

ABSTRACT

AN ASSESSMENT OF REPORTED TRENDS AND SITUATIONS IN FRANCHISING

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INTRODUCTION

Since the 1950's, franchising has become a major force in business. The forecast for 1984 was that franchising would involve more than 460,000 establishments and account for more than \$450 billion in sales, nearly one-third of all retail sales, in fact (Franchising in the Economy 1982-84, 1984, p. 24). As a result of this growth as well as the consuming public's daily patronage of franchise establishments, its strategies, challenges, problems, failures, and successes have all been well chronicled by the business and general press.

In some--perhaps many--instances, conclusions formed or projections made about franchising have lacked supporting evidence. The outcome is that a number of misconceptions have been developed and have been disseminated about franchising. The purpose of this paper is to list the most common misconceptions and carefully assess them--not just logically, but by providing evidence on the subject to the extent that it is available.

ASSESSMENT OF MISCONCEPTIONS

A sampling of the misconceptions referenced in this paper are listed and briefly assessed in this section.

1. The business-format type of franchise dominates franchising.

Essentially, there are two basic types of franchises: (1) product and tradename and (2) business-format. Product and tradename franchises would be typified by automobile and truck dealers, gasoline service stations, and soft drink bottlers. Business-format franchises would be typified by fast-food restaurants, motels, automotive repair outlets, employment services, and many non-food retailers.

According to the latest statistics available (Franchising in the Economy 1982-84, 1984, p. 3), the number of business-format franchises grew from 190,000 in 1972 to 268,000 in 1982, a gain of 78,000, while the number of product and tradename franchises declined by about 85,000 during the same period. However, both types experienced rapid growth in sales volume during the 1972-82 period. Product and tradename volume grew from \$115 billion to \$277 billion, while business-format volume grew from \$29 billion to \$99 billion. It should be noted that the business-format type is gradually increasing its share of franchise sales volume, from 20% in 1972 to an estimated 27% in 1984. The appropriate conclusion is that, while the business-format type now dominates with

respect to number of franchise establishments, the more traditional product and tradename type still dominates with respect to sales volume.

2. A franchisee is an independent businessperson.

Because the franchisee owns his/her business, there is more independence than in a company-owned operation. First, the owner retains the year-end profits (or absorbs the loss); second, the owner probably has more decision-making autonomy than a company store manager has. Nevertheless, franchise operations are typically highly restricted/mandated by the franchisor. Product additions and deletions, promotional programs, site location, and building and fixture decisions are frequently spelled out by the franchisor.

Formal recognition of the control of the franchisor is the continuing royalty paid by the franchisee. Thus, while franchisees may own their building and fixtures, their relationship with the franchisor is best characterized as semi-independent.

Seven additional misconceptions are examined in the paper: 1) Franchising is largely concentrated in the fast-food area; 2) Franchising is no longer growing; 3) Franchising represents a viable small-business opportunity; 4) Franchising represents a viable business opportunity for members of racial minorities; 5) The ratio of company-owned units to franchised units in franchise systems continues to rapidly escalate; 6) Tied products are a frequent condition of a franchising agreement; 7) Franchising represents a very high/low risk business opportunity.

CONCLUSION

This identification and examination of these commonly discussed franchising trends and situations was intended to call out and dispel several misconceptions. In retrospect, a partial explanation for many of these misconceptions may be the relatively recent and rapid growth of franchising. Many of these misconceptions are lodged in the early characterizations of franchising and its opportunities; yet, they fail to reflect the reality of franchising today. Practitioners and academics alike must avoid accepting these commonly held misconceptions and instead recognize franchising as a growing, diverse, and complex method of doing business.

REFERENCE

Franchising in the Economy 1982-84 (1984). Washington, D.C.: U.S. Department of Commerce.