



FRANCHISING[®]
Building local businesses,
one opportunity at a time.

October 21, 2015

Dear Chairman Godshall and Members of the Pennsylvania House Consumer Affairs Committee:

On behalf of the International Franchise Association and all of its members, we urge you to OPPOSE HB 1620.

About the IFA:

The International Franchise Association is an organization that protects, promotes and enhances franchising, including the interests of franchisees, franchisors and the franchise business model. In a report conducted by PwC for the IFA, nearly 30,000 franchise businesses in Pennsylvania employ 318,600 workers in franchised restaurants, hotels, retail outlets and service franchises such as business, personal, commercial and residential and automotive. Additionally, 662,200 people were employed because of franchise business in Pennsylvania, comprising over 10.5% of all nonfarm employment. Pennsylvania's franchise businesses generate \$28.4 billion in economic output annually, or 9.2% of total economic output. More than thirty IFA member company franchisors are headquartered in Pennsylvania, including AAMCO, Auntie Anne's, Inc., FirstService Brands, General Nutrition Centers (GNC), Griswold Home Care, Philly Pretzel Factory, Rita's, Swiss Farm Stores and Visiting Angels.

About House Bill 1620:

HB 1620, which amends Title 12, (Commerce and Trade) of the Pennsylvania Consolidated Statutes, was introduced June 24th of 2015. The bill seeks to establish 'responsible franchise practices' and protect franchisees against unfair treatment by franchisors in the sale and operation of franchised businesses. The bill creates penalties and remedies, and would confer powers and duties upon the Department of Community and Economic Development.

About the Issue:

Franchises are already significantly regulated and they have thrived within the current environment. The International Franchise Association has a number of serious concerns with HB 1620. Some of the most problematic examples have been highlighted below. However, the bill in its entirety is flawed. The regulatory overreach of this bill would lead to strong negative effects on franchise operations across the economy.

- **Termination** – HB 1620 attempts to rewrite existing contracts by inserting non-negotiated terms and conditions in relation to termination of existing franchise agreements, §5505 & §5509. Termination is governed by each individual franchise agreement, which is freely negotiated by each party at the time of signing. HB 1620 attempts to insert government regulation into contractual negotiations between two private parties.
- **Renewal** – HB 1620 §5506 requires franchisors to provide a 90 days' notice to franchisees if they do not intend to renew a contract. Both parties should be left to negotiate renewals of business agreements towards the end of an existing contract. They should not be automatically renewed through government regulation. Additionally, non-renewals are prohibited except for good cause shown by a franchisor. Again, HB 1620 inserts government into private contractual negotiations.



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- **Good Faith & Fair Dealing** – HB 1620 provides an inarticulate definition of what is considered “good faith and fair dealing.” §5510 of the bill states “Each franchisor shall owe a duty of good faith and fair dealing to each franchisee.” Once again, in its current form the wording is vague and will create significant litigation issues if made into law.
- **Transfer** – HB 1620 provides requirements as to how a franchise establishment is to be transferred, §5508. Continuing the theme of inserting government regulation into private contractual negotiations and rewriting existing contracts, HB 1620 fails to address the concerted interest a franchisor has in the continued protection of its brand and trademark. It is incumbent upon a franchisor to ensure its mark is protected and serves to benefit all other franchisees. Transfer of an establishment creates many potential hazards to this protection and HB 1620 will loosen the requirements, thereby leaving franchise brands and franchisees within a brand at risk.

Overall, this franchise bill has the potential to cause significant problems for franchisors and franchisees. It ventures into new areas of regulation to an extent not previously seen. Above and beyond these examples, the overall bill takes aim at a business model that has been remarkably successful for entrepreneurs across the country. HB 1620’s vague definitions will create confusion and be harmful to franchise operations, our legal system, and the economy in general. In lieu of far-reaching and harmful legislation such as HB 1620, IFA favors a free market system that aims for resolution of the infrequent disputes between franchisors and franchisees without legislation.

Best Regards,

Jeff Hanscom

Jeff Hanscom
Director, State Government Relations & Public Policy
International Franchise Association

PA

PENNSYLVANIA

International Franchise Association

Fast Facts


FRANCHISING[®]

Building local businesses,
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Franchise Brand

*Behind many familiar
logos and brands . . .*

Small Business Owners

*. . . are independently-owned
local businesses*

Local Economy

The Franchise Business Model:

- Has created tens of thousands of American small business owners and millions of opportunities for American workers. For many entrepreneurs, franchising offers the "best of both worlds."
- Allows business owners to gain from affiliating with an established brand and the proven processes that made it a success. At the same time, it allows them to maximize both return on their investments and control over their employees and wages.
- Is under attack at the federal level and at the state and local levels as well. A recent National Labor Relations Board ruling could destroy this time-tested business model and undermine decades of regulatory, legal and legislative precedents.

PENNSYLVANIA BY THE NUMBERS

29,514 Locations

Number of franchise establishments in the state

318,600 Jobs

Number of people employed
by franchised businesses

\$28.4 Billion Economic Output

Direct amount of money put into
the economy by franchised businesses

Examples of Pennsylvania-based franchisors

Arooga's
Griswold International
AAMCO Transmissions
Auntie Anne's Pretzels

Source: Economic Impact Study based on 2007 U.S. Census

U.S. Franchise Facts

- Locally owned franchises are America's hidden small businesses, with 780,000 establishments across the country.
- Franchising directly contributes \$890 billion in economic output, accounting for roughly 3% of private sector U.S. GDP.
- Franchising is a job-creating mechanism that not only offers opportunities to entrepreneurs but also supports more than 8.9 million direct jobs nationwide. *January 2015 forecast, IHS Economics*

Franchise Businesses: Good for America and Good for Local Communities

The International Franchise Association is the world's oldest and largest organization representing franchising worldwide. Celebrating 50 years of excellence, education and advocacy, IFA works to protect, enhance and promote franchising through its government relations and public policy, media relations and educational programs.

International Franchise Association

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