

## Factors that Influence Women When Purchasing a Business Format Franchise

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### Abstract

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About 50 % of women in United States are involved in business, while only approximately 18 % of them are involved in business-format franchise. This study was designed to seek reasons for this rather low rate of participation. Franchisors must better understand what factors women perceived important in order for them to purchase a business-format franchise. The primary objective of this study was to determine the factors perceived important by women that influence them to make purchase decision by utilizing a survey questionnaire. 110 out of 340 female franchisees responded our survey. The results suggest that prospective women franchisees, before they purchase a franchise, must believe the franchise of their choice is secure and will be successful. They must be assured that they will be well-trained and emotionally supported, in a low risk environment, without gender bias. We hope franchisors will find this information useful as they improve on ways to influence women to purchase their franchise opportunity.

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**Keywords:** Franchising, Female Business Owners, Purchasing Decisions

### Introduction

Interest in the area of franchising continues to increase; currently, some 50% of all retail businesses in the United States are franchises, and this number continues to grow (LBC Franchising Corporation, 2013). In addition, the International Franchising Association reports that "...franchising is responsible for 760,000 businesses, 18 million jobs, 14 percent of the private sector employment, and over \$500 billion in payroll," and franchise sales are expected to top two trillion dollars by the end of 2011 (LBC Franchising Corporation, 2013). With many businesses such as restaurants, fast foods and beverage chains, hotels, etc.

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Operating as franchises, this growth has direct impact on those who pursue this business, particularly as we consider the current economy. Equally compelling is the information that franchise businesses seem to do better than traditional start-ups. Statistics indicate that up to two-thirds of new businesses are discontinued in their first five years; in contrast, 86% of franchises opened within the last five years were still under the same ownership and 97% of them were still open for business (LBC franchising Corporation, 2013). These statistics point to one compelling fact: Franchising has become the American way of doing business. The franchise method of distribution continues to contribute significantly to the American economy (International Franchise Association, 2011). It provides rapid growth for the franchisor and, more importantly, it vastly increases the likelihood of success for the small business person, namely the franchisee. At the same time, more women and minorities are seeking to become entrepreneurs and individual business owners (Smith-Hunter, 2006). The unique working relationship of franchising offers opportunity with a level of security for ambitious people who dream of owning their own businesses (Jones and Lief, 1993).

There are four types of franchise: Manufacturer/Retail Franchise (e.g., automobile dealership), Manufacturer/Wholesale Franchise (e.g., a beverage company), Wholesaler/Retailer Franchise (e.g., Agway or Radio Shack), and Business-Format Franchise (e.g., Holiday Inn). Business-format franchise is the most common, fastest growing type of franchise (Powers, 1995) and the one discussed in this study. More specifically, in this arrangement the franchisee purchases the right to use the franchisor's method of marketing, operational systems, logos, trademarks, architectural styles, and other features. The franchisor will dictate many of the details of the business such as prices, quality, products and equipment specifications, and the methods and hours of operation. The business-format franchisor derives income from up-front franchise fees, royalties, percentages of gross sales, advertising pools, and from the sales of products and services. Since franchising can be used to distribute just about any product or service, its potential seems almost unlimited (Jones and Lief, 1993).

With the success of franchises (it is estimated that one out of twelve businesses is a franchise), this paper specifically examines factors affecting women engaged in business-format franchising. This has implications for businesses including the hospitality and tourism sector as more women become business and franchise owners.

Recent research on women and minority entrepreneurs has indicated several factors for wanting to have one's own business and challenges that can negatively affect the decision (Smith-Hunter, 2006). Research by Smith-Hunter (2006) found that motivators include: freedom of choice in handling work-family conflict; issues of discrimination, such as glass ceiling at their work, and wage differences; wanting to make a contribution to society and filling a void in the market; and achieving independence and personal development. Some of the challenges to successful entrepreneurship are: lack of start-up capital, access to credit and access to adequate business networks, and limited level of business ownership experience. This can be used as a baseline for exploring issues for women franchisees to determine if similar or different factors exist.

As Powers (1995) predicted, the number of female franchise owners has been steadily growing from 34% to 42% since 1995 (International Franchise Association, 2011). The fact that women find franchising attractive should not be surprising. The glass ceiling is still considered by many to be very much a fact of life in corporate America. According to Franchise Direct, women-owned firms show more gender equity in their workforces, with women-business owner on average employing 52% women and 48% men, while men-business owners employ 38% women and 62% men (Franchise Direct, 2013). Since large numbers of women are purchasing business-format franchises and most of these franchisees are developed, owned and managed by men, this study emphasized gender as an issue in franchise development as factors were investigated to determine which components influence the purchase of business-format franchises by women.

Most franchisors and franchisees agree that it is important to understand and assess the rational and emotional factors inherent in different franchises before making a final decision to purchase. Since most franchises are developed, owned, and managed by men and then sold to male franchisees, not much thought has gone into the needs of women franchisees. IFA reports that only 23 franchise systems are founded by women in the United States (Franchise Direct, 2013). For practical purposes, it has been assumed by franchisors that the needs and wants of men and women are the same. However, based on cultural, educational, and job experiences, women may have a special set of needs and wants that should be recognized. These needs and wants have to be satisfied before the female prospect can be influenced to purchase a business-format franchise and subsequently become successful at that franchise.

These needs and wants are manifested in rational and emotional factors offered by a franchisor to influence a woman to purchase that franchise and then to be successful in its operation. Franchisors have not identified the factors that influence women deciding whether or not to purchase a particular franchise. Since women currently make up one-third of business-format franchise purchasers and since this figure is expected to increase, it is vital for the success and growth of franchises that the factors influencing women to purchase are fully researched and reported.

The paper is structured as follows. The next section consists of the factors that influence women to purchase a franchise, search patterns they used for their franchising decision, and theoretical development. Then the methodology and research design are presented, followed by the findings and implications for future research.

### **Theoretical Development**

The American corporate landscape is changing. Many major corporations and institutions are downsizing and developing new business strategies to cope with a shrinking market for defense related products. As a result, an unprecedented number of skilled employees and middle to upper-level managers have been forced to reenter the labor market. Many have decided that the uncertainty and the stress of life within large organizations are no longer attractive, and they are looking to own their own small business (Shivell and Banning, 1995). For decades, a significant amount of that growth has come from businesses that are part of a business-format franchise network. The concept of owning a franchise business has expanded rapidly (Powers, 1995). Especially the business-format franchises can be operated from home or a mobile location which keeps costs and overhead expenses to a minimum (Powers, 1995). This feature of business-format franchising has attracted individuals who want flexibility while running business since one in four small businesses are home-based and 85% of small firms are operated by owner-managers (LBC Franchising Corporation, 2013).

Business-Format Franchising is the most common type of franchising today and the focus of this paper. The franchisor licenses the business methods it has established and that are identified by its trademark. The franchisee's methods of operation are significantly controlled by the franchisor.

The franchisor most often provides significant assistance to the franchisee in the operation of the business, under the guidelines of the Franchise Disclosure Act of 1979. The franchisee is required to pay ongoing fees or royalties to the franchise company. Franchisors provide a wide variety of assistance for franchisees, such as financing, site selection, lease negotiation, co-op advertising, training and assistance with the grand opening. The extent of ongoing support to franchisees also varies among franchisors. Support areas include control data processing, central purchasing, field training, field operation, evaluation, newsletters, regional and national meetings, a hot line for advice and franchisor-franchisee advisory councils. The availability of these services is a critical factor in the decision to purchase a franchise and may be crucial to long-term success of marginal locations or marginally prepared owner/operators.

As discussed earlier, this paper identifies the problem of the lack of female representation in male-dominated franchising business world and it's our intention to focus on the business factors (rational and emotional services offered by the franchisor) women want and must have before deciding on a business-format franchise purchase. It's our assumption that women may have different rational and emotional needs than men because of their particular experiential and educational background.

Hedy Ratner, of Chicago's Women's Business Development Center, has pointed out that women tend to be more successful than men in starting businesses because women take classes, often start their businesses out of their home, tend to keep their expenses down, and not need all the perks that men need as they go into business (Nelton, 1992, p. 66). A study by Drs. Scott Weaven and Carmel Herington added that "[female franchisors] were pulled into self-employment to satisfy a combination of personal intrinsic needs and to realize socially desirable outcomes (Weaven & Herington, 2006). The Weaven and Herington study also stated that, "females with previous self-employment experience reported that they originally perceived franchising as the most efficient method of replicating an ethical, reliable, and community-driven business concept" (Weaven & Herington, 2006).

Another interesting topic is what factors influence a woman to purchase a particular type of franchise. In the business world, women remain a target market that is ripe for franchising.

This gender group is ready to prove they are talented and can be successful. However, it seems that most male-owned franchisors are not aware of the unique needs of potential women franchisees. In 1976, women owned less than seven percent of the franchises and franchisors generally believed that there was no difference between the performance of women and men (Hunt, 1978). Recently, even though some franchisors have been trying to reach women group but failed to use the right way. For example, one company took a creative approach in 1994, sponsoring an essay contest to attract female franchisees (Bernfeld, 1995). However, Bernfeld states that, in general, franchisors find targeted campaigns unnecessary since female corporate dropouts read the same business periodicals and go to the same trade shows as their male counterparts.

"A variety of techniques can be utilized to reach women," indicates Tom Gunderson, franchising vice-president for Express Services Temporary and Permanent Personnel. "First, advertising is a necessity. It is imperative you (the franchisor) gain name recognition. This can be done either on a national scale or by concentrating in areas where your company has franchises available." (Haneborg, 1992, p. 30). A second technique, according to Gunderson, would be to saturate an area with advertising, networking and telemarketing. Gunderson believes their most successful and dependable marketing tool by far has been through referrals from within his company structure that they have acquired approximately 50% of their franchises through the company network (Haneborg, 1992, p. 30).

The traditional obstacles to women in starting a franchise are lack of management or other business experience and difficulty in raising capital. A good franchise with a developed business format can help break through the first obstacle by supplying procedures, training, and ongoing support, making this one reason franchises are attractive to women (Applegate, 1993; Roba, 1994). Once the franchise opens, the franchisee receives advertising materials for local newspapers, promotional tips, direct mail, and a multitude of other materials to help define and reach their target market (Harris, 1992). The greatest challenge for women entrepreneurs and franchises is to find a franchise which will take them seriously (Whittemore, 1995). The support and assistance franchisors can offer would become essential for women to make purchase decisions.

Based on the relevant literatures, we have identified the following topics in this paper.

First, what are the factors influencing women to purchase a franchise; including rational factors (success and support/training issue) and emotional factors (security, risk, and gender issue). We argue women are more likely to focus on these issues when they make purchase decisions. Second, what is the most popular search pattern (source) female used to find a franchise that they later purchased. Six search patterns are identified, including commercial advertising, peer recommendation, personal research, business consultant, business club, and family member recommendation. Last, rational and emotional factors would be differentiated across various female groups in terms of education level, age, and geographical regions.

## **Methods and Analyses**

A paper-based survey questionnaire was developed to gather information regarding. The survey questions were first generated by the literature reviews and focus groups, and then pretested and validated by women in the academic business community.

Since it was impossible to distribute our survey to all female franchisees in the United States, we targeted the listed female members in the database of *Franchising Association*, *International Franchise Association*, and *Franchise Times*. Three hundred and forty survey questionnaires, followed by reminder postcards a week later, were sent out to all female members in the database. One hundred and twelve people responded the study. High response rate (32.94%) might be due to the provision of reminder postcards and stamped return envelopes.

Respondents represent samples from thirty-one states. More than 80% of them had been involved in the franchising businesses one to ten years. They are involved in various types of franchise services, including food (17%), cleaning (16.1%), clothing (13.4%), signs of advertising (12.5%), retail sales and gift ware (8.9%), exercise and fitness (8%), travel (7.1%), computers and education (7.1%), and other (9.9%). 17% of the respondents have a high school diploma, 54.5% of them have a college degree, and 22.3% of them have a graduate degree. Most of the respondents (41.1%) were over 45 years old; while only 2.7% of them were under 25 years old. Most of them reported they received no training prior entering franchising business.

They (91.9%) also reported high level satisfaction about their franchise operation; only nine individuals rated their operation as not successful and four regretted their franchise purchase decision.

Chi-Square analysis, ANOVA, and Bartlett's Test of Equal Variance were used to examine the differences among women in respect to their needs. More specifically, the impacts of various issues, including security, success, support/training, risk, and gender, on women's franchise purchasing decision were tested in sequence. Table I and Table II summarized the results of ANOVA analyses regarding emotional and rational factors respectively.

**Table I: Summary of One-Way ANOVA regarding Emotional Factors**

		df	SS	MS	F	Sig.
<i>Security Issues</i>						
Security	Between Group	1	32.74	32.74	165.54	0.0000
	Within Group	102	20.17	0.1978		
	Total	103	52.91			
Convenient	Between Group	1	45.3	45.3	275.34	0.0000
	Within Group	101	16.62	0.1646		
	Total	102	61.92			
Safety	Between Group	1	35.03	35.03	43.84	0.0000
	Within Group	106	84.71	0.7991		
	Total	107	119.7			
<i>Risk Issues</i>						
Equal risk as other businesses	Between Group	1	57.8	57.8	293.51	0.0000
	Within Group	104	20.48	1.969E-01		
	Total	105	78.27			
Reliability	Between Group	1	107.8	107.8	129.22	0.0000
	Within Group	106	88.44	8.343E-01		
	Total	107	196.3			
<i>Gender Issues</i>						
Women has less opportunity	Between Group	1	62.23	62.23	314.21	0.0000
	Within Group	105	21.13	0.2012		
	Total	106	84.36			
Woman are not taken seriously in business	Between Group	1	63.16	63.16	202.80	0.0000
	Within Group	104	32.39	3.115E-01		
	Total	105	95.56			
Women need male administrative support for success	Between Group	1	34.38	34.38	147.89	0.0000
	Within Group	107	24.87	2.324E-01		
	Total	108	59.25			
Women less favored than men for business opportunities	Between Group	1	57.79	57.79	304.94	0.0000
	Within Group	105	19.90	1.895E-01		
	Total	106	77.68			

In general, the results indicated that most women agreed that both rational and emotional factors are important in choosing a business-format franchise; especially rational factors, success and support issues, are weighted heavily in the decision to make a franchise purchase. In terms of security issues, the ANOVA analyses (see Table I) revealed female franchisees tend to agree that security was important in their buying decision and regarded franchising as a relatively secure form of business than other businesses. Women in our study also took into consideration the convenience and security of this form of business as it related to their family situation. One respondent further indicated that people should consider resale value when they evaluate business opportunities.

Surprisingly, the women surveyed tend to agree that buying a franchising was not less risky than starting their own new business (see Table I). This finding was opposite to the selling point for franchising that franchises are safer. However, they still choose a franchise that they deem reliable – one they saw as honest, ethical and believable.

As for gender issue, this study showed mixed results (see Table I). The women surveyed tend to agree they have similar opportunities in business as their male counterpart. However, they believed they were not taken seriously enough in the business world and they were less favored than men for business opportunities. One female expressed her anger by commenting “I really don’t know why I filled this out because it is not going to matter at all. Women will NEVER get credits like men in the world today. FACT!”

As expected, success for women in their future business enterprise is another factor very important when women make purchasing decision (see Table II). In particular, the results showed that female franchisees tend to believe they are more likely to succeed with a franchise than other businesses. One female owner even specified in the survey that “franchise gives you a good start; if you follow their advice usually you are successful.” Interestingly, these women indicated they were good managers before they begun to look for their own business.

**Table II. Summary of One-Way ANOVA Analyses Regarding Rational Factors**

		df	SS	MS	F	Sig.
<i>Success Issues</i>						
More likely to succeed	Between Group	1	34.78	34.78	156.75	0.0000
	Within Group	104	23.07	2.219E-01		
	Total	105	57.85			
An ideal venture	Between Group	1	31.20	31.20	216.79	0.0000
	Within Group	98	14.11	1.439E-01		
	Total	99	45.31			
Women as good managers	Between Group	1	12.59	12.59	50.53	0.0000
	Within Group	106	26.4	0.2491		
	Total	107	38.99			
<i>Support/Training</i>						
Responsive	Between Group	1	114.2	114.2	181.05	0.0000
	Within Group	105	66.26	6.310E-01		
	Total	106	180.5			
Supportive	Between Group	1	153.83	15.83	63.71	0.0000
	Within Group	105	26.08	2.484E-01		
	Total	106	41.91			
Entry level training	Between Group	1	59.63	59.63	249.27	0.0000
	Within Group	106	25.36	2.392E-01		
	Total	107	84.99			
On-going training	Between Group	1	143.1	143.1	204.7	0.0000
	Within Group	105	73.4	0.6991		
	Total	106	216.5			

These female franchisees tended agree that a business format franchise was more supportive to their particular needs; including adequate entry level and ongoing training provision (see Table II). One comment from a respondent was "it's good that you have other people to discuss your successes with, as well as your problems."

From the relevant literatures, sources to find a franchise that they later purchased were explored. They prefer to use personal research (34.9%) or commercial advertising (17.4%) than rely on others' recommendation (peer 12.8% or family members 7.3%) or business club/consultant (4.6%). It seems surveyed female franchisees share the same characteristic that they would like to search for franchise opportunity on their own.

## Conclusions

The results of this study supported the importance of the developed constructs and that both rational and emotional factors are essential for women when purchasing a franchise.

It reveals that franchisors and franchise sale brokers should pay closer attention to these issues in order to successfully promote their franchises to female targets. Especially they need to work on solving the gender issues that female tend to perceived unfavorable in business world. For example, franchisor might offer a special financing/assistance plan for women interested in joining in the franchise to respond the issue one of our respondents pointed out that “Franchises are easier for women who work to go into their own business. However, the franchisor is still men, and men control the finances. My husband had to get the loan needed to start the business.”

This study provides a starting point for further research focusing on female franchises. At this time, more than seventy-five industries use franchising as a way to disseminate products and services to the general population (LBC Franchising Corporation, 2013); however our sample size is relatively small and only represents less than ten industries due to protected franchisees information. Future researchers will need to find a way to reach more female franchisees or focus on different industries.

Our respondents didn't agree that buying a franchising was less risky than starting a new business. The findings regarding risk issues worth further examinations. Future research should focus on developing and refining a survey to assure a reliable and valid measure of the attitudes of woman franchisees. This certainly has implications for practitioners in this field because they will be able to better match women who will be more likely to be successful for a particular franchise.

It would be beneficial to replicate this research with all franchisees and make a comparison between male and female groups. As several respondents in our study commented the issues shouldn't be gender-oriented, since “sex has nothing to do with ability” or “like any other business, there are great franchises and lousy ones. It doesn't matter if you're a man, a woman, or a dog!”

Another interesting topic is the search patterns regarding how people find franchising opportunities. It seems that commercial advertising is not a powerful way for women in our study. It's important for practitioners to be aware of this situation. It is either because their commercial is not effective or persuasive.

This study examined and discovered those rational and emotional factors which influence a woman's decision to purchase a business-format franchise. With the important business factors identified, the franchisor will have a better understanding of the factors that potential women purchasers want and need when deciding to purchase a business-format franchise. Subsequently, the franchisor could add factors and services that are highly attractive and influential for potential women franchise purchasers. Likewise, factors and services could be removed that have been found to have a negative impact on potential women franchise purchasers. This would mean a savings of time, effort, and money, and would streamline the purchasing process.

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