This week’s 5 Reasons Why the New Franchise Agreement is Bad for The Brand

This is the second article in NCASEF’s series highlighting provisions in the new Franchise Agreement which we believe are bad for both franchisees and the 7-Eleven brand. General Counsel Eric Karp and the National Coalition leadership team has taken an in-depth look into the agreement. We hope you take these items into careful consideration before making a decision to sign. NCASEF Chairman Jay Singh sent a registered letter to SEI CEO Joe DePinto on August 7, asking him to meet with us in good faith and renegotiate terms of the agreement. We will let you know when and if he responds.

Here are the next 5 reasons:

1. **Indemnification and Insurance – Section 18 and Exhibit C**
   - Contractual indemnification has been totally eliminated – meaning SEI will be responsible only for fire and casualty loss to the building and the equipment. This is a traditional element of the franchise system and SEI has discarded it, transferring nearly all insurance responsibilities and associated costs to the franchisee. Under this new provision, franchisees will now be required to name SEI as an additional insured party. Estimates from the recommended provider which are based on store volumes and location range from $170 to as high as $430 per month for these added insurance requirements.

2 **Maintenance Contracts Section 8(a)(3) and 20(h)**
   - SEI may stop arranging for performance of the maintenance services and require franchisees to use only contractors it approves. In addition, SEI reserves the right to use itself or its affiliates as the equipment maintenance contractor. This with SEIs history of repeatedly refusing to commit the needed capital investments to replace worn-out equipment on a schedule recommended by industry standards creates a conflict of interest by forcing franchisees to maintain equipment beyond its useful life

3. **Franchisee Payroll – Section 12(e)**

- SEI is no longer obligated to provide payroll services. SEI has selected ADP as the recommended payroll service which will partially integrate with the current in store infrastructure. Franchisees may choose to select other payroll providers but it is not clear how this will be integrated with monthly accounting. This is yet another example of the company transferring an expense to the franchisee.

4. **Audits – Section 14**
   - There is no longer a guarantee of quarterly inventory and lottery audits as was the case in previous agreements. There is no clear audit schedule spelled out in the new agreement. Moving to annual audits would make tracking and investigating inventory discrepancies significantly more difficult than it already is. There is no guarantee that SEI will cover the expense of these audits.

5. **Renewal Fee – Section 24(j)**
   - The renewal fee is a flat $50,000, making it one of the highest known renewal fees of all franchise systems in the United States. There is no guarantee that 7-Eleven will perform a remodel when these renewal fees are paid. Unlike other franchise systems where the franchisees are required to remodel locations in the 7-Eleven model, franchisees do not own or lease the property or equipment. When a franchisee seeks to sell their franchise at any point in their term SEI seeks a full franchise fee, based on a full term for the store and refunds nothing to the selling party.