

ABSTRACT

SIX MAJOR WAYS IN WHICH FRANCHISING WILL CHANGE BY 1990

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BACKGROUND

In the past twenty years, franchising has grown to become a significant, mature, and well-accepted method by which an entrepreneur can either expand and control a network of businesses or can own and operate one or more units of a business organization. Despite its current magnitude, the course of franchising over the past twenty years has been quite volatile. After rapid growth in the early and mid-1960s, both a shake-out and government regulation ensued.

Given its current magnitude and past volatility, questions naturally arise as to the future of franchising. A survey was designed to forecast the future course of franchising.

METHODS

The population for the survey was senior-level executives (not franchisees) within U.S.-based franchise organizations. A total of 1,013 franchise organizations were included in the survey.

The data-collection method involved a "quasi-Delphi" technique. A total of 180 executives supplied usable first-round questionnaires. There were 157 usable responses in the second round of the survey.

FINDINGS

Some of the findings pointed to substantial growth in franchising, which is not surprising given franchising's recent history and the composition of the sample. Rather than detailing these growth predictions, the focus in this paper is on six diverse changes in franchising's future scope, structure, and operations that should occur by 1990:

1. Several product areas will become increasingly significant in terms of the proportion of that good or service sold through franchises and/or the proportion of total franchise revenues accounted for by that product. Mentioned most frequently were: 1) computer/electronics stores; 2) services industries (in general); 3) professional services (e.g., law, advertising); 4) health-related services; and 5) specialty fast foods.
2. New franchises will be drawn from somewhat different groups than present franchises were. Franchise executives foresee a marked jump in the proportion of franchises owned solely by women, with this proportion reaching 16% in 1990, and by racial minorities, with the proportion approaching 8% in 1990.
3. The structure of franchising will be different in two diverse respects. Specifically, the proportion of total franchise sales accounted for by the business-format type of franchise

(in contrast to the product and tradename type) is forecast to grow, reaching 32% of total sales in 1990. Furthermore, the concentration of total franchise sales is forecast to decrease by 1990. The executives expected a 4.5% annual decrease in the proportion of franchising companies that collectively account for 50% of total franchise sales.

4. Franchising will be more regulated in 1990. About 80% of the franchise executives pointed to more regulation (via legislation and/or government agencies) in 1990. Furthermore, the executives expect a sizable jump in the number of states with franchise-related laws.
5. Franchise offerings and operations will be more standardized in 1990. According to the executives, reasons for this trend include: standardization has been a key ingredient in numerous franchising successes, and government regulation, especially involving the FDA, is expected to increase.
6. Franchisor-franchisee relationships will be more characterized by formal organizations and procedures. The majority of respondents forecast that there will be more intraorganizational franchisee advisory councils, more independent franchisee associations (representing franchisees in either a single system or multiple systems), and that arbitration will be used to settle franchisor-franchisee disputes more often in 1990.

CONCLUSIONS AND RECOMMENDATIONS

The remainder of the 1980's might be characterized as the maturity stage of franchising's life cycle. The numbers of franchises and franchisees in product areas in which franchising has been used probably will continue to grow but at a much slower pace. Higher growth rates and greater risks are likely to characterize product areas in which franchising is comparatively new.

The most significant implications for franchisors are quite similar: If they are operating in an established area of franchising, they must be prepared to compete for a share of a "pie" that is no longer growing rapidly and they may want to look to new areas of franchising if they seek greater growth rates and potentially higher rates of return. If franchisors and franchisees are operating in a new area of franchising, they will have the opportunity to innovate and profit but also must prepare themselves for the shakeout that is likely to occur as the numbers of franchise offerings and units exceed the potential demand in the marketplace.