Corporations Can Help Operators in Crisis

LIST: Food service firms account for most names on Business Journal’s directory.

By ANDREW FOERCH Staff Reporter

Franchised restaurants, often with strong brand recognition and support from well-capitalized corporate owners, may seem better equipped than independent restaurants to survive a crisis such as the coronavirus pandemic, but that assumption isn’t always true.

According to Evan Goldman, a lawyer who chairs the franchise and hospitality practice group at A. Strauss in New Jersey, “it depends on your franchisor.”

“Many franchisors have, for better or worse, taken a, ‘one of us is going to lose money and it’s not going to be us,’ look at the pandemic, and done things to their franchisees that are horrible,” he said.

It’s not unusual to see franchisors use resources as leverage to manipulate the legal terms of their agreements, even convincing franchisees to release them from liability down the line, he added, calling the practice a form of “legal extortion.”

Other umbrella companies see the franchise environment as a financial and legal partnership where both parties are invested in success.

Goldman said many such franchisors offered relief to their operators by choosing to “remove or reduce minimum royalty obligations and remove ancillary charges that come every year.” He added that the most involved franchisors have helped individual franchisees adjust their operating models to account for government-mandated restrictions, including partnering with delivery companies and installing outdoor dining zones.

But even restaurant franchises that fall into the latter category aren’t immune to the pandemic economy – far from it.

Restaurant crunch

PizzaRev, a formerly fast-growing build-your-own pizza chain founded in Northridge and headquartered in Westlake Village, permanently closed more than half of its units this year, including most of its presence in the Valley region. The closures included locations in Camarillo, Thousand Oaks, Burbank, Glendale, Studio City, Northridge, Woodland Hills, Van Nuys and Valencia, several of which were corporate-owned. Only two PizzaRev restaurants remain in Los Angeles County, one in Palmdale and another in Rowland Heights.

Last year, the company had 27 restaurants in the U.S. and Mexico. As of press time, its website shows just 11 locations.

PizzaRev is No. 12 on the Journal’s list of largest franchisees.

By far the Valley’s largest franchisor is Glendale-based Dine Brands Global Inc., which owns the Applebee’s and IHOP banners. It has more than 3,500 restaurants, around 65% of which are company-owned.

Dine Brands announced in November it expected to close “up to 100” IHOP restaurants that weren’t operating sustainably, adding to the 35 already shuttered this year. It said it would also close 15 Applebee’s in the fourth quarter.

Goldman said Dine Brands did well for its franchisees by helping them install large, well-built outdoor dining rooms with tents and tables in parking lots and pairing them with meal delivery apps.

Other restaurants are going to extreme lengths to win over customers and keep sales flowing.

Canoga Park-based CaliBurger, No. 8 on the list with 36 locations worldwide, has installed a $100,000 burger-flipping robot called “Flippy” at four of its restaurants, including in Pasadena, to give patrons more confidence their food is being prepared in a sterile environment. It also introduced a second robot that can operate a deep fry machine.

Expansion wave coming

Goldman said 2021 will bring a boom in new franchise development as owners look to replace closures.

“The economy is terrible right now, but it’s going to open up in the next six to 12 months,” he explained. “The average lag time between signing your franchise agreement and actually opening for business is probably six months. Why not use that time to build while I can get good rental rates?”

He added that mass layoffs, especially in the corporate sector, always contribute to a spike in new franchise applications.

“We saw this a lot in the 2009 recession,” he said. “People who work in corporate America … those are the people who become franchisees. They don’t want to get fired because shareholders need an extra penny.”

To build an independent business from the ground up is an expensive, time-consuming and logistically challenging endeavor, especially during a health crisis and recession. Alternatively, by eliminating in-person discovery days and cross-country flights to sign documents, the pandemic has made it easier than ever to open a franchise – if you have the capital.

“The way it used to work is … very wasteful. Now, everything is done virtually. Every closing I’ve done this year has been by DocuSign,” Goldman said.

Let’s Move the Valley Forward!

Our Valley has many needs, especially during this difficult time. Fortunately, we can all make a difference, and Yes You Matter makes it easy for everyone to step forward. Our mission is to provide information about charitable organizations in the Valley that are making a difference so that those in a position to assist them, will be informed. If you let us know your area of interest and how you can help, we will provide you with relevant information. Contact us at: YouMatter.SFV@gmail.com

Below is a plea from Ken Craft, the CEO of Hope of the Valley Rescue Mission regarding ways to help the homeless in the valley.

Let’s help our fellow homeless Valley residents start the new year with hope. Please consider giving a gift of a New Start. Sponsor a Tiny Home for the homeless – a home that is 64 square feet, has heat and air-conditioning, electrical outlets, two beds, a small desk, two windows that open and a locking front door, all for $3,000. Monthly payment options are available. It is a project that Hope of the Valley in partnership with Councilman Paul Krekorian is working on. Your donation of $3,000 will make you the official sponsor of a Tiny Home that will be used to end someone’s homelessness. The goal is to have a naming right on the outside of every unit sponsored. For more information on the Tiny Homes Project, please visit www.hopeofthevalley.org/tinyhomes/

We will continue to press forward until NOBODY goes to bed hungry or unhoused.

Mary Ajofor, MBA, PH.D., CPA
Partner, Martin Alpon Partners, Encino
Founder, Yes You Matter

For more information on the organization and its various programs, please visit hopeofthevalley.org
You can reach them at (818) 392-2020 or via email at Fonda@hopeofthevalley.org

Together, let’s move our Valley Forward! You CAN make a difference. Yes, You Matter! Yes, Everyone Matters!