PARENT COMPANY SCOPE AND FRANCHISED CHAIN PERFORMANCE

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Abstract

Most franchised chains are owned by a parent company that owns nothing else. However, some parent companies own several chains. Well-known examples include Choice Hotels International, which owns Comfort Inn, MainStay Suites, Econo Lodge and several other chains; Yum! Brands Inc., the largest fast-food restaurant company in the world, with brands such as KFC, Pizza Hut, Taco Bell, and others; and finally Service Brands International, owner of Molly Maid and Mr. Handyman. In this paper, we examine how chain scale and parent company scope affect chain performance. After controlling for chain unobserved heterogeneity via fixed effects, we find robust evidence of positive scale effects within a chain. For parent company scope, however, which we measure by the number of other chains of the parent, we find no effect on sales per outlet, and a negative effect on the number of outlets in the parent company’s chains. Finally, a change in parent company for a chain – through merger or acquisition or spin off - has no effect on sales per outlet in the chain, but reduces the numbers of outlets of the target chain in the following years. We conclude that multi-chain parents are not as aggressive in the development of each of their chains as single-chain parents. One interpretation of this result is that parents with several chains engage in “rationalization” to reduce competition among their chains/products.