# MODEL OF FRANCHISORS OPTIMAL STRATEGY

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Let franchisee income be equal to $\pi$,

$$\pi = \alpha e_f + \beta e_F + \gamma \left( E_f + E_F \right) + \varepsilon$$

$e_f$ — franchisees individual efforts (outlet management etc);

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$E_f + E_F$ — combined franchisee and franchisor efforts (franchisors individual support for this franchisee and franchisee efforts to comply to franchisors recommendations);

$\varepsilon$ — a random variable with mean 0;

$\alpha$, $\beta$, $\gamma$ — multiplicators that show productivity of respective efforts.

Efforts are functions of resources — the higher the efforts are, the bigger are resource expenses.

Franchisor income $\Pi = r\pi$, where $r$ is royalty rate.

Therefore, if $\beta > \gamma$ then franchisor will develop a franchise network, but he will reduce the amount of services provided to each franchisee and will invest into general development of franchise network instead. He will develop methods of franchisee selection, methods of training of franchisees etc as it is more resource effective for him:

$$e_F = E_F = \varphi \left( R \right)$$

$R$ — resources spent by franchisor in order to ensure the required amount of efforts,
$\frac{\partial \pi}{\partial e_f} > \frac{\partial \pi}{\partial E_F}$, as $\beta > \gamma$.

Empirical data support these results for mature franchise networks [1].

If $\gamma > \beta$, then it would be more resource effective for franchisor to set up a network of independent sales or service points under different brands, and each point will receive an individual support. It means that it is better for franchisor to invest into independent development of each sales point instead of setting up a uniform franchise network. There is an example of such network on Russian restaurant market — Ginza Group that operates tens of restaurants under independent brands.

So the model of network development (franchising or differentiated sales points) depends on productivity of franchisors individual and collective efforts

**REFERENCES**

[1] T. Hossain, S. Wang. Franchisor's Cumulative Franchising Experience and Its Impact on Franchising Management Strategies. *Journal of Marketing Channels*, **15** (1):43–69, 2008.