

# House Interim Committee on Business & Labor

## Franchising in Oregon

### November 18, 2019

# Local Franchisee – The Reality

What do you think of when you see a Burger King, Taco Bell, Subway, or 7-Eleven?

A big multi-national corporation, maybe headquartered in the United States?

No! Local franchise owners own and operate the outlets. They pay royalties to these big corporations, who take those profits out of state, or out of the country.

The local franchisees are the ones you see making sandwiches, cooking pizzas, or selling slurpees. They may also be ringing you up or mopping the floors. They are everything from the CEO to the janitor in their company. They are working hard to earn a living, far away from the rich corporate executives.

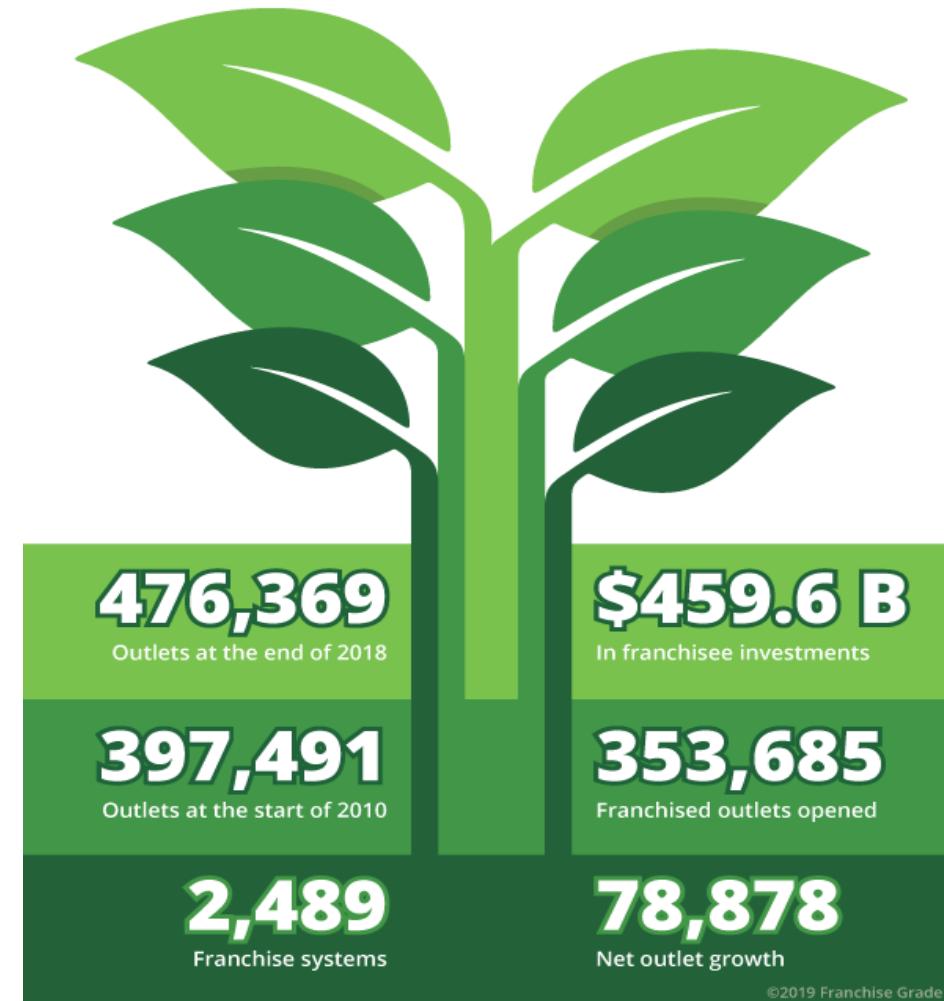
Franchisees are most often the biggest investor class in the brand, yet receive none of the protections as shareholders because they are only stakeholders.

# Economic Impact of Franchised Businesses, Volume IV, 2016\*

	<u>U.S.</u>	<u>Oregon</u>
Establishments	733,000	9,100 (1.2%)
Jobs	7.6M	82,700
Payroll	269.9B	2.9B

\* [www.franchiseeconomy.com](http://www.franchiseeconomy.com), prepared for the International Franchise Association (IFA) Education and Research Foundation, by PricewaterhouseCoopers, LLC.

FRANCHISEGRADE®  
Franchise Industry Growth  
2010-2018



# Extrapolating an Estimate on Data for Oregon

Outlets the beginning of 2010 = 7338

Outlets end of 2018 = 9400

Net growth of outlets = 2062

Outlets opened = 6530

Franchisee Investment = \$8.5B

# What is a Franchisee

Coalition of Franchisee Associations (CFA)

1. **Small Business Owner** – Franchisees are small business owners. Franchisees own, operate, and conduct all business matter of the storefront. Many franchisees work on-site and know their customers' needs.
2. **Investor** – Franchisees are often families that put 100% of their assets at risk. These assets usually include life savings, home equity, college, and retirement funds. Unlike owning stock in a publicly-traded franchise, these local investors have no governmental entity or investment law to protect them.
3. **Business Affiliate** – Franchisees are restricted business affiliates with their franchisor, affiliates because franchisees sign non-negotiable yet binding contractual agreements for terms lasting between 10-20 years. Upon renewal, franchisees must either agree to the terms of the new agreement – which can be drastically different than the original terms – or quit and lose their entire investment.

# What is a Franchisee

Coalition of Franchisee Associations (CFA)  
(Continued)

4. **Community Supporter** – Franchisees support local organizations. Through donations, sponsorships, and volunteerism, franchisees show their support for their community by extending their resources to their neighbors.
5. **Employer** – Franchisees create jobs in the community. At their local stores, franchisees sign the checks for their employees. An estimated 7.88 million people were employed by franchise businesses in 2017.
6. **Taxpayer** – Franchisees pay local, state, and federal taxes. They contribute to the Gross Domestic Product (GDP). Franchisees contributed \$451 million in 2018 with an increase estimate of 3 percent in coming years.

# Churn/Turnover/Disorderly Attrition \*

	<u>Total</u>	<u>Oregon</u>
Burger King	7.7%	0.0%
Taco Bell	4.5%	12.0%***
Subway	11.5%	13.5%
7-Eleven	8.0%	11.6%
Papa Murphy's	12.4%	9.1%
Papa John's	15.1%	0.0%
Dickey's BBQ	27.4%	**
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\* Defined as (Transfers+Terminations+Required by Franchisor+Ceased Operations)/Total Units from 2019 FDDs

\*\* Not reported if units less than 10 in Oregon

\*\*\* All transfers

# Franchise Owner Protections

- Franchise Relationship Law in 19 States
- Oregon has no such protections for local businesses
- Strongest laws are California & Washington
- Overview
  - Allows freedom of association without interference or retaliation
  - Provides termination rights, a due process
  - Provides reasonable transfer rights
  - Provides the opportunity to monetize equity
  - Addresses renewal
  - Addresses fair sourcing of goods and services
  - Addresses pricing
  - Requires transparency in rebates, rewards programs, etc.

# Thank You