

MANAGING INTRABRAND COMPETITION: MARKET COVERAGE, GROWTH, AND THE USE OF MULTIUNIT FRANCHISEES

ABSTRACT

Limited service, or quick-service restaurant franchise systems have benefitted from horizontal intrabrand competition, the competition occurring between franchisees in geographic markets for locations. This paper discusses factors implied by this competition, chiefly in the coverage of markets and in the reassignment of locations to competing franchisees. Frequently, reassignment of a location is done to another franchisee operating as few as one location, or to a multiunit franchisee. Multiunit franchising has grown to become a dominant proportion of franchising and, as such, the proportion of locations within 5-9 unit and 10 or more unit franchisees is substantial and increasing. This paper considers the effect of more concentrated ownership on benefits from intrabrand competition.

A two period study for all McDonald's and Subway franchisee locations in the U.S. permits examination of the practices of the assignment of new locations, the locations closed, and the reassignment of locations, to new and existing franchisees. The two systems have major differences in their financial requirements, and provide differing perspectives on the roles of multiunit franchising and coverage. The results show the proportions of establishments within the different multiunit size ranges, and the number of locations that were added, closed, or reassigned within these ranges in the years 2008 and 2015. A correlational analysis across states of the factors affecting market coverage is presented, showing contrasting styles of adding new locations to new versus existing franchisees, the effect of single-unit versus multiunit franchisees and the influence of economic factors of limited service restaurants.