What prospective franchisees are seeking

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Presented at the 22nd Annual  
International Society of Franchising Conference  
Palais du Grand Large  
Saint-Malo, France  
June 20-21, 2008
What prospective franchisees are seeking

A survey of prospective franchisees

Abstract
A shortage of suitable franchisee applicants has been identified by franchisors as a major hindrance to franchise sector growth in Australia. However, there has been little investigation into this issue within organisational choice research. This represents an important gap in the literature. In order to explore the issue of franchisee shortage it was first necessary to determine what prospective franchisees are seeking from franchisors.

A survey of 81 visitors to the Franchising 2006 Business Opportunities Exposition was conducted in Brisbane, Australia. The exposition catered for potential independent business operators and potential franchisees, with 17 of the survey participants seeking independent business opportunities and 64 expressing an interest in franchising opportunities.

Prospective franchisees considered a return on investment, provision of training and being their own boss as being the most important attributes that franchisors could provide. These findings also indicate that attendees saw trade shows as an important means of gathering franchising information. Further, respondent’s attributes generally aligned with what franchisors believed they supplied, and while possessing entrepreneurial tendencies, they desired ongoing support from franchisors.

The findings show a majority of attendees had management, previous business experience or were self-employed, and were seeking new business opportunities. Therefore, this pool of individuals could become an important additional area for franchisee recruitment.

Keywords: Self employment, prospective franchisees, business opportunities.
What prospective franchisees are seeking

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Introduction

The social and economic contribution of franchising to many western economies has been widely reported (Alon, 2004). Franchising is a business model in which a franchisee is granted the right to engage in offering, selling, or distributing goods or services under a marketing system which has been designed by the franchisor (Justis and Judd, 2004). The franchisor permits the franchisee to use the franchisor’s tradename and advertising (Mendelsohn, 2004). The Australian franchising sector has achieved consistent growth since the 1980s and franchising activity currently contributes 12 percent of the country’s GDP (IBIS, 2006). However, in a recent national survey of franchisors it was found that franchising systems may be unable to expand at the rate they desire due to difficulties in obtaining franchisee finance and a shortage of suitable franchisee applicants (Frazer et al., 2006).

There are currently 56,200 business format franchised units operating in Australia (Frazer et al., 2006), accounting for less than 5 percent of all small businesses in Australia (ABS, 2006). While this appears to suggest that franchising has the potential to expand, prior research has shown that the availability of suitable franchisee candidates may constrain system growth and sector expansion. Previous research shows that the shortage of suitable franchisees is not a recent phenomenon (Knight, 1986b; McGuire, 1971), and may be reliant upon how franchisors classify attributes that are desirable in potential incumbent franchisees (Frazer and McCosker, 1999; Hedricks and Kiefer, 2005; Michael, 2000). However, there appears to be a gap in our current knowledge of how these impediments to franchise growth may be overcome. On this basis, a thorough enquiry into possible solutions to the problem associated with a shortage of suitable franchisees, and explanation of what potential franchisees are seeking from franchisors, is warranted. Hence, we pose the following research question.

What are prospective franchisees seeking from franchisors?

Literature review

Several theories have been used to explain the incidence of franchising, the two most compelling being capital constraint and agency theory. Capital constraint (resource
scarcity) occurs where there is a scarcity in capital resources, management talent or local market knowledge (Combs and Castrogiovanni, 1994). The theory is normally applied to young organisations that do not have sufficient capital or managerial talent to grow (Norton, 1998). Franchising is said to provide these organisations with the resources needed to accelerate growth to assist in reaching a minimum efficient scale of operation, build brand name and capital reserves (Caves and Murphy, 1976; Martin, 1998; Oxenfeldt and Kelly, 1968-69). However, Rubin (1978) discounts the validity of the capital constraint explanation citing financial portfolio theory. In particular, franchising is said to be an inefficient means of raising capital, as risk in one outlet is entirely undiversified. Indeed, many franchisors offer their franchisees finance (Frazer and Weaven, 2004), suggesting that they do not rely entirely on franchisee capital to expand.

Capital constraint theory suggests that as franchisors grow, they will repurchase franchised units, because they will have fewer capital constraints (Combs and Castrogiovanni, 1994). Until recently this did not appear to be the case in Australia, but recent data on the sector indicates a growth in company unit ownership, possibly providing support for this ownership redirection hypothesis (Frazer et al., 2006). Regardless of any capital constraints, a franchising system will always be subject to agency issues (Combs et al., 2004).

Agency theory is an attempt to define a relationship where one party (the principal/franchisor) delegates work to another (the agent/franchisee), who performs the work (Jensen and Meckling, 1976). Agency relationships pose two problems. The first is the issue of information asymmetry (hidden information) where the principal is not cognisant of whether a prospective franchisee has the desired characteristics that the principal is seeking (Axelrad and Rudnick, 1987; Spake et al., 1999). The second issue is moral hazard (hidden action) and occurs post contractually when a franchisee fails to perform at the expected level (Brickley et al., 1991; Eisenhardt, 1989b; Mathewson and Winter, 1985; Rubin, 1978; Thomas et al., 1990). Franchisors attempt to overcome these two problems by implementing incentive-based contracts (Lafontaine and Slade, 1998).

In considering efficiency incentives, it is important to note that most agency models define efficiency from the principal’s point of view (Bergen et al., 1992). In franchising, they relate to the incentive that a franchisee has, to maximise the value of
his/her franchise, which in turn increases the value of the whole system to the franchisor’s benefit. The two main incentives are proportion of risk and the ability of the franchisee to claim residual profits (Fama and Jensen, 1983). In agency theory, the assumptions are that agents are motivated by self-interest, are rational actors, and are averse to taking risks (Eisenhardt, 1989b). Therefore, principals can motivate agents through controlling their incentives (Gomez-Mejia and Balkin, 1992). The franchisor is not as concerned with risk, as risk is spread over the entire franchise network. Proportionally, a franchisee takes a far greater risk because most, if not all, of his/her capital is tied up in the franchise, so there is a major incentive to protect and enhance the investment (Demski and Feltham, 1978; Harris and Raviv, 1978; MacCrimmon and Wehrung, 1986).

By being able to claim residual profits, which in a non-franchised organisation would return to the principal, the franchisee (agent) is motivated to maximise both profits and the present value of the franchise (Combs and Castrogiovanni, 1994). As effective management is the only way of recovering their investment (with an acceptable long run return) (Alchian and Demsetz, 1972; Carney and Gedajlovic, 1991; Norton, 1998), the franchisor can spend less effort in monitoring the management of the franchisee and more on improving their relationship.

From the franchisor’s perspective, capital constraint and agency theory help to explain why franchisors undertake franchising, and efficiency incentives suggest why franchisees are motivated to maximise their efforts. However, from the franchisee’s perspective the literature shows that franchising offers franchisees the advantage of belonging to a large chain, while at the same time being an independent business person (Hunt, 1997). Training, assistance, independence, an established brand image, national promotion, and reduced risk were also thought to be important (Mendelsohn, 2004). Additionally, several benefits of franchising have been identified and include lower development costs, established name, lower operating costs, less involvement, greater independence, better investment and training (Izreali, 1972; Weaven and Frazer, 2006).

Furthermore, prior research asked individuals why they joined a franchising system as a franchisee, and it was found that although franchisees wanted to run their businesses independently, they believed that the availability of intra-system support, a proven concept, brand name and reduced risks of failure made franchising more attractive than fully independent business operations (Baron and Schmidt, 1991). Similarly, another
survey of franchisees found that the benefit of a known trade name, the higher independence and job satisfaction enjoyed, as well as easier business development were the primary reasons to be a franchisee (Knight, 1986a). Franchisees often choose the franchise option in order to become their own boss, and to run a business making their own decisions while profiting from a proven business concept (Elango and fried, 1997; Peterson and Dant, 1990). However, limited academic attention has been given to what potential franchisees consider are important attributes franchisors should possess and/or provide (Purdy and Stanworth, 1994). Therefore, it was necessary to investigate what prospective franchisees are seeking from franchisors.

Methodology

A face-to-face survey was deemed to be the most appropriate method of maximising data collection over a short period of time. Hence, a survey was conducted over four days during the Franchising 2006 Business Opportunities Exposition, held in Brisbane, Australia. The exposition organiser provided the researcher a centrally located stand amongst 132 exhibitors, necessitating an intercept interviewing technique of the 81 respondents, and resulting in participants passing the researcher at varying times in their progression around the exposition. A personally administered survey was chosen due to the limited time available for conducting interviews. Consistent with expert recommendation, survey design, data recording and transcription followed guidelines provided in the survey methods literature (Malhotra et al., 2004; Neuman, 2006; Zikmund, 2003). The interviewers recorded the data on each respondent’s individual questionnaire as they answered the questions. This allowed for clarification of any answers provided and also gave the opportunity to answer any queries that respondents had regarding a particular question. Additionally, each question was asked of each respondent in an identical manner so as to ensure consistency and minimise interviewer bias and collection errors. Respondents took an average of 10 minutes to complete the survey (Foddy, 1993; Zikmund, 2003). One response was incomplete and therefore excluded from the data analysis.

Some 75 percent of respondents were male and their ages ranged from 18 to over 60 years old, with 61 percent in the 30 to 50 age bracket. Their reasons for attending included an interest in a specific business opportunity, curiosity and planning for the future. Furthermore, 17 participants expressed no interest in franchising so they were excluded in the franchise-specific section of the survey. The survey responses were
anonymous so as to encourage open disclosure. The questionnaire was divided into three sections consisting of general information, franchising specific questions and demographic details as follows.

**General information section.** This section comprised five multiple choice questions and was designed to gain knowledge from respondents about their major sources of franchising information, reasons for attending the exposition, whether they had a specific business opportunity in mind, the type of industry they would like to work in and whether they were interested in franchising or another business opportunity.

**Franchising specific section.** Thirty questions were asked in this section using a seven point Likert scale, ranging from ‘strongly agree’ to ‘strongly disagree’. It was believed that this technique would maximise relevant data capture, because participants’ responses would be used to gain a better understanding of the strength of their feelings and opinions (Carson et al., 2001; Morse, 1991). The questions were grouped into eight constructs consolidating them into systematically organised ideas for correlation with the dependent variable ‘interest in franchising’ (Neuman, 2006). They investigated the attributes that respondents believed franchise systems should possess, and included items relating to growth opportunities, security issues in franchise systems, lifestyle balance and independence, expectations of return on investment, provision of training, support in running a business and the importance of the history and performance of a franchise system.

**Demographic section.** These questions were designed to provide a profile of respondents by eliciting details including preferred methods of financing, the quantum of investment that respondents were prepared to invest, whether the respondent had previous business experience, current occupation, educational level achieved, gender, current income range, marital status, and involvement of life partner and children in the business.

Next, the data analysis was conducted. Error checking or data cleaning followed data entry and was undertaken to ensure that all codes were legitimate (Malhotra et al., 2004; Neuman, 2006; Zikmund, 2003). Data were analysed using descriptive analysis in sections (A) general information and (C) demographic details. Correlation analysis was performed in section (B), franchising specific questions. The results for each section of the survey are reported and discussed below.
Findings
The characteristics of the participants are summarised in table 1.

<table>
<thead>
<tr>
<th>Table 1</th>
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<tbody>
<tr>
<td>Participant Characteristics (n=80)</td>
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<table>
<thead>
<tr>
<th>Gender</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>74%</td>
</tr>
<tr>
<td>Female</td>
<td>26%</td>
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<tr>
<td>Total</td>
<td>100%</td>
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<table>
<thead>
<tr>
<th>Age</th>
<th>Percent</th>
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<tbody>
<tr>
<td>18 -30 years</td>
<td>19%</td>
</tr>
<tr>
<td>31-40 years</td>
<td>30%</td>
</tr>
<tr>
<td>41 -50 years</td>
<td>31%</td>
</tr>
<tr>
<td>51 -60 years</td>
<td>15%</td>
</tr>
<tr>
<td>Over 60 years</td>
<td>5%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
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<table>
<thead>
<tr>
<th>Marital status</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married</td>
<td>67%</td>
</tr>
<tr>
<td>Single</td>
<td>19%</td>
</tr>
<tr>
<td>Defacto</td>
<td>11%</td>
</tr>
<tr>
<td>Separated/divorced</td>
<td>3%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
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<table>
<thead>
<tr>
<th>Previous business ownership</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>50%</td>
</tr>
<tr>
<td>No</td>
<td>50%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
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</table>

<table>
<thead>
<tr>
<th>Previous business model</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Franchising</td>
<td>7%</td>
</tr>
<tr>
<td>Independent</td>
<td>93%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
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<table>
<thead>
<tr>
<th>Educational level achieved</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary school</td>
<td>10%</td>
</tr>
<tr>
<td>Secondary school</td>
<td>21%</td>
</tr>
<tr>
<td>Trade</td>
<td>25%</td>
</tr>
<tr>
<td>University</td>
<td>44%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
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General information

The questions in this section were designed to elicit details from respondents regarding where they had heard about franchising, reasons for attending the exposition, whether they had seen a business opportunity that was of specific interest to them and whether they had a preference for franchising or independent business ownership. The results show major sources from which respondents gained their information about franchising were newspapers and television. In particular the television program ‘Inside Franchising’ shown on Sunday mornings during 2006 was a popular source of information. Networking via personal contact with current franchisees, as well as friends and relatives, also emerged as important sources of information.

A majority of respondents (55 percent) were planning for their future and taking the opportunity to assess what business alternative would be suitable for them. A further 25 percent were curious about potential business opportunities, and the remaining 20 percent already came to the expo with a specific business opportunity in mind. Further, some 50 percent of respondents had viewed a specific business opportunity at the exhibition, while the balance were either not seeking a specific business opportunity or were unsure of potential options. However, these figures may have been influenced by whether the respondents visited the researcher’s stand early or late in their progression through the exposition. Respondents expressed an interest in a range of industries including: food retail, personal services, health and community services, transport, clothing, construction, finance and insurance, property, and education. Most interest centred upon the food industry (34 percent) and personal services (26 percent). Apart from health and community services (9 percent), the balance of industries shared approximately equal interest by remaining respondents. Finally, some 52 percent of respondents were interested in franchising as a business model, while 25 percent were unsure. The remaining 23 percent of respondents preferred other business opportunities to franchising.

Franchising specific issues

As 17 of the 80 respondents expressed no interested in franchising, they were excluded from this section of the survey. The majority of respondents agreed that an opportunity for business growth was an important consideration in their choice of a franchise system. Fully 97 percent believed that future growth in their own franchise unit was most important to them, and 90 percent of respondents agreed that being able to set their own growth targets was important. However, when asked about the importance of
growth regarding the franchise system as a whole, this was not seen as being as important as individual growth. Multiple-unit ownership was seen as being the least important method of growth, although 70 percent of respondents expressed a desire to become a multiple-unit owner.

Some 91 percent of respondents believed that the success of the franchise system (as a whole) was the most important security issue to them. This possibly indicates, that while respondents placed greater value on the growth of their own units, they realised their own success ultimately depended on franchise system expansion. Some 67 percent disagreed that recent changes in Australian industrial law (due to the introduction of Australian workplace agreements) was an influence in their decision to examine a franchising opportunity. Seventy five percent of respondents agreed that previous experience in the industry in which the franchise operated was important. Furthermore, 80 percent believed that a franchise system should provide job security, possibly suggesting some ambivalence on the part of participants, in so much as their current job was not a cause of insecurity but they were seeking “job” security from a franchisor.

Respondents identified that spending more time with their family was the most important lifestyle concern. Some 73 percent of respondents agreed that a franchise system that enabled them to spend more time with their families was important. The opportunity to work from home was supported by only half the respondents, and three quarters agreed that working at what they wanted to do was important to them.

Earning money and generating a long-term income, were perceived by respondents as the most important aspects of achieving a return on their business investment. All of the responses in this series of questions were significantly positive, particularly when responding to ‘how important is earning a lot of money’, in which 98 percent of respondents strongly agreed. This suggests that while potential franchisees would like to work in a franchise where they enjoyed doing the work, making money was considerably more important (98 as opposed to 73 percent). Fully 91 percent of participants responded positively to ‘how important is being on a winner to you’, possibly indicating that while they saw the franchising model of business in a favourable light, they also felt it was very important to choose a franchise system in its growth stage. The majority (97%) of respondents also believed their long term earnings were important. Similarly, when asked ‘is earning a desirable income from the beginning important to you?’, 86 percent responded positively. This may indicate that
these respondents should purchase a ‘turnkey’ franchise unit, rather than having to build a business from scratch, as they would if starting an independent business. A turnkey operation is a form of replication strategy in which firms create a template and sell this complete system to franchisees (Alexandrides and Bowers, 2005; Winter and Szulanski, 2001).

Initial training was viewed by participants as being marginally more important than ongoing training, with most respondents agreeing that formal training is important and should be a prerequisite service provided by franchisors (Justis and Judd, 2003). Their responses suggest that potential franchisees are likely to evaluate franchise systems for the quality and continuity of their training programs (Kaufmann, 1999; Mendelsohn, 2004).

The majority of respondents rated issues concerning independence and work-life balance as important. It was clear that respondents had a strong belief that they should be doing what they desire, as opposed to viewing a business model as a lifestyle issue. Most respondents also agreed that running their own business was important, suggesting that potential franchisees may possess some entrepreneurial traits (Kaufmann and Dant, 1999; Sorenson and Sorenson, 2001). When asked ‘is fitting work around family life important to you?’, 96 percent agreed as against the same question in Favourable life style balance, where 71 percent agreed. This may indicate a perception that if you were your own boss, you would have greater control over the hours that you worked. Finally, 87 percent conceded that not having to answer to a boss was important, suggesting a strong desire to be ‘masters of their own destiny’.

A strong majority of respondents believed that support in running their business was important. The types of support most valued included ongoing assistance from the franchisor with back office functions (76 percent), assistance with local marketing (83 percent) and the provision for training new staff by the franchisor (76 percent). These responses suggest that with the growth of part-time employment, particularly in both retail and services sectors, and where labour demand rather than supply has been the driving factor in employment (Tilly, 1991), the option of having staff trained by the franchisor was seen as being very important. However, respondents were not asked if they would be prepared to pay for this training, which may have influenced their responses. Finally, the most important element in support was identified as gaining prompt advice from franchisors when unexpected events occur, with 91 percent of respondents agreeing that this was important to them. This suggests that they may be
relying on the franchisor’s operational experience to guide and assist with critical business decisions.

A franchise system that has been successful was deemed to be important by more than three quarters of respondents, indicating that potential franchisees recognise that system success is indicative of future operational success. Additionally, participants appeared to understand the importance of continued growth, taking it as evidence that the system is in the growth/expansion phase of its life cycle (Zikmund and D' Amico, 2002). Respondents also appreciated the benefit of being identified with a known brand name, because it sticks in customers’ minds (Keller et al., 1998). Finally, most interviewees recognised the value of the franchisor’s reputation. This response could be attributed to two reasons: a desire to protect their investment by dealing with a reputable organisation and a recognition that consumer expectations needed to be positive (Yoon et al., 1993).

Statistical analysis showed a strong correlation between all eight constructs, ranging from a low of .932 up to a high of .972. This result indicates a strong positive correlation between all the constructs (independent variables) and an ‘interest in franchising’ (the dependent variable). The results confirm that the most important attributes that potential franchisees are seeking from franchisors are a return on investment at (.972), the opportunity of being their own boss at (.969) and training at (.968).

Demographic details

Given that access to suitable finance is a major prerequisite for potential franchisees (Forward and Fulop, 1993; Oxenfeldt and Kelly, 1968-69), it was believed to be important to investigate the methods which prospective franchisees intended to use in financing the purchase of a franchise unit. Some 62 percent responded that they would seek finance from a lending institution, suggesting that they had some previous experience and confidence in their ability to borrow the necessary capital in this manner. A further 33 percent of respondents stated that they would self-finance any purchase of a franchise unit, with only 5 percent seeking assistance from the franchisor. These results should be encouraging to franchisors in their recruitment processes, as the majority showed an ability and intention to meet this important requirement in recruitment.
Expected investment by respondents ranged from less than AUD$30,000 to more than AUD$300,000. A range of industries of interest was identified. The results suggest that the primary factor in determining choice of franchise system is the amount of capital that prospective franchisees can or are prepared to invest in a franchise unit. Figure 1 shows nominated investment ranges.

Approximately half the respondents indicated they had previous business ownership. Notably, only 7 percent of those who had previously owned a business reported that they had experience in franchising, while a significant majority (93 percent) reported experience as independent business owners. These results suggest that there is potential for franchisors to recruit new franchisees from individuals who currently or have in the past, operated as independents (Kaufmann and Stanworth, 1995). The majority (60 percent) who had previously owned a business had experience in either retail trade or personal services, while the balance of experience (in descending order) was spread over industries including construction, manufacturing, transport and storage, agriculture, forestry and fishing, finance and insurance, wholesale trade and mining. Even allowing for curiosity seekers, the respondents who had previous business experience were expressing some dissatisfaction with independent business by their attendance at the exposition, thus opening up additional recruiting opportunities for franchisors, from areas that they may not have previously considered.

Half of the respondents were employed within managerial or professional roles (50 percent), while one quarter were currently self-employed. The balances were working in
the following areas: technical and trade services, clerical and administrative, sales, blue collar work, or were currently unemployed or studying. This data indicates that qualified individuals with management and/or entrepreneurial experience appear to constitute a significant target grouping for possible franchisee recruitment. Additionally, these majority groups of managers and self-employed have at least one of the attributes required to overcome the problem of resource constraint, namely managerial experience. Further, individuals from a business background are highly sought after by franchisors because they possess procedural knowledge (Anderson, 1996). Procedural knowledge is the knowledge exercised in the performance of some task. For example, baking a loaf of bread or finalising company accounts requires knowledge of the steps and procedures needed to complete these tasks.

Fully 90 percent of respondents had achieved an education of Senior High school or above and just under half of the respondents had a tertiary qualification. In addition, gender has been proposed as one of the areas in which franchisors could modify their recruitment practices by specifically targeting women, with research showing women as a largely untapped pool of entrepreneurial talent (Shaw et al., 2001). Female respondents to this survey totalled 26 percent, which is over double the percentage of female participation (as individuals rather than in a copreneurial relationship) in franchising as shown in previous research (Frazer et al., 2006). This finding suggests, among other possibilities, that either the interest of females in franchising is increasing or that conversion rates are failing to match original interest.

The age categories of 31 – 40 and 41 - 50 years totalled to equal 61 percent of the respondents, which is consistent with previous Australian research (Frazer et al., 2006), possibly reflecting that these combined age groups are most likely to have both access to requisite capital, as well as the desire or need to start a new business.

The income ranges of respondents are displayed in figure 2. The wide spread of incomes indicates that there is a pool of potential franchisees with the earning capacity to enable them to purchase franchise units ranging from inexpensive mobile or home-based units to more expensive fixed-site units.
Some 67 percent of respondents were married, 19 percent were single, 11.4 percent were in a defacto relationship, and the remaining 2.5 percent separated/divorced.

Nearly two thirds of respondents stated that their life partner would be involved in the business, which is in line with previous Australian research (Frazer and Weaven, 2004). Furthermore, 55 percent of the respondents had children. However, 64 percent stated that their children would not be involved in business operations, while only 36 percent believed that their children would be involved now or in the future. This suggests that a high proportion of respondents had not considered succession planning in relation to their children, and that their involvement in business was viewed more as an investment than an ongoing family business enterprise.

Conclusions

Respondents attended the exposition out of curiosity or as a method of planning for their futures. These findings indicate that potential franchisees frequent trade shows as a method of gathering information about possible franchising opportunities. This supported the conclusions by franchisors in previous research (Bennett et al., 2006), where it was found that franchisors had received mixed results from attending trade shows, but felt they had to attend regardless, because of the benefits associated with brand exposure. Further, a wide range of franchise systems was on display (n=132), and these catered for the expressed interests of attendees. Around half of the attendees had seen a business opportunity that interested them, suggesting that attendance at the exposition was beneficial to both franchisors and franchisees. Additionally, whilst most respondents stated that they were interested in franchising, a minority also indicated that they were unsure, suggesting that there is some scope for franchisee recruitment by
those franchisors exhibiting at trade shows. Nevertheless, the majority of visitors were interested in low cost franchise opportunities (see figure 1).

Respondents were primarily seeking a return on their investment, the provision of training and entering a franchise to ‘be their own boss’, and to a lesser extent wanted to exercise their entrepreneurial ambitions by becoming a multiple-unit owner. Potential franchisees deemed it essential that franchise systems be able to produce continuous growth, for them to be considered a good investment. Alternatively, and contrary to previous research, the pool of redundant individuals has reduced and current job insecurity was not evident as a causative factor in potential franchisees seeking franchising opportunities (Weaven and Frazer, 2005). This issue is possibly due to Australia’s economic performance and in particular the condition of near full-employment over the past several years. Furthermore, contrary to previous research where franchisors gave only nominal support to the notion that lifestyle issues were important to franchisees (Bennett et al., 2006), the result in this research indicates that while lifestyle issues were less important they were still positively correlated to an interest in franchising. This finding may present a problem with franchisee performance should these expectations not be accurately explored prior to franchisee recruitment.

The expressed desire of respondents to be ‘on a winner’ and earn a good income from the start, show that while not explicitly stating or even being aware of the dynamics involved, potential franchisees are seeking a franchise system that has progressed from its introduction stage, achieved brand recognition, developed a good reputation and is within the growth phase of it product/service life cycle (Zikmund and D’Amico, 2002). These criteria reflect the qualities that a successfully established franchise system may enjoy, but not those of a new unknown system. Further, it is unlikely that a new franchisee will be able to generate a good income from the start. Prior Australian franchising research has shown that franchisees should retain six to twelve months of working capital when purchasing a franchise unit (Frazer et al., 2006). This suggests that earnings may not be sufficient at the commencement of business and that earning a good income from the start may be an unrealistic expectation (Frazer et al., 2006) which may impact upon franchisor/franchisee goal alignment (Jambulingham and Nevin, 1999) and franchise system success.

Results consistent with previous research overseas (Peterson and Dant, 1990) revealed that some participants may possess entrepreneurial tendencies with their expressed
desires of wanting to work at what they liked, running their own business and not having to answer to a boss. However, for those respondents who were interested in franchising, these desires were tempered with the recognition that they needed security in the form of ongoing support from their franchisor in running their businesses (Frazer et al., 2006; Mendelsohn, 2004). Further, a participant’s choice of franchise system was predicated upon their ability to fund the initial franchise purchase. For example, individuals with limited funds recognised the constraints placed on the type of franchises that they could purchase and expressed interest in low entry cost franchises.

Previous business experience by half of the respondents, as managers, professionals and self-employed people (in a variety of industries) indicated that one of the three elements of capital constraint in franchising theory (that is, managerial talent) may possibly be met by these potential franchisees (Combs and Castrogiovanni, 1994; Forward and Fulop, 1993; Oxenfeldt and Kelly, 1968-69). Further, with most of the respondents achieving an education level of high school or better and three quarters being tertiary qualified, franchisors have the opportunity to recruit individuals, who (based on past business experience) have the ability to learn the procedures and franchise systems relatively easily.

The composition of attendee’s age, gender, marital status and life partner involvement was consistent with current Australian research and practice (Frazer et al., 2006). This indicates that if franchisors wished to recruit outside these parameters they would need to devise new and innovative recruitment methods. Finally, while over half of the respondents had children, only one third envisaged their children participating in the business now or in the future. Purchase of a business was therefore not perceived as a generational enterprise and succession planning was not a high priority with the respondents, which is consistent with prior research overseas (Stanworth and Kaufmann, 1996).

Practical/Managerial Implications

The findings of this research have implications for franchisors, as well as individuals and organisations seeking to enter franchising. The major finding is that potential franchisees are looking for a return on their investment, the provision of both initial and ongoing training and the freedom to be their own boss. From a recruitment perspective, this research revealed that a sizable percentage of the exposition attendees had previous business experience as independent operators. This finding suggests that franchisors could broaden their recruitment practices to encourage this group of individuals to enter
franchising by promoting the advantages of becoming a franchisee while retaining some of their operational independence.

There appear to be unrealistic expectations from some potential franchisees with respect to the operational flexibility of a franchise allowing them to spend more time with their families. Any flexibility will depend on the type and operational requirements of a franchise system. Therefore, if this is a major requirement for a potential franchisee, then careful thought must be given to the suitability of particular franchise systems.

This research should assist franchisors in refining their franchise offerings to align with what potential franchisees are seeking. In particular, they should demonstrate and communicate how a prospective franchisee can achieve a good return on investment, ensure that support and training are of sufficient standard to enable franchisees to operate confidently and have confidence in their franchisor, as well as making individuals feel that they are running their own business. In addition, as potential franchisees expressed the need for local advertising support, perhaps advertising should focus on the selling of the service/product to end customers, as this will increase brand awareness and consumer demand, which in turn should lead to greater demand for franchising opportunities by potential franchisees.

This research is limited by the sample size and cohort, consisting of only 80 respondents who attended a business opportunities exposition. In addition, the respondents were based in Australia. Consequently the findings may not be generalisable to other settings and may not be representative of all the franchising sectors. A potential area of future research enquiry (revealed by this research) is the unique motivations for former independent business operators to seek franchising investment opportunities. It is intended that this area will be examined in a subsequent study of potential franchisee motivational incentives.

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