Survival Prospects of Franchised and Independently Owned Businesses: A New Look

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Abstract

We explore whether businesses started by new single business owners as a franchise survive longer than those launched as independent businesses. This question has attracted much attention over the years in the trade press but also among academics interested in franchising and its role in the economy. We use the confidential Survey of Business Owners (SBO) datasets for 2002 and 2007, and the comprehensive Longitudinal Business Database (LBD) produced by the U.S. Census Bureau. The latter allows us to track over time the businesses surveyed in the SBO. After controlling for factors that affect both the tendency to franchise and firm performance, including industry fixed effects, we find that franchised startups of new single business owners survive longer than independently-owned businesses. The difference in the one-year survival rate is about five percentage points, and this gap remains for the two and three-year survival rates. However, conditional on remaining in business for a year, the franchise advantage is lower, around 2.5 percentage points, and this difference disappears for the conditional survival of businesses that already have survived two years in the 2007 cohort. Interestingly, despite different macroeconomic conditions faced by firms started in 2002 and 2007, the increased survival rates of franchised businesses is found in both SBO waves.

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