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DEVELOPING NATIONAL ACCOUNT PROGRAMS

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TYPES OF NATIONAL ACCOUNTS

• Customer Based National Accounts
  • Purpose
    • Contractually limit customers who franchisees can service by type, size or territorial presence
      • Uniform point of contact and negotiation
      • Bundle value added services
      • Impose qualification criteria
      • Define program participation on an individual basis
  • Legal Issues
    • Territorial protections and who gets to perform work
    • Getting franchisees to honor price and service commitments
    • Anti-Trust implications
      • Vertical Price Maintenance – Minimum Prices per se illegal; Maximum prices analyzed under rule of reason
      • Step-In Rights
**TYPES OF NATIONAL ACCOUNTS**

- **Venue Based National Accounts**
  - **Purpose**
    - Grant of non-traditional franchise to operators in non-traditional venues
      - Award to institutional food service operators who control venues
      - Access to non-traditional venues
      - Capitalize on non-traditional demographics
  - **Legal Issues**
    - Territorial restrictions
    - Protection of trade secrets
    - Modified offerings
TYPES OF NATIONAL ACCOUNTS

• Supplier Based National Accounts
  • **Purpose**
    • Compelling franchisees to buy only from approved suppliers
      • Pool purchases
      • Maximize quantity discounts and rebates
      • Maintain system uniformity
  • **Legal Issues**
    • Compelling franchisees to purchase from approved suppliers
      • Anti-Trust implications
      • Avoid tying claims - pre-sale disclosures are required
    • Disclosure requirements
      • Required purchases
      • Rebates
    • Supplier approval criteria
Certa ProPainters

National Accounts

“A framework for consideration”
• Why National Accounts:
  • History: “The buck stops here”
    • When something goes wrong, they call franchisor
    • Territorial issues became a real problem
  • Need – “There is a problem to solve”
    • Outsourcing is a key strategy for multi-unit chains
    • Suppliers need consistency across a wide geography
  • Strategy – “Leverage”
    • If we own the problem, we might as well own the opportunity
• **Franchisor/Franchisee Context:**
  
  - Licensed to operate inside their territories, with specific Carve-Outs for exclusivity:
    - Residential (standard)
    - Commercial (option w/ fees and training)
    - National Accounts (CertaPro owns this)
• **Customer Context:**

  • Size and type of work is relationship driven:

    • Commercial relationships – large jobs, large lifetime value, slow-pay (high leverage)
    
    • Residential relationships – smaller jobs, moderate lifetime value, fast-pay (low leverage)
• National Accounts Focus:
  • B2B
    • Not a homeowner
  • 80% of the chain can perform the work:
    • Uncomplicated, in our ‘sweat spot’
  • Geographically Diverse
    • Multi-State, across franchise territories
  • Recurring
    • Relationship driven, large long-term value
  • Usually one point of contact:
    • ‘outsourcing isn’t a bad word’
• National Accounts Leverage:
  • Relationship Driven:
    • Supplier Referrals
    • Supplier National Purchasing agreements
    • Work performed by properly licensed franchisee, selected by CertaPro
    • Central Billing / Central point of contact
• **National Accounts Framework:**

  - **License Friendly:**
    - Enforces territorial rights
  - **Strategic:**
    - Leverage through relationships
  - **Drives sales**
    - “Booked work, paid in 30 days”
  - **Uncomplicated**
    - 80% can do the work
  - **Opt – in**
    - Franchisee can accept or reject the opportunities
How Do You Know When To Go?
The Sports Section’s Definition of a National Account

• Encompasses activity in at least 15 states.

• Opportunity to provide sports, event or portrait photo services to mankind.

• Standardized use of TSS marks and I.P.

• Parameters identified in UFOC (Item 12).
<table>
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<tr>
<th>Degrees of National Accounts:</th>
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<tr>
<td>Suggested</td>
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Pros & Cons of National Accounts

**PROS**
- Increase system revenue
- Develop brand recognition
- Expand network
- Lead to additional accts.
- Focused vision
- Morale booster

**CONS**
- Stressful to system
- Development costs
- Staggered ROI
- Waves of activity
- Taxes local resources
- Opportunity costs
TSS Steps to Implementing National Accounts:

1. Examine core competencies of your system.
2. Identify potential targets for National Account.
3. Communicate with FAC or Z panel to query interest and capabilities.
4. Contact finalists to determine their interest.
5. List features, advantages, & benefits of each NA and value component to your network.

(cont’d…)
... Steps to Implementing National Accounts:

6. Identify test or pilot markets for program:
   a) Geographic variance
   b) Business tenure experience

7. Evaluate test markets and adjust accordingly.

8. Roll out program ‘nationally’ and communicate regularly.

KEY: Establish adjustable criteria in contract, allow necessary provisions and give room for unforeseen socio-economic factors.
TSS Case Study

• Babe Ruth Baseball & Softball
  • 890,000 participants
  • All 50 States
  • Over 20 Countries
  • District, State, Regional and National tournaments
• Benefits to Franchisees:
  • Partnership formed in 2000.
  • Local league picture-day business.
  • Tournament / post season business.
  • Use of BR logo on products.
  • National support / endorsement.
  • Intangibles…
• Partnership Evolution:
  • Called on for corporate photography
    • Conferences
    • Board member pictures
    • Golf outing and events
  • “Fringe benefits”
    • Cal Ripken partnership
    • Industry recognition
    • Ancillary partnerships
Keys to Success:

- Solid relationship.
- Understanding of each organization’s priorities.
- Multi-year agreement with stepped expectations.
- Sound financial parameters.
- Regular communication.
- Intangibles…
Summary of National Account Services

- Team & League Picture-Day
- Corporate: Conventions, Seminars, Head Shots, etc…
- Special Events: Grand Openings & Open Houses
Burger King Corporation
National Accounts/
Contract Feeders
• **Contract Feeders**

  Definition: Usually large publicly held companies that operate multiple franchised and captive brands.

  o **“Contract feeders”**: Usually bid for food service at an entire facility.

  o **Typical facilities**: Airports, Turnpike Plazas, University, Military Bases, Office and Manufacturing complexes and Hospitals.

  o **Exclusivity**: Some contract feeders request exclusivity in exchange for development commitments.
• **Benefits of Contract Feeders**
  - Facility owners want/demand single operator of multiple concepts – branded and non-branded.
  - **Multiple Brands:** Traditional Franchisees can’t offer broad selection of concepts in bid.
  - **Market Entry:** Specialized companies set up to bid for large feeding contracts – results in higher likelihood that bid will succeed smaller companies / franchisees can’t compete.
  - **Lower Cost:** Central coordination of by brand through corporate staff (if structure is set up right).
• Disadvantages of Contract Feeders
  o **Brand Focus**: Difficult to have well trained experts above the restaurant level.
  o **Brand Involvement**: Lack of involvement in local/national business meetings.
  o **Low Volume Units**: University settings tend to be lower volume – kiosk units. Cost/benefit results in less visitations by Franchisor.
  o Franchisee carries your brand at the whim of the Facility Owner. Higher risk that locations can be lost.
• Implementing National Accounts
  o **Franchisee**: Need Agreement on brand commitment at different levels of National Account’s organization
    o Dedicated Unit Operators (Restaurant Manager)
    o Facility Director of Operation
    o Corporate Headquarter/Regional brand experts
  o **Brand Champion** - where brand is small percent of each facilities business you need Franchisee to commit to Operations based brand expert.
• Implementing National Accounts
  o Franchisor: Need a National Account team to deal with National Accounts specialization
    o Development
    o Legal
    o Ops – field – region VP and Dir./Man.
    o Marketing
    o Facility Design – unique locations require modification of kitchen design, menu offering
• **Franchise Agreement**
  - Base form of Standard Contract
  - Typical modifications
    - Menu
    - Operating Hours
    - No restriction on operating multi-brands
    - Restrictive covenant focuses on key element of brand
      - BKC National Account cannot operate other fast food hamburger concepts
  - Advertising: National Accounts retain percent of advertising contribution to promote brand at the facility.
  - Governmental/Quasi Governmental Agencies: sovereign immunity issues
    - Choice of law
    - Forum selection
    - Indemnification
IMPLEMENTING NATIONAL ACCOUNT PROGRAMS

• Requires Specific Contractual Language
  • UFOC
  • Franchise Agreement
  • Operations Manual
  • Program Participation Agreement

• Conversions of Existing Franchisees
  • Operations Manual Changes
  • Conversion Offers - Incentives to Change
  • Compel Acceptance Upon Renewal/Transfer
IMPLEMENTING NATIONAL ACCOUNT PROGRAMS

• Conversion Offers
  • Amendment or New Agreement
  • Pre-Conversion Disclosure Requirements

• Compelling Changes Upon Renewal
  • Contractual Right
    • Then Current Form
  • Franchise Relationship Laws
    • Good Cause; Legitimate Business Reason
    • Imposed on Similarly Situated Franchisees
IMPLEMENTING NATIONAL ACCOUNT PROGRAMS

- **Customer Based National Accounts**
  - **Defining National Accounts**
    “The term National Account means any entity, customer, contract, or business which on its own behalf or through agents, franchisees or other third parties owns, manages, controls or otherwise has responsibility for 10 or more businesses whose presence is not confined within any one particular designated territory.”
  
- **National Account Carve Outs**
  “We have the exclusive right, unless otherwise specifically delegated in writing, on behalf of ourselves, you, and/or other franchisees utilizing the Proprietary Marks, to negotiate and enter into agreements or approve forms of agreement to provide services to National Account customers, including any affiliate, company owned or franchised locations, including locations within your Territory.”
IMPLEMENTING NATIONAL ACCOUNT PROGRAMS

• Customer Based National Accounts
  • Who Services National Accounts
    “Following the execution of a contract with or the acceptance of a bid by a National Account customer which contemplates the provision of services to one or more National Account customer location within your Territory, we may, at our option, provide you the option to perform such services pursuant to the terms and conditions of the National Account contract or on such terms and conditions as we, in our discretion determine.”
IMPLEMENTING NATIONAL ACCOUNT PROGRAMS

• Customer Based National Accounts
  • Step-In Rights
  “If we so choose, or if you elect not to provide services to a National Account customer in conformity with the terms and conditions of the National Account bid or contract, we have the right, exercisable in our sole discretion, to:

  (i) provide, directly or through any other licensee or franchisee utilizing the Proprietary Marks, services to the National Account customer location(s) within your Territory on the terms and conditions contained in the National Account bid or contract; and/or

  (ii) contract with another party to provide such services to the National Account customer location(s) within your Territory on the terms and conditions contained in the National Account bid or contract between us and the National Account customer, utilizing the Proprietary Marks or any other trademarks, service marks or trade names.
IMPLEMENTING NATIONAL ACCOUNT PROGRAMS

• Customer Based National Accounts
  • Program Participation Agreements
    “Franchisee's participation in any particular program, including but not limited to the National Account Program, will be subject to the terms and conditions of such program.”
  • Conditions on Participation
    • Not in Default
    • Agree to terms of Program Participation Agreement
    • Administrative Fees/Different Royalties
IMPLEMENTING NATIONAL ACCOUNT PROGRAMS

• Venue Based National Accounts
  • Territorial Grant
    • Defined Location Carve Outs
      “We reserve the right to operate or license others to operate restaurants identified by the Proprietary Marks located in enclosed malls, airports, stadiums, amusement parks, military bases, and other closed markets within your Territory.”
  • Reservation of Rights
    • Reserve Alternative Channels of Distribution
      “We expressly reserve the right, among others, to distribute products and services identified by the Proprietary Marks through other channels of distribution which may include, without limitation, wholesale outlets, retail stores, and individuals, or by mail order, electronic commerce or any other direct sales method, anywhere in the world including sales from and to locations in your Territory.”
IMPLEMENTING NATIONAL ACCOUNT PROGRAMS

• SUPPLIER BASED NATIONAL ACCOUNTS
  • Approved Suppliers
    “Franchisee acknowledges that the reputation and goodwill of the franchise system is based upon the offering of high quality services and products. Accordingly, Franchisee agrees to sell or otherwise use only those services and products as Franchisor shall first approve of in writing, and which are not thereafter disapproved.”