

### **The great franchise trap**

Toronto – This is the story of a few new immigrants who got gypped royally by what is known as franchisors. Franchising is a legitimate way to do business in this society and in fact, many legendary corporations like the McDonald's are built on this concept. But there may be a new breed of franchisors in the market who are big sharks looking for small fish to first bite into and then after sucking out the last dollar, is dropped into bankruptcy. It could be a pizza franchise, like in the case of these victims, or anything else because everything is franchisable and it would seem, there is a sucker born every day in this multicultural society.

Wasim Ansari's case is now in the courts. But his story has already ended in penury thanks to his dreams of making millions out of pizzas. After moving here from Pakistan, he has been working as a customer relations officer with a local bank. During this time at the bank, he came in contact with one of those big sharks, and suddenly, he was full of dreams of starting his own pizza franchise. The sharks had shown him the big money picture. All he had to do was to come up with the initial franchise fees and then voila!, he would be on his way to becoming rich! He was so convinced he approached his brother in law who had just then retired and had some funds parked safely in the bank. He was so convincing that the relative put the money into the project. Ansari gave \$78,000 as franchise fees and was soon in business in Ajax.

The trouble started early enough. It seems, the franchise fees was just an appetizer. "We just kept paying more and more." As soon as they opened, they started getting demands from customers who were promised stuff before Ansari took over. When he tried to check with 'head office' what was going on, he was told that 'you bought the franchise, you also bought the problems'. In this case, the promises that were not kept in the past were passed on to the current owners. That turned out to be just the tip of the iceberg. Besides a hefty 18 per cent which the franchisor took as his cut on the whole turnover, there were incidental expenses. "We had to buy 10,000 flyers every week from them. That cost \$600 to buy and another \$400 to distribute it through Canada Post to the residents in the area. If we didn't buy this, the orders didn't come as the operation worked on a centralized telephone system which took the orders. Every week, there was so much money going out, we were all putting into the business." As they couldn't afford a staff, the whole family including the young ones pitched in to save the ship. But this ship was bound to go down as the odds were stacked heavily in favour of the franchisor. Suddenly, it was no longer the smooth smiling face that they saw, but the very demanding couldn't care attitude. After all, didn't they sign the contract?

The family lost \$150,000 and sadly, the man who put his life's savings on this scheme, is today on welfare.

Rayappu Jesudasan, an immigrant from Sri Lanka, tells of his heart-break at the same pizza operation. Jesudasan has been in the country for about 10 years and he had scrounged and saved every penny possible. In 1996, he was working at a pizza franchise when the owner encouraged him to get into it as it was a money making business. Jesudasan describes what followed, in his broken English. "He took me to a big office to meet with the owners. I was very impressed. He was young and he told me not to worry, that his a very big company and that we would be looked after." Jesudasan put his whole life's savings and took a loan to come up with the \$80,000 franchise fees for an operation in East Scarborough.

The same story followed. All those thousands of extra dollars for the flyers and publicity. And when once, he distributed only 5,000 flyers instead of the mandatory 10,000, "My computer was shut off by the head office. No orders. I requested them if I could use my own person to distribute the flyers to save some money. But we were told that it had to be Canada Post and no one else. I was borrowing money to pay for everything. The business was not making any money at all."

Jesudasan is a broken man today. During that awful period, from July 1996 to March 1998, when he eventually gave up, he spent \$80,000, plus 20 months of his and his family's time, \$88,000 in advertising

and other costs. This has left the family scraping the bottom for sheer existence. Jesudasan says, "I had to pull in even my 11-year old daughter to help out in the store in the last few months. My son had plans to go to university. But now we can't even think about it."

He may have lost all that he possessed. Today he works at a pizza place as an employee. But he has not lost his dignity and pride. "I still have not declared bankruptcy. I don't want to lose my credit rating. Someday, I hope to do some other business. I don't want to go on welfare. I don't want to give this government headache. This country has been good to us has given us everything even though we came here as refugees."

Recently, a group of 20 franchisees who claimed to have suffered the same fate got together and staged a protest outside a pizza franchise that had multiple owners in a matter of a few months. The NDP has lent their support to them. Tarek Fatah, the media advisor to Howard Hampton, told the Voice, "These people need to be protected. It is mostly the new immigrants who fall victims to such schemes. And in Ontario, there is very little by way of laws that can protect them in times of dispute."

The 'victims' have learned of this rather late. Earlier, about 14 of them got together and hired a law firm to get justice through the courts. But after several adjourned hearings and postponed dates, they ran out of money to fight the case. And these people were certainly in no position to raise funds to pay for legal fees. Even if they did, the tables are probably turned against them as the contracts they signed are almost airtight. It goes to the credit of the sharks and reflects the absolute naivete of some of the franchisees that some of them didn't even read the contract before signing away their fortunes. Jesudasan's lawyer (at least he had one) waited for 3 hours for a copy of the contract, but he was told that the President of the company was busy. "I got the copy a year later," he says.

Ali Mehmood Zadeh, an Iranian who similarly lost his shirt running a franchise says, "About 22 of us got together and went to court. After 15 months, what we got was a lot of motions to postpone everything. The first lawyer removed himself, we spent \$60,000 on him. Now we don't have a lawyer, we don't have the money."

Fresh legislation was introduced in the Ontario legislature that is expected to set right some aspects of the franchise business in the Province which registers nearly 5,000 complaints every year from various franchisees. Apparently, this is a huge problem. Les Stewart, the founder of Canadian Alliance of Franchise Operators (CAFO), says, "There has been some new legislation introduced, partly thanks to the NDP." But Stewart believes that it doesn't go far enough. "The government wants to deal with the information before the contract is signed. They don't say anything about what happens later after the franchisee starts the operation. Most of the people I have spoken to have had problems afterwards, like being gouged in printing flyers, advertising, and other costs. In the States, there are 38 states which have passed protective legislation, most of them have to do with the relationship between the franchisor and the franchisee as it develops. The contracts are always one-sided. These people need protection as they continue the business." The Tory reform stops short of that though. The original move to discipline the sector came at the time of the last NDP government. By the time the recommendations were ready, it was the Tory government who received them and came with what critics call, 'weak legislation'.

Stewart warns everyone to be very careful when getting into any franchise business in the Province. "This industry is populated by a large number of white collar criminals who find this Province a happy hunting ground. We want to clean up this business. There are legitimate franchisors who are equally upset with what is happening. In the meanwhile, my own advice to people is if you are planning to buy a franchise now, don't. Keep your check books in your wallet till you are better protected under the law." The advice comes a bit too late for Jesudasan who now toils in a pizza place at seven dollars an hour. "All this is okay for the new people. What about us? When are we going to get some justice?" Their case languishes in the court for lack of a good Samaritan lawyer to represent them.