



One Franchisee's Cautionary Tale About Groupon's Pitfalls

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Mark Tramontana was a little surprised to see customers show up with Groupon coupons in hand last August, expecting discounted food from his [Upper Crust pizzerias](#). It was odd, and annoying.

Tramontana, a franchisee with locations in Newburyport, Mass. and Portsmouth, N.H., said owners of the Boston-based Upper Crust chain hadn't told him they were doing a [Groupon](#) promotion involving his locations. But they had; two promotions, in fact, in the same month.

"I had to [Google](#) it to find out about it," he recalled.

He honored the coupons, at first, and waited for the chain owners to send him his cut of the money raised from the deal – in vain, as it turns out.

"It's clear, from what happened, that they did this to raise cash," Tramontana said.

"What happened" was bankruptcy for the Upper Crust pizzeria, which abruptly shuttered 10 locations under the central corporation's operation in November. Tramontana said he believes the August Groupons were a failed, last-ditch effort to grab some cash.

As an independent franchisee, Tramontana's shops survived. But he said he gave away \$50,000 worth of discounted product, and other franchisees in the area were similarly affected. They stopped honoring those coupons until December, when Groupon itself stepped in to compensate the franchisees directly.

A Cautionary Tale About Digital Discounts

Upper Crust's experience was unusually bad, Tramontana and retail experts acknowledge. But the story is a cautionary tale for franchises in the age of daily, digital discounts.

While discount deals such Groupon have retreated from their trendy heights of a couple years ago, they're still a common tool for retailers and restaurants. Whether – and how – to run such deals can get messy when the business has franchisees. It gets especially difficult when, as in the Boston pizzeria's case, the company has major financial problems.

"Franchisees need to assert their rights, always," said Neil Stern, senior partner with Chicago-based McMillan Doolittle, a retail consultancy. That means both franchisees and franchisers need to be proactive and lay out a plan for how exactly to do these deals, and make it part of their contract agreement.

But that's not easy, Stern said. These discounts are relatively new, and they're a fast-evolving part of the small business marketplace. It's challenging for all parties of a franchise to keep up with the evolving business model.

An Upper Crust spokeswoman did not return an email seeking comment, and their office voice mail was full.

Challenges Faced by Franchisees

Franchises are supposed to be a unified front for consumers. But franchisees have their own operations, storefronts and cash flow, and may disagree with their own corporations about what's best for their shops. Similarly, franchisers may have franchisees go rogue and damage the brand by their actions.

The whole point of becoming a franchisee is to take advantage of an established company and brand name, said Doug Fleener, president and managing partner with Lexington, Mass.-based consultancy Dynamic Experiences Group. So if a franchiser runs a deal but one of its franchisees wants to opt out, it would risk alienating customers when those coupons are rejected at a specific location.

"It really puts franchisees in a horrible position," Fleener said. "It's a bad place to get stuck in."

Groupon: Piggy Bank for Cash-Strapped Entrepreneurs?

As for using daily deals as source of quick money during tough times, Groupon spokeswoman Julie Mossler said the company in no way wants to be a piggy bank for struggling companies, and vets its merchants before doing business with them.

But Fleener of Dynamic Experiences said some companies use daily deals for exactly that purpose, and that the then-frequent headlines about Upper Crust's struggles in particular should have been a tip-off.

Groupon overall has been struggling to revive its growth strategy. The stock is under \$5 a share, down roughly 85 percent since it went public in November 2011. Groupon CEO and founder Andrew Mason last month said he's staying at the helm of the daily deal site, [CNBC has reported](#).

Franchisees Get Caught in Groupon Tangle

The lesson for franchisees, meanwhile, is lay out a plan in advance before signing up for online deals.

Tramontana signed his agreement with the Upper Crust corporation in 2008, before Groupon and the other sites had achieved dominance, and he doesn't believe the contract specifically lays out a plan for such discounts.

With nothing set in stone, the chain's daily deal strategy simply evolved throughout the years, he said. Eventually, Upper Crust and the daily discount venue – Groupon or others – would direct customers to select the location where they would redeem their coupons as they signed up for the deals online.

That created an easy mechanism for participating and divvying up cash between franchise locations. But there were other areas of discord which demonstrated some of the common sticking points between franchisers and franchisees.

Upper Crust tended to run discount deals frequently; Tramontana believes constant sales devalue a brand, because it trains customers to just wait for the next promotion instead of paying full price.

Location and timing differences were other issues. Groupon can be a good way to gin up traffic for a pizza joint during off-peak months, for example, such as when Boston's enormous student population deserts the city every summer.

But Tramontana's locations are in tourist towns, which buzz with day-trippers during the summer months. He said it's the worst time to offer a deal – which was part of why those Groupons from August were such an annoyance.

Matt Drinkwater, Groupon's vice president for national sales, said the company works with franchises, but also deals directly with franchisees that want to run something specifically for their location. In either case, Groupon works closely with merchants to find out how the deals will work best, which is often to promote a new product or location.

The bottom line for franchise parties, Stern said, is to work out a strategy beforehand. Because after the deal is live, he added, "There's not a lot you can do about it."