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McDonald's Franchisees Push Back

Restaurant operators oppose tighter rules, back legislation to give them more say

BY HEATHER HADDON

Restaurant owners are pushing back on McDonald's Corp.'s moves to tighten franchise standards and rules, increasing tension between the burger giant and operators who run the bulk of its U.S. locations.

Some franchisees are backing legislation they say would give them more control over

how they run their businesses and how they sell them, following moves by McDonald's in recent months to more strictly review its franchisees' operations.

In Arkansas, Republican Gov. Sarah Huckabee Sanders on April 14 signed one such bill supported by McDonald's operators and other franchisees, despite opposition from the burger chain and dozens of other franchisers. McDonald's franchisees backed a similar measure in Arizona. Views are mixed among franchise owners.

Robert Zarco, an attorney with Miami-based Zarco Ein-

horn Salkowski PA, said legislation can address the "unequal bargaining power" that franchisees have over franchisers. He was hired in February by the National Owners Association, a group of McDonald's franchisees. But Matthew Haller, president of the International Franchise Association trade group, said the industry doesn't need more laws governing private business arrangements.

A group of 10 U.S. McDonald's franchisee leaders said in a statement shared by the chain that a majority of restaurant owners agrees with McDonald's current direction.

"We're disappointed that a small but vocal group is pushing this counterproductive agenda," they said.

McDonald's declined to comment beyond the statement shared from the franchisees.

McDonald's for decades has relied on franchisees to open and operate restaurants, and owners have occasionally disputed the company's policies or moves in the past.

Some operators say the relationship has deteriorated in recent years as McDonald's has pushed franchisees to invest more in restaurant renovation.

Number of U.S. McDonald's restaurants



Source: the company's annual reports

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renovations and other upgrades, leading some franchisees to form the National Owners Association in 2018. Other franchisees say the relationship remains strong, and the moves make sense as the chain seeks to stay competitive and modernize operations.

Franchisees run 95% of McDonald's U.S. restaurants. Chain franchisees sold 1,169 restaurants last year and 1,758 in 2021, up from roughly 750 in 2019 and 2020, the chain's most recent franchise disclosure document shows.

Now, McDonald's is making some of the biggest changes in decades to the franchising system at the root of its U.S. operations, aiming to reinvigorate its restaurant ownership. McDonald's has said the changes will improve customer service and sales.

In messages to McDonald's and to fellow operators, some of the company's U.S. franchisees have voiced concerns as to their relationship with the company's corporate management. Some franchisees have also complained about some of the chain's recent celebrity-endorsed meals, which McDonald's has credited with driving sales and excitement.

Operators also conveyed their views in an hour-long discussion with the McDonald's board in March. Both sides said the meeting was constructive, and discussions have continued.

The NOA, a group repre-



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senting a subset of McDonald's franchisees, has pushed for the state bills and is encouraging owners to submit comments to the Federal Trade Commission. The agency, which last month launched a review of the U.S. franchising industry, has sought input on how franchisers may exert control over franchisees and workers and how companies lay out expectations in contracts with owners.

McDonald's reported record U.S. sales for the three months ended Dec. 31, and its stock is trading at record highs. The chain says it is working to maintain the momentum. The company is laying off hundreds of corporate employees as it seeks to become more efficient and operate faster.

Staff who work with franchisees on renovating and operating restaurants are among those being cut, according to operators and a farewell message viewed by The Wall

Street Journal. The company is expected to close 10 local field offices that service restaurants at the end of the month, with remaining staff working virtually, people familiar with the plans said.

Some McDonald's operators have spoken this year to state lawmakers about altering state franchising codes to protect franchisee interests. In March, Arkansas lawmakers introduced a bill to curb what it called "unreasonable practices of some franchisers." McDonald's and more than 100 other companies wrote in a letter that the bill represented one of the most extreme franchising regulations in the country.

The bill was amended and signed into law last week. The International Franchise Association said the amended law has no meaningful impact on franchising in Arkansas. The National Owners Association said it strengthens franchi-

sees' rights.

Joe Erlinger, McDonald's U.S. president, said in a call with operators last month that owners supporting bills such as the Arkansas legislation were dividing the chain.

"You see attacks happening, and those attacks are coming from within," Mr. Erlinger said in the call, a recording of which was reviewed by The Wall Street Journal.

Mr. Zarco, the attorney for the franchisees, said owners want a constructive dialogue with McDonald's but said they could explore further legal routes if the company didn't engage. "We will resort to any remedy we see as necessary to protect the franchisees' interests," he said.

The 10 McDonald's franchisee leaders said: "We recognize the power of McDonald's brand, the remarkable strength of our business and the massive opportunity ahead."

JEENAH MCCOY/LOOMBERG NEWS