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1. Quantitative Analysis of Vertical Cooperative Advertising Issues in Franchise Channels of Distribution

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Advertising fee decisions in franchise systems are a frequent source of conflict between franchisors and franchisees. Such disagreements persist because the win-win potential of vertical cooperative advertising is not well appreciated. Our paper introduces a formal normative approach for analyzing, understanding, and subsequently making these vertical cooperative advertising decisions within a franchising context in a manner that results in optimal system-wide returns. The model demonstrates that cooperative determination of franchisor's and franchisee's advertising contributions may yield superior payoffs for *both* exchange partners than the *total* payoff if the franchisor and franchisee seek to optimize their individual objective functions. Three types of models are developed and evaluated (i.e., deterministic, stochastic, and under conditions of differing perceptions of the sales response functions to advertising). Conclusions hold under all three model variants. Industry implications are also presented.

2. Firm Specific Effects in Franchise Contracting: Sources and Implications

Francine Lafontaine, University of Michigan

Kathryn L. Shaw, Carnegie Mellon University

Franchise contracts typically involve the payment by the franchisee to the franchisor of royalties, calculated as a proportion of sales, and an up-front fixed payment called a franchise fee. Having shown in some of our earlier work that these contract terms do not change much over time within firms, this paper focuses on what determines the levels of these fees across firms. We do this using a unique panel data set covering about 1000 franchised chains each year between 1980 and 1992. Consistent with some of the theories on franchising, which emphasize technological and incentive factors as the rationale for the level of these fees, we find that sectoral differences play a significant role in explaining the contract terms. However, they do not capture much of the variance in the data, leaving room for both better sector definitions and firm-level efficiency or quality factors to play a role in the setting of these fees. Unfortunately, we also find that very few of our explanatory variables capture much of the variance in contract terms across individual firms, leaving us with little capacity to really explain what determines the contract terms beyond unobservable firm characteristics.

3. Franchise Fees: An Australian Perspective

Lorelle Frazer, University of Southern Queensland, Toowoomba Australia

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This paper reviews the current status of franchising in Australia regarding the use of franchise fees. A review of previous research in the United States highlights some characteristics which may be unique to the Australian setting. An exploratory survey of 30 franchises is conducted to develop a set of hypotheses, using an efficient contracting framework, to predict the use of franchise fees. A content analysis of the data is performed using the qualitative data software program, N-U-D-I-S-T.

Franchisors across the major industry areas comprise the sample which reflects the population of franchisors in Australia in terms of its youthful stage of development. The interviews reveal that initial franchise fees are normally charged with cost recovery and market forces the main bases when setting them. Most franchise agreements are for 5 or 10 years with approximately half the sample charging a fee on renewal. The most common type of continuing franchise fee is one calculated as a percentage of sales, with flat continuing fees and product mark-ups also being used in some franchises. Only half the franchisors indicate they are making a profit from their continuing fees, which is indicative of the age of the sample. Most franchisors charge an advertising or marketing levy. Mark-ups on goods supplied or recommended to franchisees are commonly used with most profits accruing to the franchisor. Transfer fees are also commonly charged when franchisees sell their outlets with the amounts varying considerably.

Based on an analysis of the Australian data, several hypotheses are proposed which will be tested in a more extensive survey.

4. Franchisee Goals and Franchisor Services: Implications of Life-Cycle Evolution and Environmental Conditions

Ravi S. Achrol, George Washington University

Michael J. Etzel, University of Notre Dame

Gregory T. Gundlach, University of Notre Dame

5. Business Format Franchising: Innovation and Creativity or Replication and Conformity?

John Stanworth, University of Westminster, London, England

Stuart Price, University of Westminster, London, England

David Purdy, University of Westminster, London, England

Nicos Zafiris, University of Westminster, London, England

Alessandro Gandolfo, University of Westminster, London, England

Franchising, as an organisational form, continues to increase in importance in the provision of services, jobs and self-employment opportunities. However, as contextual environments become increasingly complex and dynamic, so innovations are needed in order to improve operating efficiencies, initiate or renew life-cycle stages, and realise a closer fit between organisations and the rigours of their markets. There are a number of correlates of innovation in franchising, including external environmental conditions, organisational culture and climate and franchisee characteristics. This paper offers an exploratory overview of these factors and argues that franchisee autonomy can play a pivotal role in influencing innovative behaviour.

6. The Implications of the Ban on Maximum Resale Price Restraints in Franchising

Roger D. Blair, University of Florida Amanda Esquibel, University of Memphis

Even under conditions of successive monopoly, antitrust law prohibits the imposition of *maximum* resale prices. This rule has been the subject of scathing criticism for over 25 years. Nonetheless, a recent decision, *Caribe BMW v. BMW AG*, has reaffirmed the vitality of an ill-advised antitrust rule. In this paper, we explore the implications of this prohibition for franchisors, franchisees, and consumers. We also examine economic alternatives to maximum resale price fixing. These include vertical integration, performance standards, price announcements, and franchise fees. The methodology employed is that of antitrust law and economics.

7. The U.S. Trademark System Becomes Franchise Friendly

William J. Keating, The Dickinson School of Law

8. Mandatory Earning Disclosures: Some Comments and Caveats

Patrick J. Kaufmann, Georgia State University

William S. Vincent, Kennesaw State College

Earnings disclosures by franchisors have been allowed and regulated for twenty years, but very few have chosen to provide them to prospective franchisees. Recently the NASAA and FTC have begun to discuss the possibility of mandating earnings claims as part of their set of required disclosures. Several possible approaches have been proposed. In this paper, the authors argue for limited disclosure in the form of gross sales for all but conversion franchises. Conversion franchises would be required to disclose percent changes surrounding the switch from independent or former franchise to the current franchise. Aggregation is also discussed. Finally, some caveats relating to this approach are mentioned, and the needed research described.

9. The Regulation of Franchising on Australia: Reviews, Roundabouts and Realpolitik

Andrew Terry, University of New South Wales, Sydney, Australia

Australia provides a fascinating laboratory for the study of franchising regulation. In little over a decade Australia has experienced a variety of regulatory regimes although it has resisted dedicated franchising legislation. The voluntary self-regulatory Code of Practice which currently prevails - described at the time of its introduction in 1993 as "the most progressive industry/ government franchising initiative undertaken in the world" - has recently been subjected to a comprehensive review which recommended that a system of mandatory self-regulation or co-regulation be introduced to provide universal coverage for franchise systems (*The Review of the Franchising Code of Practice*, October 1994). The Government's response to the *Review* announced in its recent policy statement (*Creating a Better Business Environment. A Package for Small Business*, September 1995) rejects co-regulation and commits the Government to retaining the self-regulatory Code albeit underpinned by strengthened general law provisions designed to prevent the "unfair exploitation" of small firms by more powerful organisations.

This paper address the Code of Practice, the recommendations of the *Review* and the Government's response.

10. Franchise Contract Terminations: Is There Evidence of Franchisor Abuse?

Darrell L. Williams, University of California at Los Angeles

This paper is an empirical study of franchise contract terminations. The goal of the research is to determine whether or not franchisors use their contractual right to terminate in order to enrich themselves at the expense of franchisees. It has been widely alleged that franchisors terminate franchisees in the more profitable outlets and convert them to company ownership. Economic theories of competitive contracting suggest that widespread opportunistic terminations of this type could not persist. Nevertheless, allegations of widespread abuse of termination provisions by franchisors continue and have contributed to the adoption of franchise regulations and antitrust restrictions. The results of previous empirical studies of franchise terminations fail to reject the hypothesis that franchisor terminations are motivated by opportunism. I examine the issue using a nationwide sample of franchise outlets compiled by the U.S. Census Bureau. The results of this study do not support claims that franchisors systematically abuse their right to terminate. To the contrary, terminations appear to be motivated by poor outlet performance rather that unexpectedly high performance as implied by a theory of franchisor opportunism. The results of this study are consistent with economic theories of competitive contracting.

11. Franchising in Austria: An Overview

Peng S. Chan, California State University-Fullerton

Erika Glatz, University of Business Administration and Economics, Vienna, Austria

This paper describes the status quo of the Austrian franchise situation. Judging from current trends, the future of franchising seems to have a bright outlook in Austria. The growth in franchising is a result not only of the increasing number of homegrown systems but also of the influx of foreign franchise systems. Recently, there has been an increase in information and consulting activities as a result of the growing demand. Due to the fact that little research on franchising in Austria has been done so far, there is a wide area for further investigation on this subject.

12. Franchising in South Africa

Gert J. Scholtz, University of South Africa, Pretoria, South Africa

The traditional view of franchising is as a form of American business. In the past decades, however, franchising developed into a global phenomenon. Most of the international franchising examinations in both the academic and business press have generally taken the perspective of either USA franchise systems' expansion into international markets or foreign franchise system's expansion into the USA (Josias and McIntyre, 1995). This study gives a general description of franchising in South Africa. We seek to contribute to the body of literature that provides evidence that franchising has evolved beyond its USA origins.

13. Job Satisfaction, Organizational Commitment, and Career Stage: The Current State of Employee Attitudes in the Russian Lodging Industry and Their Implications for Franchise Operators

Skip Swerdlow, University of Nevada, Las Vegas

W. Theodore Cummings, University of Nevada, Las Vegas

Dianne H. B. Welsh, Eastern Washington University

Nicholai Bushmarin, Tver State University, Russia

The purpose of this study is to apply job related behavior variables to the emerging enterprise system in Russia, specifically with employees of the Russian hotel industry. Furthermore, we attempted to determine the impact of these variables on the strategic decision making processes of franchise operators who have or are planning to have locations there. Considerable empirical research has been conducted on how people change over the course of their career and how this change affects their attitude towards their job (Cron, Dubinsky & Michaels, 1988). For example, employees' commitment to their organization, as well as being satisfied with their job may change effectively such job related variables as performance, absenteeism, and turnover (Jewell & Siegal, 1990). The results demonstrated that variables that have traditionally influenced organizational commitment and job satisfaction among Western workers are not significant for Russian employees at this time. Conclusions that no relationship exists between career stage and job satisfaction or organizational commitment, however, may be premature primarily because of transitional nature and severe conditions of the Russian economy and undeveloped attitudes toward work.

14. Franchising into Asia: An Overview of Selected Target Markets

Colin McCosker, University of Southern Queensland, Toowoomba, Australia

The impressive growth in international expansion of US franchises over the past two decades has been documented by the US Department of Commerce and the Bureau of Economic Analysis. With about one-third of franchisors involved, they are known to be responsible for over 31,000 outlets (1986) in other nations, earning US $408 million (1993) in export income (Melly 1995, pp 21,27). This trend does not appear to be diminishing. The opening of markets in the ex-communist countries of Central and Eastern Europe, together with the massive population of China, has attracted the attention of many who are seeking to take the opportunity to set themselves up as market leaders. With ongoing encouragement from the US Department of Commerce and the International Franchise Association through the organisation of trade missions and other assistance, there has been a marked increase in interest also in the developing economies of Latin America, Africa, the Middle East and throughout Asia.

US franchisors remain the most active in international expansion, but now they are being vigorously challenged by the activities of franchisors from a number of nations where business format franchising is only a reasonably recent innovation. A number of franchises developed in Asia have appointed franchisees in nearby countries. Australia with about 25 years of active franchising has a more developed franchising sector than other nations in the Asian region, apart from Japan, so it should not be surprising that a 1994 survey of Australian involvement found that 59 (18%) of franchisors indicated that they had established themselves overseas (ABS 1994, p12).

The current study looked at the business environment for franchising in four Asian markets believed to be of interest to Australian franchisors, i.e. Singapore, Malaysia, Hong Kong and Indonesia. As an exploratory survey, the aim was to examine and analyse the opportunities and impediments for Australian franchisors who might consider exporting their franchises into these nations. While it is not contended that all which applies to Australian firms applies equally to those coming from other nations, much of the information obtained will be of interest to any franchisors considering entry strategies for these markets.

15. Franchising of Sport in Australia: The Struggle Between the Kings and the Barons

S.D. Thompson, University of Technology, Sydney, Australia

E.W. Watts, University of Technology, Sydney, Australia

The struggle between the kings and the barons is a great recurring theme in the domestic politics of medieval England. Not surprisingly then the influence of this inherited trait should surface in Australia, given its British roots. In this paper the struggle is brought up to date with the current battle between Rupert Murdoch (former Australian and global media mogul - the king) and Kerry Packer (still an Australian and also a media tycoon - the baron), who between them have placed Australian sport on an irreversible journey toward a completely new (for Australia) method of marketing the hallowed icons of cricket and rugby - franchising.

Today one can enter any shopping mall and be confronted by dozens of franchise outlets. These are the common business format franchises which contribute to the economic structure of western democracies. The purpose of this paper is to focus on a relatively new phenomenon in Australia, that of the sporting franchise, and the impact such a cultural change may have on restrictions to entry, control aspects - both vertical and horizontal - and the monitoring of performance.

16. The Franchise as a Network Organization

Ravi S. Achrol, George Washington University

Inter organization theory in marketing and franchising has been focused for some time at the level of dyadic exchange. Recently there has been an emphasis on relational exchange, which highlights a new set of variables and processes, such as trust, commitment and social norms of governance. It is the contention in this paper that relational exchange is intimately intertwined with network level processes and cannot be fully understood at the dyadic level. This paper examines the key political and sociological processes characterizing exchange relationships among network organizations, how they differ from traditional dyadic exchange concepts, and what the implications are for reconceptualizing theory and management practice in franchise networks.

17. The Franchise Failure Continuum

Kathryn Boe Morgan, The American University Stevan R. Holmberg, The American University

Recent franchising literature has included numerous divergent accounts and statistical estimates of franchise failure. Franchise failure statistics -- or their converse, success statistics -- are difficult to evaluate. Some numbers are based on new studies. Others, however, are based on old Department of Commerce surveys, "seat of the pants" estimates, and second and third-hand references to the same oft-quoted sources.

The researcher's initial problem in addressing the franchisee failure concept is definitional. What is "failure"? Is it statistically measurable? Is it simply counting outlets which no longer exist after a given period of time, i.e. measuring the "closure" rate? The terms "success" or "failure" seem to imply discrete categories into which a business either does or does not fit. Much of the controversy surrounding this issue focuses either on the labels for these two hypothetical boxes or on the measurement procedures used to count the population in each box.

In contrast, it may be more useful to view franchisee failure as a continuum, often beginning with a clear manifestation of discontent in franchisee attitude and ending with termination, default to lenders, and unit turnover or closure. Not every franchisee failure will hit every point on the continuum, and the population is easier to measure at some points than others. Researchers will certainly show that some of these points may have more predictive validity than others for a given individual and more representational validity for franchising in general. Nevertheless, franchisee failure should be considered a multifaceted phenomenon or continuum which can only be truly understood by looking at all its various manifestations. The six elements in the suggested franchisee failure continuum are:

1. Franchisee discontent
2. Royalty delinquency, etc.
3. Complaints to FTC, et.al.
4. Turnover/termination
5. Default/other losses to creditors
6. Closure

Most of these points have been statistically surveyed in recent years. We will examine each element in the franchise continuum in turn. It is the authors' belief that the overall issue of franchisee failure can only be understood by a thoughtful consideration of all continuum elements.

18. The New Uniform Franchise Offering Circular (UFOC): A Financial-Accounting Perspective

Robert T. Justis, Louisiana State University

Bart P. Hartman, Louisiana State University

Andrew A. Caffey, attorney Peng S. Chan, California State University-Fullerton

A new Uniform Franchise Offering Circular (UFOC) was originally approved by the North American Securities Administrators Association (NASAA) on April 25, 1993. This new UFOC is now being adopted by the several states and its revisions will require that every franchisor completely rewrite their disclosure documents. There are major changes for the franchisor to make concerning their own financial disclosures. This paper reviews some of these important changes, some areas where changes were not made, and areas where changes should have been made. A review of the financial disclosures is presented. Additional disclosures still need to be made to allow the prospective franchisee to have full information regarding the franchising opportunity.

19. Profiling the Market for Franchise Systems Within the Health Care Industry

Faye S. McIntyre, Rockhurst College Faye W. Gilbert, University of Mississippi

Providers of health care in the United States are faced with a rapidly changing environment that compels a search for alternative approaches to the delivery of these services. Network affiliation is one option currently being explored as a remedy for some of the ills in the industry; although franchising as a distribution channel is a logical extension of network affiliation, little work has been done that combines the concept of franchising with health care. Since the marketing literature clearly identifies franchising as a viable (if not superb) distribution method for services, research is needed to explore the viability of franchising as a delivery format for health care services. A key component in assessing franchising's viability in this industry is the probability of consumer acceptance of its application. Thus, the major purposes of this research are to: 1) conduct an exploratory survey to assess consumer acceptance; 2) develop a demographic profile of consumers receptive to health care franchising; and 3) assess the characteristics of health care services important to these consumers.

20. Electronic Data Interchange (EDI): A Strategic Tool to Increase Franchise Productivity and Efficiency

Ali A. Poorani, University of Delaware

Modern technologies offer a number of opportunities for businesses to become efficient and productive. Electronic Data Interchange (EDI) is a key technology with applications which are becoming commonplace in exchanging business information. While some businesses, particularly the small ones, have legitimate concerns about the cost-effectiveness of this technology, EDI offers several strategic and operational benefits that franchise establishments cannot afford to ignore. The goal of this study was to provide an overview of EDI, examine its cost-effectiveness and survey the extent to which food service franchise operations are currently using EDI. The perceptions of these organizations toward the use of this technology in the near future were also explored. The survey was undertaken with franchise/multi-unit food service operations. The preponderance and homogeneity of franchise systems creates economies of scales in implementation costs and position them to convince a greater number of suppliers to become business partners and build strategic alliances.

21. A Path Analytic Investigation of the Ownership Redirection Hypothesis

Audhesh K. Paswan, University of South Dakota

Rajiv P. Dant, Boston University

Oxenfeldt and Kelly's provocative ownership redirection thesis has attracted considerable research attention. However, the empirical evidence on the thesis remains equivocal. This study examines the causal relationships between two factors supposedly driving ownership redirection (i.e., organizational size and availability of funds) and ownership redirection operationalized using two different measures of unit share and net-conversion gain. Results indicate that the two drivers do not always affect the ownership redirection measures in the same manner, and in the process identify several different patterns capturing different scenarios of the ownership redirection dynamics.

22. Benchmarking for Franchising: Putting Theory into Practice for Continuous Improvement

S.D. Thompson, University of Technology, Sydney, Australia

E.W. Watts, University of Technology, Sydney, Australia

Franchising, as a method of doing business, is expanding at an exponential rate around the world. It is no longer considered as a "novel" way to sell fast food. The expansion of franchising can be compared to the period of growth following the economic transformation resulting from the industrial revolution. While franchising is still primarily a service industry (although it is conceivable that eventually someone will franchising manufacturing outlets) it does cover the entire spectrum of the service sector. Convenience stores, restaurants, real estate agencies, accounting firms, solicitors, service stations and motor vehicle dealerships are all examples of franchisee outlets.

As a consequence of its diverse nature, potential for growth, and strong local and international competitiveness, franchising needs to ensure its operating techniques are equal to those of any world class performer. One technique which can be applied in all franchising operations, whether franchisor or franchisee, is benchmarking.

Essentially, benchmarking is the search for those best practices which will lead to superior performance. As such, benchmarking can focus on internal operations, on external operations between competitors, and on external operations between non competitive organisations. The result of this continual self assessment and comparisons with market leaders is continuous improvement within the particular franchising operation. Documented examples of benchmarking can be found from the early 1900s and specifically related to franchising during the 1970s and 1980s in the petroleum and motor vehicle industries. The fact that benchmarking is not as widespread in the franchising industry as in other industries can be attributed to the somewhat restrictive elements in the franchising agreements of the 1970s and 1980s.

This paper argues that benchmarking can provide the franchising industry with a focus for developing a responsiveness to customers' needs that will prove vital for continuous improvement. It also examines the different focuses of benchmarking and considers some of the problems of implementation.

23. A Program for Using Franchising as a Means of Developing Indigenous Entrepreneurship Skills and Thereby Promoting National Growth

Richard Widdows, Purdue University

Zainab Ahmad, Malaysian Entrepreneurship Development Center

1. What is often called "the franchising industry" is actually a method of doing business. It offers businesses a means of spreading geographically and coopting the talents of several would-be entrepreneurs. It offers emerging economies a medium whereby potential entrepreneurs can gain valuable business experience and begin to amass the resources to start their own enterprises.
2. Domestic franchises constitute an "infant industry" in the sense in which that term is used in economic development. Franchising is not easy. Dangers lurk which can prevent the infant from ever growing up.
3. Infant mortality in franchising will be reduced if solid rules and guidelines for the franchise are created. The Operations Manual and Franchise Package are key components of the model contained in this report which are designed to help franchises through their early stages of life.
4. Government support is advocated as part of the model contained in this report. Because franchises face the same kinds of dangers as other new enterprises, there are economies of scale to be reaped from placing responsibility for franchising programs within higher education institutions.
5. Official support is conceived of as an intermediate strategy rather than a long term strategy. The infant must eventually learn to walk.
6. But in order to walk, the infant must learn to stand on its own feet. Hence the model incorporates a strong training and consultancy program. A feature of the model is that much attention is given to a Pilot Operation, a prototype of the franchise which must prove to be viable before the franchisees are recruited.

24. Franchise vs. Company Outlets: Do Customers Know or Care? The Strange Predicament of Martin Mull and Red Roof Inns

Wilke English, University of Mary Hardin-Baylor

During the last few years, Red Roof Inns has run a series of ads featuring Martin Mull who tells the viewer that Red Roof is a better motel because it is <u>not</u> a franchise.

But is Martin trying to make a selling point out of an attribute about which the general public neither knows nor cares?

A survey of 470 respondents indicated that the typical consumer is quite ignorant on the subject of franchise vs. company outlets, and is usually unable to correctly identify the outlet they are in.

Finally, with respect to preference in outlets, by a slight percentage, respondents actually rated franchise outlets ahead of company operated outlets.