

International Society of Franchising ISOF Papers

1992 International Society of Franchising

6th Annual Conference

Franchising: Passport for Growth & World of Opportunity

Palm Springs, California February 1 - February 2, 1992

Program Chair and Proceedings Editor Patrick J. Kaufmann
Georgia State University

Publication:

Cheryl R. Babcock

International Institute for Franchise Education Nova Southeastern University

1. Growth in the Ecologically Conscious Consumer Segment and its Implications for Franchising

James A. Roberts, Baylor University Grant Bassett, Baylor University

2. Conflict and Opportunistic Behavior in Business Format Franchising

Gordon Storholm, St. John's University

The purpose of this paper is to examine some of the ethical implications of business format franchising. Specifically, the author attempts to determine some areas of the franchise agreement which may lead to conflict. In order to better understand the types of conflict which arise, franchisors and franchisees were questioned on a variety of relevant topics. No industry is immune to fraud deceit. Franchising is particularly susceptible because of the entrepreneurial spirit which flourishes, and the leverage one party enjoys over another. Franchising grew exponentially in the 50's and 60's and many failures ensued. Existing law combined with the 1979 FTC Disclosure Ruling accomplished much in "leveling the playing field" but inequities continue, albeit somewhat abated. Franchises accounted for roughly 34 percent of U.S. retail sales in 1989, and are a vital part of our lifestyle and economy. Franchising presents opportunity, risk, and questions of behavior for all stakeholders. This paper will analyze past, current, and future trends in this most dynamic of enterprises.

3. Franchisor Environmental Liability Resulting From the Franchise Relationship

Patrick J. Kaufmann, Georgia State University Stephen E. O'Day, Esq., Smith, Gambrell & Russell William S. Vincent, Esq., Member Georgia Bar

Recent environmental legislation has created potential liability land for retailing franchisees who purchase contaminated If a franchisor takes an active role in the site selection seeking indemnification. Franchisors also be sued directly as a co-operator or as one having the indicia of ownership. Crucial in the determination of franchisor liability is the degree of control exercised over the site. A standard requirement that franchisees conduct a Phase I environmental audit for suspect sites is recommended.

4. An Organizational Ecology Perspective on the Development of Franchise Systems

Steven W. Henson, Georgia State University Bruce K. Pilling, Georgia State University

Organizational ecology is presented as a potentially useful framework for understanding franchise systems. While current theories assume that organizations behave rationally in response to their environments, organizational ecology focuses on selection rather than adaptation. Organizations are viewed as competing for scarce resources, with success or failure largely determined by the "fit" of the organization to the prevailing

environment. A typology of organizations is presented, based on classifications of organizational types that should be successful under different environmental conditions. The typology is then applied to franchising, to develop a set of propositions.

5. A Transactions Costs Perspective on Franchising in Global Markets

Devi Prasad Karuppur, Florida Atlantic University C.M. Sashi, Florida Atlantic University

This paper attempts to examine when firms should employ franchising as a mode of entry in global markets. Transaction costs analysis constructs are used to identify the conditions under which franchising facilitates efficient transactions globally. Some advantages and limitations of adopting franchising as a mode of entry into global markets are also discussed.

6. How and Why do Franchisors Do What They Do: A Survey Report

Francine Lafontaine, University of Michigan

This paper presents results from a survey of franchisors conducted in the summer of 1989. The goal of the survey was to get franchisor's views as to why franchising takes the form that it does. Questions focused on why contracts typically involve sharing, why they tend to be standardized across different franchisees and different locations, and why dual distribution is used by most franchisors. The 130 responding franchisors were involved in a variety of businesses. Many had only been franchising since the 1980's and about 40% of them were subsidiaries. On average, they were fairly large franchisors, with more than half of them having 100 units or more worldwide. About 3 out of every 4 respondents used dual distribution, i.e. both company-operated and franchised outlets. This is consistent with what can be found in other surveys (notably the yearly Entrepreneur Survey). In most cases where franchisors reported that their proportion of company-operated outlets had changed over time, this proportion had decreased steadily. Also, a comparison of franchisors' actual proportion of company-operated outlets with the proportion of such outlets that they would like to have revealed that most franchisors are generally satisfied with their current position in this respect. Thus there is no evidence of a trend towards more company operation in this sample of franchisors. The advantages of company-operated stores were i) that they can be used for research and development, planning and training and ii) that they Franchised outlets, on the other hand, 1) facilitate expansion and ii) are often better managed because of the franchisee's vested interest in the outlet. Consistent with this latter argument, the majority of respondents said that they monitor the actions of managers of company-owned outlets more than they do the actions of franchisees. Franchise contracts offered to potential franchisees at a given point in time are quite standardized. Most of the negotiations, if any are permitted, center on non-monetary clauses. Franchisors said that this uniformity exists in large part because it facilitates dealing with franchisees. Franchise fees and royalty rates specified in contracts offered to new franchisees are not often modified. Not surprisingly, franchise fees (in nominal dollars) are adjusted more often than royalty rates are. Franchisors require royalties calculated as a usually constant percentage of sales, although the number of respondents who said they use a sliding scale was larger than expected. Minimum royalty payments were used by about a third of the respondents. Royalties calculated as a proportion of sales were considered preferable to a fixed amount each week or month because the former allows both parties to share in the success (or failure) of the outlet. Also, this system gives incentives to the franchisor. Finally, franchisors indicated that the main advantage of franchisees over company managers of individual outlets is that the former are much more highly motivated and entrepreneurial. Overall, though, franchisors said that the main reason they became involved in franchising was that it allowed them to grow faster.

7. Examination of Franchise Failure Rates

Robert T. Justis, Louisiana State University

Gary J. Castrogiovanni, Louisiana State University

Peng Chan, California State University-Fullerton

8. Franchise vs. Non-Franchise Restaurant Attrition: Year-Two of a Yellow Pages Longitudinal Analysis

Wilke English, University of Texas-El Paso Jo Willems, University of Texas-El Paso

Proponents of franchising like to cite the higher rates of franchise outlets success as compared with independent establishments. Furthermore, proponents of franchising generally credit the standardized business format as the primary reason for that greater success.

It is the contention of the authors that other facts, particularly the greater initial investment of the franchisee, has more to do with their greater success than their association with the franchising format.

This paper reports on year-two of what must necessarily be a multi-year longitudinal study. In addition to collecting data on the initial investment of the year's set of 'first-time' restaurants, the paper also reports the findings after tracking the restaurants from last year to their first year. Although a solid 30% of the independent restaurants did cease operations within that first year, all of the information that was obtained from the failing restaurants indicates that they were extremely undercapitalized and extremely underpromoted.

9. Evaluating Franchise Performance: Some Empirical Insights

Steven Schultz, University of Nebraska-Lincoln Raymond Marquardt, University of Nebraska-Lincoln Michael Turner, University of Nebraska-Lincoln

There has been a great deal of interest in the performance of franchised businesses. However, the empirical research in this area has been very limited. One reason for the limited amount of research in this area has been the lack of available information. While multiple sources of information are reviewed in this paper, several problems associated with these information sources are identified. The objectives for this paper are to explore the financial performance of franchises in relation to their nonfranchised counterparts. In addition, the key aspects of the strategic decision process for franchise managers are identified with the Strategic Profit Model. This model analyzes three managerial decision areas influencing the rate of return on net worth. These decisions deal with margin management, asset management, and leverage. In the end, this paper makes a plea for more and improved information becoming available for future research. While some interesting insights are provided here, the results are limited by the amount and type of information available. If the "information age" is truly upon us, as numerous authors have suggested, then the current information sources that are available for this type of research will need to make some adjustments and/or improvements.

10. Franchising Opportunities in the Free Trade Zones of Developing Countries

Antonio Grimaldi, West Texas State University

International operations in developing nations have had a lower rate of increase in the past decade than they experienced in the 1970s. However, for those countries with free trade zones, the lower rate of increase is found for the country itself, but not for its free zones, which have enjoyed unusual success. The insulation of free trade zones from internal problems of the countries to which they belong have played a relevant role in attracting new businesses. For this reason, small franchise companies, like small businesses in general, whose international involvement is very limited, should look at the benefit of taking advantage of this new trend for their international expansion, and use the free zones of the world as regional centers for their operations inside developing nations.

11. Pizzas in Mexico? !Si!

Jo Willems, University of Texas-El Paso Wilke English, University of Texas-El Paso Victor Ito, University of Texas-El Paso

Peter Piper Pizza is one of the fastest growing pizza operations in the country with over 120 locations and an excess of \$80 million in sales. Located primarily in the Southwest, Peter Piper Pizza features a quality pizza at a substantially lower price than many competitors, served in a festive, kids-oriented atmosphere. Recently Peter Piper franchised its first international unit in Juárez, México (Juárez is located directly across the border from El Paso, Texas). The franchise was an immediate, overwhelming success. Within weeks the restaurant

was the highest volume outlet in the entire chain. What similarities/differences can be seen between the Juárez franchise and its cousins across the Rio Grande? Although infrastructure deficiencies and hassles with the delivery of operational supplies have created some difficulties, basically the operation is exactly the same on both sides of the border. Buoyed by the success of this first outlet, Peter Piper definitely has further Latin American expansion on its menu.

12. International Franchising of U.S. Firms: A Quasi-Longitudinal Analysis

Faye S. McIntyre, University of Mississippi

13. Using Marketing Research to Enhance Franchisee/Franchisor Relationships

Robert T. Justis, Louisiana State University Janeen E. Olsen, Louisiana State University Peng Chan, California State University

14. The Context of Entrepreneurship in Franchising

Cecilia M. Falbe, State University of New York-Albany Thomas C. Dandridge, State University of New York-Albany Ajith Kumar, Arizona State University

This paper is a first step at addressing the question of the place of entrepreneurial activities in franchising organizations. We examine the effect of firm characteristics including size, age, and growth on the perception by franchisees of an entrepreneurial strategy and a reward system for entrepreneurial activity. Large size is associated with a conservative strategy and a concern for stability. On the other hand, high growth is positively associated with an entrepreneurial strategy. Suggestions for developing a model of entrepreneurial activity in franchise systems are made. Implications for franchisors are discussed.

15. The Organization of the Franchise Relationship: The Roles of the Franchise Consultant

Jeffery L. Bradach, Harvard University

16. Enhancing the Effectiveness of Franchise Systems: Franchisee Goals and Franchisor Services

Ravi S. Achrol, George Washington University Michael J. Etzel, University of Notre Dame

17. Relationalism and Its Significance in Franchise Systems

Robert A. Robicheaux, University of Alabama

Jay U. Sterling, University of Alabama

Carl E. Ferguson, University of Alabama

18. Exploring the Relationship Between Autonomy and Dependence in Franchised Channels of Distribution

Rajiv P. Dant, Boston University

Lawrence H. Wortzel, Boston University

Mohan Subramaniam, Boston University

Even though dependence within channels is not conceived to be a unilateral phenomenon, interdependence is usually ignored as a tautological fact of channel context requiring little verification. Also, the opposite of dependence is seen as independence or autonomy, and not interdependence. Consequently, very little is known about managing channel interdependence - a gap especially regrettable at a time when channel

research seems focused on exploring the efficiency delivering properties of alternate governance forms. In the present study, we explicitly evaluate (1) the interrelationships between autonomy and dependence, and (2) the influence of competition, success and experience as determinants of the autonomy-dependence perceptions. Data from the franchised channel of fast food restaurants strongly support the premise of coexistence of autonomy independence.

19. Relationship Lawyering: A Model for Autonomous Franchising

Sandra M. Huszagh, University of Georgia Fredrick W. Huszagh, University of Georgia

20. Franchising: There is more to it than McDonald's

Wilke English, University of Texas-El Paso Jo Willems, University of Texas-El Paso

Do academicians over-estimate the importance of 'fast-food' franchise outlets in their research? The evidence indicates that they do. As a surrogate measure of all academic research on franchising, the Society of Franchising Proceedings were analyzed for all five years to see how many articles made mention of "fast-food", "hamburgers" and/or "McDonald's". Although franchise restaurants represent only 10% of total franchise sales, "fast-food" was mentioned in nearly 70% of the articles. Hamburger franchises, which account for slightly less than 5% of the Department of Commerce's sales volume, were mentioned in 44% of the articles. And McDonald's, with only 1.6% of total franchise sales volume, was specifically mentioned in almost 40% of the articles. Although this emphasis upon the fast-food franchise is perhaps understandable, effort needs to be made to include a greater variety of franchise types.

21. Marketing the Society to the IFA: First Iteration of an Annotated Bibliography of Practitioner-Relevant Franchising Literature

John F. Gaski, University of Notre Dame

22. The Future of Franchising in the USSR: A Statistical Analysis of the Opinions of Soviet University Students

Skip Swerdlow, University of Nevada Las Vegas Dianne H. Welsh, Eastern Washington University

23. Franchising in Australia: Prospects and Problems

Des Giugni, University of South Wales (AUSTRALIA) Andrew Terry, University of South Wales (AUSTRALIA)

24. Franchising as a Growth Strategy in the Japanese Retail Market

Nitin Sanghavi, Manchester Business School (UK)

1. Introduction.
2. Changing nature of the Japanese retail market.
3. The current state of franchising in Japan.
4. Opportunities for growth through franchising and the need to review them strategically from a cost/benefit point of view to avoid problems.
5. Key factors for successful franchise business in Japan.
6. Conclusions.

25. Franchising: Entry and Developmental Strategies in the Former Soviet Union

Ronald L. Christy, Wichita State University Sandra M. Haftel, Wichita State University

As international franchising continues to expand rapidly into a greater number of countries, more franchise companies are beginning to pay attention to the political, economic, social, and legal changes in the countries formerly known as the Soviet Union. With Russia populated by 290 million people, with Moscow recognized as the commercial hub, this large potential consumer market has been the specific focus of most franchise activities in the last five years. To date only the largest of food franchise companies, e.g., McDonald's and Pizza Hut, have embarked on ambitious expansion of their food restaurants into Moscow. As of this writing, dramatic changes are taking place almost daily in the former Soviet Union, and therefore strategies which are being employed require "long term vision" accommodated by "short term strategies." This paper was derived partially from data gathered from an on-going, qualitative, longitudinal study of the Pizza Hut venture in Moscow. The paper presents franchise entry and development strategies which have been employed by Pizza Hut in Moscow in order to move toward identifying operative variables for success. The researchers have been given the exclusive academic rights to analyze and prepare a longitudinal case study of the opening of the Pizza Hut restaurants in Moscow. Typically used strategies for international expansion of franchise systems will be presented, from both the perspective of the domestic (U.S.) franchisor and the perspective of the host foreign country. Specific environmental variables, including barriers to entry and franchise opportunities are discussed as they relate to potential franchise development specifically in Russia and more generally in those former republics of the Soviet Union. Traditional criteria used to evaluate potential foreign markets are then compared and contrasted with those evident in Russia. Finally, strategies are described for entry level franchising and future expansion of the system.