

# ASSESSING FRANCHISING SECTOR MATURITY: AUSTRALIAN EVIDENCE

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## ABSTRACT

Business format franchising in Australia has been consistently growing since the start of the 1970s. The development of the franchising sector has been traced through periodic surveys from 1988 to 1998 and the latest presents an opportunity to assess the level of maturity attained.

No widely accepted basis exists for measuring maturity in a nation's franchising sector. As a result, a framework for assessing the level of development is proposed, consisting of a number of attributes that may be expected to develop over time. The performance of Australian franchises is compared against these attributes wherever appropriate evidence is available from the surveys.

The conclusion is reached that Australian franchising exhibits many of the attributes that indicate the achievement of a level of early maturity. Some aspects however have not yet developed to the extent expected. These offer opportunities for national franchise associations and governments to develop strategies strengthening franchise performance.

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## INTRODUCTION

Franchising as a business technique has been in existence for centuries. However, it was not until the 1950s that business format franchising began to be developed and accepted within a variety of industries and by a considerable number of business operators in the United States of America (Justis and Judd, 1998; Stanworth and Smith, 1991).

Franchising now accounts for a large proportion of business activity in most of the developed nations in the world and contributes significantly to local economies. Whilst the United States is recognised as having the most developed franchising sector in the world (Mendelsohn, 1999), many other countries exhibit signs of earlier stages of development. However, this phenomenon has received only cursory attention in the literature, revealing a need for more information about franchising sector maturity.

Casual observation suggests that countries experience similar phases of franchising sector development. For instance, young franchising sectors are characterised by unregulated environments. As the incidence of franchising increases, problems such as conflict and abuse of franchisor power begin to arise. To counteract these problems, governments may seek to regulate the sector by introducing specific franchising laws (Frazer and McCosker, 1999). This pattern of behaviour has been common to the United States, Australia and New Zealand.

Understanding the level of franchising sector maturity that a country is experiencing may speed the learning curve involved in developing its sector. For instance, the Australian franchising community was for a long period of time vocally opposed to the introduction of a regulated sector, citing the complex situation caused by a plethora of state laws in the United States (Gomm, 1992). However, within two years of adopting the Franchising Code of Conduct in Australia the majority of franchising participants has embraced the new legislation and the sector has experienced significantly reduced levels of franchising disputes and terminations (Lim and Frazer, 2000).

Whilst the trend towards regulation in the rapidly growing Australian sector was inevitable, lessons from the United States allowed the Australian government to fine-tune its approach and to avoid unduly complex laws

being introduced. Hence, the ability to assess signs of maturity in a franchising sector may enable participants, including franchisors, franchisees, consultants, financiers, government and academics, to recognise similar stages in other nations. With an opportunity to pre-empt potential problems and offer solutions based on others' experiences, a country may more efficiently exploit its franchising potential.

In Australia, KFC, Pizza Hut and McDonalds all opened their first outlets around 1970 and while there were a few Australian franchises already operating, new locally based franchises soon began to appear (Terry, 1993). Steady growth of the franchising sector and some well-publicised failures characterised the decade. In the 1980s, the rate of creation of franchises gradually accelerated, the major banks commenced sections specialising in financing franchisees and the state and federal governments began taking an interest in the performance of the franchising sector.

Then, in 1988, the first comprehensive survey of franchising was conducted by the Australian Government (Bureau of Industry Economics [BIE], 1990). It was found that franchising had been embraced so readily by local entrepreneurs that the number of business format franchises per capita was far greater than in the United States. The youth of the franchising sector was evident in that the number of franchised outlets per system was less than one half of that in the United States (BIE, 1990).

Throughout the 1990s the expansion of franchising has continued strongly. Australian Government surveys of the sector were again conducted in 1991 (Department of Industry Technology and Commerce [DITAC], 1992) and 1994 (Australian Bureau of Statistics [ABS], 1994). However, in 1998 when it was evident that a further survey was unlikely to be commissioned in the near future, the Franchise Council of Australia as the sector's representative organisation sponsored a research project (McCosker and Frazer, 1998). The findings outline the way in which franchising has become an increasingly important part of the nation's business sector, as shown in Table 1.

The 1988 findings have not been included in overall comparisons in Table 1 as it was the first survey attempted and the listing of franchisors appears to be sufficiently incomplete to render conclusions on growth since then as doubtful. Most discussions which follow

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