

# Study of Franchised Unit Turnover

as Defined by Item 20 of the "New Format"  
Uniform Franchise Offering Circular



Sponsored and Published by  
The Franchise  
Educational Foundation



International Franchise Association

## EDUCATIONAL FOUNDATION, INC.

The Franchise Educational Foundation is pleased to sponsor and publish this new study, conducted by FRANDATA Corporation, as the first in a series of five annual efforts to help determine more precise franchise turnover rates.

The turnover of units within franchising has been the subject of heated debate for many years. Generally, it has been conceded that franchising is growing at a very rapid pace – much faster than the economy as a whole – but it has never been precisely clear as to how many units have changed hands or ceased operating (to put it in simplistic terms) during a particular period of time.

This study (Phase I) contains the initial results of the most comprehensive review of the issue undertaken to date. The reports of 444 companies were analyzed. The conclusion of this study is that the turnover rate appears to be lower than expected. The data reveals an overall median turnover ratio of 8.86, but only 4.65 if transfers are not included. FRANDATA summarized the data contained in government-mandated Uniform Offering Circulars of 444 franchising companies, i.e., every company which filed under a new format by the summer of 1995. Item 20 of the document requires companies to describe ownership turnover of franchised units. However, because the statistical categories in Item 20 of the UFOC's are not mutually exclusive, researchers are concerned that some duplication may occur.

To many observers of franchising, the information appears to be positive. However, readers are warned, the study draws no conclusions regarding franchise success or failure. Successful and unsuccessful units may close, be sold, acquired and reacquired for a myriad of reasons. The fact is, the question of the relative success or failure of any business is, in most cases, a subjective one. Thus, attempting to answer the enigma of determining exact success and failure rates has been largely abandoned. Instead, the Foundation will continue to sponsor and produce studies which take different "bites of the success and failure apple" in order to further the understanding of how and why franchising continues its rapid growth worldwide.

Meanwhile, the Foundation is pleased that Phase II of this five year effort is already underway. However, this second year effort will triple the number of companies analyzed. The results are eagerly awaited.

Sincerely,



William B. Cherkasky, President & CEO

August 1, 1996

## EXECUTIVE SUMMARY

### Study of Franchised Unit Turnover as Defined by Item 20 of the "New Format" Uniform Franchise Offering Circular

The enclosed report is the first in a series of studies analyzing franchised unit turnover, as disclosed in Item 20 of the "New Format" Uniform Franchise Offering Circular ("UFOC").

The UFOC Guidelines require franchisors, in Item 20, to report on certain events that have occurred during a specific period of time. These events include transfers of a franchise during the year, cancellations of a franchise by the franchisor, nonrenewal of a franchise by the franchisor, and franchises that have been disaffiliated from the network for any other reason. A total is given for each event, and then an overall total is computed. That overall total is known as turnover of franchised units during the year.

For statistical reasons we created the concept of a "turnover ratio". (See Section labeled Turnover Ratios vs. Failure Rates for the complete definition of turnover ratio.) The median turnover ratio for the study's sample was 8.86, and 4.65 not including transfers.

FRANDATA conducted this study, and included in its sample every UFOC available that met the following three criteria: (1) the UFOC was filed and approved in one of the registration states; (2) the UFOC complied with the New Format Guidelines; and (3) the UFOC was publicly available during the dates in which data was collected. In other words, the sample was not random, and included every available document which met these requirements. 472 companies met these requirements, of which we could only use 444 (28 were not useable because their data was incomplete). See the Section labeled Characteristics of the Sample Population for sample detail.

The structure and methodology of the study are discussed in detail in the Characteristics of the Sample Population Section; the statistical methodology is further discussed in Appendix E.

When reviewing this study, the following points should be kept in mind:

- \* **The study analyzes franchisee "turnover" as defined in Item 20 - it is not a study of success, failure, or satisfaction.** We do not know if there is a correlation between the concept of "turnover" and either "success", "failure" or "satisfaction"; thus, no conclusion can be drawn from this study regarding the "success" or "failure" rates of the franchise systems in the sample. In addition, the study's methodology did not include inquiries as to why the events described in Item 20 occurred.
- \* The different events detailed in Item 20 are **not mutually exclusive**. For example, one unit could be transferred, reacquired, then closed during the same fiscal year. The important end result is that the unit closed, which is a single event. However, some

franchisors would count three separate events in Item 20, which leads to **double counting** of events. This may lead to an upward bias in the turnover figures. In statistical terms, our sample was skewed. In order to prevent such upward bias in the future, we strongly suggest that NASAA revise Item 20 to (1) add more categories to avoid double counting, and/or (2) give detailed instructions as to how to count multiple events which occur during the same fiscal year with respect to the same franchise.

- \* All Item 20 events are required to be reported for each franchisors' **fiscal year**. For statistical comparison, the franchisor's fiscal years would have to be the same. However, since franchisors with different fiscal years file at different times, part of our sample included data in Item 20 for years 1992/1993/1994, while other franchisors in the sample included data for 1993/1994/1995. The study looks at a base year (how many franchisees existed at the end of Year X) and a year of study (what events happened during year Y, the following year). The only combination of base year and year of study in common was 1993/1994; thus, to draw statistically valid conclusions, that is the only combination we could study at this time.
- \* In order to create a turnover "rate", it is necessary to compare two common years' data for each franchisor in the sample (ie. 1993/1994 vs. 1994/1995). It is also necessary to have figures that are mutually exclusive. Since we could only use one combination of years (1993/1994) and the events in Item 20 are not mutually exclusive, we **created the concept of a turnover "ratio"**. We used the turnover totals found in 1994 as the numerator, and the total number of units at the end of the prior year (1993) as the denominator. Though the turnover "ratio" is not as helpful as the ideal of calculating a turnover "rate", this calculation provides a base from which a relative rate of change can be calculated over the next few years.
- \* As mentioned, the problems encountered with fiscal years and lack of mutual exclusivity in the Item 20 categories have also led us to believe that the data is likely to be skewed. With skewed data, we can't presume that the data is part of a normal bell-shaped curve, and the "usual" statistical constructs, such as means and standard deviations, do not adequately describe the data. In addition, the usual analytical tools, such as linear regression and ANOVA, also do not work well. Instead, we **have included the median in this presentation**, and ran statistical analyses especially for this type of data.
- \* Certain categories, such as Transfers, are especially susceptible to double counting, as most other events may result in a subsequent Transfer. Rather than try to leave out the problematic Transfers category, we decided to present Turnover Ratios both with and without the Transfers category. The median turnover ratio for the study's sample was 8.86, and 4.65 not including transfers. Please see the Section titled Turnover Ratios vs. Failure Rates for a detailed explanation of how this ratio was determined.

**Study of Franchised Unit Turnover**  
as Defined by Item 20  
of the "New Format" Uniform Franchise Offering Circular

- a. Summary
- b. Overview
  - 1. Purpose
  - 2. About New Format UFOCs and Item 20
  - 2. Characteristics of the Sample Population
  - 3. Turnover Ratio vs. Failure Rate
- c. Methodology and Results
  - 1. Number of franchised units
  - 2. Number of company units
  - 3. Number of total units
  - 4. Growth in franchise units
  - 5. Industry category
  - 6. Length of time in business
  - 7. Length of time franchising
  - 8. Non-Real Estate Initial Investment
- d. Analysis and Conclusions

Appendix A - Sample Item 20

Appendix B - Industry Categorization Codes and Number of Companies per Category in the Sample

Appendix C - Discussion of Uniform Franchise Offering Circulars

Appendix D - Variables for Correlations

Appendix E - Supporting Documentation from the Statistical Analysis

Appendix F - Definitions of Statistics Terms

## Study of Franchised Unit Turnover

### Summary and Background

On 6/27/95, FRANDATA Corporation was retained by the International Franchise Association's Educational Foundation to study the relationship between certain franchisor variables and franchised unit turnover, as defined in Item 20 of the "new format" Uniform Franchise Offering Circular ("UFOC") guidelines.

UFOCs are disclosure documents required of franchisors by the Federal Trade Commission and certain state regulators. "New format UFOCs" refers to those disclosure documents registered in accordance with new guidelines approved in 1993, and implemented for the first time by franchisors in their UFOCs during 1994. These new guidelines support an expanded presentation of unit turnover data by franchisors. The data is required to be included in Item 20 of the UFOC by all franchisors who must register.

FRANDATA performed the compilation of information necessary for the study, and designed the study's methodology jointly with Coopers & Lybrand. The latter performed a statistical analysis of the data, which was further supplemented by FRANDATA.

Between 7/11/95 and 9/11/95, FRANDATA compiled all available New Format UFOC documents from each registration state. The data was not verified for accuracy, although franchisors risk serious state and federal penalties for falsification or misrepresentation of such data.

The data does not constitute a random sample of franchisor new format UFOC Item 20 information. Rather, FRANDATA attempted to include the complete population of Item 20 information available at or prior to 9/11/95. FRANDATA believes the 472 franchisor UFOC Item 20 documents it compiled constitutes the most complete available information from largely the whole population of such documents at the specified date.

Upon receipt of each franchisor UFOC Item 20, a senior FRANDATA researcher then coded the document; subsequently, the data was entered and categorized by a junior researcher blind to the franchisor name. The franchisor's fiscal year end was recorded, as Item 20 information relates to events occurring during the franchisor's fiscal year. New format UFOC Item 20 guidelines call for 3 fiscal years of information.

Ideally, if all franchisors had the same year end, there would be at least 2 measures of change in Item 20 data. That is, if all franchisor fiscal year ends were at 12/31, and all the documents compiled were filed in 1995, we would have turnover information between three years, say 1992-1993 and 1993-1994 turnover rate information.

However, when the sample was divided by fiscal year end for statistical purposes, it was found that many fiscal year ends, and most filing dates do not correspond to the ideal. Thus, franchisor UFOC Item 20 data was grouped according to fiscal year ends. Of these groups, only the 12/31/1994 fiscal year end (with changes in turnover between 1993 and 1994) had enough data points for the purpose of statistical analysis.

Such a research design would have excluded many franchisors with similar fiscal year ends, such as those with 12/15/1994 or 1/31/1995 year ends. Thus, for the purposes of this study, we have included all new format UFOC Item 20 information from franchisors who had an approved new format UFOC registered prior to 9/11/1995, and whose year end falls between 4/1/1994 and 3/31/1995 (First Quarter).

For each franchisor UFOC Item 20, FRANDATA computed several ratios, corresponding to each of the Item 20 event categories: Franchised units where controlling ownership had been transferred during the fiscal year (Transfers), franchised units that had been canceled or terminated by the franchisor (Canceled), franchised units that had not been renewed by the franchisor (Nonrenewals), franchised units that had been reacquired by the franchisor (Reacquisitions); and, franchised units that had been reasonably known by the franchisor to have otherwise ceased to do business in the system (Other).

Each ratio was computed using the franchisor's Item 20 event category information in the numerator, and the base year for the calculation in the denominator. For example, a franchisor whose fiscal year end is 12/31/1994 may identify 20 transfers during 1994, and had a total of 200 units at the end of 1993 (12/31/1993). The transfer ratio would be  $(20/200) \times (100) = 10$ .

Similarly, an overall turnover ratio was computed from the data using turnover totals provided by franchisors within UFOC Item 20. We have referred to *ratios* rather than *rates* for two important reasons: 1) The figures do not represent a change from one period to another. Our data period is limited to only one year of information. 2) The data sets are not mutually exclusive. For example, a franchised unit is canceled and then reacquired by the franchisor during the same year. In many instances, franchisors have counted these events separately, which leads to double counting.

To moderate the effect of transfers as a category with a high likelihood of double counting, we have presented the turnover data both including and NOT including transfers. There is potential for double counting in other event categories, which may be treated similarly. However, we stress that we have separated the transfer category for purely descriptive reasons as it is difficult to quantify the effect and extent of such double counting by any event category at this time.

The minimum turnover ratio in the sample is 0.00 and the maximum is 81.25. Similarly, with transfers NOT included, the minimum is 0.00 and the maximum is 68.75. We calculated the sample mean for turnover ratio as 11.91, with a standard deviation of 12.90. For turnover ratio

NOT including transfers, the sample mean is 8.10, with a standard deviation of 10.64. As a measure of central tendency, however, the median best describes this set of data.<sup>1</sup> We calculated the sample median for turnover ratio as 8.86. For turnover ratio NOT including transfers the sample median is 4.65.

In the study, these turnover figures were compared against certain characteristics of franchisors, which were included as dependent variables. The dependent variables were chosen by the IFA Educational Foundation Committee Members in an effort to define which franchisor characteristics may correlate with higher franchised unit turnover. The dependent variables are: number of franchised units, number of company owned units, number of franchised and company owned units (total units), percentage growth in number of franchised units between 1993 and 1994, industry category, length of time in business, length of time franchising, and Average Non Real-Estate Initial Investment. Mean and median figures for each of these categories and between categories is included.

Of the 472 franchisor UFOC Item 20 documents, 28 were excluded from the statistical analysis due to lack of information on dependent variables (such as initial investment, length of time franchising, etc.) Several statistical methods were applied in analyzing the set of 444 franchisor UFOC Item 20 information data. Coopers & Lybrand applied a linear regression based on the 95% confidence level. A correlation matrix test was used to measure the probability of correlations between turnover ratios and dependent variables.

Due to the lack of mutual exclusivity between categories and the concomitant certain upward bias in calculations, non-parametric statistics better describe differences in the data. FRANDATA used a Friedman-R test, a non-parametric statistical test which measures differences between sample distribution, on the block analysis of franchised industry categories vs. System size categories. No significant differences were found between sample distributions. [See Appendix E for additional detail concerning statistical methodology.]

Although descriptive in nature, turnover and other ratios developed in the study do not appear to correlate with the variables chosen for analysis. However, some interesting patterns were found, which may merit further analysis. For example, "Medium" sized systems (defined as those franchised systems with between 51 and 500 units) appear to have a higher Turnover ratio than both "Smaller" systems (defined as those franchised systems with between 0 and 50 units) and "Larger" systems (defined as those franchised systems with more than 500 units). Franchisors

---

<sup>1</sup> The median can be defined as the middle value of a set of numbers arranged from lowest to highest. Though the mean is an average value, the median best describes the "middle" value of the data set. The median is a better measure of central tendency in a set in which the data is skewed, as is the case with non-mutually exclusive information. See Appendix F for definitions of this and other statistical terms.



with either a very high (50% or more) or a very low (Less than 0%) growth rate appear to have higher Turnover ratios. Again, these are purely descriptive observations, and the statistical analysis does not support correlations at the 0.05 confidence level.

These observations do warrant further study, as the data points within each interval may be insufficient to formulate correlation at this time. Also, further study may be warranted due to the limitations arising from the compiled information, such as the period of study (one fiscal year). As more franchisors register New format documents, the information extracted from those documents may be more complete, providing both more periods for the data, as well as more data points.

Clearer guidelines of Item 20, and stricter adherence to those guidelines with the specific purpose of avoiding double counting of events would also simplify the statistical issues in future analysis.

#### Purpose

The purpose of this study is to present and analyze franchisee turnover as defined within Item 20<sup>2</sup> (Franchised Unit Status Summary) of the new format Uniform Franchise Offering Circulars<sup>3</sup> ("new format UFOC") adopted by the North American Securities Administrators Association ("NASAA"). The scope of the study is limited to state-approved franchisors that have filed under the new format.

#### About New Format UFOCs and Item 20

The UFOC guidelines for Item 20 were adopted by NASAA on April 25, 1993 and became effective between 1/1/94 and 1/1/95.

The new format UFOC guidelines, including Item 20, were revised so that prospective franchisees would have sufficient disclosure to understand economic commitments and develop a business plan. New format Item 20 guidelines would give prospective franchisees a better understanding of the franchisor's record.

---

<sup>2</sup> Please see Appendix C for a discussion of the content and organization of the Uniform Franchise Offering circular ("UFOC"), including Item 20.

<sup>3</sup> Presently, there are thirteen (13) states where franchisors must register using a Uniform Franchise Offering Circular ("UFOC") disclosure document. On April, 25, 1993 the North American Securities Administrators Association ("NASAA") adopted comprehensive revisions to the UFOC and its guidelines. The Federal Trade Commission ("FTC") then announced its approval of the new UFOC guidelines on December 30, 1993, in a manner which complimented NASAA's instructions

The Item 20 information, is presented in table format<sup>4</sup> and includes the following information regarding franchised outlets:

- 1) Number where controlling ownership had been Transferred
- 2) Number that had been canceled or terminated by the franchisor
- 3) Number that had not been renewed by the franchisor
- 4) Number that had been reacquired by the franchisor, and,
- 5) Number that had been reasonably known by the franchisor to have otherwise ceased to do business in the system.

Numbers are presented for each of the past three years the franchisor has been in existence. The table also presents Totals for each year, and includes franchisees who were in operation at the end of each year.

#### Characteristics of the Sample Population

Our sample of 472 Item 20 sections of new format UFOCs from franchisors is not a random sample. We attempted to include all companies that had filed UFOCs in any of the thirteen (13) registration states as of the closing date of our analysis (9/11/95). Thus, we believe it is a comprehensive view of the possible universe of franchisors with new format UFOCs.

A variety of companies with different characteristics are included in our sample. These characteristics, in turn, have become the basis for our analysis. Some of the characteristics include:

#### Industry

**Category:** Franchisors operate in different industry categories (for example, The Fast Food Industry, The Lodging Industry, etc.). In this study, 15 categories have been analyzed according to FRANDATA's categorization coding system. Appendix B shows a listing of these categories, including the sample size for each category.

#### System

**Size:** There is a wide range of system sizes represented in the sample. From franchisors with relatively few franchisees to franchisors with thousands of franchisees. To simplify the analysis, we have categorized the system size as follows:

- Franchisors with 0 to 25 franchised units at the end 1993
- Franchisors with 26 to 50 franchised units at the end 1993
- Franchisors with 51 to 101 franchised units at the end 1993
- Franchisors with 101 to 500 franchised units at the end 1993
- Franchisors with more than 500 franchised units at the end 1993

---

<sup>4</sup> See Appendix A for an example of an Item 20 section from a UFOC.

A similar categorization has been applied to the number of units the franchisor owns outright (company-owned units).

**Year End:** Of the 472 Item 20s available from UFOCs, a total of 331 were from companies that had a 12/31/94 fiscal year end. Thus, although for most franchisors the calendar year-end is the same as their fiscal year-end, many franchisors complete their fiscal year differently. For a large majority, the fiscal year end falls between the months of December and February. Therefore, we define the base year for our sample as follows:

The base year will include all franchisors with a fiscal year end that falls between the beginning of the previous calendar year's second quarter and the end of the current year's first quarter.

As an example, a franchisor whose fiscal year-end is 6/30/94 will be included in the 1993 base year for our calculations, since the date of its fiscal year end falls between 4/1/93 and 3/31/94. For the same reason, a different franchisor with a fiscal year end of 1/31/94 will be included in the same base year (1993). Note that despite having a 1994 fiscal year-end, the latter franchisor was included in the 1993 base year, per our definition. This definition was applied thoroughly and consistently.

Moreover, to ensure statistical consistency, we have analyzed the data regarding the franchisors in the study group in two ways:

1. The body of this study consists of information compiled for all franchisors for whom a new format UFOC is available as of 9/11/95.
2. We have also put together data for a subset of this group, containing only franchisors with a 12/31/94 fiscal year end. We present and analyze this information separately, in Appendix C.

#### Turnover Ratios vs. Failure Rates

We define turnover as the summation of units where any one of the following events occurred during the year in question: franchise cancellations, franchise transfers, franchise nonrenewals, reacquisitions by franchisors, and franchises where the franchisee left the system for other reasons.

Though it is beyond the scope of this study to define failure, please note that the turnover ratios presented herein should not be confused with "failure" or "closure" rates, for the following reasons:

1. The figures do not represent a change from one period to another. Although Item 20 guidelines require information for three years prior to their latest fiscal year, our data period is limited to only one year of information. This is due to franchisors' different fiscal year-ends, as the companies often report Item 20 information regarding three different years (1990/1991/1992 vs. 1992/1993/1994). Due to the relatively recent introduction of revised Item 20 guidelines, the only base year where complete information could be found for the sample as a whole was 1993.
  
2. Since the Item 20 categories are not mutually exclusive, their aggregates should not be represented as a rate. The five (5) categories within Item 20 include:
  - 1) Franchisee Transfers
  - 2) Franchisee Cancellations
  - 3) Nonrenewals by Franchisee or Franchisor
  - 4) Reacquisitions by the Franchisor, and,
  - 5) Units that Left the System for Other Reasons

Although there are provisions in the guidelines to account for instances where several events may have affected the same franchised unit, they are not often followed. In many cases, a franchised unit is not renewed or canceled and then subsequently is transferred by the franchisor during the same year. Often, a franchised unit is canceled and then reacquired by the franchisor during the same year. In many instances, franchisors have counted these events separately. That leads to double counting of events, and an upward bias on turnover. It also means that a turnover rate, as narrowly defined within the scope of this study, is impossible to measure with this data, as the data sets are not mutually exclusive.

3. Unit status may not necessarily determine a particular franchisee's success or failure. There are no clear definitions for "failure" or "success." Yet "success" implies financial reward and satisfaction for a franchisee while "failure" implies financial hardship and discontent. Yet there are legitimate reasons for a franchisee to terminate ownership of (and thus "turn over") a franchised unit and believe herself to be "successful." Conversely, there are legitimate reasons for a franchisee to leave the system profitably while believing himself to have "failed."

Many of these reasons relate to inherent deficiencies in the definition, formulation and/or interpretation of the UFOC Item 20 guidelines. A clearer definition, with an expanded number of categories to prevent double counting, would be helpful in future research.

Due to the above reasons, and only for the purposes of this study, FRANDATA has defined a turnover ratio, to simplify the analysis. The Turnover Ratio is defined to include all the Item 20

categories (Transfers, Cancellations, Nonrenewals, Reacquisitions, and Other). Since these categories are not mutually exclusive, the total should not be represented as a rate. We decided to use the following elements:

$$\text{Turnover Ratio} = \frac{\sum (\text{Tr, Ca, Nr, Ra, Ot})}{\text{Ye}}$$

Where,

- Tr = Franchised units transferred during the current year;
- Ca = Franchised units canceled during the current year;
- Nr = Franchised units not renewed by the franchisor during the current year;
- Ra = Franchised units reacquired during the current year;
- Ot = Franchised units that had left the system for other reasons during the current year;
- and
- Ye = Total number of franchised units open at year end for the base year.

Numerator: We summed the totals for units transferred (Tr), canceled (Ca), not renewed (Nr), reacquired (Ra) and that had left the system for other reasons (Ot) during the current year (1994). Again, although the categories are not mutually exclusive and cannot be separated, they all must be used in whole to create a somewhat meaningful aggregate.

The lack of mutual exclusivity is particularly cumbersome, since it provides not only an immediate upward bias to turnover figures, but also may skew the sample to such an extent that the data may be rendered meaningless. In particular, certain categories, especially Transfers, may be incorrectly counted more often, as most other events may result in a subsequent Transfer. Rather than try to leave out the problematic Transfers category, we decided to present the aggregate numbers both with and without the Transfers category.

Denominator: The base year's total number of units open at year end (Ye) is the denominator. We chose the base year (in this case 1993) for these figures since there is more relevance.

Unlike a 'percentage' or 'rate' of turnover, the turnover ratio should be considered an inexact guideline, an index. That index must be created, as its elements must be chosen. Thus we have chosen the above elements for our Turnover ratio (numerator and denominator) to attempt to approximate a rate of turnover.

#### Methodology and Results

Item 20 sections of new format UFOC documents from franchisors who had registered by 9/11/95 were retrieved from thirteen (13) registration states. FRANDATA attempted to contact

each state, obtain a list on new documents, and retrieve new format UFOC documents only. The documents were personally retrieved by FRANDATA researchers and checked for new format content.

Information from these documents was entered into a database table that included both Item 20 information and other characteristics of the franchisor (Industry Group, System Size, etc.). Researchers entered the data manually, which was then verified for accuracy by a Senior Researcher and posted. From the information, Turnover Ratios (both including and excluding Transfers) were calculated by Senior Researchers for each franchisor, verified, and posted.

The data was analyzed according to the following franchisor characteristic, all of which can be found in the new format UFOC document:

- (a.) Number of franchised units: the data was categorized according to the samples modal distribution, as follows:
  - 0 to 25 franchised units at the end 1993
  - 26 to 50 franchised units at the end 1993
  - 51 to 101 franchised units at the end 1993
  - 101 to 500 franchised units at the end 1993
  - More than 500 franchised units at the end 1993
- (b.) Number of company units: a similar categorization scheme paralleled (a.) above.
- (c.) Number of total units: a similar categorization scheme paralleled (a.) above.
- (d.) Growth in franchise units: A percentage growth in units between the base year and the present year was calculated.
- (e.) Industry category: Franchisors were assigned to one of fifteen (15) industry categories<sup>5</sup>.
- (f.) Length of time in business: the data was categorized according to the following scheme:
  - 0 to 1 years in business
  - 2 to 3 years in business
  - 4 to 5 years in business
  - 6 to 8 years in business
  - 9 to 11 years in business
  - 12 or more years in business
- (g.) Length of time franchising: a similar categorization scheme paralleled (f.) above.
- (h.) Average Non-Real Estate Initial Investment: Initial Investment (less Real Estate and Improvements expenditures) analyzed. Franchisors were assigned to one of five Initial Investment categories.

---

<sup>5</sup> See Appendix B for a listing of industry categories.

The results are presented in Tables and Charts, Exhibits 1- 9. For each chart, we have calculated two separate Turnover Ratios:

1. Turnover Ratio calculated as the cumulative value for all transfers, cancellations, non-renewals, reacquisitions, and other reasons that franchisees left a particular system for a franchisor's 1994 fiscal year, divided by the total number of franchised units in the system as disclosed for year-end 1993;
2. Turnover Ratio (not including transfers) calculated in the same fashion as above, but *excluding the number of transfers listed in Item 20.*

The median turnover ratio for the study's sample was 8.86 and 4.65 not including transfers. The mean turnover ratio was 11.91 and 8.10 not including transfers. The mean numbers are presented for descriptive purposes, however, as previously mentioned, median figures better describe this type of data.

EXHIBIT 1 Turnover Ratios for Franchisors with New Format Documents,  
by Number of Franchised Units

Category	Median Turnover Ratio	Median Turnover Ratio (Not including Transfers)
0 to 25 Units	0.00	0.00
26 to 50 Units	6.45	3.85
51 to 100 Units	10.91	6.98
101 to 250	9.82	5.58
251 to 500 Units	12.24	6.30
More than 500 Units	8.89	4.05

## Study of Franchised Unit Turnover

**EXHIBIT 2** Turnover Ratios for Franchisors with New Format Documents  
by Number of Company-Owned Units

Category	Median Turnover Ratio	Median Turnover Ratio (Not including Transfers)
0 to 25 Units	8.87	4.36
26 to 50 Units	10.00	5.56
51 to 100 Units	8.33	5.77
101 to 250 Units	6.41	4.65
251 to 500 Units	12.95	6.78
More than 500 Units	7.18	3.41

**EXHIBIT 3** Turnover Ratios for Franchisors with New Format Documents  
by Number of Total Units

Category	Median Turnover Ratio	Median Turnover Ratio (Not including Transfers)
0 to 25 Units	0.00	0.00
26 to 50 Units	5.26	3.85
51 to 100 Units	10.53	5.56
101 to 250 Units	10.34	5.64
251 to 500 Units	11.89	6.73
More than 500 Units	9.72	4.20



EXHIBIT 4 Turnover Ratios for Franchisors with New Format Documents  
by Percentage Growth in Franchised Units between 1993 and 1994

Growth of	Median Turnover Ratio	Median Turnover Ratio (Not including Transfers)
Less than 0%	12.95	9.69
between 0% and 10%	6.05	2.66
between 11% and 25%	9.72	4.70
between 26% and 50%	7.31	3.09
More than 50%	9.35	7.66

**EXHIBIT 5** Turnover Ratios for Franchisors with New Format Documents  
by Industry Category  
*(Please refer to Categorization Code in Appendix B)*

Category	Median Turnover Ratio	Median Turnover Ratio (Not including Transfers)
AUTO	9.43	4.77
BAKE	8.22	2.55
BUSN	10.16	5.51
DECR	5.41	3.03
EDCU	22.31	14.79
EDUC	10.18	6.22
FAST	7.53	3.38
LODG	7.52	2.54
MAIN	8.00	3.44
PERS	8.31	3.25
REAL	10.81	7.16
REST	10.44	4.96
RETF	11.54	8.00
RETL	7.18	4.22
SERV	10.53	6.25

**EXHIBIT 6** Turnover Ratios for Franchisors with New Format Documents  
by Length of Time in Business

Years in Business	Median Turnover Ratio	Median Turnover Ratio (Not including Transfers)
0 to 1 year	0.00	0.00
2 to 3 Years	0.00	0.00
4 to 5 Years	18.33	13.33
6 to 8 Years	14.29	8.52
9 to 11 Years	6.63	2.76
12 or more years	9.18	4.96
INFO. NOT AVAILABLE	1.85	0.00

**EXHIBIT 7** Turnover Ratios for Franchisors with New Format Documents  
by Length of Time Franchising

Years in Franchising	Median Turnover Ratio	Median Turnover Ratio (Not including Transfers)
0 to 1 year	0.00	0.00
2 to 3 Years	2.47	0.00
4 to 5 Years	9.20	4.08
6 to 8 Years	10.91	6.61
9 to 11 Years	11.43	6.12
12 or more years	8.86	4.72
INFO. NOT AVAILABLE	1.85	0.00

**EXHIBIT 8 Turnover Ratios for Franchisors with New Format Documents  
by Average Non Real-Estate Initial Investment**

Initial Investment	Median Turnover Ratio	Median Turnover Ratio (Not including Transfers)
Less than \$50,000	9.72	5.60
\$50,001 to \$200,000	9.49	3.73
\$200,001 to \$500,000	8.33	3.90
\$500,001 to \$1,000,000	3.85	0.30
More than \$1,000,000	8.62	4.65
INFO. NOT AVAILABLE	3.70	0.00

**Analysis and Conclusions**

Of the 472 franchisor UFOC Item 20 documents, 28 were excluded from the statistical analysis due to lack of information on dependent variables (such as initial investment, length of time franchising, etc.) Several statistical methods were applied in analyzing the set of 444 franchisor UFOC Item 20 information data. Coopers & Lybrand applied a linear regression based on the 95% confidence level. A correlation matrix test was used to measure the probability of correlations between turnover ratios and dependent variables.<sup>6</sup>

Due to the lack of mutual exclusivity between categories and the concomitant certain upward bias in calculations, non-parametric statistics better describe differences in the data. FRANDATA used a Friedman-R test, a non-parametric statistical test which measures differences between sample distribution, on the block analysis of franchised industry categories vs. System size categories. No significant differences were found between sample distributions.

Despite the lack of statistically significant differences, certain patterns which may merit further study do appear from the data. These tendencies of the data may become more or less pronounced as the sample size is increased. Thus, a study with a larger sample of franchisor's UFOC Item 20 documents may better substantiate the following observations:

---

<sup>6</sup> Appendix E is included to present the supporting documentation from the statistical analysis.

**System Size:** "Medium" sized systems (defined as those franchised systems with between 51 and 500 units) tend to have a higher Turnover ratio than both "Smaller" systems (defined as those franchised systems with between 0 and 50 units) and "Larger" systems (defined as those franchised systems with more than 500 units)

Franchisors with between 26 and 50 company owned units tend to have a larger ratio than those with a smaller or larger number of company owned units.

**Growth:** Franchisors with either a very high (50% or more) or a very low (Less than 0%) growth rate tend to have higher Turnover ratios.

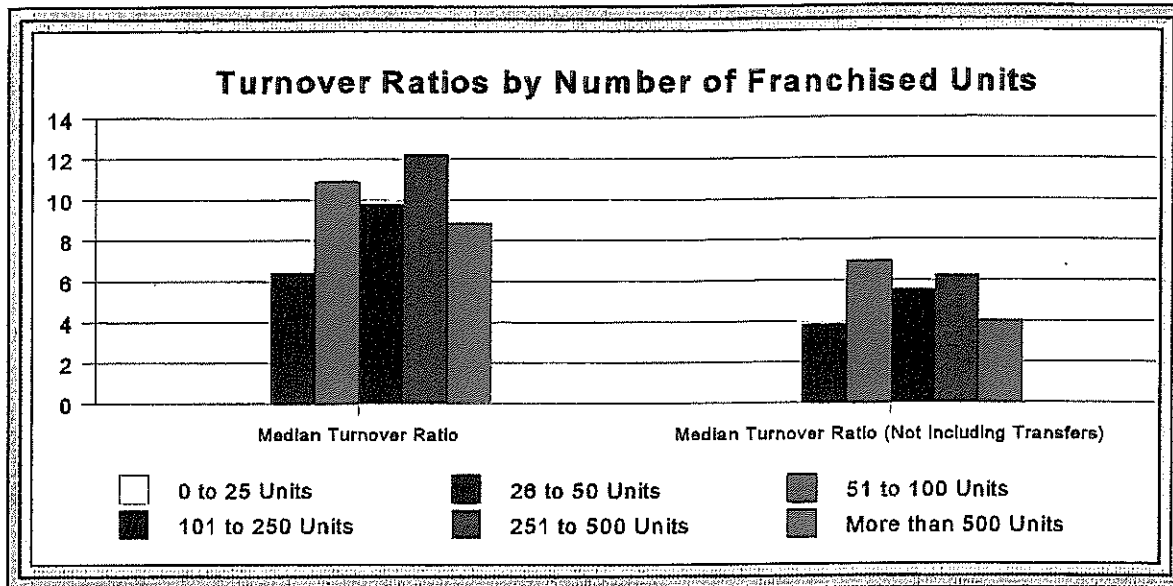
**Industry Category:** Franchisors within the industry categories of Bakery Goods and Children's Products and Services tend to have higher turnover ratios. Although franchisors in the fields of Restaurants, Fast Food, and Retail Foods appear to have higher turnover ratios, a large portion of the ratios is comprised of Transfers.

**Years in Business:** Franchisors that have been in business and franchising between 4 and 8 years appear to have higher turnover ratios.

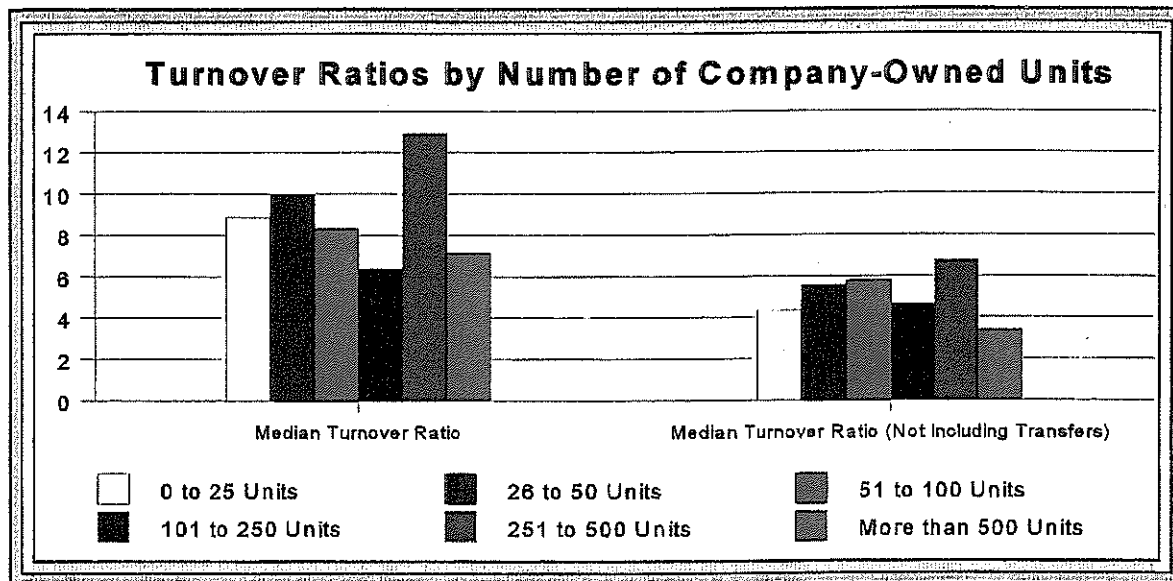
Again, there are several caveats with this type of data. Firstly, there is a potential upward bias to all of these figures, since the categories are not mutually exclusive. Secondly, there is a sampling bias, since not all franchisors file UFOCs--and of those who do, not all have filed new format UFOCs. The latter bias will become less disruptive as more franchisors file in the new format. Lastly, and more importantly, the turnover ratios do not signify turnover rates, as they are merely an inexact guide to turnover as defined in this study and in the Item 20 guidelines. This can only be ameliorated by having more periods of data, more observations, and a clearer definition of turnover which precludes or minimizes double counting.

With the present definition of turnover, however, turnover ratio as an index should prove helpful in the future. As more franchisors begin to adopt the new format, more research within this area will become available. Thus, the turnover ratio created herein can be compared over, say, annual time periods. Thus, the index may track aggregate annual increases and decreases of turnover--a *rate* of change in the turnover index.

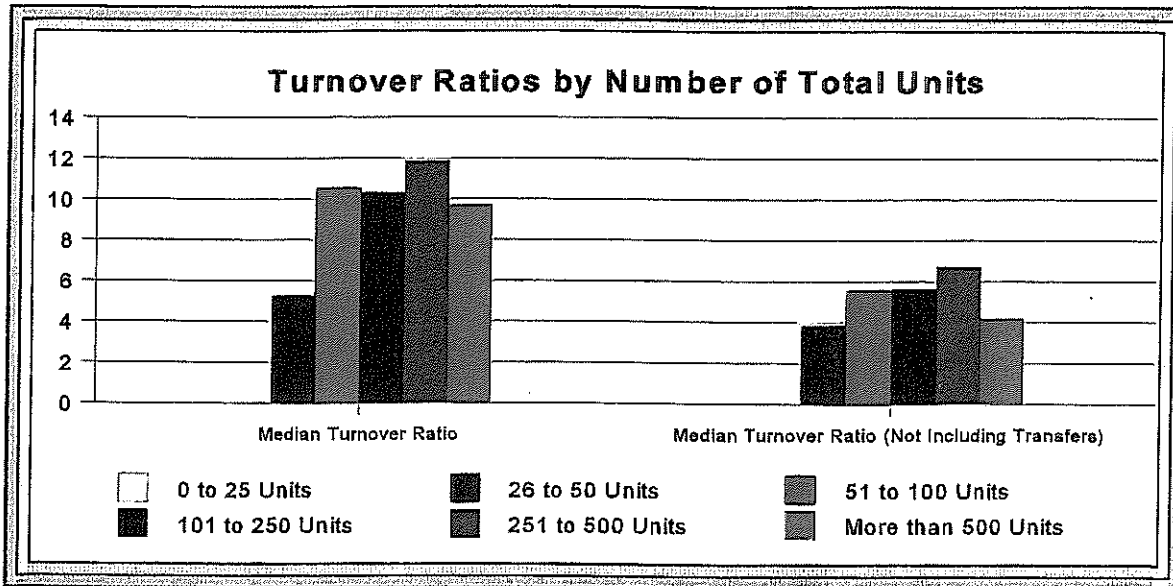
Tracking such an index may prove useful in approximating turnover activity. However, it would not answer the question of whether "failure" or "success" is approximated by turnover. More exacting definitions in Item 20 categories may bring about a closer relationship between "turnover" and "success" or "failure." Solving the problem of overlapping (not mutually exclusive) categories in Item 20 would be a good first step.



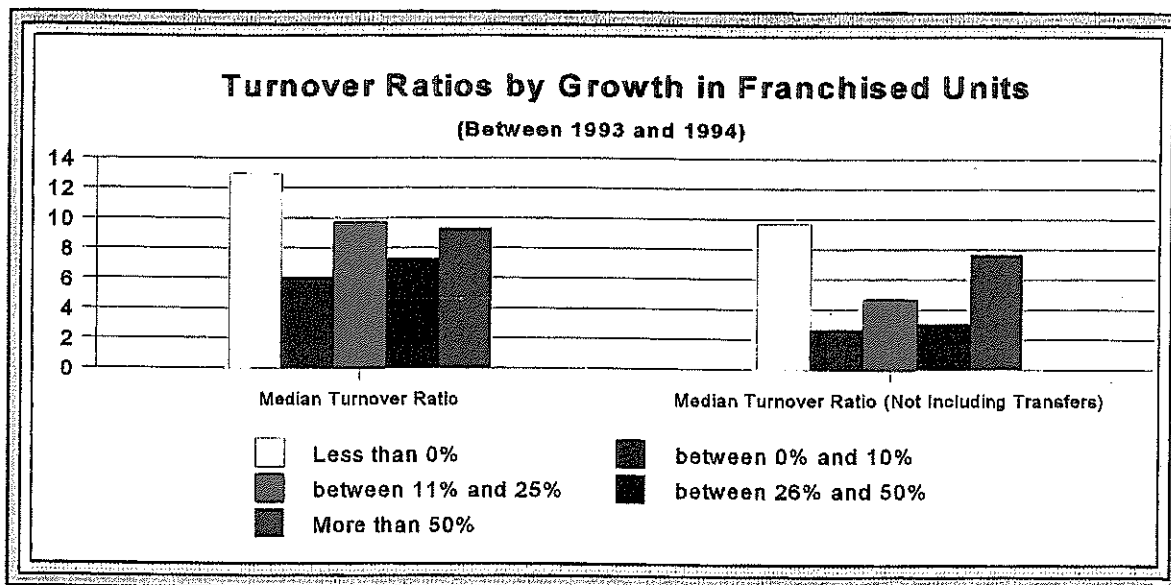
**Exhibit 1**



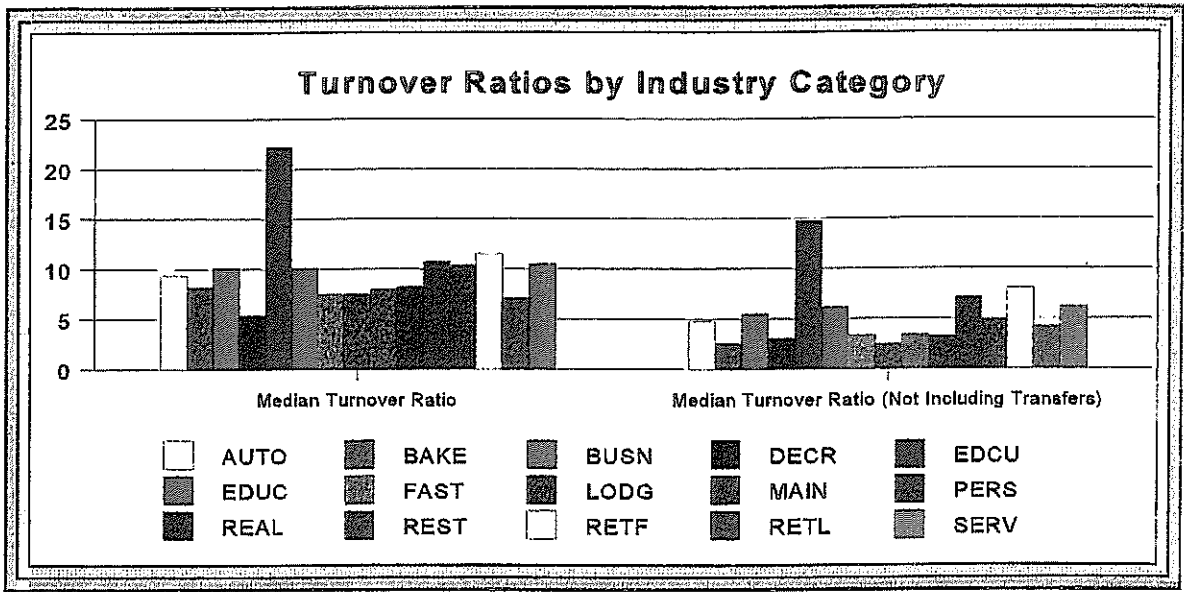
**Exhibit 2**



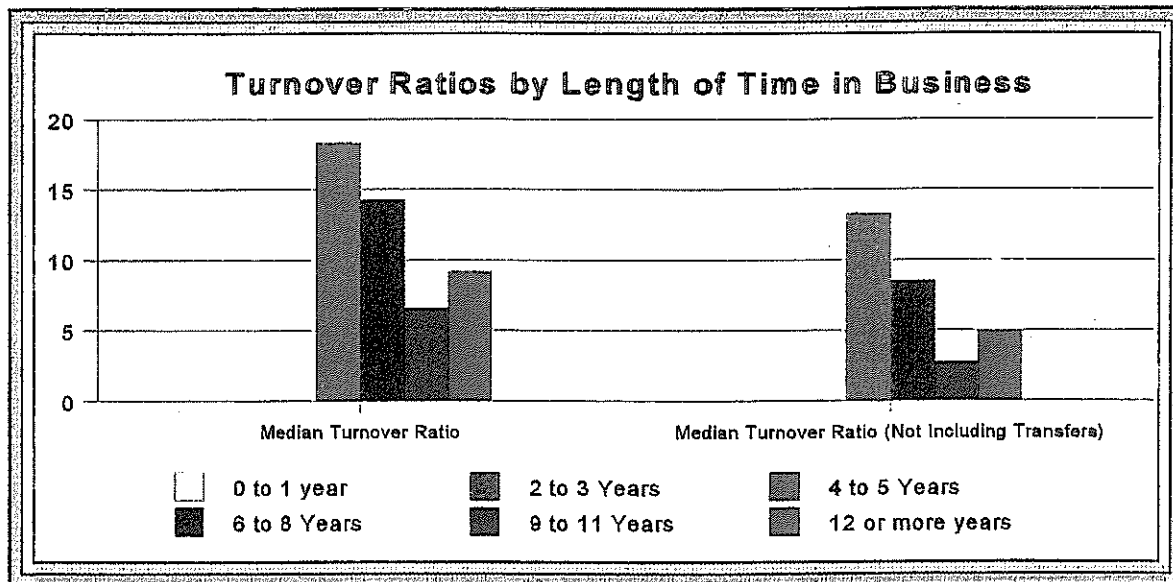
**Exhibit 3**



**Exhibit 4**

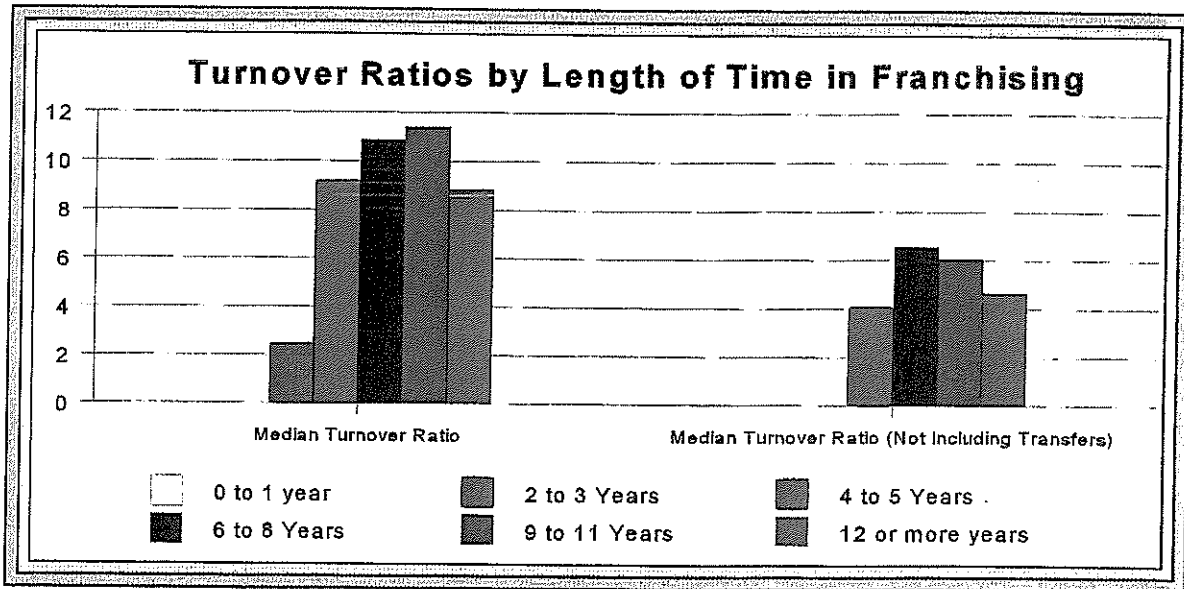


**Exhibit 5**

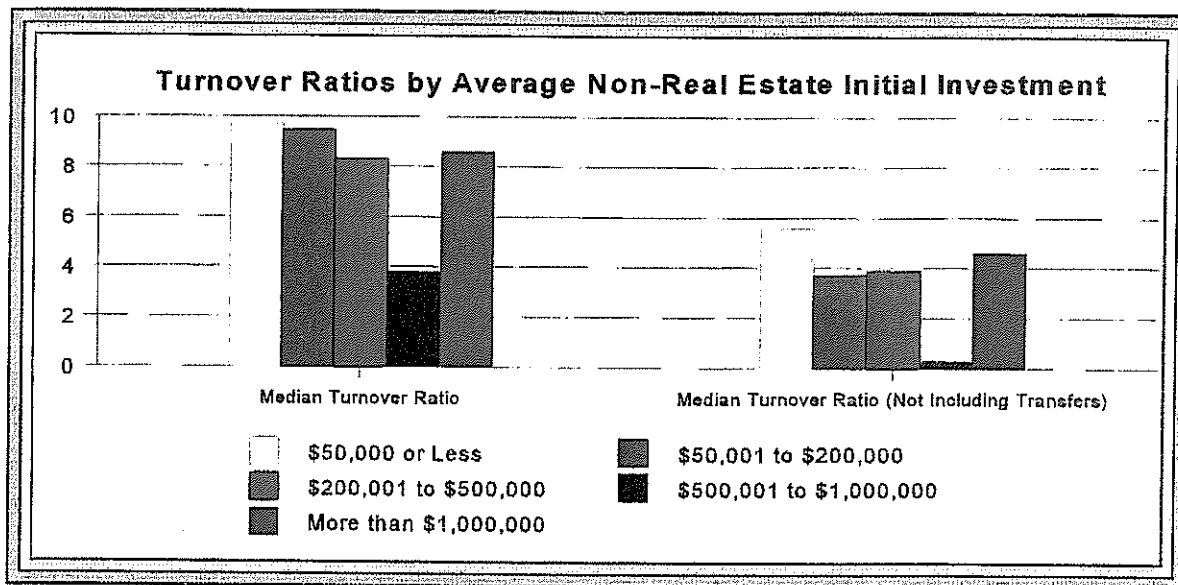


**Exhibit 6**





**Exhibit 7**



**Exhibit 8**

Appendix A:

Sample Item XX

FRANCHISED  
STORE STATUS SUMMARY  
FOR YEARS 1992/1991/1990

STATE	TRANSFERS	CANCELLED OR TERMINATED	NOT RENEWED	REACQUIRED BY FRANCHISOR	LEFT THE SYSTEM OTHER	TOTAL FROM LEFT COLUMNS (2)	FRAN- CHISES OPERA- TING AT AT YEAR END
Alaska							2/0/0
Arizona	2/1/0					2/1/0	8/6/2
Arkansas							6/4/2
California					1/1/0	1/1/0	4/0/0
Colorado							3/3/3
Connecticut							5/3/1
Delaware		1/0/0				1/0/0	6/4/0
Florida							2/0/0
Georgia							2/0/0
Idaho							2/0/0
Totals	2/1/0	1/0/0	0/0/0	0/0/0	1/1/0	4/2/0	40/20/8

1) Note: All numbers are as of December 31 for each year.

2) The numbers in the "Total" column may exceed the number of stores affected because several events may have affected the same store. For example, the same store may have had multiple owners.

Adopted by NASAA on  
April 25, 1993

## Appendix B:

### Industry Categorization Codes and Number of Companies per Category in the Sample

<b>Category Code</b>	<b>Category</b>	<b>Number of Companies in the Study's Sample</b>
AUTO	Automotive	42
BAKE	Bakery Goods	16
BUSN	Business Services	40
DECR	Decorative and Building Related	30
EDCU	Children's Products and Services	10
EDUC	Educational Services	10
FAST	Fast Food, Ice Cream and Frozen Foods	72
LODG	Hotels and Motels	24
MAIN	Maintenance Services	38
PERS	Personnel Services	14
REAL	Real Estate Services	16
REST	Restaurants	28
RETF	Retail Food	21
RETL	Retail Stores	66
SERV	Service Businesses	45

## Appendix C:

### Discussion of Uniform Franchise Offering Circulars

- Item I The Franchisor, Its Predecessors and Affiliates**  
Describes the franchisor's principle business and corporate history.
- Item II Identity and Business Experience of Persons Affiliated With the Franchisor**  
Describes those people responsible for running the company and their professional backgrounds.
- Items III, IV Litigation and Bankruptcy**  
Lists material litigation and bankruptcies involving the company or its key employees over the past 10 years.
- Item V Franchisee's Initial Franchise Fee or Other Initial Payments**  
Details all initial fees charged to the franchisee.
- Item VI Other Fees**  
Outlines on-going payments due to the franchisor, including royalty, advertising, transfer, and renewal fees.
- Item VII Franchisee's Initial Investment**  
Presents (in chart form) all initial investment requirements of the franchisee such as: equipment and real estate costs, working capital requirements, security deposits, and initial inventory investments. The amount, method, due date, and payee for all payments due are provided.
- Items VIII Restrictions on Sources of Products and Services**  
Outlines designated and approved suppliers of various goods and services to the franchise system. Specifies required computer hardware and/or software to be used in operations.
- Item X Financing Arrangements**  
Discloses any available financing programs offered by the franchisor or related third party.
- Item XI Franchisor's Obligations**  
Discloses franchisor's obligations to assist the franchisee in the operation of the business. Includes a table of contents to the confidential operating manual(s).
- Item XVII Renewal, Termination, Transfer and Dispute Resolution**  
Summarizes key provisions of the franchise agreement in chart form.
- Item XIX Representations Regarding Earnings Capability**  
May contain an estimate of potential sales, costs, income, or profits of franchisees currently in the franchise system. All earnings claims must have a "reasonable basis."
- Item XX Information Regarding Franchisees of the Franchisor**  
Lists number of operational franchises, franchised units sold or closed in a specified time period, and the names, addresses and telephone numbers of select system franchisees for the past three years in chart form.
- Item XXI Financial Statements**  
Audited financial statements for the company's two most recent fiscal years.
- Item XXII Contracts**  
Includes the franchise agreement and other ancillary agreements which the franchisee may execute directly with the franchisor.

## Appendix D:

### Variables for Correlations

- a. Number of franchised units
  - 1. 0 to 25
  - 2. 26 to 50
  - 3. 51 to 100
  - 4. 101 to 250
  - 5. 251 to 500
  - 6. More than 500
  
- b. Number of company units
  - 1. 0 to 25
  - 2. 26 to 50
  - 3. 51 to 100
  - 4. 101 to 250
  - 5. 251 to 500
  - 6. More than 500
  
- c. Number of total units
  - 1. 0 to 25
  - 2. 26 to 50
  - 3. 51 to 100
  - 4. 101 to 250
  - 5. 251 to 500
  - 6. More than 500
  
- d. Percentage growth in franchise units
  - 1. Less than 0%
  - 2. 0% to 10%
  - 3. 11% to 25%
  - 4. 26% to 50%
  - 5. More than 50%
  
- e. Industry category (*See Appendix B*)
  
- f. Length of time in business
  - 1. 0 to 1 years
  - 2. 2 to 3 years
  - 3. 4 to 5 years
  - 4. 6 to 8 years
  - 5. 9 to 11 years
  - 6. 12 or more years

## Variables for Correlations (Continued)

- g. Length of time franchising
  - 1. 0 to 1 years
  - 2. 2 to 3 years
  - 3. 4 to 5 years
  - 4. 6 to 8 years
  - 5. 9 to 11 years
  - 6. 12 or more years
- h. Average Non-Real Estate Initial Investment
  - 1. \$50,000 or less
  - 2. \$50,001 to \$200,000
  - 3. \$200,001 to \$500,000
  - 4. \$500,001 to \$1,000,000
  - 5. More than \$1,000,000

## Appendix E:

### Supporting Documentation from the Statistical Analysis

The turnover ratio for purposes of this analysis is defined as the summation of all transfers, cancellations and terminations, non-renewals, reacquisitions, and other turnovers experienced by franchisors divided by the number of franchised units.

Turnover ratio and turnover ratio not including transfers were the dependent variables tested in Data1. All testing of Data1 was performed at a 95% confidence level and our procedures were limited to the following:

- ◆ The Data1 file was imported into Microsoft Excel for regression analysis.
- ◆ Franchises that had incomplete data sets were eliminated; this resulted in the testing of 340 records.
- ◆ Non-numerical data was converted into a format that could be analyzed.
- ◆ Redundant independent data was eliminated from the sample.

The number of years since founding was not used due to the high correlation with years franchised.

- ◆ Redundant dependent variables were eliminated.

Total units transferred, cancellations, non-renewals, other turnover, and reacquisitions are all captured within the turnover ratio.

- ◆ Data that has no predictive power was eliminated.

The date of the fiscal year end was not used.

After the data contained in Data1 was coded and non-explanatory data was eliminated, we analyzed Data1 as follows.

- ◆ The category of franchise was tested to see if there was any significant difference in turnover ratios experienced by each category.

Result: The category of the franchise was not a factor in turnover. No significance could be determined.

- ♦ The franchised units, percentage growth rate in new units, total number of units, years franchised, IFA membership, earnings claims, and average investment were analyzed using a multi-variable regression technique.

Result: The regression produced results that were not significant. The explanation power of the resulting equation produced an r-squared below 4% and individual variables were found to be not significant using a t-test.

- ♦ The Data1 file was then imported into SPSS, a statistical software package for further analysis.
- ♦ The multi-variable regression analysis was revisited and descriptive statistics were generated along with a correlation matrix.

Result: Upon review of the descriptive statistics and multi-variable regression analysis, it was concluded that the variables contained within Data1 could not explain the turnover experienced by the franchisors.

Upon conveying the results of the above procedures, you supplied to us a revised Data1 file on January 31, 1996 (Data2). Data2 was generated in response to the large number of eliminated incomplete data sets noted and not used in the Data1 file.

In addition to the turnover ratios tested in Data1, we considered transfers, cancellations, non-renewals, other turnovers, and reacquisition ratios as dependent variables. As with Data1, all testing of the data was performed at a 95% confidence level and our procedures were limited to the following:

- ♦ The Data2 file was imported into Microsoft Excel for regression analysis.
- ♦ Franchises that had incomplete data sets were eliminated; this resulted in the testing of 444 records.
- ♦ Non-numerical data was converted into a format that could be analyzed.
- ♦ Redundant independent data was eliminated from the sample.

The number of years since founding was not used due to the high correlation with years franchised.

- ♦ Data that has no predictive power was eliminated.

The date of the fiscal year end was not used.



Similar to the Data1 analysis, after the data contained in Data2 was coded and non-explanatory data was eliminated, we analyzed Data2.

- ♦ The significance of the category of franchise was tested by running a multi-variable regression against the factors that make up the turnover ratio as well as the turnover ratio and turnover ratio not including transfers.

Result: The category of the franchise was not a factor in any of the ratios. No significance could be determined.

- ♦ The franchised units, percentage growth rate in new units, total number of units, years franchised, IFA membership, earnings claims, and average investment were analyzed using a multi-variable regression technique.

Result: The regression produced results that were not significant. The addition of 104 new records (the difference between Data1 and Data2) does not appear to alter the results experienced with Data1.

Reviewing the output from the above procedures, it was reasonable to conclude that no statistical correlations are contained within the Data1 and Data2 data sets.

## Appendix F

### Definitions of Statistics Terms

<b>Mean</b>	The sum of the measures in the data set divided by the number of measures in the set. Also <i>Average, Arithmetic Mean</i> .
<b>Median</b>	The middle value in an array of data that has been arranged from lowest to highest; used as a statistical measure of primary tendency in skewed samples.
<b>Standard Deviation</b>	A measure of the variance in frequency distribution between a given set of numbers and the mean; based on squares of deviations from the mean.
<b>Dependant Variable</b>	The element in the second set of a function with respect to change in the independent variable
<b>Independent Variable</b>	An element in a function whose value is specified first and determines the value of one or more other elements in the expression of a function.
<b>Correlation Matrix</b>	A way of organizing a data set in order to measure concomitant variation in two or more variables.
<b>Linear Regression</b>	Analysis of a hypothesis regarding the relationship between two or more numbers.
<b>Friedman-R Test</b>	an analysis of a set of data which does not assume a normal population distribution.

STUDY OF

**Franchised Unit**

**TURNOVER**

**FRANDATA**

Report to the  
IFA Educational  
Foundation

02/18/96  
Hawaii

**introduction**

GOAL/ACTUAL

**METHODOLOGY**

CAVEATS

**RESULTS**

CONCLUSIONS

STUDY OF

**Franchised Unit**

**TURNOVER**

**FRANDATA**

GOAL

Find turnover rate (between 1992 and 1994) for franchisors, as defined by Item 20 of the "new format" UFOC

**NOT SUCCESS**

**NOT FAILURE**

**NOT SATISFACTION**

STUDY OF

**Franchised Unit**

**TURNOVER**

**FRANDATA**

ACTUAL

The median  
turnover *ratio*  
for 1993/1994

**8.86**

for a sample of 444 franchisors

**NOT A RATE**

**NOT A MEAN**

**NOT ALL FRANCHISORS**

STUDY OF

**Franchised Unit**

**TURNOVER**

**FRANDATA**

**METHODOLOGY**



**1** Get New Format UFOCs



**2** Enter Item 20 Information



**3** Calculate Turnover



**4** Compare to other variables



**5** Statistical Analysis

STUDY OF

**Franchised Unit**

**TURNOVER**

**FRANDATA**

**METHODOLOGY**



**1** Get New Format UFOCs

- Filed and approved in one of the registration states
- Complied with New Format Guidelines
- Was publicly available during dates of data collection

OBTAINED	472 Item 20 from UFOC
USED	444 Item 20 from UFOC



**2** Enter Item 20 Information

**STUDY OF  
Franchised Unit  
TURNOVER**

**FRANDATA**

**CAVEAT #1**

Not Mutually Exclusive  
(Double Counting)

ITEM 20  
FRANCHISED STORE STATUS SUMMARY  
FOR YEARS 199X/199Y/199Z

STATE	Transfer	Cancelled or Terminated	Not renewed	Reacquired by Franchisor	Left the System-Other	Total from left Columns	Franchises Operating at Year-End
AL	1/2/3	1/2/1	3/3/2	3/0/1	1/1/0	9/8/7	55/77/88
:	:	:	:	:	:	:	:
:	:	:	:	:	:	:	:
:	:	:	:	:	:	:	:
WY	:	:	:	:	:	:	:
TOTAL	11/22/18	10/20/30	24/15/23	12/11/10	17/12/15	74/80/96	374/280/496



**STUDY OF**  
**Franchised Unit**  
**TURNOVER**

**FRANDATA**

**CAVEAT #2**

Different Fiscal  
 Year Ends/Only  
 One Year of Data

**IDEAL**

	January	December
Franchisor 1	<input type="text"/>	<input type="text"/>
Franchisor 2	<input type="text"/>	<input type="text"/>
	:	:
	:	:
	:	:
Franchisor 472	<input type="text"/>	<input type="text"/>

**ACTUAL**

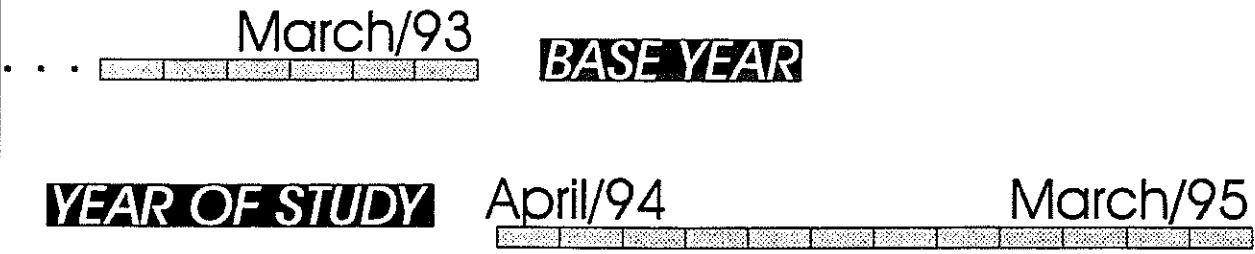
	Sep	Jan	Dec	Mar
Franchisor 1	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Franchisor 2	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Franchisor 3	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Franchisor 4	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	:	:	:	:
	:	:	:	:
	:	:	:	:
Franchisor 472	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

**STUDY OF**  
**Franchised Unit**  
**TURNOVER**

**FRANDATA**

**CAVEAT #2 (cont.)**

Different Fiscal  
 Year Ends/Only  
 One Year of Data



**ACTUAL**

	Sep	Jan	Dec	Mar
Franchisor 1				
Franchisor 2				
Franchisor 3				
Franchisor 4				
...				
Franchisor 472				

**STUDY OF  
Franchised Unit  
TURNOVER**

**FRANDATA**

**CAVEAT #2 (cont.)**

Different Fiscal  
Year Ends/Only  
One Year of Data

ITEM 20  
FRANCHISED STORE STATUS SUMMARY  
FOR YEARS 199X/199Y/199Z

1/2/83	1/2/84	3/31/82	3/31/81	1/1/80	9/8/7	MTW
11/22/88	10/20/90	24/15/23	12/11/10	1/11/2/15	74/50/96	1/10/1/96

ITEM 20  
FRANCHISED STORE STATUS SUMMARY  
FOR YEARS 199X/199Y/199Z

1992/**1993/1994**

**1993/1994/1995**

Turnover 9X/9Y    Turnover 9Y/9Z

**TURNOVER RATE**

# STUDY OF Franchised Unit TURNOVER

## FRANDATA

### CAVEATS

TURNOVER RATIO VS.  
TURNOVER RATE

ITEM 20  
FRANCHISED STORE STATUS SUMMARY  
FOR YEARS 199X/199Y/199Z

1/2/93	1/2/91	3/3/92	3/0/91	1/1/90	9/8/97	...
11/22/88	10/00/90	2/4/92/3	12/1/91/0	1/1/92/5	2/4/90/96	...

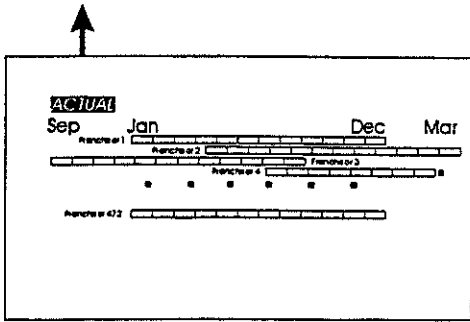
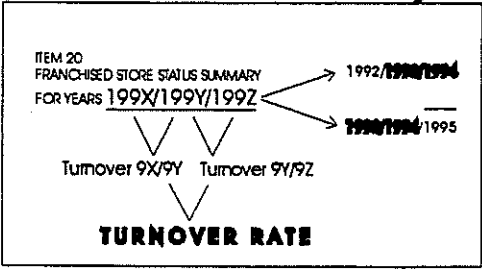
not mutually  
exclusive

**TURNOVER  
RATIO**

=

$$\frac{\text{TOTAL OF TRANSFERS, CANCELLATIONS/TERMINATIONS, NONRENEWALS, REACQUISITIONS, OTHER PER UFOC, ITEM 20 FOR YEAR OF STUDY (1994)}}{\text{TOTAL OF UNITS OPERATING AT YEAR END PER UFOC, ITEM 20 FOR THE BASE YEAR (1998)}}$$

different year-ends/  
only one year of data



**STUDY OF  
Franchised Unit  
TURNOVER**

**FRANDATA**

**CAVEATS**

UPWARD BIAS-  
SKEWED DATA

ITEM 20  
FRANCHISED STORE STATUS SUMMARY  
FOR YEARS 199X/199Y/199Z

1/2/3	1/2/1	3/3/2	3/3/1	1/1/0	9/8/7	...
1/2/2/8	10/20/80	84/1428	18/11/10	17/12/18	74/80/94	...

**UPWARD BIAS**

not mutually  
exclusive

**SKEWED DATA SET**

**CANNOT ASSUME NORMAL DISTRIBUTION**

different year-ends/  
only one year of data



**CANNOT USE THE "USUAL" ANALYTICAL TOOLS**

**MEAN vs. MEDIAN**

**Linear Regression vs. Friedman R**

STUDY OF

Franchised Unit

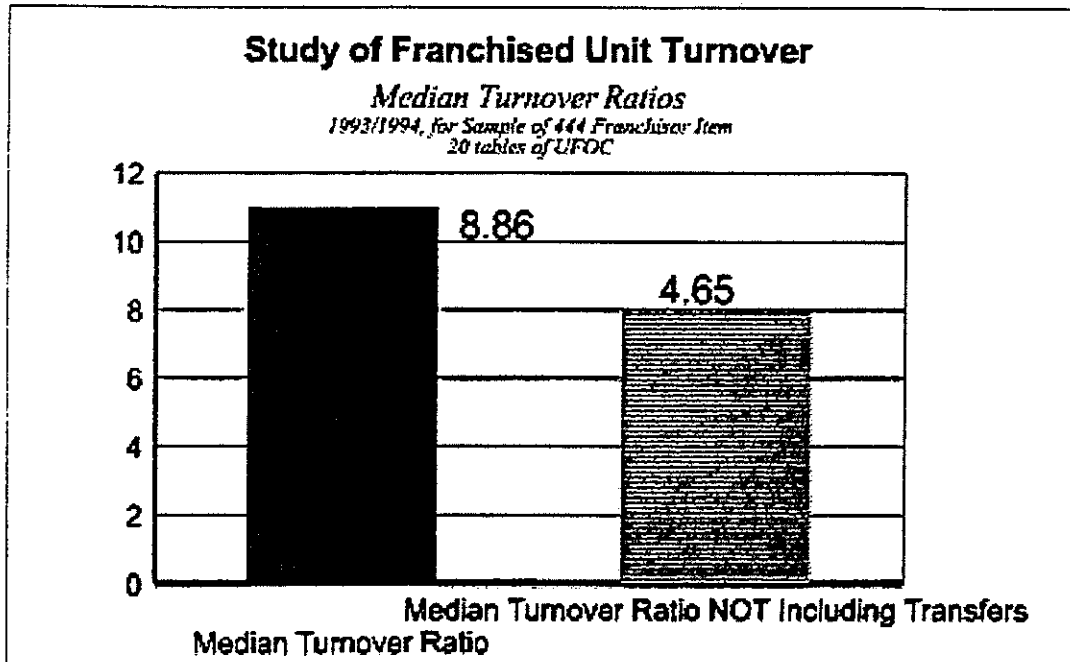
TURNOVER

**FRANDATA**

**RESULTS**



**3 Calculate Turnover**



**4 Compare to other variables**



**5 Statistical Analysis**

STUDY OF

**Franchised Unit**

**TURNOVER**

**FRANDATA**

**RESULTS**

- 4** Compare to other variables
  - Number of Franchised Units
  - Number of Company Units
  - Number of Total Units
  - Growth in Franchise Units
  - Industry Category
  - Length of Time in Business
  - Length of Time Franchising
  - Average Non-Real Estate Investment
  
- 5** Statistical Analysis

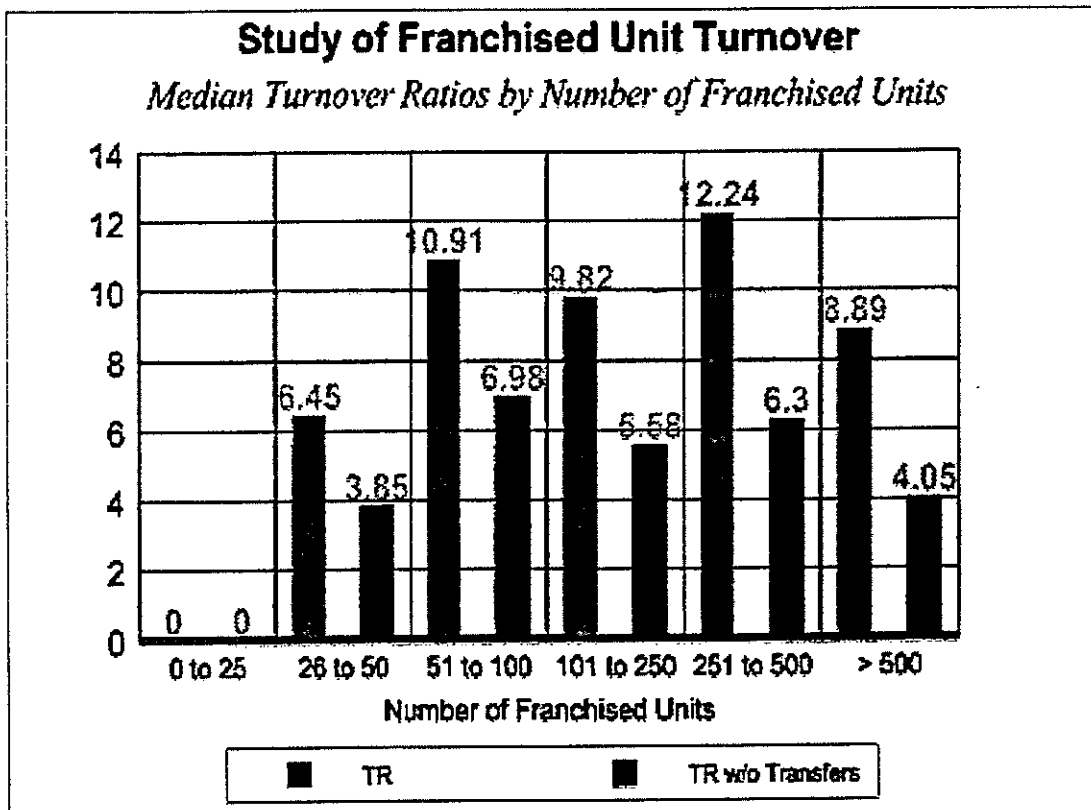
# STUDY OF Franchised Unit TURNOVER

## FRANDATA

### RESULTS



#### 4 Compare to other variables



#### 5 Statistical Analysis



# STUDY OF

# Franchised Unit

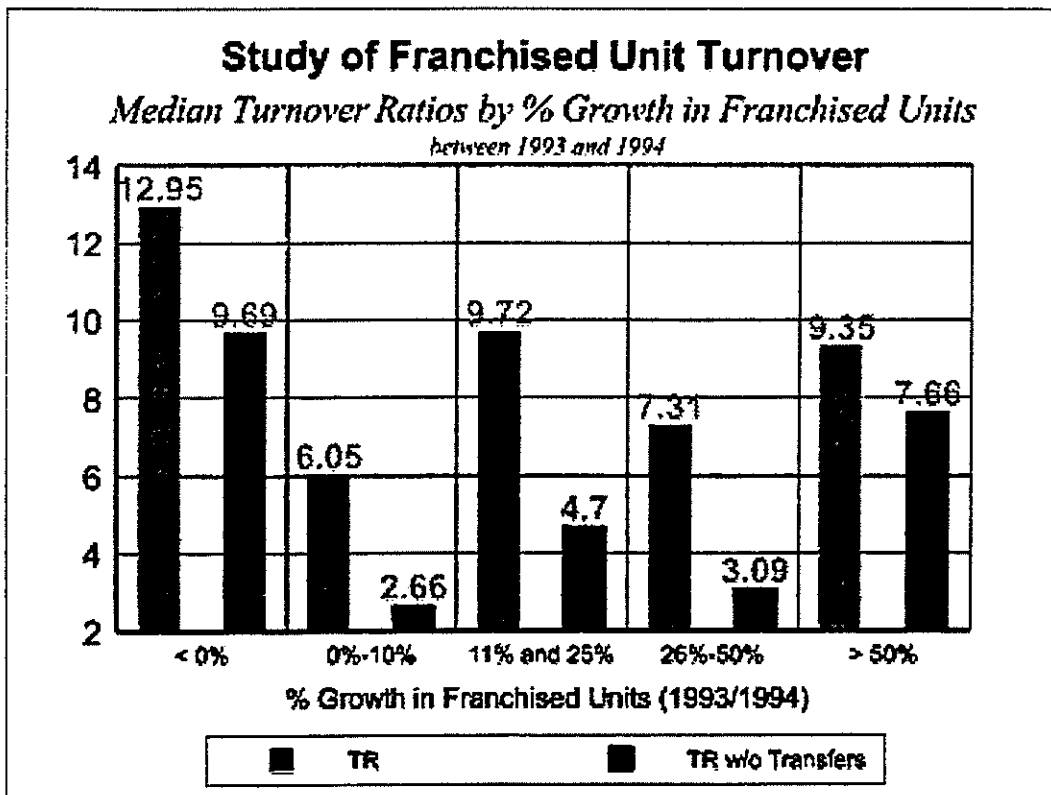
# TURNOVER

## FRANDATA

### RESULTS



#### 4 Compare to other variables



#### 5 Statistical Analysis

STUDY OF

**Franchised Unit**

**TURNOVER**

**FRANDATA**

**CONCLUSIONS**

1

THIS IS A GOOD START.  
HOWEVER, TURNOVER  
SHOULD BE STUDIED

■ OVER A PERIOD OF TIME



2

THIS BASE OF DATA WILL  
ALSO HELP IN OTHER  
RESEARCH RELATED TO

■ FRANCHISING



3

TURNOVER SHOULD BE  
REDEFINED TO AVOID

■ DOUBLE COUNTING