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SYMPOSIUM

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Dealing with Franchise Systems in Distress



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Hypothetical 1: Lakeside Inn

- Our hotel, the Lakeside Inn, is a 150 room establishment in a popular tourist destination. For years it has been a favorite among travelers for its picturesque views, excellent service and convenient amenities. The franchise agreement with a well-known hotel brand provided access to a loyal customer base, reservations system and marketing support, contributing to the hotel's success.
- Recently, the hotel faced a significant downturn due to economic factors beyond the franchisee's control.
- The franchisee had taken out loans to renovate and expand the hotel, but the expected return on investment didn't materialize as quickly as anticipated. The debt burden became increasingly challenging to maintain as revenue declined.

Questions:

What options should Lakeside Inn explore?

What steps should Lakeside Inn's franchisor consider?

Hypothetical 2: Chill Swirl

- Chill Swirl is a multi-unit franchisee of a popular frozen yogurt chain, offering a variety of flavors and toppings in a single-serve format. With an attractive concept and strong demand for frozen treats, Chill Swirl expanded into multiple locations across different neighborhoods and shopping centers.
- Encouraged by the success of the initial location, Chill Swirl aggressively pursued expansion, opening new stores in quick succession. While this rapid growth initially boosted revenue, it also strained financial resources and management capacity. Financing the expansion required substantial borrowing.
- Despite the early success, several factors contributed to declining performance across Chill Swirl's stores, including competition from other brands, changing consumer preference towards healthier alternatives and seasonal fluctuations in demand.
- The franchisee struggled to meet debt payments, cover operating expenses and maintain consistent profitability across its store portfolio.

Questions:

What options should Chill Swirl explore?

What steps should Chill Swirl's franchisor consider?

Hypothetical 3: Savor Spot

- Fast-casual restaurant franchisor Savor Spot started with a single location and quickly expanded to 100 units across the country, including franchised and corporate locations. Many of the franchised units are operated by mom-and-pop legacy franchisees who have been with Savor Spot since the beginning. However, long-term franchise agreements have limited rights for the franchisor to enforce remodeling and other branding updates, leaving many locations looking tired and outdated.
- While Savor Spot's concept remains strong, its outdated locations are struggling to attract new customers, particularly in competitive markets where newer, more modern competitive restaurants have emerged.
- Savor Spot has experienced declining revenue and declining royalties from its franchisees resulting in financial distress and an inability to obtain the capital it needs to implement its rebranding strategy.

Questions:

What options should Savor Spot explore?

Hypothetical 4: Serenity Spa

- Serenity Spa, a mid-size massage franchise system has been operating successfully for years, with multiple franchise units across the country. However, recent lawsuits have alleged misconduct and negligence by massage therapists at several locations. The negative publicity has tarnished Serenity Spa's brand reputation, making it difficult to attract new customers and retain existing ones.
- Both the franchisor and franchisees are facing financial distress due to increased legal costs, decreased revenue and challenges in meeting financial obligations. The franchisor implemented a crisis management plan to address the negative publicity and its insurance is providing legal defense for the lawsuits. Serenity Spa considers a rebranding strategy to distance itself from the scandal and attract new customers, however it has limited resources in the face of decreasing unit revenue and royalties.
- The franchisor and franchisees are considering bankruptcy as a means to restructure their financial obligations and salvage the franchise system.

Question:

What are the key considerations and options for Serenity Spa?

Thank You!

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