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Franchisee Tips for Troubled Times

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Retailers know their customers are difficult to attract, expensive to acquire and even more expensive to replace. In this economic environment, franchisors have recognized that a new corollary augments this adage: "and won't be replaced anytime soon." With so much invested in a franchise relationship and franchise asset by both sides, every effort should be taken to preserve brand affiliation when retention remains a viable option. The notion of interchangeable flags, or the flag as a flexible commodity, flies against recent experience that a brand -- or the loss of a brand -- matters to the financial performance of the asset. Brand preservation will benefit your opportunity to maximize asset value in most cases.

Yet some franchisees deliberately string along their brand companies, waiting for a default notice, or two, before taking action to restore a property to brand standard compliance, or to bring accounts current. This course of action is a dangerous game. If the power company sends a notice of shutoff, most electric service customers don't wait until a lineman arrives to remove the electric meter to pay the power provider. Can a hotel's cash flow survive a reservation system suspension or cessation of group bookings and meeting services, while the owner considers how to resolve franchise issues?

Like all business challenges, communication with key constituencies is critical for survival. Bankruptcy laws force unsecured creditors like the brand franchisor to take prompt action to protect their interests. The brand does not relish the prospect of brand image damage sustained by riding out a bankruptcy or reorganization. Brand patience will not be unlimited -- and the owner's expressed intentions must translate into demonstrated efforts to maintain performance. The brand is much more likely to work with the owner if discussions are candid, truthful and open -- and the ability to meet brand obligations and guest expectations is realistically assessed.

A written workout plan, with consequences of getting off track clearly understood, is a well-recognized means of brand retention. The plan should be clear in its milestones, include a product improvement plan with performance dates specified and result in the property being in full compliance with brand standards at conclusion.

The brand may offer (and the lender may require) an operational audit with property staff, additional training, or other methods of improving performance against brand norms if the hotel's test or guest satisfaction scores are below average. The owner should expect the franchisor to demand a release of any claims against the franchisor and its affiliates for breach of contract or arising from the offer and sale of the franchise as a condition to granting extensions of time to perform. Other benefits negotiated at the time of initial affiliation may be reduced, deferred or recovered as a condition of the plan, or restored only when the plan is completed to the brand's satisfaction.

Finally, if the asset is to be sold, the brand may allow the buyer to assume the plan as part of its affiliation agreement. If the brand affiliation has value, a workout plan may be the only alternative to a painful and expensive termination process.