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Quiznos hopefuls complain of greed

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Quiznos, the fast-growing chain known for its toasted submarine sandwiches, is catching fire from franchisees in the Garden State and around the country.

Dozens of franchise owners claim in lawsuits that growth in the private company -- which says it has expanded to 5,000 restaurants from 18 in 1991 -- rests on corporate deception and greed.

In New Jersey, Quiznos has sold more than 300 franchise licenses -- at an average of $25,000 each -- but failed to approve store locations for the vast majority, a group of 10 plaintiffs claims. The practice, their lawsuit says, has enriched the company while painting a false picture of franchise growth.

Federal lawsuits filed in Wisconsin and Michigan additionally accuse Quiznos, the second-biggest sandwich chain after Subway Restaurants, of forcing franchisees to buy overpriced supplies from corporate-affiliated vendors. The costs make it unlikely owners could ever turn a profit, the lawsuit says.

"Quiznos has created an arrangement in which nearly all the money goes to them and the franchisees have little or no opportunity to become successful," said Justin Klein, a Red Bank attorney representing plaintiffs in the three suits that seek class-action status.

The Midwest lawsuits, which seek millions of dollars to cover lost investments, accuse Quiznos of violations of federal and state antitrust laws, racketeering and breach of contract, among other allegations. The New Jersey plaintiffs claim the company has violated the New Jersey Consumer Protection Act and seek an injunction on all franchise sales. The company has sold franchises in New Jersey since 2002, Klein said.

Company spokespeople did not respond to questions about the allegations Monday. But in recent media accounts, Quiznos has said the claims are without merit.

In recent weeks, the company has moved to adopt new practices.

In January, Quiznos named Gregory Brenneman as its new chief executive officer, hoping for a repeat of his successes in turning around Burger King and Continental Airlines. Brenneman has said in media accounts that his focus will be to reach out to franchisees and help them increase profits.

Last week, Quiznos named Michael Elliott -- founder of Peak Franchise Capital, a franchising and restaurant advisory firm -- as its executive vice president in charge of franchise-owner assistance.

Franchise owners typically have to buy their supplies from parent companies or their subsidiaries. But the prices for the supplies should allow room for franchisee profits, said Susan Kezios, president of the American Franchisee Association.

"We know in franchising that millions of dollars pour into the franchisers' pockets every quarter because franchises are expected to buy supplies from the companies' vendors," she said.

"But this was not a wealth-extraction process people have signed up for."

The Wisconsin lawsuit cites a 2003 memorandum in which a Quiznos attorney wrote that 40 percent of open stores were "not breaking even." Plaintiffs say they were never given that information.

Trade publications rank Quiznos as one of the nation's fastest-growing chains. Quiznos was ranked second in Entrepreneur magazine's 2006 ranking of the top 500 franchises in the U.S. This year, the company did not appear on the list. The magazine said Quiznos imposed a 7 percent ongoing royalty fee compared with 8 percent for larger rival Subway.

Quiznos franchisees must submit a proposed location for the company's approval, which the New Jersey lawsuit claims in most cases has not happened -- even after the one-year deadline.

In some cases, after making owners believe they are getting exclusive rights to a particular town or "target area," the company then sells another franchise in that same region, the lawsuit says.

Plaintiffs -- who bought franchises in Essex, Union, Middlesex and other counties -- either declined to comment or could not be reached.

"I think a lot of these guys are somewhat fearful," Klein said. "Quiznos has not been shy about suing franchisees who've spoken out against them."

In December, Quiznos terminated the contracts of eight franchisees after a group they belonged to publicized the suicide note of a fellow franchise owner, according to a report in the Denver Post.

The California franchisee, who was involved in a long-running legal battle with Quiznos, shot himself in a restaurant bathroom in November. In his note -- made public by the Toasted Subs Franchisee Association -- he blamed Quiznos for his despair.

In a recent interview, one franchisee who bought his North Jersey location in the past year complained that the company keeps him on a tight leash. He was unaware of the lawsuits, but raised many of the same complaints.

"My feeling is they just care about sales and don't care about the franchise owner," the man said, speaking on condition of anonymity. For example, Quiznos forces him to buy meat and cheese from a particular vendor and use an accountant and credit-card processing company of its choosing, the owner said.

In addition, he said the company has failed to reimburse him for coupons, reflecting allegations in the Wisconsin suit. One coupon, for example, allows customers a free sandwich with the purchase of a drink and chips.

"That leaves us no margin," he said.

Of his sales, Quiznos takes 7 percent in royalties and 5 percent for advertising. Food makes up 32 percent of his costs, he said.

In deciding to buy the franchise, the man said he thought it was a good location at a decent price.

He still believes the chain serves quality products. And visiting the store last year before he purchased the franchise, he observed a busy lunch rush.

"It's still busy," he said. "It's just not profitable."

Quiznos was taken private in 2001 by Richard E. Schaden and his father, Richard F. Schaden, by purchasing the 32 percent of the company they didn't already own.

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