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CORTEZ MASTO RELEASES ALARMING NEW REPORT DETAILING HARMFUL PRACTICES IN FRANCHISE SECTOR, CALLS FOR TRANSPARENCY AND OVERSIGHT

Washington, D.C. – U.S. Senator Catherine Cortez Masto (D-Nev.) released a report on a slew of troubling practices affecting businesses operating as franchises that have squeezed investors and entrepreneurs for decades, causing countless Americans to go into bankruptcy while boosting the bottom line of multi-national corporations. Senator Cortez Masto’s white paper is the first major Congressional report on the harm deceptive franchise practices have caused franchise owners across the country. The report is available on the Senator’s website and highlights unfair and deceptive contracts, high prices from suppliers who provide rebates to the franchise corporations, and overpriced goods. In response to the findings of the report, Cortez Masto is calling for legislative, regulatory, and business reforms to increase transparency and oversight within the franchise industry and protect small business owners.

“Owning a franchise business can be a good opportunity for an eager entrepreneur. But for too long, some franchise corporations and lenders have been allowed to treat entrepreneurs unfairly, which cascades into low-wage employment and store

closings,” **said Cortez Masto**. “I am alarmed by these stories of small business owners in Nevada and across the country losing so much at the hands of deceptive and misleading corporations and lenders.”

“The COVID-19 pandemic has also increased the appeal of franchising for people looking for new opportunities after losing their job or business. I’m concerned that some entrepreneurs may decide to purchase a franchise at a “discount” without being aware of the risks they are taking,” **Cortez Masto continued**. “I’ll continue to introduce legislation to protect franchise owners. I hope this report and these stories encourage the franchise sector, the Biden Administration, and Congress to institute reforms to protect franchise owners.”

In 2020, more than 8.67 million people worked for as many as 785,316 franchises. The franchise sector employs more people than the construction sector. While some franchise corporations create sustainable and profitable businesses for entrepreneurs, Cortez Masto’s report details how a troubling number of these corporations have used the franchise system to boost profits while squeezing franchise owners. The unfair treatment of entrepreneurs leads to financial difficulties for franchise owners, store closings, and increased unemployment. From overly optimistic revenue projections and overcharges to misleading contracts and pre-dispute mandatory arbitration clauses that block franchise owners’ access to the courts, too many current franchise models are stripping small business owners of their wealth.

This paper details the problems reported by franchise owners of ten franchise brands. The challenges affecting owners of these franchises are representative of those at some other franchises across Nevada and the country.

Senator Cortez Masto’s report highlights four areas where franchise complaints are most problematic:

1. **Unfair and deceptive contracts that give nearly all control to the franchise corporation.**
2. **False information and lack of transparency in financial disclosure documents.**
3. **High prices from suppliers who provide rebates to the franchise corporations, and overpriced goods.**
4. **Excessive fees with limited or no actual benefit.**

Cortez Masto is pushing for commonsense solutions to protect current and future franchise owners, including calls to:

- Increase funding and oversight at both the Federal Trade Commission (FTC) and the Small Business Administration (SBA) so they can enforce fair standards and contracts;
- Revise the FTC's Franchise Rule to provide more investor protection by requiring that franchises provide accurate financial information to investors;
- Ensure the Small Business Administration (SBA) requires franchise companies to provide actual historic revenue data and store closing information to franchisees before receiving SBA-guaranteed loans. In April, Cortez Masto will be reintroducing legislation to require these disclosures.

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OFFICE LOCATIONS

LAS VEGAS

333 Las Vegas Boulevard South

Suite 8016

Las Vegas, NV 89101

P: (702) 388-5020 F: (702) 388-5030

WASHINGTON, DC

313 Hart Senate Office Building

Washington, DC 20510

P: (202) 224-3542

RENO

400 South Virginia Street

Suite 902

Reno, NV 89501

P: (775) 686-5750 F: (775) 686-5757

RURAL MOBILE OFFICE

Serving Rural Nevada

P: (775) 225-1457