

# Franchising Research in a European Context

Helen Woodruffe-Burton, Lancaster University  
Eleanor Hamilton, Lancaster University  
Julia Doyle, Lancaster University

## Abstract

*Despite references to franchising's rapid growth as 'spectacular', an 'explosion' (Chan, 1994), there remains a notable lack of research into franchising in a European perspective. Studies of contemporary literature show a lack of franchising research generally (Hamilton and Watts, 1998), and little on international franchising issues (Elango and Fried, 1997), (Hoffman and Preble, 1995). This paper presents an overview of franchising in the existing literature, considers marketing issues relevant to European franchising from a critical perspective and poses key questions and directions for future research.*

## Introduction

The term 'franchising' is currently used to describe several forms of activity: 'Monopoly franchising' refers to the granting of exclusive rights - cable television for example - by a government authority via competitive bidding (Elango and Fried, 1997). In 'product' or 'tradename' franchising, franchisees are granted rights to distribute a manufacturer's product in a specified territory or location, for example petrol or soft drinks (Chan, 1994). The most recent development is 'business format' franchising, which involves 'the granting of rights by a company (the franchisor) for a third party (the franchisee) to operate their business system using a common brand and common format for promoting, managing and administering the business' (DTI March 1997). It is this type of 'business format' franchising which is the subject of most recent research in the field and such operations may be referred to as 'franchising systems' in line with the EFF's definition (1997):

*"Franchising is a system of marketing goods and/or services and/or technology, which is based upon a close and ongoing collaboration between legally and financially separate and independent undertakings, the Franchisor and its Franchisees, whereby the Franchisor grants its individual Franchisees the right,*

*and imposes the obligation, to conduct a business in accordance with the Franchisor's concept. The right entitles and compels the individual Franchisee, in exchange for a direct or indirect financial consideration, to use the Franchisor's trade name, and/or trade mark and/or service mark, know-how, business and technical methods, procedural system and other industrial and/or intellectual property rights, supported by continuing provision of commercial and technical assistance, within the framework and for the term of a written franchise agreement, concluded between parties for this purpose."*

(European Franchise Federation Survey, 1997, p.3)

The first part of this paper will examine the historical background of franchising. European issues are then highlighted, both from the recent EFF survey and from the extant literature. From this discussion an agenda for future research is developed.

## Franchising in a historical context

Many commentators make reference to the long, rich history of the development of franchising in its various guises (Hoffman and Preble 1991, Mendelsohn 1992, Price 1997) and its origins are often attributed to companies in the late nineteenth century, such as the Singer Sewing Machine Company and General Motors who utilised franchising in the U.S. (Walker and Etzel, 1973). As Bradley (1991) notes, it is frequently seen as a recent 'import' into Europe, particularly from the U.S. yet as he points out, the real pioneers of modern franchising were almost certainly the British brewers of the eighteenth century who created a system of tied house agreements with their publicans which remains widespread to this day (Stern and Stanworth, 1988).

There is no question that franchising is an important worldwide business phenomenon; moreover, it has become something of a cliché to talk about its growth, particularly that of business format franchising which: 'exploded into use in the USA in the 1950's and in the UK in the 80's..... a baby boomer in its own right' (Price, 1997). The extent and rate of growth of this phenomenon is contentious (Stanworth, Purdy and Price 1997). However, according to the British Franchise Association, in 1997 there were 541 franchisors in the UK, employing over a quarter of a million people, with a turnover of £6.4 billion; 20% of those franchisors were in retailing. In the US, it is estimated that there are over half a million franchise units with a turnover of \$750 billion, representing approximately one third of all US retail sales activity (Dant 1995). Dant also cites what he describes as reports of 'frenetic growth patterns', including the forecast that franchising will secure 50% of all retail sales by the turn of the century and the claim that franchising is to be the world's fastest growing method of doing business. (See also Hoy, 1993).

## Franchising in Europe

As mentioned in earlier sections, there is very little literature available on franchising generally and almost a complete lack of research on franchising issues in Europe. The European Federation Survey (from which key data will be summarised later in this section) claims to be the "first ever" survey of franchising in Europe. Academic studies which consider franchising in Europe tend to be conducted by US researchers investigating the internationalisation of US franchisors (e.g. Eroglu, 1992) or looking at the growth of franchising on a global scale (e.g. Preble, 1995). European issues have not been the focus of such research, although a number of studies have highlighted key aspects of franchising in Europe which deserve further attention. These will be picked up in the concluding section. It is noted (Welch, 1992) that European companies have taken locally franchised concepts into the international arena. Well known examples include the Body Shop, Tie Rack and Prontaprint from the UK, Yves Rocher from France and Benetton from Italy. Benetton's growth has been described as "*the most spectacular example of global growth from Europe*" although "*there is some argument about how, precisely, it fits the franchising category*" (Welch, 1992). Preble (1992) comments that the primary markets for franchisors from European

nations are other European nations, a fact also supported by the EFF survey. Eastern Europe is emerging as an attractive proposition for franchisors (Swartz, 1997) with Poland, Hungary, the Czech Republic all having attracted franchise operations.

The European Franchise Federation survey (1997) was based on data on each country represented by the federation; namely, Austria, Belgium, Denmark, France, Germany, Hungary, Italy, Netherlands, Portugal, Spain, Sweden and the United Kingdom. The survey identified 3,149 business format franchise systems operating in Europe, with 144,561 franchising units between them. The sector is estimated to have an aggregate annual turnover of ECU 75 billion (approximately £53 billion) and employ almost 1.3 million people full time and part time (p10). The main focus of the report was to identify the franchised networks which are in-bound to one of the reporting states from other European countries or elsewhere, and those which are outbound from those reporting states to other reporting states. The objective of this was to develop a comprehensive picture of cross-border activity of franchising in Europe and its source. A very brief summary of some of the figures reported in the survey findings is given here as an indicator of the extent and importance of this type of business activity.

According to the survey (p.10), in total franchising has helped to establish 150,000 independent small businesses across Europe, only 10,000 of those are in-bound from outside Europe. Of the 49 in-bound franchisors 43 are from the United States. 7% of all European Franchisees are members of U.S. systems. Germany has the lowest number of in-bound U.S. franchisors at 16, the U.K. has the highest at 38. Germany has the largest number of franchise systems (530), however, followed by UK (474) and then France (470). Denmark has the fewest (98). Denmark also has the highest percentage of in-bound franchise systems. France is the major exporter of franchise systems, with some large retail franchisors. Half of the 3,273 units which France has in other countries are accounted for by nine of its franchisors in retailing (Brian Smart director-general BFA and secretary-general of the EFF Franchise World July-August 1997).

The UK is second only to Germany in terms of having the largest number of franchise operations currently active. Uniquely among other countries

reporting in the 1997 EFF survey, it has an annual survey of franchising activity commissioned by the British Franchise Association and funded by a major bank, NatWest, which may, in itself, be regarded as a key indicator of the significance of this kind of business activity. The business format franchise sector was calculated to have a total annual turnover of £5.2 billion, an increase of 7% year on year. By its very nature, franchising attracts all scales of business activity, from large hotel operators to small, 'mobile' businesses. Therefore, typical franchisee turnover figures can be misleading. About 20% of franchisees' sales are up to £50,000 per annum, whilst at the other end of the scale, 5% claim turnover in excess of £1 million. The average annual turnover is calculated to be £264,000. Elements of franchising are evident in many industries within the UK, including car dealerships, petrol retailing, the license trade and the soft drinks market. Looking at the broader context of franchising (i.e., all forms, including business format franchising), annual sales were calculated to be worth £30.8 billion in businesses directly employing 227,000 people (EFF Survey, 1997. P.322).

## Franchising Research Issues

Scant though the literature on franchising might be, many research issues have been identified within the literature which does exist. As well as calls for greater attention to be directed towards franchising generally, there are several key areas which have been specifically highlighted by various writers in the field. These will be discussed in this section while the final section will draw themes from these together with the authors' own specific future research plans.

It has been noted that several existing studies deal with issues facing US franchisors entering international markets (e.g. Eroglu, 1992, Hoffman and Preble, 1995). Little research exists relating to the international activities of franchisors from elsewhere although Eroglu (1992) states *"the major implication of this study for future research is that there is a great need to study international franchising activities of non-US firms, as more and more countries are expanding the use of this business form."* Eroglu also identifies the following as being potentially helpful to firms considering international franchising: *"the motivations for international franchise expansion, factors important in country selection and guides for*

*adapting a standardised business format to meet local needs and tastes."*

Another key area seen as in urgent need of further study is the nature of conflict in the franchisor/franchisee relationship. As noted by Fulop and Forward (1997), considerable attention is devoted in channel management literature to the conflicts over power and control inherent in third party distribution channels and they identify three main areas where conflict is likely to arise: the legal independence of the franchisee limits the scope for issuing commands compared to that of a fully integrated system; friction can stem from the primary need of the franchisor to exercise close control over franchisees in order to achieve uniform standards, quality and a consistent public image; a serious source of conflict may arise if either party perceives that the other is not fulfilling their role competently (Fulop and Forward, 1997). Welch (1992) identifies the inevitability of strains increasing over time in the relationship between franchisees and franchisors as franchisee confidence in handling the operation grows, closer examination of the benefits received takes place and perceived dependence on the franchisor diminishes. As Welch states, the franchisor needs to pay considerable attention to the relationship management process, especially in the light of emerging evidence in the US that franchisees are increasingly prepared to use legal action in order to restrain activities by franchisors.

There are deeply contrasting views as to the balance of power in the franchise system, the potential for conflict and its outcome in terms of satisfaction within the franchisee network. Spinelli & Birley (1996) argue that a degree of conflict is inevitable, given the combination of the substantial element of hierarchical control in many franchise networks with the legal (and self-perceived) autonomy of the franchisee. They also identify franchisee dissatisfaction with franchisor service as being a significant source of conflict and highlight the paucity of research in this field. Hoy (1994), in discussing the 'dark side' of franchising, also alludes to the 'inevitable' sources of conflict in the franchisor-franchisee relationship, in this case arising from the entrepreneurial and incompatible aspirations of both parties for growth and autonomy. A more positive perspective is provided by Laurie (1996), who suggests that the adoption of multi-unit franchises on the part of franchisees changes the balance of power and therefore undermines the

logic of the 'dark side' argument, creating instead a greater mutuality of interests. Stanworth et al. (1997) reinforce this, emphasising that it is more realistic to conceive of the multi-unit franchisee as the norm, given available data. A different perspective of the development of conflict is inherent in the life-cycle perspective of Oxenfeldt and Kelly (1969) who conceptualise a gradual divergence of interests arising from franchisee learning and personal life-cycle, tending towards a preference for an independent business, and the accumulation of capital on the part of the franchisee.

A key criticism of the extant literature with regard to conflict and relationships within franchising is that studies have been over reliant on the use of large scale statistical surveys *"based on inappropriate data collection and sampling bias"* which has *"resulted in the neglect or omission of factors and relationships, often crucial in franchising decision making and a failure to take into account that franchising is more heterogeneous than might be first thought"* (Fulop and Forward, 1997). This view is supported by Elango and Fried (1997) who note that *"qualitative research is almost non-existent. Mail surveys using structured questionnaire data have been the main method used to collect primary data". They go on to say that "almost all research has been coarse grained, using limited information from a large sample. The actual operations of a franchising system have rarely been directly examined"* and suggest that such an approach often fails to capture the complexity and subtlety of actual business practice and can result in research with limited practical relevance. Fulop and Forward (1997) also highlight this problem and comment that *"the empirical investigations undertaken to validate the theoretical perspectives have often seemed to bear little relationship to franchising in practice"*. They also recognise the complexity and diversity of the franchise format which the empirical work highlights and propose that *"in order to capture more detailed insights into franchising more emphasis should be placed on interactive methods of data collection to enable the acquisition of qualitative data which would help to complement and redress some of the weaknesses of the large-scale statistical survey."* Elango and Fried (1997) echo this, saying that they feel it is important for some franchising research studies to use more fine-grained research methods like case studies, which can

capture details of context by studying the phenomena in depth.

## **Questions and Directions for Future Research**

The issues discussed in the preceding section highlight a number of key research areas for marketing academics, particularly from an international business perspective. The activities of successful European franchisors in overseas markets, especially in the US and increasingly elsewhere should be studied, not only to build our knowledge of franchising per se but also because there could be many lessons to be learned for international business expansion generally.

## **References**

Available upon request.