

International Society of Franchising

ISOF Papers

1986 International Society of Franchising 1st Annual Conference

Nebraska, Omaha
September 28 - September 30, 1986

Program Chair and Proceedings Editor:
Robert Mittelstaedt
University of Nebraska-Lincoln

Publication:
Cheryl R. Babcock
International Institute for Franchise Education
Nova Southeastern University

1. An Evaluation of Franchising Trends and Their Implications for the Retailing Industry

Raymond A. Marquardt, University of Wyoming
Gene W. Murdock, University of Wyoming

This paper uses 15 years of data to analyze trends in sales, number of outlets and average sales for both company owned and franchisee owned outlets. It also contains an evaluation of the future of franchising. Findings indicate that franchise outlets continue to acquire a larger share of total retail sales. The surprising finding is that, contrary to previous expectations, franchisee owned outlets are performing at least as well as company owned establishments in terms of number of outlets, and sales volume growth rate. A wide difference in the performance across sixteen franchisee categories was also discovered.

2. The Franchising Economy

Robert T. Justis, University of Nebraska-Lincoln
Lew Taylor, University of Miami
Warren Nielsen, Brigham Young University

The alarming changes in the industrial and financial structures of the American economy have greatly overshadowed the emergence of a vibrant and vital method of doing business in America today - Franchising. Franchising is becoming a main driving force for economic growth, employment, and development. Franchising has moved from the old industrial forms of automotive, petroleum, and soft-drink bottlers to the standard industries of fast food, convenience stores, cosmetics, cleaning, the high-tech fields of computers and the financial field of banking. In almost every field of business endeavor and entrepreneurs are coming forward and developing new markets and experimenting with new management forms through their franchising endeavors. Today approximately one-third of all retail sales in the United States are done through franchise stores. The authors see the growth of entrepreneurial activity for the remainder of the eighties and the strength of the nineties to be in the field of franchising. Franchising will surpass every other method of business by the end of this century. Our economy, to a great extent, will be dependent upon franchising activities application to new fields and markets.

3. Changing Antitrust Policy and Franchise Agreements

Kurt A. Strasser, University of Connecticut

I. Introduction

II. The Evolving Antitrust Approach to Vertical Business Practices.

- a. Traditional Law of Tying Arrangements.
- b. The Evolution of Tying Law
- c. The Rule of Reason Approach to Vertical Restraints

III. Franchising and Antitrust Policy.

4. Legal Issues In Dual Distribution Systems

Mary Jane Sheffet, Michigan State University

Debra L. Scammon, University of Utah

Manufacturers selling through both independent dealers and their own distribution outlets face special legal problems when making changes in their distribution system. This paper examines reasons why manufacturers use dual distribution systems, outlines the legal problems that can arise when a dual distributor terminates an independent dealer, discusses recent federal cases involving dual distribution systems and makes recommendations to help manufacturers minimize anti-trust liability.

5. The Coexistence of Franchising and Entrepreneurship: A Look at Franchisee Characteristics

Kathleen C. Brannen, Creighton University

In recent years the small business literature has come to distinguish between those small business owners who are entrepreneurs and those who are not. The franchising literature and the small business literature coexist with little cross-referencing. The time has come to partition the franchisor and the franchisee from other entrepreneurs and/or (small) business owners in the on-going research on entrepreneurship. The purpose of this paper is to begin the task of classifying the entrepreneurial characteristics of franchisees. The impetus for this investigation came from a response made by a person attending a short course on franchising. One individual said she was taking the course because she couldn't decide whether to become a franchisor or a franchisee! The writer was truly stunned. Surely franchisors are totally different from franchisees. (This person did have a viable business concept in mind—one that was later showcased on "60 minutes.") This paper will evaluate the characteristics of franchisees with several goals in mind: a) to provide some guidance for the franchisor in selecting franchisees, b) to provide some guidance for individuals who are potential franchisees, c) to lay the groundwork for further research by formulating hypotheses for empirical research. This paper should be considered a preliminary investigation.

6. The Franchise Contract From An Economic-Agency Perspective

Thomas S. Zorn, University of Nebraska-Lincoln

Steven Mann, University of Nebraska-Lincoln

7. Franchising, by any other name, is Wholesaling!

Wilke English, University of Texas-EI Paso

Because of its high visibility at the retail level, franchising is generally classified as a retailing innovation. Much better understanding of the phenomena of modern franchising is gained by viewing franchising as wholesaling. Although the visibility of the franchise outlet causes the franchise to be classified as a retail phenomena, the franchise company actually gets its direction and its identity from the franchisor, who is basically a wholesaler. Thus a franchise chain is run, by and for, the wholesale link in the marketing channel. The franchisor (who is simply a wholesaler in disguise) operates the franchise conceptually and contractually for his benefit. Only by understanding that the goals of a franchise chain are wholesaler goals, rather than retailer goals, can the behavior of these chains be adequately explained. Franchising, by any other name, is Wholesaling!

8. Training and Development In the Franchisor-Franchisee Relationship

Helen LaVan, DePaul University
Joseph C. Latona, University of Akron
Ray W. Coye, DePaul University

9. A Methodology For Assessing Franchisee Expectations and Perceptions of Franchisor Role Performance

Douglas M. Lambert, University of South Florida
M. Christine Lewis, Wayne State University

10. Behavioral Relations In Marketing Channels: A Review of Cross-Channel Comparisons

James R. Brown, University of Nebraska-Lincoln
Jean L. Johnson, University of Nebraska-Lincoln
Young K. Lim, University of Nebraska-Lincoln

A review of the conceptual literature provided hypotheses about the relationship between the degree of vertical integration and the processes of conflict and power in marketing channels. Empirical tests of these hypotheses were then reviewed. In general, the findings have been equivocal or the studies have been too few for any generalizations to be made. To stimulate further study of this relationship, a research agenda pointing out areas for additional conceptual and empirical development was presented.

11. Exploring the Environmental and Behavioral Antecedents of Franchisee Trust and Satisfaction Robert Dwyer, University of Cincinnati

Robert Dwyer, University of Cincinnati
Sejo Oh, University of Cincinnati
Rosemary Lagace, University of Cincinnati

12. Applicability of Federal and State Securities Laws to Offers and Sales of Franchises

M. Thomas Arnold, University of Tulsa

13. Retroactive Application of State Laws Regulating Franchise Relationships

Michael J. OHara, University of Nebraska-Omaha

14. Financing Growth: Franchise Compared to Corporate

Sally Jo Wright, Sangamon State University

15. Are the Franchised Businesses Less Risky Than The Non-Franchised Businesses? K. H. Padmanabhan, University of Michigan-Dearborn

The purpose of this paper is to investigate the riskiness of franchised businesses. Is the riskiness of franchising increasing or decreasing over time? Is the franchised business less risky in some industries than in others? Are the franchised businesses less risky than the non-franchised businesses? Are there any significant trends in the number of contract terminations and non-renewals by the franchisors? Is there any consistent pattern in how the franchisors decide on franchise terminations, non-renewals, and conversions? Since only the franchisee-owned establishments truly represent the essence of franchising, our analysis will be limited to the franchisee-owned establishments rather than also the franchisor-owned establishments. The phenomena studied include: number of franchisee-owned establishments discontinued as a percentage of total franchisee-owned establishments, the riskiness index, the number of franchise contracts that were terminated as a percentage of total franchise contracts, the number of franchise contracts not renewed as a percentage of all the franchise contracts that came up for renewal, and the number of franchisee-owned establishments that were converted to franchisor-ownership as a percentage of total franchisee-owned establishments. Comparable published franchising data are available for the period 1971-81. Hence, our analysis is restricted to that period, or part of that period. In order to truly capture the relative role of franchisee-owned establishments in retailing, close attention is paid to industries

where there are a large number of franchisor-owned and franchisee-owned retail establishments, and where they both contribute significantly to industry sales. Industries fitting such a description include: automotive products and services, business aids and services, convenience stores, fast food restaurants, auto rental services, and non-food retailing.

16. Franchising: Entrepreneurial Development

Robert T. Justis, University of Nebraska-Lincoln
Cheryl R. Babcock, CFE, University of Nebraska-Lincoln

Franchising is becoming a major method of doing business in the world today. Franchise education while largely ignored until the 1980's, has emerged as a viable offering for both undergraduate and graduate students. Franchise curriculum development is in an infant state, but should become a major focal point in entrepreneurial programs in the United States.

17. Another Look at Recognition of Initial Franchise Fees

Wayne M. Higley, Northern Illinois University
Tammie Dunkel, Northern Illinois University

18. Should Franchisor and Franchisee Elect Identical Accounting Conventions?

Robert H. Raymond, University of Nebraska-Lincoln
Jack L. Armitage, University of Nebraska-Omaha

19. International Franchising, Excess Market Value, and Advertising Intensity

Esmeralda O. Lyn, Hofstra University

20. Franchise Systems: The Internal Dynamics of Sales Growth and Dual Distribution

Michael J. O'Hara, University of Nebraska-Omaha
Wade L. Thomas, Ithaca College

21. Industry Impediments to Franchising-A Study of the Equipment Rental Industry

Alden Peterson, Appalachian State University
Robert D. Goddard III, Appalachian State University
John A. Walker, Appalachian State University

22. The Newest Franchise: An Overview of Bank and Savings & Loan Franchise Systems

William J. Carner, Carner and Associates, Ltd.

23. Implications of Dichotomy Premise for Understanding Conflict and Cooperation in Franchise Systems

Rajiv P. Dant, Appalachian State University

24. The Parallel Growth of Services and Franchising

James Cross, Arizona State University
Bruce J Walker, Arizona State University
Tim Christiansen, Texas A & M University