

Understanding the Current State of Franchising

A franchise is a very attractive business model because it offers a business in a box. Franchises provide instant brand recognition, ongoing industry best practices, initial training, built-in support, easier access to financing, and a greater chance of success all for much less than one can start a business from scratch. While franchising includes many benefits, there are also risks that should be considered to secure the ongoing success of the franchise.



Top Growing Franchise Industries



Personal Services



Quick Service Restaurants



Table/Full Services Restaurants



Real Estate



Automotive

A New Franchise Outlook

Following historic tax reform and ongoing pro-business policies, the franchise sector is expected to see above-trend growth in many areas:

- Franchise establishments are expected to grow an additional 1.9% in 2018.
- Franchise employment is projected to grow 3.7%, continuing to outpace the rest of the economy
- The gross domestic product (GDP) of the franchise sector is forecast to exceed U.S. GDP growth and increase by 6.1% to \$451 billion
- Franchise business output is expected to increase by 6.2% to \$757 billion
- Franchise Personal Services experienced strong growth over the past year and is expected to rank first in growth of the number of establishments and in employment in 2018

Franchisor Risks

Although the franchising industry is strong, it is not without risks. Franchisor challenges often stem from franchise management and compliance and the obligations contained within the franchise agreement. Difficulties in the franchise relationship often include:

Failure to Uphold Brand

- Failure to re-brand
 - signage, campaigns, posters, etc.
 - food / drink menus / products
- Outdated equipment
- Refusal of national promotions
- Maintain brand quality
- Food safety

Failure to Follow Franchise System

- Incorrect use of trademarks, logos and products
- Poor management
- Lack of support to initial & ongoing training
- Inconsistent service delivery
- Guest complaints via social media

Failure to Make Simple Payments

- Royalty fees
- Advertising & marketing fees
- Expense reimbursement and cost recovery fees
- Promotional fees
- Rewards program fees



Chapter 11 Trustee over a Montana based company who owned 16 franchise restaurants including Chili’s, On the Border, and Moonshine Grill within 3 states.

The Franchise Challenge: Franchisee engaged in fraudulent activities to raise money for failing operations. Individual stores were neglected to the point of being unable to keep up with brand standards and team morale became defiant.

Strategy: Asserted control, staved off predatory cash advance creditors and restored stability to operation. Resolute was able to successfully administer the sale of the business enterprise including 11 Chili’s restaurants and related properties for nearly \$12.5MM.



Receiver over 3 car dealerships (GMC, Buick & Ford) located in Camp Verde, AZ.

The Franchise Challenge: The integrity of the overall brands were being questioned as the franchisee was running a flawed operation and using company funds as a personal piggy bank. Further, there were a series of litigation issues.

Strategy: Secured the financial controls of the enterprise and marshaled the assets of the business. Achieved key replacements to the management team. The assets and dealerships were sold in partnership with the franchisors.



Receiver over a 13-store chain of Valero gas station / convenience store in Phoenix, AZ.

The Franchise Challenge: The operator of these stores was in monetary/covenant default with all three of his Senior Lenders. Underlying issues stemmed from management.

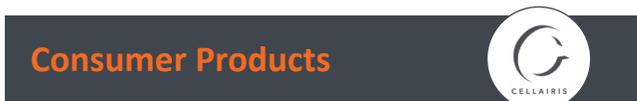
Strategy: Took over all operations and made sweeping changes to the corporate management team. The individual units were marketed and sold.



Receiver over limited service hotel Wyndham Garden Inn located in Oro Valley, AZ outside of Tucson.

The Franchise Challenge: The property lost its flag as a Wyndham Garden and its performance was suffering.

Strategy: Restored operations and assisted in the PIP and re-brand to Holiday Inn Express.



Liquidation consultant over mobile accessory company who owned 7 kiosk locations throughout Arizona.

The Franchise Challenge: Company was selling unlicensed products and was in violation of the franchise agreement.

Strategy: Shutdown operations and secured all inventory at all locations within a 12-hour window.

Franchisor Solutions

Swift action by the franchisor can often do the trick and stop minor issues from becoming significant disputes. Best practice is to first try to resolve the dispute with each other utilizing internal resources. As they say, communication is a two-way street. If parties can’t agree on an outcome, they can opt for one of the following.

Interim Control

Resolute has tremendous success in defusing contentious situations while working towards the common goal.

- CRO
- Receiver
- Chapter 11 Trustee

Litigation Support

Resolute works in partnership with legal counsel to secure, resolve, and enhance business assets.

- Franchise Management & Compliance
- Business Disputes
- Forensic Accounting
- Business Valuation

Liquidation

Resolute executes a clearly defined strategy for disposing business assets from beginning to end.

- Realizing assets at the best price
- Negotiating with debtors and creditors
- Selling business as a going concern

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www.resolutecommercial.com



SOURCES

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International Franchise Association, 2018 Franchise Business Outlook, January 29, 2018, https://www.franchise.org/sites/default/files/Franchise_Business_Outlook_Jan_2018.pdf