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Roger D. Blair and Francine Lafontaine
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THE ECONOMICS OF FRANCHISING

This book describes in much detail both how and why franchising works. It also analyzes the economic tensions that contribute to conflict in the franchisor–franchisee relationship. The treatment includes a great deal of empirical evidence on franchising, its importance in various segments of the economy, the terms of franchise contracts, and what we know about how all of these have evolved over time, especially in the U.S. market. A good many myths are dispelled in the process. The economic analysis of the franchisor–franchisee relationship begins with the observation that for franchisors, franchising is a contractual alternative to vertical integration. Subsequently, the tensions that arise between a franchisor and its franchisees, who in fact are owners of independent businesses, are examined in turn. In particular, the authors discuss issues related to product quality control, tying arrangements, pricing, location and territories, advertising, and termination and renewals.

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*To my parents, Jacques and Thérèse, who would have been proud,
and my family, Robert and Colette, for always being there for me.*

*To the memory of my parents, Duncan and Eleanor Blair,
who gave me so much.*

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Preface

Franchising has become a very visible part of the economic landscape in the United States. Its role in distributing products to customers in the rest of the world has also grown considerably over the last several decades. In this book, we describe what franchising is and how it works. In most situations, franchising works very well for franchisors, franchisees, and consumers alike, which is why it has grown to the extent that it has. Because it works well most of the time, we expect that franchising will continue to flourish in the world economy. At the same time, however, we know from economic principles that franchise relationships are by their very nature fraught with many difficulties arising essentially from differences between the needs and goals of the franchisors and those of the franchisees. Economists and management researchers have made significant progress in the last twenty or so years toward increasing our understanding of the sources of these problems. We highlight much of their work in this book.

We had many goals in writing this book. First, from a managerial perspective, we hope that an improved understanding of the basic sources of friction in franchise relationships will allow franchisors and franchisees alike to develop better ways of dealing with each other's concerns, either through the franchise contract itself or through other means of their choosing. Second, from a public policy perspective, we hope that jurisdictions considering various forms of regulation and control of franchise relationships will be better able to assess the validity and merit of the claims made by interested parties, and thus the cost and benefit of various forms of intervention. In particular, we explore the not-so-obvious consequences of many types of public policies. Finally, from an academic perspective, we want to provide researchers with a clearer understanding of franchising as an institutional framework. By doing so, we hope to foster more interest in the study of franchising itself and of contracts and organizations more generally.

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