CHAPTER 3

LIFE CYCLES AS A BUSINESS PHENOMENAN

3.1 INTRODUCTION

"*We know that living organisms – whether they are plants, animals or people – are subject to a phenomenon called life cycles. Organisms are born, grow, age and die. As they change along the life cycle, these organic systems have predictable patterns of behaviour. At each stage, the behavioral patterns manifest themselves as a certain struggle, as difficulties or transitional problems which the system must overcome*" (Adizes 1988:xiii).

This chapter will strive to understand the phenomenon of life cycles and will specifically consider life cycles in the franchising context and even more so life cycles from a franchisee-franchisor relationship perspective.

3.2 DEFINITION OF A LIFE CYCLE

According to the Concise Oxford Dictionary (1999) "life" is "*the condition that distinguishes animals and plants from inorganic matter, including the capacity for growth, functional activity and continual change preceding death*". According to the same source, "cycle" means "*a series of events that are regularly repeated in the same order*". "Life cycles" would therefore be, a series of events that are regularly repeated in the same order in the period between life and death.

In the consulted literature, numerous references to "life cycles" where found not only in the biological and natural sciences, but also in the economic sciences literature and even the theological sphere to mention but a few. A multitude of literature is available on this subject since any organism, whether it be a person, animal, plant, company, market or religion, that has the ability to function and

grow (i.e. live) will go through a series of events that will repeat themselves in the same order within this growth and developmental process.

Because there is such a wide variety of work on life cycles, it was decided to focus on the life cycles that are found in economic and business sciences literature. Probably one of the most well known life cycles is that of the product life cycle. The product life cycle and various other life cycles will be discussed in the following sections. Life cycles as found in franchising literature will then also be considered with specific focus on life cycles pertaining to the franhcisee-franchisor relationship.

3.3 RESEARCH ON THE LIFE CYCLE CONCEPT

It is necessary to understand the difference between a "concept" and a "curve" before continuing with the discussion of life cycles in order to minimize confusion.

3.3.1 Operational Definitions

Cooper and Schindler (1998:35) define a concept as "*a bundle of meanings or characteristics associated with certain events, objects, conditions, situations, and the like*". They state that concepts are created by "*classifying and categorizing objects or events that have common characteristics beyond the single observation.*" A "concept" is therefore an aggregate of observations i.e. an average.

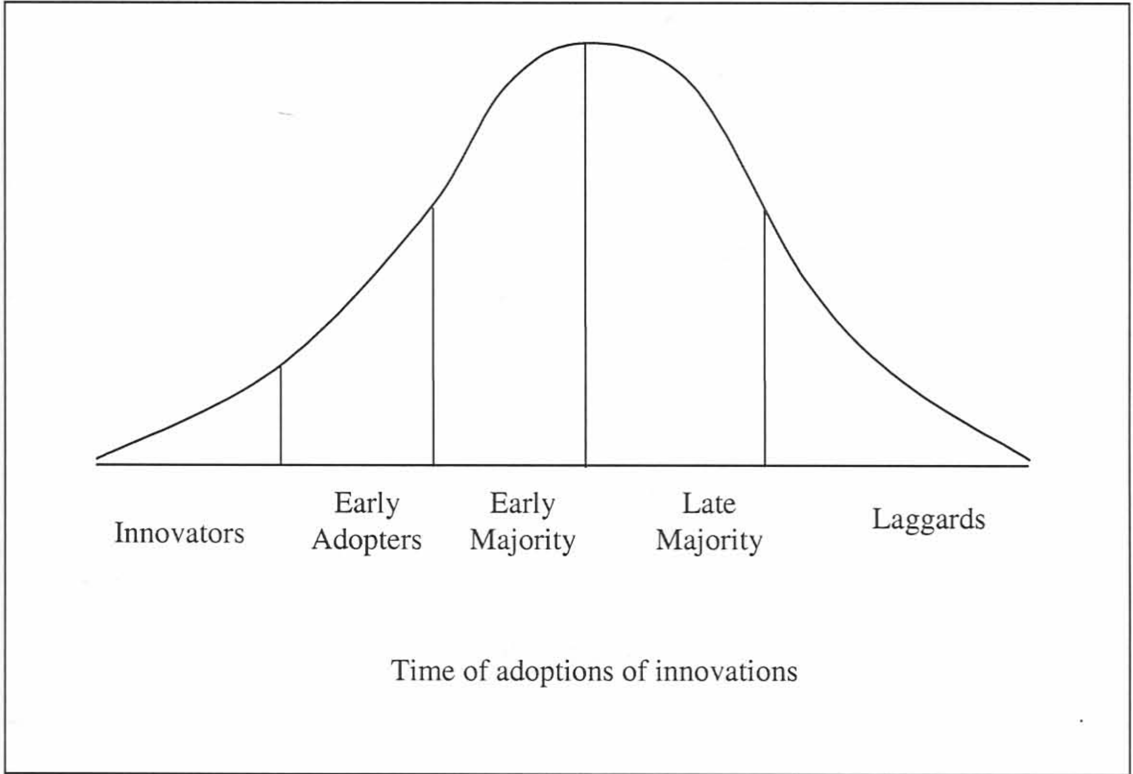
A "curve" is defined as a line or outline which gradually deviates from being straight for some or all of its length (The Concise Oxford Dictionary 1999). When using the term "curve" reference is made to a curved line or shape based on a single observation.

3.3.2 The Diffusion Curve

The product life cycle concept (which will be discussed in the next section) is based on the adoption of innovation and the diffusion process. According to Kotler et al (1996:297) the adoption process can be defined as "*the mental process through which an individual passes from first learning about an innovation to final adoption*". The adoption process is the development of a consumer's awareness regarding a product up to the point of using or adopting the product on a regular basis, while the diffusion process is the process by which an innovation develops from "inception" to "use" by the consumer. The diffusion process is the aggregate of all individual adoptions over time (Hisrich and Peters 1991:282).

It has been found that there are different "adopter categories" based on the speed at which consumers adopt a new product or concept, and that the distribution resembles that of a normal distribution (Kotler et al 1996:298; Hisrich and Peters 1991:282). The diffusion curve is shown in Figure 3.1

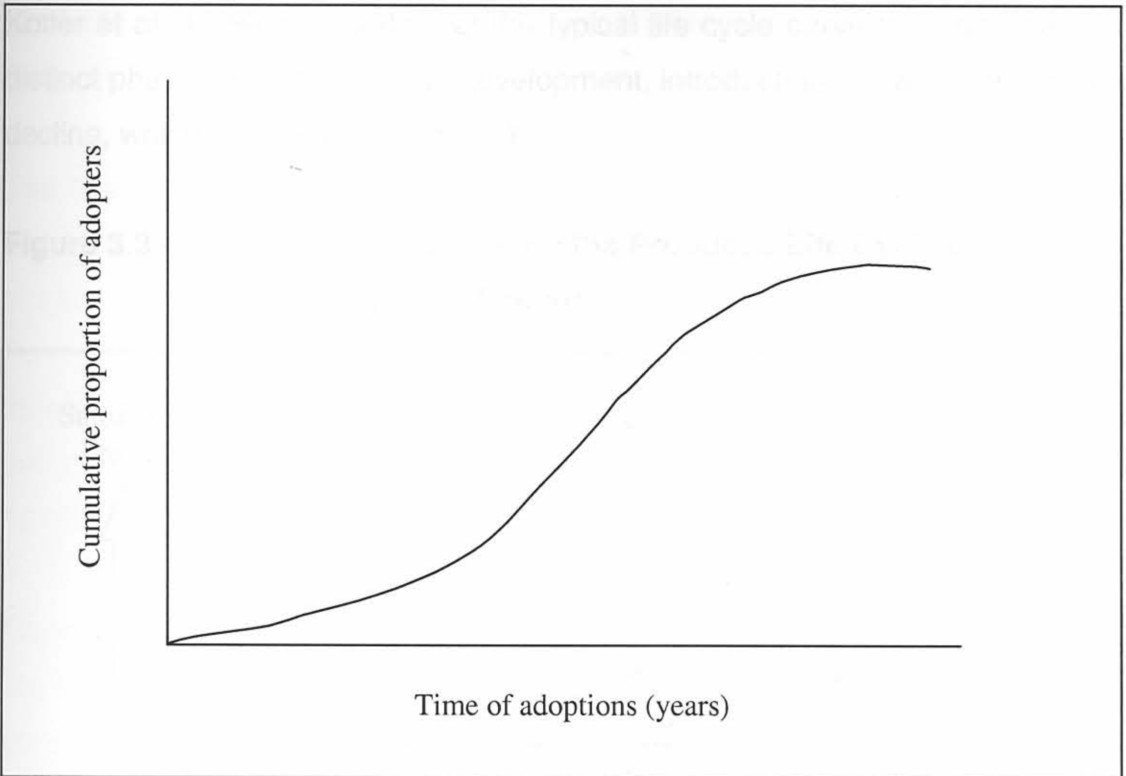
Figure 3.1 – Market Segments Identified by Time of Adoption of New Product



Adapted from: Hisrich RD and Peters MP. 1991. Marketing Decisions For New And Mature Products. Second Edition. Macmillan Publishing Company: New York. p 285.

The diffusion process can also be depicted as a cumulative curve, which is very similar to the product life cycle. The cumulative diffusion curve is shown in Figure 3.2

Figure 3.2 – Cumulative Diffusion Curve



Adapted from: Hisrich RD and Peters MP. 1991. Marketing Decisions For New And Mature Products. Second Edition. Macmillan Publishing Company: New York. p 286.

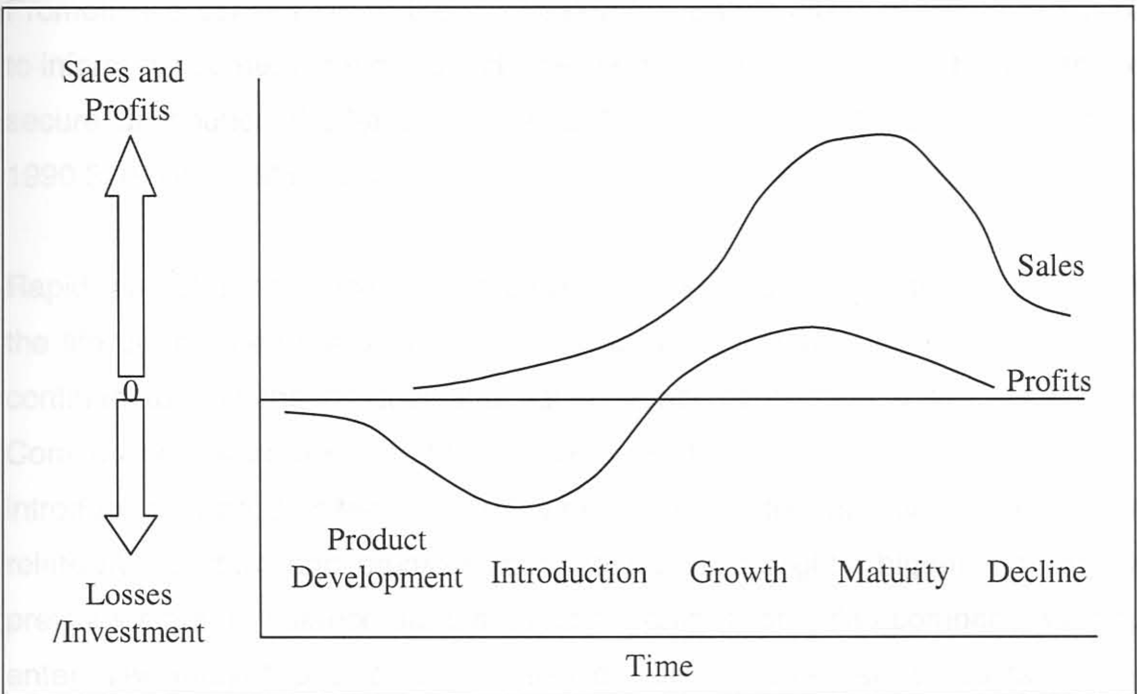
The difference between the "diffusion curve" (cumulative) and the "product life cycle" curve is that the "diffusion curve's y-axis" represents the proportion of consumers in a market that adopt the product or innovation, while the "product life cycle curve's y-axis" represents absolute rand value of sales.

3.3.3 The Product Life Cycle Concept (PLC)

The product life cycle describes and models the stages through which a product passes (Rosenbloom 1990:318). According to Harrell and Taylor (1981:70) "*the product life cycle is a quantitative expression of unit sales volume of a specific product category or class from introduction to market demise.*" Perreault et al (1999:272) state that the product life cycle describes *industry sales* and profits of a product idea within a particular product-market. An individual product or brand may therefore not follow a typical life cycle pattern.

Kotler et al (1996:531) state that all products have a life cycle, although the shape and the length of the life cycle curve are not easily known in advance. Kotler et al (1996) also state that the typical life cycle curve (concept) has five distinct phases, namely product development, introduction, growth, maturity and decline, which are shown in Figure 3.3.

Figure 3.3 – Sales and Profits over the Product's Life Cycle from Development to Decline



Adapted from: Kotler P, Armstrong G, Saunders J and Wong V. 1996. Principles of Marketing. Prentice Hall: Europe. p 532.

The time progression, represented on the horizontal axis, can vary from days to years, depending on the nature of the market. The marketing mix of the product will also vary during each of the stages due to changes in consumer tastes and attitudes, cultural changes, competition, government influence and economic conditions (Hisrich and Peter 1991:9). Each of these life cycle stages (which will be discussed shortly), therefore reflects different opportunities and threats which require appropriate marketing and management strategies.

The product development phase is not always included as part of the product life cycle concept. This is evident in works by authors like Walker et al

(1998:147) and Perreault et al (1999). Kotler et al (1996:531) however, include this phase and define it as the time when a company finds and develops a new product idea. During this phase the company only has investment costs and no sales.

The "introduction stage" is a period of slow sales growth since the product has just been introduced onto the market. There are little profits (if any) during this stage due to the expenses incurred in the phase of product introduction. Promotion expenses are at their highest in this phase. This is due to the need to inform consumers of the product, the need to induce consumer testing and to secure distribution (Kotler et al 1996:532; Kotler 1984:225-229; Rosenbloom 1990:320; De La Mare 1982:51).

Rapid market acceptance and increasing profits occur in the "growth phase" of the life cycle when the new product satisfies the market. Early adopters will continue to buy the product and conventional consumers follow their lead. Competition will increase, and to combat possible sales losses the company will introduce new product features and improve the product quality. Prices remain relatively constant and promotional expenditure is slightly higher than in the previous stage to balance out the effect of competition. The company will also enter new market segments and new distribution channels to sustain rapid market growth. Other strategies to increase rapid market growth include changing advertising that is focused on "awareness" to advertising aimed at "convincing consumers to buy". Lowering prices at the right time to attract more customers can also achieve success. The company also has to ensure that the product availability provided to the market is adequate and they have to monitor "channel member actions" regarding the handling of competitive products (Kotler et al 1996:532; Kotler 1984:225-231; Rosenbloom 1990:320; De La Mare 1982:51).

"Maturity" is a period where the sales growth declines because the product has achieved acceptance from most potential buyers. The profits stabilize or decline due to expenses incurred to defend the product from competition. Competitors use "price" in the form of "markdowns" to convince consumers to

buy their products. The advertising, trade deals, consumer deals as well as research and development budgets all increase in an effort to increase the sales growth. Weaker competitors fall to the wayside and only the well-entrenched competitors survive. The company should put extra emphasis the product, making it more desirable for the consumer and possible channel structure changes should also be considered in this phase (Kotler et al 1996:532; Kotler 1984:225-232; Rosenbloom 1990:323; De La Mare 1982:51).

In the "decline phase", sales plummet and profits erode. Some companies might withdraw from the market at this time, while those remaining might reduce their number of product offerings, drop smaller market segments, reduce their promotion budget and further reduce their prices (Kotler et al 1996:532; Kotler 1984:225; Rosenbloom 1990:324; De La Mare 1982:51). Table 3.1 gives a summary of the PLC characteristics, objectives and strategies in each of the life cycle stages.

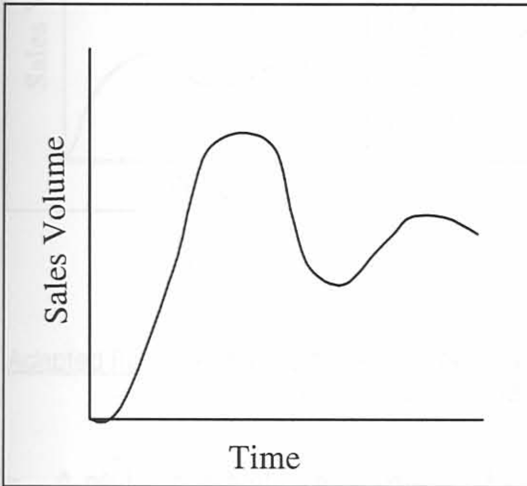
Table 3.1 – Product Life Cycle: Characteristics and Responses

Characteristics	Introduction	Growth	Maturity	Decline
Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising	High	Declining
Customers	Innovative	Early adopters	Middle majority	Laggards
Competitors	Few	Growing	Stable	Declining number
Marketing objective	Create product awareness and trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure and milk the brand
Strategies	**Introduction**	**Growth**	**Maturity**	**Decline**
Product	Offer a basic product	Offer product extensions, service, warranty	Diversify brand and models	Phase out weak items
Price	Use cost-plus	Price to penetrate market	Price to match or beat competitors	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out
Advertising	Build product awareness among early adopters and dealers	Build awareness and interest in the mass market	Stress brand differences and benefits	Reduce to level needed to retain hard-core loyals
Sales promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level

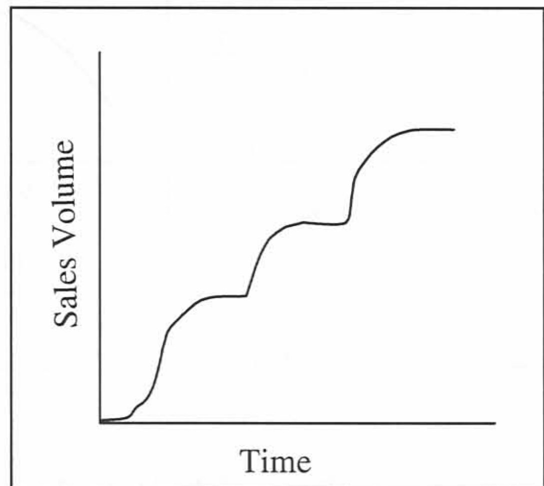
Adapted from: Kotler P, Armstrong G, Saunders J and Wong V. 1996. Principles of Marketing. Prentice Hall: Europe. p 532.

Although the life cycle curve (concept) is typical, not all curves follow this typical pattern (Kotler et al 1996:532; Kotler 1984:226). He identifies various situations of variation, which will be briefly illustrated and explained.

Figure 3.4 – Other Possible Product Life Cycle Patterns



"Cycle-recycle" pattern



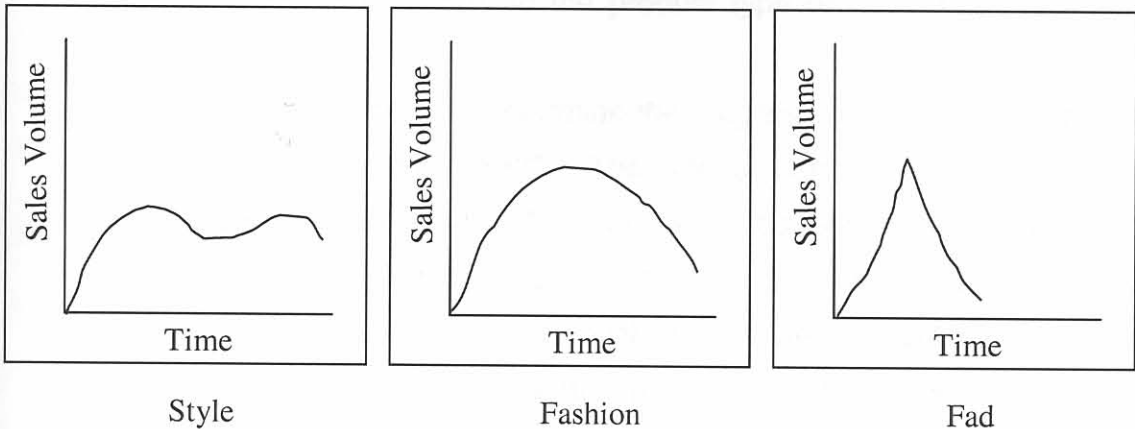
"Scalloped" pattern

Adapted from: Kotler P. 1984. Marketing Essentials. Prentice Hall: Engelwood Cliffs. p 227.

- The "cycle-recycle" pattern occurs when a second promotional push is embarked upon in the decline stage of the life cycle.
- The "scalloped" pattern consists of a succession of life cycles and is based on the discovery of new product characteristics, new uses and new users.

The product life cycle concept can also be applied to styles, fashion and fads. The special life cycle curves are shown in Figure 3.5.

Figure 3.5 – Life Cycle for Style, Fashion and Fads



Adapted from: Kotler P, Armstrong G, Saunders J and Wong V. 1996. Principles of Marketing. Prentice Hall: Europe. p 532.

- A style is a distinctive mode of expression. A style may last for generations and come in and out of vogue. A cycle for style will show several periods of renewed interest.
- A fashion is a popular style in a given field and has four stages. The four stages are: distinctiveness stage (only the early adopters will be buying the product), copying stage (others start copying the fashion leaders), mass fashion stage (the fashion has become extremely popular and mass production is starting) and lastly the decline stage (consumers start following other fashion trends).
- Fads are fashions that are accepted, adopted and discarded by consumers very quickly. The product life cycle for fads is relatively short in comparison to other life cycles.

According to Day (1981:60) there is tremendous ambivalence with regards to the product life cycle concept. On the one hand the PLC has appeal because of its intuitive logic, but its simplicity also makes it vulnerable to criticism. He identifies five basic issues that underlie the criticisms and that must be faced for meaningful application of the concept:

1. *"How should the product-market be defined for the purpose of life cycle analysis?"* – A variety of levels of aggregation range from the generic product class and industry to the product type or form down to brand level.
2. *"What are the factors that determine the progress of the product through the stages of the life cycle?"* – The rate of diffusion or adoption are influenced by a multitude of factors such as perceived comparative advantage of the product relative to the best alternative, perceived risk, information on the product, availability of the product, government regulations and policies, substitute products, competitors, influence of repeat buying and buyer learning to mention but a few.
3. *"Can the present life cycle position of the product be unambiguously established?"* – The choice of measures (unit volume, current dollar value, per capita consumption) and the variety of life cycle patterns complicate the identification of the product's position in the life cycle.
4. *"What is the potential for forecasting the key parameters, including the magnitude of sales, the duration of the stages, and the shape of the curve?"* – Various diffusion models exist that focus on the rapid growth stage, however, little work has been done on the maturity and decline stages.
5. *"What role should the product life cycle concept play in the formulation of competitive strategy?"* – The formulation of general strategic instructions for each life cycle stage has been widely criticized because they are misleading in terms of assuming a single role for the life cycle. In terms of the above, the life cycle is seen as merely a determinant of strategy, structure and performance. However the life cycle serves several different roles in strategy formulation, for example, an enabling role, a moderating variable or a consequence of strategic decision.

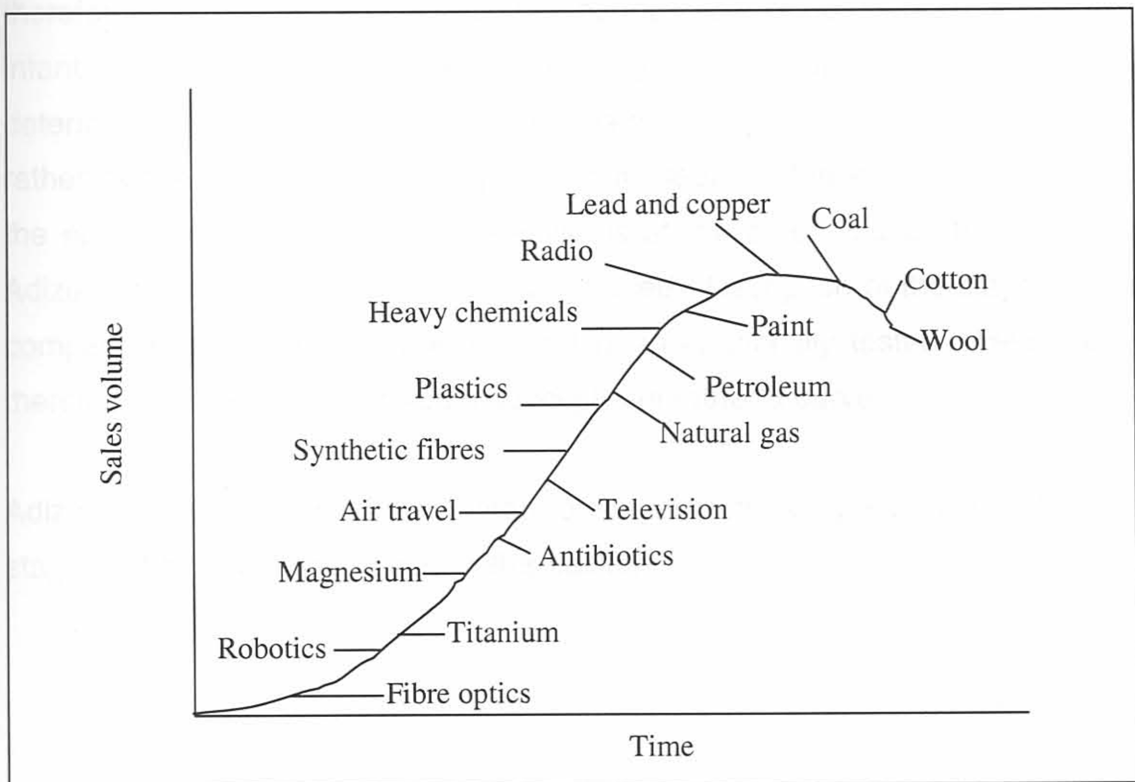
The abovementioned criticisms should also be considered in this research study because the same criticisms could also hold true.

3.3.4 The Industry Life Cycle

According to De La Mare (1982:59) the product life cycle concept also applies to complete industries (since they are comprised of the aggregation of the sale of individual products and firms).

The following figure indicates the positioning of various industries in terms of a life cycle curve. Sales volume, profitability and time are considered to be the main influencing factors in the progression on the life cycle curve.

Figure 3.6 – A Schematic Presentation of the Relative Positions of Several Products in their Life Cycles



Adapted from: De La Mare RF. 1982. Manufacturing Systems Economics. The Universities Press: Northern Ireland. p 60.

De La Mare (1982: 88) further suggests a formula to determine the economic implications of a capital project across its life cycle. The basic formula would read as follows: the project's net present value is equal to the life-cycle benefits

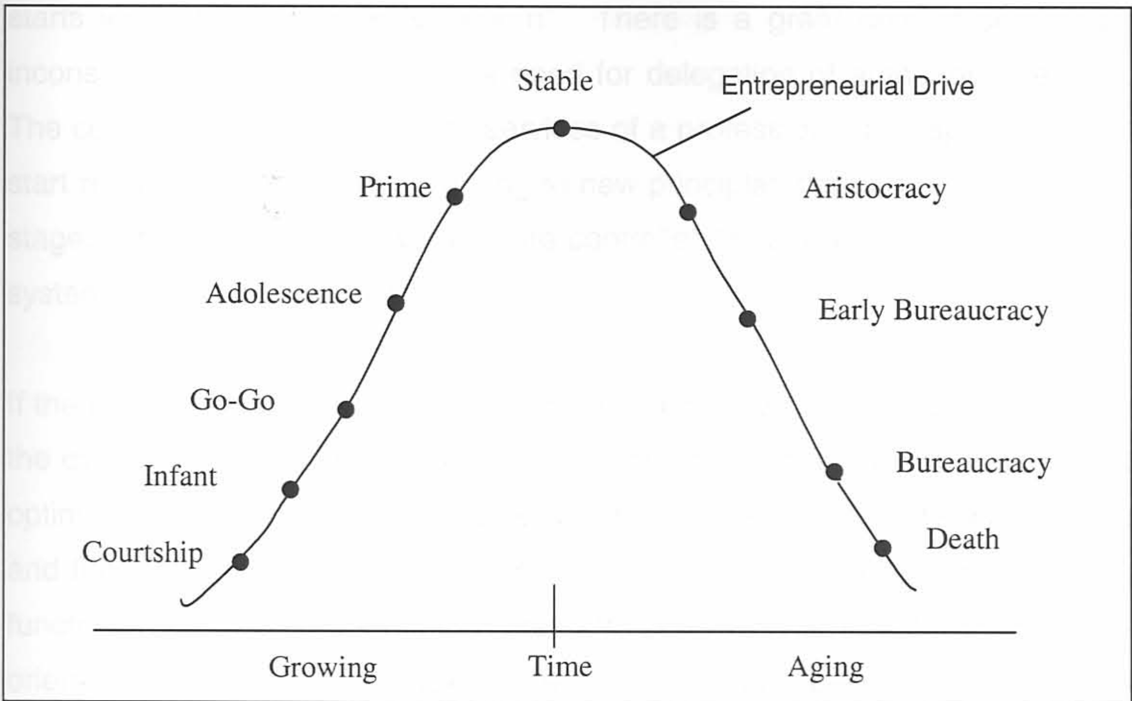
minus the life-cycle costs. Although the purpose of this formula is an economic outcome, the basic philosophy behind this formula might be a valuable input into the research. If the net present value is equated with franchisee satisfaction, a hypothesis can be made that the relationship benefits minus the relationship costs might give an indication of the franchisee satisfaction in the different life cycle stages of a franchisee.

3.3.5 The Corporate Life Cycle

Adizes (1988) state that the growth and aging of organisations is key to understanding the corporate life cycle. According to him, the "age" (maturity) of a company is determined by two factors: the flexibility and controllability of the organisation and not necessarily size and time. He states that a company can therefore be 1 year old and already be nearing death or 50 years old and still an infant. The actual age or rather "maturity" of a company is therefore not determined by the number of years that the company has been in existence, but rather by the balance of flexibility and controllability. Flexibility has to do with the ease of change, while controllability is at the other end of the spectrum. Adizes's corporate life cycle is a "reality based" description of the stages that a company passes through, and has not been empirically tested. He's theory therefore cannot be considered a concept, but rather a curve.

Adizes (1988: 11) identified a number of stages in the corporate life cycle. The stages will briefly be discussed in this section.

Figure 3.7 – Corporate Life Cycle Stages



Adapted from: Adizes I. 1988. Corporate Lifecycles: How and Why Corporations Grow and Die and What to Do About It. Prentice Hall: New Jersey. p 88.

The first stage of the corporate life cycle is that of "courtship". The business is not in existence yet, and only exists as an idea. The founder is building commitment for the concept by talking to others and thereby obtaining the necessary thrust to move to the next stage of the life cycle.

The second stage is "infancy". This phase starts when some form of risk has been taken by the founder. In this phase the focus shifts from "ideas" to "results". This stage is typified by long working hours, lack of systems, little delegation and management that is a one-man show. Corporate flexibility is very high and changes in corporate strategy are easily made.

The infancy stage is followed by the "go-go" stage where the original business idea is actually "working" and the business has started stabilising, which makes the founder of the organisation and the organisation arrogant. There is a drive for administrative subsystems and the company / management oscillates between delegation and decentralisation.

The next stage of the corporate life cycle is called adolescence. This stage starts when the company is "reborn". There is a great deal of conflict and inconsistency in this phase and a need for delegation of authority is required. The company often acquires the services of a professional manager in order to start running the business according to new principles needed for this life cycle stage. There is a drive towards more controllability and the implementation of systems and controls receive attention.

If the new principles are successful, and administrative systemisation succeeds, the company will move into the fifth life cycle stage called "prime". This is the optimum point on the life cycle curve (where there is a balance between control and flexibility). Companies in this phase of the life cycle are characterised by functional systems and organisational structure, results orientation, customer orientation, planning and following the plans to name but a few. One of the major problems in this stage of the life cycle is a shortage of well-trained personnel. The aim should be to keep an organisation in "prime" for as long as possible, because all the stages after prime are part of a process of deterioration.

The next stage is called "stable" which signifies the end of growth and the beginning of decline. These types of organisations are less flexible and significant changes occur in terms of budget considerations (short term in favour of long term) and power (finance becomes more important than marketing).

"Aristocracy" is the seventh stage, and is identified by the fact that more money is spent on control systems, benefits and facilities. There is more emphasis on **how** things are done rather than on **what** is done. The company has lost its client focus and looses market share. In an effort to solve the problem prices are raised instead of reviewing client needs and adapting the market offer (as well as cutting cost). The company becomes more "formal" (in terms of dress code, address and tradition), the organisation is "cash rich" and employees as a group try "not to make any waves", although employees as individuals are concerned about the company's vitality. There is no desire for change or a

"results orientation". The controllability of the system is now higher than the flexibility of the system.

In "early bureaucracy" a focus is placed on **who** caused the problems rather than on **how to solve** the problems. The price increases made in the previous life cycle phase has reduced total revenues and the market share of the company have steadily shrunk. There is a lot of conflict, backstabbing and infighting. Paranoia reigns in the organisation and employees trying to protect their positions. A negative spiral ensues with employees being fired or leaving and if this situation continues the company will go bankrupt.

They only way that the life of the company can be extended is if the company is subsidised or nationalised. This phase is called a "full bureaucracy" and usually the only type of people left in the organisation at this point are administrators. The sole emphasis of the company will be compliance with rules and policies with no obvious orientation towards results or satisfying customer needs.

Using Adizes theory to "add value" in this study is difficult due to the underlying principle of "flexibility" versus "controllability" that is used to define the age (maturity) of a system (if a franchisee owned outlet is considered as the focus). One of the key aspects of franchising is the fact that the business is "controllable" and that franchisees cannot easily change the franchise concept. A successful franchise business will have standards, manuals and operating procedures in place specifying exactly what **can** and **cannot** be done (i.e. highly controllable). In Adizes's theory all franchise businesses would therefore be aging because the "controllability" is much stronger than the "flexibility" and most franchise businesses would probably be classified as "stable" or "aristocracy". If this were so, most franchise businesses would not survive for long (they would age and die) and as we know, this is not the case. The truth is that if franchise businesses do not have all the controls and systems, they are unsuccessful and die (Hall and Dixon 1988).

Applying Adizes theory to the franchisor rather than the franchisee, makes more sense. The stage in the corporate life cycle in which the franchisor is situated

can have significant implications on the relationship between franchisees and the franchisor and therefore also on the franchisee life cycle concept. Slavin (in The Franchising Handbook 1993) discuss the corporate evolutionary process of a franchise company in more detail, which illustrates this point effectively. Slavin's research on life cycles in franchising is discussed in section 3.4.4 (vide page 67).

One of the similarities between the corporate life cycle of Adizes and this study is the researchers hypothesis that the franchisee life cycle will follow the same trend as Adizes corporate life cycle, namely, the beginning of the process or life cycle is very positive (growth, enthusiasm, i.e. high commitment and trust), but the "end" (last phase of the life cycle) is negative with much conflict, backstabbing, unhappiness, i.e. lower commitment and trust.

Smith, Mitchell and Summer (1985) also did research on corporate life cycles and the management priorities that are important in each of the life cycle phases. They identified three types of management priorities namely technical efficiency priorities, organizational coordination priorities and political support priorities.

Technical efficiency priorities are concerned with the maximization of organizational efficiency and are more short term oriented. Organizational coordination priorities are concerned with the integration of the total organization and are more long term oriented. Political support priorities focus on maintaining individual power, support and commitment of employees.

Smith, Mitchell and Summer (1985) propose a three stage corporate life cycle. The first stage is called "inception/mobilization" and occurs when managers start thinking about building support from suppliers. "Growth", which is the second stage, occurs when managers start to concentrate on the demands that expansion brings and "maturity" occurs when managers start obtaining support for restructuring the organization to allow growth or to appeal for keeping the status quo. This life cycle model and some of the characteristics of the stages are depicted in Table 3.2.

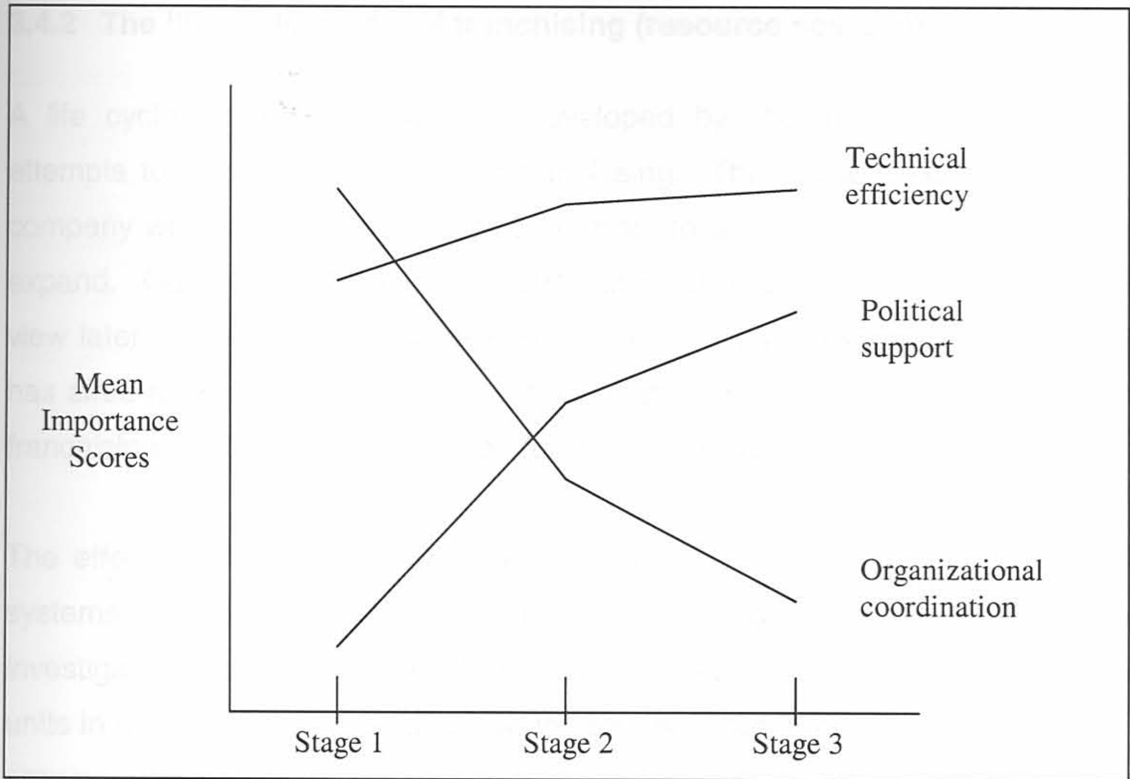
Table 3.2 – Three Stages in Organizations' Life Cycles

Characteristics	Stage 1 - Inception	Stage 2 - High-Growth	Stage 3 - Maturity
Type of organizational structure	No formal structure	Centralized, Formal	Decentralized, Formal
Reward system	Personal subjective	Systematic, Impersonal	Impersonal, Formal, Totally objective
Communication process and planning	Informal, Face-to-face, Little planning	Moderately formal budgets	Very formal, Five-year plans, Rules and regulations
Formalization adherence	Low adherence	High adherence	High formalization but low adherence
Method of decision making	Individual judgement, Entrepreneurial	Professional management, Analytical tools	Professional management, Bargaining
Make-up of top level management staff	Generalist	Specialist	Strategists, Planners
Organizational growth rate	Inconsistent but improving	Rapid positive growth	Growth slowing or declining
Organizational age and size	Young and small	Larger and older	Largest or once large and oldest

Adapted from: Smith KG, Mitchell TR and Summer CE. 1985. *Top Level Management Priorities in Different Stages of the Organizational Life Cycle.* Academy of Management Journal, 28(4):802.

The authors found that managers indicated significantly different importance values to priorities based on the life cycle stage of the company. They found that technical efficiency was important in all three life cycle stages, but increased in importance with "maturity". The coordination priority decreased in importance from the "inception" to "maturity" stages, while the political support priority showed a significant increase from "inception" to the "maturity" stages. They therefore showed that different priorities have different importance levels in each of the life cycles stages. The results are shown in Figure 3.8.

Figure 3.8 – Mean Importance Scores for the Three-Priority Model by the Three Life Cycle Stages



Adapted from: Smith KG, Mitchell TR and Summer CE. 1985. *Top Level Management Priorities in Different Stages of the Organizational Life Cycle.* Academy of Management Journal, 28(4):810.

3.4 RESEARCH ON LIFE CYCLES OF FRANCHISING SYSTEMS

Various authors have studied the life cycle of franchising systems and the contributions of these authors will be discussed in this section.

3.4.1 Fulop and Forward's franchising concept life cycle

One of the approaches to studying the life cycle of franchising systems is found in the study of Fulop and Forward (1997). This study summarizes the historical development of franchising (franchising concept life cycle). They divided the cycle into three stages namely "license/franchise-like" arrangements of the mid

nineteenth century, "license/franchise-like" arrangements of the 1920's and 1930's and lastly "business format franchising" (1940's onward).

3.4.2 The life cycle model of franchising (resource scarcity)

A life cycle model of franchising developed by Oxenfelt and Kelly (1968) attempts to explain the reason for franchising. They suggested that a young company would become a franchisor in order to use the franchisee's capital to expand. Carney and Gedajlovic (1991) also did research in this field and this view later became known as "resource scarcity". The "resource scarcity" view has already been discussed in chapter 2 in the section on the perspectives on franchising and will therefore not be further discussed.

The effects of "ownership" and "investment" on the performance of franchise systems were investigated by Thomas, O'Hara and Musgrave (1990). They investigated the performance of company owned units and franchisee owned units in an attempt to prove/disprove the theory of resource scarcity ("life cycle " argument of franchise development) as proposed by various other authors. They rejected the theory and stated that franchise systems do not necessarily become company owned chains as the system matures, but rather that franchisors adjust the proportional percentage of operating units to attain a balance of company and franchisee owned outlets that maximizes franchisor performance.

Lafontaine and Shaw (1999) explored company-ownership over the life cycle of franchised chains by modelling the evolution of company ownership over time. They found that company-ownership was negatively related to the age of the system because most companies start with 100% company owned units. This percentage can therefore only decrease if a company decides to franchise. They also found that after approximately 6 years the balance between "company owned" and "franchisee owned" units stabilize. They concluded that companies actively work towards and manage their systems in order to obtain a balance in the percentage of company owned units versus the percentage of franchisee owned units. According to them, most franchisors are also able to

indicate the optimal proportion of company owned units that a franchisor should own. In most cases the proportion is not zero.

Lafontaine and Kaufmann (1994) did further research regarding the evolution of ownership patterns in franchise systems based on the competing theories of resource scarcity and incentives issues. They reported results on franchise system evolution (with reference to the structural evolution of an individual franchise system as it moves from the first stage in the life cycle to maturity). They found that franchisors desire a "mix" of both "company-owned" and "franchisee-owned" units in the same system.

3.4.3 The franchise life cycle model

Another approach to the studying of life cycles focuses on franchise systems from a contractual agreement perspective. Lillis, Narayana and Gilman (1976:77) attempt to explain the differences in importance of competitive advantages (associated with franchising) in the different stages of the franchise life cycle. In order to do this, they specified a franchise life cycle model. The franchise life cycle consists of four stages, (penetration, growth, maturity and late maturity) and is described in terms of two parameters namely size of the franchise in terms of the number of outlets and the number of years that the franchise has been in business (Lillis et al 1976). The franchise life cycle stages and parameters are shown in Table 3.3.

Table 3.3 – Franchise Life Cycle Stage Parameters and Critical Values

Stage	Age	Size
Penetration	0 – 5 years	0 – 10 outlets
Growth	6 – 8 years	11 or more outlets
Maturity	9 – 13 years	30 or more outlets
Late Maturity	14 years or more	50 or more outlets

Adapted from: Lillis CM, Narayana CL and Gilman JL. 1976. *Competitive Advantage Variation Over the Life Cycle of a Franchise*. Journal of Marketing, 40(4):78.

Lillis, Narayana and Gilman (1976:79) found that the perceived importance of the advantages of franchising vary across the life cycle of a firm and that franchisee motivation is the most important advantage across all stages, with exception of the penetration stage, of the life cycle.

3.4.4 The corporate evolutionary and growth process of a franchise company

Slavin (in The Franchising Handbook 1993:489) discusses the corporate evolutionary and growth process of a franchise company. He states that both companies and people follow a predictable course of evolution with distinct stages of growth. He identifies five stages of growth namely the "Entrepreneurial stage", the "Management discipline stage", the "Delegation specialization stage", the "Bureaucracy stage" and lastly the" Intrapreneurial stage".

The first stage of the business is said to be very entrepreneurial with the founder of the business making all decisions relating to the business. The success of the business is therefore directly linked to the abilities of the founder. Companies in the first stage of evolution are not suitable for franchising because, in most cases, the original entrepreneur does not have the ability to transfer the necessary methodologies and specifications of the business to others (franchisees). Until the founder can define, refine, document and even computerize the business, the transference of the necessary information will not take place.

In stage two, the founder decides to build systems to achieve a more structured and disciplined business environment. This means that the business becomes more vertical (bureaucratic) and horizontal (specialized) with objectives and standards being communicated. According to Slavin (in The Franchising Handbook 1993:490) franchising in this stage of a companies life cycle is still premature due to the conflict caused by the company's need to build systems and the founder's inability to let go.

The company's organizational structure becomes even more horizontal in the third stage with a collaborative and decentralized management style being incorporated into the business. This stage is said to be ideal for the emerging company to begin franchising. Middle-level managers are recruited to manage new departments and are responsible for internal and external communication. These middle-level managers are also responsible for the further defining and specifying of the business to be franchised as well as the controls that should be implemented. Senior management focuses on long-term strategic issues (products and services, acquisitions, franchising) and the development of human resources (internal employees, external franchisees and business affiliates). The company should have two management structures to deal with both franchisees and company-owned units. The conflict in this phase deals with the constant transition that the company faces.

The fourth stage of the growth of a franchise company is that of bureaucracy caused by a continuous addition of layers within divisions. This causes the company to become slow moving, rigid and passive, which will make this company less responsive to the needs of franchisees and therefore impacting on its ability to grow. This stage should be avoided if possible.

The intrapreneurial stage is characterized by a company that can integrate different personalities, disciplines, environmental issues, political issues, franchising principles and issues of business management into a cohesive organization. Both employees and franchisees are asked to participate in teams to discuss organizational problems and are compensated on overall productivity and profitability of the company rather than on their own hard work. Entrepreneurialism has been internalized within the company and so intrapreneurialism enters the organization.

Although the corporate life cycle stage of the franchisor can play an important role in the relationship between franchisees and franchisors, the aim of this study was not to explain this correlation, and the researcher/author suggests that this aspect should be further investigated in the future.

3.5 RESEARCH ON LIFE CYCLES OF FRANCHISEES

3.5.1 The franchise unit's life cycle

Achrol, Etzel and Gundlach (1995) studied a franchise unit's life cycle of evolution and the environmental conditions faced by those units from a product life cycle perspective with specific attention to how these factors would influence the importance of goals and utilization of franchisor services by franchisees. The authors felt that franchisors would be better able to identify which services are most valuable for franchisees at certain times, if the motivations, goals and needs of franchisees are better understood.

Etzioni (in Achrol, Etzel and Gundlach 1995:2) states that goals are intertwined with organizational effectiveness and the authors therefore feel that in order to understand "goals", effectiveness needs to be addressed. They therefore used four effectiveness models as a basis for the rest of their discussion. The four models as well as their functional imperatives, the corresponding franchisee goals and franchisor services are illustrated in Figure 3.9.

Figure 3.9 – Franchisee Goals and Franchisor Services

Effectiveness model ⇨	Functional imperative ⇨	Franchisee goals ⇨	Franchisor services
Rational system	Goal attainment	Productivity Cost efficiency Financial performance	Personnel training Accounting services Managerial training / consulting
Open system	Adaptation	Survival Growth Adaptation Differentiation	Financial services Marketing services New product development
Internal process	Integration	Cooperation Quality assurance Information	Managerial access Standardize equipment and supplies Market research services
Behavioural system	Pattern maintenance	Commitment Customer satisfaction	Conflict resolution Marketing services

Adapted from: Achrol RS, Etzel MJ and Gundlach GT. 1995. *Franchiee Goals and Franchisor Services: Implications of Life-Cycle Evolution and Environmental Conditions.* Society of Franchising Conference Proceedings, 17-18 Feb 1996:21.

Achrol, Etzel and Gundlach (1995:2) identified the stages of franchise market evolution as market entry, market development, market maturity and market decline. These concepts (stages) are borrowed from the product life cycle as discussed earlier in this chapter, the only difference is that they refer to a "market" and not just a product in their discussion of the life cycle. Table 3.4 illustrates what "effectiveness model" would apply in each of the market evolution stages.

Table 3.4 – Franchisee Goals and Effectiveness Models Per Market Stage

Stages of market evolution	Effectiveness model	Franchisee Goals
Market entry	Open system and Rational system	Survival goals Creating a operating system Learning to become viable Maintain cash flow and revenue stream Productivity, cost efficiency Financial performance
Market development	Open system	Market information / understanding Positioning Adaptation
Market maturity	Open system and Internal system	Achieving uniqueness Adaptability Domain expansion Differentiation of image and product Information sharing with franchisor (cooperation and commitment) Quality assurance programs
Market decline	Rational system	Efficiency Productivity Minimizing waste Controlling cost Rationalize market offerings Maximizing operating efficiencies

Adapted from: Achrol RS, Etzel MJ and Gundlach GT. 1995. *Franchiee Goals and Franchisor Services: Implications of Life-Cycle Evolution and Environmental Conditions.* Society of Franchising Conference Proceedings, 17-18 Feb 1996:21.

3.5.2 The franchisee failure continuum

The "franchisee failure continuum" as suggested by Holmberg and Morgan (1996) is also included in this discussion, because it suggests a possible progression of events that might be considered part of a franchisee life cycle. The failure continuum starts with franchisee discontent and ultimately ends in closure of the franchise unit. The franchisee failure continuum consists of six elements that will be briefly discussed.

- **Franchisee discontent**

This aspect relates to franchisee attitudes that are difficult to measure because these attitudes might change as the circumstances surrounding the franchisee change. In research done by the Gallup organization, four main areas of franchisee disillusionment could be identified. They are summarized in the table below.

Table 3.5 – Main Areas of Franchisee Disillusionment

Type of problem / Disillusionment	Solvability	Effect on attitude
Disillusioned due to problems with franchise outlets and support provided by the franchisor	Problems can be addressed by immediate action	If the situation improves, the attitude of franchisees also improve
Disillusioned due to problems that are outside the direct control of the franchisor e.g. sudden increase in competition in the market or geographic region, etc.	Not easily resolved	If the situation improves, the attitude of franchisees (that survived) will most likely improve
Disillusioned for business reasons that is unchangeable e.g. franchisor bankruptcy, franchisor discontinues franchising, etc.	Not solvable	The negative attitude is likely to worsen
Disillusioned for personal reasons e.g. franchisees didn't realize that owning and running their own business would mean more work, longer hours, more stress, etc.	Not easily resolved	The negative attitudes may fester (though the unit may never turnover or close)

Adapted from: Holmberg SR and Morgan KB. 1996. *The Franchisee Failure Continuum.* Society of Franchising Conference Proceedings, 17-18 Feb 1996.

- **Royalty delinquency, etc**

According to Holmberg and Morgan (1996:8) late payments and nonpayment of royalties are at the top of the list of danger signals of troubled franchisees. If this occurs, a franchisor must aggressively address the situation in order to avoid further problems.

- **Lawsuits and complaints to the Federal Trade Commission**

Holmberg and Morgan (1996:9) propose that the number of complaints lodged with, for example the FTC and other organizations, be used as an indication of

the failure rates of franchisees. They further state that franchise litigation can also be used as an indicator of failure rates. They however also discuss the complex issues surrounding using all of the above-mentioned methods for research purposes, especially the availability – or rather unavailability of data.

- **Turnover / Termination**

Both turnover and termination should be considered when franchisee failure rates are discussed. Turnover means that a franchise outlet changes ownership to either the franchisor or another franchisee, but continues to operate in the current location. A franchisee may move to another location or the franchisee's relationship with the franchisor might be permanently terminated.

- **Default/other losses to creditors**

Losses to creditors can also be used to determine the franchisee failure rate and the results obtained in such analyses would be very valuable to lending institutions such as banks when making their policy decisions regarding financing.

- **Closure**

Closure is the final point in the failure continuum. It should however be remembered that franchise businesses might close for other reasons than "failure" for example retirement of the franchisee, mergers or more profitable use of the location.

3.6 RESEARCH ON LIFE CYCLES FROM A FRANCHISOR-FRANCHISEE RELATIONSHIP PERSPECTIVE

Although various works on life cycles in a franchising context have been published, very little attention has been given to franchisee developmental life cycles from a franchisee-franchisor relationship perspective. Elango and Fried (1997:68-82) suggest that possible future research should examine the stability

of the franchisee-franchisor relationship. Elango and Fried (1997:68-82) state: "*changes in the relationship between the franchisee and the franchisor have been largely ignored by researchers.*"

Various authors have speculated on the progress and stages that the franchisor-franchisee relationship follows. These speculative opinions will be discussed in the next section.

3.6.1 Speculated stages of the franchisor-franchisee "life cycle"

Kirkham and McGowan in The Franchising Handbook (Sherman 1993:10) describe a sequence of events that mold a franchisor-franchisee relationship. Their "life cycle" starts with the franchisee recruitment and selection process. They state that most problems with the relationship start with the choice of words that the franchisor uses. The franchisor tells the franchisee that he is "buying" a franchise and that he has an "independently owned and operated" business. The franchisee assumes that because he/she "**owns**" the business, he/she is **free** to change the business as he/she sees fit. As time passes, the franchisor realizes that the business is not being managed in accordance with the franchise agreement and the franchisor then takes action. Field support staff are deployed and sent to franchisees that are not in compliance with the franchise agreement. The field support staff informs the franchisee on how he/she should be running the business, but this only makes franchisees resentful because they believe that they own the business and that no one should tell them how to run their own business. This leads to an adversarial relationship, which is devoid of commitment and trust.

Maitland (1991:134) states the following pertaining to the franchisee-franchisor relationship "*...your relationship will almost inevitably still evolve along familiar (and possible destructive) franchising lines.* Maitland (1991) compares the relationship between the franchisor and franchisee to that of a parent and child. The parent nurtures the child who changes into an unhappy and rebellious teenager and then matures into a responsible adult.

At the beginning of the relationship, the franchisor **leads** the franchisee and does almost everything **for** the franchisee. The franchisor helps, supports, suggests and coaxes the franchisee, while the franchisee follows, listens and learns along the way. Time passes and the franchisee gains more experience and starts running the business on his/her own, while the role of the franchisor becomes less prominent. The more experienced the franchisee becomes, the more ideas, suggestions and criticisms the franchisee has. If these are not heard and acted upon, the franchisee can become angry, bitter and frustrated. The franchisee might also start feeling unhappy about the royalty payments because of his/her hard work and effort and the belief that he/she is solely responsible for the success (Maitland 1991:135).

Mendelsohn (1992: 142) draws a very similar parent-child and franchisee-franchisor analogy and says that as the franchisee moves through the stages he will move from being very dependant, to becoming totally independent. Mendelsohn (1992:142) further states that it is an essential element in the skill of a franchisor to recognize and respond to the changing nature of the relationship between himself and the franchisee.

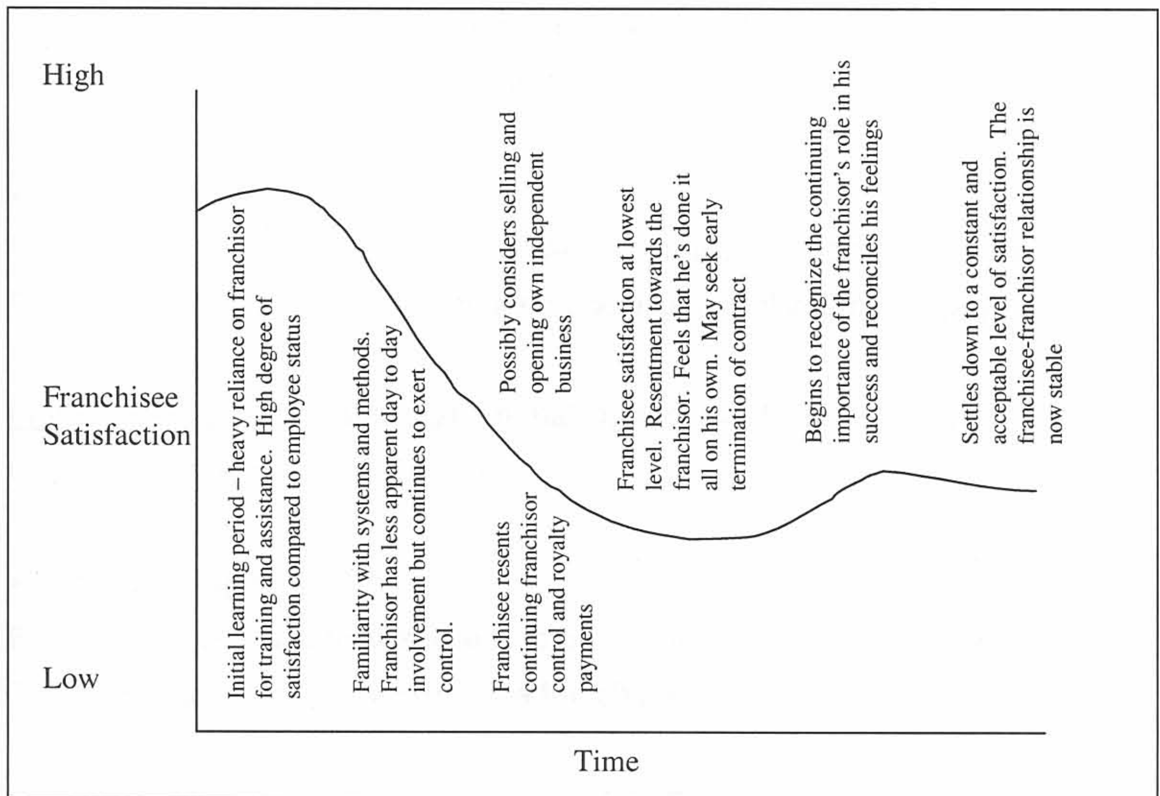
Stanworth and Kaufmann (1996:59) found that franchisees perceive themselves to have higher personal power and independence if they have had prior self employment experience, higher levels of sales and a higher number of years spent operating as a franchise within the current franchise. The franchisee will therefore move from being **dependent** to being more **independent**. Peterson and Dant in Stanworth and Kaufmann (1996:59) also agree that franchisors need to understand the changing relationship. They state: *"…as the level of the franchise relationship and the sales levels of franchisees increase, different advantages may need to be stressed to keep franchisee motivations high"*

Only a few articles were found that specifically discuss the life cycle of the relationship of franchisees with franchisors. The articles found will now be discussed.

3.6.2 Franchisee dissatisfaction and the franchise relationship life cycle

The franchise relationship life cycle of Hall and Dixon (1988:82) starts with a period of extreme contentment and satisfaction on the side of the franchisee. This satisfaction decreases as the franchisee becomes more experienced and starts to resent the control exerted over the business and the continuous payment of royalty fees. Franchisees might start to feel that their success is due to their own efforts and forget the help and support that the franchisor provided in the beginning. In some cases the franchisees might seek to terminate the relationship with the franchisor and in other cases the franchisee will accept the control of the franchisor and realize that the control is in both the franchisor and his/her best interest. Figure 3.10 gives a visual presentation of the life cycle as suggested by Hall and Dixon.

Figure 3.10 – Franchisee Satisfaction and the "Life Cycle" of the Franchisee Relationship



Adapted from: Hall P and Dixon R. 1988. Franchising. Pitman Publishing: London. p 83.

3.6.3 The franchisee curve of disenchantment – The E-Factor

Nathan (1993:12) identified a franchisee curve of disenchantment (life cycle also called the E - Factor) for franchisees consisting of six stages. Nathan's curve of disenchantment follows the same pattern and has many similarities with the one suggested by Hall and Dixon (1988:82).

Nathan (1993:12) defined the life cycle stages as follows;

- **The Glee stage**

Franchisees are excited and nervous about their new business acquisition. They are filled with anticipation and hope to make a lot of money in the future. Franchisees are very satisfied with the relationship between themselves and the franchisor.

Franchisee thinking: "I am very happy with the relationship, you obviously care about my success and you have delivered all you said. I am excited about my new business and full of hope for the future."

- **The Fee stage**

Franchisees become more sensitive to profitability and financial issues. Franchisees might start resenting the franchisor for taking royalty payments.

Franchisee thinking: "Although I'm making money, these royalty payments are really taking the cream off the top."

- **The Me stage**

Franchisees perceive their success to be due to their own hard work and effort. They start questioning the role of the franchisor.

Franchisee thinking: "Yes, I am successful. But my success is a result of my hard work. I could probably be just as successful without you."

- **The Free stage**

Franchisees become frustrated by the interference of the franchisor in the running of their business and they start to rebel against the restrictions placed on them. Franchisees might start to test the system and because of this, the Free stage has the highest incidence of conflict.

Franchisee thinking: "I really don't like all these restrictions you are putting on the way I run my business. I feel frustrated and annoyed by your constant interference. I want to be able to do my own thing and express my own ideas."

- **The See stage**

Franchisees in this phase realize that conformity to the policies and standards leads to a successful franchise.

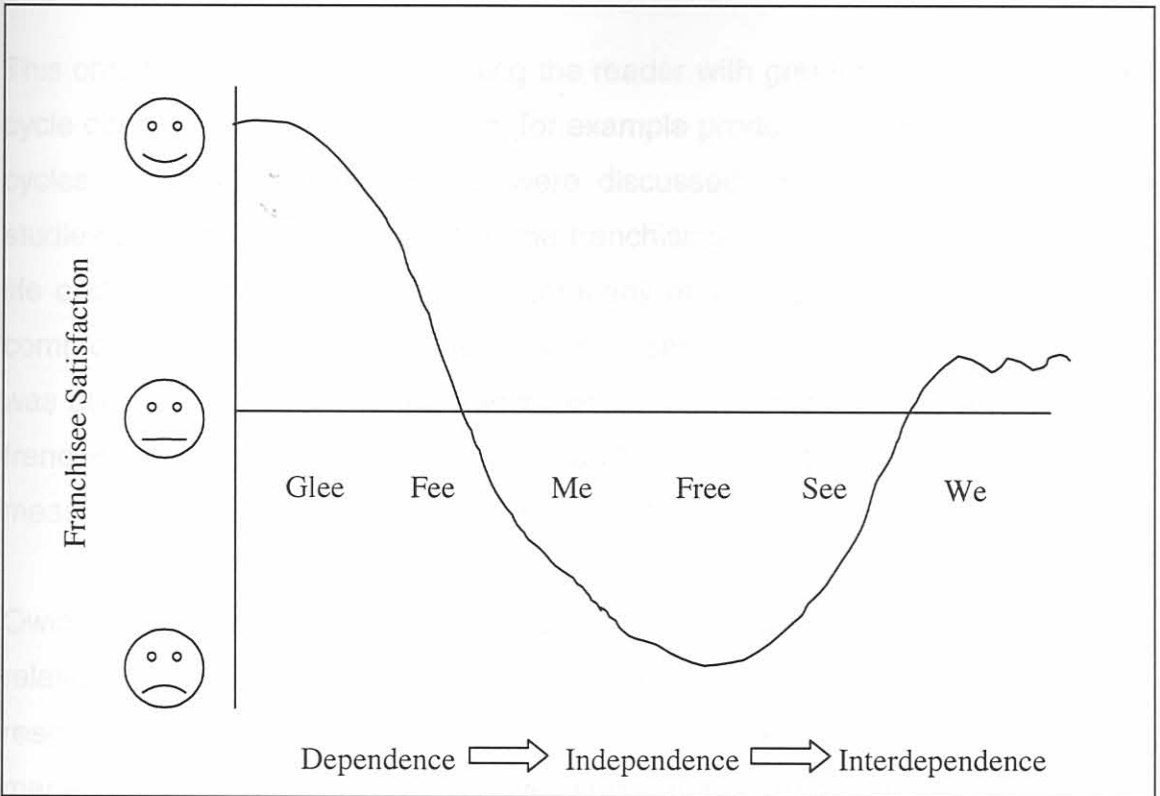
Franchisee thinking: "I guess I can see the importance of following the system and I do acknowledge the value of your support services. I can see that if we all did our own thing standards would drop and we would lose the very thing which give us our competitive edge."

- **The We stage**

Franchisees recognize that working **with**, instead of **against** the franchisor, provides higher satisfaction levels and a more successful business.

Franchisee thinking: "We need to work together to make the most of our business relationship. I need some specific assistance in certain areas to develop my business but I also have some ideas, which I want you to consider."

Figure 3.11 – The E Factor



Adapted from: Nathan G. 1993. Managing the Franchisor/Franchisee Relationship. Franchisors Associations of Australia and New Zealand Limited. Fitzgerald Publishing Pty Ltd, p 15.

All of the works on life cycles from a franchisor-franchisee relationship perspective discussed in the previous section have been theoretical and conceptual in nature with no empirical substantiation of the theories. Elango and Fried's (1997:68-82) statement that, changes in the relationships between franchisees and franchisors have been largely ignored by researchers, therefore seem to hold true and again confirms the necessity of an empirical study on this topic.

The work of Nathan on franchisee life cycles is the most relevant and recent that the researcher could find and his work served as the basis for the development of the measurement instrument used in the research.

3.7 SUMMARY

This chapter was aimed at providing the reader with greater insight into the life cycle concept. Different life cycles (for example product life cycles, industry life cycles and corporate life cycles) were discussed with specific reference to studies completed on life cycles in the franchising industry (franchising system life cycles, life cycle of a franchise company and franchisee life cycles). The common factor in all of these life cycle concepts is the passage of time, which was utilized in our study of the franchisee life cycle concept. Nathan's work on franchisee life cycles, which was used as the basis of the development of the measurement instrument, was also discussed.

Owing to the relatively small number of articles available on the life cycle of the relationship between franchisees and franchisors, it is suggested that further research and a literature review are required on relationships and relationship management. This aspect will be investigated in the chapter 4.