

The Value Creation of Franchiser in the Chain Convenience Store

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Abstract

Previous literature examining the relationship value between buyer and seller has focused primarily on relationships between large manufacturing firms; less has considered relationships between distributors. This study used grounded theory to explore the value creation for franchisees, and capabilities and cooperation mechanism that franchiser has. This study developed a model, which consist of five customer values (retail management assistance, sales performance improvement, labor insufficiency improvement, operating costs reducing, and product costs reducing) for franchisees, four mechanisms and five capabilities constructs for franchisers. Finally, discussions, implications, and suggestions for future research are provided.

Introduction

In increasingly competitive markets, many companies consider how to find methods of increasing revenue or reducing costs from business relationships with partners (Barr, 1996; Fitzgerald, 1995; Vigoroso, 1998). Vigoroso (1998) suggested that the most effective means of increasing gain and saving costs is to establish “trust” and “information sharing” in cooperative relationships. Sellers seek to establish customer relationships, aiming to increase the sales and profit contributions of the seller company through these relationships, ultimately increasing the overall gains of both buyer and seller (Palmatier, 2008).

Previous literature examining the relationship value between buyer and seller has focused primarily on relationships between large manufacturing firms; less has considered relationships between distributors. However, distribution channels are an indispensable factor in success. In

addition, according to data from dynamic research on wholesalers, retailers, and the food services industry, the total operating revenue of the retailer and food services industries reached 3.55 trillion NTD in 2008. It is estimated that chain franchises contributed approximately 1.7 trillion NTD to this figure, constituting roughly 48% of the retailer and food services industries. Chain franchises obviously play an important role in Taiwanese business. Given the importance of this subject, the first motive for this study is to examine the value created by franchisers (distributors) for franchisees (distributors) while focusing on Taiwanese chain franchises as a subject of research. Möller (2006) examined the role played by organizational ability in creating customer value from the perspective of resource-based theory. He noted that different capabilities are needed to create value under different complexities of buyer-seller relationships. However, his research has not discerned what capabilities are necessary for the creation of different value. Consequently, the second motive for this study is to examine what capabilities and mechanisms buyers and sellers should have in order to create customer value.

Based on the above research background and motives, this study examines the value creation in cooperation and everyday interaction within franchisee and franchiser contract relationships, using Taiwanese chain franchise convenience stores as a subject of research. In summary, this study aims to achieve the research purposes: (1) to examine what values can be gained and what sacrifices must be made as franchisees and franchisers maintain their ties; (2) to examine what capabilities and conversion mechanisms franchisers must possess in order to create customer value for franchisees in the value creation process.

2. The Nature of Customer Value

Market exchange arises from the parties who want to get value from the transaction, so the value is regarded as the cornerstone of all marketing activities (Holbrook, 1994). In recent years, the value is explained as the concept of trade-off in marketing research (Grönroos, 1997). Smith & Colgate (2007) pointed out that the value can be divided into two parts to explore—value for the customer and value for firm. Because of former part is the focus in this research, the following point of view on the customer to explore the nature and classification of value. Ulaga (2003) conducted depth interviews with the manufacturing purchasing managers using a grounded theory approach, and sorted out 8 dimensions of business relationship, including product quality, delivery performance, time to market, direct product cost, process costs, personal interaction, supplier know-how, and service support. On the other hand, attracting buyers and sellers to cooperate, that is value increased and cost reduced (Anderson, 1995). Cannon & Homburg (2001) focus on costs in buyer-seller relationship and confirmed 3 key factors, including direct costs, acquisition cost, and operations costs. Value can be said that is the basis of market activities. We can find that the research about customer value in the past more used manufacturers as the research object, but the value discussed from different direction will have different natures. Therefore, this study explores

customer value from buyer's point of view of distributor, that is, to understand the value created by franchiser from franchisee's point of view.

3. Methodology

3.1 Sample Characteristics

The purpose of this paper was to explore the values between franchiser and franchisee in the partnership, so the interviewees we focused were chain convenience stores. In order to understand what factors franchisee considered and how to maintain the relationship with the franchiser in the cooperation, the interviewees must have two characteristics: (1) a certain degree of understanding about managing chain stores; (2) could communicate and contact directly with the personnel of franchiser. To achieve the sample characteristics and the demand of theory saturation, after pre-interviews and formal interviews, finally we choose appropriate 6 respondents whose position is above manager level.

3.2 Interview Outline

This paper used semi-structured interview, belonged to more open-ended questions, and included two parts. First part was information of participants and their companies. Second part was contexts about the relationships foundation between franchisee and franchiser, divided into three periods: (1) franchise ago: what motivations and considered factors were before joining the chain system, to understand the advantages, resources, and capabilities that franchiser have; (2) franchise process: at first, we asked to understand the interaction between franchisee and franchiser, further, to understand what assistance offered by franchiser and what benefits gained after franchise. Second, from franchisees' perspectives to understand what capabilities that franchisers have could create value; (3) future: what suggestions about maintaining the relationships with franchiser, to understand the improvement that franchiser needed and get potential factors that strengthen organization capabilities.

3.3 Data Collection

In the primary data collection, this study adopted a "depth interview". We built relationships by phone and made sure the date with participants first, and then email an interview outline to them, so that they could understand the questions before interview. In the interview process, we made a brief presentation about the purpose of the interview to participants, asked for 1 ~ 1.5 hour for an interview, and told them all responses would be confidential, so that they were able to show the real experience. In order to avoid missing important messages, each interview was audiotaped and verbatim transcribed.

4. Data analysis and Examination

4.1 Retail management assistance

Salmon(1989) noted that operating capabilities include marketing skills (selecting target markets, being aware of customer needs and satisfying customer needs), organizational skills

(authorization, supervision, and communication), logistics, information systems, accounting systems, and human resources management. Since many industries are encompassed by chain franchises, relevant specific operating knowledge differs from franchise to franchise. The “operating knowledge capabilities” in this study refers to the know-how involved in operations management, including site assessments in a trading area, store decoration design and planning, store opening processes, operations management, standardized operating procedures, and staff education and training. The “operation guidance mechanisms” of this study refers to counseling staff from the franchiser traveling to the franchise stores at set times to perform counseling and communication, helping franchisees improve operating efficiency and grasping operating conditions through a process of guidance. “Retail management assistance” refers to assistance given by franchisers to franchisees in operating stores, helping franchisees to operate smoothly even when they do not have management knowledge and relevant experience. Through the expert operating knowledge possessed by franchisers, personnel are sent two or three times a week to different store locations for on-site interviews in order to understand the operating conditions of the different store locations. These counseling personnel provide instant teaching and suggestions based on store conditions, helping franchisees perform store operating tasks such as product management and effective personnel management.

Another method of “retail management assistance” is implemented through “education and training mechanisms.” “Education and training mechanisms” refers to strengthening the franchisees’ capabilities in operating stores through collective training courses and certifications. Certain training time and content is stipulated for the franchisee so the franchiser can pass on operating know-how. While the franchisee is required to participate, the franchiser provides the same training to employees of franchisees. Training content is different from franchisees and employees. Thus, the value creation of assistance with store management is training and educating franchisees through the expert operating knowledge of the franchiser itself. The primary purpose of arranging scheduled training courses is to improve the operation and management capabilities of franchisees. Course contents include teaching franchisees coping skills, sales techniques, as well as product- and service-related knowledge. By doing so, franchisers provide franchisees with management assistance for operating stores.

Proposition 1: When franchisers have greater “operating knowledge capabilities” for franchisees, they are better able to help franchisees create benefits from “retail management assistance” through “operation guidance mechanisms” and “education and training mechanisms.”

4.2 Sales performance improvement

The “promotion capabilities” referred to in this study describes a franchiser’s advertisement resources, sales promotions and creative marketing activities. “Operations guidance mechanisms”

refers to the scheduled guidance provided for franchise stores regarding store management; “sales performance improvement” refers to increases of franchise stores’ product sales quantities and total sales. The value creation of sales performance lies in the professional promotion capabilities of franchisers; through scheduled visits to stores and interaction with franchisees, franchisees are taught how to make product promotions, including design of promotion activities, assistance with environmental setup in stores, and suggestions for product displays. Franchisees are provided with suggestions that can help franchise stores improve profit promotion activities. Proposition 2-1: Franchisers with greater “promotion capabilities” are better able to help franchisees create benefits in “sales performance improvement” through “operation guidance mechanisms.”

In addition, we found that franchisers can also help franchisees create benefits of “retail management assistance” when they have “innovation and commercialization capabilities” through “information sharing mechanisms.” “Innovation and commercialization capabilities” refers to the unique product technologies or professional product research and development teams of a franchiser, used to continually develop and search for new unique and innovative products; “Information sharing mechanisms” refers to information sharing mechanisms between the franchiser and its franchisees, including regular meetings, internal information systems, and internal newsletters. Franchisers have product innovation capabilities, introducing new products and teaching franchisees sales techniques and promotion methods through information sharing using biweekly product catalogs and biweekly area meetings; these efforts are intended to raise the sales figures of franchise stores.

Proposition 2-2: Franchisers with greater “innovation and commercialization capabilities” are better able to help franchisees create gain in “sales performance improvement” through “information sharing mechanisms.”

4.3 Labor insufficiency improvement

In this study, “brand awareness” refers to the trademark of a franchise chain, including the company identification system (CIS) recognized by the public and the positive image and high recognition associated with brands; “education and training mechanisms” refers to training courses provided by franchisers to help franchisees gain operating concepts and knowledge. “Labor insufficiency improvement” refers to franchisees being able to seek help from franchisers with hiring problems. Franchisers provide direct store staff or search for labor resources from schools joining the cooperative education program, helping to alleviate labor insufficiency problems in franchise stores. Brand image and name recognition of a franchiser help to attract companies to cooperate. Through their brand awareness, franchisers are able to establish business-education cooperation with schools and become a source of franchise labor. Employee quality can be

controlled through unified training and education courses, providing employees with basic working skills and helping franchise stores to solve labor insufficiency problems.

Proposition 3: The “brand awareness” of a franchiser is better able to help franchisees create benefits of “labor insufficiency improvement” through “education and training mechanisms.”

4.4 Operating costs reducing

As before, “promotion capabilities” refers to the ability of a franchiser in promoting, publicizing, and advertising; “coordinated deployment mechanisms” refers to the operating mechanism centers of franchisers used to perform overall resource planning so as to effectively use resources and concentrate marketing planning and invoicing/storage planning for franchise stores; this mechanism refers to the integration and distribution of franchiser resources. Marketing activity planning refers to the unified television and print advertisements of the franchiser; marketing and promotion activities are adjusted to meet the needs of franchisees in different trading areas; “operating costs reducing” refers to reductions in relevant costs for franchise stores. Operating-related costs include promotion costs and rental fees. The marketing advantage of franchise stores lies in mass advertising activities performed by the entire chain; fees are split by individual stores. Here, operating costs refers to advertising and publicizing costs. A franchiser’s “promotion capabilities” are used to advertise and search for a spokesperson on a national level, helping all franchise stores to advertise; strong broadcasted advertisements leave deep impressions on consumers. In promotion activities, franchisers have more publicizing methods and enjoy lower costs. Franchisees do not need to pay advertising costs for unified franchiser marketing, which can reduce the publicizing and promotion costs in franchisee operating costs.

Proposition 4-1: A franchiser with better “promotion capabilities” is better able to create benefits in “operating costs reducing” for franchisees through “coordinated deployment mechanisms.”

In addition to the benefits of “operating costs reducing” could be created by a combination of capabilities and mechanisms, this study also found that franchisers can help franchisees create this value when they have “delivery capabilities” through “coordinated deployment mechanisms” and “education and training mechanisms.” “Delivery capabilities ” refers to a franchiser’s logistics system and inventory management capabilities, which allow for delivery at correct times and with correct quantities and which have the advantages of being punctual, flexible, and fast; “coordinated deployment mechanisms” refers to the integration and allocation of franchiser resources. Invoicing and storage is done solely by the franchiser; merchandise delivery and storage for individual stores is done automatically through the integration of order information from the POS systems of franchise stores. Here, operating costs refer to the warehouse rental costs that must be borne by franchisees. Through POS system analysis, franchisers are able to quickly understand product

demand at franchise stores and can achieve rapid and flexible unified delivery. Through the multiple daily deliveries of franchiser logistics and transportation systems, franchise stores do not need to accumulate products and need only to order products according to actual sales conditions. By doing so, they can save warehouse inventory and rental costs, reducing franchisee rental costs.

Proposition 4: Franchisers with better “delivery capabilities” can help franchisees create benefits of “operating costs reducing” through “coordinated deployment mechanisms.”

4.5 Product costs reducing

As described above, “innovation and commercialization capabilities” refers to the ability of a franchiser to have unique product technologies and to continually develop and search for new, unique products; “coordinate deployment mechanisms” refers to invoicing and storage being performed through unified planning by the franchiser, after which merchandise delivery and storage quantities are determined automatically. Here, “product costs reducing” refers to reductions in costs related to merchandise search and obtaining, including costs of searching for new products and purchasing costs. The advantage of the franchise system here is that expert production sharing, technological expertise, wholesale purchase discounts, shared research and development costs, and full use of transportation equipment lead to low inventory proportions, allowing product unit costs to be lower than in independently operated stores. Franchisers have the capabilities to create new product technologies and to develop new products. This, together with the unified purchases and development of franchisers, allows franchisees to avoid searching for products of product technologies, reducing franchisee product search and obtaining costs.

Proposition 5: Franchisers with greater “innovation and commercialization capabilities” can better help franchisees create benefits in “product costs reducing” through “coordinated deployment mechanisms.”

5. Conclusions and Suggestions

5.1 Conclusions

This study found the organizational capabilities and conversion mechanisms needed for value creation. “Retail management assistance” had value in that franchisers transferred relevant operating knowledge to franchisees through operation guidance and training courses, thereby achieving the purpose of helping franchisees operate stores. “Sales performance improvement” was dependent on the promotion capabilities of franchisers, who told franchisers how to effectively perform promotions through operation guidance mechanisms, thereby improving operating performance. On the other hand, the innovation and commercialization capabilities of franchisers helped franchisees in product sales through information sharing mechanisms by helping franchise stores to exchange product sales information and experiences. Value creation in “labor insufficiencies improvement” was dependent on the brand and recognition of the franchiser and on

cooperation with schools to provide a source of labor, after which unified training provided by the franchiser was used to maintain stable labor quality and quality of service, reducing franchisees' labor problems. The publicizing costs of "operating costs reducing" was dependent on franchisers planning all promotion activities, including television and print advertisements as well as finding an ideal spokesperson, through a coordinated deployment mechanism; through cost sharing, franchisees are able to reduce publicizing costs. Reduced rent costs in "operating costs reducing" were due to franchisers' delivery capabilities, which enabled storage of optimal quantities of products through the use of coordinate deployment mechanisms as well as multiple and fast logistics systems; these capabilities allow franchise stores to reduce the costs associated with warehouse storage. "Product costs reducing" was dependent on the innovation and commercialization capabilities of franchisers. Through coordinated deployment systems and the expert product development and search capabilities of franchisers, franchisees were able to reduce product obtaining and search costs in situations where franchisers were responsible for product search and development costs and where wholesale discounts were enjoyed.

5.2 Theoretical contributions and managerial implications

This study made two points of theoretical contributions. First, this study found the value implications and organizational capabilities of distributors to distributors, confirming many value implications and organizational capabilities different from those of manufacturers; these results should benefit future studies. Second, this study analyzed organizational capabilities, mechanisms, and values to find the capabilities and mechanisms that franchisers should have to create customer value. In terms of practical management contributions, this study found that franchise chain convenience store franchisees in Taiwan generally believed that "sales performance improvement" and "operating costs reducing" were the most important factors. If franchisers want to attract franchisees or maintain long-term franchise relationships with franchisees, they can do so by increasing these benefits. "Sales performance improvement" is achieved through "promotion capabilities" and "innovation and commercialization capabilities" as well as conversion through "operating guidance mechanisms" and "information sharing mechanisms." These capabilities and mechanisms should be developed and strengthened. In terms of promotion capabilities, attractive television commercials, creative promotion activities, and spokespersons with appropriate images all had positive impacts on sales. The innovation and commercialization capabilities of franchisers are dependent on establishing professional product development and search teams in order to ensure continual product refreshing in keeping with rapidly changing customer demand. In terms of mechanisms, operating guidance mechanisms require greater numbers of experienced and certified guidance personnel in order to provide more appropriate operating guidance. Information sharing mechanisms are platforms for information sharing. Thus, internal publications and internal system information should be more immediate. In regular meetings, franchisees should

unreservedly share their experiences with others, requiring the establishment of trust and benefits sharing between franchisees.

5.3 Future research suggestions

This study examined the creation of values for franchise relationships of franchise chain convenience stores. For researchers interested in this topic, we suggest that the casual relationships between the organizational capabilities and value creation developed in this study be used in future quantitative research. Also, this study examined the relationship between organizational capabilities and customer value creation from the perspective of the franchisee; value creation, however, requires the perspectives of both sides. We suggest that future researchers can perform cross-comparison from the perspective of the franchiser, helping to understand which capabilities franchisees need to possess and how they impact the results of value creation. Finally, due to time and cost limitations, this study only performed case interviews for chain franchise convenience stores. Future studies can focus on franchise systems in other industries so as to compare whether there are differences in value creation between different industries.

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