made in Canada" Claims

Taking the risk out of savings claims Get with the (compliance) program

Introduction

Anyone shopping during a "Boxing Day" or "Black Friday" sale knows that savings claims are a powerful motivator. Consumers love a bargain. This is why, for many advertisers, telling an exciting "save story" is hard to resist.

However, deceptive or misleading savings claims can have a harmful effect on consumer decision-making and on markets in general. This is why the Competition Act contains provisions prohibiting unsubstantiated savings claims.

What can advertisers do so that they do not contravene the Act? The Competition Bureau believes that the best approach is to implement a corporate compliance program, complete with effective policies and procedures in place, making employees aware of the legal requirements and providing them with clear guidance about how and when they can make savings claims.

Why is it important?

Price matters. Consumers try to maximize the value of quality received for money paid. Price allows consumers to weigh the value of products or services, or compare competing ones. It can indirectly indicate quality

differences between competing products or brands, or tip the balance between two otherwise equal products.

A sale price, advertised as a savings in relation to a regular or ordinary selling price ("regular price"), is especially compelling.

Truthful advertising of savings claims provides consumers with useful information to help them make decisions about how to spend their money most effectively. When advertisers misrepresent savings claims by inflating the regular price, they impair the ability of consumers to make informed decisions. Both consumers and honest competitors lose.



What are the rules?

Simply stated, the Act requires that when a business advertises a sale price by relating it to a higher regular price (the full price of the product without any discounts), the regular price must be "the real deal". In other words, the company must be able to validate the regular price.

There are two types of regular prices that businesses use as a reference for save stories - a seller's own regular price (Our regular price \$100, Now \$50), and a market price (List price \$100, Our Price \$50).

Whether companies reference their own regular price, or a market price, the Act requires that they validate the regular price by satisfying one of two tests:

- Volume Test A substantial volume of the product must have been sold at the regular price within a reasonable period of time before or after the making of the representation; or
- Time Test The product must have been offered at the regular price in good faith for a substantial period of time recently before or immediately after the making of the representation

Advertisers often wonder what constitutes "substantial volume", "reasonable period of time", or "substantial period of time". They want to know what steps they should take so that they can validate regular prices, ensuring that their savings claims will be on side.

For answers, they can turn to the Competition Bureau's Enforcement Guidelines - Ordinary Price Claims. The Guidelines set out how the Competition Bureau generally interprets these

Deceptive savings claims: A powerful influence on consumers

Consumers are less likely to comparisonshop

They will miss competing goods. Honest competitors offering the same goods at a competitive price lose out.

Consumers can misjudge quality

They will assume the quality of the advertised product is comparable to products offered at the higher price.

Consumers may purchase other products or services during the same visit

Honest competitors will lose the opportunity to compete fairly for those additional purchases.

Consumers may reconsider quantity or timing decisions

They will "stock up" at the "sale" price or will purchase big-ticket items sooner than they may have otherwise budgeted, forgoing the comparison-shopping done under normal circumstances.

Consumers can become skeptical about price advertising

They will question the legitimate savings claims of honest competitors, advertised truthfully and in good faith.

requirements and how it assesses regular price claims under the Act.

A word on "good faith"

For those advertisers who intend to rely on the "time test" to validate a regular price, the concept of good faith is of particular importance and bears further discussion.

Because consumers love a sale, many advertisers want to be able to offer deep discounts with exciting save stories such as "SALE - Save 50%!!!". To be able to tell consumers these exciting save stories, some advertisers may be tempted to set a high regular price on their products for the time when the product is not on sale, even if that regular price is not really a price that consumers are willing to pay. However, the Act requires that these regular prices be offered in good faith.

The question to be asked is whether the advertiser truly believes that the regular prices are genuine and bona fide prices

So what does good faith mean? As articulated by the <u>Competition Tribunal in the Sears</u> <u>decision</u>, the question to be asked is whether the advertiser truly believes that the regular prices are genuine and bona fide prices, set with the expectation that the market will validate those prices. In other words, the advertiser must truly believe that consumers will be willing to buy the products at the regular prices.

This test is subjective, focussed on what the advertiser believes. As in the Sears decision, the reasonableness of a belief is a factor to be considered in determining whether a belief is honestly held. Other objective factors such as

whether sales occurred at the regular price and whether the regular price was comparable to other competitors' prices may be relevant in assessing whether the advertiser truly believed that its regular prices were genuine.



This decision is consistent with the Enforcement Guidelines, which set out some of the factors that the Competition Bureau considers in assessing whether products have been offered for sale in good faith. These include whether or not the supplier fully expected the market to validate the regular prices, whether genuine sales had occurred at the regular prices, and whether the regular prices were reasonable in light of competition.

Take for example a retailer who, in the course of a yearlong promotional cycle, offers a product at deep discounts for a week at the end of each quarter throughout the year, making representations such as "SALE! Our Regular \$699, now \$399, save \$300!" and offers the product at a regular price the rest of the time.

Notwithstanding the company offering the product to the public for most of the time at

\$699, the Act requires that it be offered at this price in good faith.

In this case, if the retailer makes no genuine sales at \$699 but nevertheless continues to make the same savings claims throughout the year, this would likely be an important factor in the Competition Bureau's assessment of whether the regular price is offered in good faith.

The fact that the products were offered at the regular price for a substantial period of time will not satisfy the test if they were not offered in good faith.

The importance of compliance programs

Advertising a bargain may seem an easy and appealing way to attract customers, but companies need to take care. The consequences of non-compliance with the Competition Act can be serious, including significant monetary penalties.

The Competition Bureau has actively enforced the regular price provisions for many years and has taken action in a number of cases against advertisers who in the Competition Bureau's view made regular price representations that did not meet the requirements of the Act.

One important step that companies can take is to implement a corporate compliance program tailored to ensure compliance with the regular price provisions in the Act. In addition to signalling a company's commitment to conforming to the Act, a credible and effective compliance program will help foster a culture of compliance by ensuring that employees appreciate the obligations and risks associated with contravening the law.

The consequences of non-compliance with the Competition Act can be serious, including significant monetary penalties

A compliance program is credible and effective however, only if it is expressly supported and promoted by management, has policies and procedures tailored to the company's operations, and if employees have the information, tools and training they need to meet their obligations. Moreover, it must be fully implemented, monitored, evaluated and enforced.



Making a regular price representation that is in accordance with the law requires careful consideration of a large, sometimes complex amount of information. A tailored and enforced compliance program, with clear policies and procedures designed with an eye on the Competition Bureau's Guidelines, with proper training and effective monitoring, evaluating and reporting, will help companies avoid legal blunders and costly consequences.

Competition Bureau Publications
Ordinary Price Claims – Enforcement
Guidelines

<u>Corporate Compliance Programs -</u> <u>Bulletin</u>

Commissioner of Competition v. Sears
Canada Inc., 2005
Competition Tribunal Decision, January
11, 2005

Further Reading

How to contact the Competition Bureau

Anyone wishing to obtain additional information about the Competition Act, the Consumer Packaging and Labelling Act (except as it relates to food), the Textile Labelling Act, the Precious Metals Marking Act, or the program of written opinions, or to file a complaint under any of these acts should contact the Competition Bureau's Information Centre.

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