

Franchisees Tell Cautionary Tale Of Quiznos' Red-Hot Expansion

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Published: Mar 1, 2006

TAMPA - Anyone watching local cable TV recently may have noticed a curious infomercial.

A tall, handsome spokesman was trumpeting the rewards of owning a Quiznos Sub franchise. Be your own boss, the pitchman kept reiterating. Set your own schedule. Enjoy independence as a business owner.

Denver-based Quiznos is following up its infomercial with a series of seminars at Tampa Bay area hotels this week, hoping to interest potential franchise owners.

But behind the scenes, there is turmoil among some Quiznos franchisees here and across North America.

According to a Tampa Tribune analysis, 80 percent of Quiznos restaurants in Hillsborough and Pinellas counties have changed hands or closed since January 2003. Meanwhile, Quiznos has been sued by dozens of franchisees in the United States and Canada who plunked down a \$25,000 franchisee fee but were unable to find a suitable restaurant location.

How all this will affect Quiznos, which touts itself as one of America's fastest-growing restaurant chains, is an open question. Can it continue its blistering expansion pace even while many of its franchisees are upset?

A case in point is Willie Zinnerman of Valrico, who sold his Temple Terrace Quiznos restaurant two years ago and closed his Tampa store on Boy Scout Boulevard.

Zinnerman fled the Quiznos chain because of what he calls its high food costs and the way it has saturated the market with restaurants.

"With Quiznos, no matter how much money you make, you barely skim by and break even," Zinnerman said.

Chances are, the only thing you have heard or read about Quiznos is its amazing growth rate. Ron Paul, a restaurant industry consultant for Technomic Inc. in Chicago, said Quiznos opened

more than 1,000 stores in 2004, the most recent year for which he had statistics. Quiznos stores are popping up all over the Bay area, too.

Pace Of Turnover Nearly As Quick

Three years ago there were 15 Quiznos restaurants in Hillsborough, Pinellas and Pasco counties, according to Quiznos' 2003 "Uniform Franchise Offering Circular," a disclosure statement for franchisees. Today, there are 35 Quiznos restaurants open in the three counties, Quiznos spokeswoman Bonnie Warschauer said in an e-mail interview.

Its expansion pace has generated buzz in the franchising world. Entrepreneur magazine, for example, rates it No. 2 on its Top 10 franchises for 2006. The ranking takes into account growth rate and financial strength but does not factor in franchisee satisfaction, the magazine notes.

(Quiznos, a privately held company, also has generated headlines recently by putting itself up for sale.)

This week, the Tribune wanted to know how many of the 15 local franchisees who were around three years ago are operating today. Calls to each restaurant showed that 12 have changed hands or closed in the past three years. Quiznos did not dispute the Tribune's findings.

"That's extraordinarily high," said Paul, the restaurant industry consultant, who noted that he wouldn't expect more than 20 percent turnover at most restaurant companies over three years.

What that turnover rate means was debated this week. People sell their restaurants for a host of reasons, Quiznos' Warschauer said. They might want to do something else, or they might get an unbeatable offer for their stores. Turnover does not necessarily indicate a problem, she said.

However, a New Jersey lawyer who has represented Quiznos franchisees against the company, has a different take.

"If these people were so happy with their Quiznos, they wouldn't be getting out and moving on," said Justin Klein, of Red Bank, N.J.

Franchisees 'Get Their Clocks Cleaned'

Franklin Green is one of the Quiznos franchisees who has been around for at least three years. He is selling his two downtown Tampa restaurants, at 302 E. Kennedy Blvd. and 506 N. Pierce St.

The Kennedy Boulevard store, which is in the shadows of downtown's office towers, has been a solid financial performer, he said. But the Pierce Street restaurant, across from the old courthouse, tumbled after the county opened its new courthouse on Twiggs Street. Many of his customers were jurors who went elsewhere when the courthouse moved, Green said.

However, Green lays some of the blame for his business' failure on Quiznos. Company officials are slow to return phone calls from franchisees, who often are rookies at running restaurants and need help, he said. Green is under contract to sell both his restaurants, he said. Green wouldn't disclose financial details of the store sales but said he will lose money.

New franchisees "come in, and they don't get the support they need and they get their clocks cleaned," Green said.

How many franchisees are dissatisfied is unclear. Many are frustrated at the way they cannot find a restaurant location, even after they pay Quiznos a \$25,000 franchise fee.

Lawsuits Target Location Policy

At the moment, a Canadian franchisee is suing Quiznos in Toronto. In the case, he alleges that Quiznos leads people to think they will find a restaurant site within a year. In reality, many franchisees are stuck without a suitable restaurant site for several years, said Ben Hanuka, an attorney representing the franchisee.

"The reality is they've been flooding the market," Hanuka said of Quiznos. "They've been aggressively recruiting franchisees way beyond the capacity of a given market."

Hanuka and his client hope a Toronto judge will make the lawsuit a class-action case to include franchisees in Ontario.

In New Jersey, a group of two dozen franchisees settled their lawsuit with Quiznos last summer, said Klein, the New Jersey lawyer. Like the Canadians, they were unable to find a restaurant site, he said.

Warschauer, the Quiznos spokeswoman, countered that the company wants its franchisees to succeed, and it helps them find suitable locations and open their new restaurants.

To be sure, some local Quiznos restaurant owners seem OK with their investment. Miguel Ruan opened his store on 22nd Avenue North in St. Petersburg in 2002. When he went to a seminar for potential franchisees five years ago, Quiznos implied that he would make \$66,000 profit per year.

"I haven't seen that," Ruan said. "But I cannot say that I'm not doing anything. I'm still operating, I'm still doing business."