

BUSINESS INSIDER

Fast food franchisees aren't 'vultures' — they're small businesses that need support to make it through the pandemic

Misty Chally, Opinion Contributor Jan 2, 2021, 6:02 AM

On December 13, Insider's Kate Taylor [wrote an op-ed titled](#): "Fast-food chains are vultures feasting on the carcasses of independent restaurants. ..." As the executive director of the Coalition of Franchisee Associations (CFA) – the largest franchisee-only trade association in the country – this depiction of the franchise model reflects a general lack of understanding of just how hard the pandemic has hit franchise owners.

It is a broad misconception that the well-known name and brand logo used for the business means the owner of that business has deep pockets. Instead of focusing exclusively on the demise of independent restaurant owners, it's better to take a broader look at the struggles of the industry — independent and franchise.

While a recognizable name may be on the menu, most franchise restaurants operate as small businesses and many are struggling through these tough times just the same as their independent counterparts.

Franchisees bear a huge burden

A franchisee is an independent operator who, through a franchise agreement, uses the trademarks, brand standards and marketing materials offered by the franchisor in exchange for a hefty franchise fee (often the owner's life savings) and ongoing royalty fees.

Franchisees are the **ultimate small-business owner** – 75% of franchisees have fewer than 20 employees, and nearly 30% of franchises are minority-owned (compared to 18% of non-franchised businesses).

Also included in the franchise agreement are provisions that require the franchisee – and the franchisee only – to pay for financial obligations associated with running their franchise. This means that costs such as employee healthcare, paid sick leave, and wage increases are paid solely by the franchisee. This all while the franchisor takes a percentage off top line sales, franchisees must pay these obligations as reflected in their bottom lines.

Franchisees need help too

What does this mean in light of the current pandemic? It means that franchisees – just like independent business owners – are losing income, losing employees and possibly losing their franchise. Franchisees are applying for Paycheck Protection Program (PPP) loans based on their business losses and do not include the resources of their corporate franchisor.

The loan application for a franchisee is the same as that of an independent business owner. On average, approximately **70% of franchises received PPP loans** and 20% received Economic Injury Disaster Loans EIDL loans to weather this crisis. Also, while some franchisors are deferring royalty payments and ad fees, many others have made no changes to reflect the current economic disaster. As a result, the entire financial onus of keeping their doors open is on the franchisee.

The result is devastating. As of September 21, more than 1.4 million franchise jobs have been lost, and more than 32,000 franchise businesses have closed due to the coronavirus pandemic, [according to a report](#) released by the International Franchise Association.

Franchised businesses have experienced, on average, 19.3% decline in revenue per unit, totaling a \$185.3 billion loss in sales. The same report also projects that – without additional government assistance – an estimated 36,000 franchise businesses will close by March.

Taylor writes: "[F]ast-food chains may be vultures, feasting on the carcasses of beloved mom-and-pops." However, in a conflicting statement in her Oct. 7 article, "36,000 franchisees could shutter forever without a new stimulus package, as operators of iconic brands like Pizza Hut, Golden Corral, and more file for bankruptcy," she states that "franchisees are ultimately facing the same struggles as other American businesses, especially those in the hospitality and restaurant industries."

In fact, at the time of her article, she stated that at least 10 franchises, including Ruby Tuesday, Sizzler and California Pizza Kitchen, have filed for bankruptcy recently, with franchisors attempting to cut costs by closing underperforming franchisee businesses. As she states, and unlike independent businesses, franchisees ultimately do not fully control the fate of their business and therefore may be at even more risk of closure than their non-franchised counterparts.

In summary, franchised business owners do not have the deep pockets of their corporate franchisors. So, when an ad on the television says to "support your small-business owners" during this crisis, please understand that the franchise down the street IS a small business.

The franchise owner likely lives in and employs those in your area. They likely support the Little League baseball team and donate pizza to your local school fundraisers. That franchise owner is struggling to keep the doors open just as much as an independent owner and will likely lose his or her life savings if assistance – by the community and by the government – is not provided soon.

Let's support ALL small businesses.

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