

Article

Not peer-reviewed version

Difference Between Franchisers with and without Direct Retail Stores

[Jin Hyung Lee](#) *

Posted Date: 11 March 2024

doi: 10.20944/preprints202211.0268.v2

Keywords: franchise market; market saturation; regulation



Preprints.org is a free multidiscipline platform providing preprint service that is dedicated to making early versions of research outputs permanently available and citable. Preprints posted at Preprints.org appear in Web of Science, Crossref, Google Scholar, Scilit, Europe PMC.

Copyright: This is an open access article distributed under the Creative Commons Attribution License which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

Disclaimer/Publisher's Note: The statements, opinions, and data contained in all publications are solely those of the individual author(s) and contributor(s) and not of MDPI and/or the editor(s). MDPI and/or the editor(s) disclaim responsibility for any injury to people or property resulting from any ideas, methods, instructions, or products referred to in the content.

Article

Difference Between Franchisers with and without Direct Retail Stores

Jin Hyung Lee

Korea Fair Trade Mediation Agency, email: samshun76@gmail.com

Abstract: The new regulation was introduced to the franchise market of South Korea in that an applicant who wants to be a franchiser must set up direct retail stores and run them for at least one year before recruiting franchisees. Considering the purpose of the regulation, it is inferred that once franchisers run their own stores, their franchisees would be better off than otherwise. This paper addresses one reason that the Korea Fair Trade Commission has no choice but to introduce the regulation. Along the line, this paper investigates whether franchisees would have the more likelihood to make profit in the case of that franchisers operate their own stores. The result demonstrates that this case could be true since the operation of franchiser owned stores could be helpful in reducing cost of franchisees.

Keywords: franchise market; market saturation; regulation

JEL Classification: L5; L10; C51

1. Introduction

It is believed that a market is highly likely to be self-corrected. However, when the market failure occurs, a competition authority sometimes intervenes to restore competition. In this respect, the Korea Fair Trade Commission, called the KFTC recently announced a new regulation policy in order to correct the market failure in the franchise market of South Korea. According to the regulation policy, any new applicant who wants to be a franchiser and open up the franchise business in the future must establish at least one his own franchise stores (direct retail stores) and operate them in more than one year prior to recruiting franchisees. In response to the regulation policy suggested by the KFTC, the National Assembly introduced it as a new subparagraph of the Article 6-3 to the Fair Transactions in the Franchise Business Act.¹ The new subparagraph was effective on 19th, November, 2021.

1.1. Background of new regulation

The main purpose of the regulation aims to deter any franchiser without experience in business management from indiscreetly recruiting franchisees. If there is no restriction such as the regulation, any franchiser unskilled in supporting franchisees could even recruit them. In this case, franchisees are highly likely to be in difficulty of operating their stores and be faced with financial bankruptcy. Accordingly, the regulation imposes any franchiser on the mandatory obligation to operate business

¹ Article 6-3 (Refusal of Registration of Franchise Disclosure Documents and Other Relevant Matters) (1) Where an application for registration of franchise disclosure documents prescribed in Article 6-2 falls under any of the following cases, the Fair Trade Commission and a Mayor/Do Governor may refuse the registration of the franchise disclosure document or request the modification thereof: <Amended on Dec. 20, 2016; Jan. 16, 2018; May 18, 2021>

3. Where, as at the date of application for registration, a franchiser which newly registers a franchise disclosure document under Article 6-2 (1) does not have a direct retail store that uses the same trademark as that of the franchise stated in the franchise disclosure document and that sells goods or services in compliance with the same quality standards or business methods or the period for operating a direct retail store (where an executive officer of the franchiser has operated the relevant direct retail store before the franchise operates such store, the period for operating the store by the executive officer shall also be deemed the period for operating it, as prescribed by Presidential Decree) is less than one year: Provided, That this shall not apply to the cases prescribed by Presidential Decree, including where it is deemed unnecessary to operate a direct retail store for reasons such as that the franchiser is required to obtain permission or a license under related statutes or regulations to engage in franchise.

management for a certain period of time. Once a franchiser experiences the business management from operating any direct retail store, the franchiser also could build up the ability to support franchisees, which reduces the possibility that the franchisees would be in trouble with the financial bankruptcy.

Moreover, the franchise market seems to be considered highly saturated in the South Korea. According to the market analysis² about the domestic franchise business done by Ministry of Trade, Industry and Energy of South Korea in 2018, the number of franchisers registered in South Korea was 3.5 times as many as Japan, while the population in South Korea was less than the half of the whole Japanese people. Therefore, franchisees confronting fierce competition were expected to gain nothing but negative profits due to market saturation in the franchise market of South Korea.

In spite of the severe market saturation, there have still been new entries in the franchise market of South Korea. The reasonable explanation behind this phenomenon is that a considerable portion of workforce has no choice but to run a business in the franchise market since they can not achieve new another jobs after losing jobs. More specifically, the Statistics Korea³ demonstrates that 54 percent of the self-employed workers were employees before becoming self-employed in Korea. In other words, once workers experience unemployment, more than half of those job seekers hardly succeed to get another jobs and some of them are forced to run their own business in the franchise market. Consequently, the self-employment rate in South Korea turns out to be the 7th highest of all OECD countries from 2015 to 2020 according to the investigation of OECD.⁴

Furthermore, when many jobless people are compelled to start a franchise business, they are forced to invest all their own money into initiating the franchise business since they can seldom borrow money from banks. According to a survey⁵ conducted by Hana Institute of Finance in 2018, located in South Korea, it was reported that around 69 percent of respondents surveyed invested their own money into starting a franchise business. Consequently, they are highly exposed to negative external shock. For instance, when a franchiser suffers from default risk or bankruptcy, franchisees of the franchiser are also likely to be easily broke since they scarcely have financial alternatives to handle the liquidity crises of the franchiser. In spite of that, franchisees with high default risk keep coming into the franchise market. Accordingly, the competition in the franchise market is not able to self-regulate this issue, and the KFTC insisted that the new regulation needs to be introduced to the Fair Transactions in the Franchise Business Act.

1.2. Previous Literature

A literature provides the rationale behind the regulation as previously indicated. In other words, Lee [3] demonstrates that almost 60 percent of trademarks in the franchise market of South Korea depended solely on franchisees' stores in 2016. He also points out the likelihood that risks such as the decrease in sales might be transferred to franchisees due to lack of franchisers' experience or insight about the competitiveness of their products. At this respect, the new regulation appears to be effective in alleviating the issue brought about by the market saturation in the franchise market of South Korea. Particularly, the regulation is expected to refrain franchisers from imprudently recruiting franchisees and deter from new entries to the franchise market, reducing the problem relevant to the severe market saturation. Furthermore, franchisees would be well trained by franchisers with abundant experience to operate the franchise business. Accordingly, profits of franchisees would be enhanced and they are less likely to be in the financial difficulties. Based on this hypothesis, this paper empirically detects whether franchisers to operate their own stores are different from those without any their own stores.

² Please, refer to Kang [1].

³ Please, refer to the website as follows: <https://kostat.go.kr/portal/eng/index.action>

⁴ The self-employment rate in South Korea was 24.64 percent. Please, refer to the website for the OECD Data as follows: <https://data.oecd.org/emp/self-employment-rate.htm>

⁵ Please, refer to Lee [2].

If they are distinctive, franchisees of the former are likely more profitable than those of the latter. Then, the regulation of the KFTC is justified by this intrinsic distinction.

Meanwhile, there are two categories of economic literatures relevant to the franchise market; territorial encroachment and franchiser-franchisee relationship. First of all, as regards territorial encroachment, Kalnins [4] empirically proves that the territorial encroachment occurred from the Texas lodging industry in the 1990s. He concludes that a franchisee's new entry nearby incumbents cannibalizes revenues of incumbents with the same brand. His findings are the first study to detect the existence of systematic cannibalization in the franchise industry specific to the lodging industry requiring lots of initial investment. Unlike his study, this study focuses on the business sectors (such as pizza, convenient stores, coffee, and confectionery and bakery), requesting relatively small investment, compared to the lodging industry.

Next, as regards franchiser-franchisee relationship, the economic literature provides perspective on principal-agent. For instance, Blair and Kaserman [5] investigate the relative importance of entry (or franchise) fee and royalty that a franchiser imposes on a franchisee. According to their research, when a franchiser is faced with high demand uncertainty, the franchiser puts more weight on the royalty. However, the entry fee is placed more emphasis on in the case of low demand uncertainty since a franchiser likely harvests rents from a franchisee at the initial start-up period.

Besides, Mathewson and Winter [6] research the effect of contractual elements on franchisers and franchisees. They theoretically show that the royalty fee is more standardized when the low variances of local quality that franchisees supply are observed. They also demonstrate that a franchiser imposes the standardized retail prices and store hours on franchisees since the franchiser needs to prevent franchisees from misreporting local demand as low and reducing efforts to keep the high level of local quality.

Additionally, Michael [7] also holds an enquiry about the inherent problem of organizational form in franchising. His empirical findings articulate that the franchise contract gives rise to free-riding and decreases quality in the nature of franchising. As previously mentioned, based on the regulation by the lawmakers and the KFTC, it is inferred that franchisers with their own stores (direct retail stores) are better at operating the franchise business than franchisers only recruiting franchisees. For instance, once the former operates the direct retail stores over a certain period of time, tacit knowledge could be built up to save cost in an efficient way. Therefore, the former hands down the tacit knowledge to franchisees and the likelihood to make profit also increases.

1.3. Purpose of this study

This study also deals with the franchise market. However, unlike the previous literature mentioned earlier, this study focuses on the regulation of a competition authority when there are excess entries (almost surely causing the market saturation) and fierce competition in the franchise market. There exist two effects due to the new regulation. The one is that the new entries would reduce since franchisers are not able to recruit franchisees as fast as in the past ahead of the regulation. The other is the likelihood that franchisees go bankrupt would also diminish. Especially, it is inferred from the second effect that franchisers with their own stores (direct retail stores) are better at operating the franchise business than franchisers only recruiting franchisees. For instance, once the former operates the direct retail stores over a certain period of time, tacit knowledge could be built up to save cost in an efficient way. Therefore, the former hands down the tacit knowledge to franchisees and the likelihood to make profit also increases.

Accordingly, the regulation of the KFTC implies that there could be distinction between franchisers with or without their direct retail stores. The former is more likely to accumulate either tangible or intangible assets to save the production cost and reduce financial risk for franchisees, compared to the latter. Thus, franchisees of the former are more likely to be profitable rather than the latter. This study does not try to estimate the effect and validity of the new regulation. Instead, it tries to test if there exists the distinction between franchisers with or without, providing the rationale behind

introduction of the regulation. That is, it is to detect the reason to introduce the new regulation. If it is not confirmed that there exists the distinction between the two groups, the introduction of the regulation would be questionable and doubtful. Therefore, once it is revealed that this hypothesis is valid, the introduction of the regulation by the KFTC is considered to be justifiable. In this regard, the former would be compared with the latter in terms of profit per franchisee.

Additionally, this study contributes to the economic literature by adding the simple method to estimate cost of a franchisee. More specifically, this study provides a simple instance to use the lump-sum (franchise) fees and operating cost per franchisee across all trademarks to estimate the average operating cost per franchisee of each trademark for each franchise business sector. This simple method is expected to be of practical use since it does not require heavy amount of data relevant to characteristics of cost.

This study is organized as follows. In Section 2, a simple model is introduced to estimate the operating cost per franchisee for each trademark of a franchiser. Then, profit is calculated from the estimated operating cost per franchisee and the sales amount per franchisee for each trademark. Finally, the distributions of the estimated profit are derived according to two groups, franchisers with franchiser owned stores and without them, and it is examined if there exists the difference between the mean values of those distributions. In Section 3, it is estimated how the operation of franchiser owned stores (direct retail stores) impacts sales per franchisee through cost savings. Finally, a conclusion is made in Section 4.

2. Analysis on Franchise Profit and Cost Structure

2.1. Theoretical Framework

A two-period model⁶ is depicted as follows. In a small territory, there are two franchisers and two applicants to be franchisees. The two franchisers 1, 2 at the upstream stage occupy two different trademarks for an identical product in the market, respectively. At the downstream stage, each applicant buys a right from one franchiser in the period one and becomes a franchisee. The right indicates that the franchisee is able to produce and sell the identical product in the period two. In compensation for the right, the franchisee pays a lump-sum (franchise) fee⁷ a franchiser in the period one. The lump-sum fee⁸ equals F_i , $i = 1, 2$ for each franchiser.

Besides, franchisees own distinctively different preferences over trademarks. Thus, each franchisee contracts with a different franchiser. Moreover, a franchisee pays a per-unit output royalty⁹ which equals R_i , $i = 1, 2$ when the franchisee produces and sells the product in the period two. Each per-unit output cost equals c_i , $i = 1, 2$, and $c_1 > c_2$.¹⁰ c_i , $i = 1, 2$ is the common knowledge to all participants.

e^u and e^d are implicit discount factors of franchisers and franchisees, respectively. Since a franchisee is assumed to be financially more conservative than a franchiser, $1 > e^u > e^d$.¹¹

In the period one, a franchiser would expect the present value of his profit as follows.

⁶ In order to build the theoretical framework, the model suggested by Blair and Kaserman [5] is adopted. However, unlike their assumption of a franchiser possessing monopoly power, this study assumes that two franchisers, composing duopoly, compete against each other in the market.

⁷ A franchise fee is the payment that a franchisee makes for services which the franchisee is provided with before the franchisee starts to run business.

⁸ It is called franchise fee or entry fee.

⁹ A royalty is the payment that a franchisee makes for services which the franchisee is provided with after the franchisee starts to run a business.

¹⁰ Even though two franchisees belonging to two different franchisers produce a similar good, it would be plausible that each franchisee incurs different cost. For example, if a franchiser 2 runs a large-scale distribution channel, the franchiser 2 could provide resources to its franchisee based on lower cost than the other franchiser does, which makes it possible to result in different costs between franchisees.

¹¹ A franchisee might be more risk-averse than a franchiser since a franchisee is highly likely to set up business entirely through personal finance in Korea. In this regard, a franchisee is utterly exposed to default risk, while a franchiser likely diversifies the default risk through incorporating a franchise, which makes it possible for a franchisee to be conservative about the risk.

$$\pi_i^u = F_i + e^u R_i Q_i(R_i), i = 1, 2^{12}$$

where $Q_i(R_i)$ is the output of a franchisee and the function of the output royalty, R_i .

The present value of a franchisee's profit would be expected as follows.

$$\pi_i^d = e^d [P[Q_m] Q_i(R_i) - c_i Q_i(R_i) - R_i Q_i(R_i)] - F_i, i = 1, 2^{13}$$

where $c_i Q_i(R_i)$ is the total production cost for a franchisee, and $P[Q_m]$ is an inverse demand.

$$Q_m = Q_1(R_1) + Q_2(R_2)$$

where Q_m is the total production output in the whole market.

$$P[Q_m] = a - b Q_m = a - b [Q_1(R_1) + Q_2(R_2)]$$

where $P[Q_m]$ is assumed to be a linear inverse demand for the product, and $a > 0, b > 0$.

Then, a franchisee's profit at the time of contract is written as follows.

$$\pi_i^d = e^d [P[Q_m] Q_i(R_i) - c_i Q_i(R_i) - R_i Q_i(R_i)] - F_i = e^d [a Q_i - b Q_i^2 - b Q_1 Q_2 - c_i - R_i Q_i] - F_i$$

Since c_i is the common knowledge, franchisers determine the optimal R_i and F_i on the condition that a franchisee earns at most normal profit¹⁴ at the time of the contract.

Thus, a franchisee would accept R_i and F_i taken as given and maximize π_i^d over Q_i .

$$\frac{\partial \pi_i^d}{\partial Q_i} = a - 2b Q_i - b Q_j - c_i - R_i = 0, i \neq j, i = 1, 2, j = 1, 2$$

Then, the optimal output of the product is designated as the following manner.

$$Q_i^* = \frac{1}{3b} (a + c_j + R_j - 2c_i - 2R_i)^{15}$$

Finally, a franchiser's optimization problem is characterized as the follows.

$$\text{Max}_{F_i, R_i} \pi_i^u \text{ s.t. } \pi_i^d(Q_i^*) = 0^{16}$$

where $\pi_i^d(Q_i^*) = 0$ implies the normal profit of a franchisee at the optimal output.

Therefore, the optimal franchise fee, F_i and output royalty, R_i are solved as follow way.

$$F_i = \frac{e^u}{9bH} [2R_i - R_j - a - c_j + 2c_i]^2 = \frac{e^u}{9bH} [(10e^{2u} - 6e^{u+d})a - (14e^{2u} - 6e^{u+d})c_i + 4e^{2u}c_j]^2$$

$$R_i = \frac{e^u - e^d}{H} [(5e^u - 3e^d)a - (7e^u - 3e^d)c_i + 2e^u c_j]$$

$$H = (15e^{2u} - 14e^{u+d} + 3e^{2d})$$

The assumption, $c_1 > c_2$, implies that a franchisee of a franchiser 2 produces the final product in relatively more cost-saving manner, compared to a franchisee of a franchiser 1. Thus, the franchisee of the franchiser 2 could make excess profit. In response, the franchiser 2 likely reaps the excess profit through the higher franchise fee, F_2 and output royalty R_2 , which makes it only possible for the franchisee to gain normal profit.

Meanwhile, the franchise fee, F_i is rewritten as follows.

$$F_i = [\beta_0 a - \beta_1 c_i + \beta_2 c_j]^2$$

$$\text{where } \beta_0 = (10e^{2u} - 6e^{u+d}) \left(\frac{e^u}{9bH}\right)^2, \beta_1 = (14e^{2u} - 6e^{u+d}) \left(\frac{e^u}{9bH}\right)^2, \beta_2 = 4e^{2u} \left(\frac{e^u}{9bH}\right)^2$$

Taking the square root of both sides, the equation is rearranged as follows.

$$\sqrt{F_i} = \beta_0 a - \beta_1 c_i + \beta_2 c_j$$

When $F_i > F_j$, the difference between $\sqrt{F_i}$ and $\sqrt{F_j}$ is taken as the following way.

$$\sqrt{F_i} - \sqrt{F_j} = (\beta_1 + \beta_2)(c_j - c_i), \text{ where } F_i > F_j \text{ and } c_i < c_j$$

Then, the equation is provided to derive the cost, c_j of a franchisee, j from the assumed relationship between two franchise fees, F_i, F_j as;

$$\frac{\sqrt{F_i} - \sqrt{F_j}}{\beta_1 + \beta_2} + c_i = c_j$$

¹² u indicates "upstream".

¹³ d stands for "downstream".

¹⁴ Eventually, the competition between franchisees induces the normal profit in equilibrium.

¹⁵ $\frac{\partial Q_i^*}{\partial R_i} = -\frac{2}{3b} < 0$, which is the final-product marginal product of the per-unit output royalty.

¹⁶ $L_i = F_i + e^u R_i Q_i(R_i) + \lambda_i [F_i - e^d [P[Q_m] Q_i(R_i) - c_i Q_i(R_i) - R_i Q_i(R_i)]]$

$$\frac{\partial L_i}{\partial F_i} = 1 + \lambda_i = 0$$

$$\frac{\partial L_i}{\partial R_i} = e^u [Q_i + R_i \frac{\partial Q_i}{\partial R_i}] - e^d [a \frac{\partial Q_i}{\partial R_i} - 2b Q_i \frac{\partial Q_i}{\partial R_i} - b Q_j \frac{\partial Q_i}{\partial R_i} - c_i \frac{\partial Q_i}{\partial R_i} - Q_i - R_i \frac{\partial Q_i}{\partial R_i}] = 0$$

2.2. Identification Strategy on Operating Cost of a franchisee

In the equation described earlier, once $\sqrt{F_i}$, $\sqrt{F_j}$, $\beta = \beta_1 + \beta_2$, and c_i are determined, c_j is derived. In a small territory, two trademarks of franchises are supposed to be randomly drawn from the pool, $1, 2, \dots, i, j, \dots, k$ in the same business sector (business category). Thus, they are assumed to compete against each other between adjacent points. Furthermore, it is assumed that $c_{min} = c_1 < \dots < c_i < c_j < \dots < c_k$. Then, it is valid that $F_{max} = F_1 > \dots > F_i > F_j > \dots > F_k$ from the relationship¹⁷ $F_i > F_j$ and $c_i < c_j$ in the same business sector. Accordingly, $F_{max} = F_1 > \dots > F_i > F_j > \dots > F_k$ corresponds to $c_{min} = c_1 < \dots < c_i < c_j < \dots < c_k$. Moreover, if F_{max} and F_i are observed, and c_{min} and β are estimated, the corresponding c_i is finally derived. Thus, above all, the information on F_i needs to be collected.

Fortunately, the information on each F_i is available from the Franchise Disclosure Document¹⁸ recorded and managed by the Korea Fair Trade Mediation Agency, called the KOFAIR. The KOFAIR announces the Franchise Disclosure Document every year. More specifically, either a current franchiser or any applicant who wants to be a franchiser and start the franchise business fills out the Franchise Disclosure Document and submits it to the KOFAIR. The Franchise Disclosure Document contains various information on trademarks, the number of franchisees's stores per trademark, sales amount per franchisee for each trademark¹⁹, and franchise fee (entry fee, F_i) per franchisee for each trademark²⁰, etc. In other words, the Franchise Disclosure Document shows the business performances of both franchiser and franchisee. Whenever anyone wants to be a franchisee for certain trademark, the applicant needs information on the business performance of a franchise chain store on average. Based on the information, average business performances would be compared across all trademarks. Then, when applying for the specific trademark and confirming the information, the applicant expects on average how much earnings would be in the future. Finally, the applicant chooses to operate a franchise chain store for the specific trademark. Therefore, the Franchise Disclosure Document provides the information on the average business performance of a franchise chain store, corresponding to a specific trademark.

Once the information on F_i is available, a few more steps to estimate c_{min} and β are taken as follows. In order to do this, F_{max} and F_{median} are taken, where the subscript, 'median' means the median value of $F_1, \dots, F_i, F_j, \dots, F_k$. Then, F_{median} corresponds to c_{median} since it is assumed that $F_{max} = F_1 > \dots > F_i > F_j > \dots > F_k$ corresponds to $c_{min} = c_1 < \dots < c_i < c_j < \dots < c_k$.

However, c_{median} is not directly available from the Franchise Disclosure Document in each business sector. Instead, the information about the operating cost per franchisee for each business sector is available from the Korean Statistical Information Service, called the KSIS. Thus, c_{median} is assumed to be the operating cost per franchisee²¹ across all trademarks for a business sector.

Once F_{max} , F_{median} and c_{median} are collected, c_{min} and β are estimated as the follows.

At first, let $(\beta_1 + \beta_2) = \beta$, where $\beta > 0$.

Then, it is kept that $\frac{\sqrt{F_{max}} - \sqrt{F_{median}}}{\beta_1 + \beta_2 (= \beta)} + c_{min} = c_{median}$.

$$\sqrt{F_{max}} - \sqrt{F_{median}} = \beta^0 (c_{median} - c_{min}^0)$$

c_{min} is initialized at a value, c_{min}^0 .

β^0 is estimated in the way through the regression of $\sqrt{F_{max}} - \sqrt{F_{median}}$ on $c_{median} - c_{min}^0$, given F_{max} , F_{median} , c_{median} , and c_{min}^0 .

Next, c_{min}^1 is calculated, given F_{max} , F_{median} , c_{median} , and β^0 .

¹⁷ The relation, $\sqrt{F_i} - \sqrt{F_j} = (\beta_1 + \beta_2)(c_j - c_i)$, mentioned above, is considered.

¹⁸ According to Lee [3], Franchise disclosure documents are designed to provide general information on the franchisor's business performance, potential risks and business operating conditions. Prior to entering a franchise agreement, franchisors must submit and register the documents at the Korea Fair Trade Mediation Agency.

¹⁹ That is, average sales amount across franchisees for each trademark.

²⁰ That is, the fixed entry fee that a franchisee pays in return for adopting a trademark.

²¹ It implies that one franchisee is assumed to operate one store.

Then, β^1 is calculated, based on F_{max} , F_{median} , c_{median} , and c_{min}^1 .
In the same way, $\beta^0, \beta^1 \dots \beta^n$ are estimated until β^n converges to β .²²
Once c_{min} and β are estimated, $\sqrt{F_{median}}$ and c_{median} are replaced by $\sqrt{F_i}$ and c_i , which results in the equation, $\frac{\sqrt{F_{max}} - \sqrt{F_i}}{\beta} + c_{min} = c_i$. Now, since $\sqrt{F_{max}}, c_{min}, \beta$ and $\sqrt{F_i}$ are known, c_i is derived.
As mentioned above, (F_{max}, c_{min}) and (F_i, c_i) are inserted into the equation as follows.

$$\sqrt{F_{max}} - \sqrt{F_i} = \beta(c_i - c_{min}) \tag{2.1}$$

Besides, c_{min} and c_i indicate the marginal costs in the equation. Since the marginal cost could be derived from the total cost, the equation (2.1) is transformed into the equation (2.2) as follows.

$$\sqrt{F_{max}} - \sqrt{F_i} = \beta \left(\frac{TC_i}{Q_i} - \frac{TC_{min}}{Q_{min}} \right) \text{ where } TC_i = c_i Q_i, TC_{min} = c_{min} Q_{min} \tag{2.2}$$

Once a few steps taken below, I reach the equation (2.3), where $(F_{max}, c_{min}, Q_{min}, p)$ and (F_i, c_i, Q_i, p) .
 $\sqrt{F_{max}} - \sqrt{F_i} = \frac{\beta}{Q_{min}} (Q_{min} TC_i - TC_{min})$
 $\sqrt{F_{max}} - \sqrt{F_i} = \frac{\beta}{Q_{min}} (p Q_{min} TC_i - TC_{min})$
 $\sqrt{F_{max}} - \sqrt{F_i} = \tilde{\beta} \left(\frac{S_{min}}{S_i} TC_i - TC_{min} \right), \text{ where } \tilde{\beta} = \frac{\beta}{Q_{min}}, S_{min} = p Q_{min}, S_i = p Q_i \tag{2.3}$

In the equation (2.3), p implies the market price for a product in the equilibrium. In order to analyze the equation (2.3), relevant data is collected from the Franchise Disclosure Document as mentioned earlier. Some business categories (business sectors), where the similarity of the product seems to be high, are selected. Before launching the analysis, the sales, ($S = pQ$) data is adopted except the case such that the sales amount per franchisee is recorded as either zero or a missing value. The business categories chosen are articulated as in Table 1. The data from 2018 till 2021 consists of business sectors, trademarks in each business sector, total number of franchisees by trademark, and sales amount per franchisee by trademark, etc.

Table 1. The number of trademarks by the category of business

Category of business	2018	2019	2020	2021
Confectionery and bakery	73	82	66	79
Chicken	239	241	239	266
Coffee	160	161	180	232
Fast food	31	32	32	40
Convenient Store	20	18	16	21
Pizza	63	71	83	99

As previously stated, the data is also gathered from the KSIS, which is about the operating cost per franchisee according to each business category from 2018 to 2021. Although the operating cost per franchisee means the total cost, TC , the equation (2.3) is still available. In the next section, the operating cost per franchisee would be transformed into the marginal cost.
Moreover, as metioned before, the operating cost per franchisee from the KSIS needs to correspond to the marginal cost, c_{median} . For instance, if “A” trademark is a median within “Chicken” franchise in terms of the franchise fee, F_i in 2018, c_{median} for “Chicken” franchise is supposed to correspond to the operating cost per franchisee, TC_{median} for “Chicken” franchise from the KSIS. Thus, it is also assumed

²² To be accurate, $\frac{|\beta^{n-1} - \beta^n|}{\beta^{n-1}} \rightarrow 0$.

that the “A” trademark takes the operating cost per franchisee, TC_{median} for “Chicken” franchise from the KSIS. All estimated costs are not economic costs but accounting costs. The relevant information is articulated as shown in Table 2.

Table 2. TC_{median} , operating cost per franchisee corresponding to c_{median}

Category of business	TC_{median} , operating cost per franchisee (unit: 1,000,000 KRW)			
	2018	2019	2020	2021
Confectionery and bakery	390.546	368.989	377.871	395.887
Chicken	144.944	174.412	172.388	206.819
Coffee	171.467	180.349	185.134	160.579
Fast food	166.376	181.283	170.741	201.284
Convenient store	491.323	529.379	490.917	489.454
Pizza	253.960	267.799	265.239	266.899

operating cost= yearly labor cost+yearly rent fee+other costs

Then, the algorithm²³ mentioned above is applied in order to derive $\tilde{\beta}$ of the business categories selected. Since the 6 business categories (business sectors) are chosen from 2018 to 2021, 24 data about c_{median} corresponding to the 6 categories are available as in Table 2, and those 24 data are used to estimate $\tilde{\beta}$ and c_{min} . According to the application of the algorithm earlier, the result is shown in Tables 3 and 4.

Table 3. The estimation of $\tilde{\beta}$

	Coef
$\ln \tilde{\beta}$	-5.388*** (1.58×10^{-8})

Number of obs: 24,
* p<0.1; ** p<0.05; *** p<0.01; () standard error

²³ It indicates the equation (2.3).

Table 4. The estimation of TC_{min} , the lowest operating cost responding to c_{min}

Category of business	Year	$\sqrt{F_{max}} - \sqrt{F_{median}}$	TC_{median} (unit: 1,000,000 KRW)	TC_{min} (unit: 1,000,000 KRW)
Confectionary and bakery	2018	9.936	390.546	227.795
	2019	8.548	368.989	216.141
	2020	7.701	377.871	192.072
	2021	14.606	395.887	232.787
Chicken	2018	7.687	144.944	162.430
	2019	5.932	174.412	158.662
	2020	5.729	172.388	148.495
	2021	8.782	206.819	145.064
Coffee	2018	8.104	171.467	145.610
	2019	10.530	180.349	144.780
	2020	8.682	185.134	123.001
	2021	13.264	160.579	140.238
Fast food	2018	18.107	166.376	241.445
	2019	14.042	181.283	233.645
	2020	22.223	170.741	213.586
	2021	20.9138	201.284	277.627
Convenient store	2018	5.431	491.323	376.911
	2019	2.354	529.379	312.252
	2020	3.113	490.917	394.016
	2021	3.691	489.454	267.602
Pizza	2018	15.533	253.960	217.67
	2019	15.116	267.799	206.225
	2020	14.772	265.239	201.831
	2021	14.886	266.899	188.968

$\sqrt{F_{max}}$: square root of maximum value of the franchise fee, F within the same category of business

$\sqrt{F_{median}}$: square root of median value of the franchise fee, F within the same category of business

c_{median} : median value of operating cost per franchisee within the same category of business

c_{min} : minimum value (the lowest value) of operating cost within the same category of business

2.3. Differences Between Franchisees of Franchisers with or without Direct Retail Stores

As previously stated, the sales per franchisee, $s_1, \dots, s_i, s_j, \dots, s_k$ corresponding to $F_1, \dots, F_i, F_j, \dots, F_k$ are also achieved from the Franchise Disclosure Document. Accordingly, the estimated profit per franchisee would be derived since s_i is observed, and TC_i , responding to c_i , is estimated. Finally, the estimated profit per franchisee²⁴ according to $F_1, \dots, F_i, F_j, \dots, F_k$ is also derived, where each $F_1, \dots, F_i, F_j, \dots, F_k$ responds to franchise fees of different trademarks within the same business sector. Thus, the mean values are shown in Table 5, which are about the estimated profit per franchisee for each trademark in the business categories. The mean values in “Convenient store” seem to be negative in 2020 and 2021. Since all the mean values seem to be positive except “Convenient store” franchise, performances of stores would not be in extreme situation on the whole.

²⁴ The profit per franchisee equals “the sales amount per franchisee minus the operating cost per franchisee”.

Table 5. Summary of estimated profit by the business category

Year	Category of business	Obs	Mean (unit: 1,000,000 KRW)	Max	Min
2018	Confectionery and bakery	73	16.009	49.126	3.925
2019		82	16.625	61.551	0.277
2020		66	17.787	87.378	0.929
2021		79	13.931	127.933	0.925
2018	Chicken	239	26.847	87.694	3.261
2019		241	28.765	100.169	1.729
2020		239	22.356	99.244	1.850
2021		266	18.731	86.191	1.240
2018	Coffee	160	19.348	77.437	1.084
2019		161	23.525	88.745	3.041
2020		180	15.282	55.914	0.220
2021		232	13.332	43.933	0.257
2018	Fast food	31	29.502	101.223	1.601
2019		32	39.795	144.214	5.525
2020		32	26.956	115.182	1.612
2021		40	38.415	221.218	1.199
2018	Convenient store	20	0.755	1.343	0.298
2019		18	35.705	68.262	17.071
2020		16	-20.768	-7.090	-36.385
2021		21	-8.011	-1.967	-19.151
2018	Pizza	63	15.234	51.668	1.807
2019		71	27.481	87.964	3.238
2020		83	19.890	75.188	1.307
2021		99	19.827	76.313	1.531

Tables 6–8 show t-test results. For each year from 2018 to 2021, the t-test is used to check the differences in mean values between two groups with respect to the estimated profit, estimated operating cost, and sales amount. “Without” indicates “group without franchisers’ stores”, which implies that franchisers do not operate their own stores, and the counterparts, franchisees do not need to compete against their franchisers’ stores. Besides, “With” stands for “group with franchisers’ stores”, which means that franchisers run their own stores, and the counterparts, franchisees have no choice but to compete against either their franchisers’ stores.

Table 6. T-test for the sales amount per franchisee. (unit: 1,000,000 KRW)

	2018			2019			2020			2021		
	Obs	Mean	Std.Err.	Obs	Mean	Std.Err.	Obs	Mean	Std.Err.	Obs	Mean	Std.Err.
Without	334	178.9	6.6	347	177.9	6.4	360	167.4	6.6	464	165.9	5.4
With	252	239.3	9.8	258	237.3	9.3	256	200.7	9.6	273	221.5	13.8
$\mu_{wo}-\mu_w$	$H_0:\mu_{wo}=\mu_w$			$H_1:\mu_{wo}\neq\mu_w$			p-value: 0.000~0.003					

Without: franchise without franchisers’ stores
With: franchise with franchisers’ stores
 μ_{wo} : mean of the group, “without” across all business sectors, μ_w : mean of the group, “with” across all business sectors

Table 7. T-test for the estimated operating cost per franchisee. (unit: 1,000,000 KRW)

2018			2019			2020			2021			
	Obs	Mean	Std.Err.	Obs	Mean	Std.Err.	Obs	Mean	Std.Err.	Obs	Mean	Std.Err.
Without	334	158.6	5.9	347	153.6	5.6	360	148.9	5.9	464	149.9	4.9
With	252	216.3	9.2	258	208.1	8.3	256	182.0	9.0	273	202.9	12.7
$\mu_{wo}-\mu_w$	$H_0:\mu_{wo}=\mu_w$			$H_1:\mu_{wo}\neq\mu_w$			p-value: 0.000~0.001					
Without: franchise without franchisers' stores												
With: franchise with franchisers' stores												
μ_{wo} : mean of the group, "without" across all business sectors, μ_w : mean of the group, "with" across all business sectors												

Table 8. T-test for the estimated profit per franchisee. (unit: 1,000,000 KRW)

2018				2019			2020			2021		
	Obs	Mean	Std.Err.	Obs	Mean	Std.Err.	Obs	Mean	Std.Err.	Obs	Mean	Std.Err.
Without	334	20.3	0.826	347	24.2	0.895	360	18.5	0.759	464	16.0	0.573
With	252	23.0	1.014	258	29.3	1.166	256	18.7	1.117	273	18.6	1.350
$H_0 : \mu_{wo} = \mu_w$				$H_1 : \mu_{wo} \neq \mu_w$								
p-value: 0.036				p-value: 0.001			p-value: 0.899			p-value: 0.047		
Without: franchise without franchisers' stores												
With: franchise with franchisers' stores												
μ_{wo} : mean of the group, "without" across all business sectors, μ_w : mean of the group, "with" across all business sectors												

According to Tables 6 and 7, the results state statistically significant mean differences across two groups, "Without" versus "With" in terms of the sales and operating cost.²⁵ That is, the sales and estimated operating cost per franchisee in the group "With" tend to be higher than the group "Without" on average. Particularly, the estimated profit per franchisee in the group "With" has likely inclination to exceed the profit per franchisee in the group "Without" in spite of higher operating cost of the group "With".

3. Differences Between Franchisees

The profit of franchiser-owned store is directly linked to that of a franchiser. However, the profit of a franchisee may not be directly connected to that of a franchiser. Thus, the franchiser might not be interested in the profit of a franchiser. Recruiting more franchisees implies more revenues to a franchiser with respect to the collection of franchise fee, while total royalty revenue might be constant on the condition that total demand for products of a franchiser does not change much, and the royalty is based on the per-unit output. Thus, franchisers are more likely to focus on recruiting franchisees regardless of that franchisees possibly make profit. As indicated in Table 9, total entries exceed total exits in each business category in four successive years from 2018 to 2021. Moreover, sales amount of franchisers across all business sectors is recorded as 7.9, 7.6, 7.2, and 5.8²⁶ on average, respectively from 2018 to 2021. That is, the sales of franchisers seems to be relatively stable in three successive years and diminish in the last year. In spite of that, there seems to be the excessive entries, compared to the exits over four successive years. It implies that franchisers are mainly interested in keeping recruiting franchisees instead of that franchisers self-regulate total number of franchisees according to each trademark. Therefore, new entries are highly likely to keep occurring in the franchise market, giving rise to the systematic problem such as a cannibalization.

²⁵ This result is consistent with that of Lee [3]. He shows the negative correlation between sales and the number of franchisees' stores, and positive correlation between the sales and the number of franchisers' stores.

²⁶ Each figure is based on the unit, 10¹⁰ KRW.

Table 9. Total entries and exits from 2018 to 2021

Category of business	2018		2019		2020		2021	
	entry	exit	entry	exit	entry	exit	entry	exit
Confectionary and bakery	1,090	754	1,102	799	681	506	902	711
Chicken	3,692	2,908	3,928	2,803	4,791	2,952	4,560	3,688
Coffee	2,864	1,582	3,099	1,346	3,942	1,336	5,183	1,674
Fast food	424	291	356	260	582	228	667	261
Convenient store	5,279	2,634	5,581	2,472	6,294	2,982	6,081	2,960
Pizza	631	420	883	500	1,078	478	1,329	599

entry: to open a new store; exit: to terminate a franchise contract with a franchiser

Thus, the KFTC executes the regulation to request a franchiser to run his own stores (direct retail stores) before recruiting franchisees. It is believed that this regulation might stop franchisers from indiscreetly recruiting franchisees. Furthermore, once franchisers operate any direct retail stores, there is the likelihood that they build up either tangible or intangible assets. Since such assets are expected to be useful in reducing unobserved cost factors and enhancing productivity of franchisees, franchisers eventually would help franchisees improve their sales . Therefore, in this section, it would be demonstrated if this latter assertion²⁷ is valid as follows.

3.1. Empirical Specification

$$\ln(sales_adj)_{it} = \alpha_0 + \alpha_1 \log(mc)_{it} + \alpha_2 dum_{it} + \alpha_3 \log(mc)_{it} \times dum_{it} + u_i + e_{it}, u_i \sim N(0, \sigma_u), e_{it} \sim N(0, \sigma_e) \tag{3.1}$$

The subscript, *i* indicates a trademark, and the *t* implies year, 2018, 2019, 2020 and 2021. The data applied to Table 1 is used to esimate the equation (3.1), and it is ruled out that the sales value per franchisee according to each trademark is either zero or missing value. The dependent variable, *sales_adj* indicates the sales per franchisee for each trademark adjusted by CPI (Consumer Price Index). An independent variable, *mc* implies the marginal cost per franchisee for each trademark. A few steps are taken in order to derive *sales_adj* and *mc*. First of all, since sales per franchisee is nominal value, it is switched to real value after the sales per franchisee is divided by CPI according to each year. Then, the estimated operating cost per franchisee, total cost, is also nominal value. Thus, the marginal cost is assumed to be the value in which the estimated operating cost per franchisee is divided by real value, the adjusted sales per franchisee.

Other independent variable, *dum_{it}* is the dummy variable to equal one if franchiser owned stores (direct retail stores) for each trademark exist and zero, otherwise. Lastly, *log(mc) × dum* implies the interaction between the estimated marginal cost per a franchisee and the dummy variable. This variable is the main interest of this study since it measures the effect of a franchiser’s tangible or intangible assets on a franchisee’s sales amount through the operating marginal cost. Finally, the log transformation of some variables is taken. Table 11 shows the descriptive statistics about the sales and marginal operating cost, variables employed in the equation (3.1). As previously stated, the sales indicated in Table 10 is not nominal value but real value.

²⁷ The former assertion is that the regulation stop franchisers from imprudently recruiting franchisees.

Table 10. Descriptive statistics

	year	Obs	Mean	Min	Max
sales(adj) (unit: 1,000,000)	2018	586	2.068	0.093	9.382
	2019	605	2.043	0.039	9.963
	2020	616	1.812	0.02	10.309
	2021	737	1.820	0.029	22.104
marginal cost (unit: 1)	2018	586	88.096	85.032	98.888
	2019	605	86.281	84.201	92.362
	2020	616	89.158	86.915	105.564
	2021	737	92.954	90.041	105.663

Table 11. Comparison of marginal costs between “Without” and “With” groups from 2018 to 2021

	Obs	Mean (unit: KRW)	Std.Err.
Without	1,472	88.96	0.1
With	1,072	89.83	0.127
$H_0 : \mu_{wo} = \mu_w$ versus $H_1 : \mu_{wo} \neq \mu_w$			
p-value: 0.000			

Without: franchise without franchisers’ stores; With: franchise with franchisers’ stores
 μ_{wo} : mean of the group, “without” across all business sectors, μ_w : mean of the group, “with” across all business sectors

As expected earlier,²⁸ α_1 is expected to be negative since more cost-efficient franchisees are plausibly more productive in terms of the marginal cost. α_2 is also likely expected to be negative. More specifically, any direct retail stores (franchiser owned stores) directly compete against stores of franchisees, if consumers are not disturbed to get access to either direct retail store or franchise chain at the same time. In this context, it is possible that the former directly and negatively influences the latter. Thus, it is concluded that $\alpha_2 < 0$. Moreover, α_3 is expected to be positive. As mentioned earlier, either tangible or intangible assets of a franchiser with direct retail stores might induce cost savings of franchisees. At this respect, any direct retail stores might indirectly and positively affect franchise chains. Thus, the interaction might lead to cost savings of a franchisee, and the improved cost-efficient also expects the more productive, increasing the sales of a franchisee. Lastly. the random effect model is employed in order to estimate the equation (3.1) instead of the fixed effect model since the variation across all trademarks is assumed to be uncorrelated with the regressors included in the equation (3.1). Particularly, one regressor, marginal cost is more likely to be affected by efficiency of business management through franchisers and franchisees than characteristics of trademarks. Furthermore, another regressor, existence of direct retail stores is likely impacted by business size of franchisers. In sum, characteristics of franchisers and franchisees would have more effect on the two regressors than those of trademarks. Meanwhile, the result of the random effect model is compared to that of the regression model to show that the former model is addressing the endogeneity issue.

3.2. Result

Table 12 shows the estimation result. The two regression models seem to show the endogeneity issue. Particularly, the coefficient of the marginal cost is not statistically significant in the regression model. Considering Table 6, 7, and 11, the more operating cost likely implies the more sales on average

²⁸ It states the equation, $Q_i^* = \frac{1}{3b}(a + c_j + R_j - 2c_i - 2R_i)$

since the group, “With” is inclined to be above the group, “Without” with respect to the sales, operating cost, and marginal cost per franchisee. Thus, the sales and marginal cost per franchise would have positive relationship under the endogeneity issue unsolved. Thus, once the endogeneity issue removed, the marginal cost negatively impacts the sales. This is the reason why the random effect model is employed. In the random effect models 1, 2, 1 percent increase in the marginal cost per franchisee leads to 1.25 ~ 1.31 percent decrease in sales per franchisee, which demonstrates the negative causal relationship between the two variables. Accordingly, the more cost efficient a franchisee is, the more productive the franchisee would be.

Table 12. The estimation result

dependent variable: log(sales(adj))	Random effect 1	Random effect 2	Regression 1	Regression 2
log(marginal cost)	-1.313** (0.152)	-1.252** (0.152)	0.181 (0.244)	-0.046 (0.246)
dummy variable	-2.454** (1.015)	-2.618** (1.015)	-3.393** (1.646)	-4.143** (1.642)
interaction	0.560** (0.226)	0.595** (0.226)	0.788** (0.366)	0.953** (0.365)
log(#rival stores)		-0.051** (0.015)		-0.068** (0.012)
σ_u	0.373	0.370		
σ_e	0.155	0.154		
ρ	0.852	0.852		

Number of obs: 2,544;; * p<0.1; ** p<0.05; *** p<0.01; () standard error; interaction: log(marginal cost)×dummy variable

Furthermore, one variable $\log(\text{\#rival stores})$ is included in the random effect model 2 and regression model 2. It indicates the log transformation in the number of rival stores which is derived from the method to subtract the number of franchisees and franchiser owned stores by trademark from all franchise stores²⁹ summed across trademarks within the same category of business. For instance, suppose that there are three trademarks A, B, and C in the case of Pizza, and there are only franchisees’ stores, 10 for A, 20 for B, 30 for C, respectively. Then, the number of rival franchise stores is 50³⁰ for A, 40 for B, and 30 for C. As indicated in Table 12, 1 percent increase in the number of rival stores induces 0.05 percent decrease in sales per franchisee since each franchisee competes against other rival franchise stores depriving of consumers.

As expected earlier, the existence of franchisers’ stores negatively impacts the sales of franchisees. Despite such negativity, the result shows that the coefficient of the variable, interaction is positive, where the variable, interaction, implies the impact of either tangible or intangible assets of a franchiser on the sales per franchisee through the operating marginal cost per franchisee. Therefore, there might be a linked structure that those assets likely have impact on the estimated marginal operating cost per franchisee, which affects the sales of a franchisee in a cost-saving manner. Along the line, franchisers to run his own stores are more likely to help franchisees operate their stores in a cost-efficient manner. Accordingly, there could exist distinction between franchisers with or without their direct retail stores, which grants the rationale behind the introduction of the new regulation by the KFTC.

However, since any direct retail stores of franchisers compete against franchisees’ stores, such a competitive relation put franchisees in an unfavorable position, plausibly reducing their sales amount. Even more, any direct retail stores appear to more deprive their franchisees of consumers than rival

²⁹ They include franchisees and franchiser-owned stores (direct retail stores).

³⁰ 10+20+30-10=50.

franchise stores, although the two variables have different units and coefficient of one variable is not easily compared with that of another variable. Furthermore, when the two variables, dummy variable and interaction considered, the effect of the dummy variable seems to exceed that of the interaction. Thus, the negative effect that the existence of direct retail stores from franchisers brings about, competing against franchisees and acting as a substitute for the franchisees, might be more dominant, compared to the positive influence that franchisers help franchisees through their tangible or intangible assets, which enhances sales of franchisees.

4. Concluding Remarks

The constant new entries likely give rise to the market saturation in the franchise market of South Korea. The severe market saturation induces fierce competition which possibly results in the cannibalization. In order to deal with the issue, the KFTC introduced the new regulation that any applicant who wants to start franchise business must operate their own stores (direct retail store) for more than one year before recruiting franchisees. Thus, franchisers are expected to prudently recruit franchisees due to this regulation, and they can build up abundant tangible or intangible assets through experience to operate franchise business ahead of recruiting franchisees.

Considering the estimation result, there seems to be a structural link that is supportive to the foundation of the new regulation of the KFTC as follows. That is, once franchisers operate their own stores, they could accumulate the tangible or intangible assets through various experiences. These assets would be helpful in supporting franchisees and enhancing sales amount of franchisees. However, there might be another flip side to this regulation. In other words, if the direct retail stores of franchisers exist as rivals in the proximity of franchisees, the sales amount of franchisees is also likely to diminish. Given the estimation result shown earlier, it is considered that the latter effect is more dominant than the former effect. Accordingly, in order to guarantee that the new regulation is substantially effective, the KFTC needs to monitor that the a franchise exclusive territory would be protected by a franchiser. For instance, there might be a possible case that any direct retail store does not encroach a exclusive territory of any franchisee and be established neighborhood of any franchiser's store. In such a case, it is doubtful whether the new regulation of the KFTC is in effect. Therefore, in order to support the effectiveness of the new regulation, the KFTC needs to keep monitoring and stopping territorial encroachment.

References

1. Kang, H. Survey on Franchise Transactions in 2018(Korea version). Technical report, Ministry of Trade, Industry and Energy of South Korea, 2019.
2. Lee, J. Survey on individual business conditions in the franchise industry(Korea version). Technical report, Hana Institute of Finance, 2017.
3. Lee, J. Conflicts in the Franchise Industry: How to Forge a Win-Win Partnership. Technical report, 2019.
4. Kalnins, A. An empirical analysis of territorial encroachment within franchised and company-owned branded chains. *Marketing Science* **2004**, 23.4, 476–489.
5. Blair, R.D.; Kaserman, D.L. Optimal franchising. *Southern Economic Journal* **1982**, pp. 494–505.
6. Mathewson, G.F.; Winter, R.A. The economics of franchise contracts. *The Journal of Law and Economics* **1985**, 28.3, 503–526.
7. Michael, S.C. The effect of organizational form on quality: the case of franchising. *Journal of Economic Behavior and Organization* **2000**, 43.3, 295–318.

Disclaimer/Publisher's Note: The statements, opinions and data contained in all publications are solely those of the individual author(s) and contributor(s) and not of MDPI and/or the editor(s). MDPI and/or the editor(s) disclaim responsibility for any injury to people or property resulting from any ideas, methods, instructions or products referred to in the content.