

INTERNATIONAL EXPANSION OF THE U.S.-BASED
FRANCHISORS: OPPORTUNITIES AND PROBLEMS

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Abstract

This paper describes a research in progress on the international business involvement of the U.S.-based franchising firms and the opportunities and problems associated with their international franchise operations. The preliminary findings of the research will be presented at the conference.

Introduction

One of the bright spots in the U.S. economy has been the franchising business. The U.S. Department of Commerce estimated that in 1985, there were 481,234 franchising establishments in the U.S. with a sales volume of \$529 billion. The industry provided 5.6 million people with employment. The sales volume has been growing at a compound annual rate of 10.50 percent since 1972. According to the U.S. Department of Commerce survey, retail sales of all firms associated with franchising will constitute 33 percent of estimated total retail sales in 1985. It appears, however, that the franchising market has reached a mature stage with regard to the number of franchising outlets, growing only at a compound annual rate of 0.49 percent during the years 1972-1985. This slow growth is partly due to business failures but it mostly suggests that the market has been well covered. Therefore, the 10 percent compound growth in sales was accomplished not through a greater market coverage and penetration but rather through an increase in the sales volume of already existing outlets. Furthermore, part of the increase in sales volume is attributable to inflation. The question that arises, therefore, is whether or not will the franchising business be able to sustain the present growth rate in the domestic market? At the individual firm level, the increasing sales may mean greater marketing costs due to more intense competition.

As an alternative growth strategy, a firm can contemplate an expansion into international markets. In fact, the existing evidence suggest that the companies who have already ventured into international markets have been growing faster in these markets. The number of U.S.-based franchisors with foreign operations increased from 156 in 1971 to 305 in 1983. The number of outlets associated with the overseas operations of these firms grew at a compound annual rate of 18.5 percent during the years 1971-1983 compared to 0.19 percent growth rate for domestic franchising for the same period. However, the figures indicate that this growth rate has been slowing down. For example, the growth for the 1971-1975 period was 34 percent, and the growth rates for the periods 1975-1980 and 1980-1983 were 13 and 8 percent respectively. Considering the fact that the overseas markets have not yet reached the saturation stage, this slow down may be due to other factors. In addition, there are a host of other operational

issues that deserve further investigation.

A greater interest and involvement on the part of the U.S.-based franchisors in international markets would benefit not only this industry but also the nation as a whole. First, franchising does not export jobs. Individual overseas franchisees of the U.S. firms pose no threat to the U.S. employment. Second, franchising abroad does not require outflow of funds from the U.S. in the same degree as the manufacturing because the bulk of the financing is provided by the foreign franchisee. Third, the changes in exchange rates have very little impact on the overseas market share of the U.S. franchisors because export-import content of their business is negligible. Fourth, as explained above, the domestic market expansion may be reaching a maturity stage.

Research in Progress

This research deals with the internationalization of the U.S.-based franchisors. Two sets of mail questionnaires have been prepared, one for the franchisors with international involvement, and another for the franchisors who have no foreign market involvement. The questionnaires have gone through several revisions and have already been tested with a select number of franchisors, the U.S. Department of Commerce, and the International Franchise Association.

The sample for this study includes over one thousand franchisors. The questionnaires have been designed to gather information from the sample firms on the issues associated with international expansion. Some of these issues include the following:

- Market potential analysis: How do the firms go about evaluating markets? What are the country prerequisites for a given form of franchising?
- Expansion path: Do franchisors follow a certain path in expanding abroad?
- Motives for going abroad?
- Organizational approach and its impact.
- Standardization vs. adaptation; market induced or government imposed factors.
- Franchisor - franchisee interaction. The role of culture, infrastructure, legal-political system, etc.
- Sources and nature of competition (i.e., host country franchisors, third-country franchisors).
- Sources of future expansion.
- Perceptual - attitudinal issues: reasons for not going international.