

Franchises: Cutting Service and Quality Not the Answer During Challenging Times

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October 15, 2008

Massive Wall Street bailouts and the mortgage crisis have left the U.S. economy reeling. No one is immune to the repercussions of an unstable economy, especially not franchise businesses. For franchisors and franchisees alike, these turbulent times call for a well-informed and reasoned strategy to help franchised businesses withstand the current state of the economy. The most important thing to remember is that these challenging economic times are temporary—the economy will eventually get better. Unfortunately, in response to unfavorable economic circumstances many franchises reflexively do things such as cutting down on product quality or customer services. This is not necessarily the wisest course of action. If a franchisee or franchisor implements imprudent cost-cutting measures, the resulting negative fallout could very well cause damage that lasts well beyond the current, but temporary, state of economic affairs.

It would seem that the easiest and quickest way for a franchisee to cut costs during an economic downturn is to lower quality and cut back on services. However, don't think that consumers won't notice when the product quality of their local franchised business takes a decided turn for the worse. Such actions might temporarily help the bottom line, but the long-term damage to the good will of the brand is potentially immeasurable. The foundation upon which every franchised business is built is the franchise's brand name. By resorting to quick fixes that pinch pennies but offend customers, franchises will sacrifice their long-term well-being. Neither franchisor nor franchisee can afford to let tough times erode a brand's good will.

Quick-fix measures can also result in unwelcome legal consequences as well. For example, by scaling back on staff, a fast food franchisee may find itself in violation of its franchise agreement, and in danger of termination. The same holds true if a franchisee were to turn to unapproved suppliers or vendors to cut costs. It is easy to understand how cheaper food inputs could be very tempting to a franchisee facing hard economic times. If, however, those bargain-basement tomatoes turn out to be harboring an e. coli virus, both franchisee and franchisor would be subject to massive liability. Even if the tomatoes are fine, such conduct could result in a costly breach of contract action by the franchisor against the franchisee. The risks far outweigh whatever short-term benefit might be gleaned from compromising on quality.

Scrimping on staffing likewise creates a potential liability and p.r. nightmare. Cutting back on services negatively impacts the customer experience, which can have a long-term impact on the quality of the brand. In the customer's mind, the half-life of a slow, understaffed experience at a franchised business could last well beyond the current economic downturn. A negative experience can influence the customer's buying choices well into the future better economic times to come. Franchisees must also be mindful of their service obligations under their franchise agreements. Many franchisors regularly conduct QSC (quality, services, and cleanliness) reviews of their franchised units. Depending on the terms of the franchise agreement, a low score could subject a franchisee to termination. The franchisee that steadfastly

maintains its customer service standards during hard times protects both the brand's good will, and its own business interests.

In order to successfully navigate through these tough economic times, franchisors and franchisees alike must keep the big picture at the forefront of their strategy. Nobody ever said weathering an unstable economy would be easy. Prudent money savings measures will have to be very creative. These measures could include things like cutting back on landscaping, or on paid subscriptions to music services. Cautiously raising prices is another option. But cutting back on quality and service to save money during a recession should be avoided. This knee-jerk solution may look good on one month's balance sheet, but it short-sightedly ignores the long term effects that can result in tarnished good will and increased liability. Ultimately, the quick fix can wind up costing the franchise many times more money than the quick fix's temporary boost ever contributed.

Word Count: 665

The author would like to thank Mikhael Ann Buchanan, an attorney at the law firm of Zarco Einhorn Salkowski & Brito, for her contributions to this article.¶