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DURHAM, N.H. – Franchisors create more value and perform better financially than their nonfranchise competitors, according to a new study released by The William Rosenberg International Center of Franchising at the University of New Hampshire Whittemore School of Business and Economics.

The study, “Does Franchising Create Value? An Analysis Of The Financial Performance Of U.S. Public Restaurant Firms,” was selected the winner of the 2005 International Franchise Association Educational Foundation's Arthur Karp Research Award for “Best Applied Paper.” The paper, authored by E. Hachemi Aliouche, senior research fellow with the Rosenberg Center, and Udo Schlentrich, director of the Rosenberg Center, was selected from papers submitted to the International Society of Franchising conference to be held in May at the Westminster Business School in London.

“Franchising has grown so fast since the 1950s that it is now pervasive in the U.S. economy. In a recent study commissioned by the International Franchise Association, PriceWaterhouseCoopers estimated that in 2001 there were more than 767,000 business establishments in the United States engaged in franchising, providing directly or indirectly more than 18 million jobs, over $506 billion in payroll, and over $1.5 trillion of output,” according to the researchers.

“Franchising now dominates certain sectors of the U.S. economy. For example, over 56 percent of quick service restaurants are franchises. Franchising is also one of the fastest growing U.S. exports, and it is now estimated that franchising (in terms of number of franchised units) will grow 12 to 14 percent per year in the future.”

Forty-one firms were examined in the study -- 24 franchisors and 17 nonfranchisors. Franchise firms included Applebees, Benihana, CEC Entertainment, CKE Restaurants, Jack In The Box, Outback Steakhouse, Panera Bread Co, Papa Johns, Ruby Tuesday, Sonic and Wendy's. Nonfranchise firms included Bob Evans Farms, Cheesecake Factory, O Charleys, Landrys Restaurants, Lubys, Piccadilly Cafeterias, and Lone Star Steakhouse Saloon. In order to avoid biased results, McDonald’s, the largest firm in the sample, was dropped from the list of franchisors.

Researchers used two metrics to evaluate companies: Economic Value Added (EVA), a value-based performance tool used to compute the true economic profit of a firm, as opposed to its accounting profit (such as net income); and Market Value Added (MVA), which measures the market value that a firm has created.

The study uncovered evidence that over the 10-year period 1993-2002, U.S. public restaurant franchisors have created more value than their nonfranchising competitors. “Franchising firms minimize agency problems, and have access to cheaper capital, motivated managerial expertise, and better local market knowledge,” according to the researchers.

The study found franchisors have a slightly higher propensity to create market value and economic value than nonfranchisors, and franchisors generate on average higher MVA and EVA than do nonfranchisors. “The real value of franchising to a firm is the improvement in business performance due to its choice of growing through franchising instead of growing through its own means,” according to the researchers.

The William Rosenberg International Center of Franchising aims to explore and advance the understanding of franchising, which represents more than $1 trillion of the business conducted in the world annually. The center offers a franchising class for business students at the Whittemore School of Business and Economics and is actively involved in the communities of franchising, both to gain information about current trends and challenges and to share insights and solutions. The center interacts with industry experts and the International Franchise Association (IFA) to produce timely and meaningful research reports and forecasts. Currently, the center maintains the Franchise 50 Index, an extensive financial database of publicly listed franchising corporations, and is in the process of building the world’s most comprehensive research bibliography on franchising.