

**FRANCHISOR AND FRANCHISEE FAILURES: THE PROBLEM OF
DETERMINING HOW SUCCESSFUL IS FRANCHISING**

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Presented at the 29th Annual
International Society of Franchising Conference
Historical Building
University of Oviedo
Oviedo, SPAIN
June 18-20, 2015

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ABSTRACT

This paper delineates some of the challenges in determining franchise failure rates. No doubt, franchisors, franchisees and franchise systems fail, but, to date, there appear to be no reliable statistics on how well or poorly franchising, as a business model, helps businesses, except at the individual system level.

The paper first describes briefly the history of franchise sales regulation in the United States. It then focuses on franchisee failures, noting that, in fact, the data indicating franchisee success is, on the whole, very questionable. The paper observes that a significant part of the problem in assessing franchise failure rates is definitional. There is no established definition of what constitutes a “failure,” and, hence, little basis to conclude whether a franchise has failed.

Turning to the question of franchisor failures, the paper notes that similar obstacles exist in trying to determine how successful franchising, as a business model, may be, from the perspective of a franchisor. The number of studies as to franchisor success are minimal. The paper also describes some crude, but informative, research performed by the authors, indicating that in the largest franchise systems, performance has been mixed, and hypothesizes that if a similar study were performed on smaller systems, the numbers might be less favorable to the franchisor sector of the economy.

The paper concludes by acknowledging that it adds little to prove or disprove the utility of franchising as a business model, but suggests that the area is ripe for more empirical research.

Keywords:

- 1) Failure
- 2) Definition
- 3) Success
- 4) Statistics
- 5) Rates