National Coalition of Associations of 7-Eleven Franchisees

Chevron Goes the Extra Mile to Lower Franchisees' Cost of Goods

If there was one statement that characterized how SEI felt about its franchisees in 2018, it was this: "There is no guarantee that SEI will procure the best pricing or payment terms for franchisees." National Coalition General Counsel Eric Karp made the point in his analysis of the controversial 2019 Franchise Agreement. Just one sentence later in Section 3 ("Pricing"), Karp wrote SEI did not want the supply chain operated for the benefit of franchisees.

Cost of goods was one of the primary issues the National Coalition has been raising in its opposition to the terms of the new agreement. Aside from his analysis, Karp was part of a committee that prepared and presented alternative terms for consideration in the new agreement to make the purchase of goods more equitable for franchisees. Among them:

a. Supply chain [be] operated on an open book basis with one goal: franchise owners realize the absolute lowest possible cost of goods

b. All revenue [be] designated as wholesale vendor discounts, back-end payments, sponsorships, exhibitor fees, allowances, and any other payment or other consideration from any vendor, no matter how characterized, will be included in cost of goods calculation

c. Except for proprietary items, Stores may bypass CDC/McLane/wholesaler markups to obtain lowest costs of goods on an item-by-item basis

As we all know, SEI rejected our proposals and those who have signed the new agreement are subjected to terms that are for the greater benefit of SEI. The vast majority of those, although unhappy with the new contract, opted to sign in order to protect their income. Many others are still holding out.

Cost of goods is a major issue throughout the franchise industry; many brands – including other c-store systems – want their franchisees to enjoy the benefits of a competitive supply chain. One of those is Chevron, which operates 800 ExtraMile stores and is planning to expand to 1400 by 2027, according to Convenience Store Decisions.

We spoke to an ExtraMile franchisee, who also owns three 7-Eleven stores, to better understand how they handle wholesale supply chain pricing. We agreed not to identify him by name. Like 7-Eleven, ExtraMile uses McLane as its wholesaler.

“Overall, I am happy with the choice of goods and the price of goods,” he said. “We have a recommended planogram with McLane and [ExtraMile] negotiated for the best cost of goods.”

Like 7-Eleven, ExtraMile requires franchisees to purchase 85 percent of goods through its recommended vendors, but unlike 7-Eleven, which creates barriers for franchisees to buy non-recommended items, ExtraMile makes it easy for franchisees to purchase items from other sources, including big-box stores. “You can go to Costco and buy it yourself and you won’t get penalized as long as it’s within the 15 percent of stuff you can order,” he told us.

Something else that sets ExtraMile apart from 7-Eleven is its willingness to listen to franchisee suggestions. If a franchisee wants a product that is not on the McLane planogram, but is available through their warehouse, they can approach their area director and it can be added. Similarly, if a product isn’t selling, the franchisee can request it be removed from the planogram.

“Area directors [will] go through certain steps and change it and we can get something better,” this franchisee told us.

Like 7-Eleven, Chevron has created private-label brands for ExtraMile. According to the franchisee we interviewed, those branded products now comprise approximately 25 percent of his total goods, but he pointed out that 7-Eleven not only has more private-label items, the company also “pushes us to carry those [items],” he said. “I feel like it’s more controlled by 7-Eleven.”

Both brands offer franchisees rebates aligned with their purchases, but again there is a difference. According to the multi-brand franchisee we interviewed, ExtraMile provides an easy-to-understand quarterly breakdown of what franchisees will receive in rebates.

“It’s based on what they negotiated with the distributor and based on the promotions every month. Franchisees know certain things are billed back if you participate in promotions,” he said.

Where ExtraMile provides clarity around its rebates, 7-Eleven’s program is shrouded in confusion. Many franchisees have likely expressed the same sentiments as the man we interviewed. “I check on [the 7-Eleven program] quarterly, but I don’t understand how it works. I don’t think they are shortchanging us, but the confidence is not there.”

It could be this franchisee is giving 7-Eleven too much credit. Many franchisees have told us they question whether they are getting shortchanged in their rebates. After all, as our continued calls for transparency in all aspects of the business have gone unheeded, it is easy for many to feel like they are getting shortchanged.

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