



Perspective

DECEMBER 2012

Unity | Profit | Communication

A publication of the 7-Eleven Franchise Owners Association of Southern California • "The Largest FOA in the USA"

Featured in this Issue

**"Thank You For
Allowing Me To
Serve"**



**"Presidents
Message"**



**"Photo Candids
Holiday Event"**



**"In One
Franchise's
Opinion"**



**"Congratulations!
Herb & Pearl
Domeno"**



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"The Largest Association in the USA"

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PERSPECTIVE

The capacity to view things in their true relations or relative importance and to view your own task in a larger framework'

We chose to name our publication 'PERSPECTIVE' simply because of its traditional meaning. It seemed to encompass in one word the overall philosophy of the small group which formed our Association way back in the early seventies.

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7-Eleven Franchise Owners
Association of Southern California
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1986

Thank You For Allowing Me To Serve

Karam Dhaliwal, President

I've had the honor of serving the franchise community for 30 years, mainly with the Southern California FOA and more recently as a vice chairman of the National Coalition. Over this time I've had the privilege of working with and befriending some of the most hardworking and devoted franchisees in the system. I've seen a lot of good times in 7-Eleven, and helped out as much as I could when we hit the rough patches. Now, at age the young age of 82, it's time for me to hang my hat, to move to the back-seat and enjoy the view.

I first took an active role in helping the franchise community in 1982, when I joined the Board of the Southern California FOA. I served in many capacities, including as chairman of the scholarship committee. Then about ten years ago, Joe Saraceno asked me to run and become his vice president. When Joe passed away, I was voted in as president of the association.

I've done my best to help and fight for the franchise community over the years, especially locally. When I became president of the Southern California FOA, I reached out to the other associations in my area—the FOA of Greater Los Angeles, the San Diego FOA, and later the Joe Saraceno FOA after they had formed—to coordinate meetings with each other and SEI management to resolve franchisee issues. The four FOA presidents and officers would meet occasionally to strategize, and we would even attend each FOA's events—trade show, Holiday parties, and the like. The unity was good for all of us. Working together as a unit, communicating and sharing information, I consider that a breakthrough.

It is precisely that type of relationship SEI should strive harder to achieve with franchisees. At the end of the day, the franchisees are working hard to increase sales and gross profits. If franchisees are successful, then the company is successful. I think SEI management needs to talk more openly with franchisees and accept our input. We are partners in this system, after all. Being on the front lines, franchisees know what we need to satisfy our customers' needs and to move our business forward. Open communication will be one key to our continued success.

As a Board member of the National Coalition and as a vice chairman, I tried to advance the needs of the franchise community and to strengthen our position within the 7-Eleven universe. It wasn't always easy, but I like to think I've helped move the franchise community forward.

Now that I'm out of the picture, I will continue to attend my local FOA meetings as a franchisee. I wish our new president Nick Bhullar the best of luck. If they need my advice, I will give it. I will miss the National Coalition because I have made many friends as a member. In the National Coalition there hasn't been a president who was not courteous to me. They all call me Mr. D, and I've had that nickname for so long I've forgotten that my first name is Karam. I have also formed close relationships with many vendors. Once word got out that I was stepping down, several vendors sent me nice e-mails and I appreciate it.

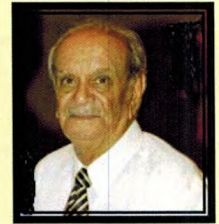
I'm not walking away from the franchise community. I've had a great time and will continue to have a great time. I will continue to attend National Coalition meetings and I know I will be welcomed by all. I will sit in the back and learn new things. I'll be the elder statesman, but don't call me that because I'm not that old yet. I think I still have about 15 years left in me. I've been very fortunate because I've been doing what I love what I do.

Thank you again for allowing me to serve. It's been a great ride!!!



Relief from Daily Frustrations

By Karam Dhaliwal



It seems these days the frustrations are mounting for franchisees. From accounting to deliveries and everything in between, the problems appear to be growing and franchisees are having a harder time operating their stores to their full moneymaking potential. I have been hearing from franchisees across the country that they are spending more time trying to solve problems than they are trying to increase sales, which is a losing proposition indeed.

From the moment they walk into their stores, franchisees are dealing with problems like incorrect retails (which are becoming a common occurrence), incorrect factoring in S18 and Merchandise reports, Purchase Summary inconsistencies with vendor invoices, issues with the new payroll system, getting credits posted on Merchandising reports, items that scan one day but then disappear from the system, and much more. Even creating CHD cases for help with these problems seems to cause more grief than relief as more often than not the case is closed without resolution, which means the franchisee must create yet another case.



Late deliveries are another source of frustration, not to mention an ordering window that closes at 10 am. When deliveries arrive 30 minutes late or more, it means more labor expenses for the franchisee and lost sales. If a store owner misses an ordering window, guess what - no product, no sales. These issues are especially troublesome to low volume stores. Efforts must be increased to ensure on-time deliveries, and the ordering schedule should be tweaked to allow more flexibility.

Audits are a nightmare for many stores. The WIS auditors are inexperienced and, according to many franchisees, unprofessional. When WIS audits started in the Los Angeles area in 2009, I recommended to franchisees that they contact an outside service to double-check the audits. I would say 35 to 40 percent of the stores took me up on that advice, and since then it has saved more than \$1.3 million combined that would have been lost to the WIS audits. It can't possibly be a good thing when franchisees need to hire an outside auditor to monitor the work performed by the company contracted by SEI to perform that very duty.

The equipment in our stores is vital to our ability to operate. If the Slurpee machine, grill, freezer, or coffee machine is out of commission for any length of time, product and sales will be lost. Despite the many changes made by SEI and FM Facility Maintenance to improve response times and repair quality, some franchisees are still not getting their equipment fixed in a timely fashion, be it an issue with scheduling or an issue with available parts. More work is needed in this area. If equipment goes down, it should be repaired as quickly as possible.

These are all headaches that 7-Eleven storeowners should not be having on a daily basis.

Franchisees are beginning to feel more obstacles are being thrown their way than are being removed. SEI needs to work more closely with franchisees to resolve these issues. After all, if franchisees are prosperous, so is the company.



Karam Dhaliwal
kmd1948@yahoo.com

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PATIENT PROTECTION And AFFORDABLE CARE ACT (PPACA)

By
John Barbot

2014 is the year for implementation of the mandate that certain employers and most individuals must purchase health insurance or pay a fine.

As you know the PPACA was passed in 2010 in order to increase the amount of Americans with health insurance. The first item the Act passed was patient protection. It prohibits coverage denial for people with pre-existing conditions; it sets up a series of subsidies for people who cannot afford coverage; and it created an insurance market place called the Health Benefit Exchange. The purpose of the exchange is to: (1) facilitate the purchase of qualified health plans; (2) provide a Small Business Health Options Program (referred to as a "Shop Exchange") which will assist employers in enrolling employees in small qualified health benefit plans. Each State is responsible for establishing a single Exchange that performs both functions, or create a separate Exchange. If the State does not want to do it, the Federal Government will provide its own version.

All employers classified as "large employers" defined as 50 or more full-time employees will be affected. They must offer ONLY to their FULL TIME EMPLOYEES "essential health coverage". The definition of Essential is important. The Act requires a minimum level of coverage such as: (1) ambulatory patient service; (2) emergency services; (3) hospitalization; (4) maternity and newborn care; (5) mental health and substance use disorder services; (6) prescription drugs; (7) rehabilitative services; (8) laboratory services; (9) prevention and wellness services and chronic disease management; (10) pediatric services, including oral and vision care.

The task for employers in 2013 is to establish whether they are a "large employer" or a "small employer". The remaining focus of the article is assume you are a "large employer" and to analyze whether it is prudent to buy coverage or pay the prescribed penalty.

Question #6:
How Does PPACA
Calculate Full-Time
Equivalent Employees?

The year 2013 is important. Each employer will have to establish whether he/she is a "large or small" employer. Remember, if you are a "small employer" you are exempted from offering health insurance for full-time employees.

So what makes up a "large employer"? The formula is $FT + PT = FTE$.

FORMULA:

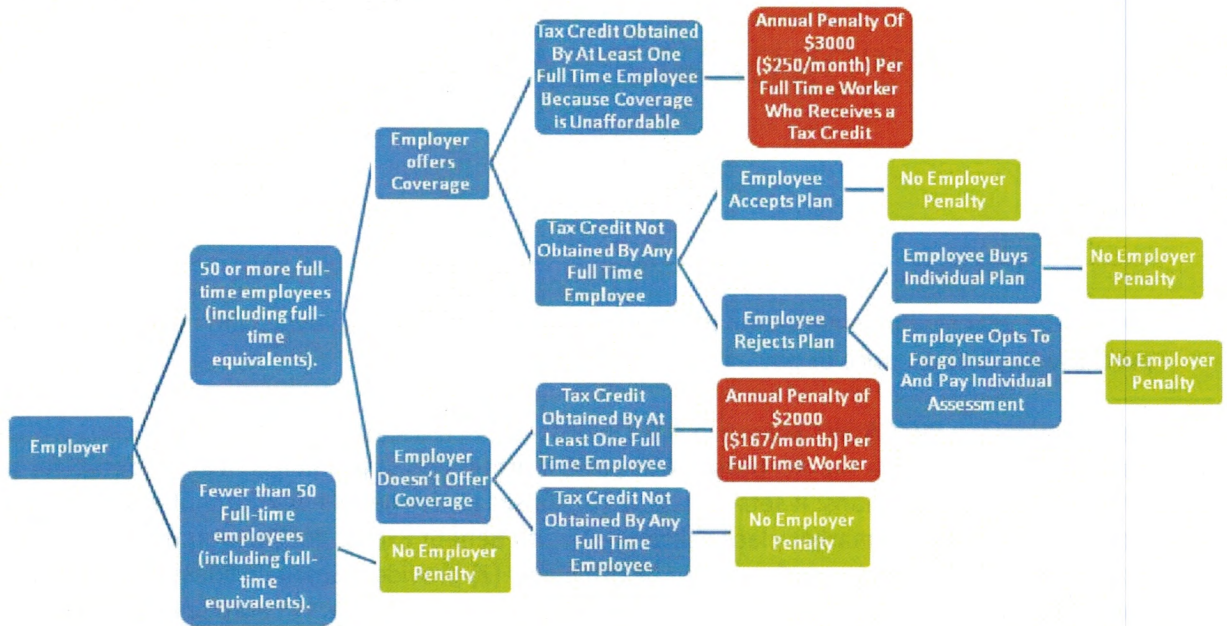
1. Full-time employee- 30 or more hours per week, average over the month;
2. Part-time- We need to convert to Full time equivalents: take all hours work by part-times per week, average over the month multiply by the number of part-timers divided by 120= Full time equivalents;
3. Seasonal workers- workers who work less than 120 days are excluded from the calculation;
4. Add the $FT + FTE =$ number of Full-time equivalents.

Example:

A company employs 35 full-time workers (working on average of more than 30 hours per week) and 20 part-timers (working on average 24 hours per week, or 96 hours per month).

These 20 PTE are the equivalent of 16 FTE. ($20 \times 96 / 120 = 16$). So for calculation purposes, this employer has $35 + 16 = 51$ full-time equivalents.

IF THE ANSWER IS 50 OR MORE THE EMPLOYER IS SUBJECT TO THE MANDATE TO PROVIDE HEALTH COVERAGE TO ALL FULL-TIME WORKERS (30 HOURS OR MORE A WEEK) OR PAY A PENALTY.



The next step is to decide what the cost and benefits are of providing or not providing health coverage.

COST:

Question #3:
What are the penalties for employers who do not offer coverage?

1. Annual penalty is \$2,000 per full-time employee (in excess of 30 employees) per year and paid monthly. In other words, the first 30 full-time employees are excluded from the penalty calculation.

2. There is a possibility of an annual \$3,000 penalty for each full-time employee if they receive a subsidy under an Exchange plan because the "large employer" has a health plan that constitutes minimum essential coverage, but the plan is inadequate or unaffordable for the employee.

The flip side is not providing health insurance for the Full-Time employees in 2014:

BENEFITS:

1. The cost for health insurance per employee currently is between \$800-\$1200 per month per employee or \$9,600-\$14,400 annually per employee. You need to compare this to the penalty of \$2,000 per full-time employee:

2. You would not incur any administrative costs in order to comply with Act's new regulations;

3. You would not incur administrative costs associated with navigating the free choice voucher system;

4. Employees generally would have wider array of choices by going to through the Exchange as individuals;

5. The lower-paid employees may be eligible for federal government subsidies and credits and thus lower their out of pocket expense.

In conclusion, if an employer qualifies as a "large employer", he/she needs to assess the true costs of either offering or not offering health coverage in 2014. It is recommended that employers consult with an appropriate professional before making such a decision.

As the law continues to evolve, and as conditions of the legislation become clearer Barbot Insurance Services (BIS) will continue working to ensure the franchise community receives the most up-to-date news and information.

Example:

An employer with 80 employees will be subject to a penalty of \$8333 per month $(80-30 = 50 \times \$166.66)$. After 2014, the penalty payment amount would be indexed by the premium adjustment percentage for the calendar year.



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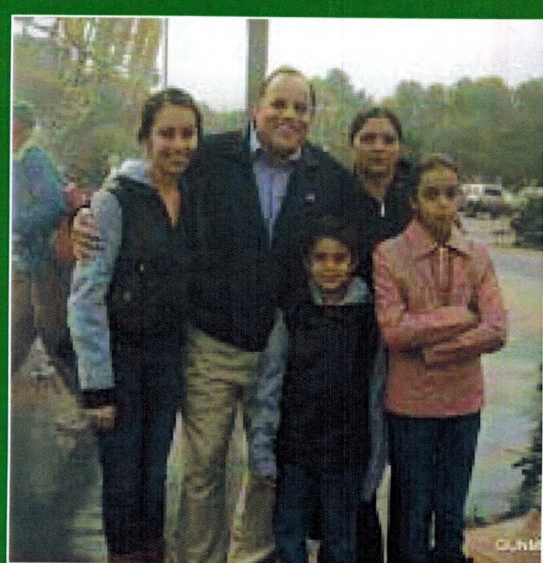
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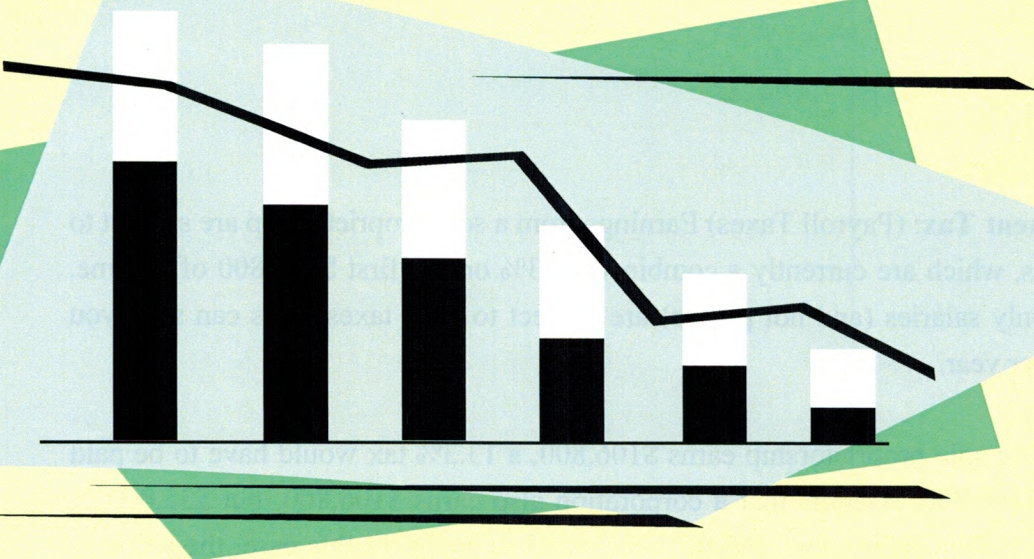


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Sani Panhwar



Advantages of Forming a Corporation to Protect your Assets. Protect your Assets & Save Money On Taxes!

By Sani Panhwar

Planning is the most important part of starting a business. We all know that going for a vacation with no planning would ruin the trip. But amazingly most of the people who start a business seek no professional advice on how to protect their businesses or avoid paying extra in taxes.

Today I am writing about the benefits of incorporating your business vs. having a sole proprietorship. Consider the following benefits if you incorporate your business.

- Limited Liability
- Avoid Self Employment Tax
- Audit Exposure
- Perpetual Life
- Easy Transfer or Sale of Business
- Raising Capital for Business

Limited Liability: The owner or shareholder of the corporation is normally not liable for the debt of the corporation. Also in case of any liability arising from a law suit against the business would be limited to that business and not involve other assets and businesses of the owner or the shareholder. If you have multiple stores and all are under your personal names any issue at one store could cause liability to all stores.

Avoid Self Employment Tax: (Payroll Taxes) Earnings from a sole proprietorship are subject to self-employment taxes, which are currently a combined 13.3% on the first \$106,800 of income. With a corporation, only salaries (and not profits) are subject to such taxes. This can save you thousands of dollars per year.

For example, if a sole proprietorship earns \$106,800, a 13.3% tax would have to be paid on the entire \$106,800. Assume that a corporation also earns \$106,800, but \$35,000 of that amount is paid in salary, and \$65,000 is deemed as profit. In this case, the self employment tax would not be paid on the \$65,000 profit. This saves you over \$8,645 per year. Please note, however, that you should pay yourself a reasonable salary. Also don't forget to elect to be treated as an 'S' corporation; this election has to be filed with Internal Revenue Service within a specified time after incorporating your business.

Audit Exposure: A great benefit of incorporating is limiting your audit exposure. If you are a sole proprietor and own more than one business, in case of an audit, your all business activity would be subject to audit.

Perpetual Life: When owners die, shares of the corporation can be willed to family members or other entities just like any other asset. A corporation can theoretically live forever as long as it remains profitable.

Easy Transfer or Sale of Business: Selling ownership of a corporation is simply a matter of selling shares to a buyer willing to pay the price of the shares. Exchanges, such as the New York Stock Exchange, are markets created for the purpose of selling shares of corporations. Selling a sole proprietorship or partnership is a far more involved process which usually necessitates legal representation, contracts, and valuation procedures.

Raising Capital for Business: The permanent nature of corporations makes it easier to acquire capital as the lenders do not have to worry about the death of its owners. Corporations are far more flexible in their ability to take on debt.





“In One Franchise’s Opinion”

by Elliott Skuro

Karam,

I am bewildered that more franchisees have not spoken out against “BT”, the proposed new contract, and its effect on our investments. I have been told that I should speak up because I must not be the only one who feels this way - - that if I am quiet it will be interpreted as my acceptance of changes that are coming.

I have not been outspoken in the past, but I feel compelled to comment now:

- ♦ *BT is nothing more than a vote of no confidence by 7-Eleven Inc. in its franchisees and the franchise system.*
- ♦ *It says that franchisees are not to be trusted to merchandise appropriately for their demographic.*
- ♦ *It says that franchisees cannot choose non-proprietary products wisely or to correctly report their sales.*

I made a sizeable investment in a 7-Eleven franchise with the reasonable expectation of building sales and goodwill so that when the time came to retire, I would have something to retire on. I succeeded in building sales and yet find now that the value of my store is half it was just three or four years ago. Not because of competition, which I have successfully overcome, but because of unforeseeable policy changes by the franchisor. The provisions of the proposed new contract will guarantee that no one in their right mind would invest \$500,000 or more, just to buy a job, working for and not with, someone else:

- ♦ *The franchise fee has been raised.*
- ♦ *We now pay for credit card fees.*
- ♦ *The split is to be 54%-46%?*
- ♦ *If a franchisee is too successful - with sales of more than \$260,000/month. There is a penalty of an additional 2% for the franchisor?*
- ♦ *We can dedicate no more than 15% of our inventory to non-recommended products that we deem necessary to attract our unique customers, or there is a 2% penalty.*
- ♦ *And, to add insult to injury, 7-Eleven inc., is aggressively opening new stores wherever they find an empty lot or strip center, rather than protecting its franchisees by guaranteeing a buffer between stores.*

It is my understanding that the new contract with 7-Eleven Inc. will be 54%-46% in their favor, and they want every “owner” to pay a percentage of their respective franchise fee for the honor of having a job. This, in reality, would make the split more like 60%-40% in their favor. I have trouble enough living on a 50%-50% split.

Lastly, I am intrigued by the redefinition of “retailer initiative”. Historically, this has been the retailer’s ability to intelligently determine the product mix appropriate to the demographic for his area. Now we are told it means we have the tools necessary to buy the quantity of pre-determined product mix which is appropriate for sales volume. While there are several nice, high tech, tools to play with, they will not help generate new sales or appropriately merchandise to a very heterogeneous marketplace.

There needs to be some serious negotiations... If 7-Eleven inc. wants to hire managers for their stores, then I have no quarrel with their methods. **But, I thought that was our job.**

Help,
Elliott

Once Again, Store Agreement Leans in SEI's Favor



Rereading and Weeping

By Bob Strauss, FOASC Board Member

Franchisees never know what the next franchise store agreement (contract) will look like, but there are a couple of things we can surely bet on: every store agreement will get longer and will give 7-Eleven more.

When Dallas introduced the 2004 agreement, I read it and wrote an article for our newsletter. Many of my Dallas friends told me my comments were reactionary, dark and totally wrong. Several years have passed and it's a good time to review those words. I titled that 2004 article "Read it and Weep."

**Some call it corporate greed.
Some call it stealing.
I call it abandoning the
foundation of our franchise
relationship.**

From the time when I first began my 7-Eleven life back in 1974, there has always been one fundamental guiding light in every version

of the store agreement. That was that we, franchisee and 7-Eleven, shared. It was always understood that any financial benefit that a franchisee derived from operating their 7-Eleven store had to be shared with SEI. SEI also had an obligation to share income related to franchise store operations. This was an undeniable given in the 7-Eleven franchise relationship.

It's evident that the new contract throws that principle of ethics and fairness out the window. The very corporation that postured itself as good, fair and honest has just turned things upside down. SEI has exposed itself and dares franchisees to pass judgment. SEI has shattered its illusion of integrity.

The new contract rattles off every new franchisee obligation. It lists various additional charges that SEI will hit franchisees with. It manacles franchisee independence. It details clever new ways that SEI can cut another pound of franchisee flesh. In a cruel response to the 7-OFF class action settlement related to SEI receiving rebates, discounts, allowances, equipment and other benefits that weren't shared with franchisees, the

new contract provides gaping backdoor loopholes for SEI to receive limitless benefits from vendors that won't have to be shared with franchisees.

In the ultimate act of insult, it details that franchisees can't be awarded punitive or exemplary damages, even when SEI is proven to be guilty!

The new contract rattles off every new franchisee obligation, and lists additional charges that SEI will hit franchisees with.

There's more...

SEI will pocket all internet profits. Who is soon going to be paying the credit card fees? What's about to happen to gas commissions? SEI only has to share base rental income for electronic services. SEI won't share the massive money it's already making from the sale of store data to outsiders. SEI even takes full rights and benefits from franchisee suggestions and ideas. God Bless America.

If SEI directed their team of lawyers to craft a mean spirited contract, then the SEI lawyers surely earned their year-end bonuses.

The words of the contract tell the franchise world that the game rules have changed. We no longer share. SEI takes and takes whenever and wherever possible. SEI salesmen can smile and say this and that aren't the intent, but the judges will only read the words, and the meaning of the words could not be any clearer.



**Read
it and
weep.**



BUYERS BEWARE!

*by Norm Winslow
SER-VIS-ETC. LLC*



When I started my career working with Franchisees in 1971, the Franchise Fee was \$3000 plus a \$2000 Training Fee. SEI had the philosophy that their profits should be derived from sales and gross profits of stores, not the Franchise Fee. That changed in the 1990's and has grown to the realm of ridiculous, with the new policy being absurd. That coupled with the 10 year agreement with the payment of a renewal fee, is an important critical consideration.

One reason that has been put forth is the high goodwill prices many owners have received in recent years. That reasoning overlooks several factors.

1. Goodwill levels seemed to have peaked about five years ago and have receded since.
2. Value is based upon supply and demand. For many years SEI was not opening many new stores. The only opportunity available were goodwill stores. When a store was listed for sale, it was not unusual to begin a bidding war. With aggressive expansion which began three years ago, prospective buyers have many store to select.
3. Many goodwill stores included the "Long Term Tenure" benefit that allowed the buyer to assume the 50/50 Split for a period of years that amounted to considerable income.
4. Goodwill stores have known sales levels. Based upon many new stores that have opened in recent years, sales levels have become a gamble. I know of several that have yet to exceed an average of \$80,000 per month, with some considerably less. Store managers can expect higher income than many Franchisees, with no investment.
5. The highest goodwill sale that I was involved with was \$750,000. The store had sales of \$250,000. The 50/50 Split would continue for seven years. Also the lease term exceeded the agreement term.

When I first heard about the variable Franchise Fee, I believed it was an admission that SEI was opening up many marginal stores and fees would more realistically reflect anticipated sales. Boy was I mistaken. Opening bids at minimum amounts is nothing less than greedy.

BUYERS BEWARE. When we assist with a Business Plan we propose a return on investment in three to five years. That should be based upon Franchise Fee and Goodwill only. The investment in equity and change fund should remain intact and the Licenses are normal expense items. Three years should apply to a new owner with their first store. They must take into consideration the current employment salary that will disappear. Five years can apply to multiple stores.

What is more surprising is the feeding frenzy that appears, especially among existing franchisees applying for additional stores. They seem to be more interested in numbers, very similar to SEI. Many are not making serious evaluation of a potential sight, and making serious mistakes. Egos seem to be eliminating good basic business judgment. They should probably seek out independent advice.

Some have made comparisons to the Starbucks experience and the ensuing closing of many stores. There is a **MAJOR DIFFERENCE**. Starbucks does not have Franchisees to bear the brunt of the mistaken store opening.

Norm Winslow - SER-VIS-ETC. LLC



Join the 7-Eleven Franchise Owners Association of Southern California

**& become a Member of the Largest Franchisee Owners
Association in the United States!**

*Monthly Membership for only \$20
plus \$10 for each additional location.*

MEMBERSHIP APPLICATION

Last Name: _____ First Name: _____ Spouse: _____

Home Address: _____ City: _____ State: _____ Zip: _____

Home Phone: (____) _____ Cell Phone: (____) _____

Store Address: _____ City: _____ State: _____ Zip: _____

Email: _____ @ _____ (for F.O.A.S.C. purposes only)

1) Store Number: _____ Market: _____ Phone: (____) _____

2) Store Number: _____ Market: _____ Phone: (____) _____

3) Store Number: _____ Market: _____ Phone: (____) _____

4) Store Number: _____ Market: _____ Phone: (____) _____

Are you incorporated? Yes: ☐ No: ☐

If yes, what Corporate Name? _____

Would you be interested in serving on a subcommittee? Yes: ☐ No: ☐

I, the undersigned, hereby apply for membership(s) in the 7-Eleven FOA Southern California and the National Coalition of Associations of 7-Eleven Franchisees. Membership is to begin upon receipt of the membership fee (\$20 for the first location and \$10 per additional location) and upon acceptance into these Associations as a full member. I further understand that I have a seventy-two (72) hour recession period in which to change my mind about joining these Associations and will receive my initiation fee back in full, if this right is exercised. I further agree to abide by the by-laws of FOASC and have received and reviewed a copy of the by-laws.

Termination of this agreement must be done in writing to the F.O.A. and will take place at the end of the calendar month received.

I authorize the 7-Eleven Corporation to charge my open account for charges below:

_____ I authorize my open account #970 to be charged a membership fee of \$20.00 per month.
(Initial) I also authorize that an additional \$10.00 to be charged per month for each additional location.

X _____ / ____ / ____ . _____
Franchisee Signature Date Store Stamp

Please return completed applications to: 7-Eleven FOASC, 11145 Tampa Ave., Ste. 12B, Northridge, CA, 91326
Phone: (818) 357-5985 or Email: foasc711@yahoo.com