International Journal of Pure and Applied Mathematics
Volume 120 No. 6 2018, 5035-5051
ISSN: 1314-3395 (on-line version)
url: http://www.acadpubl.eu/hub/
Special Issue

http://www.acadpubl.eu/hub/

A Study on the Effects of Franchiser's Strategic Franchisee Expansion on Satisfying of Franchisees in Restaurant Franchising

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Abstract

Background/Objectives: In this study, we propose a method for promoting franchise, which is the franchise affiliation headquarters of the food service sector, which constitutes the majority of franchise stores in Korea. In addition to the elements of oral communication, publicity, we tried to measure the evaluation of the franchisee's factors such as outsourcing of recruitment agency, recruitment through franchise store, operation of flagship store, business briefing session and seminar.

Methods/Statistical Analysis: We drew activities of franchisee expansion strategies through theoretical ap-

proach, extracted evaluation items from each activity, made questionnaires, and conducted a survey targeting franchisee owners.

Findings: As a result of the study, it is necessary to reorganize the system to manage and supervise the strategic activities of the franchise headquarters and the organization to carry out the factors affecting the decision on the renewal of stores and store establishment. In addition, the systematic support infrastructure of small business owners who are expected to be one of the central axis of Korea's economy in the future, systemized start-ups and support systems for small-sized businesses should be urgently developed.

Improvements/Applications: Therefore, as a strategy that allows the franchisees to feel satisfaction and to make decision on renewal, or to help shoppers who want to open a store, it needs to be established detailed strategies and utilize actively through deeper understanding of the field of oral communication effect between the franchise headquarters and the franchisee.

Key Words : Foodservice Franchise, Franchisee, Franchiser, Franchisee Satisfaction, Strategic Franchisee Expansion.

1 Introduction

According to the Fair Trade Commission(FTC)'s data on web site of franchisee business in December 2016[1], currently the number of all franchisee brands total 5,273 units. Among them, food services are 4,017 units which represents the largest portion at 76.2% of the total, followed by service industry at 17.9%, 944 units and wholesale•retail business at 5.9%, 312 units[2]. On the other hand, in case of Japan according to Japanese franchisee chain's data in 2014[3], the business-specific rates of all brands show that retail business represents at 26.0%, food service at 42.5%, and service industry at 31.4% which were not largely fluctuated, comparing with data in 2013. So we could see that each industry field has developed in good balance.

Such Korea's unbalanced growth in franchise business focused on food service industry which has shown huge growth. Further-

more, when more franchisors start businesses and shut down, it leads more franchisees start businesses and shut down as well. This fact works as a fundamental cause that increases the failure of small-scale businessmen. This kind of recent tendency such as shortage of retirement age and the rapidly changed aging society affects to increase social demand on franchisee business. Also, the generalization of the five-day workweek, increase of income level, and social environment change such as well-being trend make serious effect on increasing social demand in food service industry[4].

In reality, as of the end of 2016, the franchisor's average business period was for 4 years and 8 months, less than 5 years[2]. The brand with business period of less 5 years represents the largest portion at 67.5%, followed by the one with more than 5 years and less than 10 years at 19.9%, the other one with more than 10 years at only 12.6%[2]. So franchisors try to recruit many franchisees in a short period, considering short franchisee life. After that, it is a common phenomenon to neglect the support and management of franchisees.

When it comes to promotion activities with which franchisors try to recruit franchisees, they overlooked how it can affect pre-franchisee owners badly but they just exaggerated facts and made false advertisements to recruit franchisees. This is criticised with factor of shortage of franchisee life[5].

So, this thesis surveyed franchisee owners' evaluations about word-of-mouth communication in which franchisor tries to have promotion activities to expand number of stores online and offline, publicity, outsourcing of recruitment proxy which many franchisors used with advertisement, recruitment by franchisee, running of flagship store, business fair, and seminars.

Through this, it is thesis's study goal that we analyze how these strategies affect renewal intention of franchisee in the future and develop an institutional management plan on factors which affect decision making to open the new franchisees so we can provide franchisee owners or pre-franchisee owners to a standard to make objective smart decisions.

2 Theoretical Consideration

2.1 Franchisee'

In spite of 30 years of short history that franchisee industry was introduced within the country, the interest has grown about the new power industry which leads industry development[6, 7]. However, because intention of foundation using franchisee system has grown up, franchisees also have expanded as shown in table 1. So many companies carrying forward franchisee business think about more creative and flexible ways to compete with other franchisors. Moreover, company-operated franchisees are the most essential way to success. But in the reality this is kind of difficult work among franchisee companies[8, 7].

Table 1: Registration of disclosure document of franchisor

unit : ea, %

Sort	2012	2013	2014	2015	2016	Rate of change
the number of franchisors Food service	2,678	2,973	3,482	3,910	4,268	9.2
the number of brands	3,311	3,691	4,288	4,844	5,273	8.9
the number of franchisees	176,788	190,730	194,199	208,104	218,997	5.2
the number of company-operated stores	11,326	12,619	12,869	15,459	16,854	9.0

Source: Fair Trade Commission(FTC). (2017). franchisee business, Statistical information, Retrieved from http://franchisee.ftc.go.kr/main/subIndex/22.do.

When it comes to registration of disclosure document of franchisor on the franchisee business information in 2016, when comparing with past year, the number of franchisors was 4,268 risen by 9.2%, the number of brands was 5,273 risen by 8.9%, the number of franchisees was 218,997 risen by 5.2%, and the number of company-operated stores was 16,854 risen by 9.0%.

We could see that the number of franchisors and franchisees is increasing as food service franchisee business grows rapidly. The number of franchisors and franchisees with type of business by year is as shown in Table 2.

Table 2: The number of franchisors and franchisees with type of business

unit : ea, %

Sort		2012	2013	2014	2015	2016
the number of franchisors Food service	**Food service**	1,810(67.5)	2,089(70.3)	2,521(72.4)	2,865(73.3)	3,219(75.4)
	Service industry	513(19.2)	601(20.2)	648(18.6)	691(17.7)	769(18.0)
	Wholesale·retail	355(13.3)	283(9.5)	313(9.0)	354(9.0)	280(6.6)
	totality	2,678(100)	2,973(100)	3,482(100)	3,910(100)	4,268(100)
the number of brands	**Food service**	2,246(67.8)	2,623(73.3)	3,142(73.3)	3,587(74.0)	4,017(76.2)
	Service industry	631(19.1)	743(20.1)	793(18.5)	862(17.8)	944(17.9)
	Wholesale·retail	434(13.1)	325(8.8)	353(8.2)	395(8.2)	312(5.9)
	totality	3,311(100)	3,691(100)	4,288(100)	4,844(100)	5,273(100)
the number of franchisees	**Food service**	72,903(41.3)	84,046(44.1)	88,953(45.8)	99,544(47.8)	106,890(48.8)
	Service industry	60,535(34.2)	65,107(34.1)	61,374(31.6)	62,134(29.9)	67,200(30.7)
	Wholesale·retail	43,350(24.5)	41,577(21.8)	43,872(22.6)	46,426(22.3)	44,907(20.5)
	totality	176,788(100)	190,730(100)	194,199(100)	208,104(100)	218,997(100)
the number of company-operated stores	**Food service**	3,235(28.6)	3,959(31.4)	4,432(34.4)	5,131(33.2)	5,506(32.7)
	Service industry	3,251(28.7)	3,006(23.8)	2,534(19.7)	3,194(26.0)	4,181(24.8)
	Wholesale·retail	4,840(42.7)	5,654(44.8)	5,903(45.9)	7,134(20.8)	7,167(42.5)
	totality	11,326(100)	12,619(100)	12,869(100)	15,459(100)	16,854(100)

Source : Fair Trade Commission(FTC). (2017). franchisee business, Statistical information, Retrieved from http://franchisee.ftc.go.kr/main/subIndex/22.do.

Unbalanced development of franchisee business focusing on food service leads to more founding and shutdown franchisee business so that it is the root cause increasing business failure for the small-scale businessman.

When taking a closer look at the graph 2, on late 2016 the number of current domestic franchisor rose nearly 60% in four years and franchisees opened 114 units and shut down 66 units per a day on 2016. Korean food business type, chicken type, and Snack type were the most. It appeared a biased phenomenon to a few brands in a few brands in some businesses, such as convenience store, laundry,

and ice flakes businesses.

When we see "Registration of disclosure document of franchisor" announced by Korea Fair Trade Commission(FTC) on July 12, as of last year, the number of franchisors were 4,268 pieces risen at 9.2% more than last year(3,910 pieces), The food service type was majority with 4,017 pieces(76.2%), followed by service industry(944 pieces), whole•retail business(312 pieces), When it come to details of business type, Korean food was 1,261 pieces which is the most type, Chicken with 392 pieces, Snack with 354 ea, bar with 339 pieces, and coffee shop with 325 pieces, which means food service brand occupies most of them.

Also, as of 2015 the number of franchisee was 218,997 risen at 5.2% which was more than past years with 208,104 pieces. The increased range of the number of franchisee was slightly less then last year at 7.2%. The food service type was the most recorded at 48.8%, totally as 106,890 pieces. The service industry recorded at 30.7% as 67,200 pieces and whole•retail industry recorded at 20.5% as 44,907 pieces[9].

2.2 Word-of mouth communication

Word of mouth in the field of marketing is generally reliable than any salesmen. It has strong point on fast propagation velocity and wide reach rate[10]. Considering customers' demand-decision as to word of mouth, if we set franchisee owner and pre-franchisee owner as word of mouth's subject, and set franchisor as word of mouth's main agent, we can expect that word of mouth can make effect on their decision making.

Franchisor uses positive word-of-mouth communication actively so that they can make a positive attitude regarding their brand with pre-franchisee owners[4].

Actually, it is very common case that most franchisors use the strategy of word-of-mouth communication through internet blog, internet cafe, online newspaper, SNS, and use franchisee expansion strategy through using feature articles, strategic advertisement in offline newspaper and magazine[10].

2.3 Publicity and Advertisement

These days, marketing atmosphere is getting complicated, companies are developing various promotion method such as advertisement, sales promotion, publicity and so on[11]. Advertisement and publicity are the most common and widely used strategies for expending the franchisees[12, 5].

Most of the existing studies related to advertisements and publicity are comparing the effects of both[13, 12]. These two promotion methods can be divided whether commerciality exists or not.

Advertisement is delivered to customers by methods which advertiser wants, who has commercial purpose. On the other hand, publicity is delivered with purpose which emphasizes publicness without commerciality. The typical examples are 'My hometown at 6 pm' at one of Koran broadcast or several TV programs introducing delicious restaurants.

Recently, publicity retained publicness and authority by comparing between effect of advertisement and effect of publicity. So publicity can be one of the promotion strategies of franchisors, showing reliability to customers.

2.4 Outsourcing of recruitment proxy

Outsourcing of recruitment proxy as one of the franchisee expansion strategies. Outsourcing of recruitment proxy makes full range of salesmen' activities possible to recruit new franchisee. Currently many franchisors such as A beef-bone soup restaurant, B short-rib soup restaurant, and C chicken restaurant are proceeding with outsourcing of recruitment proxy.

Especially, outsourcing agents of recruitment proxy are spread a lot for the purpose of franchisee consulting, makes many social problems like no-asking investment persuasion and excessive commission. But if new or small-size franchisor jointly uses outsourcing of recruitment proxy with others, it can be the highly effective franchisee expansion strategy.

2.5 Running of flagship stores and recruitment through franchises

As we may know, the concept of store is selling the products. However a flagship store doesn't sell products but sells the image of brand and also creates a relationship between brand and customers closely. This is kind of place connecting customers' lifestyle and value into brand so that customers can experience the brand itself.

So, the reason why many franchisors pay a lot of money of marketing, advertisement, and rental fee for 'A-list' market of region to run the flagship store even though it is a deficit operation. 'A' premium coffee brand located on Gangnam-road should sell 3,000 coffees per a day to get to a break-even point but actually it sells only 2,000 coffees per a day, which means it runs with a 1,000 cup loss.

This flagship store is recognized as success case to pre-franchisee owners or franchisee owners by playing a role like a model house of apartment. It leads to expand more franchisee.

2.6 Business fair and several exposition

Most franchisors make an effort to recruit franchisees through business fair and several expositions. This is the one of the trends that the recent franchise headquarters business meetings hold seminars which proves business item validity for the purpose to secure objectivity and show reliability.

Recent business fairs provide visits to store, field trip, market research, analysis of market, operation guideline, tips, education and so on with one-stop service as an effective strategy for expanding number of franchisees. So most franchisors combine the business fair and several exposition with other strategies.

2.7 franchisee' satisfaction

Mutual relation model between franchisee' satisfaction and intention of renewal, so franchisee owner's satisfaction helps to keep the relationship with franchisors so that the owner makes the decision to renew contracts. Therefore, intention of renewal can play a role as surrogate variable representing franchisee' satisfaction.

Also, the example that existing owners extend the contract belongs to this case. Pre-franchisee owners similarly can be affected with intention of renewal when making decisions.

While evaluating factors which affect intention of opening new franchisee, because renewal contract has an effect on franchisee owner's satisfaction a lot, franchisor can present positive or negative factors to exiting owners during the process of franchisee expansion strategy. Customer service at franchisor and competitive advantage have effect on franchisee' satisfaction.

In conclusion, satisfaction is the general subjective reaction which consumer feels when using specific product, service, and having consume experience. And this kind of reaction is consists of feeling, emotion, belief, and so on[14]. Accordingly, the greater the competition between the industry and the industry in the restaurant franchise industry, the greater the reliance on the headquarters of the franchisee. As a result, it is expected for the competitiveness such as customer service of franchise headquarters to affect the satisfaction of the franchises[15].

3 Method of Study

3.1 Study model and setting up hypothesis

This study set up the model as the same as Figure 1 to accomplish purpose of study as mentioned earlier.

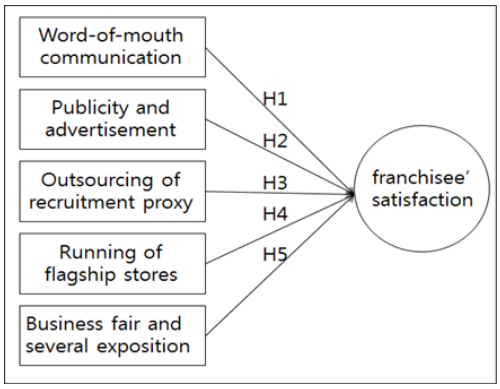

Figure 1: Study Model

Kim, Tae hee et al set up the hypothesis and verified to measure path-coefficient and effect on franchisee owner's satisfaction and brand attitude about online word of mouth, offline word of mouth, publicity, and advertisement[5].

Also, Kim, Yung kwan set up the hypothesis verifying relationship among intention of renewal, promotion support, and communication support in his study. He set up the hypothesis about a correlation with promotion items such as advertisements, promotional events and so on.

The research set a hypothesis about the relationship of franchisee satisfaction through promotions as follows;

H1 : Word-of-mouth communication of recruitment by franchisor has positive effect on franchisee owner's satisfaction.

H2 : Advertisement and publicity of recruitment by franchisor has positive effect on franchisee owner's satisfaction.

H3 : Outsourcing of recruitment proxy of recruitment by franchisor has positive effect on franchisee owner's satisfaction.

H4 : Flagship store of recruitment by franchisor has positive effect on franchisee owner's satisfaction.

H5 : Business fair and several exposition of recruitment by franchisor has positive effect on franchisee owner's satisfaction.

3.2 Questionnaire Composition

Questionnaire for this study is based on a hypothesis which was set up in advance with each independent variable-specific 5 questions in total 25 questions, demographic 7 questions, a question as to dependent variables, totalling 33 questions.

In other words, evaluation items linked to word-of-mouth communication consisted of franchisor' activities regarding on.offline internet blogs, on.offline internet cafes, online articles, offline articles, word-of-mouth communication face to face, and traditional images and so on. Evaluation items linked to advertisements and publicity consists of mass media advertisements (news paper, radio, TV, magazines), experience of publicity, positiveness about existing contacting channels, and impression. Evaluation items linked to outsourcing of recruitment proxy consist of contacting experience, impression toward recruitment agency and businessman, influence rate. Evaluation items linked to flagship store consist of visiting

experience, feeling, influence rate, and exposure effect. Evaluation items linked to business fair are consisted of visit experience, feeling, influence rate. Question items about dependent variable consisted of renewal of contract and making the decision to a open store.

4 Actual Analysis

4.1 Sampling and analysis method

Study target for actual analysis were franchisee owners around the country. The cohort sampling was owners who are running a franchisee in the region where has various brand stores and is located in activated commercial market such as Jongno of Seoul, vicinity of Gangnam station, vicinity of Hongik university, vicinity of Ingye-dong, Anyang 1 avenue, and so on.

Investigation period was for 17 days from November 25. 2016 to December 10. 2016. We distributed questionnaires with market-specific 40 copies, total 200 copies and collected 193 copies and used 179 copies for analysis except 14 copies which were unreliable responses.

A demographic analysis through frequency analysis was used as analysis method, and implemented factorial analysis and reliability analysis to verify validity of models and variables. Also multiple regression analysis was used for statistical hypothesis testing. SPSS 22.0 was used as statistical package.

4.2 Analysis result

In the questionnaire survey conducted on this study, the general trait of models was as follows; Gender was that male was the most at 78.4% and female was 21.6%. and work experience was reported career with more than 1 year and less than 3 years at 38.7%, with more than 3 years and less then 5 years at 26.8%, and with less than 1 year at 12.7%.

Also in case of academic background of owners, junior college graduates were at 32.7%, hight school graduates were 21.2%, and university graduates were at 20.5%. Besides, stores' area was reported that more than 16.5m^2 and less than 33^2 were the most at 50.2%. In addition, we implemented factorial analysis about

questionnaire items to extract influence factor of franchisee owner's satisfaction.

Principal component analysis was used to extract common factor. we used Berry-max's square-turn method normalized with Kaiser for factor extraction. So after factor rotation, we got factor loadage and extracted 5 factors.

During the process to extract factor loadage, items with loadage value less than 0.4 has no significance so we eliminated number 5 item about word of mouth by face to face and number 13 item about outsourcing of recruitment proxy. There were no items which has loadage value bigger than Cronbach's Alpha value got from reliability analysis. Cronbach's Alpha value were all bigger than 0.6 that every item has reliability when measured reliability of multi-item scale variable after checking reliability coefficient of model.

Total 23 items except 2 items which eliminated across factorial analysis and reliability coefficient has significance so it set up as independent variables. Items investigated about intention of opening store and renewal of contract are set up as dependent variables so that we could get regression analysis result as follows.

F-value all have significance that have suitability of model but R2-value representing model diagram was analysed as low at around 30%.

In conclusion of factor-specific multiple regression analysis for statistical hypothesis testing, the factor on advertisements and publicity was shown as a variable without significance because t-value was measured low about effectiveness on TV and experience on publicity. The factor on outsourcing of recruitment proxy was analysed that there was out of statistical significance in positiveness part.

In case of flagship store, evaluation items for store awareness were measured in low. In case of business fair and exposition, evaluation for utility was measured in low t-value that got result without statistical significance. In addition, F-value all have significance that have suitability of model but R2-value representing model diagram was analysed as low at around 30%.

Therefore, after testing hypothesis set up above, only H1 was selected for every analysing variables. And the other hypothesis was all selected partially.

Entirely franchisee expansion strategies by franchisors play a role giving owners or pre-owners satisfaction and making them get

founding will. Particularly, we could see the effect of word-of-mouth communication was a highly effective factor as the preceding study showed.

5 Conclusion

This study verified how franchisee expansion strategies by franchisor have an effect on existing owner's satisfaction and pre-owner's founding will, and implemented study to measure evaluations from franchisee owners.

We drew activities of franchisee expansion strategies through theoretical approach, extracted evaluation items from each activity, made questionnaires, and conducted a survey targeting franchisee owners.

The strategies based on theoretical approach were word-of-mouth communication, advertisement & publicity, outsourcing of recruitment proxy, flagship store, and business fair & exposition, and then we made evaluation questions of each factor.

We set up hypothesis to accomplish purpose of study, verified it, and as a result word-of-mouth communication field was all selected that was evaluated as the most effective strategy among several expansion strategies.

However, most other fields showed statistical significance except 1 or 2 evaluation part that can make effect so those were selected in part as well.

Therefore, as a strategy that allows the franchisees to feel satisfaction and to make decision on renewal, or to help shoppers who want to open a store, it needs to be established a detailed strategies and utilize actively through deeper understanding of the field of oral communication and this method can be regarded as an easy way to achieve the achievement of maximizing the communication effect between the franchise headquarters and the franchisee.

Additionally, franchisor should use newspaper or radio rather than TV media and try to use publicity actively to maximize strategy effect in advertisement & publicity field. In the field of outsourcing of recruitment proxy, because owners' impression was bad toward this field, so excessive use of it can aggravate complaints and unreliability each other that we need to avoid using it. As owners

knew the necessity enough, they can set up proper level and use it.

In case of flagship store and strategy utilizing existing franchisee, when the awareness of flagship store is not high, running flagship store through excessive investment can not be helpful.

Therefore, it is necessary to examine strategies to find out success stories among the existing franchise stores or directly operated stores and make those stores into flagship stores rather than the flagship stores. At last, business fair and exposition were analysed those have no usefulness because the information got from there were not reliable. So it should proceed to produce more reliable and responsible information.

Based on this study result and implication, considering factor having effect on renewal of contract and making decision, we need a system which controls and manages franchisor' strategy activities and also we need reorganization plan. Additionally organized support infrastructure for small-business owners who will be one of the mainstays of the Korean economy, like systematic start-ups, and small-business development systems must be fulfilled urgently.

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