

August 11, 2020

The Honorable Roger Wicker
Chair
Committee on Commerce, Science, and
Transportation
U.S. Senate
Washington, DC 20510

The Honorable Maria Cantwell
Ranking Member
Committee on Commerce, Science, and
Transportation
U.S. Senate
Washington, DC 20510

Statement on “Oversight of the Federal Trade Commission”

Submitted to the Senate Committee on Commerce, Science, and Transportation

Dear Chairman Wicker and Ranking Member Cantwell:

On behalf of the Franchisee Forum of the International Franchise Association (IFA), we appreciate the opportunity to comment for the record on how the franchise business model is a vehicle for achieving the American Dream, especially in the wake of COVID-19. Leveraging our experience as successful franchise business owners and mentors to prospective franchisees, we would like to offer a more comprehensive picture of franchising than the one painted at the Committee hearing by Commissioner Chopra and express our firm belief that participation in the franchise business industry helps unlock economic prosperity for all Americans.

As the representative body for franchisees within the IFA, we are proud to be a clarifying voice for franchisees as legislative and regulatory issues impacting the franchise business model arise at the federal, state, and local levels. The view on franchisee dissatisfaction offered in Commissioner Chopra’s testimony suffers from flawed reasoning. Without providing any factual analysis of concern, it is irresponsible to conclude that franchisors must be prevented from alleged abusive practices. While there may be instances when a franchisor behaves or takes action that is perceived to be unjust to a franchisee or prospective franchisee, they are rare.

We know first-hand that small business franchise ownership is a viable pathway to achieving and maintaining economic success. With careful planning and execution, sound management of a franchise business can help grow the business and the franchisor’s brand – contributing to a successful relationship between the franchisee and the franchisor. Allowing someone who profits off the unfortunate circumstances of others to paint a one-sided picture of franchising does a disservice to the thousands of small franchise business owners in this country who work hard every day to grow their business and our economy.

The story about franchising we wish had been aired at the hearing is one based in data rather than cherry-picked generalizations. A broader perspective is provided by Franchise Business Review, which surveyed over 6,500 franchisees over the last four months during the pandemic. Key findings from the comprehensive research include:

- 55% of franchise owners surveyed said they are (still) optimistic that they will meet their 90-day business goals;
- 80% said they feel very positive/mostly positive about their association with their franchise brand; and
- 83% said they have received valuable support from HQ during COVID-19.

Franchisee satisfaction with their franchisor has remained steady during the pandemic, and in some cases, has even risen. This data reflects the spirit of franchising: franchisors are vehicles for community, growth, and support for their franchisees, especially during a crisis. To ease franchisees' burdens and take steps to help the systems survive, there are numerous reports of franchisors taking proactive steps to provide flexibility to their franchisees during COVID-19. These actions include, but are not limited to:

- (1) Royalty/ad fund deferrals, fee waivers, abatements, and other cash-flow assistance to franchisees;¹
- (2) Extensions of development schedules under development agreements;
- (3) Transitions to more “e-learning” and virtual learning as part of initial training programs to minimize travel for franchisee employees and related costs;
- (4) Extensions of unit opening deadlines under existing franchise agreements;²
- (5) Reductions of initial fees to incentivize new franchise sales;
- (6) Changing the unit's footprint to lower development costs;
- (7) Providing franchisees with frequent, if not daily, updates on legislative assistance from the federal government under CARES Act;³
- (8) Providing grants to employees suffering from pandemic-related layoffs or furloughs;⁴
- (9) Providing PPE to franchisees, local communities, front-line workers;⁵
- (10) Providing franchisees with signage related to social distancing, mask wearing and other Covid-19 prevention operations procedures; and
- (11) Providing guidance on safe re-opening, social-distancing, and related practices to protect employees, consumers, and the brand.⁶

The value of the franchise business model can be harnessed by Congress and provide a vehicle for sustained economic growth out of the pandemic. As a result of the significant economic impact of COVID-19, the number of unemployed individuals reached nearly 30 million workers. Given the dislocation in the economy, many of those jobs may not return forcing many individuals to find new

¹ See “Subway to Slash Royalty Payments by 50 Percent” at <https://www.qsmagazine.com/franchising/subway-slash-franchise-royalty-payments-50-percent/>; see also “7-Eleven Ups Franchisee Support Amidst Coronavirus Pandemic” at <https://csnews.com/7-eleven-ups-franchisee-support-amidst-coronavirus-pandemic/>; see also “Wyndham Continues Waivers on Franchise Fees” at <https://www.asianhospitality.com/wyndham-continues-waivers-on-franchise-fees/>; and see also “Church’s Chicken Franchisees Get Relief Plan” at https://www.franchising.com/articles/churchs_chicken_franchisees_get_relief_plan.html.

² Scott Deviney, President & CEO, Chicken Salad Chick.

³ See “Stories from the Covid-19 Front Lines: CEO Q&A with Meg Roberts of The Lash Lounge” at https://www.franchising.com/articles/stories_from_the_covid19_front_lines_ceo_qa_with_meg_roberts_of_the_lass_lo.html.

⁴ See “Self Esteem Brands Founders, Employees & Roark Capital Unveil \$1 Million SEB Relief Fund to Financially Aid Employees of Clubs, Studios Impacted by COVID-19” at <https://cutt.ly/Od1o04A>.

⁵ See “With PPE Shortages, BrightStar Care Creates Fulfillment Center for Franchisees” at <https://www.franchisetimes.com/news/May-2020/With-PPE-Shortages-BrightStar-Care-Creates-Fulfillment-Center-for-Franchisees/>; see also “KFC Implements Additional Health and Safety Measures in U.S. Restaurants” at https://www.yum.com/wps/portal/yumbrands/Yumbrands/kfc-newsroom/detail/Vertical+Content_3-SF/additional-safety-measures-4-16-20; and see also “Two Men and a Truck volunteers to deliver face shields to Detroit hospital” at <https://www.mlive.com/coronavirus/2020/04/two-men-and-a-truck-volunteers-to-deliver-face-shields-to-detroit-hospital.html>.

⁶ See “McDonald’s Engages Mayo Clinic to Advise on Continued Approach to Cleanliness and Safety” at <https://news.mcdonalds.com/news-releases/news-release-details/mcdonalds-engages-mayo-clinic-advise-continued-approach>.

employment or try entrepreneurial ventures, including starting a new franchise business. This has been the case following previous economic downturns, such as after the 2008 financial crisis where interest in franchise ownership significantly increased, as out of work Americans explored new career opportunities. For example, the growth in employment in the franchise sector was 7.4% from 2009 to 2012, while the total U.S. employment growth rate was only 1.8%.

IFA also maintains its commitment and strong support of the FTC Franchise Rule, which will continue to ensure that prospective franchisees receive relevant and material information about their proposed franchise purchases sufficiently in advance of such purchases to enable them to make informed and unpressured purchase decisions. This rule has been essential to the continued growth and success of the franchise business model.”⁷

We thank the Subcommittee for its attention to our views and the opportunity to comment.

Sincerely,

Tamra Kennedy
President, Twin City’s T.J.’s, Inc.
Chair, International Franchise Association Franchisee Forum

cc: Members, Senate Committee on Commerce

⁷ See IFA’s April 24, 2019, Comments to the Federal Trade Commission regarding Disclosure Requirements and Prohibitions Concerning Franchising, *available at* <https://bit.ly/2XpUIm7>.