

The Profile of Franchising

Volume III: A Statistical Abstract of
1998 UFOC Data

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Appendix B

THE “MISSING COMPANIES STUDY”

By Kathryn Morgan, Director of Research
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The **Profile** of Franchising has been a three-year project analyzing information from Uniform Franchise Offering Circulars for franchise systems registered in one of the twelve registration states. Volume I reflected the data from 1,156 franchising companies. Volume II reflected the data from 1,178 franchisors. At first glance, it would appear that the group of franchisors in registration states was remarkably stable over this two-year period with only eighteen new companies joining their ranks, however, the bare numbers concealed a surprise.

Although the total number of companies remained almost the same, they weren't the same companies. Matching the identities of the companies in Volume I against those in Volume II showed that 321 franchise systems were “missing” and had been replaced by 339 “new” ones. The fact that there were new companies going through the registration process didn't bother us. After all, franchising is inherently expansionist and the registration states include some of our largest population centers. But what happened to the 321 companies present in Volume I and missing from Volume II?

We hypothesized several possibilities. The companies could still be franchising but elsewhere. The companies could be out of franchising. The companies could be out of business. Etc, etc. But an issue of so much potential significance could not be simply guessed at, for we were looking at a study population turnover of 27.8% (321 out of 1,156 franchisors).

To address the issue, the IFA Educational Foundation and FRANDATA jointly paid for an investigation to track down every “missing” company and determine – if possible - why it wasn't registered. FRANDATA carried out the task using phone, fax, e-mail and the web. The following pages summarize the findings of that investigation in detail. In brief, 151 companies are still franchising; 117 are no longer franchising; 53 couldn't be contacted. Of these 53, 8 were contacted but refused to talk; 23 still exist but did not respond to any contacts; and 22 couldn't be found. This could imply a franchisor “closure” rate of somewhere between 2% (22 out of 1,156) and 4.6% (53/1,156).

The “Missing Companies” phenomenon is however, important for another reason. There is no reason for us to believe that the years of this study were atypical. No significant new legislation affecting franchising was passed. The economy was stable and good. It is only reasonable to assume, therefore, that this franchisor turnover in the population of registered companies will continue. This change must be kept in mind as one looks at differences in study results from one year to the next. The companies may not be changing the way they handle a particular issue such as contract length. Rather, it is different companies being measured.

INTRODUCTION

Beginning in 1997, FRANDATA Corporation and the College of Business and Public Administration at the University of Missouri - Columbia embarked upon a three-year project for the International Franchise Association Educational Foundation entitled the “**Profile** of Franchising.” Volume I of the **Profile**, which was released in 1998, was based upon data collected from Uniform Franchise Offering Circulars (UFOCs) registered in one of the twelve registration states, with an effective date during fiscal year 1996. Volume II of the **Profile**, which was released in March 1999, was based upon data found in registered 1997 UFOCs. There were three hundred and twenty one franchise systems whose UFOCs were included in Volume I but not Volume II of the **Profile**.

Following the release of Volume II of the **Profile**, FRANDATA began a systematic study to determine the fate of these three hundred and twenty one franchise systems -- the “Missing Companies.” This study, which included an extensive telephone, fax, e-mail, and web-based investigation of the Missing Companies, sought to determine (1) whether each Missing Company was franchising in 1997; (2) if so, why the company was not included in Volume II of the **Profile**; and (3) if not, whether the company intended to franchise in the future. Accordingly, FRANDATA has classified each of the Missing Companies according to three major categories, and additional subcategories. A tabular summary of these results is attached as Exhibit 1.

DISCUSSION

On the broadest level, FRANDATA classified each Missing Company according to whether or not it was franchising in 1997. One hundred fifty one (151) of the Missing Companies offered franchises in 1997. One hundred seventeen (117) of the Missing Companies were not offering franchises in 1997. No information was available on the remaining fifty three (53) companies. A pie chart representing the breakdown of these three categories, each of which is further discussed below, is attached as Exhibit 2.

- Offered Franchises in 1997

There are three reasons why a company that was offering franchises in 1997 may not have been included in Volume II of the **Profile**. First, while the company may have been offering franchises during 1997, they may have stopped offering franchises in a registration state, and as a result, their UFOC was no longer publicly available, and could not be included in the **Profile**. Second, the company may have been offering franchises under a registration that was filed in 1996 and remained valid for part of 1997, but the company did not renew that registration in 1997. Third, FRANDATA may not have been able to obtain the company’s UFOC from the relevant registration state in time to include it in Volume II, as there was a necessary “cut off” date for obtaining documents. Please see Exhibit 1 for details.

- Not offering franchises in 1997

Of the one hundred seventeen (117) companies FRANDATA contacted that were not offering franchises in 1997, ninety three (93) had no plans to offer franchises in the future. Thirty (30) of the companies are presently maintaining franchisees. Eleven (11) of the companies have offered franchises since 1997.

- No Information Available

There are two reasons why there may be no information available on the remaining fifty three (53) companies. First, there were forty five (45) companies for which FRANDATA was unable to either locate or communicate with a company representative. Second, there were eight (8) companies whose representatives refused to provide any information. Of the forty five (45) companies in the first group, FRANDATA was able to obtain a telephone number, fax number, and/or a contact name for twenty three (23) of them. However, despite repeated telephone calls and/or faxed requests for information, FRANDATA never received a response from the company. FRANDATA was unable to locate any information for the remaining twenty two (22) companies. FRANDATA searched for information on these companies using the following sources:

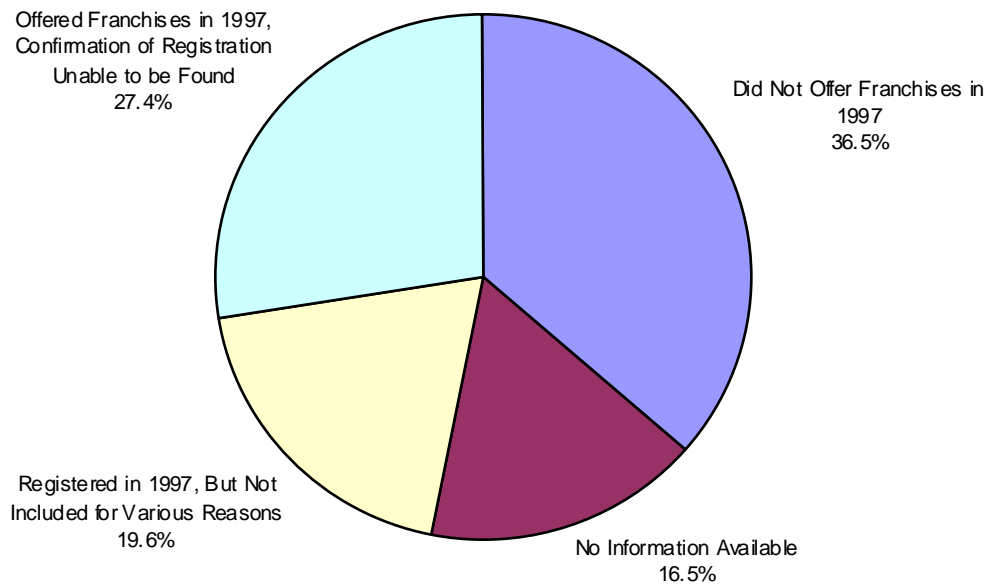
- information provided in the 1996 UFOC
- telephone directory assistance
- online franchise directories
- online business directories (i.e., Hoover's)
- Internet search engines (i.e., Yahoo, Hotbot)

Missing Company Study Results: Exhibit 1

	<u># of Systems</u>	<u>Footnote</u>
Offered Franchises in 1997		
97 Doc Not Received By Cut-Off Date	33	1
Found Abandonment in 97	2	2
Is a Non-Standard Document	28	3
No 97 Doc In House and No Reg		
Offered franchises in 1997 UNDER A DIFFERENT NAME	1	
Offered franchises in 1997, but NOT in a Registration State	18	
Offered franchises in 1997, but only in California and/or New York	38	4
Offered franchises in 1997, in a Registration State, according to franchisor	23	5
Offered franchises in 1997, no information available regarding Reg state or non-Reg state from franchisor	8	6
Not Offering Franchises in 1997		
No 97 Doc In House and No Reg		
Not offering franchises in 1997 but is offering in 1998	7	
Not offering franchises in 1997 or 1998 but is offering in 1999	4	
Not offering franchises in 1997 or since, but plans to offer in the future	3	
Not offering franchises in 1997 or since, may offer in the future, is maintaining F/sees	7	
Not offering franchises in 1997 or since, may offer in the future, NOT currently maintaining F/sees	3	
Not offering franchises in 1997 or since, NO plans to offer in the future, is maintaining F/sees	23	
Not offering franchises in 1997 or since, NO plans to offer in the future, is NOT maintaining F/sees	70	
No Information Available		
No 97 Doc In House and No Reg		
Could not be reached/No information available	45	
<i>Reached, but refused to provide information</i>	8	

Exhibit 2

Breakdown of Companies in Volume I but not in Volume II



Footnotes

1. These were companies that had a valid registration during fiscal year 1997, but FRANDATA was unable to obtain a copy of the document from the state by the cut-off date. Please note that registration states are not legally obligated to respond to Freedom of Information Act (FOIA) requests for copies of documents within any specific period of time.
2. These were companies that had a valid registration early in 1997, but then “abandoned” that registration (typically due to a bankruptcy).
3. These were registered UFOCs which were not the “standard” program for the franchise system, and were thus not included in the study. Please note that we did not include “non-standard” documents only in the situation where we already had a “standard” document for that system.
4. The states of California and New York did not make full registration lists available during fiscal year 1997. Franchise was able to provide both states with a list of previously registered systems to check, and they were able to locate all but 38 of these systems prior to the cut-off date.
5. According to telephone conversations with these systems, they told us they had a valid registration during 1997. However, our independent investigation did not confirm this. Our feeling is that either (a) the system was not aware of its true filing status, or (b) the system had a valid 1996 registration that continued into part of 1997 (e.g., a 9/15/1996 effective date), but their did not renew the registration in 1997.
6. These systems told us they were offering franchises in 1997, but did not know whether they were registered or not. FRANDATA’s independent investigation of these systems could not confirm a valid registration during 1997.

Synopsis

There were 321 franchise systems that were in Volume I of the Profile of Franchising that were not in Volume II. The reasons for this are as follows:

- 1) 117 (36.5%) of these companies were not offering franchises in 1997
- 2) 53 (16.5%) of these companies were not able to be contacted or found
- 3) 63 (19.6% of these companies were registered in 1997, but
 - a) their filing were non-standard documents;
 - b) their filings were abandoned later in 1997; or
 - c) the documents were not received by the cut-off date of the **Profile**
- 4) 88 (27.4%) of these companies said they were franchising, but either (a) FRANDATA could not verify a 1997 registration or (b) they were only selling in non-registration states.