

Review Paper

# Franchise Market as a Driver of Hospitality Development

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Received: 02-05-2022

Revised: 22-08-2022

Accepted: 04-09-2022

## ABSTRACT

The article is devoted to analyzing the current state of the global franchise market and the study of problems, trends, and prospects for its development. The study's primary purpose is to substantiate the impact of the franchise market on the development of the hospitality sector. The study results show that today the franchise market is developing rapidly, with the most active in the hospitality industry, formed by the hotel and restaurant business. Today the franchise market is most actively developing in fast food. Analysis of the development trend in recent years has shown a significant market decline in 2020 due to the pandemic. It proves that the franchise market is a driver of the development of the hospitality industry, as the growth rate of income of companies that work in franchises exceeds the total income of companies in the hospitality industry. At the same time, the impact occurs not only in the economic aspect but also in the social one. Franchising is a stimulant for employment growth. It also helps to improve the quality of services and stimulates the development of small businesses. The paper also summarizes the main discussion issues of the positive impact of franchising in the hospitality sector. The primary trend in market development is the digitalization of tourism technology.

## HIGHLIGHTS

- ① Franchises are drivers of tourism services market development.
- ② The bulk of the world tourism market is formed by American franchise companies.
- ③ The main threats to the tourism franchise market are loss of identity and excessive standardization.

**Keywords:** Franchise, franchise market, hospitality, development of hospitality sphere, hotel-restaurant and tourist business, development drivers

World practice proves that franchising attractiveness lies in the availability of unquestionable advantages for the franchise relation participants and the development of the tourism sector. Today, for many businesses, franchising has become a symbol of business success, so franchises as a commodity are in constant demand among aspiring entrepreneurs in all parts of the world. Especially relevant is franchising in the hotel, restaurant, and tourism business.

Evaluating the impact of franchising on economic development will be especially important for

countries whose GDP forms the tourism sector. Those companies that improve their tourist services standards and bring them to the international level win the market. In turn, other market players, who represent local brands, also have to raise their level of service to the level of their competitors to maintain their vitality. Thus, franchising is an essential tool for developing the tourism industry.

**How to cite this article:** Honchar, L., Batchenko, L., Poplavska, A., Komarnitskyi, I., Krupa, I. and Beliak, A. (2022). Franchise Market as a Driver of Hospitality Development. *Econ. Aff.*, 67(04): 611-618.

**Source of Support:** None; **Conflict of Interest:** None



Considering that the major players in the franchise market are substantial American companies, they aim their policies to make franchising available to entrepreneurs from different countries. Getting a franchise today is quite an affordable process for the average entrepreneur. This is facilitated by the franchisor's digitalization and active marketing policy, which attracts more franchisees. It is important to note that entrepreneurs gain some advantages by choosing standardized business methods. But any business model has both advantages and disadvantages.

Let's talk about the franchise model in the hospitality industry. Its disadvantages are expressed by the difficulties of the business, which must operate according to high standards of organization of activities and customer service.

The study of franchising as a tool for developing the hospitality industry is the purpose of the research. The main task of the article is to evaluate the franchising market on a global level, highlighting the current state, problems, and prospects for development.

## Literature Review

Many authors have studied the main aspects of franchising as F. Darke (1987), V. Rangan (1990), D. Ross (1990), R. Thompson (1994), as well as other international scholars.

According to the European Code of Ethics for Franchising, franchising is a system of marketing goods, services, or technologies, which is based on continuous dense cooperation between legally and financially separate independent entities, where the franchisor grants its rights to the franchisee and thereby imposes obligations on the franchisee to conduct business following the franchisor's concept (Franchising, 2021).

According to the results of the critical evaluation of publications (Nedogibchenko, 2019) it is established that the mandatory attributes of the franchise relationship are:

- ♦ constant cooperation between the franchisor and the franchisee throughout the term of the franchise agreement regarding their activities;
- ♦ a conditionally constant amount of activity costs, conditioned by the payment of commissions for the franchise, periodic payments (royalty),

payments for marketing, legal documentation, personnel training, and other fixed costs of both the franchisor and the franchisee to maintain their business at the proper level and conditions established by the franchisor;

- ♦ mandatory conclusion of a fixed-term franchise agreement, the term, and conditions of which will allow the franchisee to reimburse all its costs incurred to conduct activities based on the franchise;
- ♦ continuous support by the franchisor to the franchisee, including financial support;
- ♦ no competition between the franchisor and franchisee, the perception of their business processes as a whole, and the growth of profitability of the franchise relationship participants is economically beneficial to all subjects of such relationships (Bardash, 2021).

The tourism business is one of the many segments of the national economy in which franchising has gained significant use.

That is why scientific research on franchising in this area is quite common. Some scientists have studied the issues in the context of certain countries. In particular, Bunea-Bontaş & Petre (2009) investigated franchising issues on Romania's national scale. The authors note that franchising is a strategy for expanding the tourism industry, reducing the number of tour operators in a country with a negative reputation. The authors also note that franchising in Romania is essential economically because the hotel franchise makes the industry much higher profits. A similar study with empirical evidence of the importance of franchisees in the development of the tourism sector was carried out by Yabancı & Erbas (2017) on the example of Turkey. Ganebnykh *et al.* (2017) research in the context of franchising development in Russia's tourism industry. In Russia, franchising is a rescue of the tourism industry due to the bankruptcy of local companies. Bela & Jasmina (2009) studied franchising in the context of the potential for tourism development since franchising in tourism and other activities were not everyday in Serbia at the time of the study. In their research Aburumman (2020) considers franchising in the tourism industry as an effective mechanism to reduce financial risks.

However, Grynko & Krupskyi (2014) investigated the problems of franchising development in tourism in Ukraine. The authors note that the presence of a franchise does not provide international-level standards in customer service. So Ukrainian tourism needs to work on the code of conduct of service personnel, develop the service culture, and establish close cooperation with franchisors to adopt their management experience.

It can be concluded that there is not enough generalized research on the functioning of the franchise market as a driver of the development of the hospitality sector. Therefore, the current study has scientific value.

The analysis of the literature allows summarizing the main advantages of franchising in the tourism industry from the macroeconomic aspect:

- ♦ Franchising improves the quality of hospitality services, pushing out the market players who cannot provide quality services and spoiling tourists' attitude toward the service in general;
- ♦ Franchising stimulates the development of the tourism industry by expanding its sales field outside the region;
- ♦ Franchising reduces the overall level of financial and other business risks;
- ♦ Franchising stimulates the development of employment in the hospitality industry.

At the microeconomic level, franchising in tourism allows:

- ♦ Reduce the initial investment in the creation of the business and the ability to work with less capital;
- ♦ Increase the profitability of the tourism industry;
- ♦ Improve service culture and take the quality of hospitality service to a new level.

Each of these factors is a driver of the development of the hospitality industry, so it requires more detailed study.

### Research Methodology

The evaluation of the franchise market is based on the reports of the World Franchise Association, which annually releases data on the dynamics and structure of the franchise market. The literature analysis showed that hotel and restaurant businesses,

including fast food, formed the hospitality industry. The research is conducted with the use of horizontal and vertical analysis tools. The application of trend analysis allows simulation planned indicators under the condition of a high coefficient of determination. The market analysis showed its dynamic but stable development before the period of quarantine restrictions, which stopped the dynamics of positive growth.

Using grouping methods, ratings of the most widespread hospitality franchises in the world were compiled, and a rating of the most popular franchises in Europe.

General scientific methods of knowledge, in particular deduction and induction, are applied to develop proposals, highlight the main problems, and compile trends in the franchise market development.

Microsoft Excel is used for calculations, and graphical methods present the results.

### RESEARCH RESULTS

The analysis of the franchise market as a driver of the hospitality industry development should begin with the definition of the components of the hospitality industry. In a society connected with the development of the service sector, hotel, restaurant, entertainment business, the expression hospitality, and hospitality sphere, the hospitality industry is often encountered. Although there is no unified approach to the interpretation of these concepts as economic categories in modern scientific literature, the sphere of hospitality is reduced to the provision of services to serve tourists (Martienko & Dishkantyuk, 2017). Hospitality is interpreted as hospitality, meeting guests, and introducing them to local traditions. Therefore, the sphere of hospitality is linked to the services in tourism. Pranoto (2010), in their study, defined the hospitality industry in the format of the hotel and restaurant business. Wagen (2001) showed that the hospitality industry is responsible for tourist accommodation, selling alcoholic beverages, and providing housing, food, and entertainment activities.

Without a clear designation of the industries that form it, the study of the hospitality market becomes rather vague. Analysis of the literature showed that hospitality is part of the sphere of tourism; it includes the work of hotels and restaurants,

including fast food. The world practice shows that in 2021, the most companies operating in the hospitality industry by the franchise in the fast-food sector. As of 2021, 191,146 franchised fast-food restaurants are serving in the United States. The full-service restaurant and hotel markets are roughly the same, as shown in Table 1.

It is worth saying that the global market of franchises in the hospitality sector is formed mainly by U.S. companies. So if we consider the top 100 most common franchises in all areas, 36 % of them are franchises in the hospitality sector, formed by fast food, catering, hotel, and restaurant sectors. At the same time, 32 of 36 largest companies worldwide are located in the U.S., as shown in Table 2.

It is necessary to point out the absolute leadership of the USA on the European market of hospitality franchises. In particular, according to Table 3, companies that work in this area on the market of Europe are of American origin. The three American market players McDonald’s, KFC, Pizza Hut form most of the market.

World practice shows the prospects of franchising development in the hospitality industry. Developing hotel chains under international and national brands contribute to solving many acute problems of the tourism industry in developing countries. It also forms the hospitality industry, eventually leading to national gross product growth, stabilizing a positive image, and promoting the world market.

**Table 1:** Dynamics and structure of the number of hospitality franchises in the U.S. for 2017–2021

Industry	Establishment, units					Percentage change,%		Structure,%	
	2017	2018	2019	2020	2021	2020–2021	2017–2021	2017	2021
Lodging	28374	29116	29706	27136	27931	2,9	-1,6	11,2	11,2
Quick Service Restaurants	192992	194395	196794	183543	191146	4,1	-1,0	75,9	76,7
Restaurants	32914	32843	33160	28266	30010	6,2	-8,8	12,9	12,0
Total Hospitality	254280	256354	259660	238945	249087	4,2	-2,0	100,0	100,0

Source: *International Franchise Association, 2021.*

**Table 2:** World market of the most common franchises in the hospitality sector

Rank	Name	Country	Industry	Rank	Name	Country	Industry
1	McDonald’s	USA	Fast Food	35	Choice Hotels	USA	Hotel
2	KFC	USA	Food	36	Chili’s	USA	Restaurant
3	Burger King	USA	Fast Food	37	Carl’s Jr.	USA	Fast Food
5	Domino’s	USA	Food	35	Choice Hotels	USA	Hotel
8	Papa John’s	USA	Food	36	Chili’s	USA	Restaurant
9	Taco Bell	USA	Fast Food	37	Carl’s Jr.	USA	Fast Food
10	Pizza Hut	USA	Food	42	Paris Baguette	South Korea	Food
11	Wendy’s	USA	Fast Food	45	Culver’s	USA	Fast Food
12	Dunkin’	USA	Food	48	Jack in the Box	USA	Restaurant
13	Chick-fil-A	USA	Fast Food	56	Popeyes Louisiana Kitchen	USA	Fast Food
14	Tim Horton	Canada	Fast Food	61	Boston’s Pizza Restaurant & Sports Bar	USA	Food
15	Marriott International	USA	Travel	69	International House of Pancakes (IHOP)	USA	Fast Food
16	Jersey Mike’s	USA	Food	70	Dairy Queen	USA	Fast Food
17	Baskin-Robbins	USA	Food	74	Church’s Chicken	USA	Fast Food
18	Smoothie King	USA	Food	76	Jollibee	Philippines	Fast Food
19	InterContinental Hotels and Resorts	UK	Hotel	88	Hilton Hotels & Resorts	USA	Hotel
20	Hardee’s	USA	Fast Food	100	Long John Silver’s	USA	Fast Food

Source: *Franchise Direct, 2021.*



If we evaluate the most significant U.S. market for franchising in the hospitality industry, it employs 5.3 million people as of 2021. At the same time, the market dynamics have been 9 % over the past year, indicating a reasonably high rate of development. As early as 2021, the sector is expected to fully recover from the coronavirus pandemic to the 2017 level.

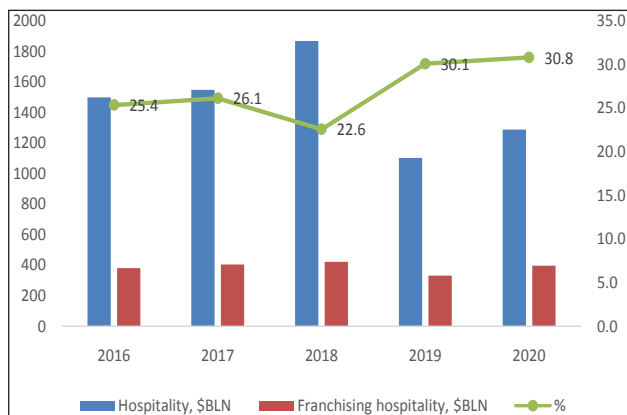
**Table 3:** The most common global hospitality franchises in Europe

No	Name	Country	Units in Europe
1	McDonald's	USA	36500
2	KFC	USA	19955
3	Pizza Hut	USA	15605
4	Burger King	USA	15000
5	Domino's	USA	13200
6	Dunkin'	USA	12000
7	Baskin-Robbins	USA	7722
8	Taco Bell	USA	6407
9	Choice Hotels	USA	6400

Source: Statista, 2021.

The franchise market is significant for the economic development of the country. In particular, the income of the hospitality industry, working by the franchise in the U.S. amounted to 397 billion dollars. At the same time, the projected increase of 19.6 % for the last year is a good enough forecast.

The franchise market is an effective driver of hospitality development, which can be seen in Fig. 1.



Source: The World Bank, 2020; WTTC, 2021, International Franchise Association, 2021

**Fig. 1:** The importance of hospitality franchising in the overall hospitality sector

Since 2016, there has been an increase in the franchise market in the overall hospitality sector. So, while in 2016, franchise revenue was 25.4 % of the total industry, the figure has increased by 5 % to 30.8 % in just five years. At the same time, the growth rate of franchise revenue is higher than the growth rate of the total hospitality industry revenue, proving the importance of franchising for the development of the industry.

In general, franchising in the hospitality industry is influenced by factors such as dynamic integration and globalization, transcontinental movement of capital, and business diversification (Stanković, 2016).

The main trends in the development of the franchise market are:

- ♦ the development of mini-hotels and hostels (small accommodation facilities);
- ♦ the use of modern marketing methods (collaborations, advertising platforms, joint forms);
- ♦ opening of hotels by world-famous brands of fashion houses (“Versace,” “Moschino,” “Armani,” “Missoni”);
- ♦ further development of international hotel chains at the European market of the hospitality industry;
- ♦ opening of small independent, unique boutique hotels, which stake on uniqueness, comfort, non-standard solutions, luxurious and exclusive interiors, the use of innovation;
- ♦ the use of modern innovative technologies (mobile applications, allowing self-check-in and check-out, booking additional services, keyless access to the room, information terms and 3D-module applications, located in airports and hotel lobbies and designed for self-check-in and check-in);
- ♦ construction of hotels and rooms equipped with the latest innovative technologies that meet international quality standards, and the use of global reservation systems.

It is equally noteworthy that a new trend in the hotel industry has emerged a new segment of “digital consumers.” Therefore, many hoteliers are now focused on attracting these consumers, as the latter spend much more willingly on experiences

**Table 4:** Dynamics and Structure of Hospitality Franchise Employment in the U.S. for 2017–2021

Industry	Employment, thousands people					Percentage change,%		Structure,%	
	2017	2018	2019	2020	2021	2020-2021	2017-2021	2017	2021
Lodging	627,3	648,8	662,3	446,3	557,8	25,0	-11,1	11,7	10,4
Quick Service Restaurants	3659,6	3770,4	3880,6	3544,7	3786	6,8	3,5	68,3	70,7
Restaurants	1069,5	1088,3	1113,9	923	1011,1	9,5	-5,5	20,0	18,9
Total Hospitality	5356,4	5507,5	5656,8	4914	5354,9	9,0	0,0	100,0	100,0

Source: International Franchise Association, 2021.

**Table 5:** Dynamics and structure of income in the U.S. franchised hospitality industry for 2017–2021

Industry	Economic Output, \$BLN					Percentage change,%		Structure,%	
	2017	2018	2019	2020	2021	2020-2021	2017-2021	2017	2021
Lodging	71,7	75,7	78	40,9	66	61,4	-7,9	18,8	16,6
Quick Service Restaurants	240,5	256,6	267,9	241	265	10,0	10,2	63,2	66,7
Restaurants	68,5	73	76,5	50,3	66,3	31,8	-3,2	18,0	16,7
Total Hospitality	380,7	405,3	422,4	332,2	397,3	19,6	4,4	100	100

Source: International Franchise Association, 2021.

than material objects. They believe the main thing is to gain impressions and intangible experiences, so they spend money on adventures, vacations, excursions, etc. At the same time, consumers of “Generation Y” (as often called) appreciate the flexibility, efficiency, and speed of service, booking accommodation online. Therefore, before booking, they usually check ten sources.

By 2025 digital consumers are expected to leave 50% of all travelers with a product. They aim to learn new things and get out of their “comfort zone.”

The next trend is the emergence of a new kind of hotel – lifestyle hotels and boutique hotels, which assume service and accommodation in a comfortable room, emotions, and unique experiences of staying in the hotel. It considers the mentality, language, age, and peculiarities of national cuisine when making offers to the guests. Implementation of such projects is possible through franchising. Regional franchise buyers have good knowledge of local specifics and can successfully combine individual approaches to a client and the quality standards of a hotel chain.

Global trends in the worldwide hospitality industry include:

- ♦ improvement of hotel search engines;
- ♦ development of the direct relationship between

hotel and traveler (for example, chat-bots, which increase hotel website conversion rate);

- ♦ improvement of online marketing methods.

Thus, by creating new types of services, the market of the hospitality sphere will get one more stimulant for development, and franchising will be the primary tool in this case.

The analysis of franchise networks’ activity in the world market of tourist services shows that the main trends of their effective development are aimed at:

- ♦ functioning in the territory of the country of origin (domestic tourist franchise networks), providing the parent company with the opportunity to control its franchisees;
- ♦ development of virtual franchise tourist networks;
- ♦ the use of the latest information systems and technologies as the main competitive advantage;
- ♦ the attraction of highly qualified personnel to ensure quality customer service;
- ♦ monitoring of the proposed tourism product to focus on the rapid changes in the needs of consumers of tourist services;

Formation of stable partnerships, which will ensure the reduction of risks of the franchise tourist network and guarantee its development in the foreign market of tourist services.

## DISCUSSION

To date, most academic papers cover the issue of franchises in the hospitality industry as a driver of development. This is also facilitated by the market drivers - the leading players actively engaged in marketing franchise sales. Under such conditions, the factors of franchises application, which may negatively impact the hospitality sphere, become rather vague. Let's consider the main issues currently forming the field for discussion.

**Problem 1:** The franchise market does not allow cultural characteristics of hospitality because it minimizes creativity.

**Problem 2:** Being dominant in the hospitality franchise market, the U.S. is shaping the policy of Americanization of the global sector, crowding out national players from local markets. The problem is especially acute in the fast-food industry, represented mainly by franchising leaders from the United States (Ritzer, 2011).

**Problem 3:** Excessive investment in existing brands, rather than developing their brands, strengthen foreign companies and their importance in the local allocation of resources. As a result, hospitality consumers choose a famous brand. At the same time, some researchers prove that the price factor, in many cases, is not the primary factor when choosing a tourist service provider (Beboss, 2014).

**Problem 4:** Over-popularization of franchising brings to the market players who are inefficient in certain countries' conditions. The problem is exacerbated by the relatively poor financial literacy of individual entrepreneurs, who have no opportunity to assess all the advantages and disadvantages of cooperation with global players in the hospitality market. The introduction of penalties for violating standards makes the franchising business quite complex and inefficient (Osmolovskaya, 2018).

**Problem 5:** Franchising eliminates the issue of business model flexibility, which is necessary for an unstable environment. Today, when the travel industry is mainly affected by the Covid-19 pandemic, many travel companies would like to be more flexible in delivering their services. The problem of flexibility is shaped by the strict contractual relationship with the franchisor, which due to its work in a developed country, may not take into account the specifics of the regional franchise

market (Franchise Capital, 2021)

## CONCLUSION

Based on the literature analysis, we can conclude that there is a positive experience of franchising in the world's tourism, hotel, and restaurant business. Franchising has a positive impact on the development of the economy as a whole; it also makes the business more accessible to entrepreneurs, allowing them to launch it with less investment. Furthermore, franchising in tourism allows bringing the industry to a global level, providing customers with high service standards.

The analysis of the world market structure of franchising in the hospitality sphere showed a significant advantage of the USA companies, which actively implement franchises worldwide. Today the most widespread franchises in the hospitality field in Europe are fast-food franchises.

The market dynamics for industry franchises are relatively rapid except for the past two years, which is associated with the pandemic. But the renewal of the industry is planned soon. It is confirmed by statistical and economic analysis methods that the franchise market in the hotel and restaurant business is a driver of tourism development, as it is developing much faster than the hospitality market. The main threats to the growth of the franchise market today are:

- ◆ Americanization of the market.
- ◆ Reduction of the cultural importance of the market.
- ◆ Excessive standardization of business.
- ◆ Withdrawal of local players from the market.
- ◆ Development of inefficient franchising market.

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