



5 Reasons Why the New Franchise Agreement is Bad for The Brand

General Counsel Eric Karp and the NCASEF leadership team has taken an in-depth look into the new franchise agreement. This week, we begin a series of articles highlighting the provisions of the agreement which we believe are bad for franchisees and the brand. Each week, we will present 5 new concerns. We begin with these which all illustrate 7-Eleven's lack of trust in its franchisees.

1. Business Judgment – Section 31(n)

- SEI may now make decisions based on what is good for corporate, no matter the impact on the franchisee. This is a blatant attempt to void the implied covenant of good faith and fair dealing and allows SEI to make decisions based on its own self-interest without considering the impact on the franchisee.

2. Loyalty Programs – Sections 17(a) and 26 (b)(9)

- Franchisees are now required to participate in ALL customer loyalty programs and pay the costs when a customer redeems points. Details of how these programs will work in the future are sketchy. There is no limit on what customer loyalty programs can cost franchisees.

3. Pricing – Section 15(j)

- We are mandated to buy 85% of our products from suppliers SEI deems as “recommended vendors.” There is no guarantee that SEI will procure the best pricing or payment terms for franchisees from these vendors. This provision ensures SEI

bears no responsibility if vendors violate a supply chain agreement and proves the supply chain is not being operated for the benefit of franchisees.

4. Termination – Sec 26 and 26(a)

- The language here is intentionally vague. The new provision is written in a manner which makes it very difficult to discern the changes. There are now 12 events which can lead to default where the prior contract only contained one. Some of the defaults under one agreement are a default under all other franchise agreements held by the franchisee or its affiliates. SEI's characterization of these wholesale changes as a "streamlining" is intentionally misleading.

5. Governing Law – Section 30(a)

- Texas law now governs any legal disputes. Previously franchisees could seek legal help in their state of operation. Many states have franchise relationship laws that level the playing field for franchise owners. Texas has no statutory protections for franchisees.