Franchise Alert: Franchisor’s Response to the Coronavirus Threat

March 6, 2020

With the expansion of the Coronavirus (COVID 19) domestically and internationally, it is a prudent time for franchisors to plan for potential disruptions related to the spread of the virus and lessen the burden on affected franchisees. From the Franchisor's perspective, we suggest that you keep the following in mind:

1. The health and safety of employees and customers should be every franchisor's first focus. With that in mind, the Franchisor should direct any inquiry from employees or franchisees regarding the Coronavirus to the World Health Organization, the Centers for Disease Control and Prevention and local health authorities. They will have the most up to date information, as well as updates on the status of vaccines and treatments under development.
2. Develop and implement a "work from home" protocol for the Franchisor's employees in the event of an outbreak requiring quarantine near the Franchisor's headquarters. Consider connectivity issues, including internet access, cellular service and videoconferencing capabilities, if necessary. Distribute any new contact information to franchisees so they can stay in touch with Franchisor support personnel. Be sure to include local employment counsel when implementing any work from home policy to avoid wage and hour infractions.
3. Consider implementing travel restrictions for Franchisor employees, especially relating to international travel to Europe, Asia or any other affected regions.
4. Consider suspension or extension of development and store opening deadlines in domestic and international areas affected by the Coronavirus.
5. Consider temporary suspension of specific "brand standard" obligations under the franchise agreement should a location be forced to close as a direct result of the Coronavirus. These could include provisions relating to required operating hours, minimum staffing requirements, minimum franchise fees, required menu items, required service offerings, "abandonment" time frames, etc.
6. Consider temporary suspension of approved supplier restrictions. If the franchise system relies on internationally sourced products or ingredients from affected regions, consider a temporary suspension of approved supplier restrictions and allow franchisees to source goods or services from available resources until normal supply lines are restored. Better yet, locate alternative suppliers who meet the Franchisor's quality standards and make them available to franchisees. Consider absorbing or sharing any increased costs of the alternative suppliers.
7. Encourage franchisees to increase their routine cleaning protocols using products effective against viruses and surface contamination. Post information for employees and customers regarding the importance of frequent handwashing and hand sanitizers. Make sure restrooms are fully supplied and

make hand sanitizer available to employees and customers, if possible.

8. In the unfortunate event that the Franchisor or a franchisee is required to suspend operations because of a mandatory quarantine, investigate whether the affected party can file claims under the business interruption provisions of their insurance policy. For discussion of this issue, see: https://www.roadtoinsurancerecovery.com/2020/03/coverage-for-coronavirus-claims/

Everyone has the responsibility to do their part to limit the spread of the Coronavirus. The health and wellness of employees and customers are paramount. Communicating openly with franchisees about these issues demonstrates that the Franchisor is aware and taking proactive steps to work with its franchisees and employees to minimize the impact of a potential outbreak.

For more information, contact Michael Gray or a member of the Franchise and Distribution Practice Group at Lathrop GPM.