
Effective Franchise Management

by Theeranuch Luangsuvimol and Brian H. Kleiner

**Effective
Franchise
Management**

Franchising Overview

The United States is the world's largest and most productive economy, the world's largest market, and the world's leading exporter and importer. The system of franchising plays a significant part in this enviable position. Franchising has grown into a dynamic and mature business activity, increasingly accepted, recognised, and respected by the public, by all levels of government, and by other areas of the private sector.

What is a Franchise?

A *franchise* is defined as a long-term, continuing business relationship wherein for a consideration, the franchisor grants to the franchisee a licensed right, subject to agreed requirements and restrictions, to conduct business utilising the trade and/or service marks of the franchisor and also provides to the franchisee advice and assistance in organising, merchandising, and managing the business conducted to the licensee (Tarbutton, 1986).

Franchising is a system or method of marketing a product or service. The franchisor develops a special product, service, or system and gains national recognition. The franchisor then grants a right or license to small, independent businessmen throughout the country to merchandise this service or product under the national trademark and in accordance with a proven, successful format. This increases the franchisor's exposure for more national business and gives the franchisee a greater chance for success in a given field with a smaller amount of capital investment.

Jerome L. Fels, in his booklet *Investigate Before Investing*, prepared for the International Franchise Association, summed up, "[F]ranchising today is one of the most innovative, dynamic, and effective systems for distribution of goods and services the world has ever known. Well-informed, satisfied franchisees are the backbone of this system, which combines the experience and expertise of a large company with the entrepreneurial drive and ambition of the small independent businessman" (Friedlander and Gurney, 1990).

Types of Franchises

Because the franchising industry is so extensive and so many different types of businesses sell franchises, it is difficult to summarise the many types of franchises that now exist. Generally, franchises fall into one of the following three classifications: distributorships, chain-style business operations, and manufacturing or processing-plant arrangements. A distributorship arises when the manufacturing concern, franchisor, licenses a dealer, franchisee,

to sell its product. A chain-style business operation exists when a franchise operates under a franchisor's trade name and is identified as a member of a select group of dealers that engage in the franchisor's business. A manufacturing or processing-plant arrangement exists when the franchisor transmits to the franchisee the essential ingredients or formula to make a particular product.

The explosive growth of the franchising systems and their phenomenal success are the best arguments that can be advanced for their advantages. A good franchise system can offer the prospective franchisee the following:

1. A nationally recognised trade name, national recognition, and the instant collective goodwill of the franchise.
2. Standard quality and uniformity of a product or service.
3. A successful and existing system of marketing and accounting, and a proven guidance system.
4. Expert advice on location, design, capitalisation, operation, and marketing.
5. Specialisation of a national level to maintain the necessary research and market analysis to remain competitive in an ever-changing economy.
6. A business framework for developing a relatively independent business with a number of the risks lessened and shared.
7. Cost savings, in some businesses, by sharing a centralised purchasing system.
8. In some instances, direct financial assistance from the franchisor.

Franchise Management

Management

Management is generally defined as "getting things done through people". In franchising, management may be the most crucial element in the franchise system. That is because the main reasons for failure in business are (1) poor management (2) loss of key personnel (3) lack of capital. The management section is designed to outline who the franchise key people are and what they will be doing, the organisation structure, the basic policies, the operations manual, training manual, and franchise pert chart.

Key Personnel

Most of franchising organisation is structured around the key individuals. The major key players are to be the franchisors, sales manager and operations manager. In addition, there may be other staff members: trainers, sales

people, field staff, and marketers, who are the key personnel in the development of the franchise system.

Organisational Structure

Franchisor: The franchisors have to develop an organisational chart that diagrams and describes the organisation relationships of their own operation. In franchising, this primarily consists of two distinct and different business categories: (1) sales - to prospective franchisees, and (2) operations - of the franchise units. This organisational structure may consist of a franchisor with a director of sales and a director of operations. However, complex franchising organisations consist of the CEO who oversees the operations of sales with operations being divided into training, products, services, marketing, finance, and accounting. The franchise system initially is quite simple but needs to be divided between sales to prospective franchisees and operation development.

Franchisee: The franchisees, to be successful, need to develop organisation relationships to function effectively. The organisation structure should develop a chart that describes the organisational relationships between individuals within the franchise units. This may describe the relationship between the franchisee, the manager, assistant managers, and staff people.

Franchisor's Policies

The franchisor should develop policies to regulate the activities of the franchisor organisation and also suggests policies to help regulate the operations of the franchisee organisation. These policies should include the salary and wage structures of individuals involved. Additionally, the franchisor should explain the recruiting techniques, job descriptions and performance evaluations. The wage and salary structure should be developed including benefits and incentives which may be provided for each organisation. In addition, internal policies and external policies should be developed. Internal policies may consist of sales, employee grievances, general policies, and financial controls. External policies may include credit, checks, layaways, returns, and general policies dealing with customers.

Franchise Operations and Franchising Training Manuals

Franchise Operation: The franchisee obtains operations manual from the franchisor. The operation manual should explain how to run every aspect and operation of the business. This involves the day-to-day operation of the business. They should be in the form of a written manual which includes the details of what they are doing and how they should best be done.

Franchising Training: In the initial start-up stage, the training manual will be the same as the operations manual. However, as the organisation is growing, a training manual is usually developed separately. The training

manuals generally explain how much training and what kind of training the franchisor will offer to the franchisee, the franchisee managers, assistant managers, and staff people. The training conveys the franchisor's attitude to the franchisee. It is not only the technical side of how to do the business, but also that the franchisees be mentally conditioned for all the other situations they will encounter.

Pert Chart

Pert chart is for project, evaluation, and review techniques to delineate a set of related events presented in the sequence of their happening. By identifying the required time, the franchisor can develop a plan which allows adequate time to complete all the tasks of the project. The franchisor can use this chart when establishing a franchise unit. In addition, the pert chart can be developed for the franchisee to look at the various tasks and time required to accomplish goals.

Day-To-Day Successful Franchise Operation

Running a successful franchise is much like running any other business. One major exception is the input of the franchisor including advertising, promotional ideas, and management assistance. The franchisor insists that if the franchisee strictly follow the operations manuals and its system, the business will succeed. However, that is not always true. Running business requires diverse skills, especially the three crucial skills, which are keeping an eye on things, serving customers, and the most important, managing people.

Managing Employees

Managing people is a business skill that can be learned by following a few basic principles: (1) hiring a good second-in-command, (2) getting to know employees, (3) learning to delegate responsibility, (4) emphasizing the quality of the work environment, (5) making salaries, wages, and bonuses confidential, and (6) being very vigilant for any signs of poor employee morale and high turnover.

The first and foremost principle is hiring a good second-in-command or franchise manager. A franchise manager should be someone who is competent, reliable, trustworthy, loyal, and good with people. The qualified franchise manager should be capable of performing professional and complex administrative works, such as documenting, resolving, implementing efficiencies and managing relationships with the franchisor, vendors, and distributors. In addition, the franchise manager should have excellent interpersonal and communication skills, and the ability to lead and motivate.

The second principle is to get to know employees. Like configuration of a family, the management should know member's personality, their strengths in regard to the business, their weaknesses, their personal aims in working with the organisation, and even a bit about their family situation. Since the personal lives have an impact on professional performance, these issues should not be ignored. According to Franchise Survey from its website, "[W]ithout employees a business is only a box filled with intellectual assets. If we care about people and personally concerned with the value of their lives we must demonstrate that concern. People will do things they would never do for merely money alone".

Third, learn to delegate responsibility. However the management should make sure that each employee remains accountable to the business. Also, each employee should know exactly what his/her duties are and how his/her personal goals and those of the business match.

Fourth, emphasise the quality of the work environment both the physical and psychological environments. For the physical environment, the organisation should provide clean and adequate facilities and space as a sign that the business respect its employees and customers. In addition, the psychological environment should also be considered. It can create undesired problems such as resentment, poor-quality work, high turnover, employee theft, bad-mouthing to customers and other businesses, and so on. To create the desirable psychological environment, disagreements among employees should be taken into consideration and resolved properly. According to Webster, the following guideline is the way to handle disagreements.

- * Encourage employees to bring disagreement among them to the management. Make clear that the organisation does not want any dissatisfaction to worsen, and back up these statements with actions.
- * Bring all involved together and listen to their complaints. Ask questions about the situation, and make them listen to other's point of view.
- * Provide them with guidance and show them ways to work out solutions among themselves.
- * Provide an atmosphere in which a solution or settlement develops from a feeling that everyone involved participated, that everyone had a fair chance to be heard and to persuade the others (Webster, 1986).

Fifth, make salaries, wages, and bonuses confidential. The company should avoid giving employees a chance to compare their pay cheques. This is to prevent the circumvent resentment and the "You make more than I do, but I work harder than you do" syndrome.

Sixth, be very vigilant for any signs of poor employee morale and high turnover. Poor morale leads to employees' quitting at the worst possible period. Repeatedly hiring and training new people is costly. This activity wastes valuable time and money because employees would get paid, but usually have poor performance and productivity. Also disgruntled employees may steal, create customer dissatisfaction, sabotage equipment, and upset the other employees.

The main reasons employees quit their jobs are poor management, poor working conditions, working in the wrong job for one's skills, and badly arranged workloads. According to Franchise Survey from www.ifranchise.net, "[W]e must put in place a solid, caring corporate culture with consistent training and education along with clearly written rules, regulations, and easy to understand policies and procedures". Many times managers do not realise the root of the costly activities are to rehire replacements. Even though employee turnover is sometimes unavoidable, the corporate can keep the turnover low by managing employees properly".

Serving the Customer

After managing employees, the way business manages customer relations determines how well the franchise operates. Customer service is crucial to franchising, as it is to any business, for two reasons. First, satisfied customers are the best source of advertising. Not only is this free advertising, but the advertiser also pays for the privilege of spreading the good word about the franchise. Second, repeat business saves money and increases profits. Customer satisfaction allows the business to spend less on advertising and promotion to reach new customers and helps the business to purchase products more efficiently and in larger, more cost-effective units.

The following is a list of proven methods of developing customer satisfaction:

1. Treat every customer courteously and with respect.
2. Establish and maintain an image appropriate to the type of business.
3. Establish a policy for handling complaints as quickly and painlessly as possible.
4. Give customer complaints precedence over other routine matters.
5. Learn how to say no to a customer the right way.

However, it does not matter how well the methods of customer satisfaction the company employ if employees are not acknowledged or they do not practice those methods. The business needs to train and motivate employees. Building people means building business because employees will satisfy customers as their needs are satisfied.

If the company manages people well and keeps customers happy, it is well on the way to continuing success. However, there are other concerns:

- * Distinguish its operation from its competitor's. For example, emphasising these advantages of the business: service, quality, cleanliness, convenience, and pleasure.
- * Build customer traffic, such as give discount and offer promotion.
- * Reduce costs to the minimum: consider whether the company stocks too many supplies, hires too many staff, buys too much advertising, offers too many discounts; and takes appropriate action to cut cost.
- * Make everyone a salesperson. Encourage all employees at all times to find ways to satisfy the customer's needs.
- * Recognise employee efforts. To keep employees happy is to recognise—always in a positive manner—their efforts and achievements. Even if they fail or make a mistake, while pointing out the error and correcting it, praise the worthy parts of their activity (Webster, 1986).

Example of a Successful Programme in Improving Selection and Retention

An example of a successful strategy in improving selection and retention of entry workers can be found at *Ramada Franchise Systems, Inc.* It has nearly 1,000 Limited Inn, and Plaza Hotel properties throughout the U.S. An innovative programme called Personal Best Hospitality designed to ensure the success of new people they hire. Like most companies in the hospitality industry, Ramada was challenged by the traditionally high rate of turnover of its low-skilled, entry level workers in service jobs. Most of these employees join the organisation, are trained at the franchise's expense, but leave inside their first year. The main reason is that they feel they have no career advancement with the hotel.

Steve Belmonte, the president and CEO, recognises that turnover is one of the industry's major problems. He mentioned, "[T]oo many frontline employees are underpaid, untrained, and unmotivated. It is our job to pay a decent wage and to train and motivate our people".

Recently, Ramada devised the Personal Best Hospitality programme that provides the company's entry-level employees with the opportunity to learn new skills and advance in careers. The programme trains employees to think, feel, and react like an owner. Moreover, it helps them understand how to achieve success. Furthermore, Ramada chain matches the requirements of particular jobs and the people who will be doing them. With this pro-

gramme, franchises get the information they need about employees to motivate them as individuals (Predictive Index, 2002).

Training and Diversity: Important concerns for a franchise

Training

Developing “life skills” is another objective for both franchisor and franchisee. According to Franchise Survey (2001), “franchisors train more people per year than does the entire U.S. government, including all branches of the military”. Guided by what the organisation expects through training, the employees will better understand the organisational purpose. To persuade the employees to pursue the organisational goal, the company should first motivate them by knowing what they need and fulfil their needs. Along with training, rewarding is an effective mean of obtaining goal commitment.

Diversity

Besides training, another important concern is that both franchisor and franchisee should change attitudes and ways of doing business to make the workplace supportive to non-traditional workers. Diversity is not only a human resources topic, but is also a business issue. According to the Franchise Survey (2001).

[T]he U.S. has 38 million people between the ages of 15 and 24, the traditional age for hiring new workers into franchise organisations. Minority populations are increasing. Hispanic is up 35 per cent; Asian Pacific is up 40 per cent; and African American is up 12 per cent. In the next four years, the Department of Labor predicts that Hispanics will surpass African American as the nation’s largest minority group and 85 per cent of people entering the workforce will be women and minorities.

As mentioned above, the numbers of Asian, Hispanics, and blacks have been increasing in the workforce including in franchise businesses. The successful diversity of the labour force is a new challenge and a competitive edge for the franchise management. For diversity to succeed, the franchising overall strategies and goals should be supported from the top down. When possible, the franchisor should recommend diversity working environment to the franchisee.

Conclusion

Franchising is one of the factors that cause the U.S. to be the world’s largest and most productive economy. The franchisee enjoys a competitive edge over the other business entrepreneurs through the use of trade names, marketing expertise, standardisation of product and services, training, and advertising support from the franchisor. There are two key aspects in the franchise management, which are keeping the good relationship between

franchisor and franchisee and managing successful day-to-day franchise operation.

To economically, efficiently, and effectively implement a franchise, both franchisor and franchisee should understand the nature of the franchise business, learn to manage in a competitive franchise environment, build and affirm the values that are critical to the franchise company's growth, and manage employees properly to get them motivated. As a result, the franchise business will become successful.

References

American Institute of Certified Public Accountants, 1989. *Small Business Consulting Practice Aid No.13: Assessing Franchise Opportunities*. New York: American Institute of Certified Public Accounts, Inc.

Brief, P.A. 1984. *Managing Resources in Retail Organizations*. Massachusetts: D.C. Health and Company.

Cross, B.F. & Miller, L.R. 2001. *West's Legal Environment of Business (4th ed.)*. Ohio: Thomson Learning.

Employment Fast Food Restaurant, (n.d.), Retrieved July 20, 2002, from <http://bulletsnet.com/Employment.htm>

Franchise Classroom: Management, (n.d.), Retrieved July 20, 2002, from Louisiana State University E. J. Ourso College of Business Administration Web site: <http://www.bus.lsu.edu/academics/entrepreneurial/franclass>

Friedlander, Jr. P.M. & Gurney G. 1990. *Handbook of Successful Franchising (3rd ed.)*. Blue Ridge Summit, PA: Tab Books.

Improving Selection/Retention of Entry Worker: Ramada, (n.d.), Retrieved July 20, 2002, from <http://www.praendex.com/case--studied/case3.html>

Tarbutton T.L. 1986. *Franchising: The How-To Book*. Englewood Cliffs, NJ: Prentice-Hall, Inc.

The Franchise Leadership Program, (n.d.), Retrieved July 20, 2002, from <http://www.mgmt2000.com/franchiseleadershipprogram.htm>

Webster B. 1986. *The Insider's Guide to Franchising*. New York: American Management Association.

Wilkerson J. (2001). Franchise Survey by iFranchise Group. Retrieved July 20, 2002, from <http://www.ifranchise.net/Franchise>