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Analysis of efficiency of own and franchised units in the Spanish franchise system☆

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A B S T R A C T

In this work, we try to answer a key question: what are the more efficient units in franchising: owned or franchised? The literature on this specific field is very limited. To compare the efficiency of owned and franchised units we use the following variables: average sales per unit, average sales per employee and the average number of employees per unit for owned and franchised establishments. The analyses are carried out using the population of franchise chains, a database with the 1232 franchise chains existing in Spain at the end of 2015 has been created for this purpose. The results show the higher efficiency of owned regarding franchised units.

1. Introduction

The Spanish system of franchise has carried on with its growth tendency according to the analysis of the data provided by the Spanish Association of Franchisors (AEF) through their reports and annual summaries. The growth of Spanish Franchise is remarkable, increasing the number of chains from 646 in 2001 to 1232 chains in 2015, which entails a growth of 90.7%. Moreover, the number of total units has shifted from 35,692 to 65,878 (which constitutes an increase of 84.57%), the number of owned units (OU) has increased from 7931 to 19,688 (which entails an increase of 148.24%), and the number of franchised units (FU) has changed from 27,761 to 46,190 (which means a growth of 66.38%), in the same period. The development of Franchise has suffered a deceleration and even has experimented a decrease in the franchised units in the period 2008–2013 due to the economic crisis. This decrease was provoked mainly by the downfall of some sectors (real estate franchises and financial franchises) that started to show signs of a clear recovery from the year 2014. Nevertheless, the owned units have never stopped growing during the economic crisis, which can indicate that franchise chains in this period have continued to grow through owned units or have transformed franchised units into owned ones.

The franchise system has been visualized as a dual or mixed system, regarding that the chains are integrated by owned and franchised units. The franchised units constituted the 77.78% of the total units in the Spanish system of franchise, whereas the owned units constituted the 22.22% of the total units, in the year 2001. The data from the year 2015 shows that the franchised units represent the 70.11% and the owned units constitute a percentage of 29.89% of the total units. Therefore, the evolution of Spanish franchise in the period 2001–2015 clearly points out the growth tendency of the percentage of the owned units, and a decrease in the ratio of the franchised units. From our view, these facts indicate the matureness of the Spanish system of franchise.

The majority of the literature and research works concerning owned and franchised units have been carried out from the franchisor perspective. In the context of the growth of a franchise chain, the objective was to acknowledge if a new-born unit would be owned or franchised, taking into account a group of strategical variables (size or number of units of the franchise, years in business, etc.) as well as some economic variables (first inversion, royalty, etc.) (Díez, Navarro, Rondán, & Rodríguez, 2008).

☆ A previous exploratory work analyzing data from 2012 was presented at the 25th International Conference AEDEM in Riga (2016).

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Nevertheless, the economic interest for both the franchisor and the potential franchisees is the main determinant in the selection of the new units. It is undeniable that franchise can be extremely useful for both franchisors and franchisees in order to compare the results of the owned and franchised units of a single chain or between different chains.

Despite, it is important to point out that key economic figures as profitability, sales, benefits, costs, and other indicators of the owned units and the franchised units are not available, and therefore they have not been used due to the impossibility of obtaining them. Considering that to access the economic indicators for the central business or the main franchisor business is already difficult, it is even more problematic to obtain these economic indicators for each of the owned and franchised units, making it impossible to compare owned and franchised units even if they belong to the same chain.

In this context, our aim is to study and compare owned and franchised units in the Spanish franchise system in order to ascertain which kind of unit is more efficient.

The European Research Magazine of Business Administration and Economics published the research paper "Franchised units versus owned units in the franchise system: An empiric research" (Díez et al., 2008). The abovementioned research paper uses data of franchises in 2005, and its results are not conclusive enough since some of the proposed hypotheses were not confirm. This research paper from 2008 has been referenced very often in other scientific papers, but newer research papers following this line of investigation have not been published to this date. Therefore, taking into account the relevance of the research topic, we consider it is needed to carry out further research in the line of the mentioned paper to clarify and improve the knowledge of the dichotomy between owned and franchised units.

Following this context our research is focused in the Spanish franchise system and has as its main objective to determine which of the two kinds of units (owned or franchised ones) turns out to be more efficient. With this purpose in mind, we use the following efficiency indicators: average sales per establishment, average sales per employee and additionally we analyze average number of employees per establishment. From each one of those indicators we obtain two variables, one for the owned units and another for the franchised units. All the analyses that will be conducted for each of the efficiency indicators will be carried out at a global level (the whole franchise population existing in Spain) as well as the distribution level strategy (single-channel: chains that only operate through franchised units; dual-channel: chains that operate with both franchised and owned units).

2. Theoretical framework

2.1. Owned units vs. franchised units

Nowadays, the franchise system has been described as a hybrid, dual, or mixed system (Rondán, Navarro, & Díez, 2007), because the franchisor uses owned units as well as franchised units to distribute their products or services, (Castrogiovanni, Combs, & Justis, 2006; Combs & Ketchen, 2003; Croonen, Grünhagen, & Wollan, 2016; Elango & Fried, 1997; Lafontaine & Slade, 1997; Nijmeier, Fabbricotti, & Huijsman, 2014; Srinivasan, 2006). The organizations that operate through franchise do not follow a plain strategy, while some of them opt to expand exclusively through franchised units (apart from the so-called pilot establishments), others adopt a mixed system using both owned and franchised units. Following this line, Dant, Kaufmann, and Paswan (1992) claim that the chains that operate with both types of units have the advantage of being able to analyze them and note if there are performance or result differences between the owned units and the franchised units. As well as examining the differences between the different franchised units. From a different perspective, Bradach and Eccles (1989) point out that franchise chains use a system with owned and franchised units not only because some establishments are more adequate for one or another kind of property, but also because the existence of one kind of unit has a positive impact on the management of the other kinds. This allows to maintain uniformity through the whole chain and a better adaptation to local markets.

The franchise dual consideration (referring to the use of owned and franchised units) has been mentioned permanently in the scientific research literature as well as the professional environment of franchise. Combs and Castrogiovanni (1994) claim that franchise research intends to explain why franchisors choose some of their units as owned ones and other units as franchised ones (Brickley & Dark, 1987; Carney & Gedajlovic, 1991; Martin, 1988; Norton, 1988a, 1988b).

More recent studies indicate that the effects of a high proportion of franchisees, together with active owned units, the exchange of knowledge and standardized instructions to operate are the key factors in franchises and these minimize the conflicts between franchisors and franchisees (Nijmeier et al., 2014). Besides, Croonen et al. (2016) claim that in the field of human resources management, the units that belong to only one franchisor and small owners with only a very few franchised units are more efficient in the employee management if we compare them with the units that belong to franchisors who own a great number of franchised units. It is also convenient to point out that some studies have demonstrated that the proportion of franchised units has a non-lineal influence (in the shape of an inverted U) over the results of the franchisor chains (El Akremi, Perrigot, & Piot-Lepetit, 2015).

2.2. Variables used in this research

Prior to formulate our research hypotheses, we do believe that to make precise explanations about some key terms in our research is convenient: two efficiency indicators, a resource input, and distribution strategy.

2.2.1. Indicators

The value of a business's efficiency indicator does not have a huge relevance when it is analyzed on its own. Nevertheless, this indicator gains relevance when compared to other enterprise's indicators. In this research, we do use two efficiency indicators to evaluate the units present in a franchise chain: average sales per employee, average sales per establishment.

In the commercial activity, the indicators which relate sales and employees with the available resources are the most used ones, specially, sales per unit and sales per employee. These indicators allow to make comparisons between different sections of the same establishment, between establishments of the same enterprise, and between establishments that belong to different companies.

The indicator average number of employees per unit is used as a resource input indicator, explaining differences between sales per unit and sales per employees.

Moreover, these indicators are really useful to analyze the evolution of the different commercial units throughout the years.

2.2.2. Chain's distribution strategy

Franchisors can choose to use two distribution strategies in their expansion: dual-channel system or single-channel system (only franchise). Franchise research takes as its starting point that franchise is a mixed system, which uses owned and franchised units jointly. From a theoretical point of view, franchise could be considered as a mixed system, since the existence of owned units is mandatory to test the know-how, to develop new products,