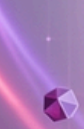


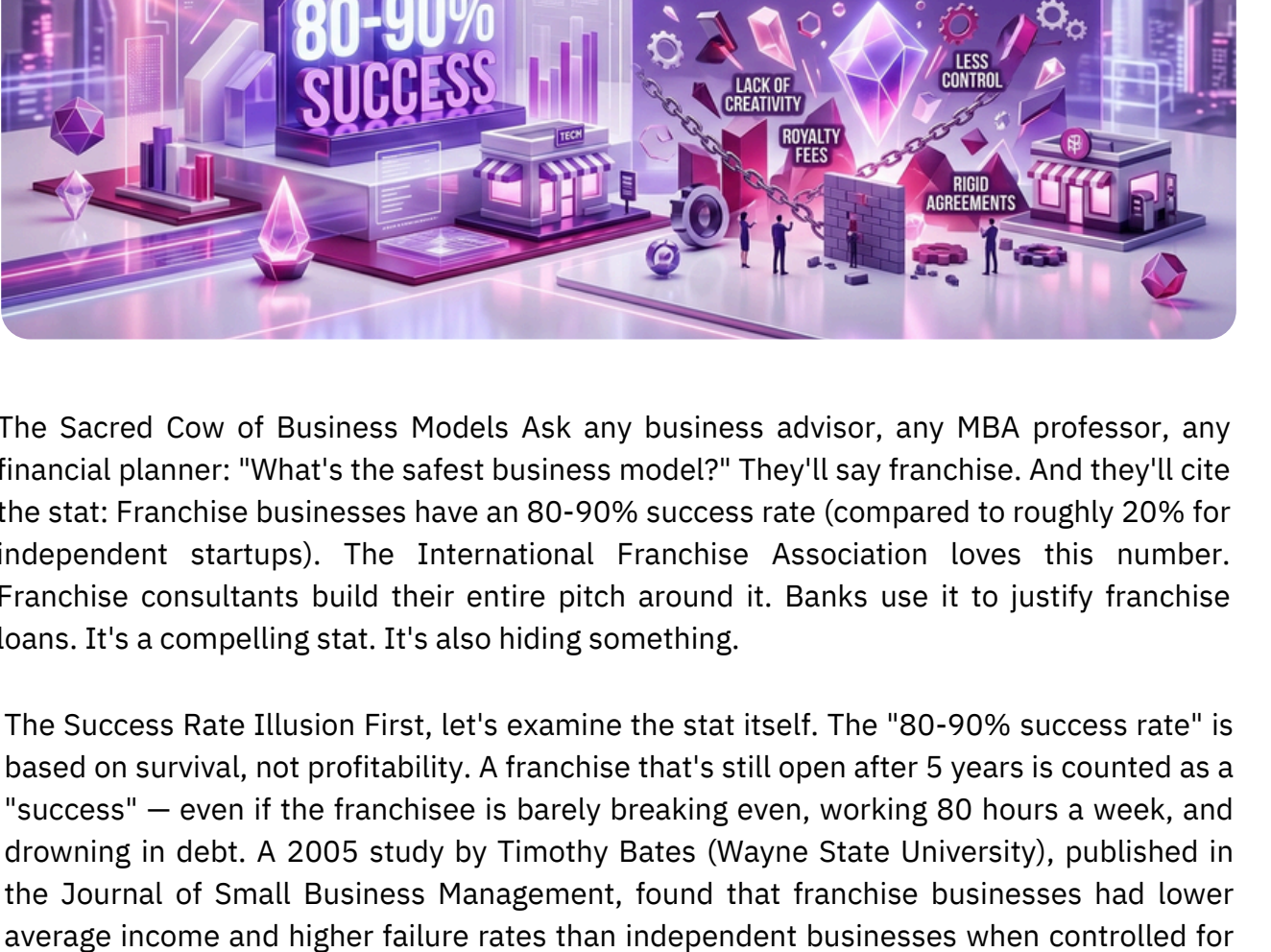
IS FRANCHISE THE BEST BUSINESS MODEL? THE 80-90% SUCCESS RATE — AND THE STRUCTURAL FLAW NOBODY MENTIONS

THE 80-90% SUCCESS RATE



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March 27, 2025

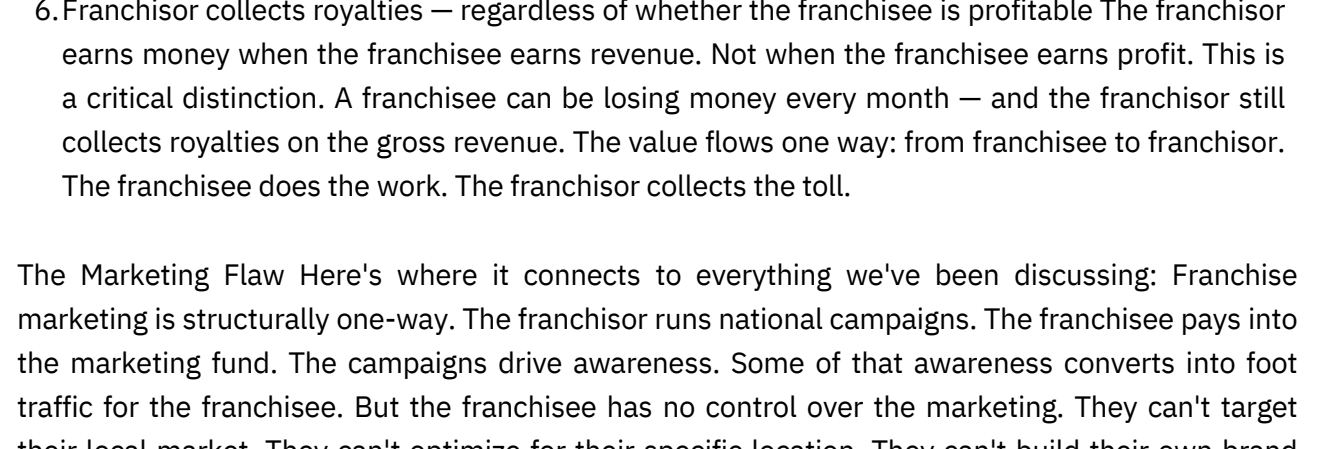
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The Sacred Cow of Business Models Ask any business advisor, any MBA professor, any financial planner: "What's the safest business model?" They'll say franchise. And they'll cite the stat: Franchise businesses have an 80-90% success rate (compared to roughly 20% for independent startups). The International Franchise Association loves this number. Franchise consultants build their entire pitch around it. Banks use it to justify franchise loans. It's a compelling stat. It's also hiding something.

The Success Rate Illusion First, let's examine the stat itself. The "80-90% success rate" is based on survival, not profitability. A franchise that's still open after 5 years is counted as a "success" — even if the franchisee is barely breaking even, working 80 hours a week, and drowning in debt. A 2005 study by Timothy Bates (Wayne State University), published in the Journal of Small Business Management, found that franchise businesses had lower average income and higher failure rates than independent businesses when controlled for industry and investment level. The franchise "success rate" was inflated by survivorship bias and by the fact that franchisees who fail often can't afford to close (because of contractual obligations and sunk costs). A 2007 study by the SBA found that the difference in survival rates between franchises and independent businesses was not statistically significant when controlled for industry, size, and capitalization. The 80-90% stat is not a lie. But it's not the truth either. It's a carefully curated number that serves the franchise industry's sales pitch.

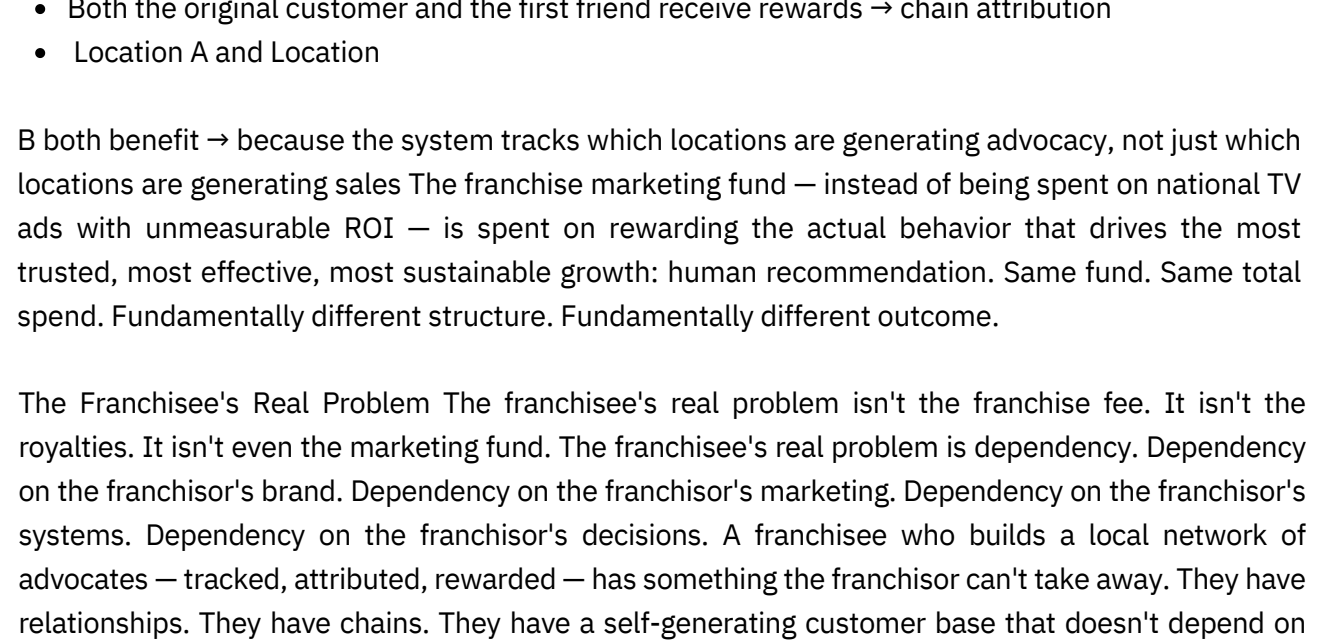
The Structural Flaw But let's set aside the success rate debate. Let's assume franchises are more successful than independent businesses. Let's assume the model works. The structural flaw is not in the success rate.



It's in the value flow. A franchise is, at its core, a one-way value extraction system. Here's how:

1. Franchisee pays franchise fee (\$20,000 to \$500,000+, depending on the brand)
2. Franchisee pays ongoing royalties (typically 4-8% of gross revenue — not profit, revenue)
3. Franchisee pays marketing fund contributions (typically 1-4% of gross revenue)
4. Franchisee pays for build-out, equipment, inventory (often \$100,000 to \$1,000,000+)
5. Franchisee operates the business — hires staff, serves customers, manages operations
6. Franchisor collects royalties — regardless of whether the franchisee is profitable The franchisor earns money when the franchisee earns revenue. Not when the franchisee earns profit. This is a critical distinction. A franchisee can be losing money every month — and the franchisor still collects royalties on the gross revenue. The value flows one way: from franchisee to franchisor. The franchisee does the work. The franchisor collects the toll.

The Marketing Flaw Here's where it connects to everything we've been discussing: Franchise marketing is structurally one-way. The franchisor runs national campaigns. The franchisee pays into the marketing fund. The campaigns drive awareness. Some of that awareness converts into foot traffic for the franchisee. But the franchisee has no control over the marketing. They can't target their local market. They can't optimize for their specific location. They can't build their own brand (they're contractually prohibited from deviating from the franchisor's brand guidelines). They pay into a fund — and hope that the fund's spending benefits them. And the most powerful marketing channel — word of mouth from satisfied customers — has zero infrastructure. A happy customer at Franchise Location A tells their friend. The friend visits Franchise Location B (because it's closer to them). Location A gets nothing. The customer who advocated gets nothing. The chain is invisible. The franchise model has the same structural flaw as every other model we've examined: it ignores the Invisible Economy. It doesn't track advocacy. It doesn't reward referrals beyond the first hop. It doesn't compound.



The Franchise + Value Routing Possibility Imagine a franchise system with value-routing infrastructure:

- Customer at Location A recommends the brand → tracked
- Their friend visits Location B → attributed to the original customer
- The original customer receives a reward → funded by the marketing fund (which was being spent on less effective channels anyway)
- The friend recommends to their friend → chain continues
- Both the original customer and the first friend receive rewards → chain attribution
- Location A and Location

B both benefit → because the system tracks which locations are generating advocacy, not just which locations are generating sales The franchise marketing fund — instead of being spent on national TV ads with unmeasurable ROI — is spent on rewarding the actual behavior that drives the most trusted, most effective, most sustainable growth: human recommendation. Same fund. Same total spend. Fundamentally different structure. Fundamentally different outcome.

The Franchisee's Real Problem The franchisee's real problem isn't the franchise fee. It isn't the royalties. It isn't even the marketing fund. The franchisee's real problem is dependency. Dependency on the franchisor's brand. Dependency on the franchisor's marketing. Dependency on the franchisor's systems. Dependency on the franchisor's decisions. A franchisee who builds a local network of advocates — tracked, attributed, rewarded — has something the franchisor can't take away. They have relationships. They have chains. They have a self-generating customer base that doesn't depend on national campaigns or marketing fund allocations. That's not just better marketing. That's independence within the franchise structure. The franchisee still benefits from the brand. Still benefits from the system. But they also have their own engine — their own network — their own compounding growth mechanism. And that changes the power dynamic entirely.

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