Structures, Systems and Organizational Communication Processes in Franchises in times of crisis: the Spanish case.

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Abstract

Current economic crisis together with the Internet revolution has had direct impacts on the franchise sector of Spain: in particular on its unique communication network. The aim of this research is to analyse how Spanish franchise companies have adapted to these changes through its corporate communications management. We want to determine whether the management of communications is ideal to the growth and consolidation of companies in the market. Corporate communications plans and organizational structures were analyzed to verify whether or not information technology (i.e. the use of the Internet) is maximized: the communications aspect being a critical area of company growth. We found that most franchise companies surveyed had adapted well to the changes in information technology, despite economic challenges. The Internet as a communications tool has been limited to its utility as a “bulletin board” for information. The marketing advantage of Internet communication, or its use as an avenue for customer exchange and exchange of goods and services has yet to be maximized. Future research may look into the details of how companies are able to maximize the communications-marketing advantage that Online/Internet can contribute to the franchise sector.

Keywords: Communication, Strategies, Franchise, Management.

Introduction

The advertising system has been undergoing great changes due to different externalities, i.e., the financial world crisis, the revolution being caused by the use of information and communication technologies, etc., (Caro, 2009; Campos Freire (coord.), 2010; Hernández, 2010; Wallovits and Virgili, 2011). There has been considerable changes in the traditional roles assigned to the companies as advertisers, to the media as transmitters of their orders and to the consumers as target audience or passive recipients of commercial messages (Buzzi, 2009).

The “target audience” has taken the role of “advertisers” as they themselves become the communicators as the new information technology becomes the vehicle through which messages about brands, companies and organizations are communicated. This revolutionary change is felt most by companies in which branding is important such as in the case of the franchise. A very particular type of advertiser which
values the importance of the correct accurate brand management, which is necessary for the growth and expansion of the company in its market. Today, this is no longer a characteristic phenomenon of the franchise: the traditional division of organizational communication (i.e. internal and external) no longer exists (Cesaria, 2000). As in the case of multinational car companies, or fashion and accessories companies, companies interact with other legally independent companies, exchanging information and managing their communication in partnership (Cesaria, 2000:164).

A franchise is a system of commercialization of goods and services that is rapidly gaining in importance nowadays in the consumerist societies of developed countries. The appearance of main streets and shopping areas in cities and towns has changed considerably in late years not only in Spain but also in many European, American and Asian countries. In fact, the percentages of integrated retail companies as opposed to independent retailers are remarkable in the main European and worldwide economies. Thus, in the United Kingdom, 35% of retail traders integrate in some network while in France 25% do the same. In Spain, integrated retailers comprise 15% of the total retailers. In other countries, such as the United States, the percentage is around 59%, i.e., nearly half the retailers operate integrated in some of the multiple systems of associated commerce.

Communication in a franchise is different from conventional companies. For this reason, its management also requires a different strategy fitting the different groups of interest of the franchise (Monserrat-Gauchi, 2008).

In this study, we examine the management of communication that the franchise head company has developed for each of their three main audiences: current franchisees, potential franchisees and final customers of their stores. The presence of the intermediary is peculiar to franchising. The intermediary or the franchisee (owner of the brand who commercializes it) is the link between the head office or parent company and the customers/ final consumers of the product or service. The study of the management of communication is tackled, therefore, from the knowledge that communication strategies in franchising are devised not independent from the central franchisor. The implications of the existence of the intermediary and the impact of the paradigm shift in advertising are taken together as considerations in the study. Also, direct communication or the fact that each franchising company can manage communication with their main target audience and environment contributes to the complex communication network in franchising.
The analysis and diagnosis of communication management in Spanish franchise companies can be extrapolated to other franchises from different geographical territories (including international ones) and also other types of companies sharing the same characteristics.

**Background of the Study and Study Objectives**

The system of commercialization in franchises has been studied from different perspectives: legal, business organization, studies about the satisfaction of employees, the profitability of retail independent distribution or by franchising, etc. (Baena, 2010) However, there are few scientific publications focusing on the system of franchise in relation to communication management. Among this research are the contributions of Bolea de Anta (1988 and 1990) and Monserrat-Gauchi (2005 and 2008) regarding the Spanish area and Dickey (2001), Davis (2004) or Lair (2006) in the Anglosaxon and American areas. The franchise system is also examined in studies done on communication flows in different systems of business organization. Current studies done in the field of business reveal the current situation of the system of commercialization in franchises in Spain. The studies undertaken by Tormo & Asociados and Barbadillo Consulting/Business services, the top franchise services firms in Spain in 2010, are instructive.

The franchise sector in Spain has been observed to increase in the past years, notwithstanding the economic crisis. Díez de Castro and Rondán (2004) highlight the stable employment generated by through the creation of franchise companies, where the the social and economic benefits thereof redound to the collective. In 2008, despite company closures brought about by the economic crisis, the year was marked with the opening of 63 brand franchises, completing a total number of 968 brand franchises with 69,081 stores, which also meant a growth of 700 business premises (Tormo, 2009). Barbadillo Asociados (2009) highlights the 18 percent increase in the number of brand franchises in 2008 as compared to 2007, even as in that same year, 200 brand franchises closed shop, In the past years, franchise companies closed down at a lower range of 100 and 150.

The economic crisis in both the financial and the real estate sectors, the two sectors mostly affected by the current economic situation, has not prevented growth in the Spanish franchise sector. As Tormo indicates in his Franchise Sector outlook in Spain, in 2008 the system grew 2.8% over the average of the retail trade, and also above the GDP. Nevertheless, in 2010, the global turnover of the franchise system experienced negative growth at -0.2%. The decrease has also affected the number of operational settings, meaning a reduction of 695 franchisee premises as compared to the previous year.

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When the evolution of franchise chains in the past years is taken into context, the negative growth experienced by the franchise sector is still not comparable to the negative impact suffered by other commercialization systems. The franchise system fits the business model which demands a very close relationship between the parts (Anderson and Weitz, 1989). Many authors recognize that communication is the key to establish a good relationship in the franchise sector (Allen, 1994; Mubleman, 1996; Laurie, 2000; Tikoo, 2002; Monroy and Alzola, 2005). Communication facilitates the relations that are generated in the franchise system (Anderson and Narus, 1984; Mohr and Nevin, 1990). In this respect, the correct management of communication processes and the mutual trust between franchisor and franchisee are two indispensable variables in relationship building. Some studies have demonstrated the existence of certain aspects which greatly satisfy the franchisee, such as the use of well known brands or sending newsletters and manuals (Knight, 1986), actions which are closely related to good franchisor-franchisee communication practices.

Communications management entails addressing the technological and economic changes in the environment. Whether franchises or not, companies today are conscious of maintaining Internet presence to improve their image and to gain greater economic benefits. Suitable marketing strategies and media savvy are crucial for business survival (MSI, 2010). The Marketing Science Institute highlights these two aspects out of the six critical areas for business survival that they reviewed during the period 2008-2010. Nevertheless, the Spanish franchise sector has not fully adapted to new technologies. As Bordonaba and Polo (2007) express, "the eruption of the Internet in franchise companies still finds itself in our country in an early development stage. However, nowadays, the success of a business in the long run requires the implementation of a strategy based on communication, in which the Internet can play a major role" (Bordonaba and Polo, 2007: 255).

The question remains whether the communications management in franchising has adapted to the changes taking place in their environment, i.e., new technologies and the economic crisis: changes that have already restructured the advertising system and the roles of the agents taking part in them. The present diagnosis was taken after the following objectives were addressed: (1) To understand and the communications management plans of the companies; (2) To determine whether franchisors adapt their communication to the new technological and socio-economic landscape; (3) To analyse whether their structures are modified accordingly; and- (4) To examine the planning and management of communication with their three main business audiences: current franchisees, potential franchisees and customers or consumers of their products and services.
Research Methodology

The researchers of this study have made use of several scientific tools to provide rigor in this research in the field of Social Science.

Both qualitative and quantitative techniques have been used in the present research. An expert panel configured the methodological tool for analysis (questionnaire) through a series of consultation and meeting of experts from the field of research. The questionnaire was posted online on the study website for access by respondent franchising companies.

The work process followed in this research can be summarized in the following way:

1 - Documentary Observation: a bibliographical review was carried out to frame the reality of the world of franchises and their communication processes. Newspaper sources were used to clarify the current state of things. Primary bibliographical sources were also studied to support the theoretical framework from which the research derived. Secondary bibliographical sources were also reviewed to gain perspective on other possible approaches to the study of the same phenomenon. Finally, digital sources of information were used to get to know up-to-date information about the topic of study.

2 - Qualitative Analysis – Expert Panel: In the early design of the questionnaire, stakeholder participation was prioritized. Franchisors, franchisees, communication experts, advertising and public relations experts and franchise experts were brought together for consultation and group dynamics. Correspondence was maintained through e-mail to confirm information and assure coherence, completeness and validity in the design of the questionnaire.

3 - Quantitative Analysis - Questionnaire: From a positivist approach and following a distributive methodology, a questionnaire aimed at the franchisors was devised. The selection criteria for respondent franchisors included their geographical setting and their registration in the Official Register of the Ministry of Commerce, Industry and Tourism as of February 2009. The study participants comprised a total of 127 companies.

The online questionnaire facilitated easy access by the respondents and better data storage and management for the interviewer. The final questionnaire was uploaded in a web space hosting provided by the University of Alicante. The designed questionnaire fulfilled two requirements: it was standardized and it was also self-administered.

The design of the questionnaire was structured in four parts: the first one was about general information on the company and its structures, the second part was about communication strategies that the company
applied to their current franchisees. The third part focused on communication actions targeted to potential franchisees of the chain franchise. Lastly, the fourth part concentrated on the strategies carried out with the customers or final consumers of the franchise network. The questionnaire comprised a total of 59 items. The information obtained was processed by the statistical programme SPSS (Statistical Package for the Social Sciences).

4 - Online Revision: To ensure the reliability of the information gathered, websites of the participants were reviewed. In this way, answers were not only verified but other aspects which had not been included in the realized questionnaires were also taken into consideration.

**Development Plan of the Research**

The present research study commenced in 2009. In January, the main goals and study sample were defined.

In March 2009, the group of experts came together for the tool design. The questionnaire was made accessible at the study website. In April, the web hosting of the University of Alicante was implemented.

E-mail correspondence followed phone correspondence where the companies were sent an e-mail that provided the link to the website for access to the questionnaire.

The order of preference in the phone call correspondence was the following: Communication Managers, Marketing Managers, Directors of Expansion, Managers or Directors. Questionnaires answered until November 9th 2009 were accepted, representing a level of response of 28.3% of the target respondents, with a margin of error of 11%, considering a confidence level of 90%, an expected proportion of 50% and an effect of design of 1.

**Results**

Most of the franchise companies consulted (81%) have a department of marketing and communication in their internal structure, 28% hire external advertising agencies. More than half (69%) implement a well-developed marketing plan. However, the owner-franchisor companies are the ones who mostly manage the planning of communication campaigns since only 47% of the franchisees participate in the planning.

The investment the franchisor company makes annually in its communication actions ranges from 1000 EUR to over 1000000 EUR. Most of the consulted franchises make an investment from 1000 EUR to 25000 EUR, being the highest percentage that one in the range between 6001 EUR and 12000 EUR (22%). Communication investments are quite variable across companies. As Graph 1 shows, 39% of them allocate 10% of their investment to actions through the Internet and online advertising.
Regarding the departmental structures and the personnel working for the company, we should highlight the fact that in half the cases (58%) either there is a department with several people (8%) or just a person (50%) responsible for the website and/or online communication. On the other hand, the companies subcontracting this service contact, in 93% of the cases, with specialized companies.

As for the communication processes of the current franchisees, it is important to point out that only 50% of the franchises have an internal newsletter at their disposal, in the form of a website or an e-mail. It is remarkable that 42% of these corporate franchises do not offer this internal newsletter.

The design and implementation of a communication and promotion plan for the franchised establishments vary depending on the franchise. There are franchises (31%) which are exclusively in charge of the design of the plan which the franchisees implement, whereas other corporations (44%) are involved both in the design and implementation. An increasing trend in the use of new media such as online marketing or the use of e-mail and text messaging service (22 cases) is observed in contrast to the use of traditional mass media (10 cases).

In the same way, 64% of the studied cases answered positively to the use of either an intranet (48% companies were 2/4 years senior in the business, 32% more than 5 years and 20% had been working since 2008) or a website with restricted access for the current franchises, both for the management of their establishments and as a communication forum.
Basically, the franchisor uses the Intranet:
1. To provide information about new products and/or services (21 cases).
2. As an informative page for the franchisee, with a repository of documents of interest (20 cases).
3. To manage orders (16 cases).
4. To promote communication among franchisees (14 cases).
5. To gather possible suggestions from the franchisees (14 cases).
6. To manage payments (3 cases).

Nevertheless, only 19% of the cases used other media such as Facebook, social networks or Messenger. From this small percentage using different Internet media, 14% considered them really effective, 57% reported them as being effective enough and only 29% valued them as not very effective.

Communication actions designed to attract new franchisees mainly focus on franchise web portals offering consulting services (25 cases), specialized press (19 cases) and/or franchise trade fairs (16 cases).

Other actions taken are, for instance, direct marketing such as personalized presentations, introductory letters for further visits, the use of databases for group presentations, etc. Web portals of digital media, such as newspapers containing general information or economic press are less often used, and the same happens to media specialized in business sectors (food supply, catering, decoration, and other activities).

The most remarkable communication strategy in contacting new franchise investors is the franchise website.

Eighty-four percent (84%) of the franchise companies have a website that potential franchise investors can visit. Majority of the companies (86%) consider the website as effective or really effective. In terms of communicating to the public/consumers of franchise openings, the traditional advertising or promotional campaign is still the communication of choice by the majority (81%). Twenty-five percent (25%) of the franchisors launch an advertising campaign before and after the opening of a new store, forty-five (45%) percent organize it only before the opening of a new store and one percent organize its advertising campaign later.

In the promotion of the franchised point of sale, 25% of the franchise companies reported not to do any promotions of their products or services accompanied by advertising for the animation of the POS. Another 25% expressed they carried out this type of promotions on a seasonal basis, especially stores in the sector fashion/accessories. There were 22.7% who took part in other type of promotions which were not specified. Finally, 20% of the franchise chains ran promotions depending on sale volume. Only 6% of the franchisors declared to run promotions of products in their stores following time spans, since it is a very specific kind of promotion corresponding to establishments in the catering-food supply sector. Besides, among the companies running promotions, only 33% were included on their websites.
The information technology is maximized by franchises in reaching out to their final consumer. Sixty percent (60%) of the consulted companies inform customers new promotions and offers through the mobile phone or the e-mail service. A website dedicated to customers/users is maintained by 84% of the companies. Website information include: contact information, list of stores, information request, catalogue of products and newsitems addressed to the consumer. Only a few offer the possibility of online shopping, where 19% offer this service for the entire product line, while 14% offer this service on selected products.

Among website owning companies, 82% believe that the websites are either effective or very effective, whereas only 5% saw little to no effectivity in the use of websites.

Websites other than company websites are also used by 67% of the respondents. Social networks (i.e. Facebook, Tuenti, Myspace) are used by 33% of companies, while 28% use digital media (i.e., elpais.com, elmundo.es).

**Discussion**

The results reveal that franchise companies have adapted communication structures and developed communications plans. Communications management is given importance and human and structural resources are allocated accordingly. Online communication is a priority strategy and either in-house personnel or third party services are maximized.

Online advertising has two distinct advantages: greater audience reach and lower investment costs. Allocating a considerable share of their global budget in the online management of companies will be advantageous to franchisors especially in times of economic crisis.

However, in the absence of global brand management and franchise brand management in general, the franchise advertiser cannot maximize online advertising. We observed that each franchisee creates their own account in the social networks, generating a great confusion among users who cannot distinguish the corporate web (main website of the franchise) from the website of a specific store. Thus, it is necessary to implement a global strategy where the roles and responsibilities of either the franchisor or each franchisee are clear.

In the study presented by Davis (2004) about the communication strategies in Australia, he remarked about the difficulties to promote local commerce in each franchise store, either because of the actions of traditional media (or not) on the side of the franchisor.

Franchisors value positively the results from the use of both strategies, whether in traditional media or online media. However, its use is emerging especially when dealing with the implementation of social networks.
The adaptation to the technological changes on the side of franchisors is quite positive: more than half of franchise companies maximize online resources (franchise newsletters) or the use of online advertising in their websites, the use of mobile phone communication with their establishments and, the intranet. Not only is there technological adaptation among franchise companies, but also effective choice of communication/media and low-cost communications investment which are crucial during an economic crunch.

In traditional media, attracting potential franchisees was limited to participating in franchise fairs, or establishing company presence in specialized magazines. Today, the advent of online media has ushered the development and use of franchise websites.

The franchisees have yet to maximize online advertising in reaching out to its consumer base. Only a few franchisees communicate their offers or promotions using the Internet. The corporate website of the franchise brand does not offer much interaction for the customer or the consumer to express their viewpoints.

Even though the presence of franchises in social networks is still quite limited, it is nevertheless very encouraging considering that since 2009 (the time of this study), online advertising has gained higher ground.

After having reflected on the results and having drawn the conclusions described above, the starting hypothesis for the research has clearly been accepted. On the one hand, there is a rising adaptation to technological and economic changes. That is to say, the companies make use of new media and communication actions different from the traditional ones to face both the economic crisis and the technological revolution. What is more, they adapt their communication processes to both changes.

Spanish franchisors are responding, albeit slowly, to the social changes taking place nowadays, with their participation in online media and social networks. They also use new technologies in communicating to their different audiences. However, there is an absence of a strategic planning and the utilization of the Internet as a tool in company growth and market positioning. The Internet appears to be limited to being an instrument of communication, rather than an avenue for marketing and franchisee-customer interaction to be maximized. The internet advantage has not been mainstreamed in the marketing plan of franchise companies.

Future research can delve into the marketing plan of franchise companies and verify whether or not the communications plan/strategy, in particular the Internet phenomenon is integrated, if not maximized in its potentials. The investigation and understanding of the slow adaptation of the Spanish franchise system to online media may be a critical point of entry as well for future communications-marketing research on the franchise sector.
References


