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Franchising Beyond the Millennium: Learning Lessons from the Past

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1. Franchising's Role in Economic Development

Mark T. Spriggs - University of St. Thomas

This paper adopts the latter strategy of economic development, and discusses how franchising can help a developing country meet their development goals. We propose that the governments of developing countries should try to lower or eliminate the barriers that inhibit a franchisor from importing an established franchise system into that developing country because of the many economic and social benefits of franchising.

In the sections that follow, we define economic development, discuss several common economic development strategies, and explicate the benefits of franchisebased economic development in order to demonstrate why franchising should be included in any economic development program.

2. International Franchising Modes of Entry

Ilan Alon - State University of New York at Oneonta

This article develops a typology of international franchising modes of entry and discusses the advantages and disadvantages of using the different modes of entry. In general the international franchising modes of entry divide into five categories:

- (1) master international franchising,
- (2) direct international franchising,
- (3) direct international franchising with a subsidiary, (4) joint venture, and
- (5) sole venture.

These methods vary in the amount of risk and control. As franchising firms become familiar with the international environment, they seek greater control but as a result become exposed to greater degrees of market and political risks.

3. Co-Branding Relationships: Franchisors Partnering with Other Franchisors

Joyce Young - Indiana State University

Cassandra Hoggatt - Indiana State University

Audhesh Paswan - University of South Dakota

The current exploratory study provides some insight as to the activities that franchisors may be willing to engage in collaboration with other franchisors when entering and maintaining cobranding relationships. A sample of International Franchise Association (IFA) members involved in food related franchises were surveyed. In general, the degree of collaboration in cobranding relationships may depend on the level of hierarchical control of a given activity.

4. Analysis of Franchising Data: A Comparative Evaluation of Leading Secondary Sources

Sanjay Mehta - Sam Houston State University

Dawn Luza - Sam Houston State University

Garey Council - Sam Houston State University

Balasundram Maniam - Sam Houston State University

This paper extends Lafontaine's 1995 study by comparing quantitative data from Entrepreneur's 19' Annual Franchise 500, The Franchise Annual, and Bond's Franchise Guide, to verify consistency among publications. Originally, The International Franchise Association's Franchise Opportunities Guide was also to be compared. Due to limited amount of information available in that publication, a comparison was not warranted. The results indicated no significant differences in the quantitative data among the three publications, with the exception of international expansion.

5. Company-Ownership Over the Life Cycle: What Can We Learn from Panel Data

Francine Lafontaine - University of Michigan

Kathryn Shaw - Carnegie Mellon University

This paper uses an extensive panel data set to explore the extent of company ownership in franchised chains over the life cycle of these firms. Consistent with existing literature, we find that there is a significant decline in the proportion of companyowned units during the first few years after a firm becomes involved in franchising.

However, we show that this decline simply occurs because firms are all basically 100% company owned by definition when they first start franchising. We proceed to demonstrate that after these initial years of decline, the percent of total outlets that are companyowned is remarkably stable within firms over time, suggesting that dual distribution is indeed an equilibrium strategy for these firms. However, this "stable" proportion of company ownership varies significantly across firms. Thus our next step in this research is to explore its determinants.

6. Using Outlets' Sales to Re-examine Selected Linkages in Franchising Research

Patrick Kaufmann - Boston University

Rajiv Dant - Boston University

Franchise researchers generally have not used sales at the outlet level to operationalize the size of the outlet or the performance of the outlet. In this paper, we demonstrate the usefulness of this measure as it is applied to three familiar theoretical relationships. In each case, the use of outlet sales adds clarification to the linkages.

This is especially important given the interest that the Federal Trade Commission and the North American Security Administrators have indicated in the possibility of requiring earnings disclosure as part of the Uniform Franchise Offering Circular.

7. Direct Selling: Its location in Franchise Typology

Stewart Brodie - University of Westminster, London, UK

John Stanworth - University of Westminster, London, UK

This paper creates a franchise typology linking 'work base' and 'franchise type' and then, having defined and described 'direct selling', argues that direct selling should be included in the franchise typology as a 'minifranchise'.

Support for this argument is sought from the seminal work of the UK Bolton Committee (1971) researchers in their classification of small firms where, it is suggested, both a direct seller and a franchisee would be considered as a 'satellite', that is, a small firm highly dependent upon a single larger firm for major part of their economic activity. Comparisons and a summary of key characteristics of direct selling and franchising organizations are presented to defend the argument.

8. Quasi-Franchises: Chains that Look Like Franchises But Aren't

Wilke English - University of Mary Hardin-Baylor

Robert Justis - Louisiana State University

This paper represents the conclusion of a trilogy of papers which have focused upon "Oscar", a budding entrepreneur who wants to expand his 'empire' of "Oscar's Ostrich Burger. He feels that he has a good concept featuring a unique food item, but as a startup he lacks the capital to pay for the legal costs necessary to franchise. So he is searching for a way to obtain the benefits of franchising (control and investment from franchisees) without franchising.

In this year's paper, a number of "quasifranchises" were investigated. "Quasifranchises" are chains that look like franchise chains, and in some cases certainly appear to have the three FTC defining elements of franchising (license, fee and control), but are not franchises.

In looking at these "quasifranchise" chains, most seem to fall into one of three basic arrangements (Glorified Distributorships, Glorified StoreManagers, and Cooperatives), but none of them would actually provide Oscar with the advantages he would gain through traditional franchising. In summary:

1. Glorified Distributorships (example: Hallmark)
Why it won't work for Oscar? It provides limited control and very limited commitment. More importantly, distributorships work best when you have a manufactured product which is sold to the distributors and which they, in turn, simply resell. The fastfood industry generally does not fit the distributor model. (However, Oscar might use the distributorship model if he were the sole provider of proprietary ostrich patties for his Ostrich Burgers.)
2. Glorified CompanyStore Managers
(example: ChickfilA and Sears Dealer Stores)

Why it won't work for Oscar? This format provides only limited investment assistance from 'affiliates', and Oscar needs major investment assistance.

3. Cooperatives (including NonProfit Cooperatives) (examples: Best Western, IGA and TrueValue)

Why it won't work for Oscar? Oscar won't get the expansion he desires. Although the voluntary group cooperatives look like franchises, the cooperatives are defensive arrangements designed to protect the current market share of the members. Oscar wants the aggressive nature of franchising to expand his Ostrich Empire. He won't get that with a cooperative.

9. Relationship Marketing: Potential for Franchise Businesses

John Egan - University of Middlesex, London, UK

This paper looks at the potential impact of the introduction of Relationship Marketing (RM) strategies on Franchise businesses. It looks at some of the benefit claims made for RM and concludes that these are generally industry specific. It investigates the economic principles underlying RM and suggests that customer acquisition costs nor are longterm relationships always profitable or indeed desirable.

It concludes with a warning against the adoption of relational strategies without full cost/benefit analysis and suggests that companies who can not justify economically a RM approach would be best advised to retain (or readopt) a transactional strategy.

10. Panel: Franchising at the Operational/Educational Interface

Moderator: Matti Koiranen

11. Exchange Relationships: Context, Dimensions and Performance

Faye S. McIntyre - State University of West Georgia

James Thomas Jr. - University of Central Oklahoma

K.J. Tullis - University of Central Oklahoma

This study explores three important aspects of relationships in conventional, contractual (coops and franchises) and corporate systems: 1) the exchange context, 2) the scope and strength of alliance dimensions, and 3) the perceived effectiveness.

Mail surveys were sent to all available retailers licensed by the state of Oklahoma LP Gas Board. Forty-nine usable responses were obtained. Results of factor analysis on the relationship context scale indicate a twofactor solution, contrasting with Nevin and Spriggs' (1994) original onefactor solution. The scale of alliances dimensions, developed for this study, exhibits high internal consistency, as does the perceived effectiveness scale, developed by Buckin and Sengupta (1993).

No significant differences were discovered in exchange context, strength of alliance dimensions, or perceived performance.

Despite the lack of statistically significant difference, the results do indicate an interesting trend. An examination of mean scores indicates that contractual systems exhibit a more relational context than either administered (as expected) or corporate (contrary to expectations and past research) systems. The same trend holds true for strength of alliance dimensions and level of perceived effectiveness.

While the differences are not statistically significant, the ordering of the mean scores of the three constructs may indicate the need to reevaluate the continuum assumed in many of today's studies, i.e., that higher level of system integration lead to higher level of relationalism.

The geographic nature of the sample, the inclusion of only one industry, and the relatively small sample size limit this study. Implications for future research are provided.

12. An Analysis of Contract Provisions in Business Format Franchise Agreements

Janet Bercovitz - Duke University

Franchising is a form of hybrid organization that lies between markets and hierarchy. While hybrids are often treated as a discrete type, an investigation of the contractual arrangements between franchisors and franchisees reveals the existence of significant variation in this organizational form. Indeed, there is substantial diversity across franchise systems with respect to the terms specifying contract duration, encroachment restrictions, and termination conditions.

Building on the transaction cost framework, this paper develops a theoretical basis for exploring the existing variation across franchise arrangements. Specifically, the presence of multiple hazards—free-riding, holdup and shrinking—affecting the franchise relationship is explicitly acknowledged.

The study also provides an empirical investigation of franchise agreements offering one of the first evaluations of the adoption of nonpayment related, as well as payment related, contract terms. Results are encouraging. The data suggest that contract terms are discriminately selected so as to mitigate free-riding hazards, neutralize holdup hazards and minimize shrinking hazards.

13. Signs of Maturity in Australian Franchising

Colin McCosker - University of Southern Queensland, Australia

Lorelle Frazer - University of Southern Queensland, Australia

Business format franchising in Australia has been consistently growing since the start of the 1970s. The development of the franchising sector has been traced through periodic surveys from 1988 to 1998 and the latest presents an opportunity to assess the level of maturity attained.

No widely accepted basis exists for measuring maturity in a nation's franchising sector. As a result, a framework for assessing the level of development is proposed, consisting of a number of attributes that may be expected to develop over time. The performance of Australian franchises is compared against these attributes wherever appropriate evidence is available from the surveys.

The conclusion is reached that Australian franchising exhibits many of the attributes that indicate the achievement of a level of early maturity. Some aspects however have not yet developed to the extent expected. These offer opportunities for national franchise associations and governments to develop strategies strengthening franchise performance.

14. Franchisee Satisfaction: A Report on the Fast Food Industry

Frank Wadsworth - Indiana State University

This research is the first step toward examining franchisee satisfaction and its relation to other concepts such as franchise system sales, customer satisfaction and franchise system financial performance. Data from 70 fast food industry franchisees revealed franchisees' attitudes toward their franchise system.

The majority of franchisees are satisfied with their relation with their franchisor, but less than 40% of franchisees are satisfied with the support services they receive from their franchisor. Future research should focus on developing a nomological network of constructs related to franchisee satisfaction and a reliable measure of franchisee satisfaction.

15. The El Paso Attrition Study: Summary Statistics from Year-Nine of a Yellow Pages Longitudinal Analysis Research Note

Jo Willems - University of Texas at El Paso Wilke English - University of Mary Hardin-Baylor

This longitudinal study continues to track the survival of restaurants in El Paso using the listings as provided in the Yellow Pages in El Paso, Texas (Southwestern Bell, 1990 through 1998). Those wishing to find more detail regarding the purpose, background and methodology of this longitudinal study, as well as a more exhaustive coverage of previous attrition research, are encouraged to see the results of the previous studies (particularly the first four years) (English and Willems, 1991 through 1996, particularly English and Willems 1991-1993).

16. Using Geographic Information Systems in Franchising

Sanjay Mehta - Sam Houston State University

Mark Leipnik - Sam Houston State University

Balasundram Maniam - Sam Houston State University

Geographic Information Systems (GIS) is a powerful technology that allows for spatial and statistical analysis of many issues that are pertinent to franchising. In particular, GIS can facilitate unit location in relation to local and regional demographics, allocation of sales territories given a spatially distributed client or customer base, and optimal location of distribution facilities or delivery routes.

With respect to competition between potential units and existing franchises of the same or competing companies, GIS is being incorporated into the decision making process by a number of U.S.-based franchisors. This paper provides insights into the ways in which GIS can be employed to analyze issues related to the franchising industry and discusses current and potential methods and their strengths and limitations.

Sources of additional information related to GIS are also provided for those in the franchising industry wishing to learn more about the technology. Overall, GIS offers both franchisors and franchisees a powerful tool for analysis of a range of crucial issues. Increasing use of this technology is to be expected and dissemination related to GIS is desirable in order to promote adoption and appropriate use of GIS by the franchising community.

17. Franchising in France

Kathy Perrier - Louisiana State University

Claude Negre - University of Haute Alsace, Colmar, France

Robert Justis - Louisiana State University

Gary Castrogiovanni - Louisiana State University

Although conventional wisdom is that the slowing of business growth trends indicates that opportunities are diminishing, this is not necessarily the case. This article examines the evolution of franchising in France, along with the current situation. Historical growth patterns, legal developments, contractual arrangements, and other relevant factors are considered.

Evidence indicates that, despite the apparent maturation of this business arena, franchising opportunities may now be greater than ever before—at least in some business sectors.

18. The Early Termination of Franchise Agreements in Spain...

Alberto Echarri - Instituto de Empresa, Madrid, Spain

19. Franchising as a Strategy for Growth: The Case of the UK Construction Industry

David Kirby - University of Middlesex, London, UK

Anna Watson - University of Middlesex, London, UK

This paper considers franchising in the UK construction industry, an industry sector containing relatively few franchised operations. Many studies have tried to explain why a particular unit may be franchised or companyowned, but few have focused on the decision to franchise per se. This study, therefore, considers, and considers the implications for the adoption of franchising in the construction industry.

The findings suggest that the high human capital requirement of this industry (as proxied by average earnings) may make it unsuitable for franchising. Interviews were conducted with franchisors operating in the construction industry to examine their experiences to gain a further understanding of franchising in this sector. The study reveals that although few operational difficulties were encountered, the franchisors had experienced severe difficulties in recruiting suitable franchisees.

It is suggested that this may reflect the high human capital requirement of this industry. It is argued that further research is needed to compare the experiences of franchisors in industries with both high and low levels of franchise representation to determine whether some industries are, in fact, more suited to franchising than others.

20. Organizational Commitment, Job Satisfaction, Training, the Economy and other Important Factors in the Success of Managing a Franchise Operation in Russia: A Research Agenda for the Future

Skip Swerdlow - University of Nevada

Wesley S. Roehl - University of Nevada

Dianne H.B. Welsh - Eastern Washington University at Cheney

In the early preArmand Hammer days of perestroika and Gorbachev, Russia, its vast and untapped economy and resources, were viewed as one of those last frontiers of unlimited opportunity for Western business. It seemed especially inviting for franchised business, which had so effectively entered other markets throughout the world. Early research seemed to confirm this belief. McDonalds, Pizza Hut,

AlphaGraphics, Marriott, and others reported that challenges were being met and that the future was bright.

Academic research reported what appeared to be a dissipating confusion about how modern business works, in spite of a workforce in transition. However during the last three years, economic instability, crime, political upheaval and unrest, social uncertainty, and other conditions have brought this optimism into question. Some of the most recent research adds further doubt.

This begs the question about what steps franchising should or should not take with regard to market entry into Russia. The purpose of this article, therefore, are:

1. summarize research in which the authors have been involved, and that of others as well, with regard to its implications on the emergence of franchising in the Russian Federation and current issues affecting franchise business, and
2. to develop a research agenda for further examination of the potential of franchising in this part of the world.

The implications of the research were that franchisors would probably have to make adjustments in their formats, management style, and approach to be successful. The marketplace and employment situations were still too uncertain. The research agenda for dealing with the uncertainty was to:

1. Acquire current data on Russian attitudes regarding job satisfaction and organizational commitment using culturally adjusted instruments,
2. Ensure that the research was sensitive to differences in industry,
3. Gather more evidence on the political and legal environment and its effect on franchising,
4. Develop case studies of franchising efforts under way in Russia,
5. Employ the Internet for costeffective continuing research, and
6. Be patient with the research community's lack of understanding of the effect of the market transition on

statistical studies.

Underlying this research agenda would be a specific design to ensure that this research would have immediate application to franchise decisionmaking.

21. Franchising Opportunities and Impediments in Russia

Ilan Alon - State University of New York at Oneonta

Mark Toncar - Lycoming College

Franchising has been advocated as a method of growth for developing countries, providing know how, advanced marketing and management systems, and higher level of employment. In the former communist countries this knowhow is important for the transition from planned to market economies. The Russian economy provides unparalleled opportunities for franchisors. These opportunities, however, are embedded in risk factors.

This paper analyzes the macroenvironmental conditions associated with international franchising in Russia, discusses the opportunities and the impediments to franchising in Russia and discusses specific environmental improvements that would significantly enhance the prospects for franchise growth in Russia.