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Franchisor Nightmare: The Scandal At Coverall



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(Image credit: AFP/Getty Images via @daylife)

Janitorial franchise [Coverall](#) is receiving a \$3 million bill from a Massachusetts court this week in a lawsuit other franchisors are watching closely. At the heart of the case is a controversy over whether some franchise owners aren't franchisees at all, but rather employees who've had to pay fees for the right to have their job.

The court ruled last fall that the Boca Raton, Fla.-based franchisor must pay back the franchise fees over 100 people — mostly new immigrants — paid the company, plus interest and lawsuit costs. The court's opinion? Privately held Coverall misclassified its employees as franchisees, so their fees should be refunded.

The damages calculation was just completed this week, says attorney Shannon Liss-Riordan of the firm [Lichten & Liss-Riordan](#), who represents workers in the case. She says this judgment may only be the beginning — more than 700 additional Massachusetts Coverall workers are still pressing their claims.

Coverall's woes stem from the way the company structured their franchise arrangements. Most franchises work like this: An owner pays a franchise fee and receives training and marketing help from the parent company. But other than that, the franchisee is in charge of their own business, and finds clients, makes sales, and records revenue. Out of that revenue, a franchise royalty is then sent off to the corporate parent.

Many of the big [janitorial franchises operate differently](#), the suit claims.

Instead of funds flowing from franchise units up to the corporate parent in the form of royalties, “money flows downhill,” Liss-Riordan says. The suit documented that in general, Coverall finds the clients, assigns them to franchisees, negotiates contracts, bills and collects payments — and then pays the franchisee their share. This structure led the court to conclude the relationship is really that of employer and employee.

As you might expect, the ruling in *Awuah v Coverall North America Inc.* has sent a shiver down the spine of the franchising industry ever since the state court ruled against Coverall last year. Similar suits are in process in other states and against other major janitorial franchisees, including Jani-King and Jan-Pro, says Liss-Riordan. Attorneys are looking to other states with strong employment laws, such as California, as likely places to pursue similar class-action lawsuits on behalf of franchisees.

For its part, [fast-growing Coverall](#) plans to appeal the Massachusetts decision. The company issued a statement saying, “Coverall still believes its Franchised Owners are independent business owners and not employees; as such, they operate their commercial cleaning service businesses, maintaining accounts and hiring independently.”

Unsurprisingly, the [International Franchise Association](#) is also unhappy with the ruling, which is the first time courts have ruled against franchisors in this manner. “We continue to believe that the franchise industry should not be subjected to this Massachusetts independent contractor law,” IFA said.

Will there be more cases like this? Bet on it, says Liss-Riordan. But don’t expect this to spread throughout the franchise world.

Most franchises don’t structure their agreements with franchisees the way janitorial chains do, Liss-Riordan says. Asked to identify another industry that might be next, she says she’s heard of no others with similar franchise setups.

“This decision has not ended franchising as we know it,” says Liss-Riordan. “The sky is not falling.”