



FRANCHISING AND RESTAURANTS

What Lies Ahead?

BY
***EDWARD (NED) LEVITT**
DICKINSON WRIGHT LLP
TORONTO, CANADA

Franchising a restaurant concept is a great idea! But in the hardscrabble world of restaurant chain development, there is no lack of good ideas, just a tremendous lack of good implementation. The coming changes and challenges faced by all restaurant businesses will affect restaurant franchisors the same, but they will have the additional challenges that are unique to franchising. Knowing what is coming and planning for it has never been as important as it is today. As one pundit wrote, the secret to walking on water is knowing where the rocks are.

Rate of Change

No one could seriously dispute that we are living in a time of unprecedented change and that the rate of change will only increase in the near future. Some of the most rapidly changing areas are demographics, technology, communications, food costs and food preferences.

Historically, franchising brought with it the promise of a “proven formula”. But what do you do when that “formula” needs to be revamped or modified every couple of years or sooner? How do you support your franchisees in coping with rapid change? And how do you get enough of your franchisees to change?

These questions do not have simple answers, but some areas of the franchise process will obviously need to be examined and altered appropriately. For example, the franchise selling

process will have to clearly deliver the message that the franchisor brings strength to the franchisee, not only in delivering a proven formula, but also in being an intelligent and far sighted change agent. Prospective franchisee profiles will need to be tweaked to filter out individuals who would have difficulty in accepting change. And franchise agreements, training programs and manuals will have to have built in mechanisms to allow for possible frequent changes.

The Aging Population

Coming to grips with the needs and demands of more elderly patrons and even changing laws, such as the new Accessibility for Ontarians with Disabilities Act, will be difficult for all restaurant businesses. However, restaurant franchisors will additionally soon witness a rapid increase in retirements in the ranks of their franchisees. Some of these operators are the best in the respective systems and will be hard to replace.

Technology and Communications

For many of the existing franchised restaurant chains technology developments are starting to outstrip their ability to get franchisees to operate in a consistent manner. For example, very few existing long term franchise agreements would clearly allow a franchisor to force franchisees to start using iPads instead of printed menus, which is a nascent trend bound to grow rapidly in the restaurant industry. Social media is another area missing from most franchise agreements, which is quickly emerging as a key component to every restaurant's marketing effort. Oh, while we are at it, franchisees have never had such an easy time in organizing and communicating with each other about how badly treated they are by their franchisor.

The Law

Very soon Manitoba will implement its franchise statute, bringing the number of provinces with such legislation to five; half of all the provinces. Along with this growing number of provincial franchise statutes is the growing trend of the judiciary to strictly interpret and enforce these statutes to provide remedies for franchisees. We are also witnessing the growth of franchisee class actions. While troubling for franchisors, this writer's view is that these developments will simply require a higher level of franchise expertise and honesty from franchisors than in the past.

For the conscientious franchisor, there really is no increased threat and there may even be a silver lining in the culling of the poor performing franchisors.

Competition

An interesting consequence to the current U.S. economic challenges is that we are seeing an increase of U.S. restaurant franchise chains moving into Canada. One of the reasons for the increase is that a U.S. franchisor can secure financing for its franchisees in Canada, when it is much harder, if not impossible, to source financing for development in the U.S. While the best of our Canadian restaurants do not fear competition from the U.S., the Americans are formidable businesspeople, which means weak operators will be under greater threat.

Area Development

A trend that has been underway in the U.S. for some time has taken hold in Canada. There is a movement away from the “mom & pop” unit franchisee to the more sophisticated and financially stronger multi-unit franchisee, sometimes referred to as area or territorial franchisees. While this can be a very positive development for a growing franchise system, it also requires a higher level of understanding of franchising and a retooling of a number of aspects of the franchise system, including the sales process, training, management, issue resolution and more.

Conclusion

These are, at the same time, exciting and challenging times for the restaurant sector in Canada. Add franchising to the mix and it gets downright scary. But not to worry, it still is not rocket science. Rather, success in restaurant franchising comes from matters that are very much in the control of the franchisor; talent, good information, careful planning, measured growth, appropriate financing and discipline.

Edward (Ned) Levitt is a partner at Dickinson Wright LLP, Toronto, Canada. He served as General Counsel to Canadian Franchise Association from 2000 to 2007 and, as a member of the Ontario Franchise Sector Working Team, was instrumental in the creation of Ontario's franchise legislation. Among his many publications is **Canadian Franchise Legislation published by Butterworths/Lexis Nexus. Mr. Levitt can be reached at 416-646-3842 or nlevitt@dickinsonwright.com..*

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