

Long Island Business NEWS

Where Business Gets Down to Business

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Avoiding the franchise nightmare

By Adina Genn

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It's every franchisee's nightmare. After investing thousands of dollars to become a franchisee, they learn that the franchisor is less than what they bargained for.

There are a garden variety of bad scenarios. Perhaps the franchisor enters bankruptcy or maybe it doesn't offer the marketing or training support it had promised.

It's a situation that Colleen West, the owner of Sayville-based Enright Sten-Tel Transcription Services, a medical transcription company, faced in 2001, three years after she spent \$50,000 buying into the Sten-Tel franchise and its technology.

West said she was told that the Massachusetts-based franchisor was dissolving the franchise because it was "not making money in royalties" and no longer "wanted to hold people's hands." Though it would no longer provide ongoing franchise support, it would offer ongoing technological support through a newly formed alliance.

West initially took the news hard.

"I'd spent all this money," West said. "I met with other franchisees. We were all bitter and angry."

But West recognized a bright side. She realized that she probably wouldn't have entered the technologically laden medical transcription industry without Sten-Tel. "I wasn't technologically advanced, but I knew I had the backing of Sten-Tel" in the very beginning, she said.

Within three years as a franchisee, West had grown her client roster from zero to 30, with revenue nearing \$500,000, she said.

West joined the alliance, which she considers a support network. She continued to keep the Sten-Tel name – which carried brand recognition in the industry – in her company moniker and carried forth with her business, which today sees \$1 million in revenue. West, who also owns a court reporting company, expects to grow sales for the medical transcription company by \$250,000 this year.

Through the alliance, West has attended seminars and dinners with other former franchisees. She shares best practices with about 15 other members nationwide, discussing the latest trends in speech recognition technology, revenue, and other issues.

"When it dissolved, I took their word that they would stand by us," West said. "And they did honor that."

Franchisees in similar situations also can see positive outcomes, said Howard Greenberg, a Smithtown-based attorney. "They may lose the name" of the franchise, Greenberg said, but "they still have the business."

Once an operation builds a viable operation and a following, there's a good chance they'll build loyalty, he noted.

Sometimes the end result is less favorable. For instance, some franchisors control the real estate lease, forcing the ex-franchisee to relocate, Greenberg said.

And in the case of a bankrupt franchisor, there may be little recourse.

"If the company is in such bad shape, the [franchisee] isn't going to get much anyway," Greenberg said.

Still, there should be no surprises, said Jeffrey E. Kolton, a partner at Manhattan-based law firm Kaufmann, Feiner, Yamin, Gildin & Robbins, and a franchise specialist. Even after they've done their due diligence before buying into a system, franchisees should check in regularly with the franchisor about sales, new marketing campaigns, research and development, the number of new franchisees and a market analysis. "If the franchisor is hesitant, that's a red flag," he said.

And there are ramifications when a franchisor backs out, Kolton said.

Typically, a "franchisor can't just walk away and not support the system," he added.

But as in a situation like Sten-Tel, some franchisors can switch to another format, though those, he said are "rare circumstances." It's important to work with an attorney who knows franchise law, he said.

Before buying into a concept, Greenberg advocates speaking with or visiting three to five other franchisees within the system, and even working at one of the operations, to see if it's a good fit.

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