

Franchise Tips

Shane's Rules for Developing an Effective Franchise System

Present by www.peerapong.com

Ref: Dr. Scott A. Shane (1999)
2009 Award Winner

Shane's Rules for Developing an Effective Franchise System



1. **Selecting the right industry**, in as much as the right industries are ones that involve “local production and distribution in limited geographic markets” – where, on the one hand,

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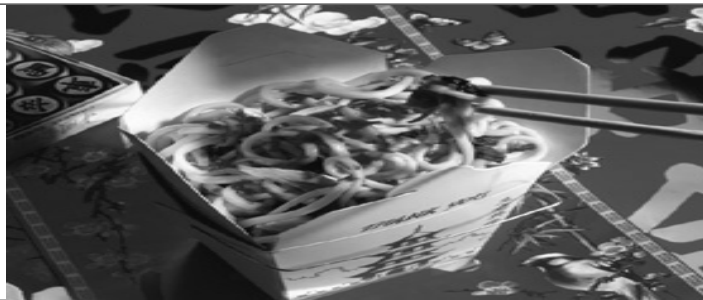


2. The business **operations and processes** are **labour intensive**, but can be “**standardized and codified**”, and on the other hand, management discretion to exercise local knowledge is encouraged.

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3. **Understanding the advantages of franchising** as they relate to the selection and harnessing of motivated franchisee outlet operators as owner operators, who provide ready capital and human resource to facilitate growth and financial returns at relatively low risk.

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4. **Awareness of the inherent disadvantages of franchising** which include franchisors and franchisees being independent business with often different goals, impacting adversely (1) on contractual arrangements that often generate considerable transaction costs, (2) on the ease of implementing franchisor led change at franchisee level, (3) on franchisor profits from franchising being lower than those from operating outlets.

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5. **Recognising the right policies to manage a franchise system** are different to those used in chains of company-owned outlets, in as much as franchising is a business based on contracts with franchisee owner-operators that involves, on the one hand, imposing detailed provisions that control and direct franchisee behaviour, perhaps as an indication of lack of trust, whilst also favouring long-term contracts that imply trust in the franchisee. As such, we see an initial reliance on contractual trust rather goodwill trust [20].

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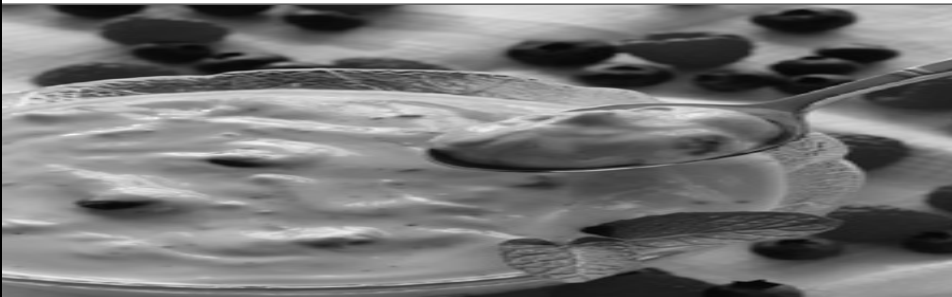


- 6. Identifying the right balance of support and assistance to franchisees**, in the form of training and centralised marketing, purchasing and inventory systems, to operate their businesses effectively without building dependence or incurring unnecessary costs.

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- 7. Developing the right strategies towards franchisee territorial expansion and to franchisor system expansion**

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8. Pricing the franchises appropriately to ensure franchisees remain happy and motivated by rewards, and that the franchisor remains viable.

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9. Understanding the legal and institutional environment of franchising

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10. Recruiting, selecting and managing franchisees effectively,

in as much franchisees gain access to a proven business through a transparent business/earning disclosure system, and in as much, as appropriate franchisor/franchisee match ups are made that reduce the risk of misunderstanding the business and its virtues, conflict, conflicting objectives etc

Adapted from Shane (2005)

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Ref :

New firm survival: institutional explanations
for new franchisor mortality by Scott Shane, 2005

The Role of Franchising as organizational form: A systems
Perspective. , John Davies, 2008

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