

# Managing Franchise Relationship

## ➤ Learning Objectives

By the end of this chapter, you should be able to understand:

- Dynamics of franchisor-franchisee relationship.
- The various stages of relationship building process.
- How franchisor and franchisee can work together to create synergy.
- How should a franchisee coordinate and collaborate with other fellow franchisees for learnings and replication of best practices.
- What are the reasons for franchisee to leave the franchise system.

# Managing Franchise Relationship

## ➤ Basics of Franchisor-Franchisee Relationship

'**Franchise Relation**' is a term used to describe the current relationship state between a franchisor and a franchisee and is based on mutual respect and trust, commitment to a common goal, understanding expectations and the right culture fit.

Franchisors tend to rely on the contractual arrangement whereas franchisees operate at a more personal level, thus affecting the roles played in the partnership and the degree of power and control exerted.

# Managing Franchise Relationship

## ➤ Basics of Franchisor-Franchisee Relationship (continued)

- The franchisor expects the franchisee to follow the set business model as per the franchise operations manual to run the business and achieve success.
- These expectations are fairly uniform throughout all stages of the business.
- However, for a franchisee, some of the expectations keep changing at different stages of the business and need to be managed.

# Managing Franchise Relationship

## ➤ Basics of Franchisor-Franchisee Relationship (continued)

- **Evaluation:** Franchisee appreciates the franchisor & considers him an expert.
- **Before launch:** Franchisee owner is in a learning phase.
- **During launch:** Franchisee is dependent on the franchisor for support and guidance.
- **Post launch:** Franchisee develops confidence in business as well as self.
- **Early operations:** Business streamlines and franchisee becomes more independent and often develops an ego.
- **Regular operations:** Resentment sets in with the franchisee questioning the value addition by the franchisor.
- **Mature operations:** With time and mature operations, franchisee learns to play win-win with interdependence.

# Managing Franchise Relationship

## ➤ Basics of Franchisor-Franchisee Relationship (continued)

An effective franchisor-franchisee relationship can be achieved when:

- Both the franchisor and the franchisee work harmoniously together.
- Respect each other.
- Appreciate and accept the efforts and roles each has to play in their respective success.
- Recognize their dependency on each other and engaging in a symbiotic relationship.
- Operate their businesses with integrity and with the highest standards.
- Put forth their best effort to preserve and nurture their special relationship to enable both of them to achieve more than their intended objectives.

# Managing Franchise Relationship

## ➤ Dynamics of Franchisor-Franchisee Relationship

- Franchisees have more incentive and tendency to “free ride”.
- They tend to take an advantage of the positive effects of the franchisor’s investment, such as brand, quality standards, advertising and marketing, while minimising investments of their own.
- Also, in some cases, even franchisors engage in unfair practices by encroaching on franchisee territories, misuse of the cooperative advertising budget or giving unfair advantage and support to company owned outlets and select franchisees.
- Some franchisors exercise an unfair bargaining power over franchisees and at times even threaten to terminate the agreement unilaterally.

# Managing Franchise Relationship

## ➤ **Dynamics of Franchisor-Franchisee Relationship (continued)**

- From a game theory perspective, both the parties have an incentive to behave opportunistically.
- Initially, such behaviour goes unnoticed but with repetition, the other party also gets into an act of non-compliance on the grey areas mentioned in the agreement.
- This not only erodes the trust factor but also the deteriorating relationship takes a toll on the business performance.

# Managing Franchise Relationship

## ➤ Conflict Management

- If the friction between the franchisors and franchisees is not addressed in the beginning, it could cause a rift between them and severance of relationship.
- Matters become worse when franchisors turn blind eye to the problems.
- Conflict is not totally unhealthy, however, when it grows and reaches the court, it drains time, talent and money from the franchise system and conflict at that level, seldom results in a healthy relationship.
- Both the parties need to understand and carry out their respective roles by sharing a vision, maintaining professionalism, support, training and an open communication.
- The Franchisor is the 'senior' in the franchisor-franchisee relationship and must take responsibility to make this relationship effective.



# Managing Franchise Relationship

## ➤ Conflict Management (continued)

Some of the key areas of conflict between franchisors and franchisees include:

- Low spends on regional marketing activities or higher fee demanded by franchisor.
- Non-adherence to geographical exclusivity or reduced area of operation.
- Lack of support and empathy or non-professional approach by franchisor employees.
- Inadequate handholding during initial stages of operation.
- Lack of training support or poor quality of training.
- Unclear policies or frequent policy changes by franchisors protecting only their interests.
- Franchisees not consulted and no feedback taken while framing new policies.
- Lack of effective communication between franchisor and franchisee.
- Rumour mongering, price cutting, trespassing territories amongst franchisees.

# Managing Franchise Relationship

## ➤ Stages of Relationship Building Process

The franchisor-franchisee relationship life cycle goes through four stages:

### 1. Independence Stage (“You” and “I” Stage)

- Both are independent of each other.
- Both independently look out for growth opportunities for individual business development.

### 2. Dependence Stage (“You” Stage)

- Both come together and enter into a formal franchise agreement which expects each one to discharge its contractual obligations in letter and spirit.
- Business gets established and then grows rapidly.

# Managing Franchise Relationship

## ➤ **Stages of Relationship Building Process (continued)**

The franchisor-franchisee relationship life cycle goes through four stages:

### **3. Quasi-Dependence Stage (“I” Stage)**

- There is a higher expectation of each party to extract more from the other party leading to poor compliance, eroding trust and each party claiming the credit for the success.

### **4. Interdependence Stage (“We” Stage)**

- They discuss issues amicably and arrive at mutually acceptable solutions.
- The mindset shifts from “what minimum has to be done” to “what maximum can be done”.
- This feeling manifests itself in various ways opening up opportunities of growth for both the parties.

# Managing Franchise Relationship

## ➤ Working Together for a Symbiotic Relationship

- Franchising is a combination of business relationship and human relationship.
- Success is dependent upon developing these relationships with a conscious effort.
- This is same like the parent-child relationship.
- If this relationship is nurtured well and it develops into a symbiotic relationship, it can create a win-win situation for both parties.
- This relationship requires an on-going commitment, with each party expected to uphold its end of the bargain through common goals, active communication, cooperation, mutual respect and trust.

# Managing Franchise Relationship

## ➤ Importance of Trust in Building Relationship

- Trust is a vital element in a successful franchise relationship; both at an individual level and also for the whole network.
- Mutual trust helps to override issues or problems that arise in the day to day operations.
- Rather than opportunistic behaviour, each of the parties needs to adopt a long-term approach by building trust and strengthening the relationship for synergy.
- This allows mutual accommodation and a highly-useful alternative to a legalistic approach to strategic planning and day-to-day management.

# Managing Franchise Relationship

## ➤ Importance of Trust in Building Relationship (continued)

- Trust if blended appropriately with the carefully articulated clauses of the franchisee agreement can go a long way in the success of each party.
- Trust is a two-way street and either party in the relationship can build or destroy it.
- Franchisor being senior in the relationship must take initiatives to establish and also enhance trust.
- Franchisee also must admit mistakes and take actions to avoid recurrence with sincere efforts.

# Managing Franchise Relationship

## ➤ Growing Together with other Fellow Franchisees

- Franchisee must build relationships with other fellow franchisees of the brand for synergy, sharing best practices, cross-pollination of ideas and growing together.
- The strengths of individual members, combined with exceptional systems, processes and industry experience can allow collaborative franchisees to uphold exceptional standards for excellence in service, quality and experience for the customer.
- The collective sum, from both a financial and experience perspective, makes the franchisee group exponentially more effective than individual owners.
- Collaborating with fellow franchisees gives the business an edge by learning from the success stories and also the mistakes of other business owners.
- The franchisor must also facilitate the collaborative efforts of the franchisees by creating opportunities for the franchisees to come together to share and harvest their collective intellect, experiences and business wisdom.

# Managing Franchise Relationship

## ➤ Franchisee Attrition

- If the expectations on financial returns or franchisor support in business are not met, there is bound to be strain in the relationship and may lead to the franchisee leaving the system.
- In some cases, franchisee has to leave due to personal problems including a change in their ownership or possession of properties or due to any regulatory issues.
- At times, franchisees also leave if they find other more lucrative business opportunity which can fetch higher returns.
- Some ambitious franchisees also consider an exit and then reenter as a franchisor by creating a brand of their own.