Franchisees allege hardball tactics, store seizures by 7-Eleven

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Saroj Patel, left, and her husband, Dilip, allege 7-Eleven used “storm trooper interrogation and isolation tactics” to strip them of the Riverside store that they had run since 1995.

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BY TIFFANY HSU

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7-Eleven relies on thousands of franchisees to sell millions of Slurpees, Big Bite hot dogs and other snacks.

But in the last two years, at least a dozen franchisees have sued the company, alleging it stripped them of their stores for bogus reasons. Some plaintiffs say 7-Eleven targeted successful stores in high-traffic areas, then flipped them to new franchisees willing to pay the company higher fees.

7-Eleven counters in court documents that some of those franchisees were stealing — depriving the company of its full share of the store profits, often by falsifying sales records. Company investigations led to hardball negotiations between the store owners and 7-Eleven, which pressured franchisees to give up their stores or face potential prosecutions, according to court records.

Dilip Patel and his wife, Saroj, said the company used "storm trooper interrogation and isolation tactics" in such sessions.

The couple, who sued in March, ultimately gave up their Riverside store, which they had run since 1995, with no compensation from 7-Eleven.

The company said in a statement that it moved to terminate the couple's contract after a "thorough and lawful investigation." The company vowed to fight the Patels' suit and others, but declined to comment on the couple's specific allegations.

"Good, hardworking, independent franchisees are the backbone of the 7-Eleven brand," the company said in a statement. "As to those few franchisees who violate the law or the franchise agreement, we are determined to protect our guests, employees and other franchisees by ending the relationship."

7-Eleven has invested heavily in efforts to keep a close eye on its stores — and the people who run them.

In the 2012 fiscal year, the company spent $40 million on digital video technology, installing 4,000 camera systems in nine months, many of which 7-Eleven can access remotely. Many stores now have a 360-degree camera and a 180-degree analytics camera at the front door with the ability to measure traffic, the time consumers spend in stores and other analytics.

The company has said in court documents that its asset protection agents rigorously investigate suspicious franchisee behavior, viewing hours of in-store footage, taking covert photos and tracing red flags in sales records.

In Pennsylvania, an agent sent undercover shoppers into a store where the franchisee was suspected of voiding legitimate sales and pocketing the cash. When the investigator later compared the 18 purchases he had sanctioned against the franchisee's sales logs, he found that 13 transactions had been improperly recorded, 7-Eleven said in court documents.

Mark Stinde, 7-Eleven's vice president of asset protection, told loss prevention publication LP Magazine last year that his department "can't just be a cost center in the organization; we really should be an income center."

The level of surveillance at 7-Eleven is uncommon among similar companies, said Encino franchise attorney Barry Kurtz.

"I've never seen anything like this — it's like paranoia city," he said. "But in all fairness, they've probably had experiences in the past where their franchise community has been ripping them off."

Some investigations of franchisees amount to a "predatory program," alleges Kurt McCord, who said in court documents that he was briefly a corporate investigations supervisor for 7-Eleven before stepping down last year.

McCord filed an affidavit in a lawsuit by Karamjeet Sodhi, who alleges that 7-Eleven sent agents into his six New Jersey stores, removed lottery books and money order machines and cut him off from his vendors. Sodhi and the company are currently in court fighting over control of the stores.

The company employed a tactic known in the franchise community as "churning," McCord alleged in his affidavit. The company generates "tens of millions of dollars in additional profits" by inventing accusations of franchisee fraud, then taking back and reselling the stores, according to McCord.

7-Eleven prioritized stores in areas with high resale values or locations operated by outspoken franchisees, McCord said. The company set a yearly target for the number of stores it sought to take back, he said.

McCord, who said he previously worked in loss prevention for Burlington Coat Factory and asset protection for Target, said he left 7-Eleven after seven months because of his objections to the company's strategy.

7-Eleven has not responded to McCord's affidavit in court and declined requests to comment on his allegations. But the company last month won a gag order barring McCord from publicly discussing the case.

7-Eleven also filed its own lawsuit against Sodhi, alleging that he and his associates manipulated cash registers to mask sales, making them appear aborted or refunded, while pocketing the money. 7-Eleven said that it "amassed irrefutable evidence — documentary, testimonial and statistical" — against Sodhi.

The company accused Sodhi of selling more cigarettes and beverages than he said he'd bought. A corporate "surveillance team" reported deliveries of coffee and pastries missing from Sodhi's books, according to 7-Eleven's lawsuit.

Longtime Southern California franchisee Adnan Khan accused 7-Eleven of trying to intimidate him into giving up his stores through "stalking, illegally gathering personal information, and fear-invoking maneuvers," according to his recent lawsuit.

In New Jersey, franchisees Sam Younes and Tamer Atalla alleged that they were at 7-Eleven's mercy for store repairs, causing them "to lose profits due to spoiled products and lose customers due to substandard facilities."

7-Eleven bears the costs of rent, utilities and equipment replacement and provides payroll processing and inventory management systems. The company halved its corporate investment in new stores in the last fiscal year.

Terry Powell, founder of the Entrepreneur's Source, a franchisee coaching firm, said that disgruntled franchisees often band together to create a domino of lawsuits, pressuring the company to settle.

"Unfortunately, they're like weeds — once one pops up, they're going to pop up all over the place," he said. "With allegations like these, there are always two sides of the story and often three."

Launched in 1927 in Dallas, 7-Eleven has been wholly owned by Tokyo-based Seven & I Holdings Co. since 2005. The system includes more than 52,500 convenience stores in 16 countries. California, with 1,600 stores, has the most of any state.

More than three-quarters of the 7,800 American 7-Eleven stores are operated by franchisees who pay for the right to use the company's name. Franchisees split their gross profits evenly with 7-Eleven.

The 7-Eleven store that the Patels used to own is on Magnolia Avenue in Riverside, a single-story brown block punctuating a line of tree-shaded homes. Local property values and retail rental rates are rising.

On Dec. 4, a regional manager for 7-Eleven called Dilip Patel asking for an off-site meeting the next day to review financials.

At the meeting, two 7-Eleven asset protection representatives accused the couple of "double dipping," according to the lawsuit the Patels filed in federal court in Riverside. The company said the couple had documented Slurpee purchases as couponed transactions while actually pocketing an unspecified amount of cash.

The Patels said they were shown security camera footage and computerized records that purported to prove the fraud. But the company denied the couple access to the footage or other records that might have exonerated them. In one example, Saroj Patel said, one video clip caught her scanning two Slurpee coupons without any customers present, but did not show her receiving the coupons earlier from two police officers who left with two drinks.

The Patels said the company pressured them to sign away the store and pay 7-Eleven a $100,000 settlement. If they resisted, 7-Eleven would sue them for $250,000 in damages, tip off the Internal Revenue Service, strip out proprietary signs and products, cancel access to payroll processing services and block crucial supply shipments, they said.

The company refused a request for 24 hours to consult an attorney, the Patels said. They did, however, negotiate away the $100,000 penalty if the couple agreed to sign away the store, which they did.

"It's a nightmare," Saroj Patel said.

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