

A SURVEY OF FRANCHISEE PERCEPTION OF FRANCHISOR SUPPORT IN SINGAPORE

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ABSTRACT

This study is an empirical investigation of franchisee perception of franchisor support given to local franchisees in Singapore. The six major areas of franchisor support examined were site selection, sales/field support, ongoing advice and consultation, research and development, advertising and promotion, and supplier selection. In general, it was found that franchisor support was satisfactory in all the areas surveyed. It was further shown that franchisees were generally satisfied with their relationship with the franchisors. This level of franchisee satisfaction is encouraging as it should boost the government's effort to promote franchising as a method of raising the productivity of local small and medium enterprises.

INTRODUCTION

The first half of the decade was a period of great activity in the local franchising scene. At the end of 1995, there were 85 companies with developed franchise systems or were in the midst of their franchise development programs. This number is expected to reach 125 by the year 2000.

The number of foreign franchises also increased significantly and, by June 1996, 125 foreign franchises had established their footholds in the local franchising industry. In terms of sales turnover, the franchising industry has been estimated to generate 13 percent of the total domestic retail sales volume based on data collected by the Singapore Trade Development Board.

PURPOSE OF STUDY

There have been periodic announcements of government efforts to improve the Singapore franchising industry and reports of new franchises being launched by local companies. However, there is a dearth of academic research on existing franchisees, particularly in the areas of franchisor-franchisee relationships and franchisor support programs. Foo, Chan and Quek (1993) investigated the characteristics of local franchisees that included the nature of businesses most common among franchisees, their organizational structures, reasons for acquiring franchises, etc.

The Singapore Trade Development Board (TDB) and Arthur Anderson Business Consulting jointly published the Franchising in Asia-Pacific report in 1997. This report provided some insight into the state of development of the local franchising industry by providing an overview of the local franchising industry, types of franchise agreements, practices of franchises and factors underlying the development of Singapore as an

international franchise hub, etc.

A survey conducted by the Productivity and Standards Board in the first quarter of 1997 revealed that "support services" was ranked as very important by 90 percent of the franchisees. However, there was no discussion on the quality of such support services. This research intends to discuss franchisee perception of such support services. Specifically, this research aims:

1. To evaluate franchisee perception of franchisor support in:

- Site selection;
- Sales/field support;
- Ongoing advice and consultation;
- Research and development;
- Advertising and promotion; and
- Supplier selection.

2. To discuss some factors that affect the overall level of franchisee satisfaction.

METHODOLOGY

In order to collect the data, the following data collection methods were used:

1. Survey questionnaires were delivered to more than 40 franchisees.
2. Face-to-face interviews were conducted to obtain the personal views and opinions of the franchisees.

The franchisees were asked to indicate their perception of franchisor support through the use of a 5-point numerical scale: 5 being exceptional, 4 being good, 3 being adequate, 2 being poor and 1 being the unavailability of the support program.

Descriptive analysis using averages and frequency distributions were used to analyze the support programs offered by the franchisors. In order to assess the factors affecting the overall level of franchisee satisfaction, the cross-tabulation method of data analysis was selected. This technique allowed the data to be organized by groups or classes, thus facilitating comparisons as well as allowing for the determination of the form of relationship between two or more sets of variables.

PROFILE OF RESPONDENTS

A total of 40 local franchisees responded to the survey and the profile of the franchisees are as follows:

1. The average duration of owning the franchise was 3.3 years.
2. 92.5 percent were small enterprises with less than 15 full-time employees.
3. 77.5 percent of the franchisees owned only 1 unit of the franchise.
4. 72.5 percent of the franchisees were actively managing their franchise operations on

a day-to-day basis.

5. 57.5 percent of the franchisees did not operate similar businesses before buying their franchises.

In addition to the survey questionnaire, 16 franchisees were interviewed to gather their personal opinions in order to allow the researchers to have an in-depth understanding of the responses given in the questionnaire.

The researchers were unable to solicit responses from several other franchisees due to reasons related to confidentiality and the inability of these franchisees to obtain clearance from their franchisors to release the essential information required for this research.

FINDINGS

□ Site Selection

One of the responsibilities of the franchisor is to provide expert advice on matters relating to site selection and store layout in order to give the franchisees a reasonable probability of success.

Table 1: Franchisor Support Program : Site Selection

Good support given by the franchisor	25.0 percent
Adequate support given by the franchisor	15.0 percent
Poor support given by the franchisor	10.0 percent
No support given by the franchisor	17.5 percent
No support needed from the franchisor	32.5 percent

Table 1 shows that 25 percent of the respondents rated site selection support to be good and 15 percent rated site selection support to be adequate. It is heartening that only 10 percent rated site selection support to be poor, particularly at this crucial stage of starting a small business. Since 32.5 percent of the respondents did not require any assistance, we could infer that 59 percent were satisfied with the support given by their franchisors.

It is interesting to observe that 32.5 percent of the respondents did not require any help because they either possessed their own premises or were already running similar businesses before buying their franchises. Several of these were conversion franchises. In line with the government's effort to improve the productivity and efficiency of small and medium enterprises, local retailers were encouraged to join the large retail chains as conversion franchises.

□ Sales/Field Support

The primary function of a field representative is to assist the franchisees in analyzing local market situations and conditions. The field representative is expected to give recommendations on advertising and marketing procedures to enable the franchisees to maximize their business opportunities and profits

Table 2 : Franchisor Support Program : Sales/Field Support

Exceptional support given by the franchisor	5.0 percent
Good support given by the franchisor	30.0 percent
Adequate support given by the franchisor	27.5 percent
Poor support given by the franchisor	10.0 percent
No support given by the franchisor	12.5 percent
No support needed from the franchisor	15.0 percent

Table 2 shows that 35 percent of the respondents rated the sales/field support given by their franchisors to be either good or exceptional whilst 27.5 percent rated such support to be adequate. Only 10 percent rated the sales/field support to be poor and 12.5 percent reported that their franchisors did not provide any sales/field support at all. Since 85 percent of the respondents required sales/field support, we could infer that 73.5 percent in this group were satisfied with the quality of sales/field support provided by their franchisors.

Table 3 : Availability of Technical Support Personnel

Technical support person	17.5 percent
Technical support team	45.0 percent
Franchising manager	10.0 percent
No specific technical support team	27.5 percent

The franchisors were able to achieve this level of franchisee satisfaction because they employed technical staff to support their franchisees (Table 3). In order to provide adequate support, 45 percent of the franchisors had technical support teams and 17.5 percent had technical support personnel in order to respond immediately to the needs of their franchisees. Although the franchisees were well-served by qualified support personnel, this could still be an area of concern because only 10 percent of the franchisors were willing to employ franchising managers.

Table 4: Response Time of Technical Support Personnel

Within same working day	55.0 percent
Within 2 to 3 working days	32.5 percent
Within 4 to 5 working days	5.0 percent
6 or more working days	7.5 percent

Franchisee satisfaction could also be explained by the rapid response time of the support personnel (Table 4). Among the respondents, 55 percent commented that the support personnel responded within the same working day and 32.5 percent commented that the support personnel responded within 2 to 3 working days. The ability to respond rapidly is critical because the failure to solve routine problems promptly will cause the franchisees to suffer loss of sales and customer goodwill.

Ongoing Advice and Consultation

Table 5: Franchisor Support Program : Ongoing Advice and Consultation

Exceptional support given by the franchisor	10.0 percent
Good support given by the franchisor	25.0 percent
Adequate support given by the franchisor	25.0 percent
Poor support given by the franchisor	15.0 percent
No support given by the franchisor	12.5 percent
No support needed from the franchisor	12.5 percent

Table 5 shows that the respondents were generally satisfied with the ongoing advice and consultation given by their franchisors. Among the respondents, 35 percent rated the ongoing advice and consultation given by their franchisors to be either good or exceptional and 25 percent rated the ongoing advice and consultation to be adequate. However, it is disquieting to note that 12.5 percent of the franchisors did not provide any advice and consultation at all.

Table 6: Frequency of Visits to Franchisees' Outlets by Field Representatives

Once a week	40.0 percent
Once a fortnight	10.0 percent
Once a month	12.5 percent
Once every 3 months	12.5 percent
Longer than 3 months	25.0 percent

In order to provide ongoing advice and consultation, good communication has to be established between the franchisor and the franchisees. One of the effective ways to establish good communication is to have the field representatives make frequent visits to the franchisees' outlets (Table 6). Among the respondents, 40 percent had field representatives visiting their outlets once a week, 10 percent had field representatives visiting their outlets once a fortnight and 12.5 percent had field representatives visiting their outlets once a month.

Other than field visits, 50 percent of the respondents attended regular meetings held by their franchisors. Although the franchisors had done a commendable job in keeping their franchisees informed, they ignored some effective communication tools. One effective tool is newsletters but only 22.5 percent of the respondents received any form of newsletters from their franchisors. The other effective communication tools are the franchisee associations and franchisee advisory councils. Although such committees serve useful purposes in fostering franchisor-franchisee communication, no franchisors have formed franchisee associations nor have any franchisees grouped together to form franchisee advisory councils.

Research and Development

In order to provide new products and services, the franchisor must conduct research and development. The constant stream of new products and services is one way of assuring the franchisees that they will continue to enjoy value-added services from the franchisor in return for the payment of royalties.

Table 7: Franchisor Support Program: Research and Development

Exceptional support given by the franchisor	5.0 percent
Good support given by the franchisor	12.5 percent
Adequate support given by the franchisor	27.5 percent
Poor support given by the franchisor	17.5 percent
No support given by the franchisor	12.5 percent
No support needed from the franchisor	25.0 percent

Table 7 shows that 30 percent of the respondents rated the research and development programs to be either poor or non-existent and only 17.5 percent rated such programs to be either good or excellent. Among the 75 percent of respondents that required research and development support, 60 percent in this group were satisfied.

Dissatisfaction would arise if the franchisees could not compete successfully against competitors who are constantly being supplied with new products. The franchisees will start to question the rationale of their royalty payments and are likely to terminate the franchise relationship upon the expiration of their franchise contracts.

Advertising and Promotion

Table 8: Franchisor Support Program : Advertising and Promotion

Exceptional support given by the franchisor	2.5 percent
Good support given by the franchisor	42.5 percent
Adequate support given by the franchisor	27.5 percent
Poor support given by the franchisor	17.5 percent
No support given by the franchisor	5.0 percent
No support needed from the franchisor	5.0 percent

It is important not only to inform consumers that the franchise has what they need, but also to communicate the message that the franchise's products and services are the most appropriate solutions to their shopping needs.

Table 8 shows that 45 percent of the respondents rated advertising and promotion support to be either good or exceptional. Only 17.5 percent rated advertising and promotion support to be poor. Thus, it would not be a surprise that 55 percent of the respondents commented that the advertising and promotion fees were either low or average. However, the franchisees wanted the frequency of the advertising and promotion campaigns to be increased. When asked what aspects of operations support the franchisors must improve immediately, the frequency of such campaigns topped the ranking list.

Supplier Selection

Table 9: Percentage of Supplies Purchased from Franchisor

All supplies	32.5 percent
Most supplies	42.5 percent
Some supplies	15.0 percent
No supplies	10.0 percent

Table 10: Franchisor Support Program : Supplier Selection

Exceptional support given by the franchisor	15.0 percent
Good support given by the franchisor	25.0 percent
Adequate support given by the franchisor	25.0 percent
Poor support given by the franchisor	5.0 percent
No support given by the franchisor	5.0 percent
No support needed from the franchisor	25.0 percent

Table 9 shows that 32.5 percent of the respondents had to purchase all their merchandise from their respective franchisors or their contract suppliers and 42.5 percent had to purchase most of their supplies from their respective franchisors or their contract suppliers. In return, the franchisors offered credit terms of up to 90 days. In some cases, the contract suppliers would bill the franchisors directly for the merchandise purchased by their franchisees. At the end of the credit period, the franchisees would pay to their franchisors rather than to the contract suppliers.

Table 10 shows that 40 percent of the respondents rated their suppliers to be either good or exceptional and 25 percent rated their suppliers to be adequate.

FACTORS AFFECTING FRANCHISEE SATISFACTION

There is a strong, positive relationship between two franchisor support factors and the overall level of franchisee satisfaction. The two support factors are sales/field support and ongoing advice and consultation.

Overall, 72.5 percent of the respondents were satisfied with their relationship with the franchisors. Among the respondents who perceived that sales/field support were either good or exceptional, all were satisfied with their relationship with the franchisors. For this group of franchisees, 85.7 percent met their sales targets and 71.4 percent achieved their profit expectations. Furthermore, 86 percent were satisfied with their current job environment and 71 percent would buy the franchise again if given the opportunity.

For those franchisors that provided poor or non-existent sales/field support, none of the respondents were satisfied with their relationship with the franchisors. Among this group of respondents, only 44 percent reached their sales targets and 89 percent did not achieve their profit expectations. Furthermore, 67 percent were dissatisfied with their current job environment. For this group of disillusioned franchisees, 67 percent would not consider buying the franchise again.

Similarly, respondents who perceived that the ongoing advice and consultation were either good or exceptional were satisfied with their relationship with the franchisors. For this group of franchisees, 85.7 percent met their sales targets, 71 percent achieved

their profit expectations and 93 percent had job satisfaction. For those respondents who perceived ongoing advice and consultation to be poor, 50 percent were dissatisfied and for those franchisors that did not provide any ongoing advice and consultation, 80 percent were dissatisfied. More importantly, 45 percent in this group failed to meet their sales targets and 82 percent failed to achieve their profit expectations.

The lack of sales/field support and the failure to provide ongoing advice and consultation reflect the lackadaisical attitude of some franchisors in helping their franchisees to improve their sales revenues and operational efficiency. When franchisees encounter operational problems, they expect immediate assistance from their franchisors to troubleshoot and to solve their problems. If these franchisees do not receive the assistance as and when needed, they would lose the motivation and zest to run their businesses.

CONCLUSION

This research aims to evaluate franchisee perception of franchisor support and to discuss some factors that affect the overall level of franchisee satisfaction. We could conclude that the franchisees were generally satisfied with the six major types of franchisor support. Furthermore, the franchisees were satisfied with their relationship with the franchisors if they received good sales/field support and ongoing advice and consultation. This level of franchisee satisfaction is significant and will definitely act as a boost towards the government's effort to promote franchising as a method of raising the productivity of local small and medium enterprises.

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