Franchising in hospitality industry commerce essay

The following paper deals with a recent type of management entitled franchising. In the hospitality industry and currently within Accor, the franchise has become a real stake and strategy to continue to perform. Accor Hospitality is an international player which has decided to turn its strategy into a franchise system that combines company owned hotels and franchisees. Nevertheless, such a network has to be livened up and controlled in order to perpetuate the reputation and then the business. Therefore the case study sustained by qualitative research aims at suggests recommendation to the company, but key issues need to be viewed and overcome first.

Foreword

This report is to summarize the experience of a six-month internship within the Business Intelligence department of Accor Hospitality's headquarter, as well as to demonstrate my personal understanding of the changing of strategy, by confronting and comparing theory with practice, identifying its pros & cons as well as its key factors of success in the hospitality industry.

For my third and final year of business studies at INSEEC, I chose to major in International Business Strategy. This is a Master of Business qualification run in partnership with the SRH Hochschule in Berlin. The two main reasons for this choice were due to my strong interest in discovering many cultures and ways of conducting business and strategies.

On the one hand, my strong interest in acquiring skills in business analysis in the hospitality industry, combined with the importance of the hospitality industry worldwide, oriented my applications to Business Analysis positions within this sector. On the other hand, my personal motivation for discovering new cultures, coupled with my academic qualifications and my language skills also encouraged me to apply in International companies where I could speak as much English as possible.

As a French student extremely interested in working in a multicultural environment, the ACCOR group seemed to be a fantastic opportunity.

As a Business Analyst I was part of the Business Intelligence team and reported directly to the Director of Strategy and Business Performance. I had to have full experience of distribution, and work on the different aspects of analyzing the business that such a position commands. My personal mission within the team has been to provide support to the two Business Analysts, and help them make reports related to the Distribution strategies. As a team, we were accountable to understand the needs of the various brands and teams, then to create tools to provide accurate information (project managers) and finally to analyze the data (business analysts). Therefore, in my position, I was in charge of carrying out three main functions:

Updating the Distribution Monthly Report for the Top Management for both Direct and Indirect Sales

Analyzing the hotels performance worlwide

Answering to Ad’hoc demands in order to measure the impact of promotional offers.

This report, however, has its limits. A valid quantitative study for example, would have allowed me to support and corroborate my findings with the franchisees satisfaction and suggestions regarding their links with the franchisor. As well, it would be promising to investigate some topics as for example the behavioural customer evolution regarding the hospitality industry or develop further some of the challenges the hospitality industry is facing applying Dynamic Pricing, as they could easily be the subjects of a study on their own.

Finally, both on a personal and professional level, my experience within Accor Hospitality headquarter in Evry has been a real success. All I can believe for the future is to have a chance to further develop my analysis skills in similar conditions: team spirit, communication and trust.

Acknowledgements

Firstly, I am extremely grateful to Pierrick Le Masne for giving me the chance of being parts of the Strategy and Business performance department within the ACCOR’s headquarter in Paris.

I would like to express many thanks to Alison Broussy for welcoming me in her Business Intelligence team and sharing her expertise, training and giving me the opportunity to further develop my business analysis skills over the last six months.

I would like to add special thanks to Nicolas Leseurre, Fara Rabesoa, for sharing their experience and knowledge with me.

I am also thankful to Isabelle Duflot and Olivier Poujol for sharing their thoughts and opinions regarding Project Management.

Finally, I would like to thank the overall team for the warm welcome and team spirit I have received since being part of this company these past few months.

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Introduction

Franchising is an ancient type of network that is simple, formalized in its organization and in its functioning (Anderson and Coughlan, 2002; Blair and Lafontaine 2005). However, literature on the control of the franchising network are seldom particularly in France, whereas it is a rich and interesting lead of research (Elango and Fried, 1997).

Franchising is a way of doing business that has grown fast, and more particularly in Europe. The reason can be found in the will for the franchisor to develop its network quickly and for the franchisee to benefit from an expertise in a specific field. France is the European leader and has seen its franchising network doubled within the last ten years and acknowledges a constant growth between 8% and 11% for 5 years. Even in a crisis period, franchising has continued to grow thanks to the support and training provided by the franchisor. All sectors taken together, France owns 1, 234 networks[2]of franchisor and 49, 094 franchisee, and realizes a turnover of about 47. 7 billion Euros in 2008.

Franchising has been defined as a system of marketing goods and/or services and/or technology, which is based upon a close and ongoing collaboration between legally and financially separate and independent undertakings, the Franchisor and its individual Franchisees, whereby the Franchisor grants its individual Franchisee the right, and imposes the obligation, to conduct a business in accordance with the Franchisor's concept.[3]

In other word, the definition underlines that a franchising network is a complex organization where the relationship and trust between the franchisor and franchisees are essential.

When a company decides to develop its know-how into franchising it is because the company has gained a certain maturity and expertise in its activity and then will be able to convey the operational management to its franchisees.

Within the Hospitality Industry, it exists different ways of managing a hotel. Indeed, a hotel can be a subsidiary as an entire part of the corporate company, a managed hotel or a franchisee.

ACCOR is a company that has been created in 1967 with the first opening of a Novotel. Then, step by step the company has opened several hotels in

France and in Europe and further worldwide. Owning many hotels the company has known how to become a leader in that field.

Today, leader in France and in Europe, the company wants to become more present worldwide and has recently decided to change its business model. This changing of strategy called “ asset right” is a real stake because it is going to disrupt an organization which relies on a family mind, history and way of running the business.

As a part of the Accor team, this research would like to expose the changing of the Accor strategy from an hotels owner to a franchisor. The case study would outlines how the company can optimize the relationship between itself and its franchisees within a mixed network.

Chapter One: Theory on franchising

The first part deals with the analysis of the franchising system in its complex form. The key concepts to understand the overall functioning of the franchise are developed.

1. 1 History of franchising

The franchise business model was born in the United States of America, especially encouraged by the antitrust laws. This solution can be explained by the size and the importance of the American market that forced the societies to turn into a system enabling the increase of the market shares without huge investments. Nowadays, the number of franchisees reaches 760, 000 in the United States spread out 1500 networks that represent a turnover of more than 1500 billion dollars and employs 9. 7 million people in 2004.[4]

In France, the first franchised network appeared around 1930 a little time after the creation of the wool producer in Roubaix. The phenomenon of franchise has been developed further, at the beginning of the seventies, in order to modernize the convenience trade and create a real competition to the Big boxes. Today France is the leader of franchising in Europe and concerns various types of activity such as fast food industry, bakers, apparel and hospitality industry.

1. 2 Concepts and definition

In a franchising system, the franchisor grants its knowhow and its trademark to franchisees, which are independent and have the contractual obligation to exercise the activity described into the respect of rules and procedures defined by the franchisor. The latter must follow the concept’s exploitation and provide support to its franchisees. The franchisor is paid by an entrance fee at the signature of the contract and also by regular royalties based on the franchisee’s turnover. The contract of franchise has a variable length often comprised between five and ten years. Thus, the franchise includes a key firm, the franchisor, and multiple satellites firms, legally and financially independent called the franchisees.

Usually, the franchisor brings intangible assets (products, services to develop, know how or trademark), whereas the franchisee provides financial and human assets. The purpose of the agreement is the exploitation of the concept developed by the franchisor. The franchise seems to be a special type of network where there is an inter-organizational division of the work. The franchisor is in charge of the strategic activity whereas franchisees work more on operational activities (Fréry, 1996).

Skills and resources mobilization within a franchising system are more carried out in logic of exploitation rather than propriety (Fréry, 1995) because associates are independent. Therefore there is coexistence of economic dependence and legal independence between partners of the franchise. Sometimes the franchise network is described as unstable because the key firm could try to own the most performing units.[5]

Many franchising network are mixed because they combine company owned units and independent franchisees. This is the case for instance in Hospitality industry. This specific kind of network enables to mix the experience effect from company owned units with the human and financial power of the franchisees. Indeed, information available from company owned units are used to negotiate and attract new franchisees. The franchising network enables a mutual process of learning that can lead to trust relationship between the franchisor and franchisees.

To sum up, a franchise system is composed of:

A purpose: repetition of a commercial success

Supplementary resources from both sides

Favourable institutional framework

Interactive relationship between players.

A purpose due

to a commercial success

Franchising system

Supplementary recources

Interactive relationship between players

A favourable institutional framework

Figure 1 – The franchising system

1. 3 Purpose of the franchise system

Each side of the franchise system finds an advantage of coming into this specific type of network. The franchisor hopes to develop its network as quick as possible in a part to compete with others chains and then to obtain geographically the best places. Entrance fees and royalties ensure a permanent payment. However the franchisor must control the concept's development and has to be sure that the offer is as consistent and homogeneous as possible. Regarding the franchisee, he develops the commercial offers in being supported by the franchisor in terms of training, advisory, innovation. The franchising system enables to get an access to information from people who are in direct relation with the client and particularly in a mixed network (Perdreau, Le Nadant and Cliquet, 2007). Because of the information sharing, new franchisees know a failure rate under the average failure rate of any new created enterprise. [6]

1. 4 The legal framework of a franchise system

The basis of the franchise can be found in the legal contract and the code of practice that both parties have to sign in order to create right and duties to respect.

The franchise contract, one of the foundations of the franchise system is a contract in which the owner of a distinctive sign, generally registers the brand name (the franchisor) and grant it to an independent storekeeper (the franchisee). The owner holds an advisory and commercial assistance role whereas the franchisee has to pay to enter into the franchise and a fee based on the turnover of the shop. Sometimes the contract can also commit the franchisee to buy equipements and furnitures to the franchisor and to respect standards and certifications in the management of the units.[7]

The franchise contract must be in compliance with the national law, European law and the code of practices. It describes the interests of members of the franchise network in protecting the franchisor's patent rights and in maintaining the common identity of the franchise system.

The key points of the contract are the following:

The franchisor and franchisees rights and duties

Goods or services provided to franchisees

The length of the contract

The payment terms for the franchisee

Renewal terms

Termination contract clause, clause of non competition

Franchisor's duties

Franchisees' duties

Definition of the concept/ innovation regarding the concept to stay competitive/ Ensure a stability in the network

Financial duties: entrance fee/ marketing and advertising fees/ Royalties…

Development of the brands/ of the trade name…

Respect of the global concept, respect of the trade name, respect of the clauses of the contract, return of all documents and tools at the end of the contract,

Convey a knowhow, tools, support…

Sometimes, exclusivity of supply

Table 1 – Focus on the basic duties for both parties in the franchise contract

Nevertheless, the partners’ motivations are quite different and can lead to an opportunistic behavior from both parties. Conflict of interests can appear when there is an alignment of interests and behaviors of the franchisor and franchisees (Dant and Nasr, 1998). Indeed, the franchisor is concerned by the profitability of the network and the strengthening of the reputation of the brand (long and middle term objectives) while franchisees seeking short term profitability sometimes in not taking care of the brand image. In the theory of contracts and franchise network (Penard et al., 2004), it has been pointed out that the franchisor can miss to its duties of support, but he can also prevent the franchisee to manage freely its unit or impose a price of sale. The franchisor should have in that field a role of adviser because according to the European law[8], he cannot take an active part in the management of the franchisee’s unit. In a franchising system, even if it is against the law, the franchisor could give more importance to its company owned units instead of being neutral. However the franchisees can sometimes fail in its duties as well when he does not respect its commitment regarding the commercial standards of the franchisor, some delays in the payment of fees or a lack of cooperation in the data transfer when the franchisor is auditing the unit.

1. 5 The relationship between the franchisor and the franchisees

The franchise system does not include only two players (the franchisor and the franchisees) but four players according to the French Franchise Federation (2004):

The franchisor, an independent contractor that can be a corporate body or a natural person.

The franchisee, an independent contractor, corporate body or natural person that has been selected by the franchisor.

The network, made up of the franchisor and franchisees. They all work under the same trade name which is a symbol of identity and makes the reputation of the network.

The customer who buys for himself products or services and who does not want to know if behind there is a franchisee or a company owned unit. He only seeks a certain quality that makes the brand that known.

Figure 2 – The conceptual Framework

Will to start a business

– Business' ownership

– Business site

– Knowledge of the local market

Access to the customer

Surety of satisfaction/loyalty

Know-how

– Marketing success

– Distinctive concept

– Strong brand

Surety of turnover

Surety of efficiency

Franchisor’s resources Franchisee’s resources

In order to make the franchising concept works efficiently, both side have to work together. To help and protect them, it exists a legislation framework. The contract has to be balanced in order to satisfy both parties. The turnover has to be shared according to the agreement the parties agreed upon.

Three decisive factors make a franchising system (Jauffrit and Sie, 2010) efficient. First of all, the quality of the business model and the conditions to test it at the beginning of its creation are essential. The strength of the resources available is also important: financial, technical and above all the human resources from both sides and the quality of the cooperation. Moreover the network should be developed as quickly as possible in order to reach the critical size and make economies of scales. The latter enables to develop the brand, to stretch over the territory, to pay the common equipment, and benefit from purchasing cots more interesting. All these factors permit the access of a well ranked position and gain a competitive advantage.[9]

1. 6 Different ways of controlling in a franchise system

In the hospitality industry it exists four categories to control a network (Baglin and Malleret, 1995). The legal control is essential in a integrated network where it exists a capital-intensive link between the company and its manager, but has a less importance in a franchise system.

The control on the product or service enables to keep a certain level of standardization defined in the contract and can be completed by the visit of mysterious client or a network coordinator. The respect of the norms is essential in an international network where the brand offers a standardized product or services. It enables to keep a certain consistence in a brand within people’s mind.

The control of the financial management, based on the reporting and budget, are partially practiced in a franchise network. The key performance indicators are centralized within a detailed reporting as the fees and royalties are usually calculated on. Regarding the specific performance of a franchisee, the methods are generally advised and supervised but seldom imposed because the law restricts the franchisor to manage and handle the franchisee’s business. The franchisor has a role of advisor and assistance.

Finally the control of human is applied during the recruitment, training and payment. The payment of the franchisee depends on the profit of its business after having paid the franchisor royalties and fees. The franchisor uses its control only when he recruits a new franchisee and when he liven the network up.

Controls in a franchise system seem to be rather technical because the franchisor has to be sure that the franchisee respects the offer and the level of standards.

1. 7 Focus on the technical control

One of the most important difficulties in a franchise system concerns the asymmetry in the information exchange. The franchisor can visit the franchisee, can employ a mysterious visitor to control and can measure the retro claims regarding a specific franchisee. Nevertheless, the dissatisfaction of customers is measured in a satisfaction survey conducted when the malfunctioning has already been realized.

However the franchisor can today use new information system tools. He can follow in real time the activity of a franchisee, for instance through an Enterprise Running Planner, and ensure a good visibility. The gathering of data and information can thus be done without supplementary costs and at anytime (Boulay and Kalika, 2007).

In addition to the real advantage of such tools, it has an effect on the franchisee’s behavior and enables to exercise a constant control in the network operations.

Chapter Two: Theory on franchising

Le desinvestissement par la franchise