

Quiznos Gives Up Control To Stave Off Bankruptcy

by BEN MARKUS



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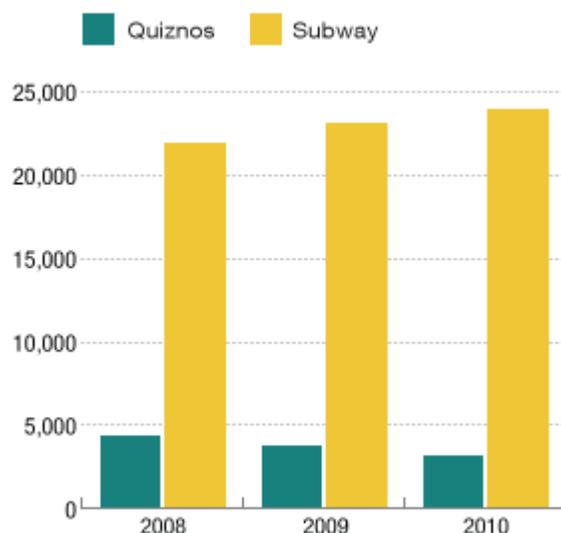
Rob Kim/Landov

A man walks by a Quiznos franchise in New York City. The sandwich chain has given up part of its ownership to a private equity firm in order to restructure its debt and avoid bankruptcy.

sandwich. That's because Quiznos' corporate office in Denver is offering a "buy-one-get-one-free" deal.

"So they get [the] most expensive sandwich," Bonyadian says of his customers. "Obviously, who wouldn't? If you're getting something free, you pick up the most expensive one."

U.S. Locations: Quiznos Vs. Subway



Source: Technomic

Credit: Julia Ro / NPR

Sales: Quiznos Vs. Subway

January 26, 2012 from CPR

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Quiznos narrowly avoided bankruptcy this week when the sandwich chain shifted ownership to private equity firm Avenue Capital in exchange for erasing some debt.

The recession and poor management have hit the Denver-based sub-maker hard. The company once boasted more than 5,000 restaurants, but 40 percent of them have now shut their doors.

Andre Bonyadian owns nine Quiznos franchises in and around Los Angeles.

As one of his employees wraps a large roast beef sandwich to go, Bonyadian identifies a chief problem: He's not going to make much profit on this

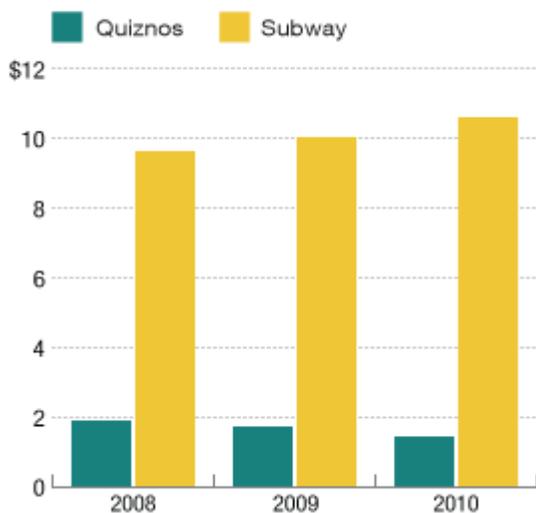
Franchiser Control

Quiznos — unlike some other fast-food retailers — owns the supply chain for its franchise restaurants. If a franchisee wants chicken or straws or bread, he has to buy them from the Quiznos corporate office.

So, Bonyadian says, the chain has an incentive to push higher volumes through deep coupon discounts — discounts that hit his bottom line.

"If the franchiser works with the franchisees, they both make money," he says. "And once this is one-sided and the franchiser is only making money, then things go drastically wrong."

That inability to work together plus higher supply-chain costs came at just the wrong time. As the recession started eating into the profits of most chains, Quiznos found itself locked in a price war with sandwich chain Subway — and its formidable advertising machine.



Notes

In billions of dollars. Quiznos figures are estimates, since the privately held company does not disclose its earnings.

Source: Technomic

Credit: Julia Ro / NPR

Falling Sales

Quiznos couldn't keep up. Sales fell nearly a quarter from their peak in 2008, according to restaurant tracker Technomic.

Bonyadian, who is a director of the newly formed Quiznos Franchisee Association, says franchise owners — who in some cases invested up to \$500,000 to open a store — were hit the hardest.

"There has been a lot of disappointment, and [a] lot of heartbreakings, and [a] lot of people who have gone bust," Bonyadian says. "[I] personally know a couple of people who have become homeless."

Mounting Debt

John Gordon, a restaurant analyst who runs Pacific Management Consulting Group, says, "It's definitely one for the record books."

In 2010 alone, 600 Quiznos stores closed.

Gordon says the sudden loss of restaurants has left Quiznos without enough money to rebound with its own national advertising blitz.

"So unfortunately, you've gotten smaller, you can't or you don't advertise, you get smaller again," he says. "It becomes a vicious circle."

The smaller Quiznos got, the harder it became to pay off its massive debt; so on Tuesday, it gave control of the company to Avenue Capital, one of its largest creditors.

The deal eliminates \$300 million in debt and adds \$150 million in new funding.

Bonyadian says to turn Quiznos around, new owners will first need to open a meaningful dialogue with the franchisees.

"That's where the success comes from," he says. "And we are hoping that the new ownership will just do that — will work with us and listen to us, and it will be happily ever after."

Bonyadian says that may be the chain's last hope.

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